

Payments Systems: an essential building block for financial inclusion

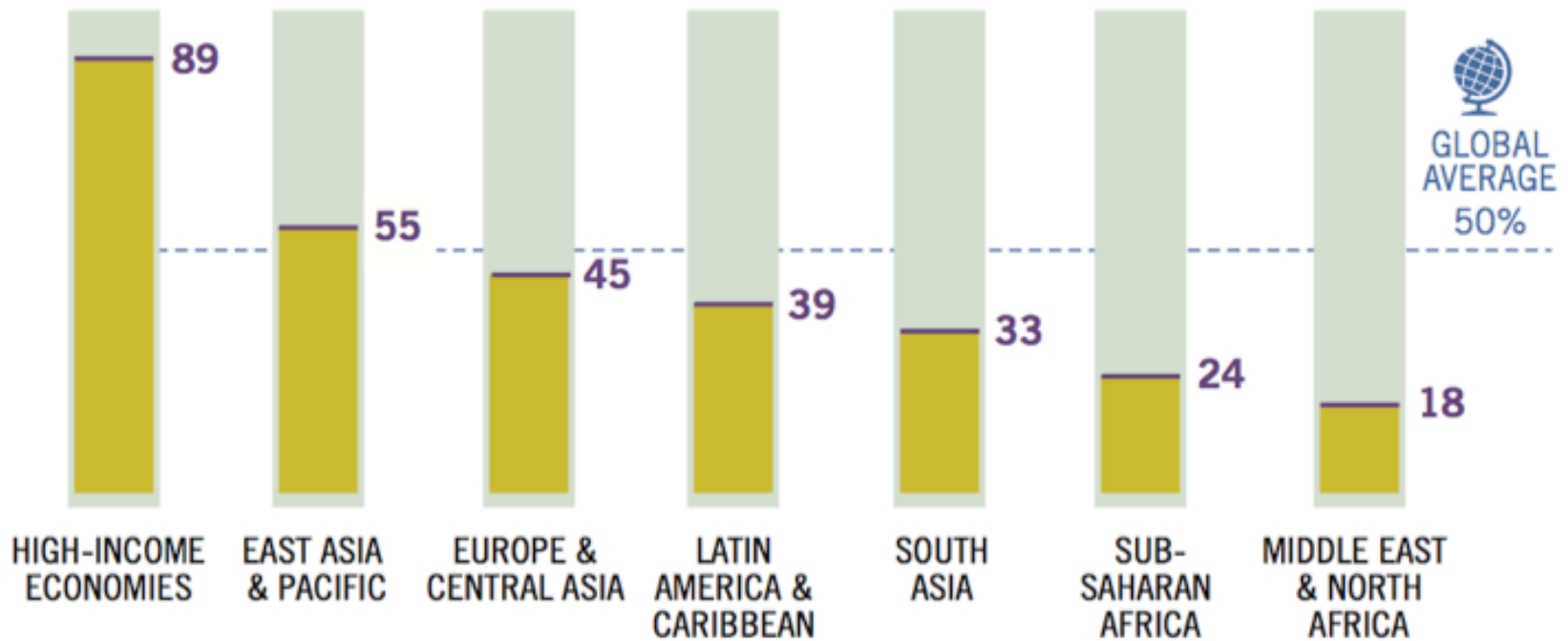
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Financial Exclusion is a Global Problem

Adults with an account at a formal financial institution (%)



The Importance of Financial Infrastructure

Payment and settlement systems facilitate access to financial services and the safe transfer of funds. PS can mitigate financial crises by reducing settlement risks

International remittance systems determine the price and efficiency of sending/receiving money by migrants to their families

Credit reporting systems reduce information asymmetries, support efficient credit allocation and strengthen risk management

A solid financial infrastructure serves both ACCESS TO FINANCE and FINANCIAL STABILITY

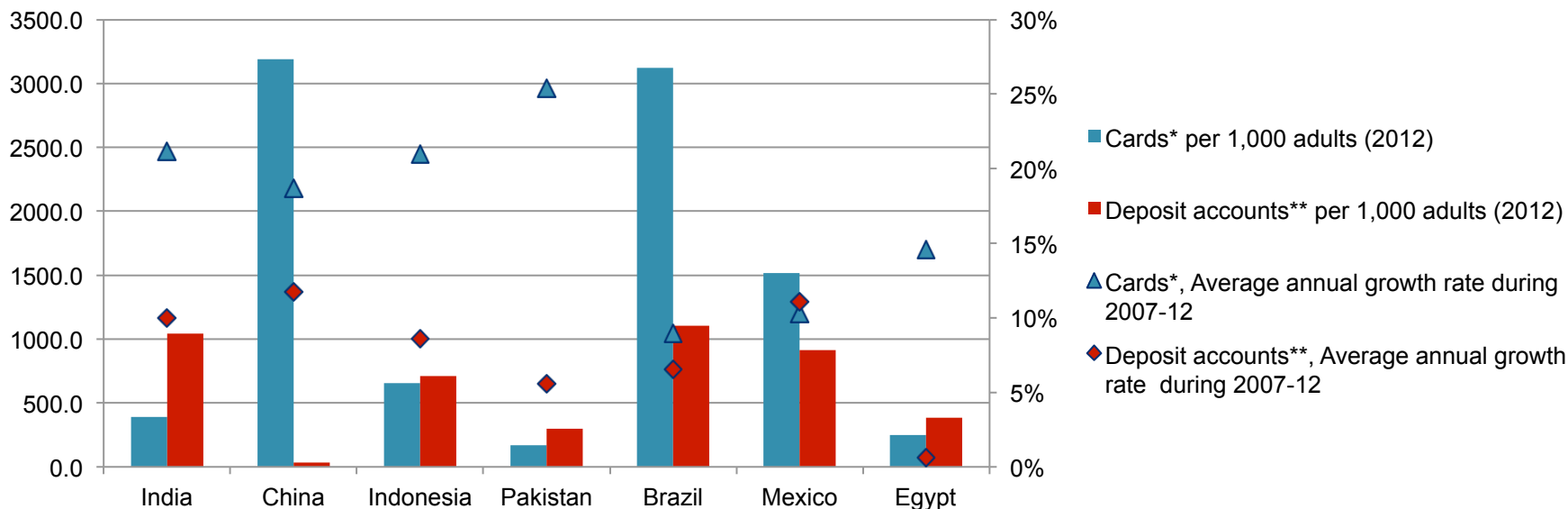


World Bank Group President **Jim Yong Kim**

- *“Universal access to financial services is within reach – thanks to new technologies, transformative business models and ambitious reforms”*
- *“As early as 2020, such instruments as **e-money accounts**, along with **debit cards and low-cost regular bank accounts**, can significantly increase financial access for those who are now excluded”*

What does it take to universal financial access?

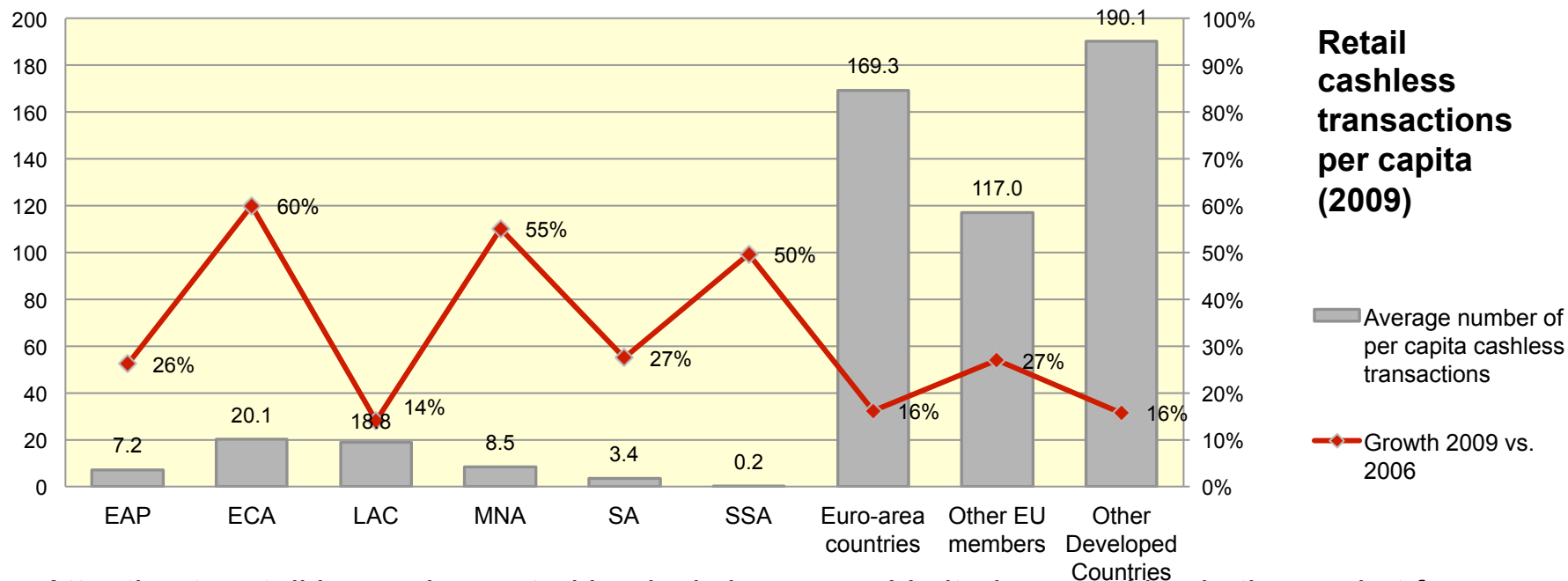
Transaction accounts per 1,000 adults



- ✓ Transaction accounts allow people – including the “unbanked” - to make and receive payments
- ✓ In some countries, payment cards outnumber deposit accounts, and may have penetrated into larger segments of population not yet served by commercial banking
- ✓ Supported by expansion of access points and channels
- ✓ Leveraging on government payments

Source: World Bank Global Payment Systems Survey (preliminary data), FAS, and FINDEX 2012. * Cards include debit, credit, and prepaid/stored value where available

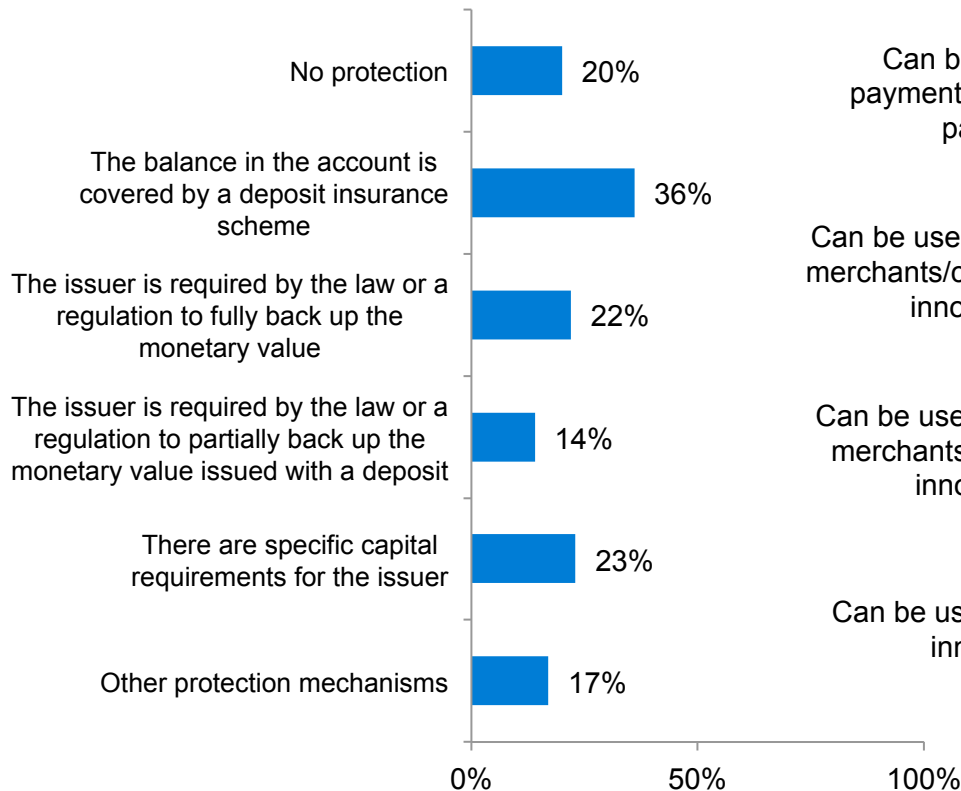
Retail payment systems are a necessary building block, but are lagging behind



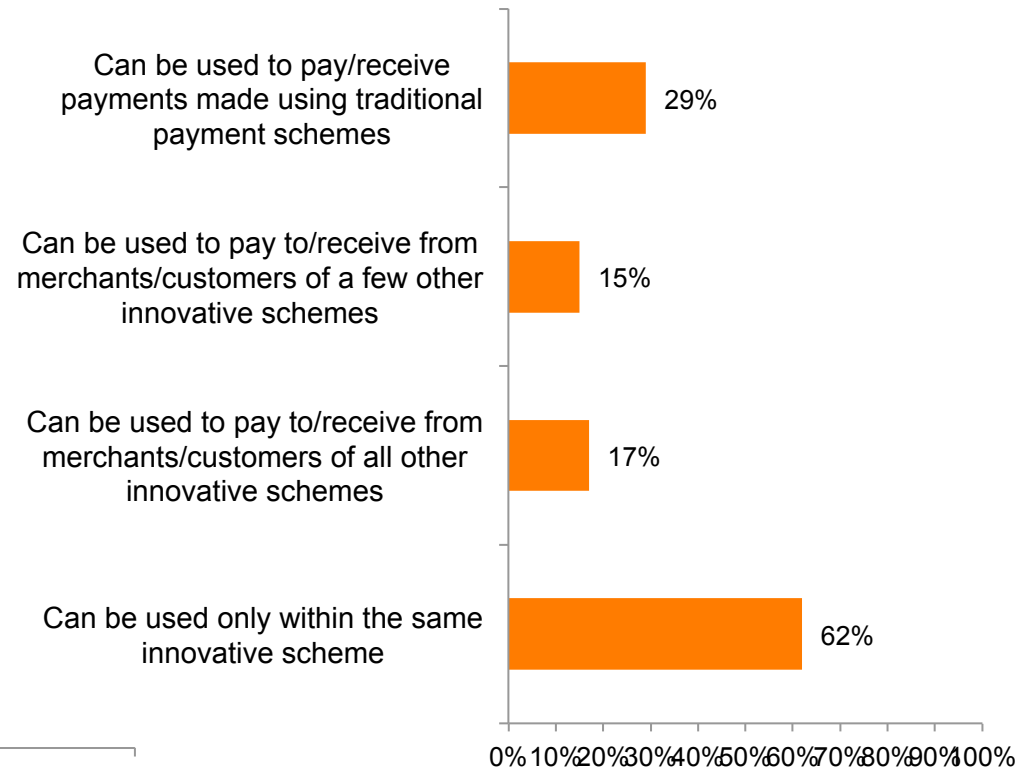
- ✓ Attention to retail issues by central banks is low
- ✓ Slow development of access channels to initiate and deliver cashless payments (e.g. POS terminals). Existing channels also not fully taken advantage of (e.g. ATMs).
 - › Further affected by limited interoperability
- ✓ Limited competition in the market for payment services
- ✓ The specific needs of the government/large billers not being addressed adequately – resulting in a preference for cash and cheques
- ✓ Limited access by individuals to modern payment instruments

Retail payment innovations: a potential yet to be realized

Insufficient consumer protection



Lack of interoperability

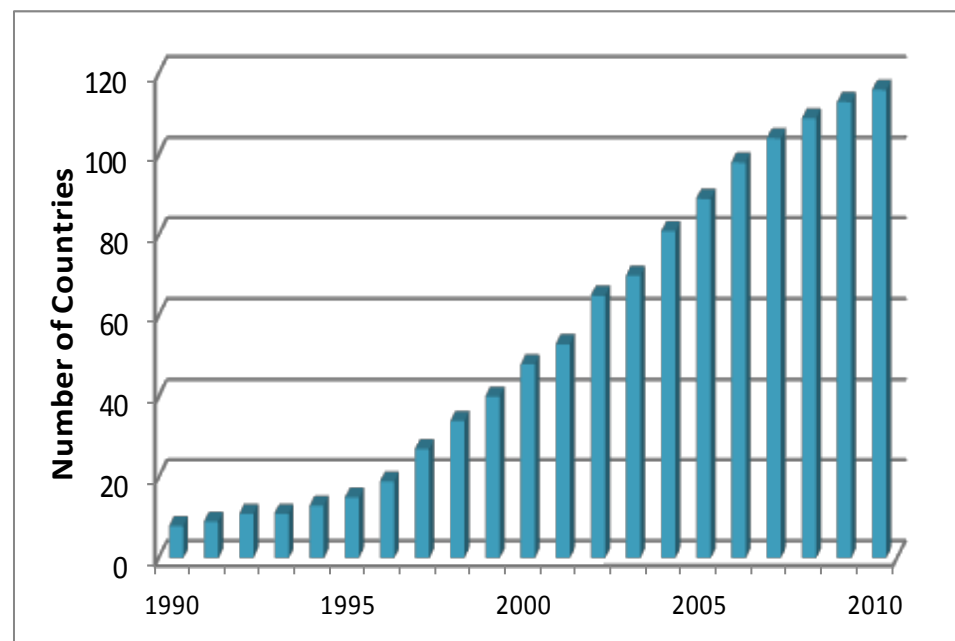


Source: WB Survey on Innovations in Retail Payment Systems, 2010

Payment systems: the underlying foundations

- A poor national payments system imposes a constraint upon financial institutions in many developing countries, **hindering efforts to offer financial/payment services and to serve the underserved segments. It also creates risk that can threaten the stability of the financial system**
- **Payment systems** is the infrastructure established to facilitate the transfer of monetary value between parties. **Efficient payment systems support development and financial stability**

Adoption of RTGS systems worldwide from 10- in early '90s to 116+ in 2010 has led to improved risk management in interbank settlement and increased financial stability



Source: World Bank Global Payment Systems Survey 2010

The World Bank “Retail Package”

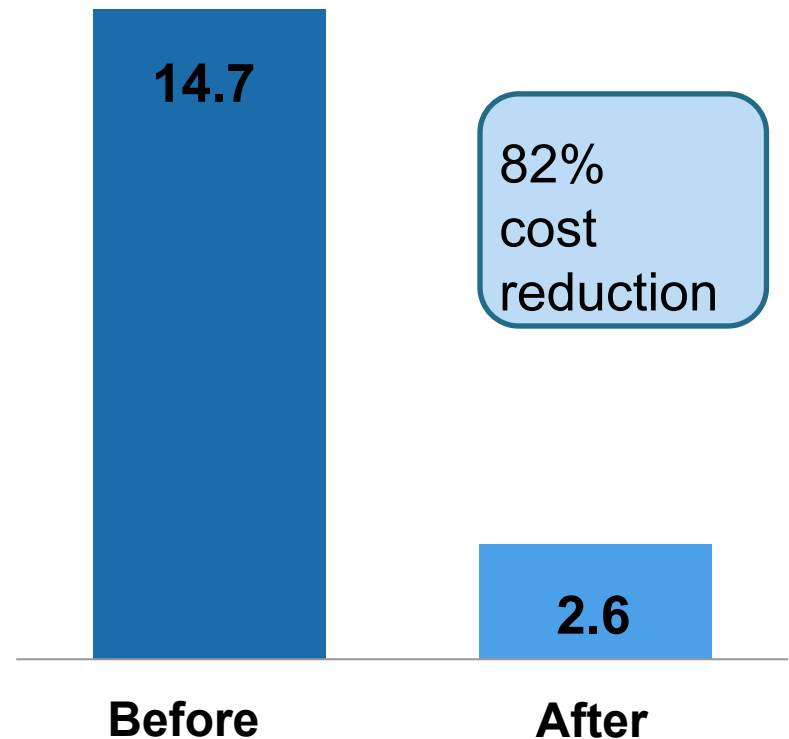
The World Bank has synthesized the lessons learned in more than a decade of technical assistance programs and research by other international /national agencies into a **comprehensive package for the development and reform of the national retail payments system**:

- “Developing a comprehensive national retail payments strategy” provides public authorities and retail payment market players with guidance on how to develop and implement a comprehensive strategic approach in retail payments reform and modernization initiatives
- “A practical guide to retail payments stocktaking” identifies a methodology for undertaking a detailed stocktaking of a country retail payments landscape;
- “From remittances to m-payments: understanding ‘alternative’ means of payment within the common framework of retail payments system regulation” discusses the development of a normative framework to underpin an efficient retail payments industry;
- “World Bank Survey on Innovative Payment Products” – prepared in the context of the World Bank Global Survey 2010 – analyzes the results of a survey on innovations in retail payment
- The World Bank “General Guidelines for the Development of Government Payment Programs” address the day-to-day operational challenges and provide recommendations on: Ensuring sound, efficient, and transparent management of public financial resources; Making government payment programs safe, reliable and cost-effective; Accelerating the development of national payments systems and promote financial inclusion

Government payment systems: enhancing efficiency and effectiveness for the society

- Regardless of a country's stage of economic development, all governments make payments to and collect payments from individuals and businesses. (15-45% GDP)
- However, **only 25% of low-income countries worldwide** process cash transfers and social benefits electronically
- By going electronic, governments **can save up to 75% on costs**, a significant amount in an era of stretched resources
- A 2010 study estimates that the Indian government could potentially save Rs 1,000 billion (1.6% of GDP) by moving all of its payments to electronic non-cash mechanisms (McKinsey)
- World Bank issued "General Guidelines for the Development of Government Payment Programs" by creating an Advisory Group

Bolsa Familia program (Brazil)
Cost of delivery as % of total

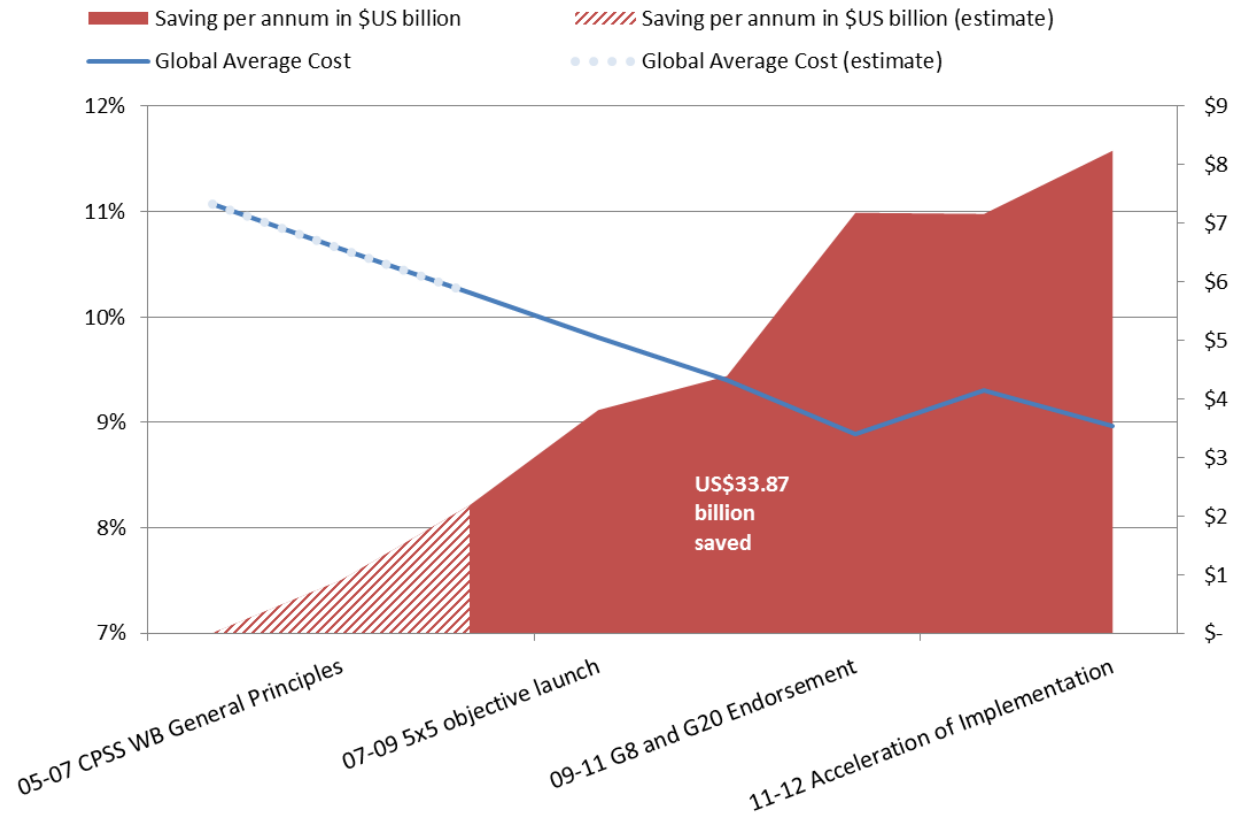


Integrating the agenda on remittances: why does it matter?

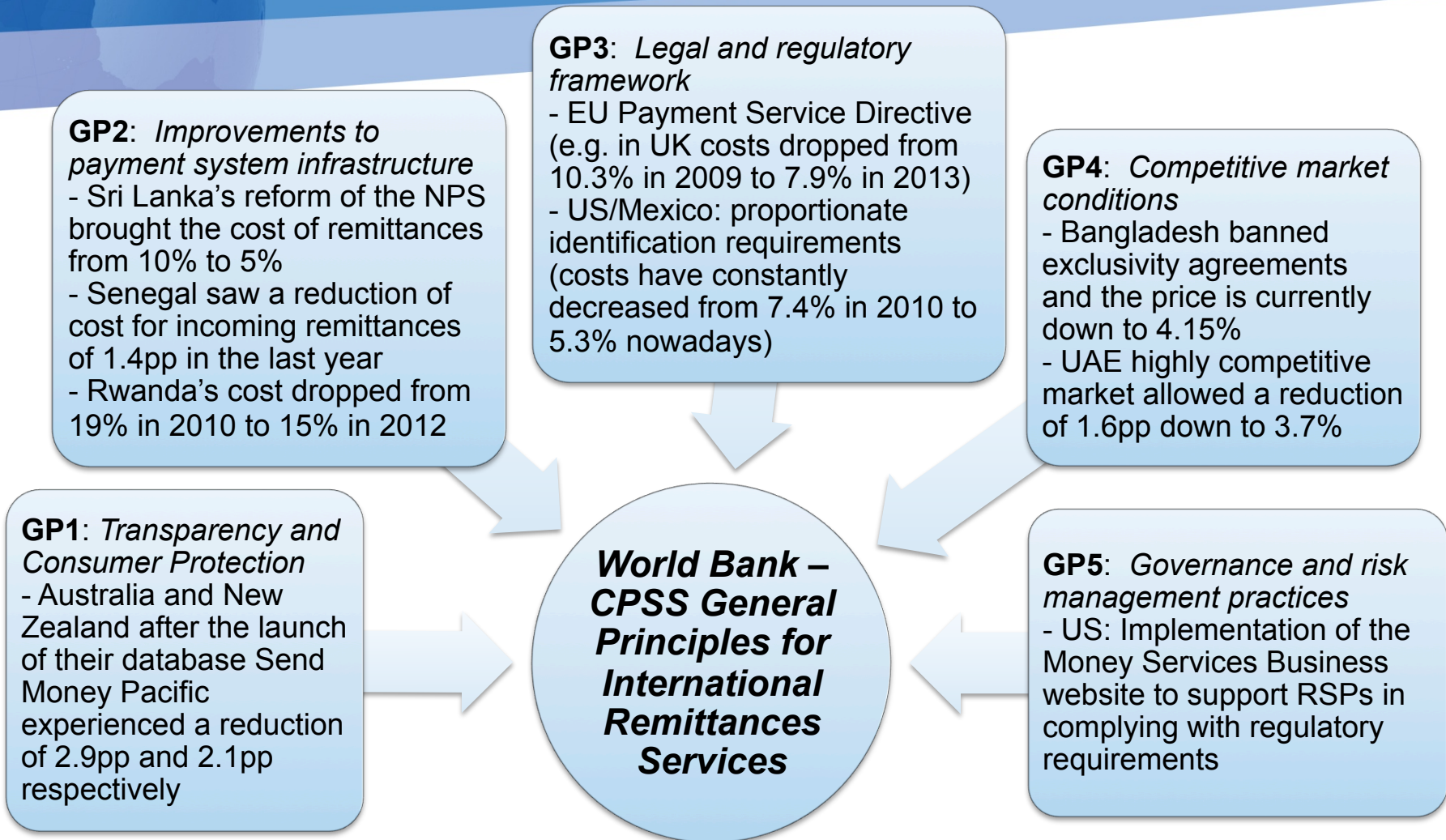
- Developing world expected to receive \$414 billion in migrant remittances in 2013, an increase of 6.3 percent over the previous year

- Remittances as entry point into other financial services

- Global efforts led by the World Bank matched with interventions at the country level are bringing down the cost of remittance services: estimated US\$ 33.87 billion saved



Source: Financial Infrastructure Service Line elaboration on Remittance Prices Worldwide data



Role of Remittance Service Providers	UK: implementation of an industry code of conduct
Role of Public Authorities	Italy: Creation of a Public and Private Sector forum to tackle relevant issues in the market Pakistan: Creation of the Pakistani Remittances Initiative

Success stories: the case of Rwanda

- More than 50 countries have now set financial inclusion targets, Rwanda being one of them
- Within 5 years the financial inclusion has almost doubled: from 21 percent of adults in 2008 to 42 percent in 2012
- In its 'National Payment System Framework and Strategy', the NBR stated the strategic importance of the NPS for economic growth and broader access to financial services, and to achieve the status of regional 'financial hub' and a steady increase in regional trade and finance
- With World Bank assistance, Rwanda made rapid strides towards a modern payments system that could support a growing economy and a more inclusive financial system. For example, in February 2011, an automated transfers system (ATS) known as 'Rwanda Integrated Payment Processing Systems' (RIPPS) was implemented. Though still very low (0.2 in 2009), cashless retail payment transactions per capita are growing exponentially
- Rwanda's remittance costs dropped by 4 percentage points from 19% in 2010 to 15% in 2012 also due to improvement of the payment systems infrastructure



Concluding remarks: promoting a holistic approach to financial inclusion

- Financial Inclusion is an objective of Payment Systems (financial stability is another one)
- To achieve Financial Inclusion objectives, a comprehensive strategy should be adopted to develop retail payments
- Leveraging on existing payment network, arrangements, and products
- Innovative payment solutions can help, but tackle only one piece of the value chain
- Government payments can play an important role

New and in the pipeline...

- **Oversight Handbook.** Project to systematize the foundational elements of PSS oversight, from general principles to operational issues. Addresses critical institutional and operational issues that need to be considered when defining overseers' responsibilities and functions. A practical tool in the hands of central banks
- Scaling up interventions to continue to **reduce the cost of international remittance services**
- **Third Global Payment Systems Survey.** Improved questionnaire adapted to PFMI framework. Covering 150 countries. New dissemination plans
- **Advisory Committee on Corporate Payments (ACCOP).** Committee to develop a conceptual framework for “corporate payments” and identify specific issues unique to this sector for inclusion in the development of NPS reforms
- **Financial Infrastructure Week (Shanghai, March 2014)**
- *...and many more...*



THANKS!