



PAYMENT ASPECTS OF FINANCIAL INCLUSION

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April 2016



WORLD BANK GROUP
Finance & Markets

Topics

- Part I. Real Impact -- International Remittance Efforts
- Part II. Universal Financial Access by 2020 – Headline Commitment
- Part III. Payment Aspects of Financial Inclusion --
CPMI & World Bank Chaired International TF

International Remittance Efforts

G7 Sea Island Remittance Initiative

- ❑ Launched the international work by calling for
 - Consistency in and greater accuracy of statistics on remittance flows
 - Policy guidance from the relevant international SSB – global effort lead by the CPMI (then CPSS) & the World Bank
- ❑ G7 Leaders committed to take action in their economies to --
 - Enhance remittance services and, in specific
 - Foster a reduction in remittance service costs

CPMI -- World Bank General Principles for International Remittances Services



- GP1 Ensure transparency & consumer protection
- GP2 Strengthen payment system infrastructures
- GP3 Establish a sound, predictable, non-discriminatory and proportionate legal and regulatory framework
- GP4 Foster competitive market conditions, including with respect to access to domestic payment system infrastructures
- GP5 Adopt appropriate governance and risk management practices

Remittance Service Providers	Apply the general principles
Public Authorities	Take action to take to achieve the public policy objectives

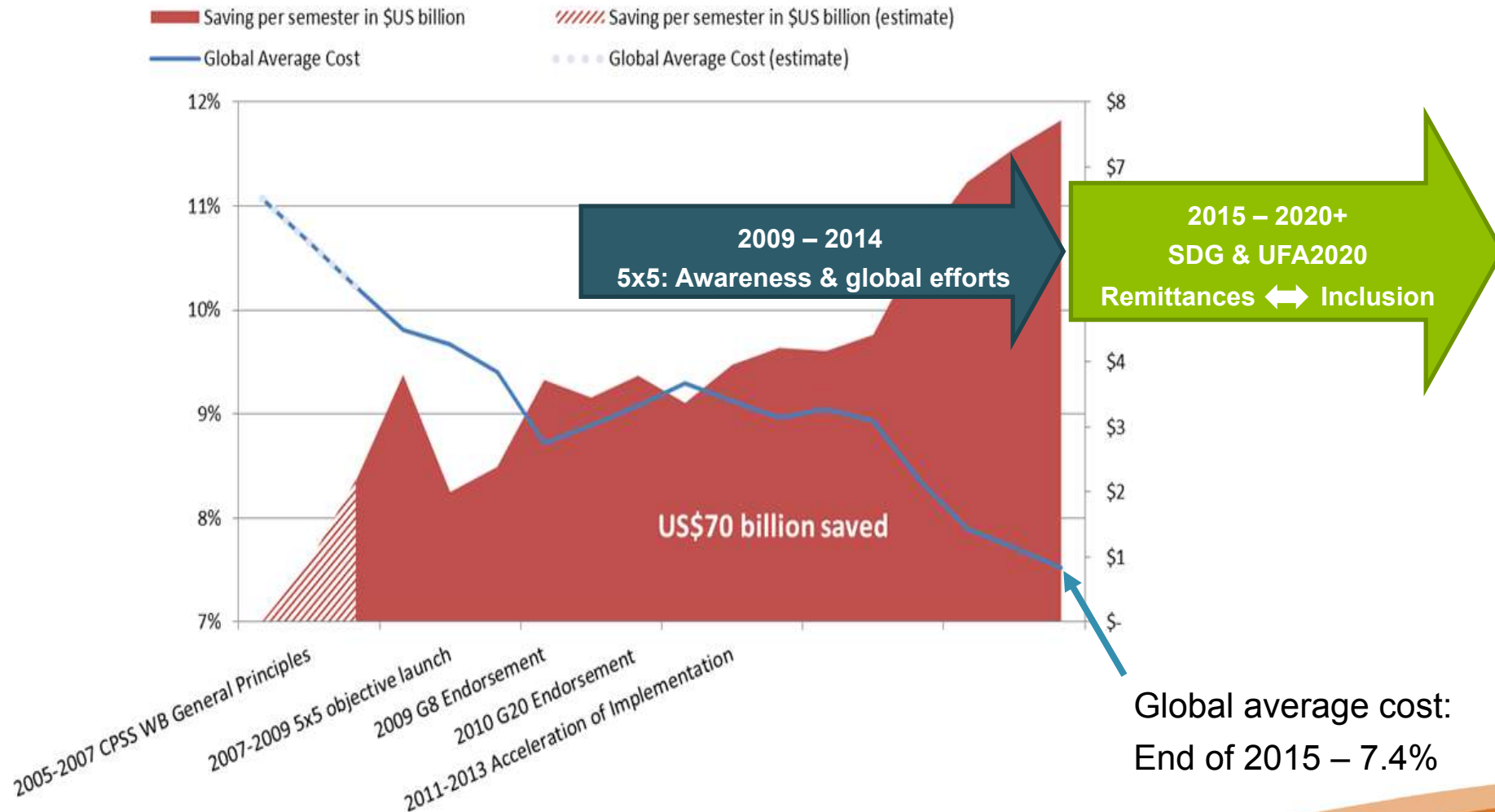
Measurable Target 2009

- G8 / G20 5x5 commitment

Actions

- Global Remittance Price Database
- Assessments of the General Principles for International Remittance Services (GP)
- Recommendations for implementing the GP

Progress, Savings & Next Steps



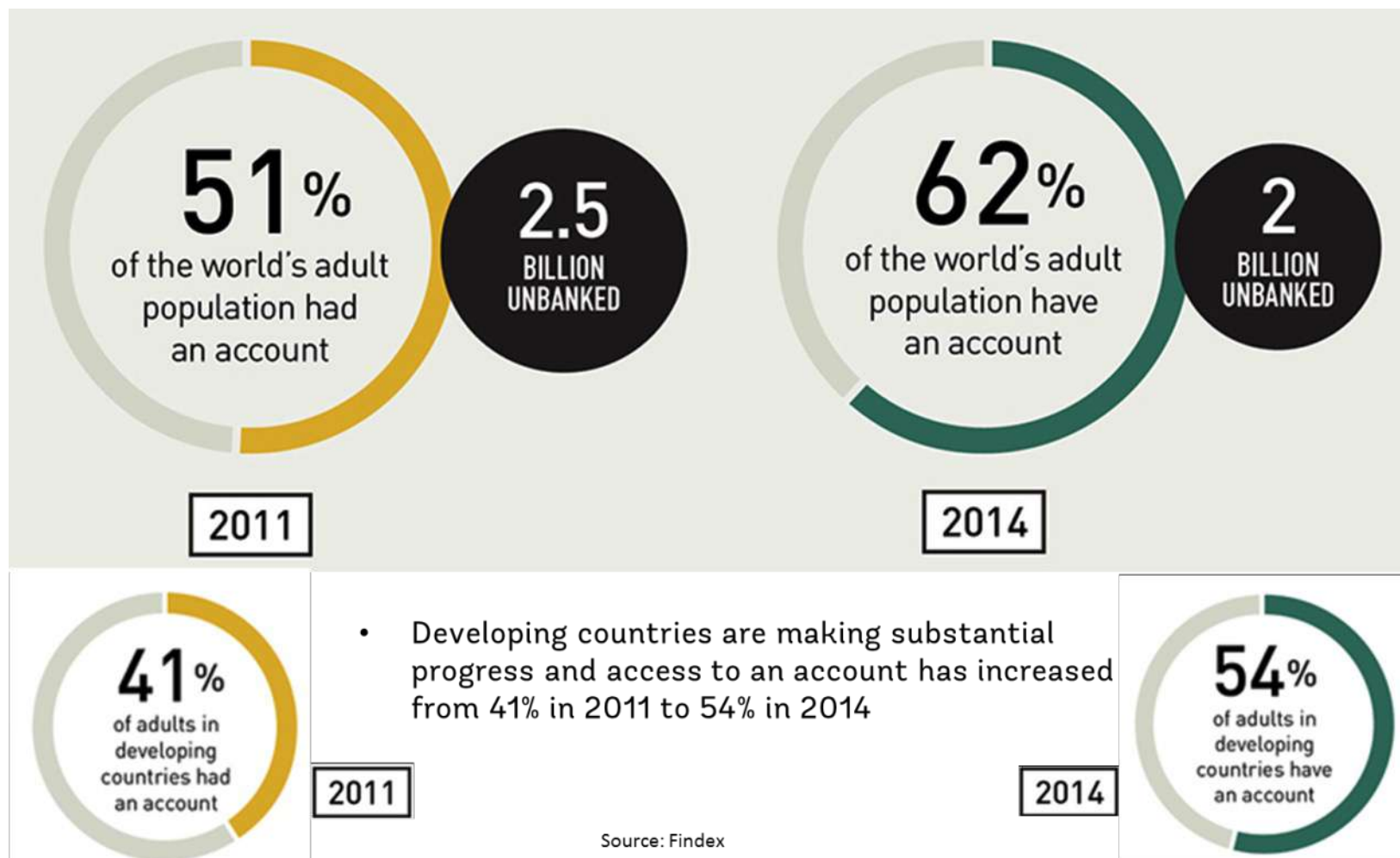
Part II. Financial Inclusion -- Universal Financial Access by 2020

Colombia 2014

39% of adults had an account

Financial inclusion

Gap is narrowing, but is still substantial



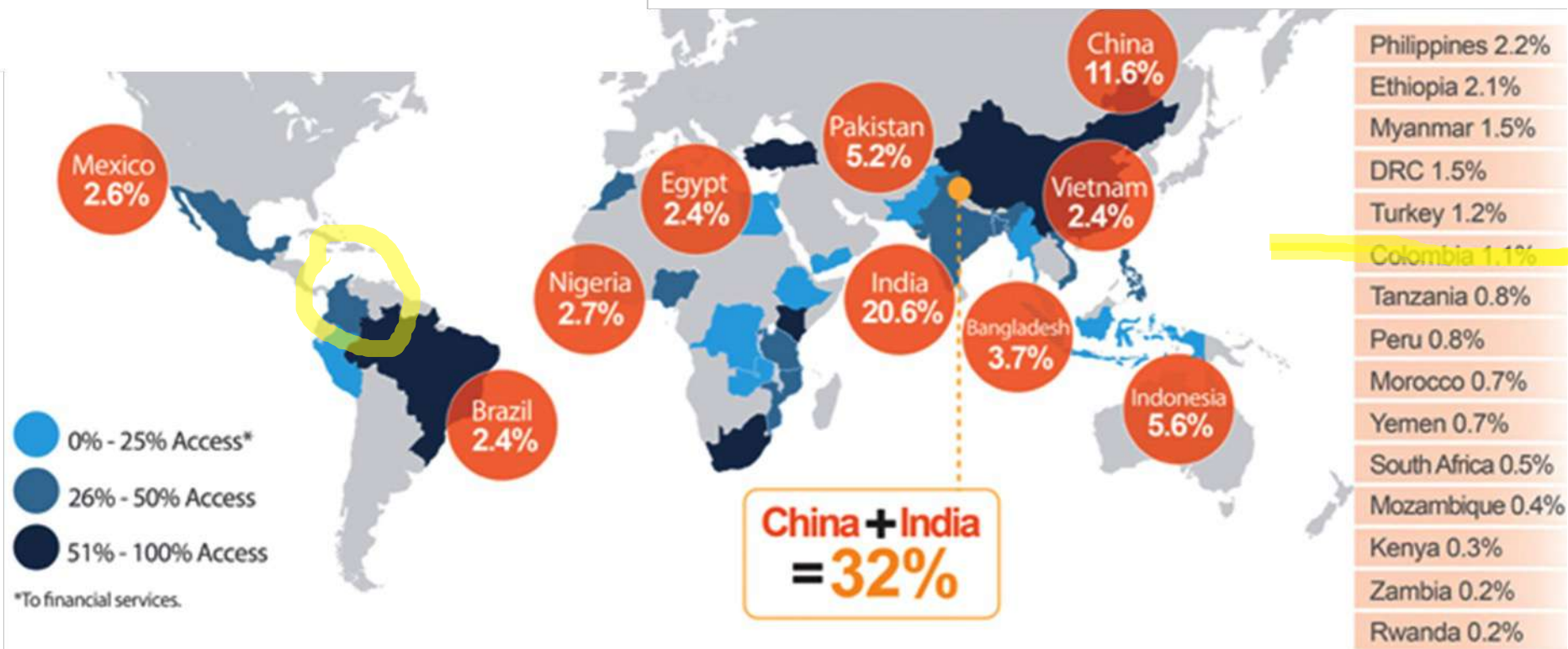
Universal Financial Access by 2020

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
- An ambitious, yet achievable for the majority of the world's population by 2020



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



25 Focus Countries = 73% of the world's financially excluded

Sources: Global Findex 2014, IMF Financial Access Survey

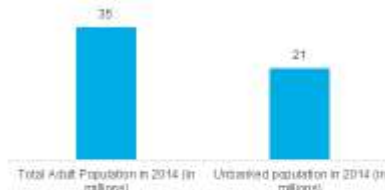
UFA 2020 Country Snapshot

Latin America and the Caribbean

Colombia



% Adults that own a transaction account



Opportunity for the WBG to help draft and implement a National Financial Inclusion Strategy

8.0 M



Opportunity for the WBG to help digitize Government to Person (G2P) payments

1.1 M



Opportunity for the WBG to help open the market and legal/regulatory environment

11.4 M



www.UFA.worldbank.org

Universal Financial Access 2020

UFA Home

Global Progress

Country Progress

Partner Progress

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STAY CONNECTED

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Blogs

Colombia

Select a Country (Overview) ▼



Region	Latin America & Caribbean
Income Group	Upper middle income
Population	47,791,393
Total Opportunity (1)	23.9 million adults

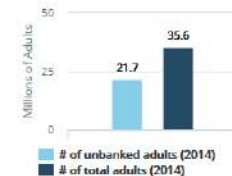
Select Key Indicator:

% adults that own an account ▼



% of adults that own a transaction account

34% of females own a transaction account
44% of males own a transaction account



Country opportunities:



11.5 Million Adults

By drafting and implementing a National Financial Inclusion Strategy (NFIS)



1.7 Million Adults

By digitizing government to person (G2P) cash transfers



17.1 Million Adults

By opening up the market and legal/regulatory environment



% drafting/implementing NFIS
% digitizing G2P cash transfers
% opening up market and legal/regulatory environment

Part III. Payment Aspects of Financial Inclusion -- April 2016

PAFI Task Force Launched in Early 2014

Central Banks & International Financial Institutions

Co-chaired by CPMI and World Bank



The PAFI “Vision”

All have & use **at least one transaction account** offered by a **regulated payment service provider**

- ☐ **perform most** payment needs
- ☐ **safely store some value**
- ☐ **serve as a gateway**

Key Assumptions

- Payments and payment services
 - ✓ Are important in their own right
 - ✓ Can facilitate access to other financial services, and
 - ✓ Often critical to the efficient provision of other financial services
- A transaction account
 - ✓ Cornerstone for providing electronic payment services
 - ✓ Held with banks or other authorized and/or regulated service providers (including non-banks)
 - ✓ Include “deposit transaction accounts” & “e-money accounts”

PAYMENT ASPECTS ^{TO} FINANCIAL INCLUSION



Final report available at:

CPMI Website

<http://www.bis.org/cpmi/publ/d144.htm>

World Bank Group Website

<http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/4/963011459859364335/payment-systems-PAFI-Report2016.pdf>

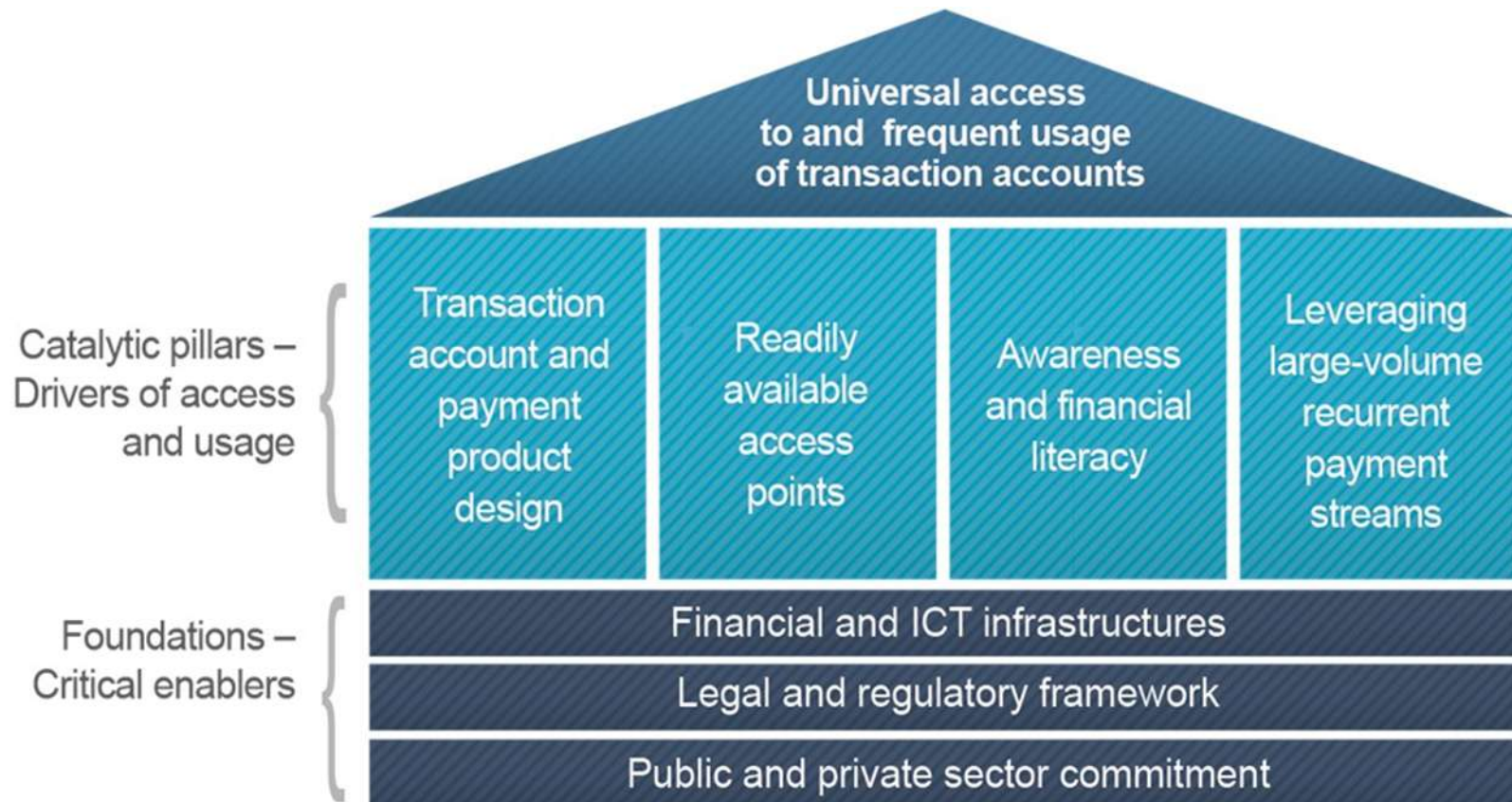
PAFI Report & Guidance

Deepen Knowledge, Advance Action & Measure Results

- **Retail Payments Landscape**
- **Analysis -- Foundations & Pillars**
- **Guidance & Actions for Consideration**
- **Measurement**

Holistic Approach

Foundations, catalytic pillars, effective usage



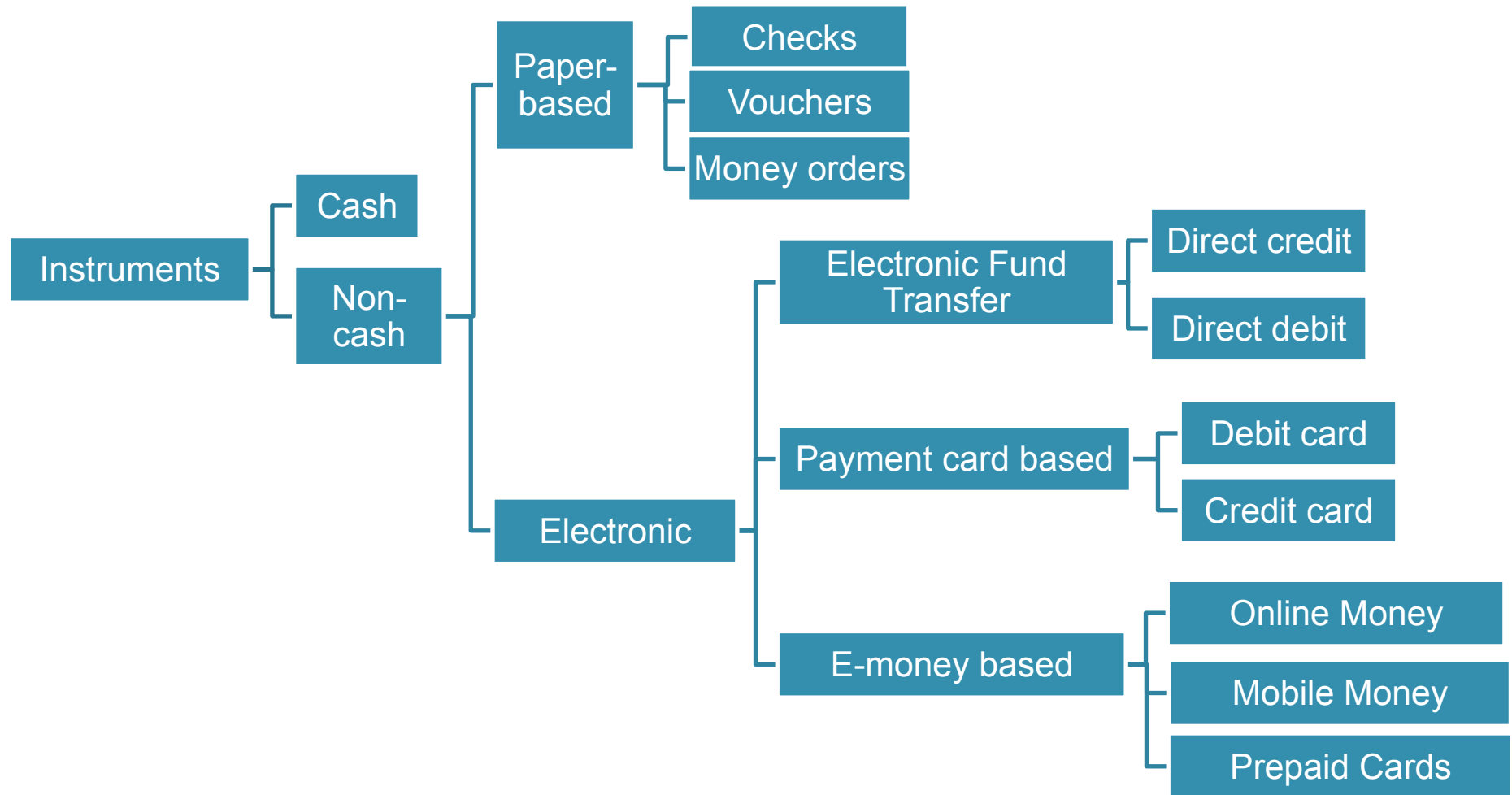
Retail Payments Landscape

A financial inclusion perspective

Prosperities of Relevance to Financial Inclusion

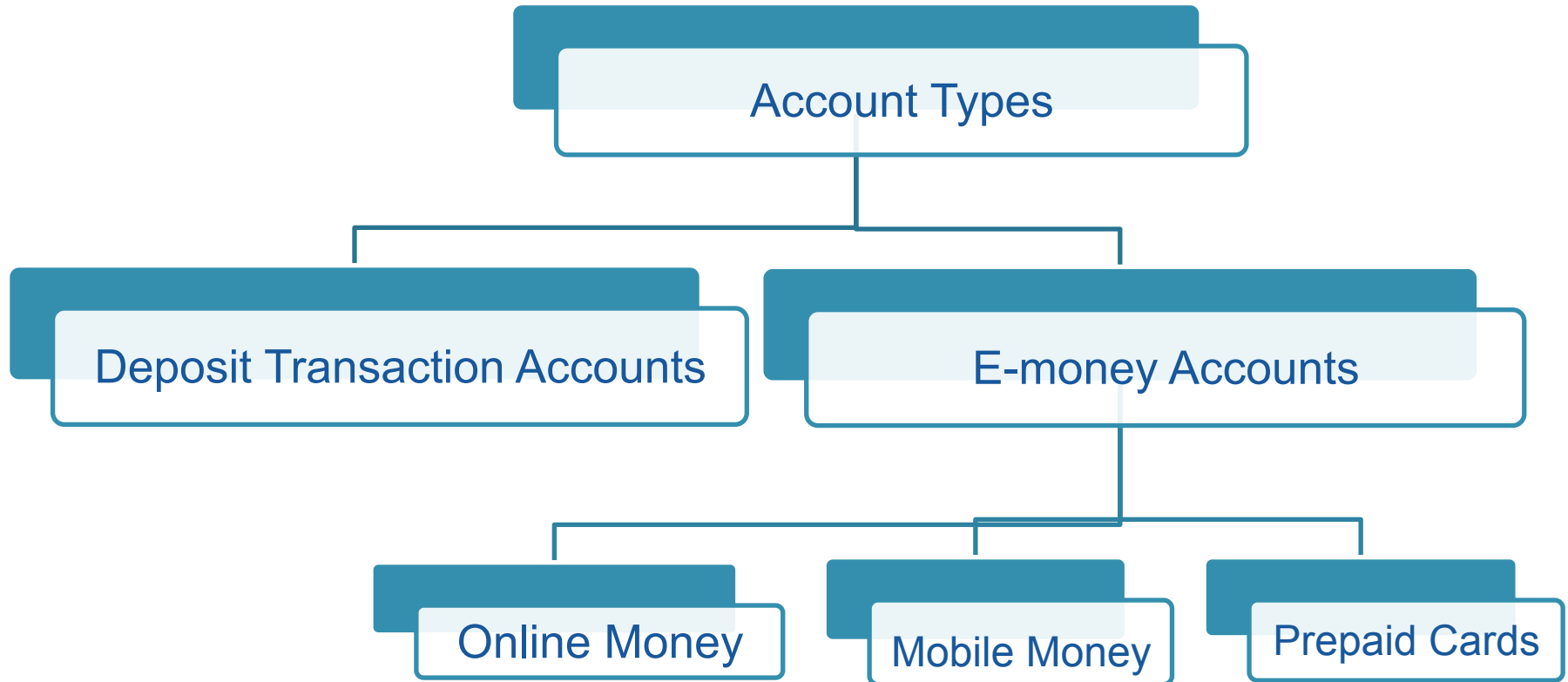
- Payment Instruments & Transaction Accounts
- Types of Retail Payments
- Market Characteristics & Dynamics

Payment Instruments



Transaction Accounts

A Cornerstone for the Provision of Electronic Payment Services



Types of Retail Payments

Payer \ Payee			
	Person	Business ¹	Government entity
Person	P2P	P2B	P2G
Business	B2P	B2B	B2G
Government entity	G2P	G2B	G2G

P = person, B = business; G = government.

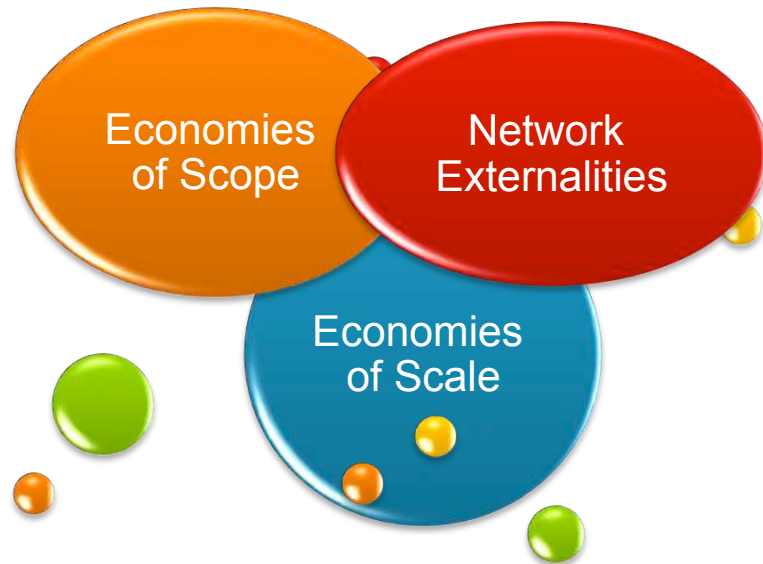
Payment Use Cases

- *Bill payment*
- *Government benefit transfers*
- *Salary payments*

Form of Payment

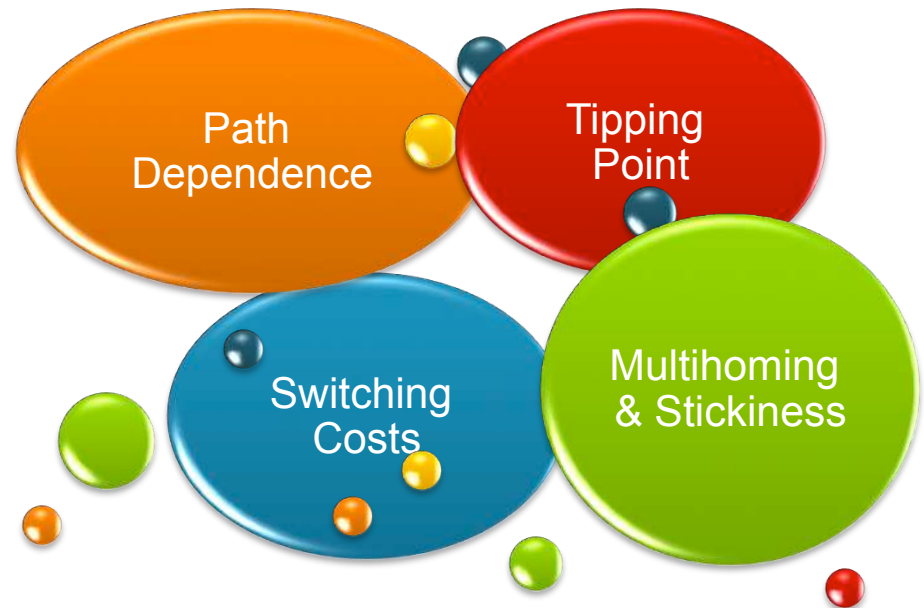
- *In Person*
- *Remotely*

Market Characteristics & Dynamics

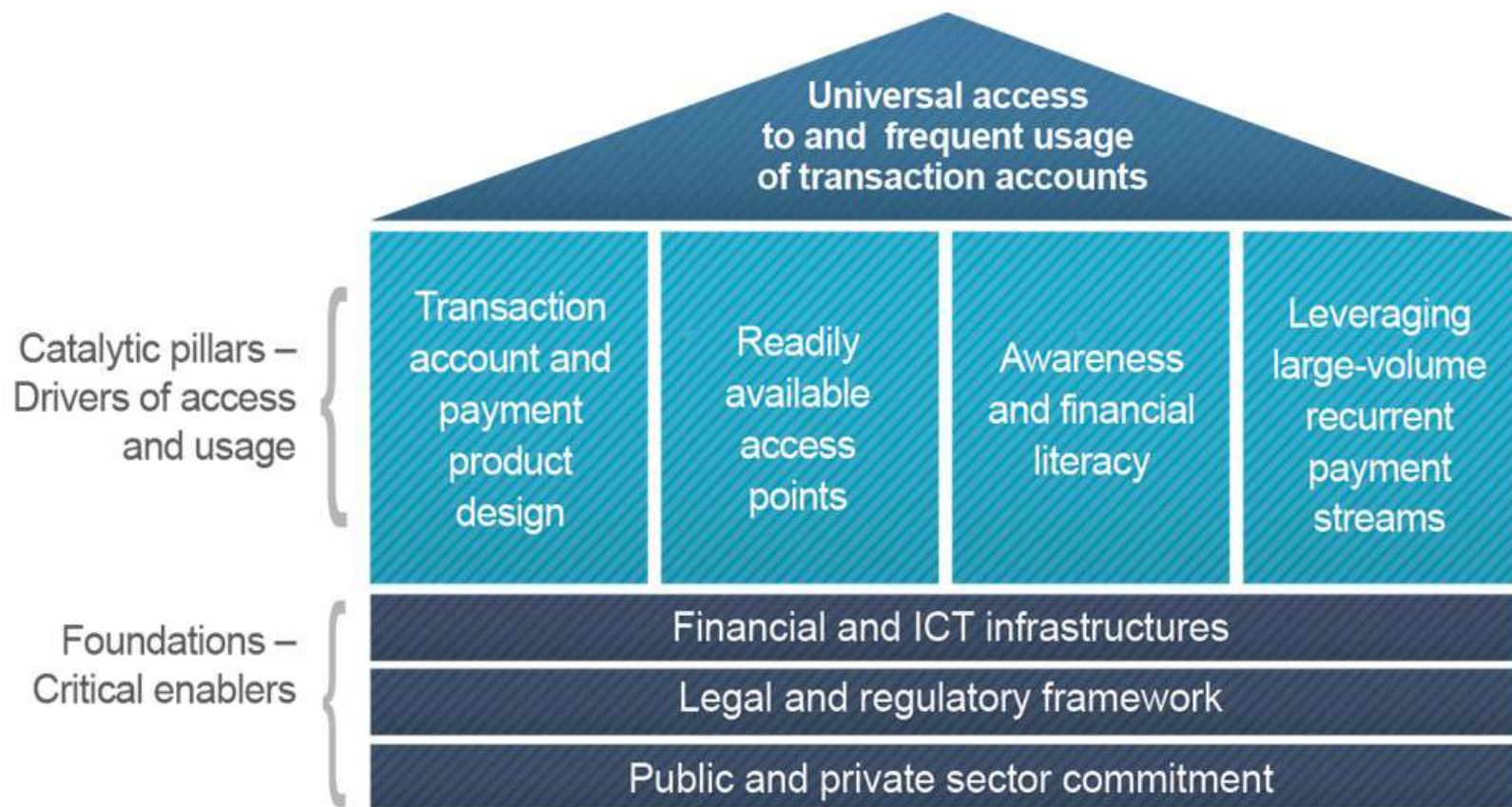


Characteristics

Dynamics



Interrelation of foundations, catalytic pillars and effective usage



PAFI Guidance

Foundations – Critical Enablers



- **Guiding Principle 1: Public and Private Sector 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.

Key Actions for Consideration

Indicative Sample

Guiding Principle 2: Legal & 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

Key Actions for Consideration – (3 of 8 suggested 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 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.
- The framework requires PSPs to implement a transparent, user-friendly and effective recourse and dispute resolution mechanism to address consumer claims and complaints.

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



Guiding Principle 6 -- Awareness and financial literacy

Individuals gain knowledge, through awareness and 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.

PAFI Guidance: Catalytic Pillars – Drivers of Access & Usage



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.

Financial Inclusion ↔ Remittance Services

Thank You!



Measuring the Effectiveness

- 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.

Enabling the Provision of Efficient, Safe & Affordable Electronic Payment Services

Foundations – Critical Enablers

Financial and ICT infrastructures

Legal and regulatory framework

Public and private sector commitment

Catalytic Pillars – Drivers of Access & Use

Transaction
account and
payment
product
design

Readily
available
access
points

Awareness
and financial
literacy

Leveraging
large-volume
recurrent
payment
streams

Financial and ICT infrastructures

Legal and regulatory framework

Public and private sector commitment

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.**
- PSPs **leverage efficient and creative approaches and effective management practices** in their efforts to offer transaction accounts and functionalities in a **commercially viable and sustainable way.**

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:

- 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.
- 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.

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 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**.

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 PSP 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.

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, gender and religious diversity** when servicing holders of transaction accounts.
- The payments industry and authorities monitor 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.

Awareness & financial literacy

Guiding Principle

6:

Individuals gain knowledge, through awareness and 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 and effective educational and outreach** to support awareness and financial literacy with an appropriate degree of coordination.
- Awareness and 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.
- Awareness and 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.

Awareness & financial literacy (cont.)

Guiding Principle

6:

Individuals gain knowledge, through awareness and 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:

- Awareness, 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 provide **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 (eg PSPs show customers how transaction accounts and the associated payment products work in practice).

Large-volume, recurrent payment streams

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.
- 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.

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

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 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.
- 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.
- 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.

Getting SmaRT – Cost of Quality Services

- ❑ SmaRT -- accurately reflect the cost in each corridor
 - ✓ A savvy consumer would pay
 - ✓ Given sufficient information

- ❑ SmaRT -- the average cost of the three lowest cost services in each corridor among those that ---
 - ✓ Available to recipient within five days
 - ✓ Accessible nationwide in sending and the receiving countries
 - ✓ Nearly universal in terms of access to transaction accounts and choice of technology for senders and receivers

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.

Foundations and Pillars

Building a more inclusive financial system

Foundations:

- Critical enablers for the provision of payment services and operation of payment systems
- Particularly important enablers for access to and usage of transaction accounts

Catalytic pillars:

- Pillars that, when built upon solid foundations, drive access and usage.