



Product Innovation and Access to Finance

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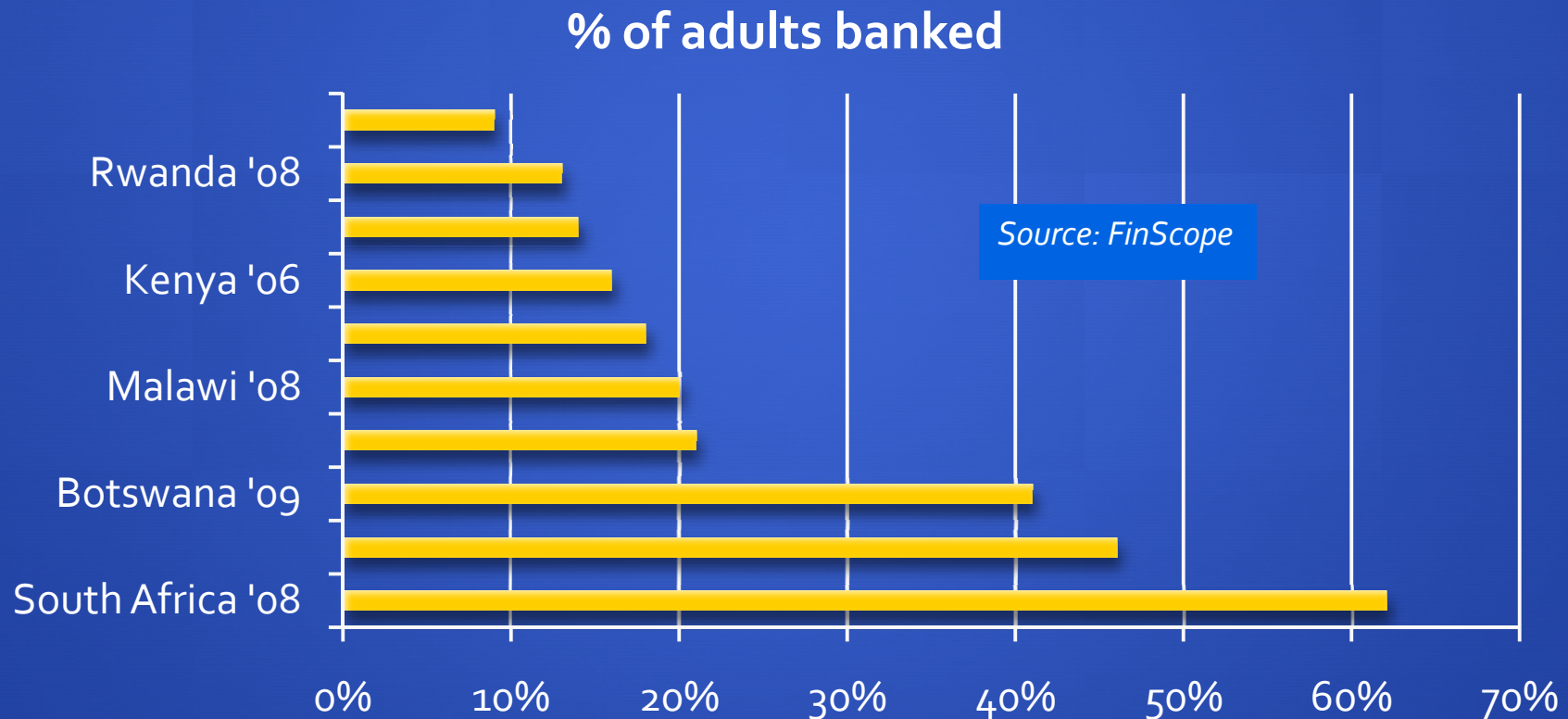
Structure

- Banking & access to finance
- Challenges in “banking the unbanked”
- New business models – mobile phone & branchless banking
- Regulatory issues & implications
- Supportive conditions for new products to reach the unbanked

Access to finance is recognised as important...

- Supports economic growth by boosting savings & investment
- Improves overall economic efficiency, by making financial intermediation more efficient
- Promotes more inclusive growth, with lower poverty and inequality
 - Enables the poor to better manage their money, accumulate savings from small sums, to borrow to finance investment, and to insure against losses

Access to banking is often low in sub-Saharan Africa



Characteristics of the unbanked

- Low income
- Irregular / volatile income
- Unemployed or irregular employment
- Dependent upon social welfare grants and/or private remittances
- Low wealth/assets
- Save by accumulating small sums
- Predominantly rural, although often mobile geographically
- Low education
- Limited capacity to pay fees/transaction costs for financial services

Conventional banks not well suited to meeting needs of the unbanked

- Branch-based
- Expensive infrastructure (IT, bricks & mortar)
- Expensive staff
- High fixed & operational costs
- Focus on larger, more profitable transactions
- Geared towards wealthier customers, regular employment & incomes
- Not well suited to low value txns, poor clients, low density markets – fixed txn & overhead costs too high

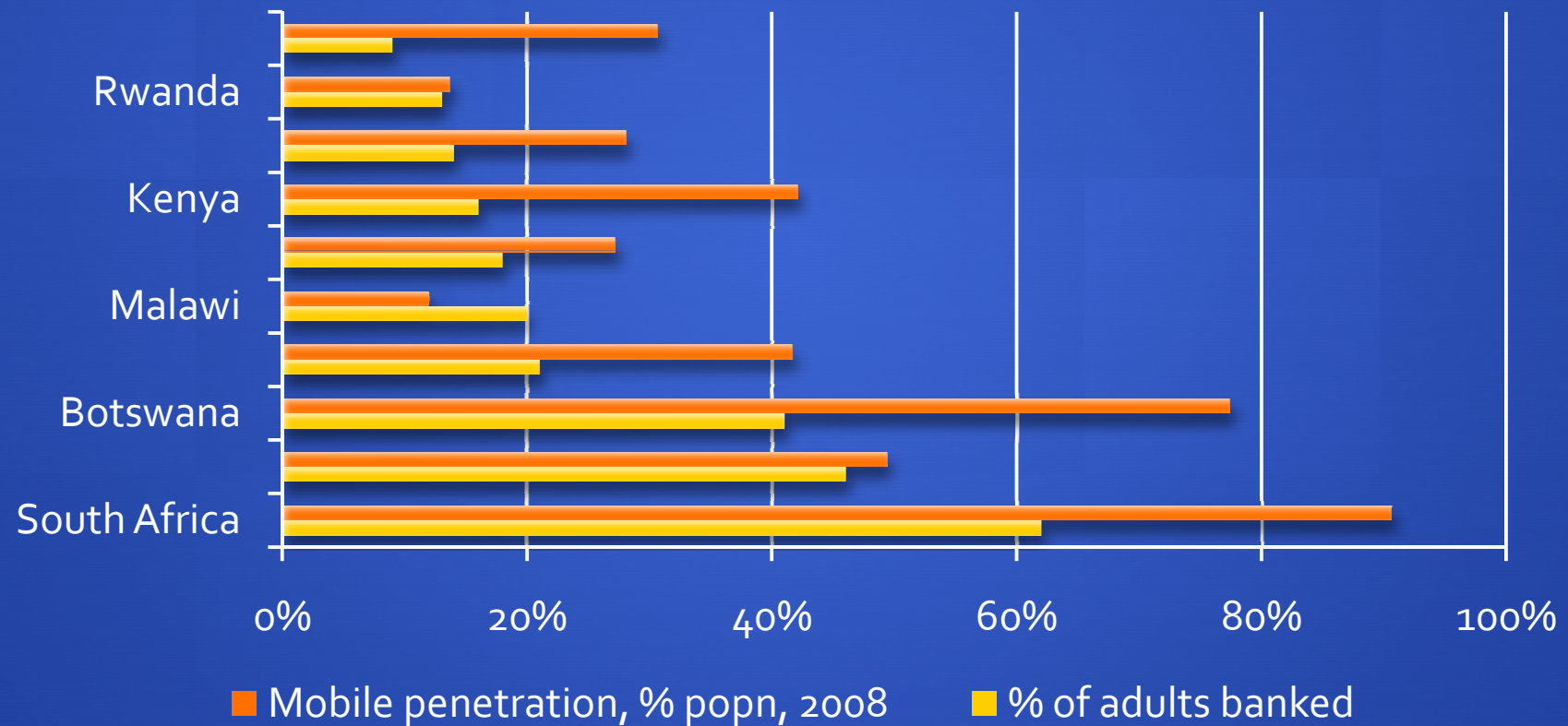
“Banking the unbanked” requires new business models & approaches

- Low fixed per-customer & transaction costs
- Shift towards variable costs/commissions
- Technology-based
- Distribution structure highly fragmented (“granular”), low volume per outlet, and low cost
- Convergence between financial services and telecomms
- Shift towards branchless/agency banking

Mobile network operators well-placed to provide low cost financial services

- Experience in low-cost high-volume services
- Prepaid airtime -> stored value
- Secure sim-based front end can be extended to financial services
- Back-end tx processing systems can encompass financial services - & cheaper than banking systems
- MNOs have widespread agency networks
- Agents have KYC experience
- Rapid technological change -> falling costs
- Build on MNO marketing/brands

Cellphones more widespread than access to banking in SSA



Banking & Transactions Needs

Remote

Proximity

Money
trans-
fers
P2P

Bill
pmt
P2B

Wel-
fare
pmts/
pen-
sions
G2P

Mer-
chant
pmts
B2B

Loan
rep &
saving
P2F

In-
store
pmts
P2B

Cash
deps/
with-
drawal
s

E-
money
issua-
nce

Key New Products

- **MMT (P2P)**
 - M-Pesa (Kenya) – 7 million customers
 - M-Pesa Kenya-UK
 - MTN mobile money (Uganda, Rwanda, Ghana)
- **P2P & P2B**
 - Zain Zap (Kenya, Uganda, Tanzania)
- **Other**
 - MMT services in Sierra Leone, Somalia, Senegal, Madagascar, Nigeria
- **Full mobile banking**
 - Wizzit, MTN (South Africa)

Two main business models

- **Mobile phone-based services**
 - Phone as terminal
 - Very widespread
 - PIN-based security
 - Well-suited to remote transactions – esp. MMT
 - Does not need bank partner except as service provider

- **Card/POS systems**
 - Merchant-based systems
 - More restricted outlets (POS terminals)
 - Well suited to agency/branchless banking
 - Security advantages (biometrics)

Key Requirements & Innovators

● Requirements

- Telecomms network
 - SIM/Smartcards
 - Retail/agency network
 - Terminal devices (phone/POS)
 - Access to banking services & settlement system
- Does not require developed banking infrastructure

● Innovations

- Innovation being driven by MNOs and technology companies
- Banks only needed to provide support services (trust accounts & access to settlement system)
- Regulatory decisions crucial in determining business models
- Progress in challenging environments (Somalia, Sierra Leone, Afghanistan, DRC)

Variety of firms involved & business structures

Transformational (unbanked customers)

- MNO only
 - M-Pesa
- MNO/bank JV
 - Zain Zap
- Technology co/bank JV
 - Smartswitch (Botswana)
 - Wizzit (SA)

Additive (existing customers)

- Bank only
 - Internet banking

Meeting the Needs of the Unbanked?

- Requirements for branchless/mobile banking to be transformational:
 - Use existing infrastructure that already reaches unbanked people (e.g. mobile networks)
 - Driven by new players with different target markets to traditional banks (e.g. MNOs)
 - Use new distribution networks for cash transactions (e.g. airtime sellers)
 - Offer lower-cost solutions than conventional banking (yes)

Regulatory Requirements

- **Issues:**
 - Banking license required?
 - Payments service provider (PSP) or e-money license?
 - Balancing prudential regulation and consumer protection
 - Balancing a supportive enabling environment with risk reduction
 - Implementing AML regulations

Regulatory Requirements

- **Outcomes**
 - Regulatory gaps – innovation ahead of regulation
 - No consistent regulatory position
 - “hands-off” (Kenya)
 - Full bank control (South Africa)
 - Main concerns are with consumer protection:
 - Trust account backing for card/phone balances
 - System integrity (safeguards against IT failure & fraud, audit trails, DRP, handset/card security)
 - Agency network trust/reliability

Supportive Conditions for Cellphone / Branchless Banking

- Low financial penetration, high cellphone penetration
- Balanced political influence of banks and MNOs
- Important role for remittances
- National ID system in place
- Government supportive – shifting payments to new platforms
- Accommodating regulations
 - Simple & flexible regulatory structure
 - MMT not deposit-taking – regulate as PSP
 - Regulate low value deposits as e-money
 - Focus on consumer protection - few systemic issues
 - Allow outsourcing of banking services (retail/agents)
 - Flexible AML/KYC

Thank You