



Expert Meeting on  
**THE IMPACT OF ACCESS TO FINANCIAL SERVICES,  
INCLUDING BY HIGHLIGHTING THE IMPACT ON REMITTANCES ON  
DEVELOPMENT: ECONOMIC EMPOWERMENT OF WOMEN AND YOUTH**  
*12-14 November 2014*

**SESSION 4:  
REMITTANCES AND FINANCIAL INCLUSION**

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# **Access to Financial Services**

## **Recent Developments and Policy Issues**

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**Expert Meeting UNCTAD**

**Disclaimer! The views presented here are those of the author and do NOT necessarily reflect the views of the IMF or IMF policy**

# Structure of Presentation

- What has thinking been on access?
  - CGF 2009 Principles and G-20 Statement
- What has happened recently?
  - Mobile money, digital finance  
(r)evolution in developing countries
- What do these developments mean?
  - For overall policy.
  - For countries.
  - And for diagnostic tools

2009 Center for Global Development  
**POLICY PRINCIPLES FOR  
EXPANDING FINANCIAL ACCESS**  
(Mirror G-20 2010 Statement)

- I. INSTITUTIONAL INFRASTRUCTURE FOR PROMOTING ACCESS
  
- II. REGULATION OF FINANCIAL SERVICE PROVIDERS AND FINANCIAL SERVICES
  
- III. DIRECT POLICIES USING PUBLIC RESOURCES

# I. INSTITUTIONAL INFRASTRUCTURE FOR PROMOTING ACCESS

Principle 1: Promoting entry of and competition  
among financial firms

Principle 2: Building legal and information  
institutions and hard infrastructure

Principle 3: Stimulating informed demand

## II. REGULATION OF FINANCIAL SERVICE PROVIDERS AND FINANCIAL SERVICES

Principle 4: Ensuring the safety and soundness of financial service providers

Principle 5: Protecting low-income and small customers against abuses by FSPs

Principle 6: Ensuring usury laws, if used, are effective

Principle 7: Enhancing cross-regulatory agency cooperation

### III. DIRECT POLICIES USING PUBLIC RESOURCES

Principle 8: Balancing government's role with market financial service provision

Principle 9: Using subsidies and taxes effectively and efficiently

Principle 10: Ensuring data collection, monitoring, and evaluation

# What has happened since?

- G-20 2010 statement (mirrors CGD 2009)
- Much progress in mainstreaming lessons
- Access improving worldwide
- Many developments in remittances/payments using new digital technologies and some IDs
- Promise of a fusion of banks and MNOs
- Yet, often unclear how to go forward
- Demand for country specific diagnosis



# Issues going forward as we see them today

1. Competition policy
  - In both banking and MNOs, and between
2. Level playing field in financial services
3. KYC and consumer protection
4. Payment systems
5. Role of government
6. Dynamics
  - Need for diagnostic tool

# Competition policy in both banking and MNOs

- Entry of “fit and proper” banks
  - Should be easy, regulatory limits on branching and ATMs few, product rules limited, etc.
- Entry in mobile-payments markets
  - Should be relatively liberal and remain attentive to competitive conditions, use anti-trust
- Exit rules for providers of financial services
  - Should be clear and address both banks and MNOs, and other suppliers/affiliated firms

# Competition policy between banking and MNOs

- Interoperability, within and between networks
  - While need not be mandated early on -- to avoid inhibiting competition, is important to monitor
- Regulation of new mobile payments markets
  - Ex-post generally better than ex-ante limits/rules
    - Off-network fees for money transfers, however, may require regulatory oversight
    - And monitor market power in traditional payment and clearing systems (say of banks), so as not to delay development of mobile payments

# Level Playing Field

- Rules across functionally-equivalent forms of financial services
  - To be similar, to “level the playing field,” and provide competition to banks
    - Consumer protection, liabilities, etc. to be the same
    - Stored values, “deposits” in MNOs (such as *M Shawari* in Kenya), etc. to have deposit insurance similar to banks – can use alternative models (direct, pass-thru) – with same reserve requirements, other regulations, and backed up by appropriate supervision

# Level Playing Field

- If MNOs engage into lending, they should be subject to the same capital and other prudential requirements as applied to banks
  - Otherwise, investments from deposit taking to be limited to risk-free assets (e.g. public debt).
- Assignments for regulatory oversight and rules between supervisors to be clear
  - e.g. rules for coordination between MNO regulator and authority in charge of payments oversight

# KYC and Consumer Protection

- Rules for KYC should be risk-based
  - Adjust CFT/AML according for mobile usage
- Explore biometrics, digital based IDs, also for KYC
  - Secure ID credentials, largely based on biometrics
    - IFIs could help low income countries in the design and implementation of secure IDs
- Assure data privacy and consumer's protection
  - Clarify rules for customers' data sharing, for MNOs, banks, agents and other service providers
  - Adapt rules against fraud for mobile, digital services

# Payments system

- Enact a legal framework for retail payments that:
  - Balances ex-ante and ex-post approaches to foster innovation, technological change, new developments
    - Keeping in mind that ex-post approaches are easier in common-law countries than in civil-law countries
- Have regulations appropriate for retail and mobile
  - Reduce regulatory barriers for retail payments
  - Enforcement and powers appropriate for mobile
    - Possibly consider separate rules for payments-only and interest-bearing deposit (accounts)
- Assure access to payments system is level and fair
  - Allow bank and non-bank providers to participate
  - Evaluate access and pricing rules (perhaps regulate some)

# Payments system

- Recognize and identify the proper roles of the Central Bank and other supervisory agencies
  - Innovations in retail payments can raise policy issues and call for an active role of the Central Bank
    - While most retail payment systems are not considered systemically important, their potential weaknesses with regard to security and reliability can affect overall financial system and consumer confidence in new technologies
  - A proper coordination of various agencies is needed
    - Besides Central Bank, other regulatory authorities, including that of telecommunications, also play a role, especially as the number of non-bank players in retail payments markets is increasing, thus making coordination important



# Role of government can be justified

- Government has a large stake
  - As a direct stakeholder (e.g., value from cost-savings for G2P payments)
  - And as an indirect stakeholder (e.g., social costs of cash, criminality)
- Government can play a large role
  - e.g., given critical mass, it can help to reduce reliance on cash by the poor and increase customers' base which are key to attract alternative suppliers of financial services

# Its role is mainly regulatory

- Competition policy
  - Entry/exit rules; decide when to mandate inter-operability; level-playing field; rules of conduct/protection for agents
- Avoid *imposing* any business model (bank-led; Telcom-led)
  - Market experimentation is essential initially
- Minimize distortionary regulations
  - E.g. avoid caps on interest rate, or transaction taxes, especially on small-size accounts—in banks or MNOs
- Develop sound legal system
  - Without it, negotiations among players may not be successful
- Adapt/update rules and regulations
  - As digital financial platforms increase their sophistication and type/number of players

# But can also be directly involved

- Primarily to develop institutional infrastructure
- At times, possibly to develop markets
  - e.g. moving G2P and/or P2G payments to mobile platforms—  
ex: tax payments in Philippines
  - Potentially use subsidies to tackle coordination problems
    - As neither side of the market (consumers or merchants) wants to be the first in joining a payments platform
- And perhaps to correct or overcome market failures
  - E.g., encourage private sector to invest in digital finance
    - e.g. recover from/share costs with private sector in setting-up digital finance platforms to get economies of scale

# Dynamics are most difficult

- Bank-led vs. MNO-led
  - Which one goes first? How to “fuse”? When?
- Regulations
  - Ex ante vs. ex post?
- Innovation vs. scale economies
  - What are best policies to deal with externalities, two-sided markets, to maximize positive network effects?
- From payments to other financial services
  - How to move from mobile money to digital finance?

# Need a diagnostic tool

- Questions faced by policymakers today
  - What are the specific barriers to financial inclusion using digital means, notably mobile phones?
  - What reforms and how to prioritize them?
- Constraints differ from past ones, can be many
  - Analyses can be backward looking
  - New developments/opportunities hard to capture
- Think in a decision tree
  - What is binding, today?
  - Ideally matched to “constraints” indicators

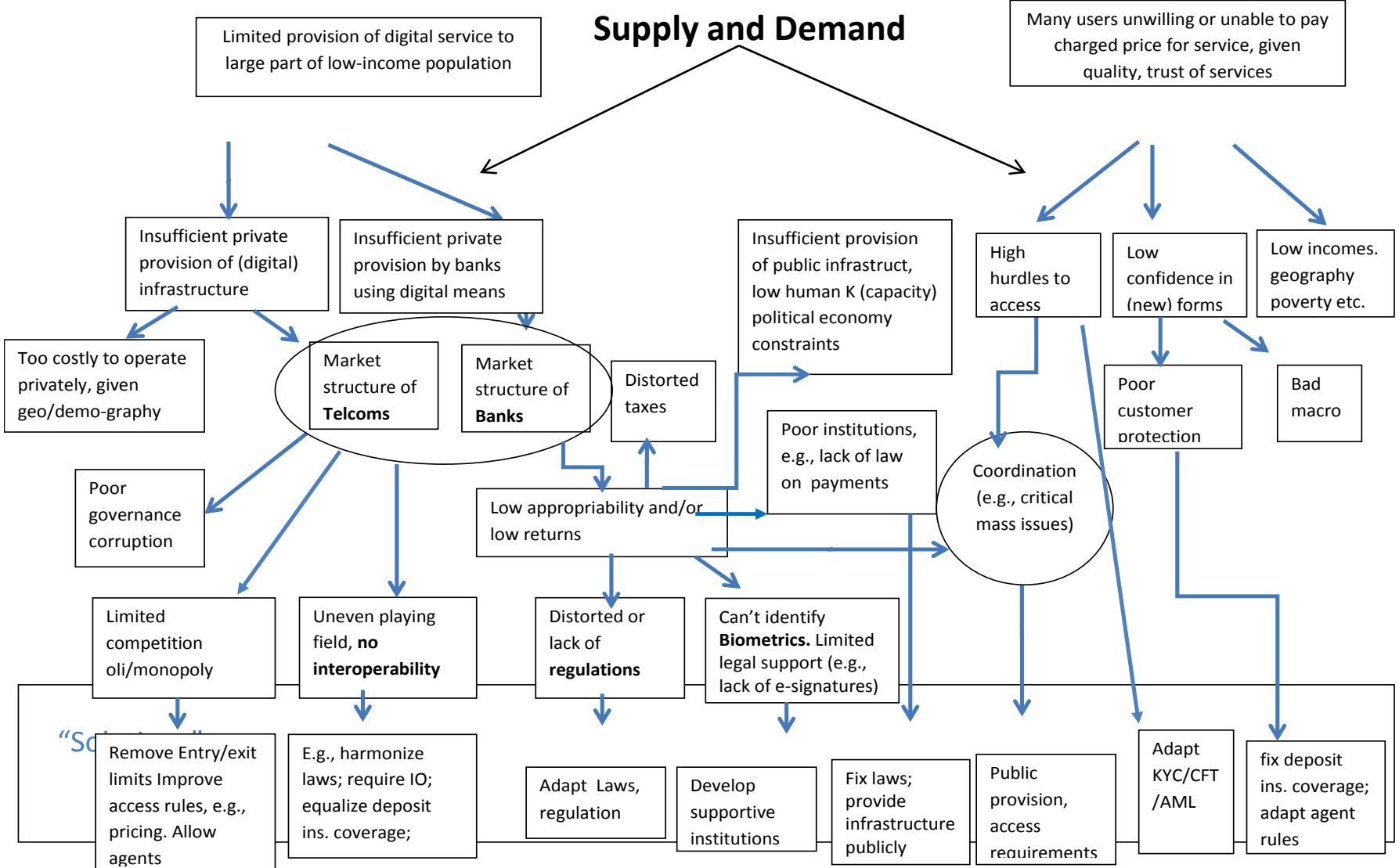
# Explain India vs. Kenya

- Kenya
  - MNO coverage good, financial services provision poor for income level, regulatory remit limited
  - **Now:** MNO-led took off, with more services coming
- India
  - MNO coverage good, financial services provision reasonable for income level, regulatory remit large
  - Largely choose bank-led encouraged (MNO sub model, with bank account link). New: universal account, payment bank, etc.
  - **Future:** TBD

# Or Somaliland vs. Sri Lanka

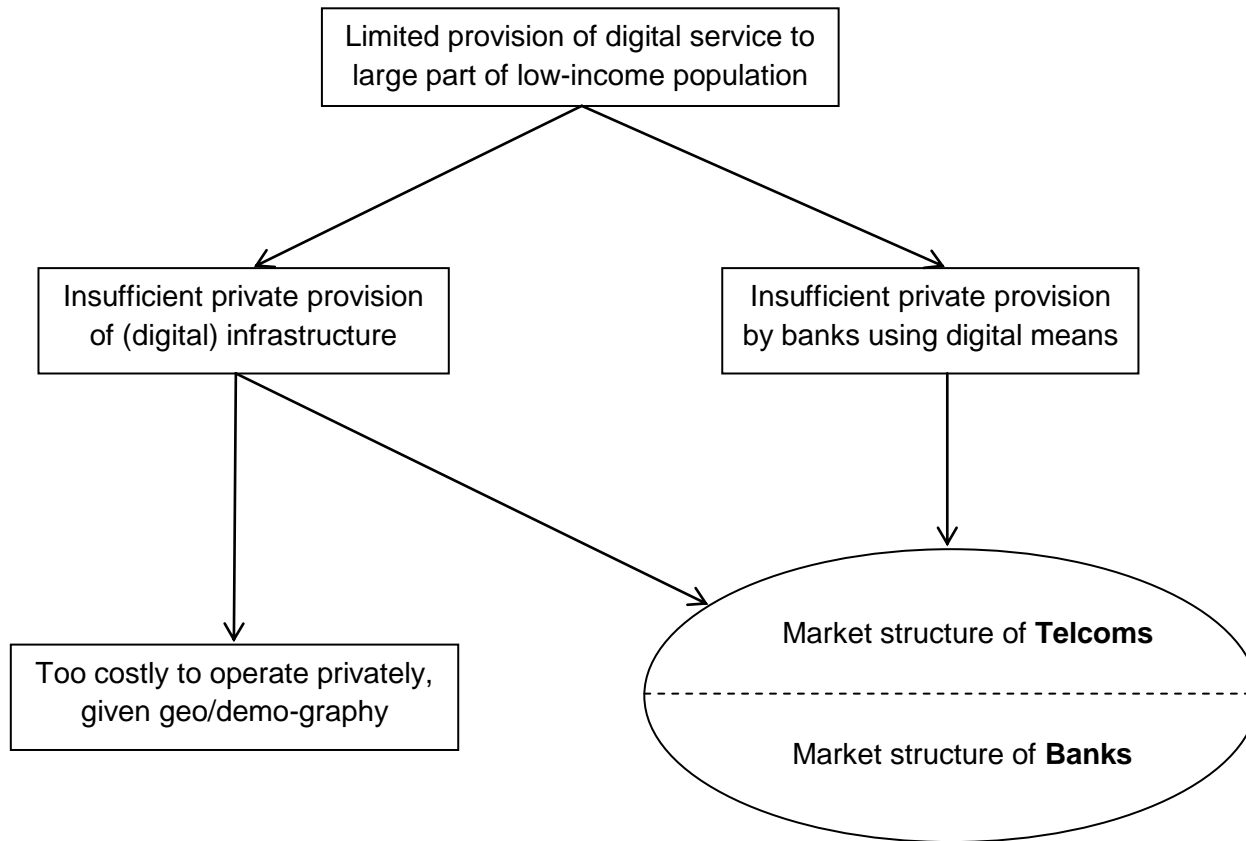
- Somaliland (also Zimbabwe)
  - MNO coverage good, financial services provision minimal, regulatory remit limited
  - **Now:** MNO provides free mobile money service
- Sri Lanka (also Pakistan)
  - MNO coverage good, financial services provision reasonable for income level, regulatory remit large
  - As mobile money required bank account, i.e., bank-led (plus extensive KYC), no development
  - **Now:** MNO-led allowed, taking off

# Complete decision tree: complex

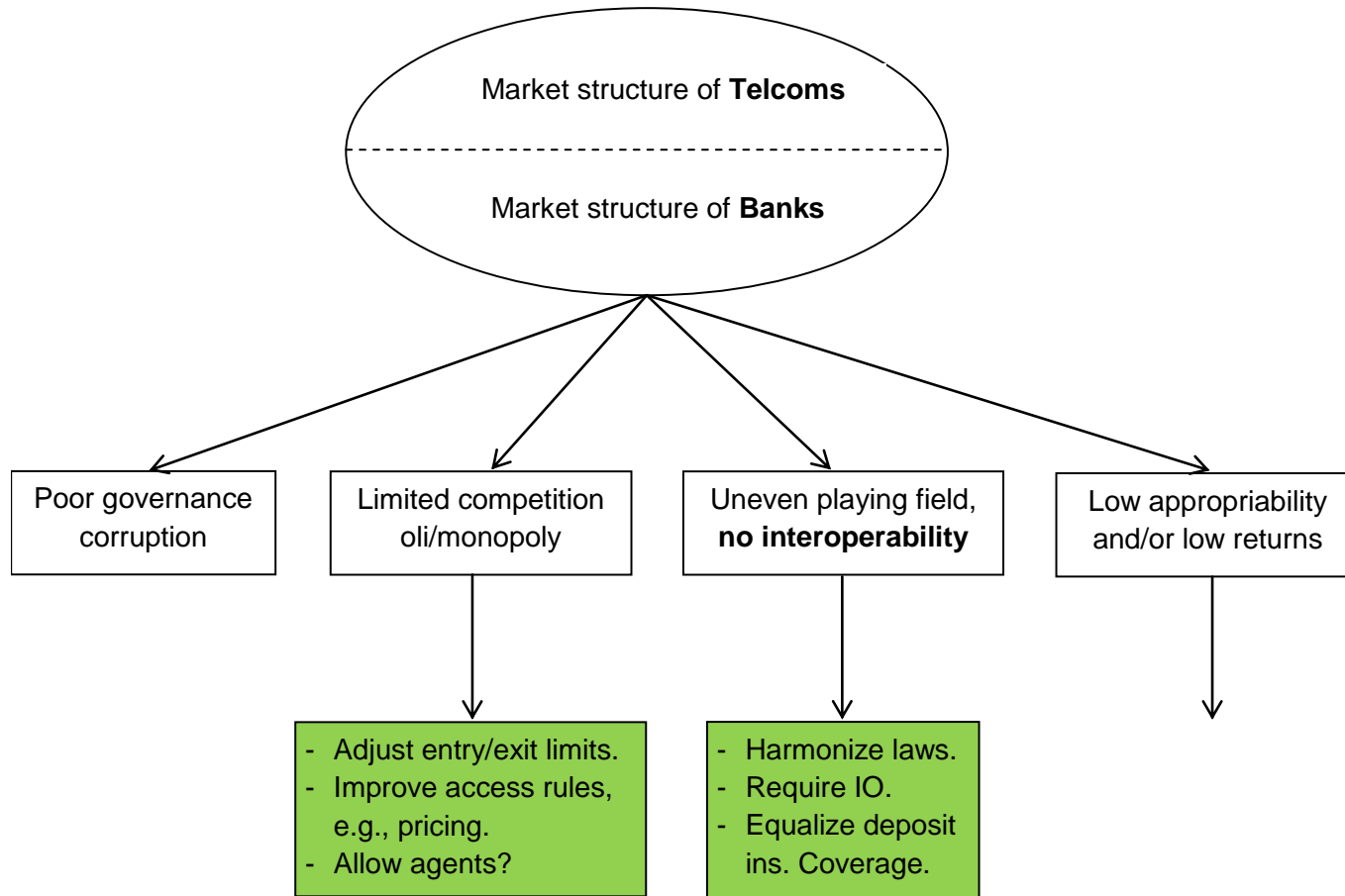




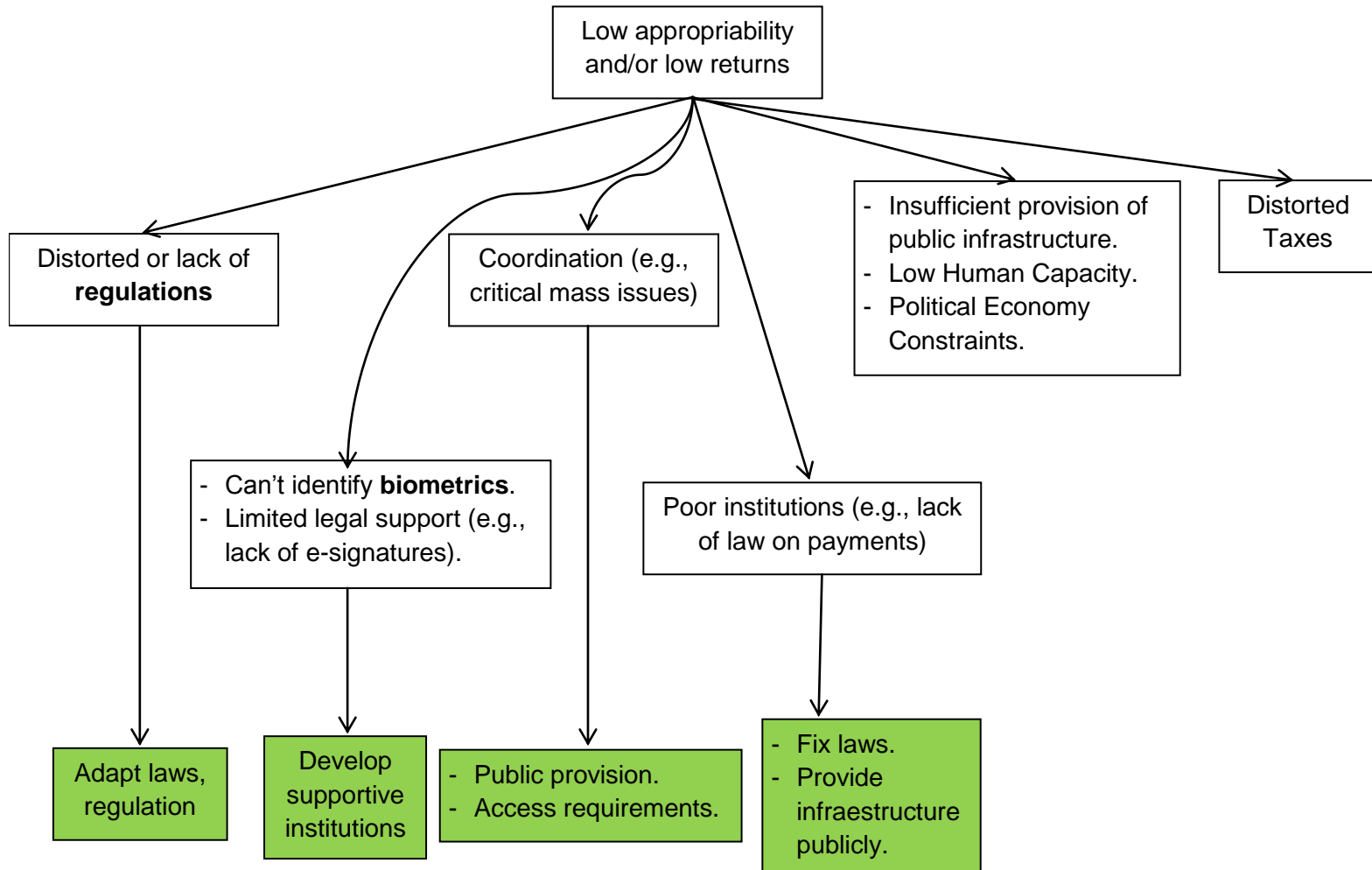
# Supply Causes 1



# Supply Causes 2



# Supply Causes 3



# Demand Causes

