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Covid-19: Boon and bane for digital payments and financial inclusion

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# Covid-19: Boon and bane for digital payments and financial inclusion<sup>1</sup>

## Highlights

- *Authorities around the world have moved to encourage the use of digital payments in response to Covid-19.*
- *Some of these measures facilitate the use of digital payments during lockdown, while others provide longer-term support for fintech players and financial innovation more broadly.*
- *For emerging market and developing economies, the measures respond to the unexpected opportunity to further promote financial inclusion objectives through the use of technology.*
- *To increase their effect, these moves should include measures to combat financial crime and protect consumers.*

## 1. Introduction

With an estimated worth of more than USD 127 billion, fintech is one of the fastest-growing emerging sectors globally, employing thousands of people and generating new sources of revenue for economies worldwide.<sup>2</sup> In 2020, the importance of fintech has been compounded by the role digital payments can play in curtailing the spread of Covid-19.

That said, the economic burden of Covid-19 on some fintech and digital payment providers has been stark, with reports of dwindling transaction volumes as economic output slows. For the lucky few, increasing demand for their services has them actively recruiting talent.<sup>3</sup> But this isn't the case for all, which as in other sectors have looked to government stimulus packages for support.

For emerging market and developing economies (EMDEs), where financial inclusion levels can be as low as 10%,<sup>4</sup> fintech and digital payments are also under threat, but the market potential is more obvious. Technology is bringing financial services to many who would otherwise have only limited access or none.<sup>5</sup> Covid-19 has presented an unexpected opportunity to make further use of digital channels to reach these underserved groups, improving financial inclusion.

This brief compares the approaches taken by authorities in different countries, examining the different drivers for supporting the fintech industry during the pandemic. Section 2 looks at measures to facilitate use of digital payments during lockdowns. Section 3 explores measures to safeguard the

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<sup>2</sup> The Business Research Company (2019).

<sup>3</sup> Gringoli et al (2020).

<sup>4</sup> World Bank (2017a).

<sup>5</sup> Pazarbasioglu et al (2020).

fintech sector and promote innovation in payments, as countries tentatively move towards relaxing quarantine measures and begin to restart their economies. Section 4 concludes.

Box 1

## Covid-19 measures taken by EMDEs

The Alliance for Financial Inclusion, a member-owned network of central banks and financial regulators, surveyed its member countries to review measures to mitigate the economic impact of Covid-19. Of the seven regions in which member countries are located, the Sub-Saharan African (SSA) economies (where financial inclusion levels are among the lowest in the world) have undertaken the most policy reform work in response to the pandemic. Forty-four institutions from the SSA regions have made a total of 34 policy interventions in response to Covid-19. In digital finance, SSA is where the vast majority of policy interventions have taken place, followed by the Middle East and North Africa and Latin America. The policy response to enhancing the use of digital channels appears to have been more extensive where financial inclusion is a major development focus.

Source: Alliance for Financial Inclusion Dashboard.

## 2. Measures to facilitate use of digital finance during lockdown

Measures during lockdown have focused on ensuring that communities continue to have access to payment channels and instruments and, to a lesser extent, on curtailing any potential infection through the handling of cash.<sup>6</sup> Table 1 outlines the measures taken by selected countries, which were chosen based on the link that these policy decisions have to their broader objectives regarding fintech (eg as a method of increasing financial inclusion and/or as a sector to support economic growth).

Table 1: Financial inclusion levels and digital finance policy measures in response to Covid-19.

Selected policy measures		Table 1			
Jurisdiction	Financial inclusion level	Policy measures			
	2017	Declaring CICO essential services	Reduction/removal of fees	Relaxation of KYC procedures	Increased transaction limits
Egypt	32.8%			x	x
Ghana	57.7%		x	x	x
India	79.0%	x			
Jordan	42.5%			x	
Kenya	81.6%	x	x	x	x
Pakistan	21.3%	x	x	x	
Russia	75.8%		x	x	
Singapore	97.0%		x		

Source: World Bank Findex; national information; author's research.

<sup>6</sup> Auer et al (2020).

## Designating cash-in/cash-out networks as essential services

In some jurisdictions, banks and payment service providers (PSPs) were designated as essential service providers. For banks, this extended to their branch network – albeit with a reduced number of locations operating. For non-bank PSPs that operate agent networks, their designation as essential service providers did not necessarily extend to these networks, limiting cash-in/cash-out (CICO) services for customers.

For many EMDEs where services such as mobile money have taken off, CICO networks can be extensive, with thousands of locations operating daily. For some authorities, allowing such extensive networks of independent agents to continue operating was seen as potentially undermining the lockdown effort. However, preventing even a reduced network of agents from operating (eg in rural and underserved areas) would hinder non-bank payment services from extending financial services (including the disbursements of government and social benefits) to customers.<sup>7</sup>

Authorities have taken different approaches to this policy challenge, taking local circumstances into consideration. In India, authorities declared all agents to be essential services, taking the view that this would support the channelling of USD 22 billion to vulnerable and poorer segments of society during the pandemic. This approach presented unforeseen challenges, given that many agents offer a range of non-financial services that were not deemed essential,<sup>8</sup> thus creating confusion among agents and law enforcement as to which agents should remain open. In Pakistan, authorities introduced tax waivers for service providers, with the view of incentivising agents to continue serving customers in low-access rural communities. These tax waivers were implemented to offset the likely reduction in revenue for agents that did remain open, as economic activity faded.<sup>9</sup>

## Reduction or waiving of fees

In some countries, measures to cut or waive fees have been implemented at the service provider level. The Central Bank of Kenya has taken this approach, given the significant proportion of the country's GDP that passes through mobile money platforms such as MPesa. The central bank required that mobile money providers offer free services for low-value transactions (of less than KES 1,000 (equivalent to USD 9.35)<sup>10</sup>).<sup>11</sup> Fees for facilitating transfers between mobile money wallets and bank accounts were also waived.<sup>12</sup> In consultation with the industry, it has been agreed that these measures would be extended until the end of 2020.<sup>13</sup>

Other countries have implemented policies at the payment systems level. These measures extend to a broader range of transaction types, including person-to-person, government-to-person and person-to-business transactions. The fee waiver is extended to financial institutions participating in the payment system, which then provide a free service to their customers. In Russia, for example, the central bank has waived fees for sending funds from one bank account to another via the fast payment

<sup>7</sup> Narain et al (2020).

<sup>8</sup> Hernandez and Kim (2020).

<sup>9</sup> Ibid.

<sup>10</sup> All currency equivalents used in the paper are based on the most recent available end-of-month rates in the BIS US dollar exchange rate statistics.

<sup>11</sup> AFI (2020).

<sup>12</sup> Central Bank of Kenya (2020a).

<sup>13</sup> Miriri (2020).

system.<sup>14</sup> In Pakistan, the State Bank has waived all fees for electronic fund transfers through its Inter Bank Fund Transfer System as well as making large-value payments through the real time gross settlement system (RTGS) free of charge for banks.<sup>15</sup>

In all three examples, fees were removed to encourage the general population to use digital payment channels, as part of the government's response to the pandemic. For Kenya and Russia, where financial inclusion levels are above 70%, it could be argued that the impetus was mainly to ensure that consumers had sufficient payment options during lockdown periods, with the added benefit of mitigating any potential risk from handling cash. Even so, Kenya has added 1.6 million users of mobile money channels since it introduced these relief measures.<sup>16</sup> In Pakistan however, where financial inclusion is extremely low, at 21% of the population, policy choices were likely influenced by the scope for increasing adoption of digital channels among those who otherwise wouldn't access or use them.

### Relaxed KYC procedures to facilitate remote onboarding and use of digital channels

Know-your-customer (KYC) regulations, while essential to maintaining the integrity of a financial system, can have unintended consequences. According to the World Bank, 40% of adults in low-income countries still lack a formal means of identification, making it difficult for them to access financial services.<sup>17</sup> The application of a risk-based approach to KYC procedures has had a significant impact, allowing individuals who are deemed low-risk to access basic forms of financial services with limited to no identification. But many still remain outside the financial system.

The lockdown measures and the risks associated with cash have forced many central banks to reassess their KYC requirements. For some authorities, following consultation with their industry, it was deemed appropriate to relax KYC account-opening measures to allow transaction accounts to be opened remotely.

The government of Ghana, in a directive published on 19 March, outlined a series of measures to "facilitate more efficient payments and promote digital forms of payments" for a period of three months. One measure was to stipulate that all mobile phone subscribers should be permitted to use their existing mobile phone registration details to apply for a minimum-KYC mobile money account. This would allow all mobile phone subscribers to open a mobile money account utilising their subscriber identity module (SIM) registration. The decision to use SIM registration data was based on the data's strength and robustness, recognising potential risks that might arise from this process. It was agreed that customers registering for mobile money using SIM data could access only minimum-KYC accounts, but transaction limits were increased to take account of the restrictions on movement. Users had an increased transaction limit of up to GHS 1,000 (USD 179), a maximum account balance limit of GHS 2,000 (USD 357), and an aggregate monthly transaction limit of GHS 6,000 (USD 1,071). These limits were increased from GHS 300 (USD 54), GHS 1,000 (USD 179) and GHS 3,000 (USD 536), respectively.<sup>18</sup> Many of the measures implemented by the Bank of Ghana are being retained by service providers for the remainder of 2020.

During the quarantine period, the Central Bank of the Russian Federation authorised banks to open accounts remotely with simplified KYC rules. The provision was limited to individuals who were

<sup>14</sup> World Bank (2020).

<sup>15</sup> State Bank of Pakistan (2020).

<sup>16</sup> Central Bank of Kenya (2020b).

<sup>17</sup> World Bank (2017b).

<sup>18</sup> Bank of Ghana (2020).

either making or receiving “socially important payments” (which included social transfer, alimony, insurance reimbursements and mortgage payments). Small and medium enterprises were also granted permission to open accounts remotely with simplified KYC rules provided that they were opening accounts to receive grants or loans that would safeguard the salaries of their employees.<sup>19</sup>

In a circular of 18 March, the State Bank of Pakistan stated that the biometric verification required when customers activate internet and mobile banking services would be suspended until further notice.<sup>20</sup>

Russia and Pakistan have implemented measures that let users access payment channels from home. This is also the case in Ghana, although the Ghanaian approach goes further, allowing anyone with a mobile phone to open an account from home on limited KYC information – thus bringing traditionally underserved or excluded groups (particularly those with limited means of identification) into the formal financial system.

It is important to note that Covid-19-related cyber crime and fraud has increased in a number of jurisdictions.<sup>21</sup> KYC processes for onboarding customers can only be relaxed after reviewing the potential risks and ensuring that these are sufficiently mitigated. The Financial Action Task Force (FATF) outlines key considerations for authorities in this regard, including the value of digital ID for remote KYC verification.<sup>22</sup>

A number of countries have sought to expedite their digital ID programmes to allow for remote access without compromising financial system integrity or consumer protection. Egypt, for example, has been working on an eKYC solution to let customers open bank accounts electronically without visiting a bank branch or agent location. The solution was launched in January 2020 and is set to begin pilot tests.<sup>23</sup> While not a direct response to Covid-19, its launch was accelerated, recognising its usefulness in addressing the challenges of social distancing and lockdowns.

## Increased transaction limits

Financial transaction limits for particular types of transaction account are designed to prevent such accounts being used for illicit purposes. While higher limits can create space for a broader range of transactions to be undertaken, it also reduces the scope for control. Following a risk assessment, different classes of products and/or customers can be assigned a risk level to determine the volume and value of transactions that can be undertaken from a given account. In times of crisis, authorities can adjust these limits as appropriate and where the risk of doing so is deemed to be low.

In addition to launching the new eKYC system, the Central Bank of Egypt also increased transaction limits for mobile financial services, as part of its response to Covid-19. As of March 2020, individuals can send up to EGP 30,000 (USD 1,911) per day and EGP 100,000 (USD 6,370) per month, while corporations are permitted up to EGP 40,000 (USD 2,548) per day and EGP 200,000 (USD 12,740) per week. The decision was part of a broader set of measures aimed at increasing the convenience of digital payment instruments, in particular mobile-enabled financial services and cards.<sup>24</sup>

<sup>19</sup> World Bank (2020).

<sup>20</sup> State Bank of Pakistan (2020).

<sup>21</sup> See Crisanto and Prenio (2020).

<sup>22</sup> FATF (2020).

<sup>23</sup> State Information Service Egypt (2020).

<sup>24</sup> State Information Service Egypt (2020).

Kenya's authorities have made a number of similar adjustments to transaction limits for mobile money at the outset of the outbreak. Transaction limits for mobile money were increased to KES 150,000 (USD 1,403), with the daily limit increased to KES 300,000 (USD 2,805). Mobile money wallet limits were also raised to KES 300,000 (USD 2,805), with the complete removal of a monthly total mobile money limit.<sup>25</sup>

Higher transaction limits will broaden the use cases for mobile money, increasing its convenience as a payment instrument, thus creating opportunities for more consistent use. For Egypt, where mobile financial services are yet to take off, increasing the convenience of mobile money during social distancing and quarantining could be the catalyst needed to drive uptake by individuals and merchants. While the unprecedented nature of the pandemic has required that authorities relax controls to encourage the use of digital channels, maintaining the integrity of the financial system through the mitigation of financial crime must be at the forefront of all decision-making. The work of standard-setting bodies and international organisations such as the FATF and the World Bank strongly underline the importance of a risk-based approach.

### 3. Measures to support innovation in the medium to long term

As countries begin to emerge from lockdown, authorities are now implementing policies that aim to support key sectors in light of the unprecedented economic fallout. For many EMDEs, a significant amount of progress has been made in digital finance, both in terms of using digital payments to bring people into the formal economy, and also as a contributor to GDP. Safeguarding this industry therefore has multiple implications. For industrialised economies, technology-driven businesses present significant opportunities for further economic growth; thus, ensuring their sustainability throughout the crisis will be of paramount importance.

Three types of measure are seen for this purpose: direct public support for fintech providers and users; facilitation strategies; and the provision of sandboxes. By providing support, authorities aim to create space for digital payment providers to continue operating even if revenue opportunities are shrinking, without compromising consumer protection. Examples are taken from Ghana, Singapore and Jordan – countries with varying levels of financial inclusion but each with a strong focus on safeguarding its domestic fintech market.

#### Direct public support for providers and users

Safeguarding the fintech sector and specifically digital payment providers from the economic downturn resulting from Covid-19 has been a major priority for a number of governments. One approach has been through the provision of stimulus packages structured to ease the pressure placed on fintech firms through loss of output and revenue.

The Monetary Authority of Singapore announced a SGD 125 million Covid-19 support package to assist fintech firms and financial institutions, with a three-pillared strategic approach: digital opportunities for workers; digital inclusion for all; and a push for a digital future.

Of this total, SGD 90 million will help fintechs in reskilling employees and bringing in new talent. Supporting fintech users has also been a focus, with authorities investing in educational materials for vulnerable and older people, to ensure that they have a good understanding of the services available

<sup>25</sup> Central Bank of Kenya (2020a).



to them, together with their rights as consumers and how they are protected as users of digital channels.<sup>26</sup>

Through the package, MAS is pursuing its broader objectives of: promoting a more inclusive society; a more dynamic economy, with a specific focus on digital economy growth; establishing Singapore as a fintech centre of the world; and ultimately improving people's lives.

## Facilitation strategies

Processing large-volume flows such as government payments to individuals via fintech-enabled digital channels is an example of a facilitation strategy that catalyses ongoing use of such channels by the general public. Covid-19 has required such strategies both as an immediate response to the pandemic, but also as a longer-term approach to providing people with safe and transparent access to financial services when traditional channels are no longer accessible.

In June 2020, Ghana became one of the first countries in the world to launch a digital finance policy. The aim is to drive further growth in fintech to support efforts to improve financial access.<sup>27</sup> The policy's launch during the Covid-19 pandemic provided an additional incentive to realise many of the objectives as soon as possible. The policy commits the government to providing direct support to fintech entrepreneurship to help build the sector. This includes investment and also the prioritising of fintech-based payment solutions for government-to-person and government-to-business payments. For example, the government has decided to facilitate social payments, such as the Livelihood Empowerment against Poverty (LEAP) programme<sup>28</sup> through digital channels, in response to the pandemic.

## Sandboxes

Regulatory sandboxes provide a controlled environment to test new products and services without compromising the integrity of a financial system or consumer protection. As part of their broader stimulus package in response to Covid-19, the Singaporean authorities have established a global marketplace and sandbox for sales and collaboration and to facilitate an environment to integrate and test solutions via a cloud-based architecture. The marketplace is part of the API exchange, which is a not-for-profit entity jointly formed by MAS, Asean Bankers Association and the World Bank Group.<sup>29</sup>

Similarly, in March 2020, the Central Bank of Jordan (CBJ) announced that it would accept a second round of applications for its regulatory sandbox in an initiative called "Fintech in Covid-19 and beyond".<sup>30</sup> The aim is to continue support for the local fintech sector by providing an environment to test new concepts and ideas in the context of Covid-19. Specific objectives include increasing the effectiveness and efficiency of digital financial services by widening the choices for consumers; using such services to increase financial inclusion; attracting new investment; and creating jobs.

<sup>26</sup> Monetary Authority of Singapore (2020).

<sup>27</sup> Buruku (2020).

<sup>28</sup> LEAP is a social cash transfer programme which provides cash and health insurance to poor households across Ghana to alleviate poverty and encourage human capital development.

<sup>29</sup> Monetary Authority of Singapore (2019).

<sup>30</sup> Central Bank of Jordan (2020).

## 4. Concluding remarks

Policy measures to encourage the use of digital finance have been undertaken all over the world. Recognising the opportunity that Covid-19 presents to improve access to digital channels is a small silver lining for economies that seek to broaden financial inclusion. As these economies move from lockdown to generalised social distancing, authorities are redefining their policy objectives to ensure that fintech firms continue to thrive despite the business impact of the pandemic. Safeguarding current gains and pushing for further usage of digital channels should help both advanced economies and EMDEs to weather the storm of Covid-19. At the same time, this should be combined with strong efforts to counter financial crime and assure consumer protection.

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