

World Bank presentation on retail payments in East Africa



Understanding the impact of new channels on access to finance



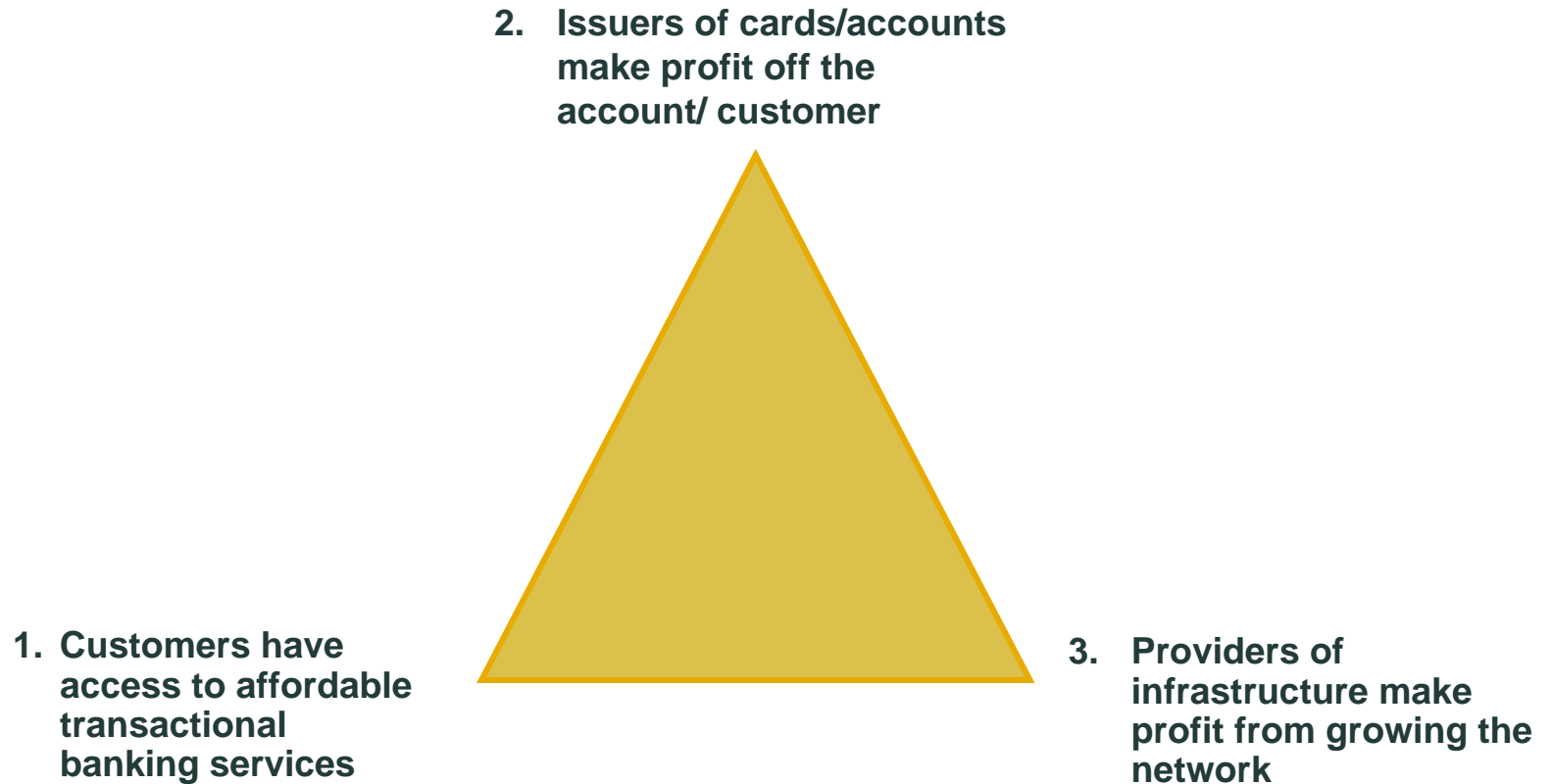
“Not a lot of innovation has gone on in banking over the past 1000 years”

Andy Maguire (MIT) in The Banker (February 2007)

- In emerging markets, innovation in payments is actually progressing at lightning speed
- Regulators have focused on ensuring financial stability while ignoring what happens in the **retail payments environment**

... which is what determines financial access

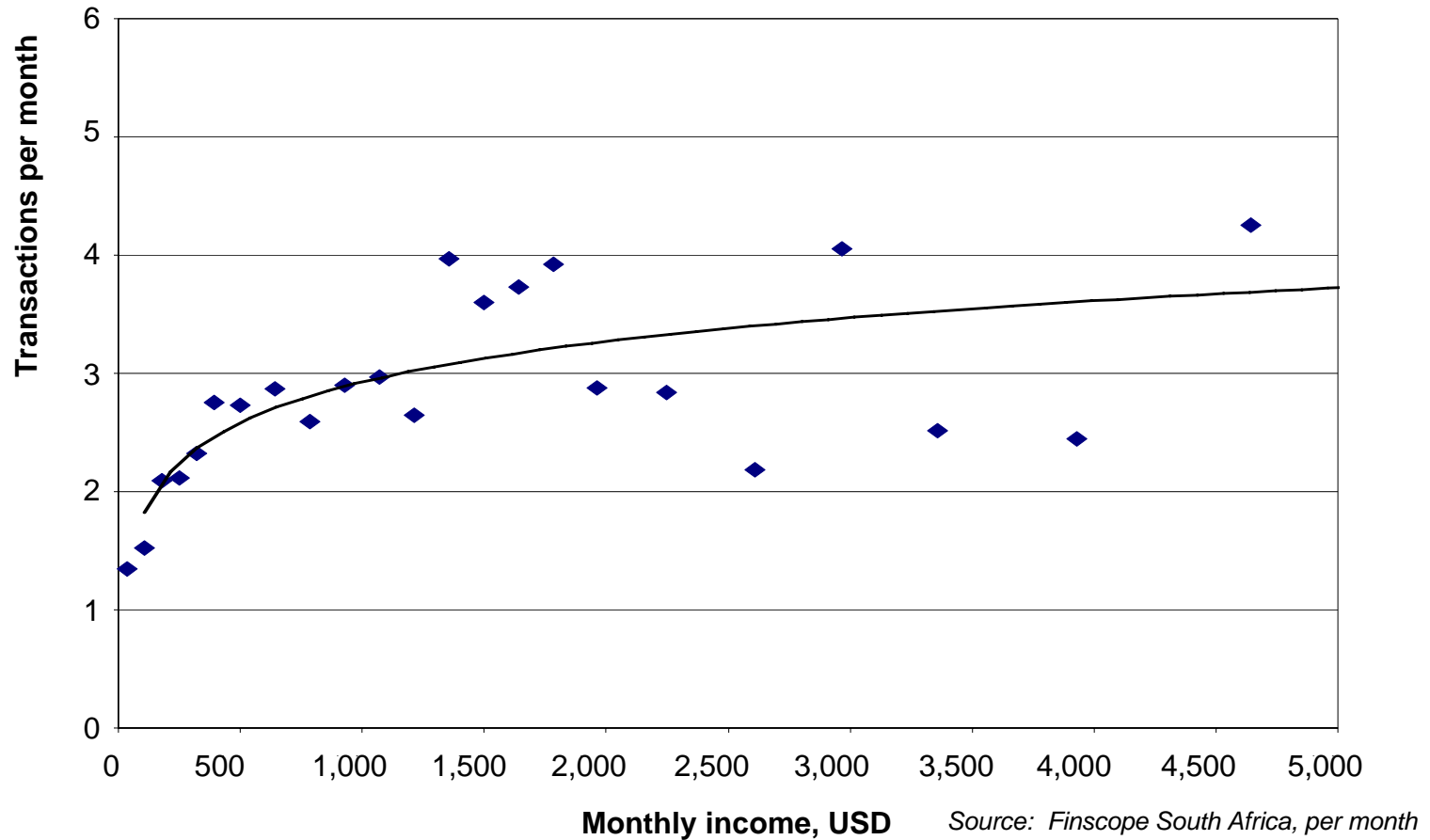
Create the Golden Triangle



Customer access: usage of transactional financial services is closely related to the cost of service provided

ATM transactions against Income

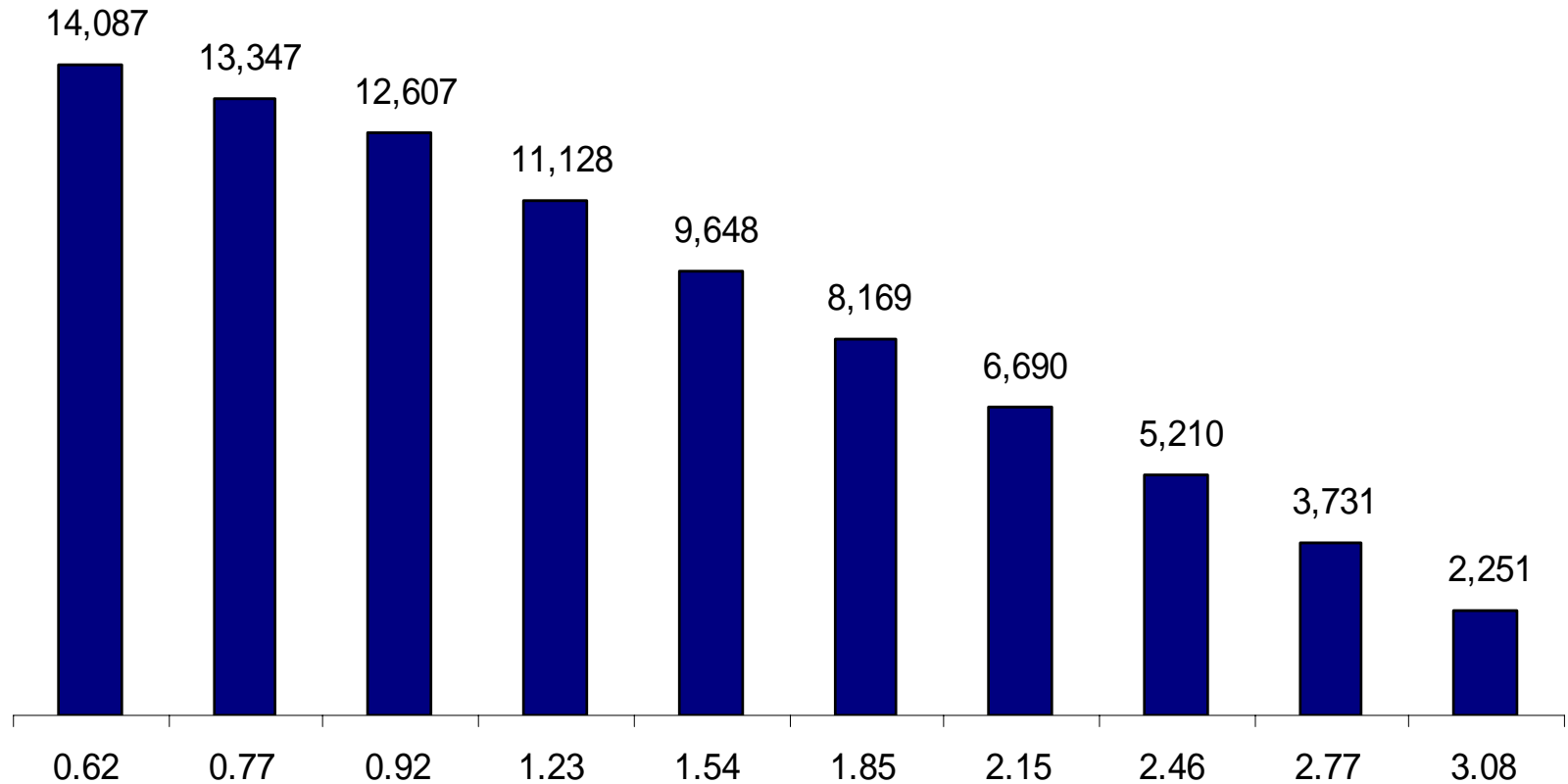
\$



Transactions increase p/p as affordability improves

Customer access: behaviour responds to changes in pricing

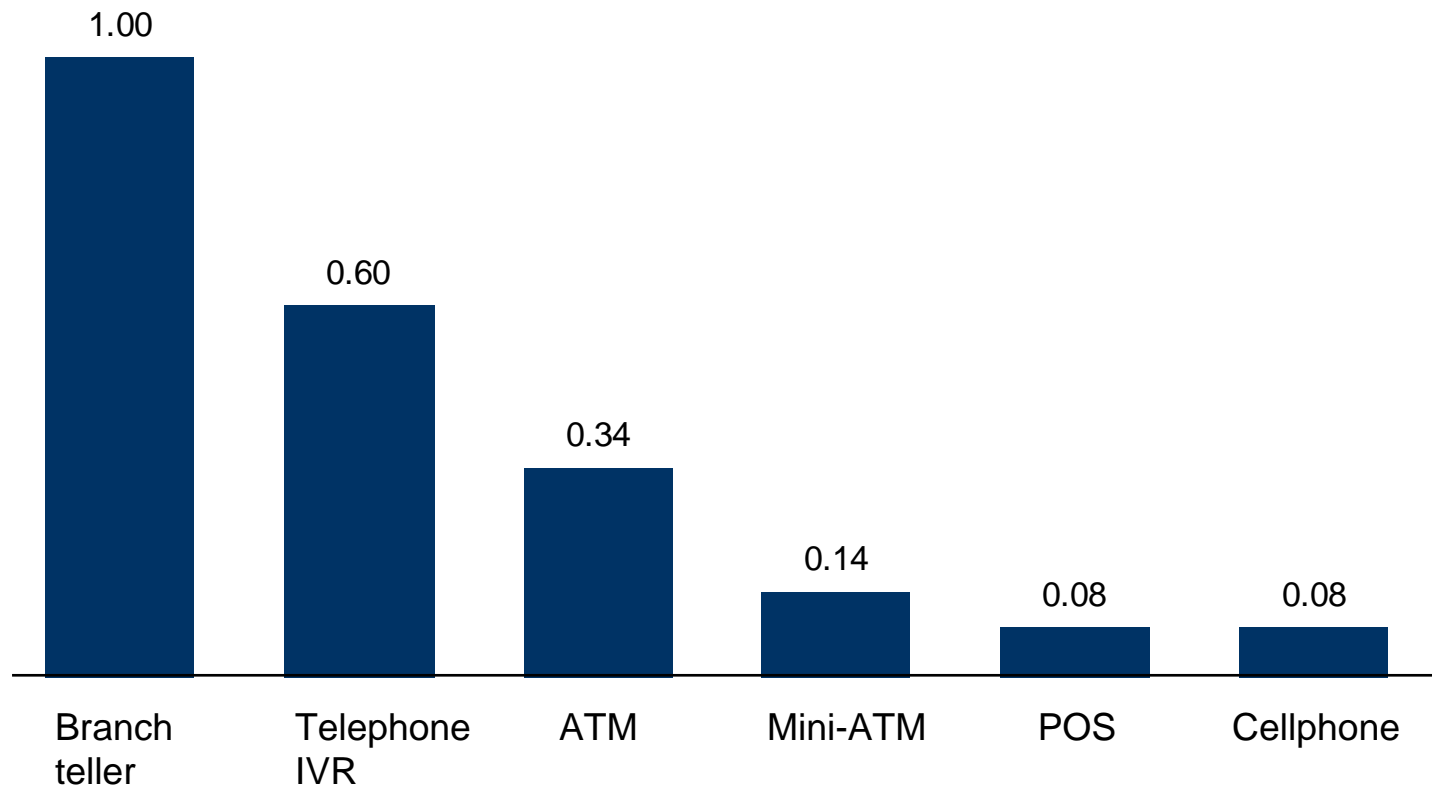
ATM transaction volumes per ATM device with a decrease in price
\$



Transactions increase as transaction costs decline

Infrastructure providers: New channels allow banks to reach more customers

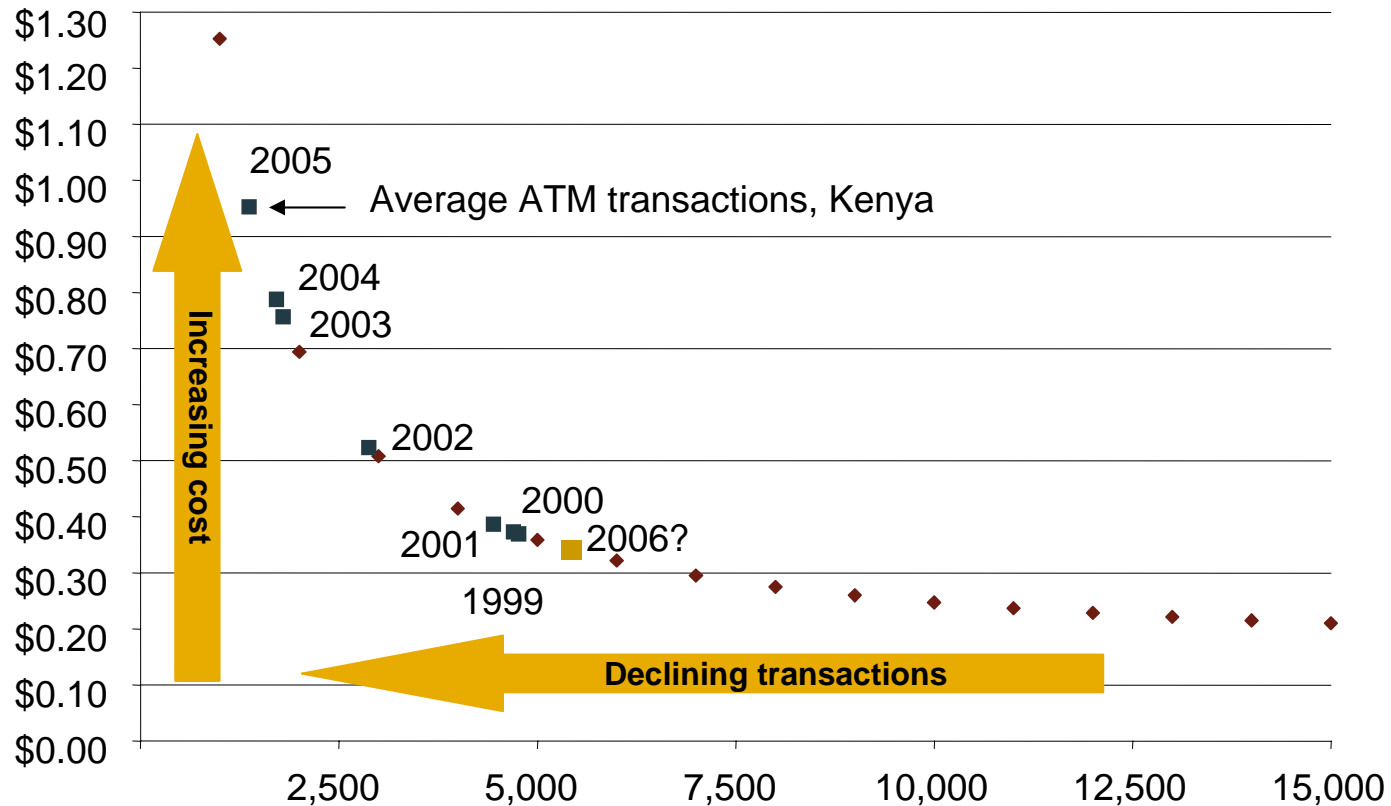
Operating costs per transaction, per channel
\$



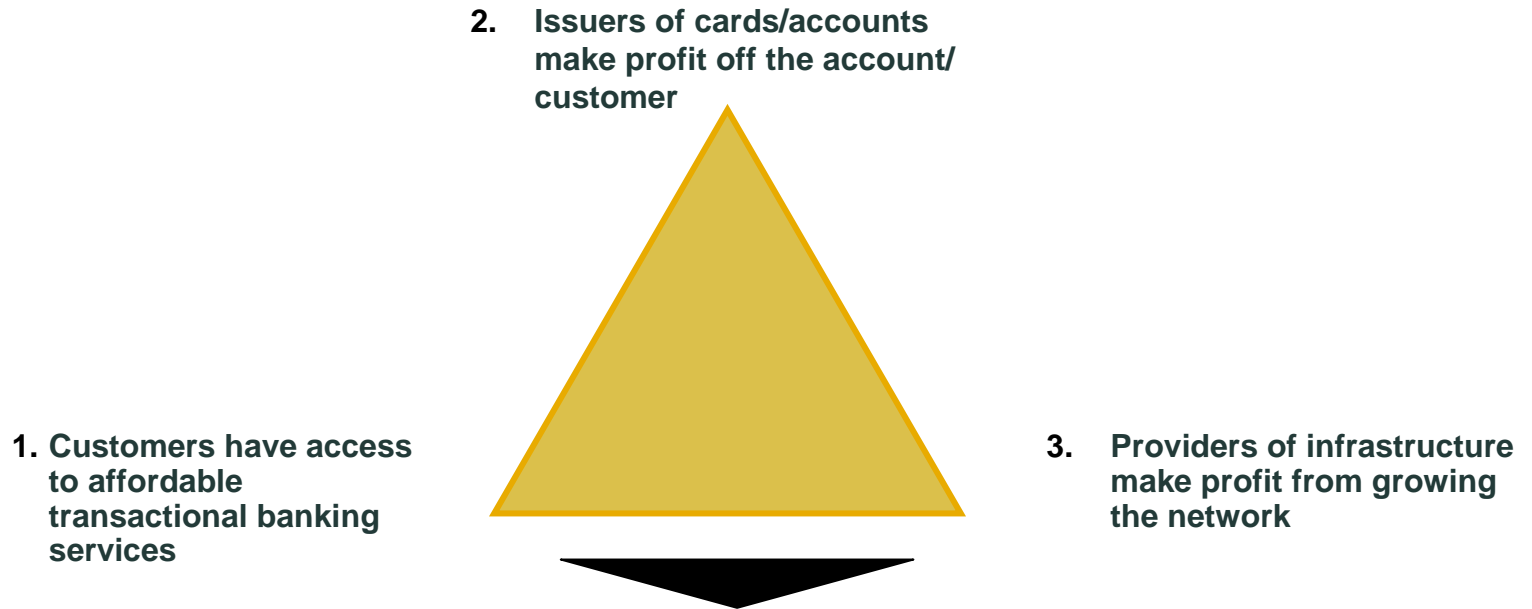
Infrastructure providers: The number of transactions processed by channels has a significant impact on per transaction costs

ATM operating cost per transaction vs. monthly transactions

\$



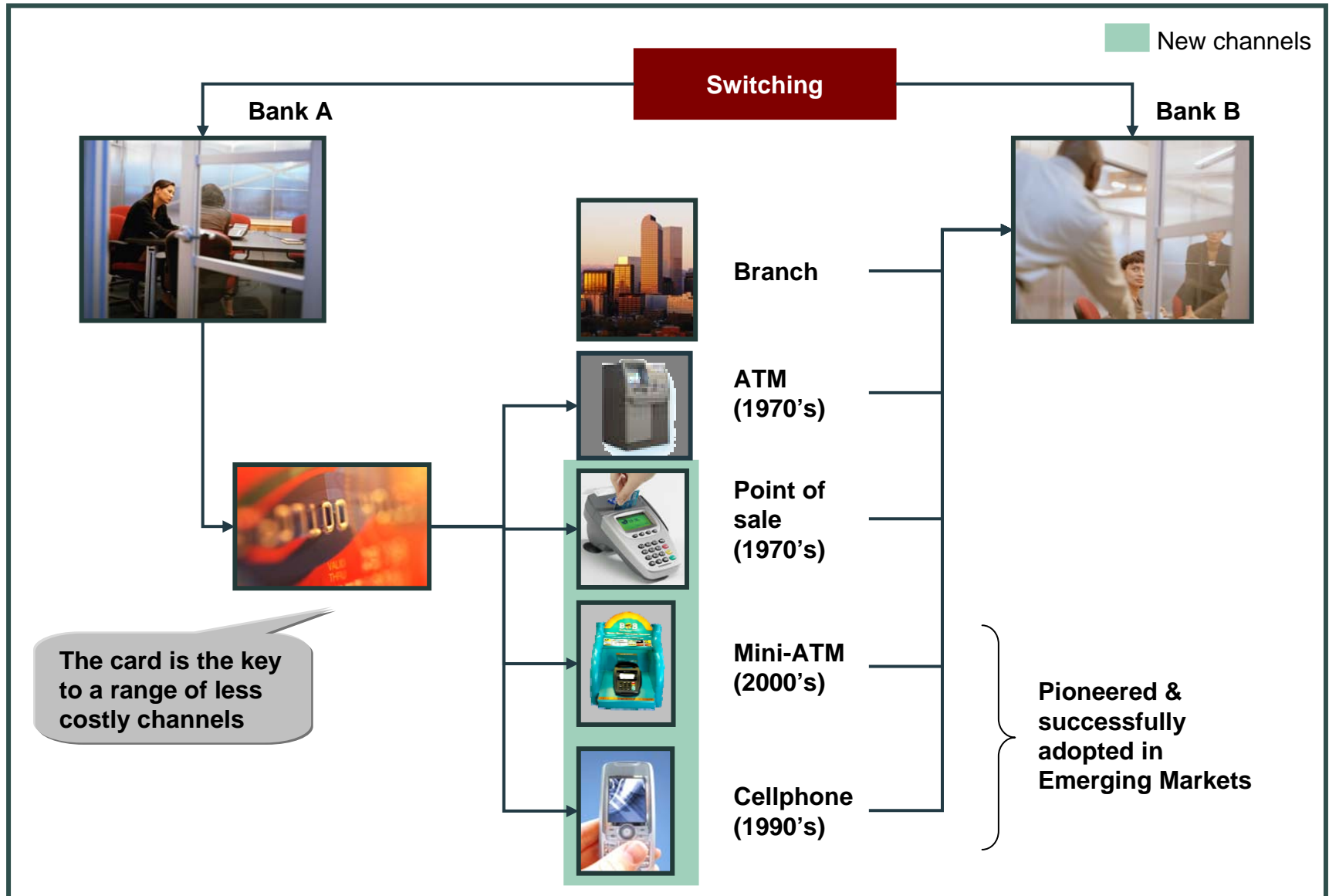
Create the Golden Triangle



Can only be achieved with full interoperability:

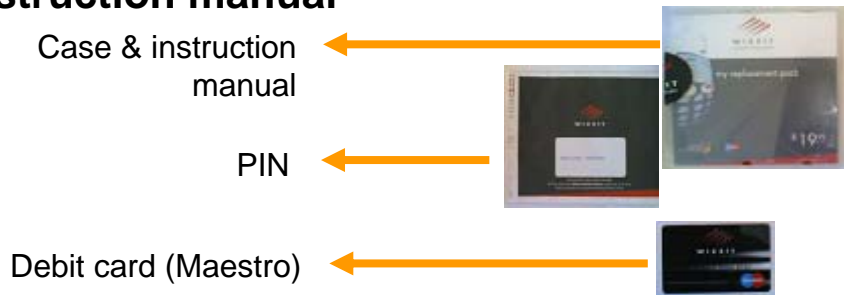
- Maximises customer utility (easy access – funds remain in account)
- More transactions at lower cost enhances issuer economics
- More transactions improve returns to infrastructure providers

Card association branded cards are currently the key to instant interoperability

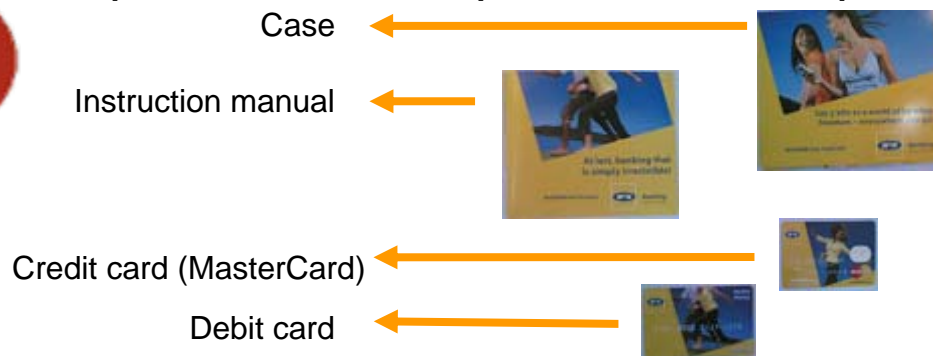


Getting accounts into people's hands requires KYC/Channel modifications (which are FATF friendly)

Option 1: Blister pack with: card (debit), PIN, instruction manual



Option 2: Blister pack with: card (debit or credit), manual, no PIN (remote activation)



Distribution strategies

Key Success Factors

Branch

- **NO KYC at application - BUT**
- Transaction value limits
 - Single
 - Monthly

Bank Agent

- Use limited to country
- A/C can be upgraded to full function with formal KYC process
- **Instant activation at ATM or by mobile phone**
- **Capture mobile number to link to customer**

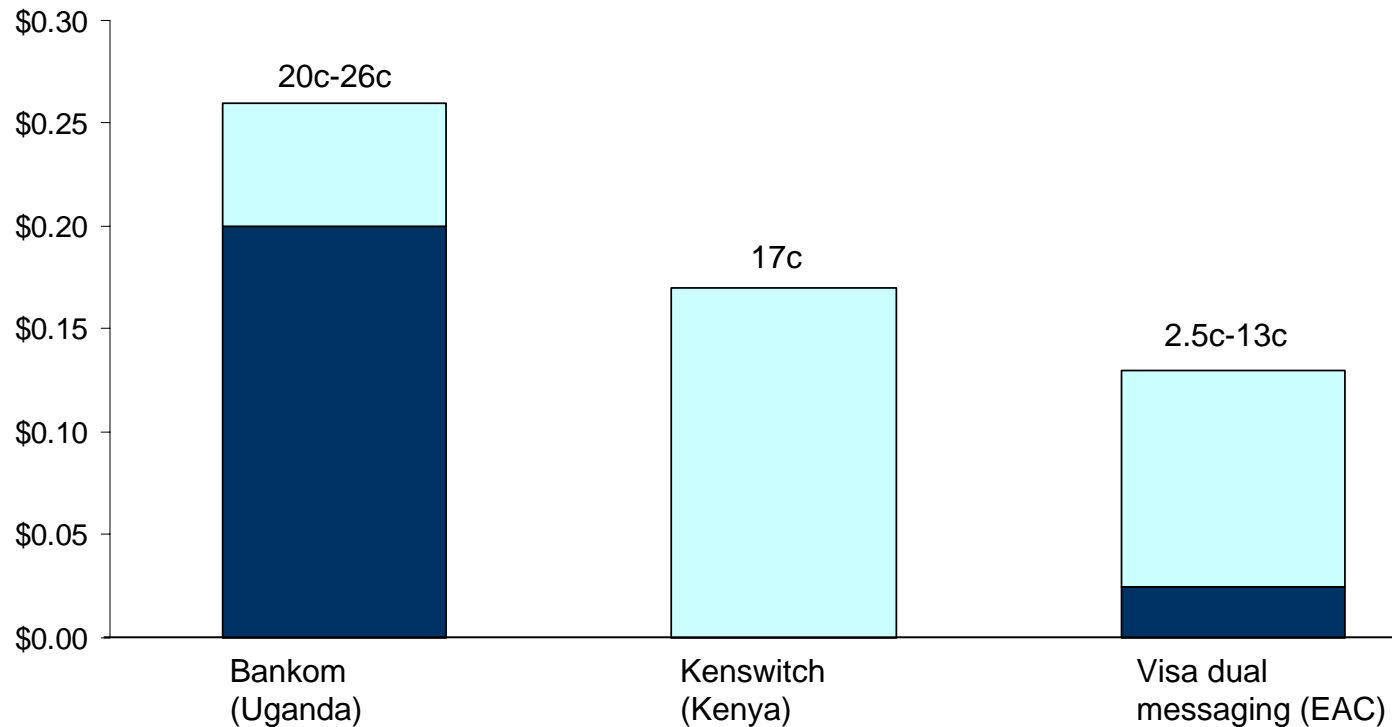
Retailer



State of play in EAC: Uganda and Kenya

Currently, switching and interchange fees make payments unaffordable

Switching costs charged to switch member banks
\$

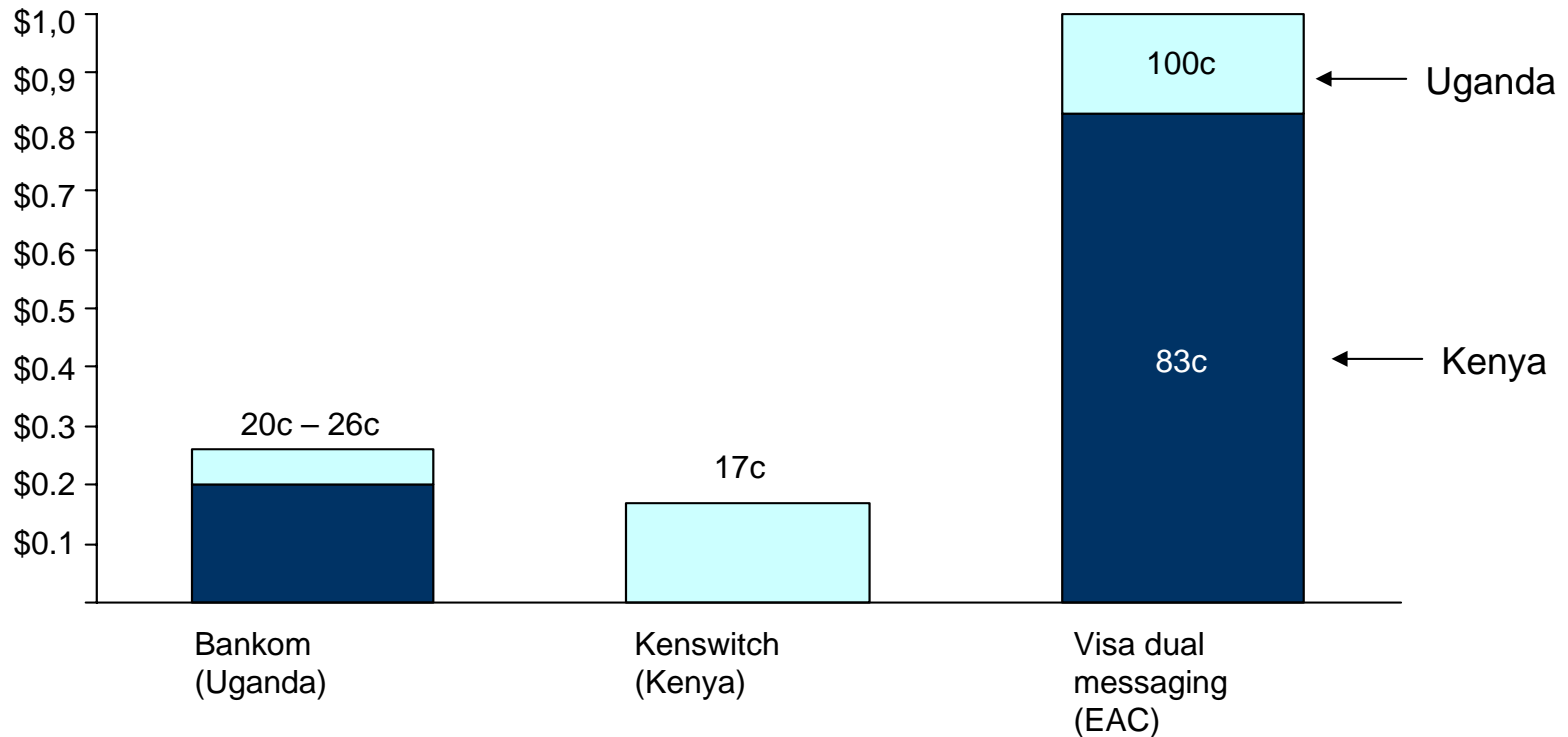


Using international switching firms can significantly reduce switching costs in comparison to local switches

Revenues to acquirers are decided by banks in Visa, but not for Bankom or Kenswitch

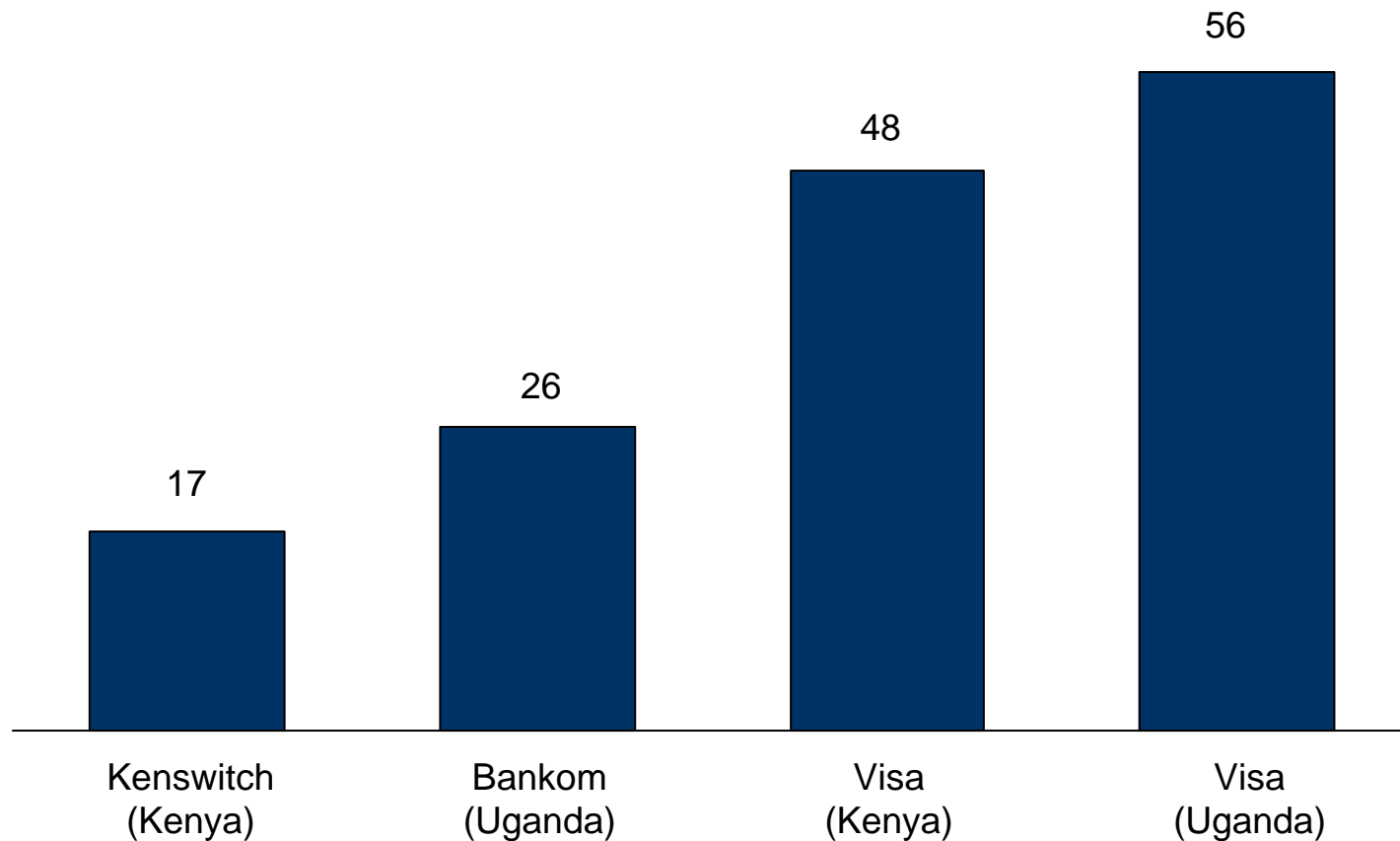
Interchange fees charged to issuing member banks

\$



Affordability

Implied monthly income (using 2% of income) required to make one ATM transaction
\$



Current access to payment services are limited

- Key drivers of exclusion from payments services
 - High cost of transactions
 - Limited interoperability between banks
 - Affordability in lower income segments
- The solution to access to payment services includes
 - Innovative use of channels
 - Innovation in new account acquiring
 - Ensure any innovation is interoperable
- For regulators this means creating an environment in which innovative financial institutions are rewarded for increasing access to transactional banking

Implications

- Regulators need to be informed on what is happening in retail payments
 - Develop capacity to understand and monitor retail payment developments
 - Engage with players around pricing rules
- Encourage interoperability
 - Discourage banks from offering non-interoperable products/channels
 - Encourage innovation that builds interoperability rather than fragmenting the payment system

Issues to consider in the national payments system

Questions

Security & stability

Who (Banks, MFI's, etc.) has access
Through which channels?

Interoperability

How – local vs. international
Are volumes sufficient for in country switch?

Costs

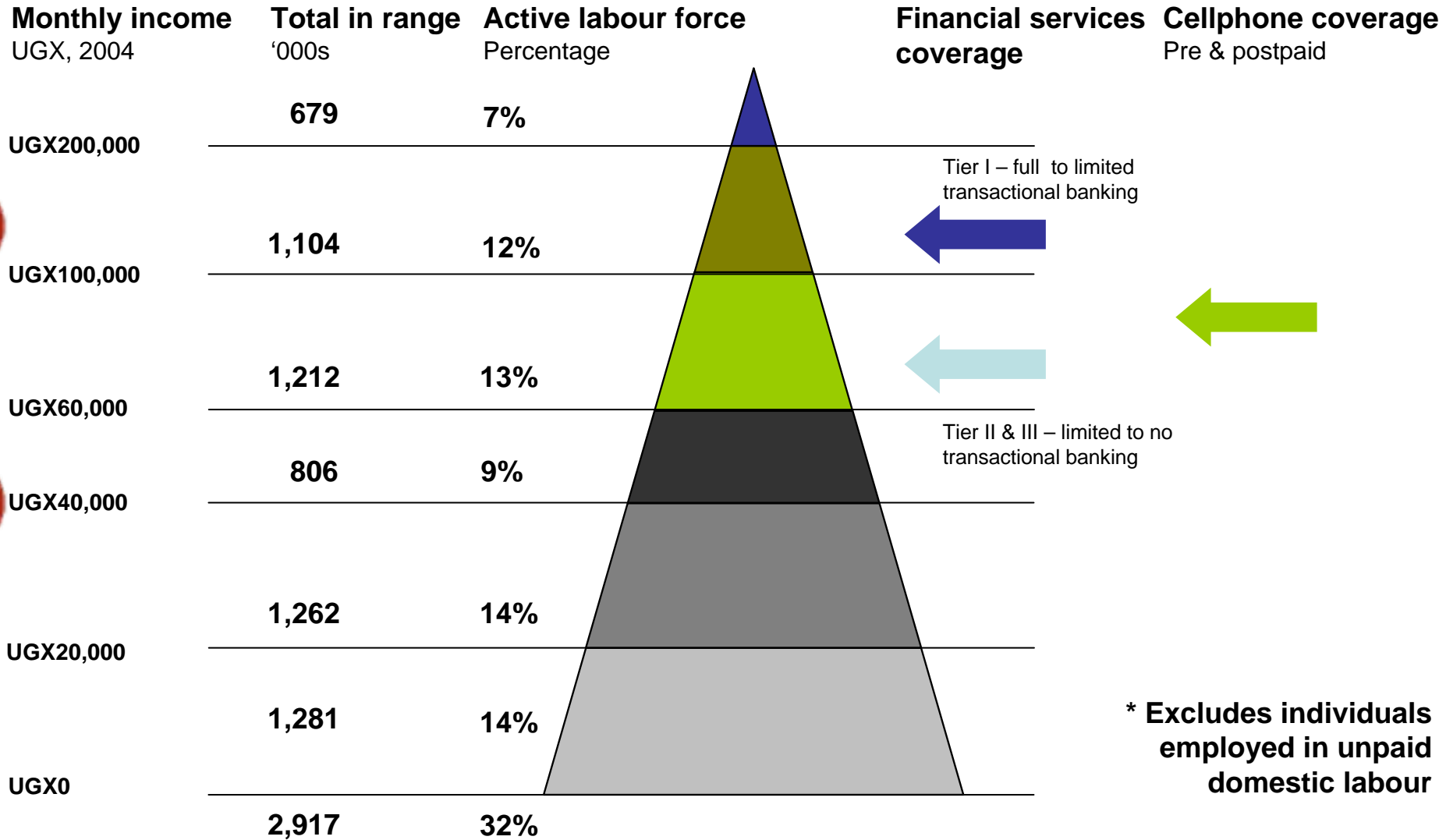
Affordability
Shifting costs in payment services to achieve golden triangle

Access

Channel innovation



In Uganda, access to payment services is limited to about 18% of the labour force



* Excludes individuals employed in unpaid domestic labour

In Uganda, use of new channels & account acquiring strategies could profitably more than DOUBLE the banked market

