BANK FOR INTERNATIONAL SETTLEMENTS

Payment aspects of financial inclusion

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* Views expressed are those of the author and not necessarily the views of the BIS

Organisation of the report - deepen knowledge, advance action and measure results

- Introduction

  Mandate, transaction accounts, and barriers to access & usage
- Retail Payments Landscape

  Overview of the payments landscape from a financial inclusion perspective
- Core Analysis: The Framework

  The framework for enabling access and usage of payment services by the unserved or underserved
- Guidance

  Guiding principles and recommended key actions for consideration
- Measurement

  Measuring the effectiveness of financial inclusion efforts

Key premises of the CPMI-WB report

The report is premised on two key points:

- Efficient, accessible, and safe retail payment systems and services are critical for greater financial inclusion
- A transaction account is an essential financial service in its own right and can serve as a gateway to other financial services

Objectives of financial inclusion efforts

Ideally, all individuals and businesses – in particular, micro-sized and small businesses - which are more likely to lack some of the basic financial services or be financially excluded than larger businesses – should be able to have access to and use at least one transaction account operated by a regulated payment service provider:

- to perform most, if not all, of their payment needs;
- to safely store some value; and
- to serve as a gateway to other financial services.

Transaction accounts – cornerstone for providing electronic payment services

- People worldwide have a need to make and receive payments in their daily lives
- Cash is often the only option available
- => importance of making transaction accounts available
- Transaction accounts are defined as accounts held with banks or other authorised and/or regulated service providers (including non-banks) and can be "deposit transaction accounts" or "e-money accounts"
- Transaction accounts can be used to make and receive payments and to store value

Financial inclusion – the benefits for the national payments system (NPS)

- Continuous modernisation and improvement of payment systems and services requires significant upfront investments. Broader adoption and usage of transaction accounts increases the viability of such investments
- Channeling of larger volumes of payments through transaction accounts increases the overall efficiency of the NPS
- Payments-related legal reforms that originated in financial inclusion goals can also trigger positive developments for the NPS as a whole
- All these positive effects can, in turn, further improve conditions for access to and usage of transaction accounts, therefore resulting in a virtuous circle

Barriers to access to transaction accounts

- High fees and low income levels
- Indirect costs
- Economic and labour informality
- Insufficient attention to gender-specific aspects, cultural and religious needs and beliefs and limited awareness and financial literacy
- Poor design of transaction accounts and related payment services
- Customers' perception of transaction accounts being unsafe

Foundations and pillars

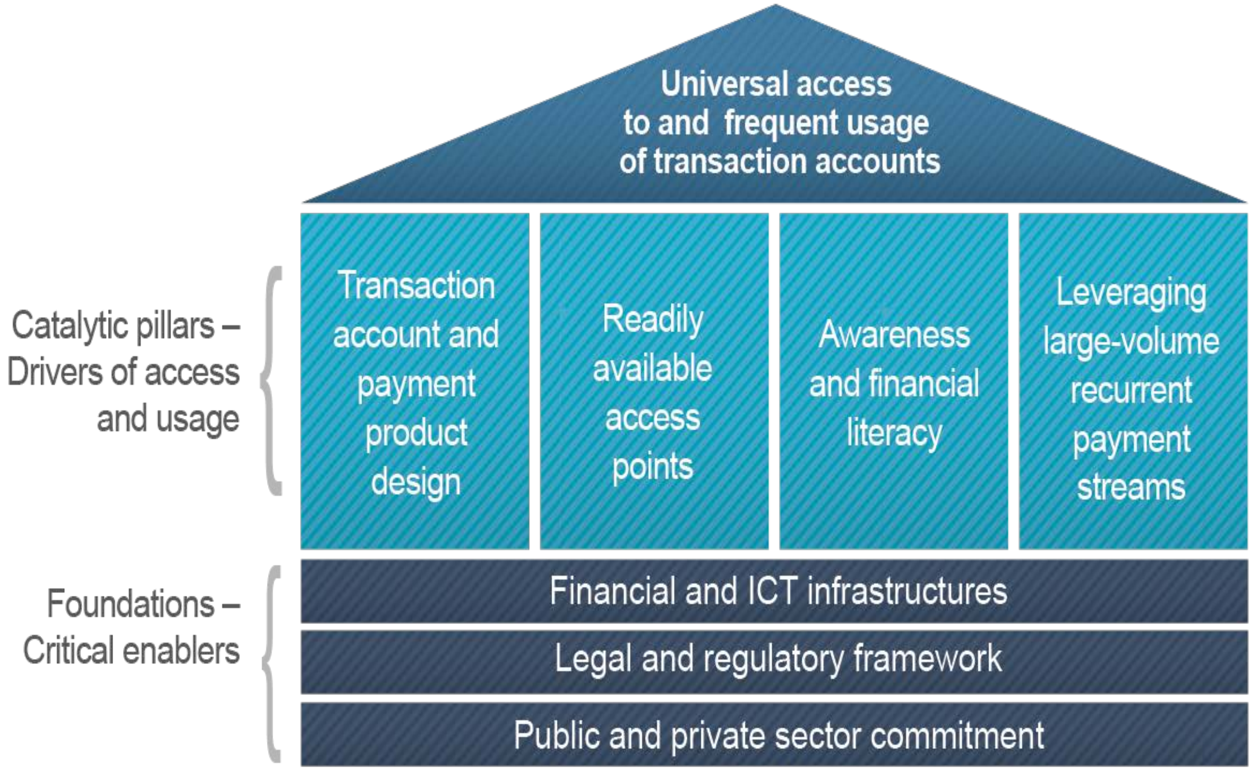
Foundations:

- Critical enablers for payment systems and the provision of payment services in general
- Specifically, however, they are important for the access to and usage of transaction accounts.

Catalytic pillars:

- Based on the foundations, catalytic pillars form the drivers for access and usage.

Interrelation of foundations, catalytic pillars and effective usage



PAFI Guidance: foundations – critical enablers

- Guiding Principle 1: Public and private sector commitment
- Guiding Principle 2: Legal and Regulatory Framework
- Guiding Principle 3: Financial and ICT Infrastructures

Guiding Principle 1:
Commitment from public and private sector organisations to broaden financial inclusion is explicit, strong and sustained over time

Key actions

- All relevant public and private sector stakeholders support the objective that all eligible individuals – regardless of culture, gender or religion – and businesses should be able to have and use at least one transaction account, and develop an explicit strategy with measurable milestones to that end
- All relevant public and private sector stakeholders allocate the appropriate human and financial resources to support financial inclusion efforts
- Central banks, financial supervisors, regulators and policymakers effectively coordinate their efforts with regard to financial inclusion

Guiding Principle 1 (cont):
Commitment from public and private sector organisations to broaden financial inclusion is explicit, strong and sustained over time

Key actions

- Private sector stakeholders engage with relevant public sector counterparts on initiatives that promote the adoption and usage of transaction accounts, and financial inclusion more broadly
- Private sector stakeholders cooperate constructively and meaningfully with each other to discuss and find solutions to issues that are best addressed by the industry as a whole
- Central banks, in line with their roles, responsibilities and interests in fostering the safety and efficiency of the payments system, leverage their catalyst, oversight, supervisory and other powers as relevant and appropriate to promote financial inclusion

Guiding Principle 2:
The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition

Key actions

- A robust framework is established to foster sound risk management practices in the payments industry, including through the supervision/oversight of PSPs and PSOs by regulatory authorities
- The framework requires PSPs and PSOs to develop and implement risk management measures that correspond to the nature of their activities and their risk profile
- The framework aims to promote the use of transaction accounts in which customer funds are adequately protected through appropriate design and risk management measures, such as deposit insurance or functionally equivalent mechanisms, as well as through preventive measures

Guiding Principle 2 (cont):
The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition

Key actions

- The framework requires PSPs to clearly disclose, using comparable methodologies, all of the various fees they charge as part of their service, along with the applicable terms and conditions, including liability and use of customer data
- The framework requires PSPs to implement a transparent, user-friendly and effective recourse and dispute resolution mechanism to address consumer claims and complaints
- The framework preserves the integrity of the financial system, while not unnecessarily inhibiting access of eligible individuals and businesses to well regulated financial services

Guiding Principle 2 (cont):
The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition

Key actions

- The framework promotes competition in the market place by providing clarity on the criteria that must be met to offer specific types of service, and by setting functional requirements that are applied consistently to all PSPs
- The framework promotes innovation and competition by not hindering the entry of new types of PSP, new instruments and products, new business models or channels – as long as these are sufficiently safe and robust

Guiding Principle 3:
Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services

Key actions

- Key payments infrastructures are built, upgraded or leveraged as needed to facilitate the effective usage of transaction accounts
- Additional infrastructures are appropriately designed and operate effectively to support financial inclusion efforts by providing critical information to financial service providers, including an effective and efficient identification infrastructure, a credit reporting system and other data-sharing platforms
- The geographical coverage of ICT infrastructures and the overall quality of the service provided by those infrastructures are enhanced as necessary by their owners/operators so as to not constitute a barrier for the provision of transaction account services in remote locations

Guiding Principle 3 (cont):
Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services

Key actions

- Increased interoperability of and access to infrastructures supporting the switching, processing, clearing and settlement of payment instruments of the same kind are promoted, where this could lead to material reductions in cost and to broader availability consistent with the local regulatory regime, in order to leverage the positive network externalities of transaction accounts
- Payment infrastructures, including those operated by central banks, have objective, risk-based participation requirements that permit fair and open access to their services

Guiding Principle 3 (cont):
Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services

Key actions

- Financial and ICT infrastructures leverage the broad usage of open/non-proprietary technical standards, harmonised procedures and business rules to enhance their efficiency and therefore their ability to support transaction accounts at low costs
- The safety and reliability of financial and ICT infrastructures, including their resilience against fraud, are tested on an ongoing basis and are enhanced as necessary to keep up with all emerging threats for holders of transaction accounts, PSPs and PSOs

PAFI guidance: Catalytic pillars – drivers of access and usage

- Guiding Principle 4: Transaction account and payment product design
- Guiding Principle 5: Readily available access points
- Guiding Principle 6: Awareness and financial literacy
- Guiding Principle 7: Large-volume, recurrent payment streams

Guiding Principle 4:
The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost

Key actions

- Where reasonable and appropriate, PSPs provide a basic transaction account at little or no cost to all individuals and businesses that do not hold such an account and that wish to open such an account
- PSPs offer transaction accounts with functionalities that, at a minimum, make it possible to electronically send and receive payments at little or no cost, and to store value safely
- PSPs leverage efficient and creative approaches and effective management practices in their efforts to offer transaction accounts and functionalities in a commercially viable and sustainable way

Guiding Principle 4 (cont):
The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost

Key actions

- The payment services industry, operators of large-volume payment programs and other stakeholders recognise that the payment habits and needs of currently unserved and underserved customers are likely to differ, and therefore engage in market research and/or other similar efforts to identify and address those payment habits and needs
- PSPs work to ensure that the payment needs of the private and public sector entities with whom holders of transaction accounts regularly conduct payments are met as well
- PSPs work to ensure that the products that target unserved or underserved population segments are easy to use
- PSP efforts to continuously improve their transaction account offering include both traditional as well as innovative payment products and instruments

Guiding Principle 5:
The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels

Key actions

- PSPs provide convenient access to transaction accounts and services by offering an effective combination of own and third party-owned physical access points (eg branches, ATMs, POS terminal networks and agent locations), and of remote/electronic access channels (mobile phones, internet banking etc)
- PSPs work to provide service levels at various access points and channels that are reliable and of high quality (PSP agents have the necessary liquidity and are equipped with effective tools to service transaction accounts users reliably and in an efficient manner, ATMs are highly reliable etc), and that opening hours are broadly aligned with customers' transacting needs

Guiding Principle 5 (cont):
The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels

Key actions

- The payments industry works on ensuring that access points and channels are appropriately interoperable, further contributing to expanding the reach of available service access points and the overall convenience to holders of transaction accounts
- PSPs adequately train their own front office staff and their agents to understand and appropriately address cultural, gender and religious diversity when servicing holders of transaction accounts
- The payments industry monitors access channels and access points and their usage to obtain an accurate picture of the availability and proximity of service points to the different population segments

Guiding Principle 6:
Individuals gain knowledge, through awareness and financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services

Key actions

- All relevant public and private sector stakeholders engage in ongoing and effective educational and outreach to support awareness and financial literacy with an appropriate degree of coordination
- Awareness and financial literacy efforts specifically address how payment and store-of-value needs can be met through the usage of transaction accounts. In this context, individuals that do not have a transaction account and those that obtained one only recently are a primary target of these financial literacy efforts
- Awareness and financial literacy efforts make it possible to easily obtain clear and accurate information on the various types of account that are available in the market, on the general account opening requirements, and on the types of account and service fee that may be encountered

Guiding Principle 6 (cont):
Individuals gain knowledge, through awareness and financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services

Key actions

- Awareness, financial literacy and financial transparency programs make it possible for transaction account users to easily obtain clear and accurate information on the risks embedded in the usage of these accounts, how the costs in using the associated services can be minimised, how the potential benefits can be maximised, the basic security measures associated with these accounts, and the overall obligations and rights of PSPs and users
- PSPs emphasize hands-on training where needed as part of a product roll-out, particularly for users with limited first-hand exposure to electronic payment services and the associated technologies

Guiding Principle 7:
Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts

Key actions

- Ad hoc incentives are considered, where appropriate, to foster adoption and usage of transaction accounts for large-volume and recurrent payments, including not only government payment programmes but also government collections and utility bill payments, transit fare payments, employer payrolls and, where relevant, remittances.
- PSOs and PSPs take into consideration the needs and requirements of the key counterparties involved in large-volume payment streams, such as employers, large-volume billers, the national treasury and others in the design and provision of the related payment services
- The government considers making its G2P and G2B payments through a choice of competitively offered transaction accounts that meet the payment and store-of-value needs of the recipients so that these accounts are useful to them

Guiding Principle 7 (cont):
Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts

Key actions

- The government enables and encourages individuals and businesses to make their P2G and B2G payments through electronic means in order to, among other objectives, increase the overall usefulness of transaction accounts
- Medium-sized and large firms, along with government entities, consider disbursing salaries and other payments to employees via transaction accounts at the PSP of the employees' choice
- The payments industry pro-actively seeks new ways to make transaction accounts a competitive and convenient option for usage in connection with all large-volume payment streams

Measuring the effectiveness of financial inclusion efforts: a payments perspective

- Keeping track of financial inclusion implementation efforts is essential to determine whether the actions adopted are being effective in helping to achieve the underlying objectives.
- A comprehensive financial inclusion results framework is characterized by the following elements:
  - thematic alignment with key policy pillars and actions
  - development of key performance indicators (KPIs)
  - setting quantitative KPI targets, including baseline values and timeline for achievement
  - reliance on robust data source

Sample financial inclusion core and supporting indicators

	Indicator	Global data source	Potential breakdown
Examples of core national indicators	% of adults that own a transaction account	Global Findex (2011, 2014)	Target population, region
	% of adults using a transaction account to make / receive payments	Global Findex (2014)	Target population, region
	% of adults using a transaction account for P2P, P2B, G2P	Global Findex (2014)	Target population, region
Examples of supporting national indicators	# of financial access points per 100,000 adults, and per 1,000 square kilometres	IMF Financial Access Survey (FAS)	Type of financial access point
	% of districts with a financial access point	MIX FinClusion Lab	Type of financial access point
	% of adults living within 5 km of a financial access point	FSP Maps	Type of financial access point
	# of cashless retail payments per capita	WBG Global Payment Systems Survey	Type of payment
	% of adults citing documentation as barrier to account ownership	Global Findex (2011, 2014)	Target population, region
	% of adults citing cost as barrier to account ownership	Global Findex (2011, 2014)	Target population, region
	% of adults citing distance as barrier to account ownership	Global Findex (2011, 2014)	Target population, region
	% of government payments delivered through electronic channels	Country sources	G2P, G2B, G2B, and by programme

The PAFI report

- The report was released in April 2016 and can be found at

  www.bis.org/cpmi/publ/d144.htm

A few questions

- What is the role of central banks in promoting access to financial services?
- What can central banks do to put the 7 Guiding principles into practice?
- How can central banks help to ensure that every person has access to a transaction account?