

GSMA review of the BIS/WB consultative report “Payment Aspects of Financial Inclusion”

Overall comments

- Very few references to e-money / mobile money.
- Examples included in the paper came from Task Force member countries, which were either developed countries or countries with bank-based models. There were no Task Force representatives from countries where mobile money has taken off (with the possible exception of the BCEAO rep).
- There was a clear bank bias throughout the report (see previous point).
- General statements often are made without providing salient examples to support them. Furthermore, the authors appeared to be virtually unaware of mobile money and its contributions to financial inclusion.
- The authors push for transactions to be free (or nearly free). However if we truly want to see expanded access to finance and lower prices for consumers, mobile money needs to be commercially viable—that means providers need to be able to cover the heavy costs of providing these services. The authors should not underestimate on-going operational expenditures involved in providing mobile money services. The GSMA strongly disagrees that regulatory intervention on pricing matters would result in positive outcomes for consumers. On the contrary, price controls would most likely result in a shrinking mobile money market and lower investments.

Detailed comments

- P2
 - Missing reference to the most important regulatory principles: regulations should be proportional (FATF) and functional (BIS)
 - Comment on provision of services “at little or no cost”: If we truly want to see expanded access to finance and lower prices for consumers, transaction accounts and other payment products need to be commercially viable —that means providers need to be able to cover the costs of providing these services. Otherwise, these products will receive the same type of treatment that universal basic bank accounts have received in so many countries. The emphasis should be on meeting the target population’s transaction needs in a sustainable and commercially viable manner. Product affordability needs to consider the relative costs of providing services to low-income populations, often in remote areas.
- P4, Footnote 3: Investments or insurance?
- P5, paras. 10 and 11: Review 1st sentence for grammar.
- P6, para. 12: Review for grammar
- P7
 - Box 1:
 - General Comment: Considering the multitude of in-depth studies of the unbanked in developing countries (such as FinScope studies), does it make sense for the first box on the unbanked to discuss the USA? At minimum, it would be good to expand the box to compare the reasons why Americans are unbanked to the reasons why people remain unbanked in developing countries.
 - 1st Paragraph:
 - Shouldn’t the US statistic focus on the percentage of adults who were unbanked rather than the percentage of households? Even if

the latter is unavailable, it could be estimated using the 21 million estimate and US adult population estimates.

- The EU statistic cannot be used as a basis for comparison with the US because (1) no statistics are provided on the total population of the EU; and (2) we don't know whether the US "adults" are over 15 or some other age. Unless the figures for the two countries can be reconciled, they shouldn't be compared.
- The order used to present the barriers to transaction accounts access and usage is counterintuitive. First the barriers to access should be presented, then the barriers to usage. Suggested order: i) geographical coverage (now in 1.4.2), ii) poor design (1.4.5), iii) high fees (1.4.1), perception of (un)safety (1.4.6), cultural and religious factors (1.4.4), self-exclusion (1.4.3).
- para. 17-18: High fixed costs (and the resultant use of monthly fees) are much more common for banks than for other PSPs (such as e-money issuers). Since PSPs are not typically considered to be synonymous with banks, we recommend that you refer to "banks and other traditional PSPs" in these two paragraphs.
- P9, para. 26: We do not necessarily agree that economic informality reduces the demand for transaction accounts. While we recognize that some individuals and businesses may avoid electronic payments and accounts because of taxation, it is also true that the benefits of a basic transaction account are very high for those who lack access to banks and other traditional formal financial channels.
- P9, Section 1.4.4: This section is drafted in a way that places a greater focus on cultural and religious reasons than on financial literacy. In practice, however, lack of financial literacy is a much greater barrier to adoption of transaction accounts than cultural/religious practices. To the extent that cultural/religious barriers exist, examples should be provided. We are aware of religious objections to earning/paying interest, but we haven't heard of religious objections to basic (non-interest-bearing) transaction accounts. Perhaps this should be deemphasized and should go into another catch-all section entitled "Other barriers."
- P10, para. 31: It is not just the total amount of costs that matters but also charging transaction-based fees rather than account-based fees.
- P10, para. 33:
 - Here and earlier in the report, "economic agents" is undefined.
 - Again, emphasis should be on banks and other traditional PSPs, not PSPs in general.
- P12, para. 41: In some countries where mobile money has grown, many customers have elected to transact over-the-counter (OTC) rather than through personal accounts. While OTC services do not offer the same potential for full financial inclusion, customers in these countries do have a legitimate alternative for remote payments.
- P13, para. 47: Over-the-counter (OTC) services also should be discussed, particularly in the context of e-money instruments. As noted above, in a number of countries where mobile money has taken off, many users prefer to transact OTC using the agent's account to transfer funds.
- P13-14, Box 2:
 - While Russia's statistics appear impressive, they are also suspect. According to the [CIA World Factbook](#), Russia's adult population (15+) as of July 2015 was 119 million. 350 million active e-money accounts would average nearly three e-money accounts for every adult. This seems very high, particularly since a 2014 study concluded that [46% of Russians ages 12-55 used e-money](#). Furthermore, [48% of Russian adults had \(non-e-money\) accounts as of 2011](#) and most e-money accounts appear to be accessed [online and/or via smartphones](#), so one can conclude that most of these accounts are not targeting the unbanked.

- None of the profiled countries is a leader in e-money issuance for financial inclusion. Russia and the EU have high levels of bank-based financial inclusion. Adoption of e-money is not particularly high in Turkey, India, or Uruguay. We would recommend profiling some of the countries where e-money (and particularly mobile money) has contributed to large increases in financial inclusion, such as Kenya, Tanzania, Uganda, Rwanda, Zimbabwe, Lesotho, Namibia, Swaziland, Cote d'Ivoire, or Paraguay.
- It may be worth noting that India's new Payments Banks are quite similar to e-money issuers in practice. Despite their name, they are generally prohibited from intermediating customer funds, which must be placed in government bonds and commercial banks.
- P14, para. 50-51: We feel that these paragraphs diminish the value of e-money transaction accounts and overstate the value of bank-based deposit accounts. In many cases, users of e-money transaction accounts are less interested in payments to/from bank accounts because most bank products are not designed to meet their needs (for the very reasons you discuss in this paper). In many cases, these "limited purpose payment solutions" offer much greater functionality than comparable bank accounts by facilitating low-cost, convenient payments to/from individuals, businesses (including utility companies), government entities, and other stakeholders. Therefore, they are already making an important contribution to financial inclusion. In addition, the evidence is clear that in markets with high e-money adoption (typically mobile money), basic e-money accounts serve as the infrastructure to link low-income users with a diversity of formal financial services such as credit, savings, and insurance. We would also argue that the general statement that typical bank-based deposit accounts can be used "for a larger variety of payment purposes" is often inaccurate, particularly in countries with low levels of financial inclusion.
- P17, para. 59:
 - In many developing countries, the most typical means of physically sending cash long distances are not via mail but rather by giving the cash to a bus driver (or passenger) or taking the money across the country in-person.
 - With respect to Footnote 29, we expect this to change as mobile money account-to-account cross-border P2P services continue to grow.
- P19, para. 70: Another reason why government agencies may elect to make G2P payments with cash is because many of the recipients may lack a transaction account (particularly in countries with low bank account usage).
- P24, para. 85: Here the paper mentions basic bank accounts, but not mobile money accounts provided by mobile operators (and their subsidiaries), which are expanding access to transaction accounts that customers really use.
- P24, para. 87: We realize that you discuss regulation later, but it may be worth noting that even a well-designed financial inclusion strategy will fail to achieve its objectives if the regulatory environment is not enabling. Nigeria is a good example.
- P25, para. 93: How exactly does a "test and learn" approach fail to address market failures? If you're going to make such a statement, there should be an explanation. Many regulators have adopted some form of a "test and learn" approach to enable mobile money, and in many cases this approach has enabled them to at least partially address the financial inclusion market failures in their respective countries.
- P26-27, para. 97, "Use of third-party agents": The term "banking correspondents" is only commonly used in a few countries in Latin America. Furthermore, it implies that the service is provided to banks. Globally, most countries offering MFS/DFS merely refer to these parties as "agents".
- P27, para. 102: Generally speaking, regulators place caps on the balance held in a customer's e-money account to limit money laundering and terrorist financing risk, not to

mitigate the risk of loss of customer funds. It is also worth noting that there is no explicit deposit insurance scheme in many of the countries where e-money services have launched (including 5 of the 10 countries with the highest mobile money active user rates), so traditional bank deposits often do not offer greater protection. See [Table 1 of this report](#) for a list of countries with explicit deposit insurance as of 2013.

- P28, Box 6
 - Surprisingly none of the four countries included in the box has a high level of use of e-money for financial inclusion. There are a number of other countries with high levels of e-money usage for financial inclusion whose regulatory frameworks offer similar lessons.



- It is a good idea to include the US example of pass-through insurance, but we're not sure that all of the details are correct. Our understanding of the requirements for pass-through insurance to apply include the following:
 - Funds must be held in a **custodial** account on behalf of the issuer's customers (the custodial element is not emphasized in this paper);
 - **Someone** must have records on the identity of the e-money account holders and the amounts owed to them, but it could be the bank holding the funds, the e-money issuer (if different), or another third party; and
 - The funds must be **actually owned** by the e-money account holders.
 - NOTE: The requirement for e-money accounts to be "open-loop" (not "open-looped") is intended to clarify that the accounts are not limited to an individual merchant (or cluster of merchants). The reason for this is to ensure that the funds in question will be stored in an insured depository institution. Without this context, it is impossible for the user to understand what is meant by "open-looped" [sic].
- Since 2013, PayPal accounts have not been FDIC-insured. Please see PayPal's current [User Agreement](#), Art. 5.1.
- With regard to India, it may be worth discussing the protection of funds collected by "Payments Banks". Despite their name, Payments Banks are quite similar to e-money issuers and are required to place customer funds solely in government bonds and commercial bank accounts.

- P29-30, Art. 3.1.2.4: In November 2014, 11 GSMA members representing 82 mobile money services in 51 countries publicly endorsed the [GSMA Code of Conduct for Mobile Money Providers](#). The Code of Conduct includes a number of commitments related to the fair treatment of customers, including disclosure and transparency (Principle 6), dispute resolution (Principle 7), and data privacy (Principle 8). The Code of Conduct also addresses a number of other relevant issues discussed in this paper, including safeguarding customer funds (Principle 1) and AML/CFT (Principle 2). You may wish to consider including a discussion of industry risk mitigation and consumer protection efforts in the paper.
- P30-31, Art. 3.1.2.5:
 - Given that this paper discusses new payment methods, you might also wish to discuss FATF's 2013 paper entitled [Guidance for a Risk-Based Approach to Prepaid Cards, Mobile Payments and Internet-Based Payment Services](#).
 - For an in-depth discussion of proportional AML/CFT for mobile money and its impact on financial inclusion and financial integrity, please refer to GSMA's 2015 paper entitled [Proportional Risk-based AML/CFT Regimes for Mobile Money: A Framework for Assessing Risk Factors and Mitigation Measures](#)"
- P32, Art. 3.1.3.1: This section seems very bank-centric (and payment card-centric).
- P35, Art. 121: The final sentence may be true in many cases but is not always true. In some cases, one provider is able to provide near-universal access through a nationwide network. For example, Safaricom's M-Pesa service has been widely adopted despite its lack of interoperability with other mobile money services.
- P36, Box 10: Parts of this Box are unclear and difficult to read, particularly the third paragraph on PSD2.
- P39, para. 132: For end users, there may be other indirect but very important costs to consider as well. If the user has to travel to access the service, the transportation cost and opportunity cost of the user's time are important costs from the user's perspective.
- P40-41, para. 138-140: Mobile phones also can be used to initiate in-person and remote payments, whether for purchase of goods/services or for bill payment, P2P transfer, etc.
- P41, para. 142: In most countries where mobile money has taken off, users can open a transaction account just by visiting a PSP agent rather than having to go to a branch or service center staffed by PSP employees. This has a huge impact on registration for transaction accounts. Regarding Footnote 64, a number of countries already permit mobile money accounts to be opened remotely (including South Africa and Pakistan).
- P42, Box 13: In addition to talking about mobile ATMs, you could discuss the use of mobile money agents. As of Dec 2014, there were more mobile money agents (2.3 million) than there were bank branches and ATMs combined (1.9 million). Mobile money agents are fostering financial inclusion by bringing financial services into areas that are simply not cost-effective for branches or ATMs.
- P42-43, para. 143-146: Mobile money agents are not discussed in these paragraphs. In many cases, mobile network operators already have an established network of airtime reseller agents that can be cost-effectively trained and equipped to provide access to mobile money services even in rural areas.
- P44, Box 15: While the lessons of agent banking are important, mobile money agents should also be mentioned. As noted above, there are 2.3 million mobile money agents, a figure that far exceeds the 500,000 bank agents in the LAC region.
- P45, para. 150: Without specific examples, it is difficult to understand the significance of the risks that are being proposed here. With respect to mobile money, global evidence clearly demonstrates that mobile money is much more likely to become ubiquitous if providers are given time to develop their closed-loop services before taking a commercially sustainable, market-driven approach to interoperability. Countries like Ghana (until 2015), Jordan and

Egypt that have mandated interoperability from the outset have seen slow mobile money growth.

- P49, Box 18: Since the countries in the chart are not ordered by percentage of users, it would be helpful if they were listed alphabetically.
- P50, Art. 3.2.4.2: Mobile money services processed over 42 million bill payments in 2014.
- P51-52, Art. 3.2.4.4: In some countries, salary payments are made via mobile money, so this should be mentioned as a delivery channel as well.
- P53
 - para. 180: In countries where mobile money has reached scale, data on domestic remittance flows should be available.
 - para. 182: In countries where mobile money has reached scale and most users have their own mobile money accounts (as opposed to transacting over the counter), most domestic remittances can be expected to be made electronically. In a number of these countries, mobile money providers are beginning to offer cross-border remittances via mobile money accounts as well.
- P57
 - Guiding Principle 4: As mentioned earlier, the aim should be for services to be affordable and commercially-viable, not free (or nearly free). The history of “basic bank accounts” has clearly demonstrated that financial service providers will make little or no effort to attract customers and offer desirable services if they are unable to do so profitably. Costs should instead be reduced through the creation of an enabling environment for competition. The rapid adoption of mobile money by the unbanked and underserved clearly demonstrates that low-income customers are willing to pay commercially-sustainable fees for payment services that they value.
 - Guiding Principle 5: As mentioned earlier, interoperability needs to be market-driven: it need to happen when the industry is ready, and providers need to have the flexibility to choose the model (e.g., bilateral agreements vs. connection to a switch). We agree that interoperability ultimately is beneficial, but premature imposition of interoperability or mandating an inappropriate model can negatively impact customers by discouraging investment.
- P58, Guiding Principle 7: What do you mean by “ad hoc incentives”? These are not discussed earlier in the paper.
- P63, Footnote 97: I think you mean “biennially”. In addition, we couldn’t find any evidence of such a survey since the 2010 survey, so this may be obsolete.
- P64-65, Annex 1: The membership of the PAFI Task Force can help to explain the paucity of references to mobile money (and the absence of mobile money-related case studies). It seems that case studies were taken almost exclusively from task force member countries rather than trying to identify the most relevant examples. With the possible exception of the Central Bank of West African States, none of the task force members hails from a country with a vibrant mobile money sector. The GSMA has published several policy case study that could be referenced:
 - Kenya
 - Tanzania
 - Democratic Republic of Congo
 - Sri Lanka.