

Report from a Joint infoDev and CGAP Workshop on:
Expanding Financial Services to the Poor: The Role of ICT

Held on Friday, 9 June 2006; 09h00 to 13h30 at IFC Headquarters, Washington DC.

Present: Approximately 50 experts in ICT, financial services, private sector operators and *infoDev* and CGAP donors

9:00-9:30 Welcoming Remarks

Mohsen Khalil, Director, Global ICT Department, World Bank Group welcomed participants on behalf of *infoDev* and CGAP Director Elizabeth Littlefield, who sent her apologies for not being able to attend the event. In his introduction, he framed the overall challenge of enabling poor people to participate actively in the economy. ICT had been shown to be a powerful enabler and could provide suitable platforms for the extension of financial services. He also welcomed the developing partnership between *infoDev* and CGAP to extend access to financial services to poor people through the application of ICT.

Gautam Ivatury of CGAP introduced the day's agenda, stressing that CGAP's purpose was to build financial systems which worked for the poor. He said that, for CGAP, the workshop was intended to go beyond the stories circulating about ICT applications and look for the underlying constraints and opportunities in these emerging stories.

9:30-10:45 Panel Discussion: Experiences from the Field & Implications for Replication – Case Studies

(Moderator: Kerry McNamara, Knowledge Coordinator, *infoDev*)

- **Philippine Case Study: Neville Wishart, Consultant**

Based on research undertaken in writing the recent *infoDev* report on M-Commerce, Neville Wishart traced the development of m-banking in the Philippines around the offerings of the two main mobile telcos, Globe and Smart. Under competitive pressure to grow because of its later entry, Smart had developed approaches to open up lower income markets. Smart first developed an over-the-air recharge mechanism which could handle very small top-up amounts. This service had developed into a full m-banking offering in partnership with domestic bank BDO. Globe launched its m-banking offering G-CASH in 2004. Today, Smart and Globe have 2.5m and over 1m m-banking customers who are executing 1-2 financial transactions each per day via SMS.

Neville stated that there was no client profile yet available of Philippino m-banking customers, but it certainly appeared that the main profile was not unbanked.

- **Branchless Banking in Brazil: Terry Gallagher, IETS**
Terry Gallagher sketched the development of correspondent banking in Brazil over the past six years. Now numbering 57,000, correspondents are retail stores which are appointed by banks as agents for basic transactions, especially receiving bill payments. They provide services especially at the low end of the market and are now present in every municipality in Brazil. However, banks face challenges in cross-selling services other than bill payments; and correspondents have the challenge of managing their liquidity, especially after receiving bill payments at peak times. In addition, there was the risk of pending court cases which find that correspondents were not exempt from regulations affecting bank premises.
- **Wizzit (South Africa): Brian Richardson**
Brian Richardson gave a perspective on the story of Wizzit to date. Wizzit was one of the first m-banking applications launched in South Africa, and is one of few globally to date which focus on underbanked and unbanked people. Having started its offering in 2005, Wizzit today has 40,000 customers, transacting 1-2 times per month, of a total of estimated m-banking base of 400,000 in the country. Brian listed his challenges as widening the ability of clients to deposit and withdraw cash, since Wizzit has no branches of its own but uses other networks such as Post offices; and providing education to customers which would build trust. Wizzit also sought funding to expand its offering in response to queries from elsewhere.

Discussions following the presentations addressed the need for consumer education and literacy programs. Some financial education programs had encountered a high degree of general misunderstanding about banks and banking among unbanked customers. While there was little systematic evidence yet on this issue for m-banking, Brian stressed that Wizzit's solution did not involve completing forms so at least client literacy was not a constraint to opening an account. He also mentioned that high levels of crime provided a driver which incentivized people not to carry cash.

10:45-11:00 Coffee Break

11:00-12:15 Panel Discussion: Impediments to Replicating or Developing Similar Services in Other Developing Countries – Policy & Regulatory Challenges

Moderator: Gautam Ivatury, CGAP

Experience in Sub-Saharan Africa: David Porteous, Bankable Frontier Associates

David Porteous presented the main findings from a recent DFID-funded report on the Enabling Environment for Mobile Banking in Africa. This project had sought to understand and categorize the emerging m-banking models, in particular those that had the potential to be transformational in the sense of targeting or appealing to previously unbanked customers. He showed that the financial regulatory environment for m-banking was

complex and subject to multiple regulatory domains. Enablement means moving the regulatory and policy environment towards sufficient openness to innovative models emerging and sufficient certainty that there would be no arbitrary changes in regulation, so that private sector providers would be willing to commit the required capital to startup and scale up. Without enablement, he argued that transformational m-banking was much harder to do; the likely result would be a trajectory of growth which crested at much lower levels of penetration than hoped.

Banking Regulation in Kenya: Steve Mwaura, Payments Systems, Central Bank of Kenya

Steve Mwaura gave a bank regulator's perspective on the issues raised by new ICT deployments in financial services. He welcomed innovations which would improve access by the unbanked, but stressed that players which stepped across the line which defined banking business, would be subject to the scrutiny of bank regulators. He also discussed the current Kenyan environment for m-banking in all the affected areas, including e-commerce, AML-CFT, consumer protection, payment systems and competition. Currently, a number of important bills are pending in important areas such as e-commerce, AML/CFT and e-payments.

Telecom Regulation: Bill Kerr-Smith, Principal Industry Specialist, IFC

Bill Kerr-Smith gave a short presentation the issues arising from m-banking for telecom regulators: it was short because, as he said, there were no additional or special issues for telcom regulators as such. When telcos moved to provide m-banking services directly, they became subject to financial regulation. The trend in telco regulation was towards minimizing any special regulation outside of the general regulation of commerce.

In the course of questions and discussions, a member of the audience queried whether a new provider in a low income country should engage regulators there or try to startup unnoticed. Panelists gave different responses: Bill Kerr-Smith emphasized that no special effort should be made to engage them; David Porteous argued that achieving sufficient certainty required early engagement with regulators. This was the case in the Philippines where the bank regulators and telcos had worked out case by case solutions to concerns like AML/CFT and money creation.

Another questioner was interested in the extent to which the lessons of telco regulators in achieving widespread inter-connection were relevant for bank regulators in achieving inter-operable payment systems. Various speakers referred to the importance of competition in telco and banking markets in incentivizing innovative approaches; but overlapping domains in competition regulation between telco or bank regulators and national competition authorities meant that it was often hard to enforce.

Another member of the audience asked about the potential market to be served by m-banking. While there were no formal projections yet made on a global basis, this was obviously some fraction of the total number with access to mobile phones: if the m-banking offering were integrated with the phone offering, as was being discussed between Wizzit and a large African operator, then the rollout of the two services could go hand-in-hand. The security risks to consumers were also queried. Brian Richardson responded that Wizzit and its competitors in South Africa had experienced no significant fraud to date.

In closing the panel, Gautam Ivatury stressed that a key difference between mobile telcos and banks was that telcos have in general taken a more active approach to marketing to a broader market taken by the telcos to date. To be successful in transformational m-banking, it was important not to 'think like a bank' even if subject to bank regulation. He also noted the case to provide support to regulators like the Central Bank in Kenya who wish to create enabled environments in this area.

12:15-1:30 Panel Discussion: Looking Forward: Unlocking the Potential of Expanding Financial Services and ICT

Moderator: David Woolnough, ICD Team, DFID

Presentation of Knowledge Map: David Porteous

David Porteous presented an overview of a map of the current state of knowledge in m-banking, focused around the key question of whether m-banking will result in a substantial increase in access to financial services by unbanked people. The full knowledge mapping document will be made available shortly via *infoDev*. He concluded that, while news abounded of new launches and pilots, independent, credible, synthetic knowledge was limited and hard to access, especially for developing countries. There were also key gaps in knowledge, where only inference from limited data or hypothesis was possible today, especially around the profile of current and potential users.

Several other donors present then gave their perspectives.

- **Bengt Oberger, Senior ICT Advisor, SIDA**, expressed the view that the strong market forces at work in this sector made success likely. However, he recognized the need for work to support regulators in developing an enabling environment, especially to bring more certainty to consumers as well as providers. He also expressed interest in end user assessments, which were not undertaken at a similar early stage with mobile phone rollout.
- **Nhu-An Tran, Micro-Enterprise Development, USAID**, stated that, given USAID's large existing program supporting Microfinance Institutions (MFIs), her main interest was to establish which entities were best placed to partner with MFIs to offer m-banking services. She referred to various pilots between banks and MFIs underway, and the

ability to support partnerships through the Global Development Alliance. She, too, was interested in end user assessments; and in particular, how technology could assist with services in post-conflict or disaster environments; also, whether the track record created by regular payment flows registered on electronic instruments could be used to leverage credit offerings.

- **Romeo Bertolini, BMZ**, described a current pilot project, RTS in Uganda, which involved the deployment of ICT to link agents for MFIs.
- **David Woolnough, DFID** noted that there had been little evidence of donor activity to date in m-banking; and expressed caution about donors getting involved inappropriately in a way which distorted the development of the field.
- **Gautam Ivatury, CGAP**, described CGAP's planned program to support large scale ICT-linked experiments which would provide answers to unresolved key questions in this area. He said that much was still unknown about the business case for telcos and banks to engage in this area. CGAP's program would also undertake country diagnostic work and convene roundtables with financial and telco regulators in selected countries.
- **Seth Ayers, infoDev**, described *infoDev*'s interest in this area in terms of how to extend the reach of services to the rural poor, which is always the hardest to reach group. *infoDev* was interested in models where value added services, like m-banking, would create additional traffic on mobile networks and potentially improve the business case of serving these remote areas. He mentioned too that *infoDev* was undertaking follow-up work on the usage of m-payments for international remittances; and would be setting up a section of its website where the information presented today would be posted with other material relevant to this field, as well as pursuing joint activities with CGAP in this area, including country diagnostics and roundtables.

In discussion, Bill Kerr-Smith encouraged those present to 'think big' about the opportunity of m-banking, given the nature of the players involved and the extent of existing infrastructure. He also encouraged thinking about new models of wealth creation which would increase usage of mobile services; and about how to address common patterns like shared access.

Donors present were in agreement that initiatives should not be technology or channel specific—other e-banking channels were potential relevant too.

Steve Mwaura observed that the definition and regulation of e-money was not well understood; and would benefit from more research. David Porteous suggested that if successful, m-banking would be genuinely disruptive to conventional retail banking. The existing bank prudential frameworks were not well placed to allow this; it required new legal frameworks to be created which defined payments vis-a-vis deposits, and in particular, provided for non-banks to issue e-money: this would inter alia allow telcos, often

financially stronger than banks in low income markets, to participate meaningfully in m-payments if they chose to.

Gautam Ivatury looked forward to a similar event being staged a few years in the future at which numerous successful models could be presented to banks and telcos as reasons for their engaging in this sector. Closing the panel, David Woolnough suggested that sometimes policy and regulation followed successful practice; and that the focus should remain on how to get sufficient transformational m-banking models to reach critical mass of users to be successful.

Seth Ayers closed the workshop, thanking all participants for their presence and participation, and noted that the presentations will be posted on *infoDev*'s and CGAP's websites (www.infodiv.org & www.cgap.org).

Annex I. Workshop Objective & Agenda

The proliferation of Information and Communication Technologies (ICT), such as mobile phones and point-of-sale (POS) devices in developing countries has the potential to bring a wide range of financial services to an entirely new customer base. In many developing countries, particularly in rural areas, access to financial services is limited. A large proportion of the population are excluded from formal banking systems and make payments entirely using cash, which is far less secure and flexible than electronic payment mechanisms. However, in the Philippines, 3.5 million people are using a service that allows them to transfer money, both nationally and internationally, over the two major mobile networks operated by SMART Communications and Globe Telecom. In Brazil, large banks use POS terminals at retail outlets across the country to deliver bill payments, savings, credit, insurance, and money transfer products to nearly 10 million previously unbanked customers.

The joint CGAP and *infoDev* workshop on “Expanding Financial Services to the Poor: The Role of ICT”, aims to present how these emerging delivery channels are deployed, including the various business models and technologies. In addition, the workshop will highlight the key impediments to expanding these services and will open a discussion about how the development community can address some of these impediments.

9:00-9:30 Welcoming Remarks

Frame the key issues for participants – i.e. the key determinants of how ICT will be used for financial services in a way that yields access for all. Focus on: (i) customer adoption issues, (ii) know-how issues, (iii) institutional readiness, and (iv) getting regulation right.

- Mohsen Khalil, Director, Global ICT Department, World Bank Group

9:30-10:45 Panel Discussion: Experiences from the Field & Implications for Replication – Case Studies

Due to the perception that providing financial services to poor people is unprofitable, only a handful of banks (most in competitive markets) seek low-cost delivery channels to serve the poor and excluded. In contrast, a few telecom companies are beginning to see the poor as a market. What do we know about profitability of ICT channels for banks and Telcos? A full picture of sustainability goes beyond the channel operator to include merchants and other retail outlets that act as agents of the operator. Are ICT banking channels an attractive proposition for them? Are these channels sustainable for all business models?

- Moderator: Kerry McNamara, Knowledge Coordinator, *infoDev*
 - Philippine Case Study
 - Neville Wishart, Consultant
 - Brazil Case Study
 - Terry Gallagher, Director, IETS
 - WIZZIT (South Africa)
 - Brian Richardson, CEO, WIZZIT

10:45-11:00 Coffee Break

11:00-12:15 Panel Discussion: Impediments to Replicating or Developing Similar Services in Other Developing Countries – Policy & Regulatory Challenges

In many countries, policy makers are beginning to consider the regulatory changes required to take advantage of ICT channels to improve access to finance, while mitigating risk. What issues should be considered by policy makers? And what are the different approaches they can pursue in fostering the development of ICT banking with appropriate risk controls?

- Moderator: Gautam Ivatury, Microfinance Specialist, CGAP
 - Experience in Sub-Saharan Africa
 - David Porteous, Bankable Frontier Associates
 - Banking Regulation in Kenya
 - Stephen Mwaura Nduati, Payments Systems, Central Bank of Kenya
 - Telecom Regulation
 - Bill Kerr-Smith, Principal Industry Specialist, IFC

12:15-1:30 Panel Discussion: Looking Forward: Unlocking the Potential of Expanding Financial Services and ICT

Presentation of ongoing and new initiatives by CGAP and infoDev, and open discussion of other critical activities.

- Moderator: David Woolnough, ICD Team, DFID
- Presentation of key issues
 - David Porteous, Bankable Frontier Associates
- Panel Discussion of these initiatives and other critical initiatives
 - Bengt Oberger, Senior ICT Advisor, SIDA
 - Nhu-An Tran, Micro-Enterprise Development, USAID
 - Romeo Bertolini, BMZ
 - Gautam Ivatury, CGAP
 - Seth Ayers, infoDev