Comments to the Consultative Report: "Payment Aspects of Financial Inclusion"

First of all, we would like to congratulate the excellent effort that the Bank of International Settlements -CPM and the World Bank Group have made in order to develop a comprehensive approach to the problematic of financial inclusion, particularly to the topic related to payments, with which we agree is a first key step in the path to incorporate those who are not extensively participating in the financial system.

We agree in the importance of payments and the role of the digital transformation to reduce supply and demand barriers to make the financial system works in favor of more people and firms around the world. We also agree with your report in the necessity to develop clear national planning that provides guiding principles, guiding actions and a framework of key indicator to be measured.

In the following sections we would like to share with you some comments and suggestions that we think could improve the perspective of your report.

I. **<u>General Comments</u>**

- Giving the importance of the financial inclusion definition, we think that including the quality concept, might improve considerably the understanding of your arguments in the document. As it is mentioned, there are different dimensions behind the concept of financial inclusion, all important, so it is necessary to carefully consider each of them. Particularly, we think that it is necessary to understand the specific role of the enable factors (such as technology, financial literacy and the regulatory framework,) to overcome structural barriers in each country (such as low income, documentary requirements, cost, distance, idiosyncratic aspects) to increase access and use.(Camara and Tuesta, 2014).
- We understand that the document is focused on the developments of payment aspects, with which agree is crucial. However, it would be desirable to analyze this issue not only from the perspective of regulated financial institutions but also to have an approach to other initiatives beyond that (non-regulated financial players are satisfying a great part of the demand of financial services for low income people). For instance, the characteristics and the ecosystem of the formal-informal savings (see Hoyo et al 2014 and Bosch et al 2015), as well as all the new very dynamic ecosystem of non-financial digital players which are innovating in payments, and in many cases interacting with regulated financial institutions (Tuesta, 2015; Cuesta et al 2015).
- The ongoing legislation reform on financial inclusion has benefited from the proportionality of AML/KYC/CTF standard requirements. The document does not discuss the pros and cons of these initiatives. We think that it would be advisable to include at least a box that compares different initiatives around the world in this respect.

II. Specific comments

- Sections 2 and 3
  - E-money (Box 2): We miss the African experience and also some more recent cases in Latin America. The cases of Peru and Colombia may be more representative of the e-money in the region than those showed in this box. In Camara et al. (2015) we provide details of the relevance of these countries in the region and their contribution in the development of e-money in the region, something that has been successfully recognized in the two recent rankings of the Global Microscope on Financial Inclusion (The Economist Unit, 2015).
  - The document would benefit from a discussion on the provision of basic accounts and its regulatory framework across different countries. Basic accounts have different policy goals in developed and less developed countries. In this regard, Box 4 may be misleading as the EU Payment Accounts Directive is aimed at facilitating access to payment accounts across the EU rather than at promoting financial inclusion. By contrast, analysing the regulatory framework of basic accounts in less developed countries would be more insightful for the purpose of the report.
  - In Table 2: it would benefit from a deeper discussion on the role of public sector in payments infrastructure. For instance: is it recommendable that state-public banks facilitate their physical infrastructure (e.g. their brick and mortar branches) to the public sector?;Iis it necessary that the state subsidizes or make cheaper the cost of POS for merchants in order to facilitate scalability? What is the importance of digital IDs issued for the government to facilitate identification and the authentication process?.
  - In page 20, the report mentions the importance of cooperation among infrastructures providers and service providers. I think that this issue could be illustrated with the so-called "Peru Model" for financial inclusion, that is leading by banks' association and created an ecosystem of collaboration among different banks, cooperatives, the state bank, and telecom companies (see Camara and Tuesta, 2015)
  - In Box 6, the case of Colombia should be included. Recent legislation considers the introduction of deposit insurance for accounts in non banking providers (SEDPES) of e-money.
  - In pages 32 and 33, we think that the document may include a discussion of the development of faster payment infrastructure in emerging countries. There are interesting cases in Mexico and Peru that deserve to be mentioned.
  - Regarding the creation and expansion of an access point network (pages 40-44), agent banking has played a key role in expanding access to the formal financial system, particularly in rural or low-income areas. In Camara et al (2015) we offer an in-depth analysis of the banking correspondent business models, as well as the first

harmonised database with information about the number of banking correspondents by country, which helps in measuring access to the formal financial system.

- (118) The usefulness of individual data for alternative credit scoring can be a good tool for unbanked or underbanked to access credit. For instance, Destacame.cl in Chile is a good example of how this service can foster financial inclusion (Camara, 2015).)
- In pages 51 and 52, you address the role of employer payroll programmes. In this regard, it would be interesting to analyse how governments can promote the direct deposit of payroll in bank accounts, either providing incentives or introducing mandatory regulations. The latter is the case in Uruguay (see Camara and Tuesta, 2014b)

◆ Section 4

- In our opinion, this part might blur the goal of the paper. It seems to be a bit disconnected from the previous sections 2 and 3. Also comments for guidelines are general and do not explain how specific policies can be implemented.

◆ Section 5

- Demand and supply side datasets are useful but incomplete to measure financial inclusion for policy making purposes at country level. Administrative data on access and usage of financial services could be a good alternative that overcome most of the problems associated to supply and demand side datasets. There are some countries like Malaysia and Chile where administrative data is already linked to financial data.
- Baseline values and benchmarks are not easy to set in financial inclusion. We do not know much yet about optimum levels or growth rates. This is why we think that such strategy is difficult to implement.

III. <u>Minor comments</u>

- When talking about the role of financial literacy in section 3.2., it is more enabler of access and usage rather than a driver
- Box 9: Malaysia is also a good example

We hope you find our comments and suggestions useful. We are sure that your report will be a very influential study for those interested in the topic.

Sincerely,

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