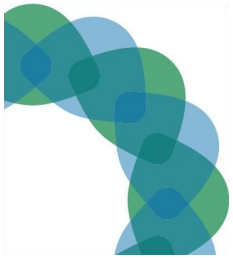
GPFI Global Partnership for Financial Inclusion

October 30, 2014
Basel, Switzerland

2nd GPFI Conference on Standard-Setting Bodies and Financial Inclusion

Session 3: Banks and nonbanks engaged in digital financial inclusion



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BANK FOR INTERNATIONAL SETTLEMENTS

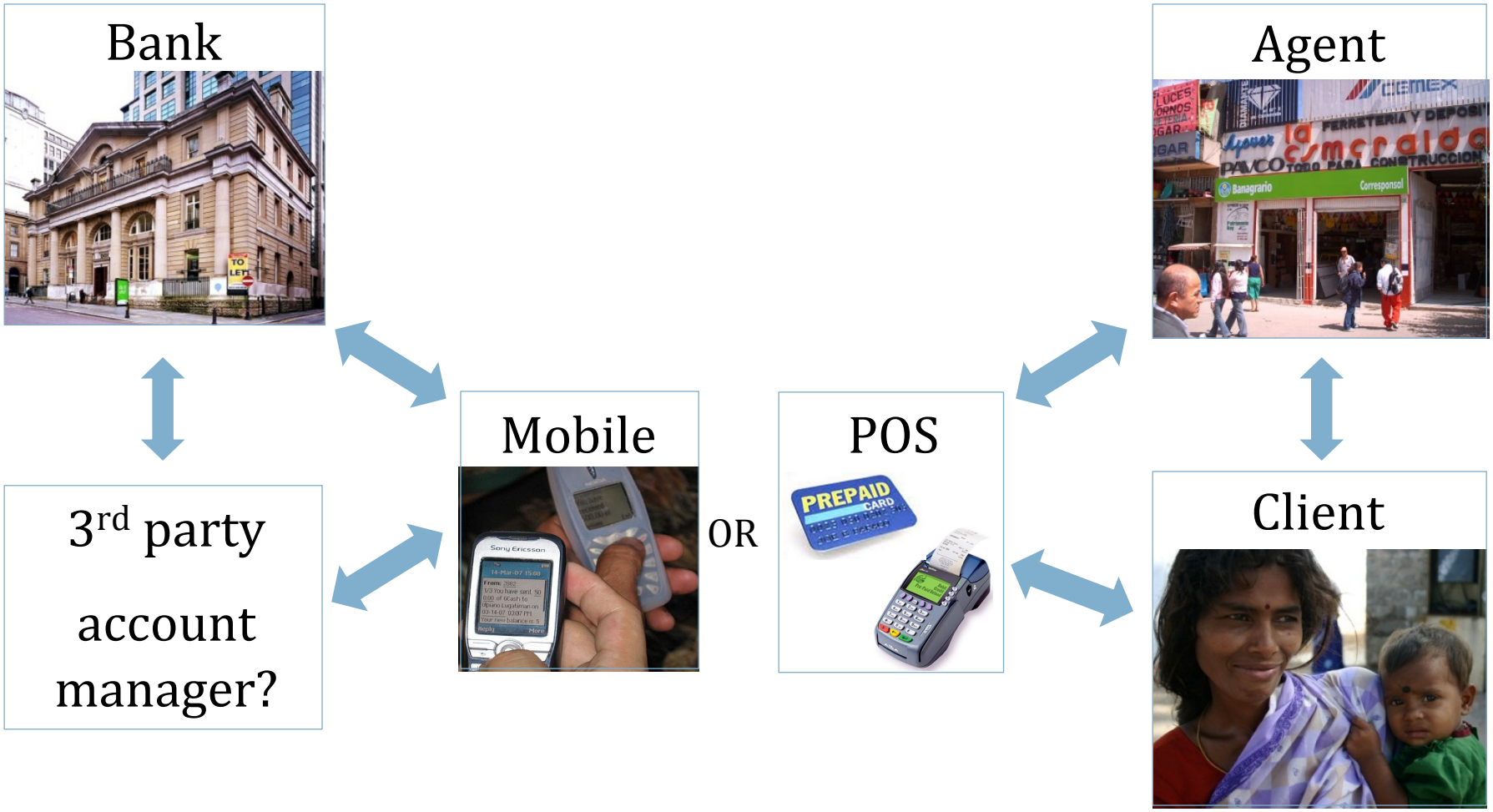
Session objectives

- Outline four notional models of digital transactional platforms
- Discuss examples of risks presented by :
  - digital transactional platforms
  - additional products and services offered via digital transactional platforms
- Raise awareness of shifting risk picture, including new risks and “old” risks posed by new activities and new providers

Four notional models of digital transactional platforms

1. Bank offering basic transaction accounts accessed via mobile or other digital communication means (e.g. cards and POS terminals)
2. Niche bank offering basic transaction accounts accessed via mobile or other digital communication means (e.g., cards and POS terminals)
3. MNO e-money issuer
4. Nonbank, non-MNO e-money issuer

Bank offering basic transaction accounts accessed via POS terminal or mobile



Niche bank offering basic transaction accounts accessed via POS terminal or mobile

Niche bank

Agent

3rd party account manager?

Mobile

OR

POS

Client

MNO e-money issuer

MNO

Agent

Mobile

Bank

Client

Non-bank, non-MNO e-money issuer

Bank

Agent

POS

Non-bank, non-MNO

Client

Which of these notional models is most familiar to you?

1. Bank customer using mobile or other device to access basic transaction accounts
2. Niche bank customer using mobile or other device to access basic transaction accounts
3. MNO e-money issuer
4. Nonbank non-MNO e-money issuer
5. I am very familiar with two or more notional models
6. I am not familiar with any of these notional models

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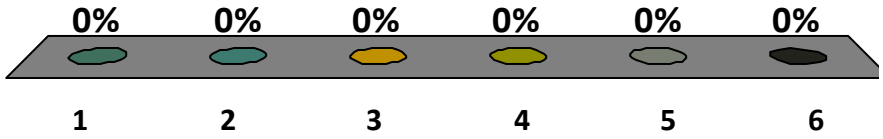

With all notional models, what is most important change from conventional branch based delivery?

1. Agents as principal customer interface
2. Likely division of labor between holder of customer's funds and manager of account balances
3. Multiple regulatory and/or supervisory authorities likely to be involved
4. 1, 2 & 3 are equally important
5. Other

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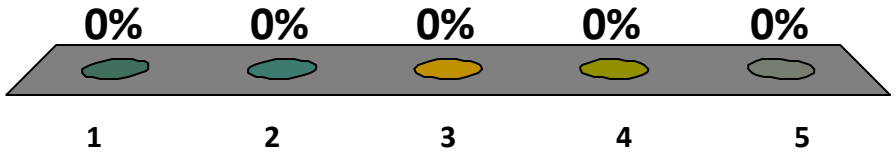


Non-banks in retail payments: infrastructural aspects and related risks and efficiencies

Carlos Conesa

Member of Secretariat of the Committee on Payments and Market Infrastructure

Non-banks in retail payments

- CPMI has recently issued the report "Non-banks in retail payments", to analyze the increasing influence of non-banks (September 2014)
- Overlap with financial inclusion as retail payments services are an adequate first step towards financial inclusion
- Content:
  - Definition and classification
  - Factors influencing the increasing presence of non-banks
  - Implications for efficiency and risk
  - Regulatory framework
  - Implications for central bank and other authorities

Risks and efficiency

- Non-banks in retail payments: some basic conclusions
  - Efficiency: Non-banks may impact efficiency through outsourcing agreements with banks, cooperation or competition. Potential to lower fees, increase the range of payment methods or to reach new markets or segments (financial inclusion)
  - Risks are mainly linked to the activity: similar risk categories arise irrespective of whether a bank or a non-bank is providing the service… but potential regulatory differences may lead to differences in risk mitigation measures and hence in risk probability and impact

Infrastructural aspects and interoperability

- Payment schemes are subject to network effects: additional users increase the usefulness of the network for previous users
- Bank and non-bank providers alike may need to interoperate with other providers or payment systems to reap network effects and reach a critical mass
- Lack of interoperability (small "closed" schemes) may negatively impact efficiency
- Interoperability and access issues depend on the different institutions and business models
- A case-by-case analysis should take into account efficiency and risk considerations

bKash: an example of a digital transactional platform and its risks

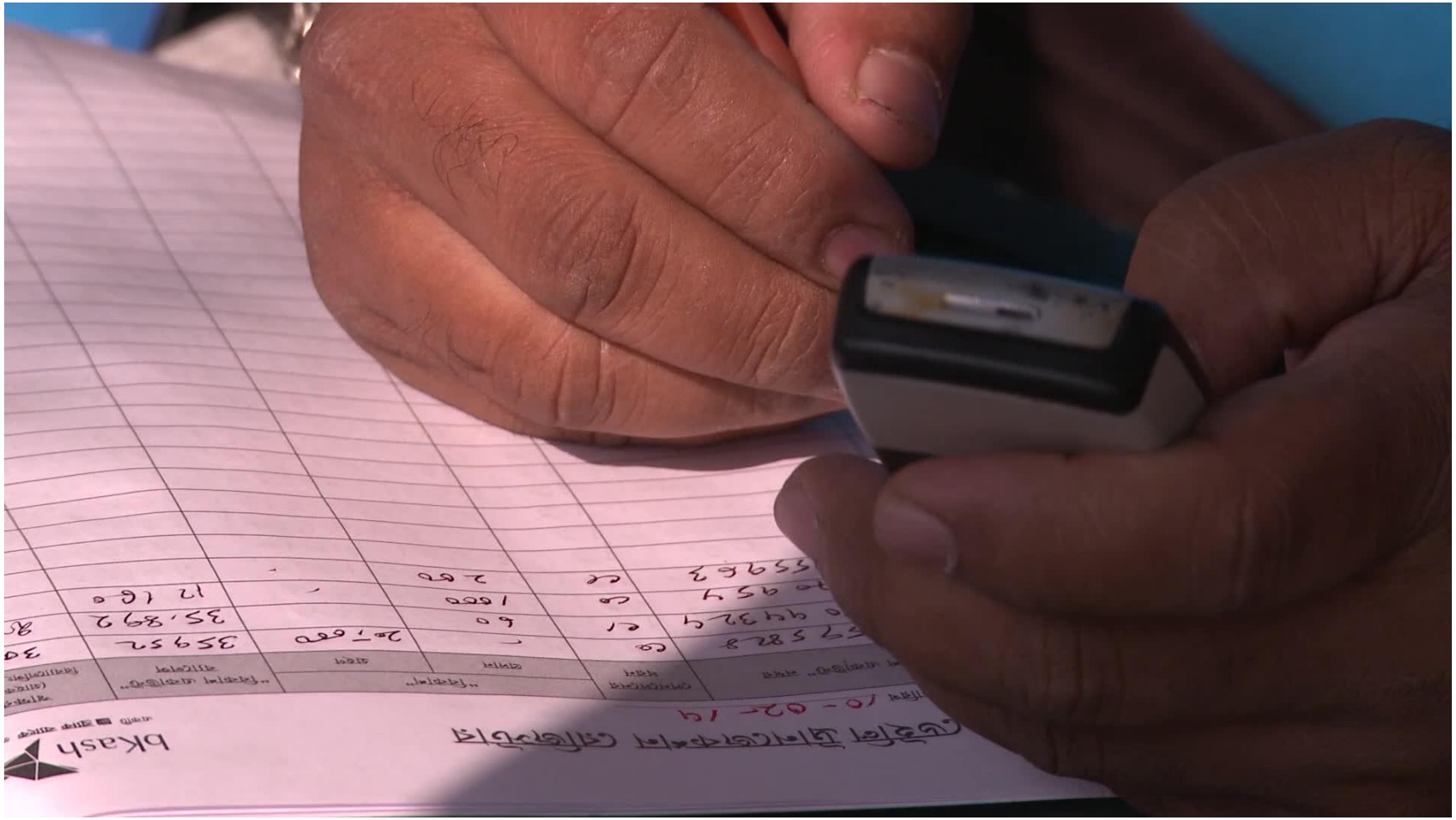
Nestor Espenilla, Jr.
Deputy Governor, Bangko Sentral ng Pilipinas;
Chair, Basel Consultative Group Financial Inclusion Workstream

bKash client: Bhutto, recycling agent

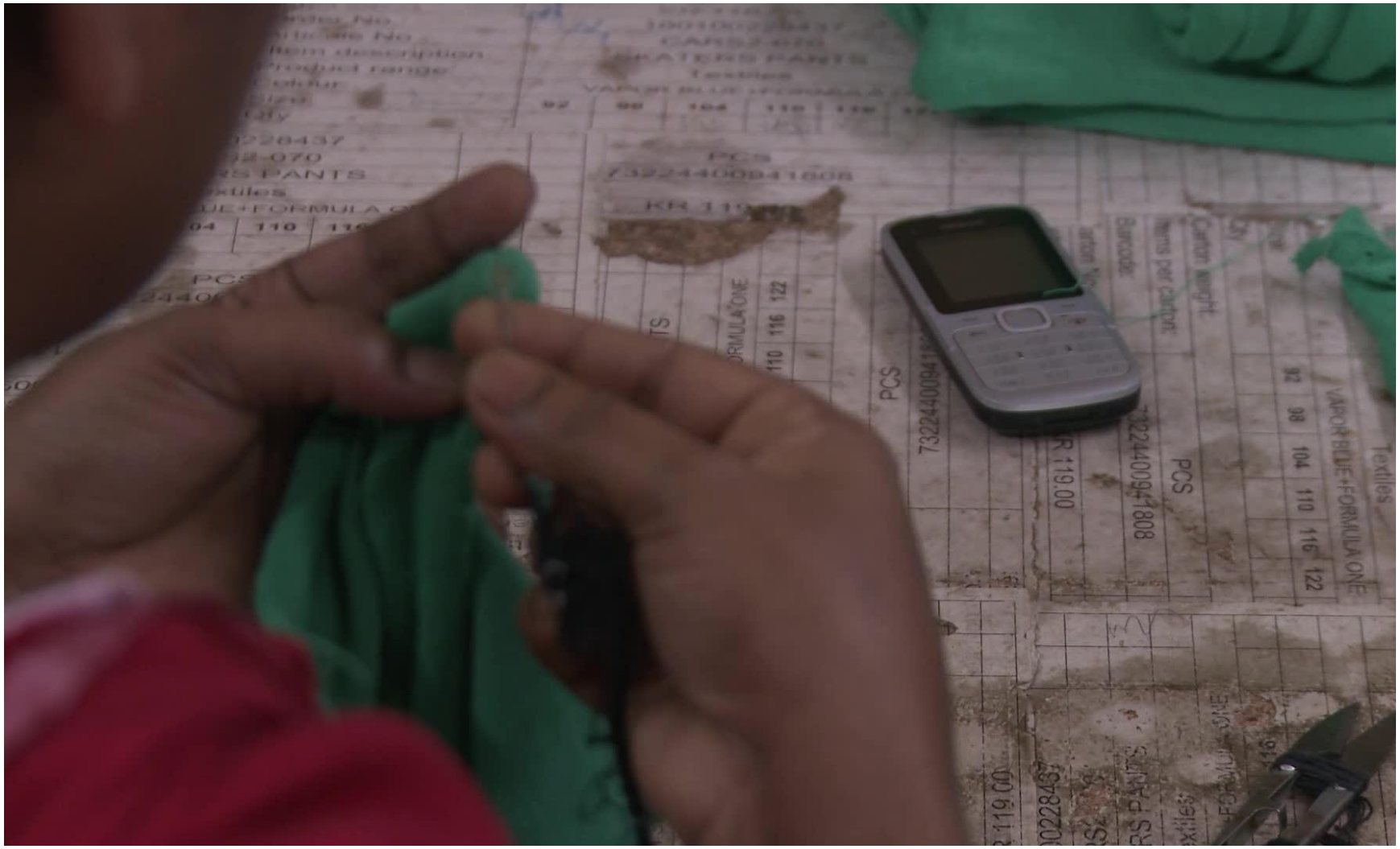
Common digital transactional platform risks

- Agents and agent network introduce operational and consumer risks
- Functionality and reliability of technology introduces operational risk (availability of communication channel), data privacy, and security risks
- Risks regarding safety of customer funds in the event that provider (e.g., bKash) fails

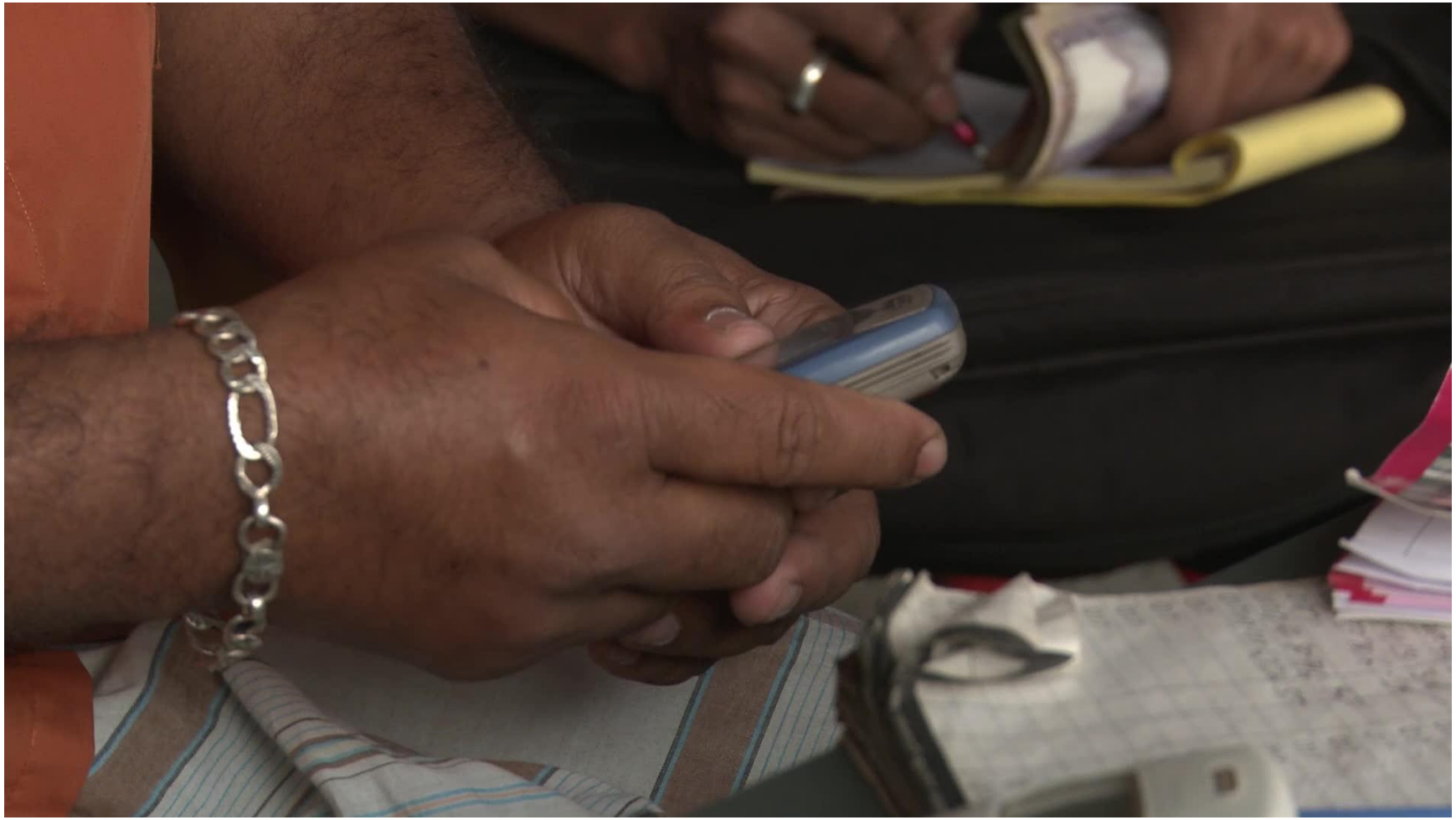
Agents and operational risks



Functionality and reliability of technology



Risk of loss of customer funds



Regarding the risk of loss of customer funds, what concerns do you have?

1. Poor customers will return to informal financial services
2. National systemic instability
3. Global implications for other digital financial services for the poor
4. Reputation of the supervisor
5. Other

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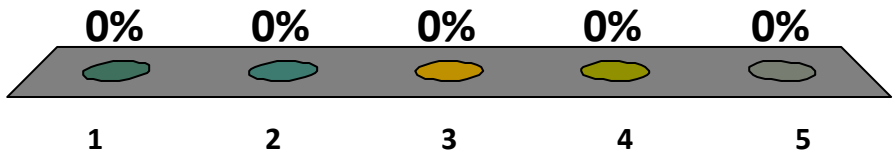

M-Shwari: example of credit products offered via digital transactional platform (M-PESA)

Bernardo González Rosas

Vice president of regulatory policy, Comisión Nacional Bancaria y de Valores; Chair of the AFI Global Standards Subcommittee

M-Shwari client: Lucas Ogada, Matatu conductor

M-Shwari loan products: credit risk

M-Shwari loan products: consumer risks

The most concerning risk of credit offered via a digital transactional platform is

1. Over-borrowing
2. Poor underwriting based on algorithms that use data from mobile phone use and e-money transactions
3. Lack of clarity on who the provider is
4. All of the above
5. Other

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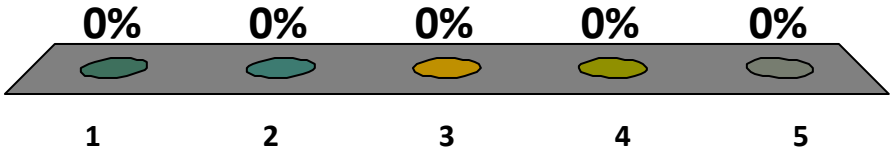

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Standard Setting in the Changing Landscape of Digital Financial Inclusion

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