



Branchless Banking for Inclusive Finance: CGAP Technology Program

August 2007

Agenda

- CGAP and CGAP Technology Program
- Branchless Banking: Overview
- Branchless Banking: Models
- CGAP Work

CGAP: Who we are

- Global resource center on access to finance
- Established 1995
- 33 members
- Housed at World Bank
- Incubate innovations, set standards, and convene
- Advise financial service providers, policy makers, regulators and donors on inclusive finance
- Four year technology program



Technology Program

Learn how technology can expand access to finance

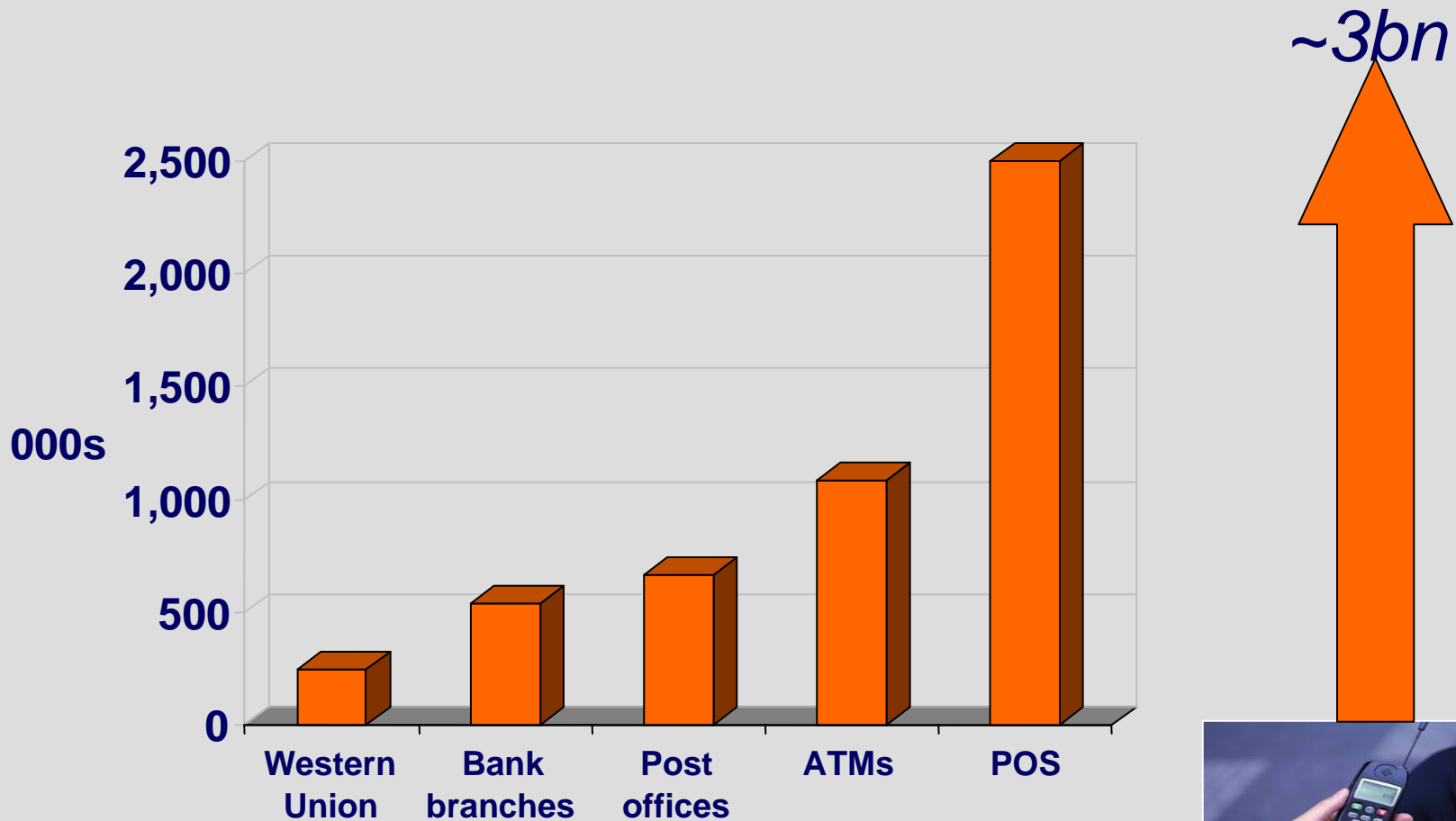


- Support from Bill & Melinda Gates Foundation
- Advise and finance 20-30 banks, mobile operators, MFIs, others
- Conduct 10+ “branchless banking” policy diagnostics
- Communicate lessons and stimulate the market to use technology to deliver financial services to the unbanked poor

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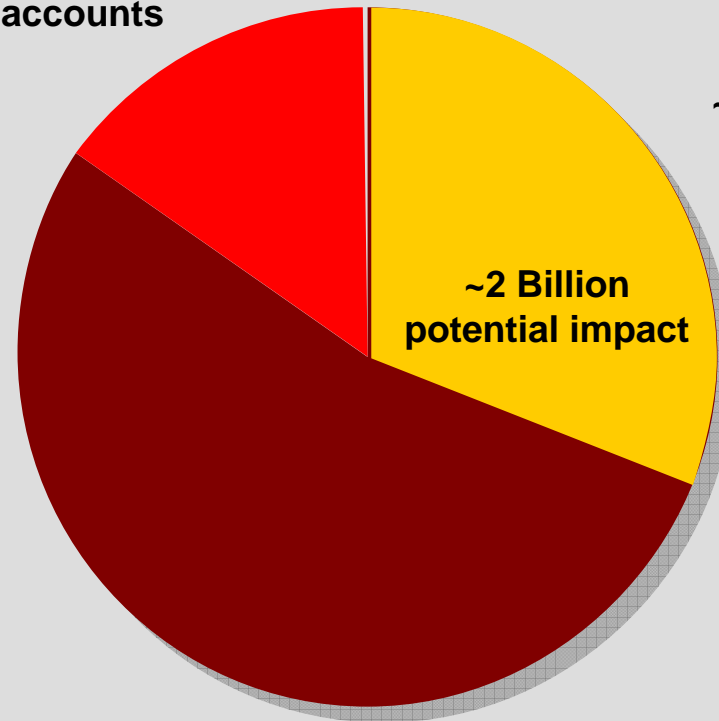
Why technology? Exponential reach



Sources: Western Union, VISA, World Bank, UPU 2006, GSMA, Wireless Intelligence

Potential impact of mobiles

1 Billion have
bank accounts



~3 Billion mobile
phones
(and growing)

6.5 Billion
World Population

Source: CGAP Estimates

Branchless Banking: what do we mean?



Branchless banking: Delivery of financial services beyond traditional bank branches using technology and cash-handling agents

Make serving the unbanked *profitable* for providers and more *affordable* for clients.

Branchless banking: how does it work?

Payment technology (mobile, point of sale terminal) is paired with a retail outlet which acts as agent of provider for account opening and cash-in / cash-out

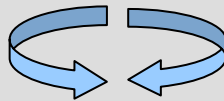
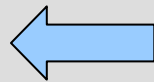


Provider



Sample withdrawal transaction

1. Agent balance

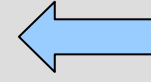


4. Settle accounts

Agent



2. KYC docs



3. Cash + receipt

Client



Benefits along the value chain

Provider



- Change economics of serving low-income clients
- Leverage agent infrastructure to reduce capex to expand
- Enable rapid drive to volume

Brazil banks: 6 mil new clients via agents in 6 yrs

Agent



- Increase walk-in business
- Decrease cash-on hand
- Fee revenue from bank
- Differentiated service offer

Brazil: 54% of clients who do banking also buy goods

Client



- Comfort of dealing with corner merchant
- Proximity of service point saves time and cost

Brazil: 90% of people use banking agents

Sources: CGAP analysis, CGAP representative study of banking correspondent usage, Pernambuco state, 2006

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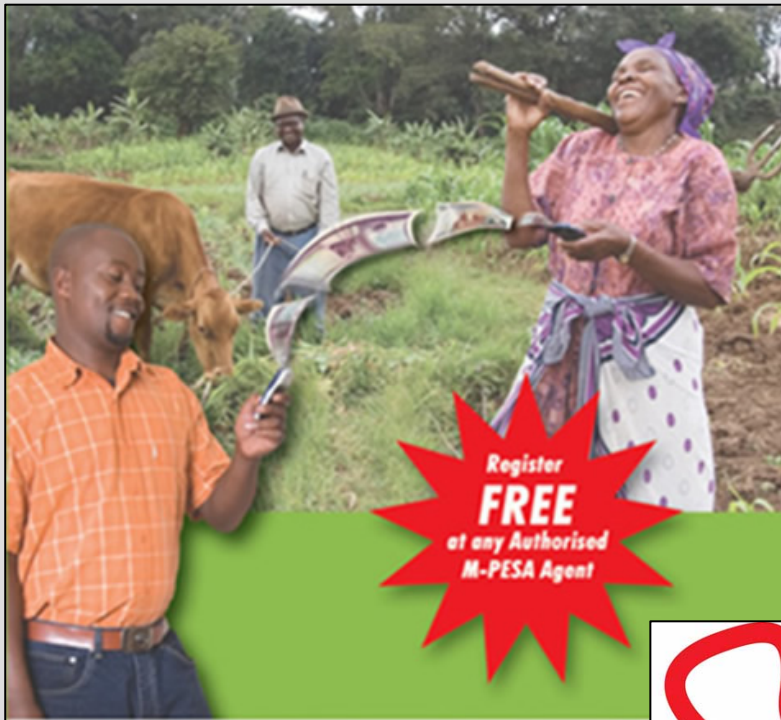
Three business models: Nonbank-led

Most models focus on payments

Technology bringing new players into the space

M-PESA: Kenya

- M-wallet accessed via phone
- Cash-in/out via airtime dealers
- 200.000 clients, 400 agents
- ½ the cost of West. Union
- Largely unregulated (so far)



Register
FREE
at any Authorised
M-PESA Agent



Sources: Safaricom, Vodafone, CGAP
February 2007 regulatory diagnostic

Business models: Bank-led



Caixa Economica

- 13.000 POS-equipped merchants acting as agents of 2nd largest bank
- Pension & social payments, utilities, savings, purchases all enabled
- Operates under 3 central bank circulars and supervision



Market impact

- Brazilian banks reach all 5561 municipalities with agents
- 12 mil accounts opened '02-'05
- US\$ 940 mil in transactions
- Replaced branches as #1 service pt



Sources: Caixa, Banco Central do Brasil, CGAP June 2007 regulatory diagnostic

Business models: Hybrid

MTN Banking

- JV b/w MTN and Standard Bank
- New account opening via OTA and 3rd party KYC check
- Mobile + Maestro debit card for purchases and cash-in/out
- Launched 2005, 150.000 users



WIZZIT

- Division of SA Bank of Athens
- Targets SA's 16 mil unbanked
- Sign-up clients via Exempt. 17
- Mobile + Maestro debit card + POs and some bank tellers
- Launched 2005, 125.000 users



Sources: MTN Banking, WIZZIT, CGAP March 2007 regulatory diagnostic

Three Business Models



	1. Bank-led	2. Hybrid		3. Nonbank-led
		JV	Service provider	
Account	Bank	Bank	Bank	Nonbank
Services	Payments (bills, G2P)	Payments (airtime, @ stores)	Payments (airtime, @ stores)	Payments (remittances)
Client acquisition	Branches & agents	Remotely via mobile	Via agents	Via agent
Device	No card, or with card	Mobile + debit card	Mobile + debit card	Mobile
Examples	Caixa, SBI, Tameer, Xac, Visa	MTN Banking	WIZZIT, Smart Money	M-Pesa, G-Cash

Promising, but Unproven for Providers and Clients

Agents (Brazil)

- 9 out of 10 people surveyed use agents
- But only 6% of users make deposits via agents
- 30% agent turnover in 2006

M-banking (South Africa)

- Users are still early adopters (~150,000)
- Perceived as costly (<14x actual price)
- Limited cash-in network in rural areas

Sources: CGAP's representative study of banking correspondent usage, Pernambuco state, 2006. "Mobile Phone Banking and Low-Income Customers," CGAP, UN Foundation, Vodafone Group Foundation, 2006.

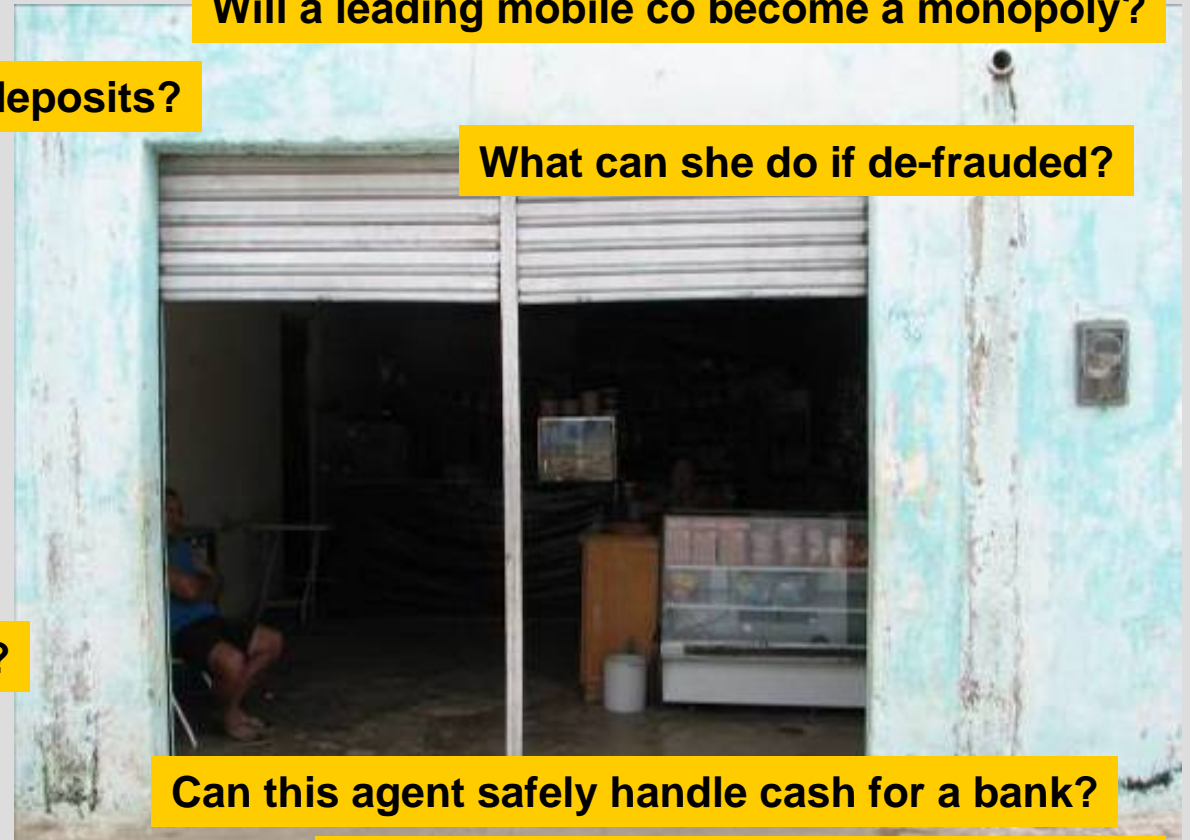
Regulation: are these approaches safe?

Is her PIN valid as signature?

Will a leading mobile co become a monopoly?

Should her telco be allowed to take deposits?

What can she do if de-frauded?



Should the telecoms regulator care?

Can this agent safely handle cash for a bank?


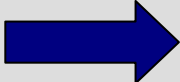

Access to payment systems for range of providers?

Are agents liable for meeting AML/CFT?

Are there FX constraints on transfers?

Source: "Use of Agents in Branchless Banking for the Poor: Rewards, Risks and Regulation," CGAP Focus Note 38, 2006.

Questions to date

- Which approach(es) will prove profitable and scalable for providers?  Business models
- Will low-income, mass-market clients see these as a trusted, affordable and convenient way to bank?  Customer adoption
- How should policymakers and regulators respond to foster innovation and safety?  Regulation

CGAP Technology Program aimed at these three areas of inquiry

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Clients: Pushing the frontier



Combining welfare payments and financial services (Vodafone)



Converting acquiring network into banking agents (Visa)

Clients: reaching remote areas



Reducing costs through mobiles
(XacBank)

An advertisement for GLOBE G-CASH, featuring the slogan "wallet na ang cellphone mo" and "P2P: PHONE-TO-PHONE". The ad shows a man using a mobile phone to send money to another man, and a woman using a mobile phone to send money to a man. The ad also includes a list of services: "PINO-REGALO", "PAMBAYAN", and "PAMBAYAN UPANG".

GLOBE G-CASH *wallet na ang cellphone mo*

P2P: PHONE-TO-PHONE
NGAYON NA WALLET NA ANG CELLPHONE MO. ANG DAU NANG MAG SEND NG G-CASH PHONE-TO-PHONE!

1 1000 1234 1 1000 1234 1 1000 1234

2 1000 1234 1 1000 1234 1 1000 1234

3 1000 1234 1 1000 1234 1 1000 1234

Only ₱1.00 per send.

Creating G-Cash ecosystems on
rural islands in Philippines

Clients: Special research on universal access

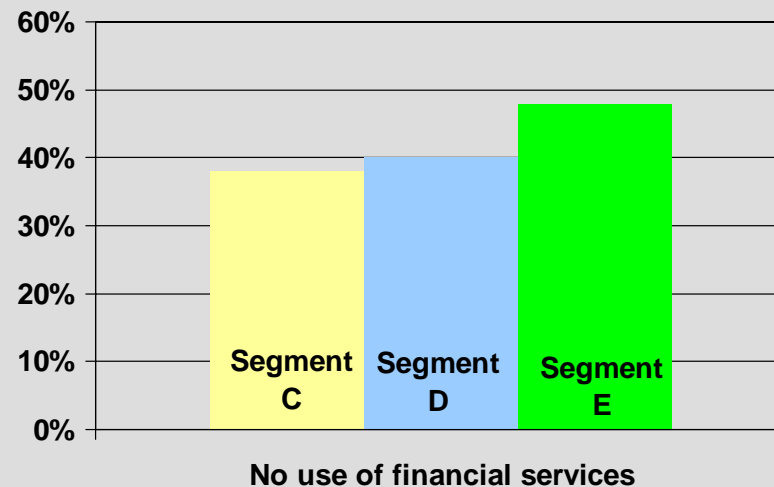
- User interface design for illiterates (MS Research and Nokia)
- Technology to deliver welfare payments + financial services (FSD Kenya)
- Use of cash in rural communities (Philippines and Kenya)
- Impact of social and cultural ties on banking isolated communities



Providers: banking agents reach new clients

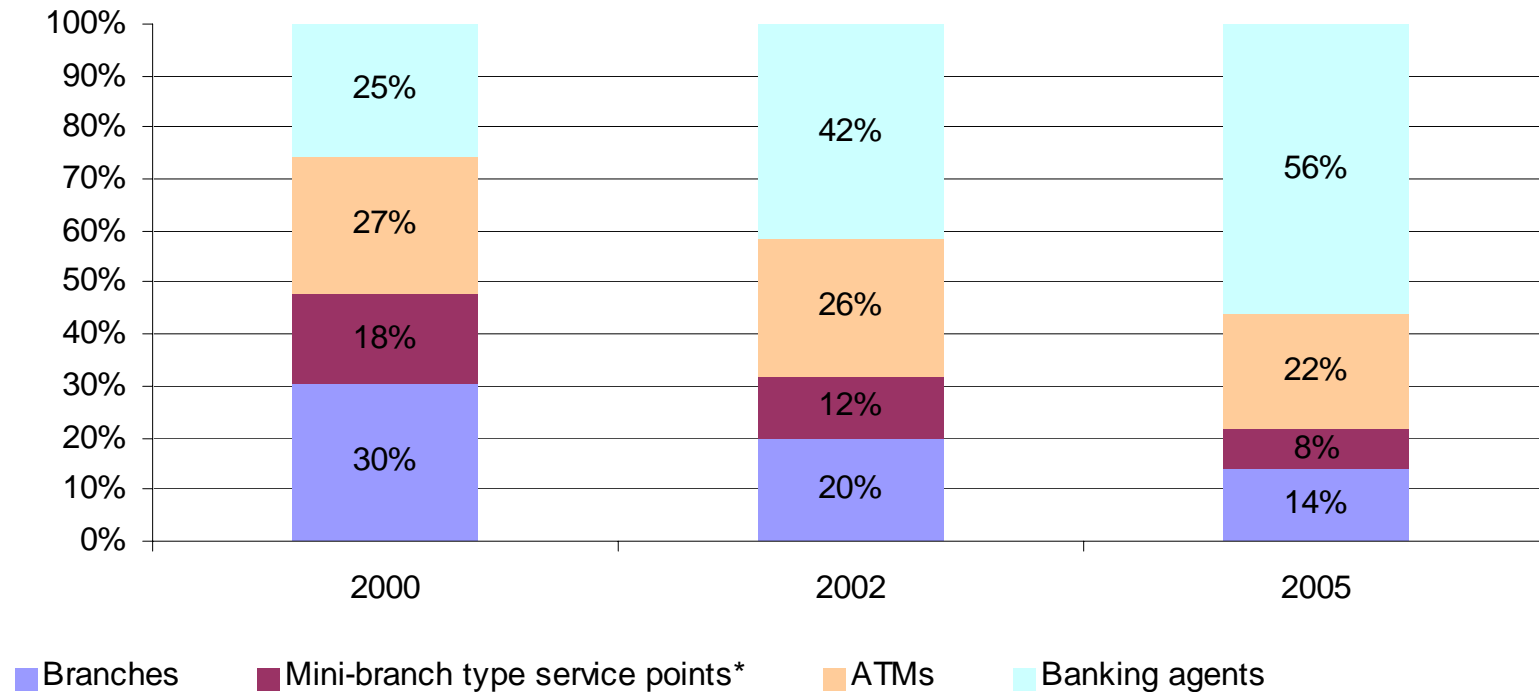
Brazilian banks:

- 39,000 merchants, post offices, lottery houses equipped with POS
- 6.3m bank accounts opened in last 5 years for previously unbanked
- Whereas banks primarily reached client segments A and B before, with agents they reach about half of even very poor clients.



Source: CGAP Pernambuco study, Banco Central do Brasil

Providers: agents change where people transact



Over the last 5 years, banking agents have become the main point of sale in the Brazilian financial system.

Source: FEBRABAN

* Mini-branches-type service points include "Posto Avancado Bancarios" inside large private or public companies to provide financial services to their employees, as well as "Posto Avancado do Atendimento", mini-branches in municipalities in which the bank does not have a branch.

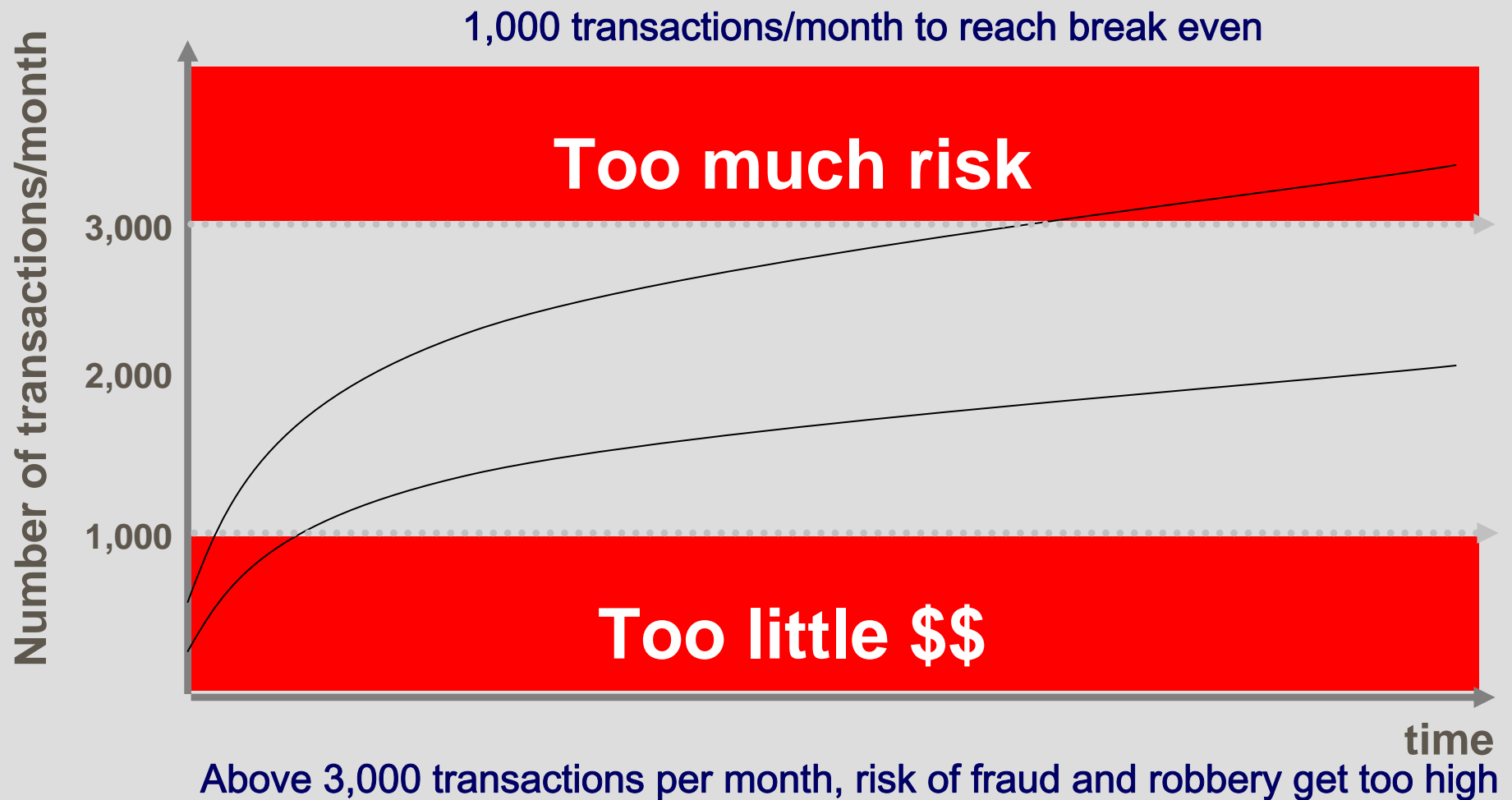
Providers: what do clients use it for?

- **Access is not the problem - banking agents are popular:**
 - Used by 90% of sample, especially in urban areas
 - 50% primarily used branches before
 - Illiterates show same profile as literates
- **But agents are used for limited set of products:**
 - Mostly bill payments, pension payments and social benefits



Source: CGAP Pernambuco study 2006

Managing Risk: too much vs. too little



Source: CGAP analysis; Interview with Netchash representative, November 2006

Regulation of Branchless Banking: Four Themes

1. Policymakers and regulators have an interest in promoting experiments with branchless banking

Financial sector deepening is pro-growth, and pro-poor

- Financial sector development correlates strongly with growth
(Schumpeter, 1942, Levine et al, 2000, Beck et al 2006)
- Access to finance yields reduced vulnerability for the poor, and improved nutrition, health and education *(CGAP FN 24, 2004)*
- 30% of cross-country variation in poverty due to variations in financial sector development *(Beck et al, 2007)*

Source: CGAP policy diagnostics in 7 countries Jan. – July 2007
(Brazil, India, Kenya, Pakistan, the Philippines, Russia, South Africa)

Regulation of Branchless Banking: Four Themes

2. Existing regulation both over- and under-protective.

Overprotective

- Tight control over deposit-taking can freeze out most motivated to innovate (e.g. mobile operators)
- Rules-based orientation to AML/CFT can keep out the poor

Underprotective

- Lack of payment system law leaves central banks without authority to reserve entry, monitor and enforce
- Lack of e-commerce laws leaves providers at risk
- Lack of coordination mechanisms among policymakers

Source: CGAP policy diagnostics in 7 countries Jan. – July 2007
(Brazil, India, Kenya, Pakistan, the Philippines, Russia, South Africa)

Regulation of Branchless Banking: Four Themes

3. To scale, proportional responses are needed on key issues

Threshold issues (today)

- Use of agents as principle intersect with cash economy
- Risk-based KYC that enables remote account opening
- Regulation of e-money
- Idiosyncratic issues (tax, labor)

Next generation issues

- Consumer protection
- Payment system regulation
- Competition policy

Source: CGAP policy diagnostics in 7 countries Jan. – July 2007
(Brazil, India, Kenya, Pakistan, the Philippines, Russia, South Africa)

Regulation of Branchless Banking: Four Themes

4. Developing appropriate regulation likely to be an iterative, learning process for regulators

- *Value of engagement with providers:* Understand risks and risk management techniques via monitoring and dialogue
- New players, models and risks call for *flexible responses* that may be provider-specific at first, but move ultimately towards *clear guidance for the market*
- Avoid *“over-protection”* that can blunt the business case and stifles innovation

Source: CGAP policy diagnostics in 7 countries Jan. – July 2007
(Brazil, India, Kenya, Pakistan, the Philippines, Russia, South Africa)



Australian Government
AusAID



Bundesministerium für
wirtschaftliche Zusammenarbeit
und Entwicklung



Building Financial Systems for the Poor



Thank you!



Argidius Foundation

FORD FOUNDATION



BILL & MELINDA
GATES foundation



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