Mobile Banking, Financial Inclusion and Policy Challenges



Presentation to the 10th IADI Annual Conference

19-20 October 2011, Warsaw, Poland

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Agenda

Definitions

- Anatomy of Mobile Banking
- Impact of Mobile Banking on Financial Inclusion
- Policy challenges from a deposit insurer perspective: Is a safety net needed for mbanking?





Definitions

- Business Correspondent model or agent model: delivery of financial services outside conventional bank branches, using agents or other third-parties as the principal interface with customers and relying on technologies (e.g. Card-reading POS, ATMs, Mobile phones) to *deliver financial services to low income people.*
- E-money: record of funds or value available to a consumer stored on a payment device such as chip, prepaid cards, mobile phones or on computer systems as a non-traditional account with a banking or non-banking entity. E-Money products are further differentiated into network money; M Money; electronic purse; electronic wallet and network money.
- M-Money: E-money product where the record of funds is stored on the mobile phone or a central computer system and which can be drawdown through specific payment instructions to be issued from the bearers mobile phone.
- Mobile Banking: use of a mobile phone to access financial services (tight to traditional bank account) and trigger a financial transaction.





Mobile banking: How does it work? Cash in (*source: M. Tarazi, CGAP*)



Mobile banking: How does it work? Cash out (*source: M. Tarazi, CGAP*)



M-Banking business models (source: CGAP)

Nonbank-Based

Based Bank-

Customers have a direct contractual relationship with a bank or similar prudentially regulated and supervised institution (and it is this institution that is licensed to provide the service)

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Customers have direct contractual relationship with a nonbank service providers (e.g. mobile network operator or issuer of stored-value payment instruments) And it is this nonbank that is licensed to provide the sevice



II-Impact of Mobile Banking on Financial Inclusion

 Mobile banking services hold great potential for expanding financial access among the poor:

-4 billion people worldwide remain without access to formal financial services

-1 billion do not have a bank account but do possess a mobile phone, (a number expected to grow to 1.7 billion by 2012)

- Nearly 40% of branchless banking customers in developing countries previously had no access to services at all.

-CGAP researchers have found that branchless banking can scale five times faster than traditional microfinance institutions, and is 38% cheaper than traditional banks for low value transactions typically done by the poor.

- In Kenya, 30% of the population uses M-Pesa. Every month, US\$320 million flows through M-Pesa in P2P transfers but an estimated 50% of current users are unbanked.



Developing countries have fewer access points



Source: Financial Access Database. Also see World Bank Payment Systems Database

Mobile signal covers over 80% of the world's population



II-Impact of Mobile Banking on Financial Inclusion (contd)

- There are 100 mobile Money platforms around the world (GSMA, May 2011) and 88% deployment in developing markets.
- Research predicts that users of mobile payment and mobile banking will reach nearly 900 million users by 2012. These users will complete 62 billion transactions over the phone (source: mFoundry).



III-Why Mobile Banking is a Powerful Tool for Financial Inclusion?

- Easy to use and reliable (SMS)
- Relaxed KYC
- Offers micro-transactions services
- Overall costs lower than other alternative- branchless banking is 26% cheaper than banks (*CGAP*)
- Free registration and no monthly fee (often, but not always)
- No minimum balance
- Rapidity: mobile banking transactions are real-time (instant messaging-SMS)
- Accessibility: through a network of agents (grocery stores, gas station, pharmacy)
- Wide range of services (micro-payment, P2P remittance payment, transfers)
- Coverage: (e.g. in the Philippines, 60% of the population have mobile phones)
- Reduces cost to service providers because they use
 - existing infrastructure (agents) and existing technology (phones)

IV- Policy challenges: How to protect customers funds?

- Policy makers are facing multiple challenges to regulate m-banking (competition, integrity, consumer protection, etc...)
- The issue of funds protection is one of the most challenging in the non-bank led model: Why do we care?
 -non-bank issuers are taking funds from the public
 -MNO not prudentially regulated/supervised

(i) what if the m-banking provider goes bankrupt?(ii) To whom am I going to present my claim?(iii) What are the mechanisms to protect users' funds?

 In practice, policy responses seem to converge towards funds safeguarding of some sort. There are 2 lines of defense.



1 – First line of defense

Several options have been considered and applied:

- Product should be issued by a bank
- Fund Safeguarding:

-Liquidity requirements + safe investment (e.g. money kept in bank account at a bank and sometimes invested in Government securities)

-Restriction on use (e.g. issuer prohibited from using the funds to finance operating expenses of for lending purposes)

Fund Isolation: Funds underlying issued emoney be insulated from institutional risks of claims by issuer creditors



Example of funds isolation: the case of M-Pesa in Kenya



2 - Second line of defense

- Should the funds backing the e-float be covered by deposit insurance scheme?
- Controversial issue
- Is e-money considered a deposit?
- Are E-funds kept in bank account exposed to bank failure?
- A safety net for m-banking: At what cost ?
- Pre-conditions should also be met





Thank you

Useful sources:

- -Nonbank E-money Issuers: Regulatory Approaches to Protecting Customer Funds (CGAP, Focus Note 63, July 2010, by Michael Tarazi and Paul Breloff)
- -Putting the Banking in Branchless Banking: Regulation and the Case for Interest-Bearing and Insured E-Money Savings Accounts (by Tilman Ehrbeck and Michael Tarazi, in The World Economic Forum 2011 Mobile Financial Services Development Report).
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- Payment Systems Worldwide, A Snapshot Outcomes of the Global Payment Systems Survey, 2008. Financial Infrastructure Series, The World Bank (2008).
- -Protecting Mobile Money Against Financial Crimes, Global Policy Challenges and Solutions, by Chatain, PL et al. (foreword by the Bill and Melinda Gates Foundation, WB publisher, 2011)

