



December 7, 2015

By Electronic Delivery

Benoît Coeuré
Bank for International Settlements
Committee on Payments and Market Infrastructures
Basel, Switzerland

Jan Walliser
World Bank Group
Equitable Growth, Finance & Institutions
Washington, DC

Re: Consultative report on payment aspects of financial inclusion (PAFI)

Dear Messrs Coeuré and Walliser:

Visa Inc. commends the Bank for International Settlements and World Bank Group for calling global attention to the potential for electronic payments to increase financial inclusion. Visa Inc. respectfully submits the following comments on the draft consultative report on payment aspects of financial inclusion ("PAFI document" hereafter). With an active presence in nearly 200 geographies, our company works closely with private and public sector clients to achieve the shared objective of a secure and inclusive payments ecosystem. We therefore appreciate the time and effort required to produce a report that addresses the technical and regulatory issues comprehensively. The PAFI document has potential to serve as a resource to policymakers for years to come. It is with this in mind, that we offer the following general comments.

The most successful public policies for increasing financial inclusion tend to focus on removing impediments to innovation, providing a level playing field and investing in infrastructure. Since the market for electronic payment services is two-sided, the value of payment accounts to consumers is directly correlated with the number of acceptance locations. If the acceptance market is too thin, the usage of accounts will be constrained whether or not consumers have access to accounts. In general, public authorities can enhance financial inclusion by providing a policy environment that fosters thick markets on both sides of the ecosystem without disrupting the balance between the two. The public sector can play a catalytic role by enabling public utilities, revenue services, and transit systems to accept payment electronically.

Economic Sustainability – Key to Maintaining Stakeholder Commitment

In general, the PAFI document would benefit from greater focus on sustainability as a key factor in account and product design. International experiences have clearly demonstrated the importance of sustainability for all stakeholders. When issuer economics are built into card-based government disbursement programs, all parties have incentives to invest in the program. Without mutually beneficial

economics, long-term financial inclusion goals can suffer. This was seen, for example, in South Africa with low-cost bank accounts offered as part of a government-led initiative to drive financial inclusion. While initially these led to the opening of many new accounts, usage was low and the economic case for the banks weak due to price controls and lack of management fee revenue. Approximately 30 percent of the accounts opened by the four largest banks were inactive or closed, and rates of inclusion stalled. Subsequent initiatives recognized the need for sustainability and were more successful.

The authors correctly observe that the continuous modernization and improvement of payment systems requires significant upfront capital investments and that the viability of these investments is largely determined by the usage of the system. The paper stops short of pointing out that government investment can crowd out private investment in payment systems. This phenomenon is particularly acute in the case of government-controlled national payment systems that benefit from public policies that deny market access to international networks. Long-term investment in infrastructure, which in the payments sector entails the establishment and maintenance of systems to enable secure and reliable interconnection between and among all ecosystem participants, is best supported by a transparent and stable regulatory environment. By establishing clear rules of the road, public authorities can unlock private sector investment in new technologies that enhance financial inclusion.

Tax Policy

Governments seeking to create thicker payments markets have a number of tax policy tools at their disposal. For example, public authorities can encourage available access points by addressing merchant (and especially small merchant) concerns on costs and taxation if they accept digital payment. Tax credits for point of sale terminal rental fees; and differentiated VAT rebates for purchases made with payment cards. [In Uruguay, the combination of these two policies significantly increased the number and payment volume of debit card transactions, as well as the growth of POS and payments network.] Similarly the PAFI document should make clear the barriers that taxes on financial transactions that exist in several countries can have on expanding payment account access and usage. Prudent fiscal policy can support the build-out of sustainable and inclusive financial infrastructure, including readily available access points for payments. Policies that reinforce government consistently paying a market rate encourages private sector providers to invest in and develop payments infrastructure.

Government Disbursements

The PAFI document accurately notes that large-volume and recurrent payment streams can become catalytic pillars for expanding access to and promoting wide usage of transaction accounts. Visa regards card and mobile-based government disbursements as key enablers of electronification. The paper correctly notes that many recipients of public sector transfers persistently opt to cash out in-full upon receiving funds. Improved financial literacy tools can help consumers understand the myriad advantages of transaction accounts. Visa is a leader in financial literacy and has developed a range of award-winning programs that equip consumers with practical money skills. We nevertheless recognize that literacy alone cannot overcome impediments such as limited acceptance channels. The paper would benefit from additional empirical analysis of consumer behavior in this area, potentially drawing upon the World Bank Findex database and in depth behavioral studies like *Portfolios of the Poor* and related household diaries.

Telecommunications Policy

Telecommunications policy can affect financial inclusion. Governments should be encouraged to ensure equitable access to mobile network infrastructure for non-MNOs to ensure innovation is not stifled by pricing or by outright blocking of MNOs' competitors in digital financial services.

Legal and Regulatory Framework

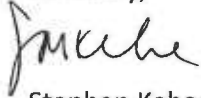
Visa recognizes the need for legal and regulatory frameworks that foster sound risk management practices. The PAFI document acknowledges that escalating underwriting and compliance costs can impede progress in achieving universal access. The general principles enumerated in Chapter 3 of the document address many of the key risks, but the paper could go further in highlighting the specific public policies that impede payment account access. For example, the PAFI document correctly emphasizes the need for risk-based and proportional frameworks that enable financial institutions to effectively manage risk, but could go further in explaining why proportional approaches remain relatively rare at the country-level. The paper could also address the potential for tier-based AML requirements to reduce barriers to facilitating payment account access.

Innovative public policies can enable the private sector to expand access while maintaining robust AML and KYC controls. For example, Brazil simplified requirements for prepaid payment accounts that can be opened with name and Tax ID alone for transactions with a balance of less than R\$5,000. Mexico established a new category of deposit-taking account that can be opened with a name, date of birth and address. The Bank for International Settlements and World Bank can play a key role in developing best practices and case studies to assist policymakers in removing impediments. Clear guidance on the preservation of balanced legal and regulatory frameworks is particularly relevant in light of the tragic events of November 13, 2015, which has resulted in calls for more restrictive KYC requirements.

Next Steps

Thank you for the opportunity to submit comments regarding this important publication. As noted above, Visa strongly supports public-private dialogue on financial inclusion and commends BIS and the World Bank for developing this comprehensive and thought-provoking guide. Please consider our company a resource and do not hesitate to contact us if we may provide additional perspective on the views set forth in this letter.

Sincerely,



Stephen Kehoe
Sr. Vice President
Global Financial Inclusion

cc: Massimo Cirasino
Marc Hollanders