PAYMENT ASPECTS OF FINANCIAL INCLUSION

Massimo Cirasino
Practice Manager
Financial Infrastructure & Access
Finance & Markets Global Practice

9 November 2015

WORLD BANK GROUP
Finance & Markets

Part I. Real Impact for Users: Induced by CPMI-World Bank Guidance for International Remittances

Part II. Financial Inclusion: Need for Action to Achieve Universal Financial Access by 2020

Part III. Payment Aspects of Financial Inclusion: Consultative Report

Part IV. Public Consultation Process

World Bank – CPMI General Principles for International Remittances Services

GP1: The market for remittances should be transparent and have adequate consumer protection

GP2: Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged

GP3: Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework

GP4: Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance service industry

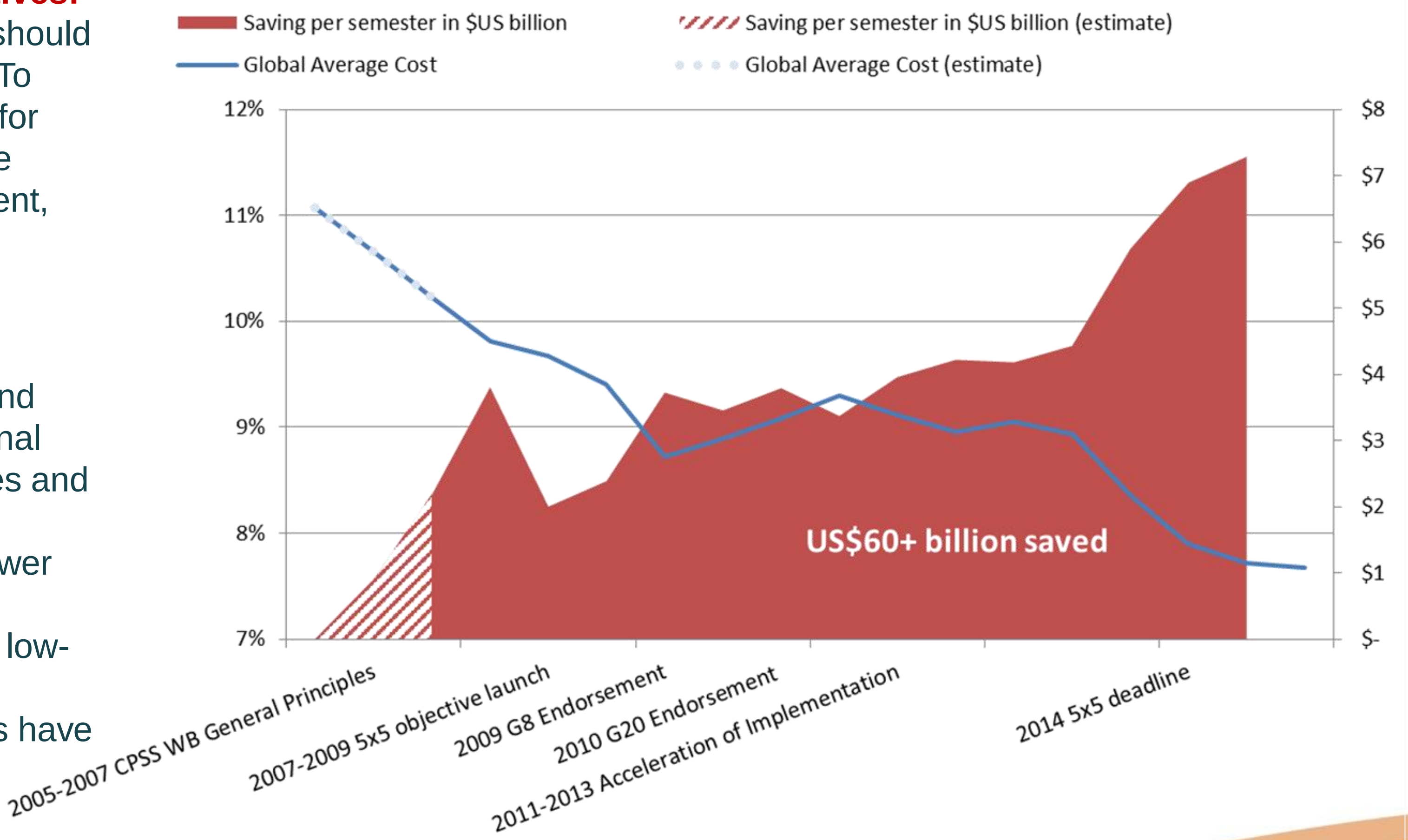
GP5: Remittance services should be supported by appropriate governance and risk management practices

Remittance Service Providers	Should participate actively in the application of the general principles
Public Authorities	Should evaluate what action to take to achieve the public policy objectives through implementation of the general principles

Remittance cost reduction: over 60 billion saved since efforts started

Public Policy Objectives: Remittance services should be safe and efficient. To this end, the markets for the services should be contestable, transparent, accessible and sound

- Cost of sending remittances is an indicator of safe and efficient international remittance services and markets.
- Corridor shift to lower cost bands;
- Greater access to low-cost services
- Cheapest services have gotten cheaper



Part I. Real Impact for Users: Induced by CPMI-World Bank Guidance for International Remittances

Part II. Financial Inclusion: Need for Action to Achieve Universal Financial Access by 2020

Part III. Payment Aspects of Financial Inclusion: Consultative Report

Part IV. Public Consultation Process

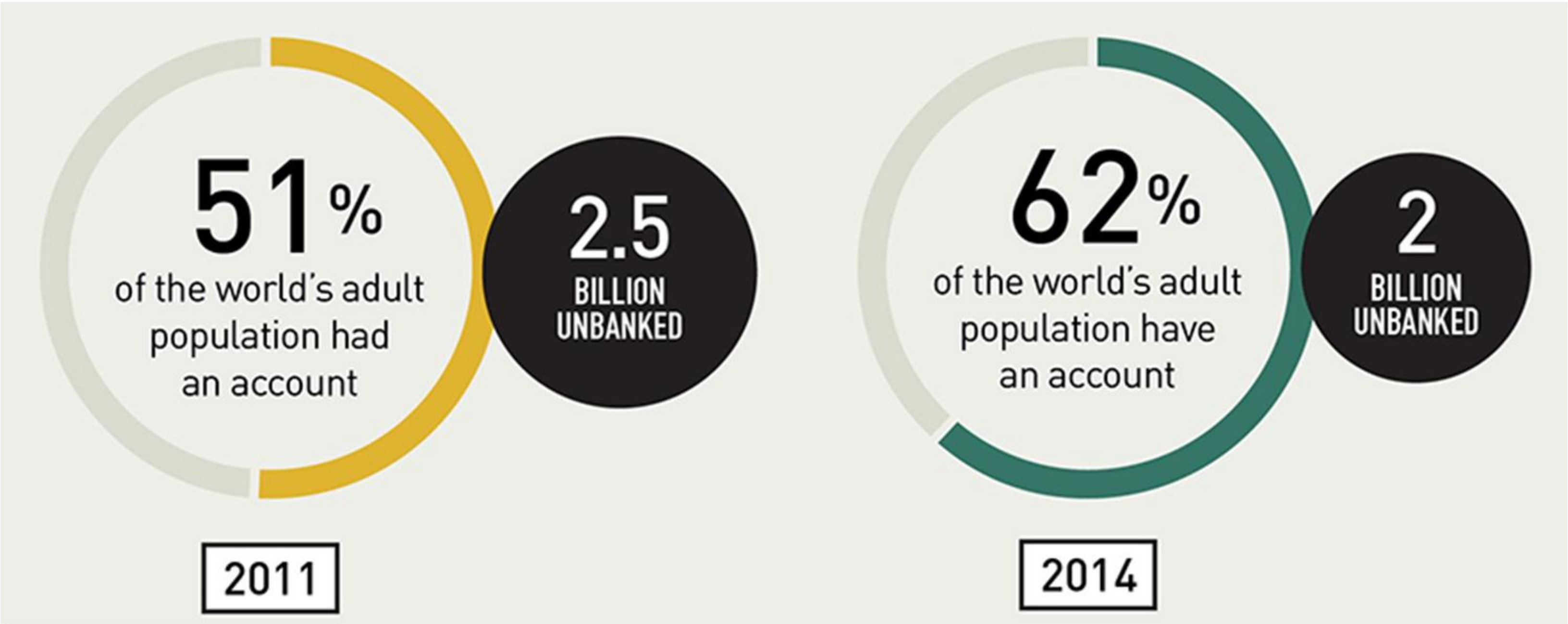
Financial inclusion
It's all relative

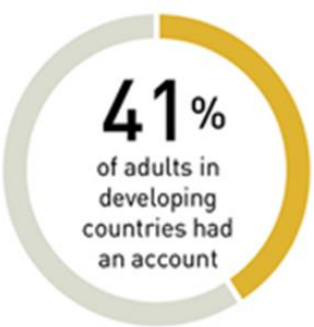
- **Financial Inclusion: individuals, businesses and public administrations having access to and using the type of financial services that meet the their needs**

- **Real needs likely higher than is apparent from the actual use** at a given point in time
- Needs for financial services tend to **change over time**
- Desirable steady state for financial inclusion entails **universal access to a wide range of financial services** that can be used when and as needed
- Beyond achieving access, there is also the key issue of whether a **financial service is actually valuable to its users, often reflected in frequency of use**

Financial inclusion

Gap is narrowing, but is still substantial

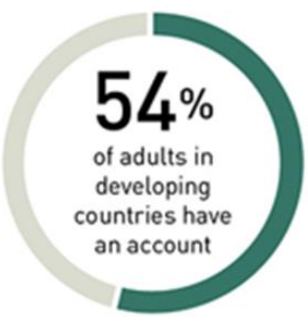




- Developing countries are making substantial progress and access to an account has increased from 41% in 2011 to 54% in 2014

2011

2014



Source: Findex

Financial inclusion
Barriers of access to transaction accounts

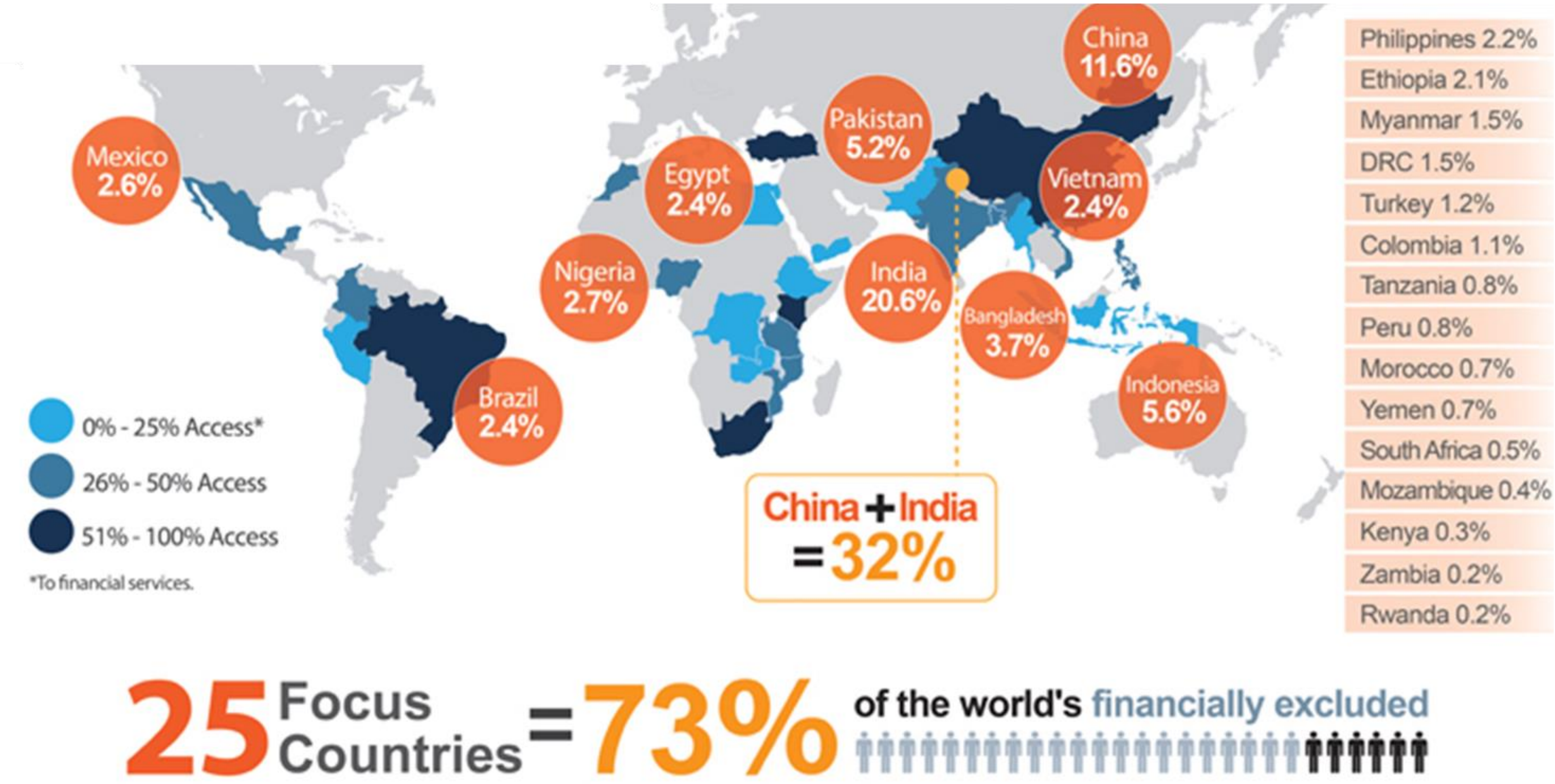
- High fees and low income levels
- Indirect costs
- Economic and labour informality
- Insufficient attention to cultural and religious needs and beliefs and limited financial literacy
- Poor design of transaction accounts and related payment services
- Customers’ perception of transaction accounts being unsafe

Universal Financial Access by 2020

By 2020, adults globally have access to an account or electronic instrument to store money, send and receive payments as the basic building block to manage their financial lives

- Access to a transaction account is a stepping stone to financial inclusion, which includes a full range of formal financial services
- Universal financial access is ambitious, yet achievable for the majority of the world's population by 2020, full financial inclusion will take longer
- Even with financial access, usage will not be universal, and not all countries will reach it

25 countries account for 73% of the world's unbanked



Sources: Global Findex 2014, IMF Financial Access Survey

Universal Financial Access by 2020
Strong Coalition of Partners

MICROCREDIT SUMMIT CAMPAIGN

GBA Global Banking Alliance for Women
BUILDING WOMEN'S WEALTH WORLDWIDE

mandiri

telenor

Microfinance CEO Working Group

EQUITY Bank • Your Listening, Caring Partner

WSBI

ooredoo

भारतीय स्टेट बैंक
State Bank of India
हर भारतीय का बैंक
THE BANKER TO EVERY INDIAN

MasterCard

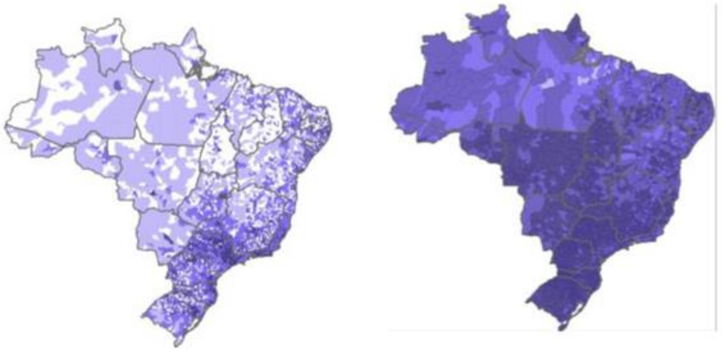
WOCCU World Council of Credit Unions, Inc.

Bandhan Bank

VISA

Brazil is well on its way to achieve the 2020 goal

- 68% of adults in Brazil have an account – a gain of 22% since 2011 when just over half held accounts. (Findex 2014)
- On average across Latin America, account ownership is a more modest 51% of the adult population
- The use of agents enabled massive outreach of access points in Brazil



Bank branch coverage in Brazil per 10,000 adults

Agent Coverage in Brazil per 10,000 adults

Leveraging large volume payments

Brazil -- a global leader

Wage payments

- The wages of 64% of wage earners in Brazil are deposited directly into their transaction account.
- Over 60% of these wage earners withdrawal their funds over time as needed.

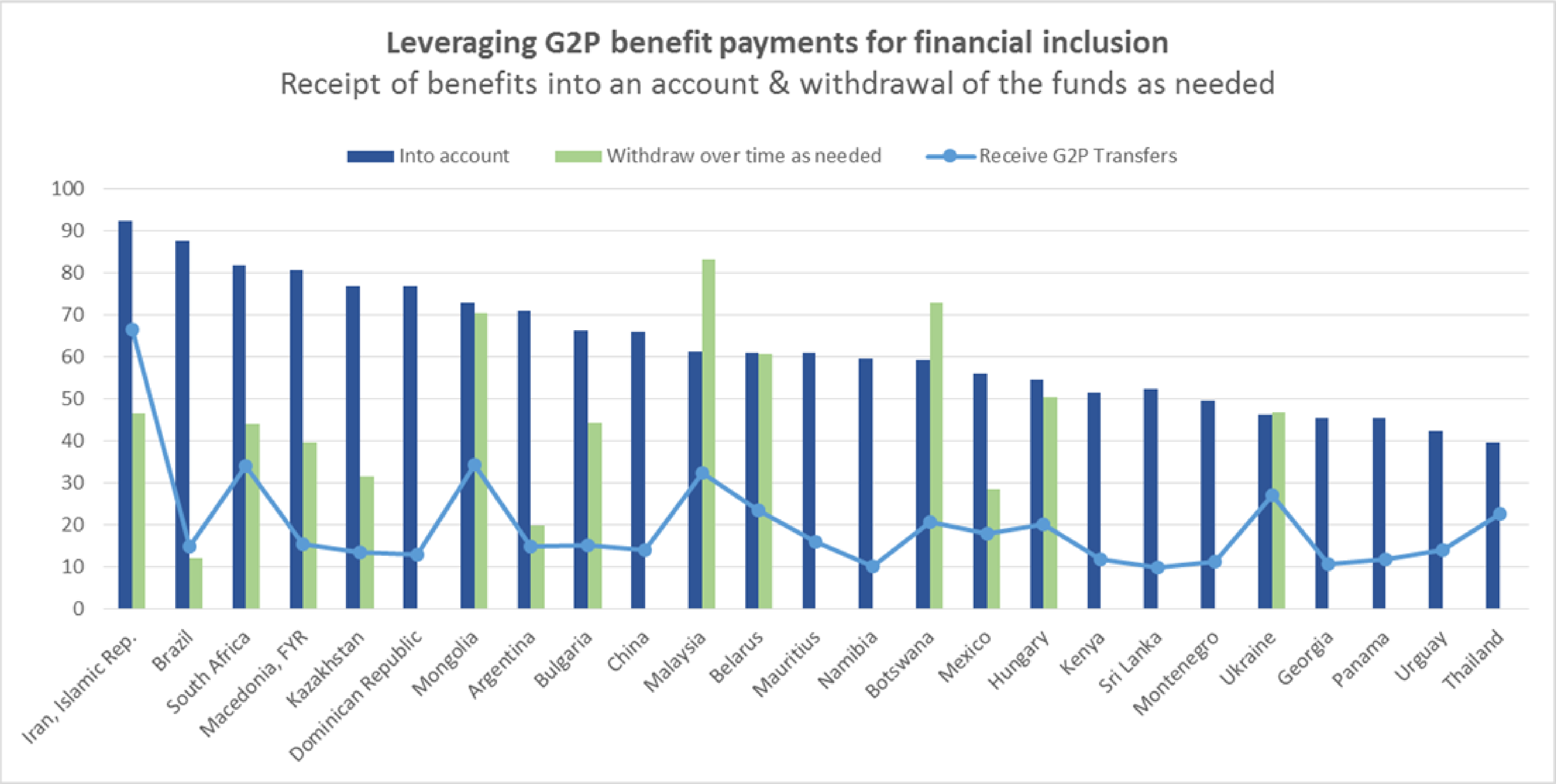
G2P benefit payments

- The benefits of 88% of G2P benefit recipients are deposited directly into their account.
- For nearly 60% of these beneficiaries, the account in which they receive their benefit is a new account and their first account.

Source: Findex 2014

More work to be done

Majority of recipients withdraw their funds immediately



Source: Findex 2014

Part I. Real Impact for Users: Induced by CPMI-World Bank Guidance for International Remittances

Part II. Financial Inclusion: Need for Action to Achieve Universal Financial Access by 2020

Part III. Payment Aspects of Financial Inclusion: Consultative Report

Part IV. Public Consultation Process

The PAFI "Vision"

All individuals and businesses should be able to have access to and use at least one transaction account operated by a regulated/authorized payment service provider:

i. to perform most, if not all, of their payment needs

ii. to safely store some value; and

iii. to serve as a gateway to other financial services

Broad Spectrum of Members: CPMI & Non-CPMI Central Banks, International & Regional Development Banks, IMF, BIS, and World Bank

EUROPEAN CENTRAL BANK
EUROSYSTEM

BANCA D'ITALIA
EUROSISTEMA

DEUTSCHE
BUNDESBANK
EUROSYSTEM

CEMLA
CENTRO DE ESTUDIOS MONETARIOS LATINOAMERICANOS

BCEAO
BANQUE CENTRALE DES ETATS DE L'AFRIQUE DE L'OUEST

BANCO CENTRAL DO BRASIL

European Bank
for Reconstruction and Development

IDB
Inter-American Development Bank

South African Reserve Bank

БАНК РОССИИ

한 국 은 행
THE BANK OF KOREA

BANCO DE MÉXICO

中国人民银行
THE PEOPLE'S BANK OF CHINA

HONG KONG MONETARY AUTHORITY
香港金融管理局

TCMB

FEDERAL RESERVE BANK OF NEW YORK
INCORPORATED MAY 18, 1914

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

INTERNATIONAL MONETARY FUND

BANQUE AFRICAINE DE DEVELOPPEMENT
AFRICAN DEVELOPMENT BANK

WORLD BANK GROUP

BANK FOR INTERNATIONAL SETTLEMENTS

Objectives of the PAFI Task Force

- Support the efforts of authorities to foster the expansion of access to transaction accounts and the use of electronic payment services.
- Contribute to the recognition that safe and efficient payment services are important for the well-being of individuals, households, and businesses, as well as a gateway to a broader range of financial services.
- Advance market efficiency, flexibility, integrity, and competitiveness to support financial inclusion and stability.
- Facilitate the establishment of a balanced and proportional regulatory environment to facilitate effective, reliable, safe, and cost-efficient access to payment services.

Consultative report published

PAYMENT ASPECTS OF FINANCIAL INCLUSION

Sources:
CPMI Website: https://www.bis.org/cpmi/publ/d133.htm
World Bank Group Website: https://consultations.worldbank.org/consultation/payment-aspects-financial-inclusion

PAFI Consultative Report Design

Deepen Knowledge, Advance Action & Measure Results

- **Introduction**
  Task force mandate, transaction accounts, and barriers to access & usage
- **Retail Payments Landscape**
  Overview of the payments landscape from a financial inclusion perspective
- **Core Analysis: The Framework**
  The framework for enabling access and usage of payment services by the unserved or underserved
- **Guidance**
  Guiding principles and recommended key actions for consideration
- **Measurement**
  Measuring the effectiveness of financial inclusion efforts

Key Assumptions of the Consultative Report

- **Payments and payment services are, in their own right, an important part of the overall package of financial services.**
- **Moreover, under certain circumstances they can not only facilitate access to other financial services, but, in many cases, be critical to those services' efficient provision**
- **A transaction account is a cornerstone for providing electronic payment services.** Transaction accounts can be held with banks or other authorized and/or regulated service providers (including non-banks) and can be "deposit transaction accounts" or "e-money accounts".

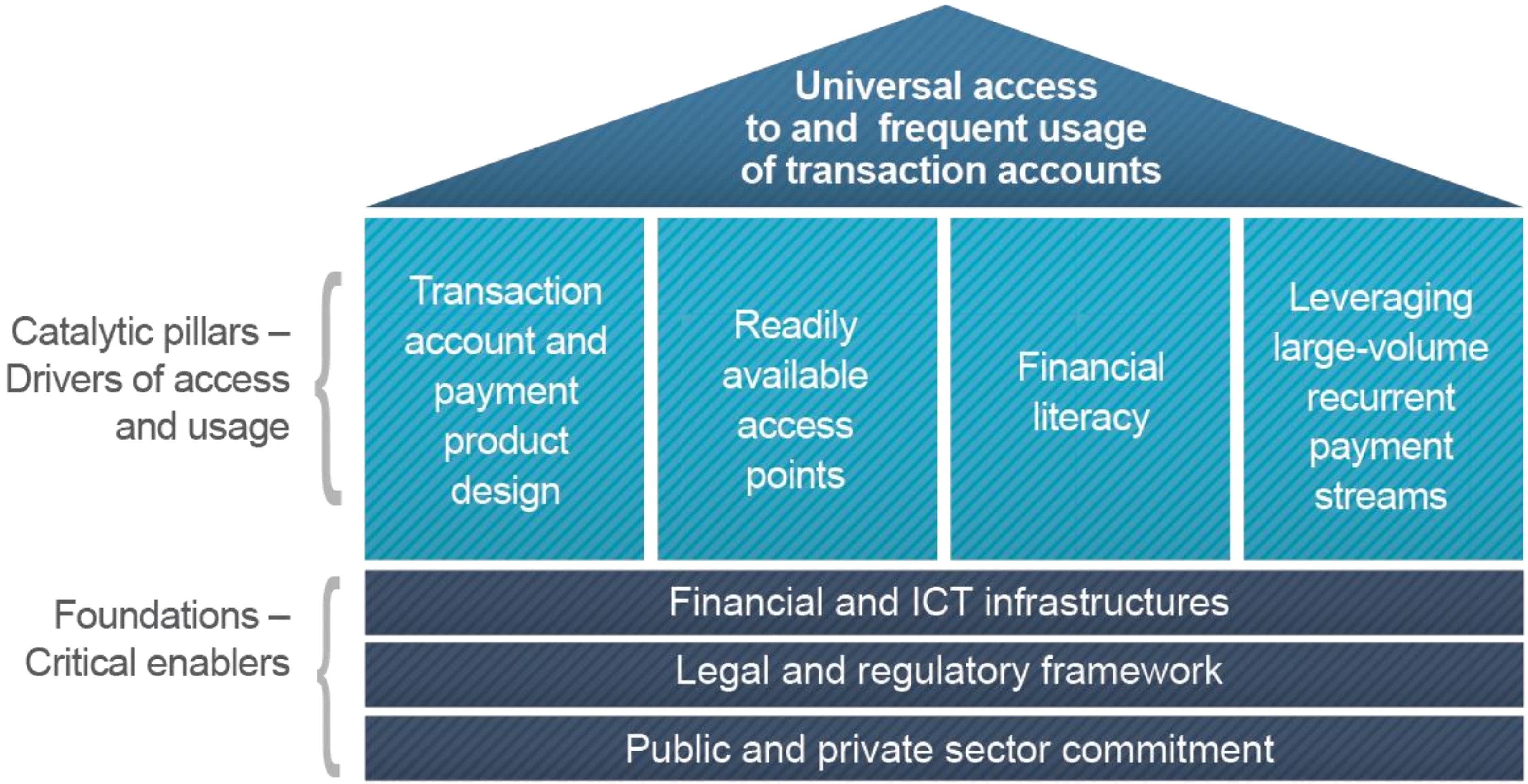
Foundations:

- Critical enablers for payment systems and the provision of payment services in general
- Specifically, however, they are important for the access to and usage of transaction accounts.

Catalytic pillars:

- Based on the foundations catalytic pillars form the drivers for access and usage.

Interrelation of foundations, catalytic pillars and effective usage



PAFI Guidance:
Foundations – Critical Enablers

Financial and ICT infrastructures

Legal and regulatory framework

Public and private sector commitment

- **Guiding Principle 1: Commitment**
  Commitment from public and private sector organizations to broaden financial inclusion is explicit, strong and sustained over time.
- **Guiding Principle 2: Legal and Regulatory Framework**
  The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.
- **Guiding Principle 3: Financial and ICT Infrastructures**
  Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services..

PAFI Guidance:
Catalytic Pillars – Drivers of Access & Usage

- **Guiding Principle 4: Transaction account and payment product design**
  The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost.
- **Guiding Principle 5: Readily available access points**
  The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.

PAFI Guidance:
Catalytic Pillars – Drivers of Access & Usage

Transaction account and payment product design	Readily available access points	Financial literacy	Leveraging large-volume recurrent payment streams

- **Guiding Principle 6: Financial literacy**
  Individuals gain knowledge, through financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.
- **Guiding Principle 7: Large-volume, recurrent payment streams**
  Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts.

Foundation:
Public & Private Sector Commitment

Guiding Principle 1:
Commitment from public and private sector organizations to broaden financial inclusion is explicit, strong and sustained over time.

Key Actions:

- All relevant public and private sector stakeholders **support the objective** that all eligible individuals and businesses should be able to have and use at least one transaction account, and **develop an explicit strategy with measurable milestones** to this end.
- All relevant public and private sector stakeholders **allocate the appropriate human and financial resources** to support financial inclusion efforts.
- Central banks, financial supervisors, regulators and policymakers **effectively coordinate their efforts** with regard to financial inclusion.

Foundation:
Public & Private Sector Commitment (cont.)

Guiding Principle 1:
Commitment from public and private sector organizations to broaden financial inclusion is explicit, strong and sustained over time.

Key Actions:

- **Private sector stakeholders engage with relevant public sector counterparts** on initiatives that promote the adoption and usage of transaction accounts, and financial inclusion more broadly.
- **Private sector** stakeholders cooperate constructively and meaningfully **with each other** to discuss and find solutions to issues that are best addressed by the industry as a whole.
- **Central banks** leverage their **catalyst, oversight, supervisory** and other powers as relevant and appropriate to promote financial inclusion.

Foundation:
Legal & Regulatory Framework

Guiding Principle 2:
The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.

Key Actions:

- A robust framework is established to **foster sound risk management practices in the payments industry,** including through the supervision/oversight of PSPs and PSOs by regulatory authorities.
- The framework requires PSPs and PSOs to develop and implement **risk management measures that correspond to the nature of their activities and their risk profile.**
- The framework aims to promote the use of transaction accounts in which **customer funds are adequately protected** through appropriate design and risk management measures, **such as deposit insurance** or functionally equivalent mechanisms, as well as through preventive measures.

Foundation:
Legal & Regulatory Framework (cont.)

Guiding Principle 2:
The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.

Key Actions:

- The framework requires **PSPs to clearly disclose**, using comparable methodologies, all of the **various fees they charge** as part of their service, along with the applicable **terms and conditions, including liability** and use of customer data.
- The framework requires PSPs to implement a transparent, user-friendly and **effective recourse and dispute resolution mechanism** to address consumer claims and complaints.
- The framework **preserves the integrity of the financial system, while not unnecessarily inhibiting access** of eligible individuals and businesses to well regulated financial services.

Foundation:
Legal & Regulatory Framework (cont.)

Guiding Principle 2:
The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.

Key Actions:

- The framework **promotes competition** in the market place by providing clarity on the criteria that must be met to offer specific types of service, and by **setting functional requirements that are applied consistently to all PSPs**.
- The framework promotes innovation and competition by **not hindering the entry of new types of PSP, new instruments and products, new business models or channels** – as long as these are sufficiently safe and robust.

Foundation:
Financial & ICT Infrastructures

Guiding Principle 3:
Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services.

Key Actions:

- **Key payments infrastructures** are built, upgraded or leveraged as needed to facilitate the effective usage of transaction accounts.
- Additional infrastructures are appropriately designed and operate effectively to support financial inclusion efforts by providing critical information to financial service providers, including an **effective and efficient identification infrastructure,** a credit reporting system and other data-sharing platforms.

Foundation:
Financial & ICT Infrastructures (cont.)

Guiding Principle 3:
Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services.

Key Actions:

- The **geographical coverage of ICT infrastructures and the overall quality of the service provided by those infrastructures are enhanced** as necessary by their owners/operators so as to not constitute a barrier for the provision of transaction account services in remote locations.
- **Increased interoperability of and access to infrastructures** supporting the switching, processing, clearing and settlement of payment instruments of the same kind are promoted, where this could lead to material reductions in cost and to broader availability consistent with the local regulatory regime, in order to leverage the positive network externalities of transaction accounts.

Pillar: Transaction account & payment product design

Guiding Principle 4:

The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost.

Key Actions:

- Where reasonable and appropriate, PSPs provide a **basic transaction account at little or no cost** to all individuals and businesses that do not hold such an account and that wish to open such an account.
- PSPs offer transaction accounts with functionalities that, at a minimum, make it possible to **electronically send and receive payments** at little or no cost, and to **store value safely**.
- The payment services industry, operators of large-volume payment programs and other stakeholders recognize that the payment habits and needs of currently unserved and underserved customers are likely to differ, and therefore **engage in market research** and/or other similar efforts to identify and address those **payment habits and needs**.

Pillar:
Transaction account & payment product design (cont.)

Guiding Principle 4:

The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost.

Key Actions:

- PSPs work to ensure that the **payment needs of the private and public sector entities with whom holders of transaction accounts regularly conduct payments are met as well.**
- PSPs work to ensure that the products that target unserved or underserved population segments are **easy to use**.
- PSP efforts to **continuously improve** their transaction account offering include both traditional as well as innovative payment products and instruments.

Pillar:
Readily available access points

Guiding Principle 5:
The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.

Key Actions:

- PSPs provide **convenient access to transaction accounts** and services by offering an effective combination of own and third party-owned physical access points (eg branches, ATMs, POS terminal networks and agent locations), and of remote/electronic access channels (mobile phones, internet banking etc).
- PSPs work to provide **service levels at various access points and channels** that are reliable and of high quality (PSP agents have the necessary liquidity and are equipped with effective tools to service transaction accounts users reliably and in an efficient manner, ATMs are highly reliable etc), and that opening hours are broadly aligned with customers' transacting needs.

Pillar:
Readily available access points (cont.)

Guiding Principle 5:
The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.

Key Actions:

- The payments industry works on ensuring that **access points and channels are appropriately interoperable**, further contributing to expanding the reach of available service access points and the overall convenience to holders of transaction accounts.
- PSPs adequately train their own **front office staff and their agents** to understand and appropriately **address cultural and/or religious diversity** when servicing holders of transaction accounts.
- The payments industry monitors access channels and access points and their usage to obtain an accurate picture of the **availability and proximity of service points to the different population segments**.

Pillar: Financial literacy

Guiding Principle 6:
Individuals gain knowledge, through financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.

Key Actions:

- All relevant public and private sector stakeholders engage in **ongoing financial literacy efforts** with an appropriate degree of coordination.
- Financial literacy efforts specifically **address how payment and store-of-value needs can be met through the usage of transaction accounts**. In this context, individuals that do not have a transaction account and those that obtained one only recently are a primary target of these financial literacy efforts.
- Financial literacy efforts make it possible to **easily obtain clear and accurate information** on the various types of account that are available in the market, on the general account opening requirements, and on the types of account and service fee that may be encountered.

Pillar:
Financial literacy (cont.)

Guiding Principle 6:
Individuals gain knowledge, through financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.

Key Actions:

- Financial literacy and financial transparency programs make it possible for transaction account users to easily obtain clear and accurate information on the **risks embedded in the usage of these accounts, how the costs in using the associated services can be minimized, how the potential benefits can be maximized, the basic security measures associated with these accounts, and the overall obligations and rights of PSPs and users.**
- PSPs emphasize **hands-on training where needed** as part of a product roll-out, particularly for users with limited first-hand exposure to electronic payment services and the associated technologies.

Pillar:
large-volume, recurrent payment streams

Guiding Principle 7:
Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts.

Key Actions:

- **Ad hoc incentives are considered**, where appropriate, to foster adoption and usage of transaction accounts for large-volume and recurrent payments, including not only government payment programs but also government collections and utility bill payments, transit fare payments, employer payrolls and, where relevant, remittances.
- PSOs and PSPs take into consideration **the needs and requirements of the key counterparties involved** in large-volume payment streams, such as employers, large-volume billers, the national treasury and others in the design and provision of the related payment services.
- Medium-sized and large firms, along with government entities, consider **disbursing salaries and other payments** to employees via transaction accounts at the PSP of the employees' choice.

Pillar:
large-volume, recurrent payment streams (cont.)

Guiding Principle 7:
Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts.

Key Actions:

- The government considers **making its G2P and G2B payments** through a choice of competitively offered transaction accounts that meet the payment and store-of-value needs of the recipients so that these accounts are useful to them.
- The **government enables and encourages individuals and businesses to make their P2G and B2G payments through electronic means** in order to, among other objectives, increase the overall usefulness of transaction accounts.
- The payments industry pro-actively seeks new ways to make transaction accounts a competitive and convenient option for usage in connection with all large-volume payment streams.

Measuring the effectiveness of financial inclusion efforts: a payments perspective

- Keeping track of financial inclusion implementation efforts is essential to **determine whether the actions adopted are being effective** in helping to achieve the underlying objectives.
- **A comprehensive financial inclusion results framework is characterized by the following elements:**
  (i) thematic alignment with key policy pillars and actions;
  (ii) development of key performance indicators (KPIs);
  (iii) setting quantitative KPI targets, including baseline values and timeline for achievement; and
  (iv) reliance on robust data sources.

Part I. Real Impact for Users: Induced by CPMI-World Bank Guidance for International Remittances

Part II. Financial Inclusion: Need for Action to Achieve Universal Financial Access by 2020

Part III. Payment Aspects of Financial Inclusion: Consultative Report

Part IV. Public Consultation Process

Public consultation process

- The report is currently being issued as a consultation document and comments are invited from any interested parties.
- Comments should be sent to the CPMI (cpmi@bis.org) and the World Bank Group (paymentsystems@worldbank.org)
- Deadline: 7 December 2015;
- Please mention “PAFI” in the subject line of your e-mail.
- A final version of the report will then be published.

Thank You!

WORLD BANK GROUP
Finance & Markets