Speakers

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Poor people can access and use the financial services they need to advance their lives.

**Financially Excluded:**
- No basic account
- Limited access to formal financial services
- Cash economy

**Financially Included:**
- Has transaction account
- Wide range of suitable financial services
- Can seize opportunities and build resilience

**WHAT IS FINANCIAL INCLUSION:**
Since 2011, the share of adults with an account has grown steadily, bringing 1.2 billion more people into the financial system. Source: 2017 Findex
Although access is growing, high account dormancy remains a challenge.

**Source:** Sub-Saharan Africa: CGAP estimate, Findex and GMSA
South Asia: Findex 2017
To improve account usage, financial services need to be:

- Convenient
- Responsibly delivered
- Meet the needs of customers
- Affordable for customers
- Sustainable for providers
Digital financial services offer new ways to bridge the financial inclusion gap by ...
But DFS poses new challenges for policymakers:

**Customer profile**
Financially excluded and underserved customers are first-time users of financial services, which makes them vulnerable.

**New providers & business models**
Services are provided by new financial institutions such as: non-banks, FinTechs and BigTechs. The services are provided through new business models, such as: crowdfunding, ICOs, and lenders using BigData analytics.

**Intensive use of digital technology**
Financial service providers extensively rely on technology to improve speed, convenience, accuracy, access, affordability and security.

**Use of agents**
Agents represent a significant distribution channel and physical point of contact (compared to traditional branches and ATMs).
“What are basic regulatory enablers for digital financial services for financial inclusion to emerge and thrive?”

CGAP’s Learning Question
Four Basic Regulatory Enablers for DFS

CGAP identified these four regulatory enablers based on its work in 10 countries in Africa and Asia and in consultation with leading DFS providers and policy makers.
Four Basic Regulatory Enablers for DFS
Africa’s banking market is 2nd fastest growing globally and 2nd most profitable

**Banking Revenue Pool CAGR, 2017–22E**

- Latin America
- Africa
- Middle East
- Emergin Asia
- Eastern Europe
- Developed Word

**Return on Equity**

- Latin America
- Africa
- Emergin Asia
- Middle East
- Eastern Europe
- Developed Word

*Client-driven revenues before risk cost; constant 2017 exchange rates; Source: McKinsey Global Banking Pools*
African banks also are among the least efficient globally

The decline in cost-to-income ratio is due to rising margins rather than improvements in cost-to-assets

Sources: SNL; McKinsey analysis
No wonder mobile money drives progress in financial inclusion across Africa

Mobile money accounts have spread more widely in Sub-Saharan Africa since 2014
Adults with a mobile money account (%)

Source: Global Findex database.
Note: Data are displayed only for economies in Sub-Saharan Africa.
This illustrates why e-money issued by non-banks is key to digital financial inclusion
Regulatory frameworks for non-bank EMIs typically focus on the following areas

Legal definition of function and nature of e-money:
- Facilitates payments
- Stores value electronically
- Differs from other deposits

Authorize and regulate e-money issuers:
- Eligibility
- Capital requirements
- Permitted activities
- Protection of customer assets
Regulators need to take into account different types of risk posed by non-bank EMIs
Key Points To Remember

- Non-bank e-money issuers are real game changers

- Regulation should ensure a level playing field proportional to the risks
Four Basic Regulatory Enablers for DFS

- E-Money
- Agents
- Customer Due Diligence
- Consumer Protection
Agents solve the distribution challenge

- Countries that allow bank and non-bank EMI agent networks have financial inclusion rates 11.8 percentage points higher than those without regulations.

- 85% of jurisdictions permit FSPs to contract with agents.
The nature of the agent-principal relationship determines three primary areas of regulation:

- **Integrity**
  - Fraud management
  - AML/CFT

- **Market conduct**
  - Consumer protection
  - Transparency
  - Complaint handling
  - Exclusivity
  - Fair treatment

- **Reliability and security of the service**
  - Liquidity management
  - Connectivity
  - Physical security of agent
  - Cybersecurity
Key Points To Remember

- Agents solve the challenge of costly bricks-and-mortar branches and ATMs

- A wide spectrum of FSPs allowed to use agents works best

- Regulators may need to intervene against exclusive dealings that cause significant market distortions
Four Basic Regulatory Enablers for DFS
Reminder of DFS characteristics that policymakers need to be aware of:

- Customer profile
- New providers & business models
- Intensive use of digital technology
- Use of agents
Transparency over terms and conditions for DFS

Disclosure of fees

No disclosure of transaction fee

Transaction fee clearly disclosed
Four main areas to consider for protecting consumers in digital finance

- Transparency & disclosure
- Protection against fraud
- Data protection and privacy
- Consumer recourse
Key Points to Remember

• Effective consumer protection helps build trust in DFS

• Multiple DFS channels, products and actors introduce unique challenges

• Technology offers new ways to deal with traditional consumer protection issues
Four Basic Regulatory Enablers for DFS
Overly restrictive CDD can hinder financial inclusion

- Unnecessarily excludes customers
- Grows the cash economy
  - Hinders consumer protection efforts
  - Makes transactions harder to track (vs DFS)
  - Undermines combatting of financial crimes
  - Worsens financial exclusion

AML/CFT and inclusion policy objectives are aligned with enabling everyone to use secure financial services.
Simplified CDD reduces compliance burden in line with level of risk

SIMPLIFIED REQUIREMENTS:

- Full name, address, state, date of birth and gender
- Information only, no physical copies
- Account opened at branch, banking agent or electronically

Mexico uses tiered approach

Level 1: US $225 maximum deposits per month – no ID required (individuals only)
Level 2: US $900 maximum deposits per month – SDD (individuals only)
Level 3: US $3,000 maximum transactions per month – SDD (individuals and firms)
Level 4: No ceiling, but US $9,000 per month deposit cap where account is opened by video conference – full CDD (all).
Key Points to Remember

- Risk-based approach to AML/CFT is essential
- Inadequate controls may allow criminal abuse, while over-designed controls may undermine inclusion and integrity
- ID systems and digital technology (e.g., eKYC) play an important enabling role
Tanzania and Ghana: Two paths to enabling regulations

Ghana
- Early regulatory framework fails to spur DFS investment
- 13% of adults have a mobile account in 2014
- Regulations revised in 2015, drive uptake of mobile accounts
- 39% mobile account ownership by 2017

Tanzania
- Early regulatory approach provides space for investment
- 32% of adults have a mobile account by 2014
- Regulations formalize enabling approach in 2015
- 39% mobile account ownership in 2017

Data Source: Global Findex
The Case of Tanzania
Tanzania adopts enabling regulations early

- Non-banks allowed to become E-Money Issuers (EMI)
- Non-banks can build agent networks
Tanzania’s approach encourages early investment

Source: Bank of Tanzania
Tanzania codifies best practices in 2015

- Nonbank E-Money Issuance
- Use of Agents
- Risk-Based Customer Due Diligence
- Consumer Protection
Mobile money responsible for most financial inclusion in Tanzania by 2017

Financial inclusion attributable to mobile money

Source: Finscope 2017
The Case of Ghana
“Mobile money was viewed, at best, as a channel for use only by banks and deposit-taking financial institutions.”

Elly Ohene-Adu, Former Head of Payments Systems Division, Bank of Ghana
Ghana’s 2008 branchless banking guidelines fall flat

- Only banks permitted to become EMIs, use agents
- EMIs must consist of a partnership between at least 3 banks
- MNOs serve as agents of banks, but no dialogue with Central Bank
Mobile money struggles to gain traction in Ghana

By 2011, there were **only 100,000 active mobile accounts**

3 key problems:

• **Passive Partners**: Banks decline to take responsibility for services, invest in agents/marketing

• **Cost to MNOs**: Absent bank investment, MNOs are forced to pick up the slack but do not technically own the services

• **Communications Gap**: With no license from the central bank, MNOs have no seat at the table when discussing regulations or other issues
“The banks were supposed to recruit the agents, they were supposed to promote the product... We were operating, but we were not operating fully.”

Carl Ashie, Former Head of M-Commerce at Zain
Ghana’s central bank signals new approach in 2013, spurring investment and growth

Source: Bank of Ghana
“This was what the telcos were waiting for... they just spread their wings.”

Elly Ohene-Adu, Former Head Payment Systems Division, Bank of Ghana
Ghana issues new EMI guidelines in 2015

- Nonbank E-Money Issuance
- Use of Agents
- Risk-Based Customer Due Diligence
- Consumer Protection
Mobile money emerges as most important driver of financial inclusion in Ghana by 2017

Financial inclusion attributable to mobile money

Source: Findex 2017
Another example: Côte d’Ivoire
Like Ghana, early regulations stifle investment

- 2006 e-money regulations prevented non-banks from becoming EMIs
- MNOs forced to partner with banks, expected to drive investment in services but have no control over services or communication channel with central bank
- Revision in 2015 implements regulatory enablers, allows non-bank EMIs
2015 regulations drive transactions, investment in agents

- Value of transactions
- Number of active MM agents

Source: BCEAO
Mobile money drives financial inclusion in Côte d’Ivoire

<table>
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<th>Year</th>
<th>Any account</th>
<th>Mobile Money account</th>
<th>Financial Inst. account</th>
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<td>2014</td>
<td>34%</td>
<td>24%</td>
<td>15%</td>
</tr>
<tr>
<td>2017</td>
<td>41%</td>
<td>34%</td>
<td>15%</td>
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- Any account: 20% increase from 2014 to 2017
- Mobile Money account: 40% increase from 2014 to 2017
- Financial Inst. account: No change from 2014 to 2017
Enablers beyond regulations

Enabling Regulatory Approach:
Regulators foster dialogue with industry and are proactive in addressing shortcomings.

Executive Commitment and Investment:
Provider leadership believes in the business case and are committed to investing even in the face of early losses.

Competitive Landscape:
A dynamic market exists in which a range of players compete to offer innovative services at affordable prices.

Interconnected Services:
Customers can use payments accounts to transact with a broad range of account types and providers.

Compelling Use Cases:
Digital products and services respond to customer demand, incentivize use.
To learn more, download the publications

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Basic Regulatory Enablers for Digital Financial Services

Executive Summary

Digital financial services (DFS) differ from traditional financial services in several ways that have major implications for regulators. The technology enables new operating models that involve a wider range of actors in the delivery of financial services, from design to delivery. The delivery of DFS relies on new providers such as technology vendors (TVs), digital financial services (DFS) providers (DFSps), and traditional financial institutions (TFFIs). The regulatory environment is complex and requires a multi-stakeholder approach.

For many years, CGAP has been interested in understanding how these new models are regulated and how regulation might have to adapt to enable DFSps that have potential to advance financial inclusion. This report presents a follow-up to our earlier research on DFS regulatory frameworks. The report discusses the specific aspects of existing and evolving regulatory frameworks for DFS, focusing on an DFSps model that specifically targets excluded and underserved market segments.

The framework adopted by 10 countries in Africa and Asia where CGAP has focused its activity with supporting an enabling policy environment for DFSps is summarized. The main components of the framework are listed below:

1. Bankable & Fee-earning: This component aims to create a specialized lending model for nonbank DFSps with lower capital requirements and lower fees. It encourages DFSps to focus on low-cost, high-value transactions.
2. Mobile Money: This component aims to create a specialized lending model for nonbank DFSps with lower capital requirements and lower fees. It encourages DFSps to focus on low-cost, high-value transactions.
3. Mobile Money: This component aims to create a specialized lending model for nonbank DFSps with lower capital requirements and lower fees. It encourages DFSps to focus on low-cost, high-value transactions.

Building Inclusive Payment Ecosystems in Tanzania and Ghana

Over the past decade, financial services for the poor have undergone a dramatic transformation, as many financial institutions, banks, and insurance institutions (MFIs) are still struggling to provide consistent, high-quality services. The advent of technology has led to innovative business models, and with them, new opportunities for expanding the reach of financial services. As a result, the use of mobile financial services has increased, particularly in emerging markets. Tanzania and Ghana are two countries where mobile financial services have had a significant impact on financial inclusion.

In Tanzania, Mobile Money, a mobile money transfer service, has become increasingly popular. It allows individuals to receive and send money through mobile phones, providing them with access to financial services. In Ghana, Mobile Money has expanded its reach to include other financial services, such as insurance and savings. The adoption of Mobile Money has led to increased financial inclusion, particularly among the rural and low-income populations.

Much of this transformation can be attributed to the emergence of mobile phone technology. According to the World Bank (2017), mobile phone subscriptions are the most widely used form of mobile technology in the world. Mobile phones have become an essential tool for accessing financial services, as they enable individuals to communicate with friends, family, and businesses, facilitating transactions and the transfer of money.

Despite the strong potential of inclusive payments, access to these services is still limited. The lack of financial education and awareness is a significant barrier to the widespread adoption of mobile payments. In Tanzania and Ghana, there is a need for increased financial literacy programs and education initiatives to help individuals understand the benefits and risks of using mobile financial services. By promoting financial education and awareness, the governments of Tanzania and Ghana can help ensure that this technology is used effectively and responsibly, leading to increased financial inclusion and access to financial services for all.

Or visit: https://bit.ly/2IuhqUi

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Or visit: https://bit.ly/2Pi5wgx
Regulations for DFS on CGAP.org

Visit the CGAP website to learn more about our work and key resources on regulation for digital financial services:

https://www.cgap.org/regulation
Thank you

To learn more, please visit

www.cgap.org