

BRIEF ON MICROFINANCE POLICYMAKERS FORUM 2009

SCALING UP FINANCIAL INCLUSION THROUGH BRANCHLESS BANKING

KUALA LUMPUR
2-3 DECEMBER 2009



BANK NEGARA MALAYSIA
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The Microfinance Policymakers' Forum (MPF) was the collective effort of Bank Negara Malaysia and the Consultative Group to Assist the Poor (CGAP), as well as the Alliance for Financial Inclusion (AFI), representatives from financial regulators and the telecommunications industry from the Asian region. The Forum proved successful in providing a platform for financial regulators involved in improving access to micro financial services to collaborate on developing better regulatory and payments system infrastructure. The end game is to develop more inclusive financial sectors and thus facilitate a greater sharing of the prosperity enjoyed by countries in the Asian region.

Introduction

The objective of the Microfinance Policymakers' Forum (MPF) was to provide a regional forum to exchange experiences and understanding amongst central bankers and financial policy makers on issues related to promoting access to financial services such as institutional structure, regulatory framework and supervision requirements and the application of technology. In this respect, the term microfinance is used to encompass microcredit, savings, payments and micro-insurance.

MPF 2009 was designed as a workshop on the topic of **Scaling Up Financial Inclusion through Branchless Banking**. Branchless Banking is considered to be an emerging strategy for improving access to financial services for those who are excluded from the formal financial sector. The primary reason for exclusion is the high cost of financial inclusion, in terms of managing physical branches, staff costs, security for cash and suitability of the specific financial services. Branchless banking addresses such barriers by avoiding physical branches and the associated costs by offering financial services through alternative networks which are already in existence, such as postal and retail outlets, gas stations, chain convenience stores and a variety of mobile telephony devices. These forms of delivery channels do not involve bank branches, and in some instances may not involve a banking institution.

“Branchless banking is complementary to traditional means of providing financial services through bank branches and has significant potential for promoting inclusion. In order to realize this potential, issues such as the reliability of technology, the practicality of the interface of the technology with conventional banking systems and the use of technology for credit and deposit services, rather than just remittances, needs to be addressed. Regulators need to be aware of the issues in regulating branchless banking and need to engage with the emerging need for a regulatory framework in the near future. “

*United Nations Advisory Group forum for Inclusive Financial Sectors
Kuala Lumpur, May 2009*

This MPF was the collective effort of Bank Negara Malaysia and the Consultative Group to Assist the Poor (CGAP), as well as the Alliance for Financial Inclusion (AFI), representatives from financial regulators and the telecommunications industry from the Asian region. The Forum proved successful in providing a platform for financial regulators involved in improving access to micro financial services to collaborate on developing better regulatory and payments system infrastructure. The end game is to develop more inclusive financial sectors and thus facilitate a greater sharing of the prosperity that is by and large being enjoyed by countries in the Asian region.

Outline

This brief is meant to provide a summary of the key points discussed at the MPF and will be presented following the topics of the forum, as follows:

- I Global trends in microfinance
- II The logic behind branchless banking
- III The use of agents
- IV Know your Customer: Balancing AML/CFT concerns
- V Consumer protection
- VI E-money: Friend or Foe?
- VII Payment systems: The questions of interoperability and competition
- VIII Conclusion

I Global trends in microfinance

The term microfinance is now used to refer to a broad range of financial services designed for micro-entrepreneurs or the micro segment of the market. These services include business credit and leasing, consumer credit, savings, transfer and payment services, and a variety of insurance products including life, funeral, property, crop and healthcare.

Microfinance is now becoming increasingly integrated with the formal financial system, and can be viewed using a framework comprising three distinct levels:

- **Micro Level** – This is the on-the-ground level where clients engage with the service providers, such as banks, Microfinance Institutions and insurers. At the micro level, financial services are designed for the client, and the service providers need to implement delivery channels that cater for the clients specific circumstances, such as living in a remote rural setting with no transport services, or basic utilities.
- **Meso Level** – This is the level where some form of financial infrastructure is put in place to support the players at the micro level. The financial infrastructure is still quite basic, but due to advancements in information technology, even quite complex services can now be made available at affordable costs. The infrastructure includes credit bureaus, auditors and technology service providers. These services enable the barriers to access to be significantly reduced by enabling credit ratings to be performed, risk of default or fraud to be mitigated and lower cost delivery channels (mobile phone banking or non-bank service outlets) to be sustained.
- **Macro Level** – This is the higher enabling ‘policy’ environment which determines what type of services and infrastructure will be implemented, and supported by the regulatory authorities and sponsors. Key aspects of this level include the legislation to ensure legality of services and proper governance. Regulations must also be in place to ensure that only legitimate players are allowed to provide financial services, and minimum standards of capital, liquidity, risk management and consumer protection are in place to mitigate the risk of consumers losing their savings, or being cheated. A third pillar is the supervision element, where compliance with the regulations is monitored, and the safety and soundness of the micro financial system as a whole is preserved.

Globally, the future for microfinance is looking brighter and there is more evidence today that microfinance is ‘mainstreaming’ with improvements in all three levels as discussed above. The business models are proving to be profitable, and with increased competition and profits, the industry as a whole is attracting more professionals. Equally important are developments in technology, such as mobile banking, which are facilitating economies of scale, increasing outreach and lowering capital costs, all of which serve to attract more investors and players into the industry. The fact that microfinance has demonstrated some means of improving the welfare of poor people in many parts of the world had led to governments becoming much more aware of the needs of the industry. With better regulation and oversight, there is also more focus on responsible finance. While improving access to finance is important, it is of little benefit if the borrowers find themselves in financial distress. Hence, consumer protection and responsible finance are very important.

Challenges facing the microfinance industry

- The first is to reduce transaction costs by adopting more efficient means of providing the required service, especially in terms of using technology.
- The second challenge is to improve the mobilisation of savings amongst the poor, and to build local domestic markets to facilitate access to funding for the purpose of emergencies, meeting consumption needs and to manage larger cash requirements such as school fees.
- The third challenge is one which regulators may need to take note of, and relates to the importance of maintaining the social mission of microfinance. As microfinance institutions seek to meet profit targets, the social mission gets lost, and the longer term needs of the poor are ignored. At times, the strategies used can lead to irresponsible lending, and to a state of over-indebtedness.
- The fourth challenge is how to reach the 'poorest' of the poor, where microfinance may no longer be a viable option, and social safety net programmes need to be implemented. In this respect, the social safety net programmes can be matched with viable microfinance schemes to allow 'graduation' from one programme to the next. The process of hand holding is tuned to the needs of each segment of society, and coupled to proper formal microfinance services so that people are able to get out of the poverty trap, and progressively build their own futures.
- The fifth challenge relates to maintaining the sustainability of microfinance initiatives during financial or economic crisis, when funds become scarce, food and energy becomes much more expensive or there are shortages, and the vulnerability of the poor is amplified by the these adverse trends. It is also likely that a good borrower may turn bad during such difficult times, and measures need to be in place to help these individuals return to stability.

Key Points

- Microfinance is becoming a major industry in its own right, and regulators need to build capacity to play an effective role in overseeing the development of this sector.
- Many of the players are relatively new to the business, and the rules and norms are far from being established, hence regulators need to invest in research, training and stakeholder management to ensure developments are sound and sustainable.
- Microfinance by its nature involves many different stakeholder groups, from central / federal government agencies to rural municipalities; from central banks to retail stores; from government to non-government sponsors; private investors and telecommunication players. Coordination and a common framework of reference must evolve to ensure the challenges facing microfinance are resolved constructively, and do not fall prey to the commercial priorities of the market players.

II The Logic of Branchless Banking

The logic of branchless banking stems from the factors that limit access to financial services, which are:

- Being situated a long distance from an area that has financial services
- Being located in an area with low population density, and thus not having sufficient economies of scale to cover the costs of providing financial services
- Being in a jurisdiction where banking costs are high relative to income levels
- Being in an area where education is limited and illiteracy is high
- Being in a jurisdiction which curtails product and channel design, thus reducing the flexibility to reach out to those who do not yet have access to financial services

Branchless banking refers to the “[u]se of non-bank retail agents and information technology to deliver financial services to low income people beyond traditional banking channels”. The logic is to leverage on such agents who have alternative reasons to set up a presence in remote areas, such as selling groceries, petrol or providing mobile telecommunication services, and can act as a delivery channel for financial services.

A key challenge is to address the relationship between the customer of financial services and the non-bank agent because the customer does not have any legal relationship with a banking institution. Instead the relationship is with a non-bank entity (in most cases, a mobile network operator – MNO), which is providing financial services. The significance of mobile phones in exponentially increasing outreach of financial services is evident from the huge number of mobile phones in use globally, even extending to remote and poor communities in many countries.

A new value chain for financial services includes the MNO in coordination with a prudentially regulated institution, and non-bank agents, along with the bank and customer. The benefits of the new value chain in terms of lower fixed costs, lower capital investment, instant remote ‘mobile’ connectivity and wider choice of access points is evident. Likewise, the business models offer different revenue generators in terms of fees charged, return on float and opportunities to cross-sell services (financial and telco).

What is less evident is the viability in terms of adoption by customers due to several uncertainties surrounding the new value chain. Success stories to date are mostly associated with payment services, including money transfer services, but there progress is still limited with respect to other important financial services such as savings, credit and insurance. In this regard, financial regulators have a significant role to play in developing branchless banking and integrating it with mainstream financial services and microfinance products. Key issues pertaining to wider use of branchless banking include:

- Replicating the quality of service associated with human interaction through a purely technology interface (the mobile phone).
- Extending the appeal of mobile banking beyond the young and tech-savvy segment of the population.
- Developing the role of non-bank entities to ensure quality branchless banking services

- Ensuring the integrity (security, confidentiality, non-repudiation) of payment and financial transactions conducted over a system that does not include a licensed banking institution.
- Managing the risks associated with Anti-Money Laundering and Combating Financing Terrorism (AML/CFT), and ensuring compliance with regulations in this area.
- Building financial literacy to a level sufficient for customers to utilise branchless banking services in a safe manner, and not being victims of fraudsters.
- Addressing the issues of interoperability amongst different MNOs to enable branchless banking to acquire the type of ubiquity associated with cash and normal telephone calls.

III The Use of Agents

Agents, often termed Banking Correspondents (BC) are fully serviced retail agents for banks, and can offer a wide variety of financial services depending on local regulations and the developments in the domestic banking industry. Typical BC services include savings deposits, credit withdrawals, bill payments, new account openings, money transfers, insurance and payment of government benefits. Technologies, such as bar scanners and EFTPOS devices, are used to capture data and route it via the bank's back-office functions.

The key players of the BC model are as follows:

- Bank – This is the licensed banking institution providing the financial services
- Agent – This is the entity interacting with the customer on behalf of the banking institution, and typically has many outlets. Examples include supermarket chains, retail stores, post offices, lottery outlets, pharmacies and petrol stations.
- Network Manager – This is the entity that manages the network of BC for a particular banking institution, and could under certain circumstances, manage a network for more than one banking institution. Essentially the service is that of network integration, and the main value is managing the underlying telecommunications network, network applications and interface points with each BC. Another type of service is business intermediation, where the network manager provides value added services for the banking institution in terms of customer relationship management, liquidity management and business support services beyond the technology infrastructure.
- Clients or Customers – This is the purchaser of financial services who maintains a legal relationship with the banking institution but conducts business through the BC.

In the example of Brazil, about 75 percent of transactions going through BCs are payment transactions. The distribution of other services such as savings, credit and insurance is still very restricted. The performance of cash in / cash out services are regulated by the Central Bank. Brazil has some 115,000 BCs, about five times the number of physical bank branches in the country. This has allowed outreach to extend to all municipalities in Brazil.

In the example of India, the regulations demarcate between Business Facilitators and Business Correspondents, with the latter being given greater latitude in the scope of services offered. While Business Facilitators are restricted to information related services, such as inquiries, advise, follow-up on recoveries and submission of applications to bank branches, the Business Correspondents can disburse small value credits, collect payments on loans, sell insurance and investment products and conduct small value remittances.

An important aspect of the BC model is the selection and monitoring of the agents since if there is theft or fraud committed by agents, or there is high turnover of agents, the banking institution will need to manage the associated reputational and financial risks. In addition, where cash in / cash out services are allowed, liquidity risks must be managed to avoid situations where customers are not able to get money on demand.

The minimum requirements to qualify as an agent depend largely on the demographics of the country, i.e. population density, geography, topography, employment, etc. Entities that can serve as agents could be registered business entities, community leaders, village heads, religious institutions and NGOs. The common criteria includes no criminal record, permanent residence in a certain location, basic literacy and able to conduct the BC business as a complementary business to its own core business in terms of cash handling. While the regulatory requirements should not be too onerous, the Government should at the least consider having a database of all agents in the country. In the example of India, many of the BCs are part of a formal registration system such as Societies and Trusts Act, Cooperative Acts or the regulations for postal services and other utilities.

One of the issues discussed with respect to BC is whether banks can be allowed to have exclusive arrangements with agents. The positive aspect of exclusivity is that the banks will enter into long-term arrangements, invest in training, set minimum standards and develop higher level of professionalism amongst the BCs. The negative aspect is it may stifle competition, especially in locations where there are only a limited number of large scale BCs. By disallowing exclusive arrangements, there may be more competition leading to better services and lower costs, but it is unlikely that banks will invest in training the BC, and it will be difficult for the BC to offer a consistent standard of service (since it is working with different banking institutions). In this regard, the regulators can issue guidelines with provisions on best practices for banks in the area of training, risk management, security, liquidity requirements and consumer protection. While in general to the extent that banks are liable for the actions of their agents, there is less need for regulation, the regulators must put in place sufficient safeguards to mitigate the risk of a bank falling prey to misconduct by large agents. Measures such as real time notification for each transaction, routine reporting by banks and proper Bank-Agent contracts will contribute to better risk management.

IV Know Your Customer (KYC): Balancing AML/CFT Concerns

KYC for the purpose of addressing AML/CFT concerns are part of an international effort to ensure the integrity of the financial system with respect to potential criminal abuse. The international standards are set by the Financial Action Task Force (FATF). The FATF is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF is therefore a 'policy-making body' created in 1989 that works to generate the necessary political will to bring about legislative and regulatory reforms in these areas. The FATF has published 40 + 9 Recommendations in order to meet this objective¹.

AML requirements are often cited as a barrier to access to finance due to the stringent KYC rules, as well as the need to submit information to the authorities on a regular basis. Small banking institutions, Banking Correspondents and telco agencies providing financial services may find it more costly to do business, and may be held responsible for risks beyond their control. Research by World Bank does however suggest that access to finance is better in regimes that are more compliant with AML requirements because of the higher integrity

¹ Refer to www.fatf-gafi.org for further details.

associated with the players in these regimes. The research also found that the risk does not vary by the type of service provider (bank-led versus telco-led branchless banking), but rather by the type of service.

The main risk factors are as follows:

- Anonymity – This occurs where the identity is not known, is false or involves unauthorised use of the mobile banking service. The control measures include more innovative KYC procedures (multiple identity documents, reference, bio-metrics, PIN) to mitigate the risk of anonymity.
- Elusiveness – This occurs where identity is verified but through methods of pooling and delegation, illegal or suspicious financial transactions are conducted and the perpetrators cannot be traced, or substantial amounts of money transmitted without detection. Characteristics of this risk include use of multiple mobile financial service accounts and cross-border mobile-to-mobile remittances. The control measures include setting limits on transactions, having detailed customer profiling, regular reporting to detect suspicious transactions and mandating the identification of the sender.
- Rapidity – This occurs due to lack of capacity to monitor real-time messaging and settlement. The control measures include having better integrated system of internal controls as well as managing the risks associated with 3rd party service providers.
- Poor Oversight – This occurs where the capacity to monitor is limited, or where regulations are not properly coordinated for the different industry players (banking, telco, retail outlets) by the different authorities. The control measures include having proper guidelines on mobile financial services and risk management practices, regular collaboration between regulator and service provider as well as clear licensing requirements for non-bank players. It is also important for regulators to build adequate capacity in the area of AML/CFT to play an effective role in monitoring and putting in place corrective measures.

Sample best practices for agents providing financial services include:

- Proper customer due diligence measures, including identifying and verifying the identity their customers
- Proper registration of mobile phones, especially if used for financial transactions
- Standards in place with respect to what constitutes acceptable documentation for identity verification
- Prompt reporting of suspicious transactions to the authorities
- Proper customer activity records should be maintained by the service provider for at least the stipulated legal period (a period of 5 years would be considered reasonable)
- Proper training provided to staff on AML/CFT procedures and being disciplined about KYC requirements – agents need to be aware of the possible criminal intent
- Information about suspected mobile numbers or agents should be maintained by the authorities and shared with law enforcement officials
- Allow flexibility in the implementation of AML regulations based on local conditions. For instance, South Africa provides exemptions for transactions below certain thresholds; Ghana provides exemptions to the elders.

V Consumer Protection

Consumer protection and the related issue of financial literacy have become important policy matters in their own right today in addressing safety and soundness of the financial system. In the case of branchless banking, there are additional characteristics that pose special challenges. These characteristics include the following:

- Potentially large distances separate customers, agents and retail transactions from bank or non-bank institutions (and tribunals)
- Use of retail agents expands possibility of factual and legal disagreements about who is responsible to the customer in the case of fraud or other alleged misdeeds
- Verification of authenticity of agents is not a simple matter, and can lead to fraudulent practices
- Transparency of pricing becomes much more difficult due to the involvement of different types of agents, including non-bank players that are not regulated by the financial regulators

Prudential Regulation versus Market Conduct Regulation

While prudential regulation is primarily aimed at ensuring the safety and soundness of financial institutions, market conduct regulations aim to ensure fair business practices, greater transparency and disclosure, comprehensive consumer protection framework, improved financial literacy of consumers and greater public confidence in the financial system. Consumer protection has grown in importance due to a number of factors, such as:

- Financial products which are innovative and complex, often beyond the understanding of ordinary consumers
- Low levels of financial literacy due to inadequate education programmes and low awareness about the risks amongst consumers
- Highly dynamic delivery channels including Internet, mobile and non-bank agents where new types of risks are introduced which increase the vulnerability of consumers towards fraud or excessive charges
- The young generation has a different attitude towards credit, often leading to over-indebtedness and abuse of products like credit cards
- There is a trend in many countries with growing consumer debt and reduced household savings, which increase the vulnerability of consumers
- Aging populations and increased life expectancy have introduced new challenges for financial planning
- The increased prevalence of financial scams has led to the need for greater monitoring and fraud detection measures, as well as protection of consumers interests
- Information asymmetry and inadequate disclosure of information often puts the consumer at a disadvantage relative to the financial institution.

For the above reasons, promotion of sound market conduct practices is now an increasingly important part of the agenda of financial regulators. The main pillars in terms of establishing consumer protection initiatives are market conduct regulation, market supervision, enhancing

financial capability through education and having avenues to seek redress and help when encountering financial difficulties.

The main guiding principles are as follows:

- Proportionality where policy and enforcement measures are reasonable and proportionate to the regulatory concerns
- Compliance cost where the cost must be reasonable and cannot be passed on to the consumers
- Equitable where the commercial interests of the financial institution takes into account consumer interests, and the consumer protection measures help build good business practices which ultimately benefits the financial institution as well
- Competition where a fair and level playing field is maintained, and innovation is not unduly hampered in meeting changing customer needs

The market conduct regulatory concerns for branchless banking are primarily the following:

- Sales and marketing practices – This refers to the use of misleading advertisements, aggressive marketing and unsolicited financial services and products. Agents must not abuse their relationship with consumers in terms of selling financial products to them.
- Lack of transparency – This refers to situations where important terms and charges are not disclosed to the consumer, and the language used is beyond the customers comprehension.
- Fees and charges – This refers to high interest charges and hidden fees, as well as unreasonable penalty charges.
- Consumer awareness – This refers to situations where the consumer is not aware of what product features are being acquired, or what commitments he is obliged to meet. This issue is particularly pertinent where customers are not responsible in their behaviour, and purchase on impulse or for inappropriate reasons.
- Data protection – This refers to the sharing of customer information with external parties for marketing purposes, and could lead to inappropriate marketing or even fraudulent use of the information.
- Debt collection – This refers to debt collection practices which tantamount to harassment, and may involve violence or the passing on of exorbitant collection charges.

Regulatory Solutions to improve Consumer Protection

- Product Disclosure Sheet - One of the means to educate consumers and improve responsible purchase of financial products and services is to use a Product Disclosure Sheet which highlights important features of the product, such as charges, interest rates (nominal and effective), tenure, repayment amounts and other obligations. The consumer should sign-off on the Product Disclosure Sheet to acknowledge he is aware of the product features.
- Guidelines on fees and charges – The more basic products should be provided free or at minimal cost to consumers, and thereafter charges must be commensurate with the value added by the financial institution. In the case of complex products with corporate clients, the market can be allowed to determine the fees and charges.

- Surveillance and Enforcement Framework – This is where market conduct supervision comes into play, with regular monitoring, complaints management, data review, media watch and enforcement actions (penalty or warning letters) to instil discipline amongst the financial institutions.
- Enhancing financial capability – This is to raise consumer activism through a structured consumer education programme including influencing the curriculum in schools, conducting public seminars and workshops, providing information through websites and making relevant information about financial products widely available.
- Avenues for redress – There are a variety of avenues that can be used, as follows:
 - Public contact centre where members of the public can interact with the financial regulator to lodge complaints, obtain information or seek advice
 - The Association of Banks can play a role in managing complaints by the public
 - Credit counselling and debt management services can be made available to help those who are in financial distress
 - Special information bureaus for small and medium enterprises and micro-enterprises can be made available
 - Financial mediation services can be made available to reduce the cost and hassle of managing disputes between financial institutions and their customers

Moving forward, there should be a larger role for self-regulation of market conduct by financial service providers and their respective associations in order to build confidence and reduce the cost of managing the adverse effects of less informed decisions by consumers. Market conduct regulations must be streamlined and strengthened to ensure consumers are more informed, more aware of the risks and more able to negotiate terms with providers of financial services. One of the proposals discussed included having a Code of Conduct for the industry to support self-regulation, and balance between the need to regulate and the need to allow innovation. In this area, the trade associations can play an important role in taking appropriate action against players who are persistently non-compliant.

VI E-money: Friend or Foe?

E-money is an electronic value issued against a receipt of fund. The two main characteristics of E-money are that it can be redeemed elsewhere, and can be accepted by parties other than the issuer.

E-money offers a solution to overcome the barriers associated with costly physical branches and reaching out to remote locations since e-money can be transmitted using mobile phones. The two main models are the bank-led model and the telco-led model, also known as Mobile Network Operators (MNO). In both models the subscriber converts money into e-money to perform transactions. The e-purse or wallet can be reloaded through various access points, such as ATMs, Point-of-sale terminals or P2P mobile phone transfers.

E-money transactions include payment of bills, loan collection and disbursement, remittances, fund transfers and payments to merchants. E-money can also be converted back to cash at cash-out points. In the case of bank-led models, the bank is already a supervised entity and hence the regulator can impose standards of conduct and risk management, including AML/CFT

provisions. In the case of MNOs, there must be cooperation between the MNO and the financial regulator to ensure that the safety and integrity of the payment system is not compromised.

One aspect of such regulation is the treatment of the account where the prepaid money is held. It must be protected such that creditors are not able to gain access to the money which belongs to the subscribers of e-money. One means of protecting the funds of the e-money issuer is to place the money in a trust account at a bank of which the beneficiaries are the customers of the MNO. The trust funds should be isolated from the MNO's working capital, and also cannot be collateralised. Hence, if the MNO goes bankrupt, the creditors cannot have access to the trust account.

The liability created by accepting deposits of cash in exchange for e-money imposes fiduciary responsibilities but it is not clear who is liable in law. In the case of certain mobile network operators, it is clearly stated that the network operator is not liable for losses caused by the agents (such as a grocery store acting as an intermediary). In other cases involving banks, the banks are held to be legally liable for agents acting on their behalf. This issue returns to an earlier theme of what kind of approval or filtering process is needed to appoint an agent. To what extent should the Central Bank be involved in the approval process. What type of monitoring needs to be in place, and how do we ensure that the cost of complying with prudential requirements does not effectively negate the entire exercise of using non-bank agents to increase access to financial services to deprived communities. For instance, liquidity requirements to avoid situations where demand for cash increases sharply, such as during festive seasons, and agents must have sufficient stock of cash and digital money to continuously serve customers.

VII Payment Systems: The Issue of Interoperability and Competition

The role of the regulator is to provide a conducive environment for an efficient and effective payment system to thrive. The question of interoperability is important for consumers to have choice and convenience, and to promote healthy competition. The policy framework needs to address both aspects by facilitating competition and also encouraging cooperation. The regulators' involvement with respect to competition revolves around innovation, pricing and customer services. New technology can be used to spur innovation. Market conduct regulations can be used to influence pricing and customer service standards, without stifling innovation.

From a regulatory perspective, the question is raised whether regulation should require different MNOs to interconnect so that customers of Bank A can send funds to a customer of Bank B via the mobile services. Further, should regulation require that each MNO represent both banks so that a customer (i) may switch banks without having to switch MNO provider for mobile payment services and (ii) may switch MNOs without having to switch banks.

In addressing the regulatory issues above, the following points are relevant:

- Explore the feasibility of agreements between the different players to allow more options for the customer
- Assess the costs of providing services across different systems, and address the issue of transfer pricing or shared costs
- How can a common switch assist in overcoming the issues of interoperability, and who should control the switch – private sector or the Government

The regulators' involvement with respect to cooperation revolves around the development of common infrastructure, interoperable terminals and uniform standards. The regulator can set the base line and broad parameters within which players can innovate and introduce different types of value added services. Hence the rules for interconnectivity can be mandated, and subsequently players can decide the appropriate fees.

With respect to non-bank players, there are new types of risks introduced in terms of settlement, data security and outsourcing of services. These risks are new in the sense that unlike the banks, which are regulated and conform to specific minimum standards, the non-bank players may not comply with such standards. The other aspect with respect to non-bank players is in relation to access to the payment systems, which are controlled by the banking institutions and the Central Bank. Banking institutions will protect their competitive advantage and unless there is some compelling value-add, will be unlikely to allow new players into the payment arena. This is where cooperation and bilateral agreements can be useful in opening up the space for new players.

VIII Conclusion

Important lessons from the forum:

- Firstly, that the concept of inclusive finance should not focus merely on microcredit, but should cover the whole array of financial services including savings, payments and insurance.
- Secondly, regulators should be open and facilitative towards the use of innovative means to extend the outreach of financial services to the unbanked segments of the population. Inclusive finance can be achieved through the usage of non-bank agents and information technology, operating within either a bank-led or non-bank-led model.
- Thirdly, while the use of innovative means will play an integral role in enhancing financial inclusion, it is important to recognise that there are regulatory concerns such as anti-money laundering and countering the financing of terrorism, consumer protection and market conduct, prudential regulations and competition issues that must be taken into consideration. In meeting these challenges, there is a need to adopt a sufficiently flexible approach in order to strike an appropriate balance between financial inclusion and regulatory objectives.
- Fourthly, one of the critical success factors in branchless banking is consumer awareness and education. The successful adoption of a branchless banking model rests largely on the ability of the targeted unbanked community to understand and be comfortable with the financial products and services offered.
- Lastly, there is no one-size-fits-all solution to the various challenges – the approach has to be tailored according to country-specific characteristics and goals.