Banking in every village and neighborhood

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If every citizen had access to an electronic payment network that was convenient, affordable and trusted...

- Family & informal networks
- Financial service innovation
- Government effectiveness
- Entrepreneurship
- Utility payments
- Law enforcement & monetary authorities

Bridges to cash: Immediacy and low transaction costs

- Electronic money
- 0110010100

Reduction costs by leveraging existing infrastructure

- Retail shops in every village and neighborhood
- Existing bricks & mortar
- Fixed → variable teller costs

- Widely deployed communications networks
- Real-time transactions

Making it safe, minimizing credit risk

1. All transactions are done against the store’s own bank account
2. All transactions are authorized and registered in real time
3. The technical platform is the responsibility of the financial service provider
4. The customer is informed and can initiate claims
5. There are transaction limits and all transactions are final

Many unbanked customers have mobile phones

- Customers
- Infrastructure
- Penetration of mobile vs. bank accounts in 85 developing countries
- Worldwide points of presence
Unbundling the agency risks from store-based transactions

<table>
<thead>
<tr>
<th>Function</th>
<th>Agency risk</th>
<th>Risk mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in/out</td>
<td>Unequal exchange of cash and electronic</td>
<td>Real-time, prepaid basis</td>
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<tr>
<td></td>
<td>value</td>
<td>Confidentiality</td>
</tr>
<tr>
<td>Disclosure of customer transactions</td>
<td>Confidentiality clause in contract</td>
<td></td>
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<tr>
<td>Product sales</td>
<td>Client confused about store vs. bank products</td>
<td>Clear disclosure</td>
</tr>
<tr>
<td>ID verification for account opening</td>
<td>Store does not want to inconvenience clients</td>
<td>Training &amp; supervision</td>
</tr>
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Broad-based agency is not appropriate:
- Incentives between bank and store can be aligned in some cases
- Banks cannot be held responsible for any event at the store

Elements of a new banking system for the poor

- Low cost per new client & outlet
- Revenue model that works for the poor
- Helping people save by making the future more present
- Trust
  - Brand
  - Governance
  - Education
  - Liquidity management

Mobile operators have lots to contribute

- Technology
  - Ubiquitous communications network
  - Smartcard-based authentication
- Marketing
  - Existing customer base including millions of poor, unbanked customers
  - Relevant brand for the BOP
  - Broad-based airtime distribution network
- Business model
  - Revenue model based on transactions
  - Familiarity with low value, high volume transactional platforms
  - A need to increase customer loyalty

Panama
- Largest bank has 65 branches
- 850 shared ATMs (many in branches!)
- 12,000 prepaid airtime resellers

Philippines
- 1,000 branches
- 7,000 ATMs
- 25,000 POS terminals in stores
- 1.1 million prepaid airtime resellers

Mobile operators’ role in the delivery of financial services

- Cash in/out network
- Electronic messaging
- Account management
- Account issuance
- Investment of funds

Mobile as channel: Wizzit, WAP
Mobile as transaction acquisition network: Claro in Nicaragua (planned)
Outsourced service operation: Smart Money, MTN Money, Orange Money
Ownership of service: M-PESA, G-Cash

What’s important for regulations to permit

- Authorize non-banks to issue & market store-of-value accounts
  - Fully backed by, and hence as safe as, bank deposits
  - Licensed and supervised (operational & technology risks)
- Allow for immediate account opening
  - Tiered or point-based KYC requirements
- Transactions at retail outlets should occur on a prepaid, real-time basis
  - Retail outlets are not branches
  - Regulatory concerns arise only from branding & delegated KYC

Don’t prescribe business models

- Test & learn through tailor-made regimes
- Flexible rules on outsourcing
- It’s too early to mandate interoperability
- Technology-neutral regulation

What’s really different about mobile money?

- Use of mobile phones as a payment instrument
  - Bank cards
  - Internet banking
- Store-of-value accounts issued by a non-bank
  - PayPal
- Stores as cash in/out points
  - Merchant cash-back
  - Insurance brokers

What’s new?

- Dependence on large telcos
  - Competition aspects
  - Long-term commitment
- Social risks arising from mass increase in financial inclusion
  - Unwise use of financial services
  - “Too big to close”
- Proliferation of banking outlets
  - Implications for bank runs

- Ownership of service: M-PESA, G-Cash
A more complete value chain for microfinance: New commercial & partnership models required

Financial Service Providers
Inter-temporal products

Micro e-payment platform
Real-time payments

Retail outlets
Cash handling

M-PESA created a compelling proposition for customers

Identifying the needs

- Marketing concrete use case(s)
- Making the customer experience simple, tangible and consistent
- Building and incentivizing the retail channel

Fulfilling the promise

- Address the pain points of cash:
  - Remote payments are hard
  - It’s unsafe to travel with cash
  - It’s difficult to hang onto small cash balances
  - It does not build up a financial history