



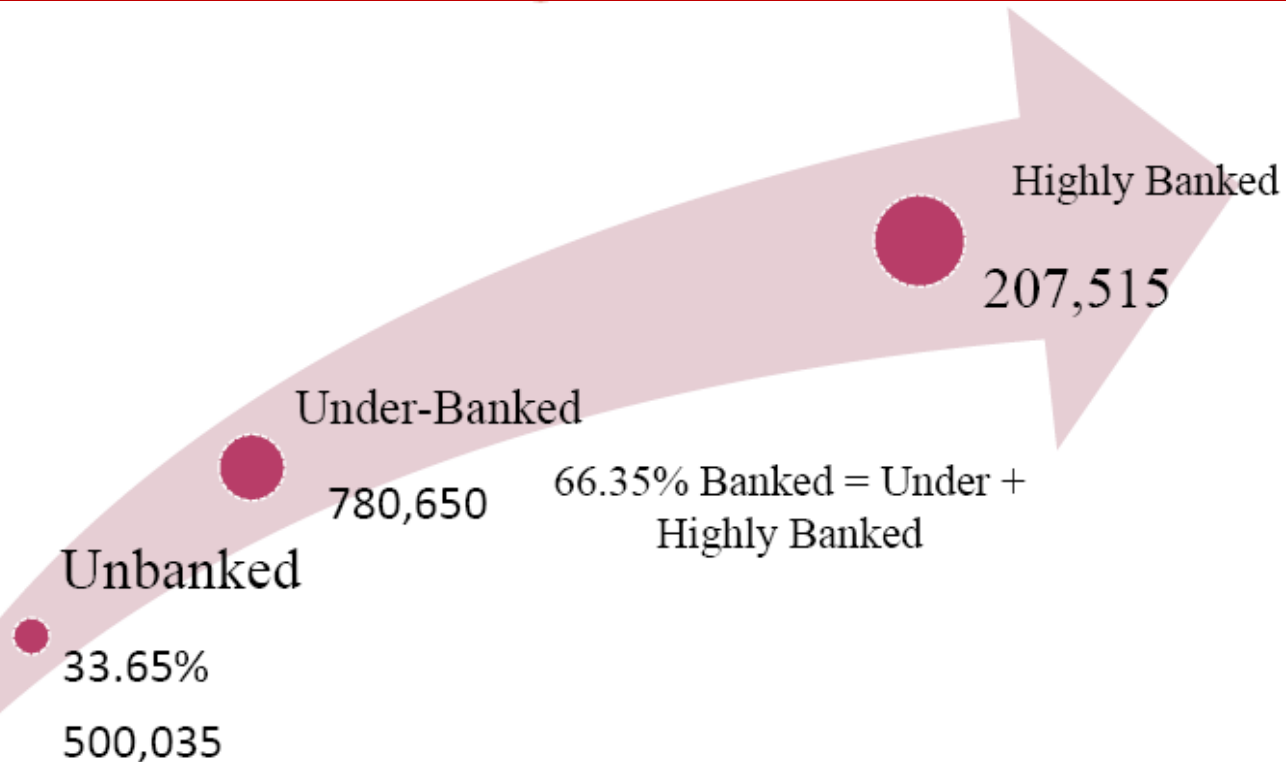
# Digital Financial Services Workshop

Panel Discussion: FINTECH 3.0 Getting  
the Regulatory Environment Right

# Topics

- **Context Matters!** Financial Inclusion in Jamaica
- **Institutions Matter!** Regulatory Effects – Enabler or Constraint?
- **Collaboration Matters!** Public-Private-Partnership Opportunities to Building Electronic Payments Ecosystems

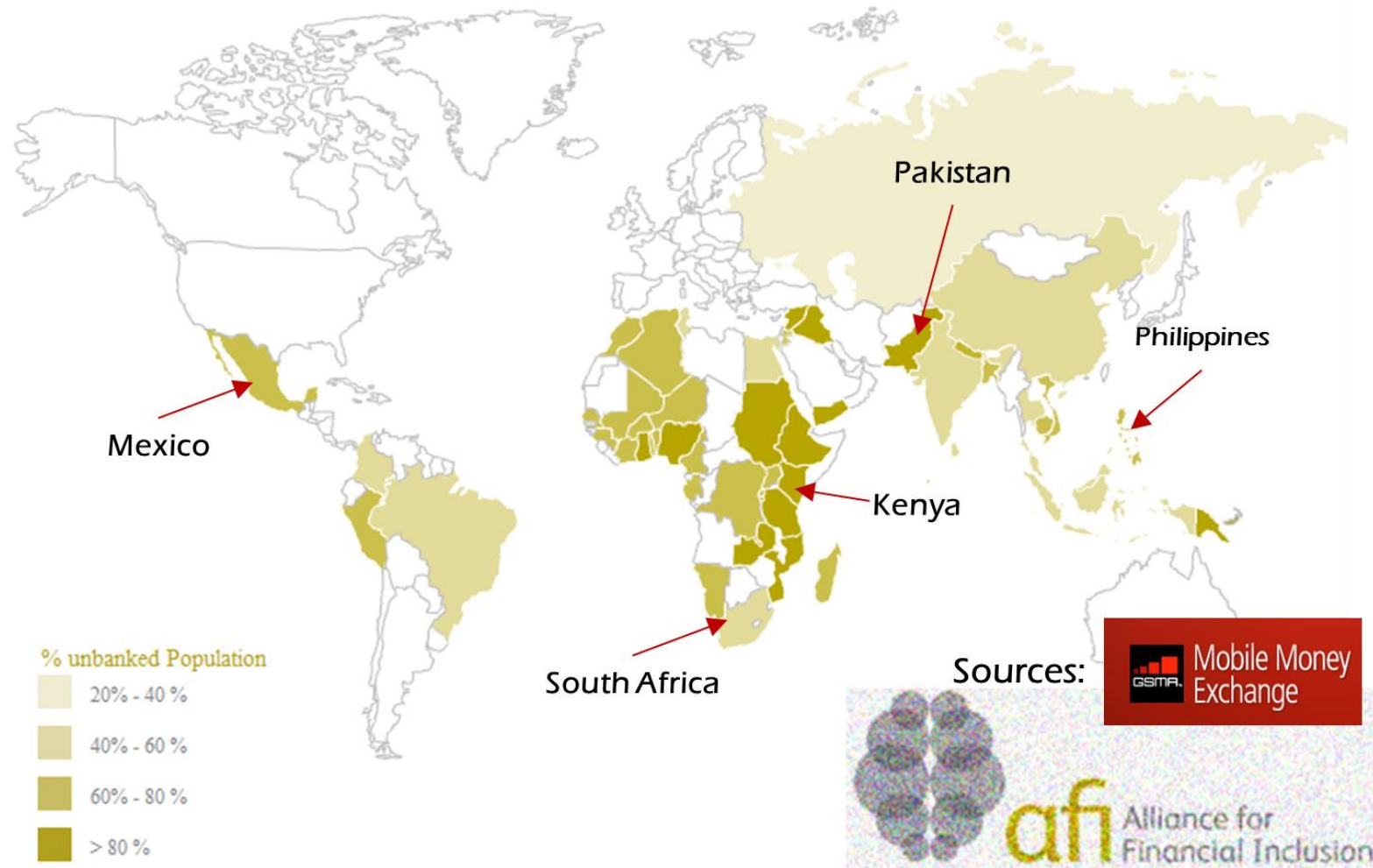
# UWI-led Research Findings (2011)



A randomly-selected, nationally representative sample of two thousand four hundred and seventy six (2476) respondents from all 14 parishes was surveyed using proportionate sampling

**Over 80% of adult Jamaicans have limited access to a low-cost, efficient and easily accessible payments channel**

# Unbanked Population and Mobile Financial Services



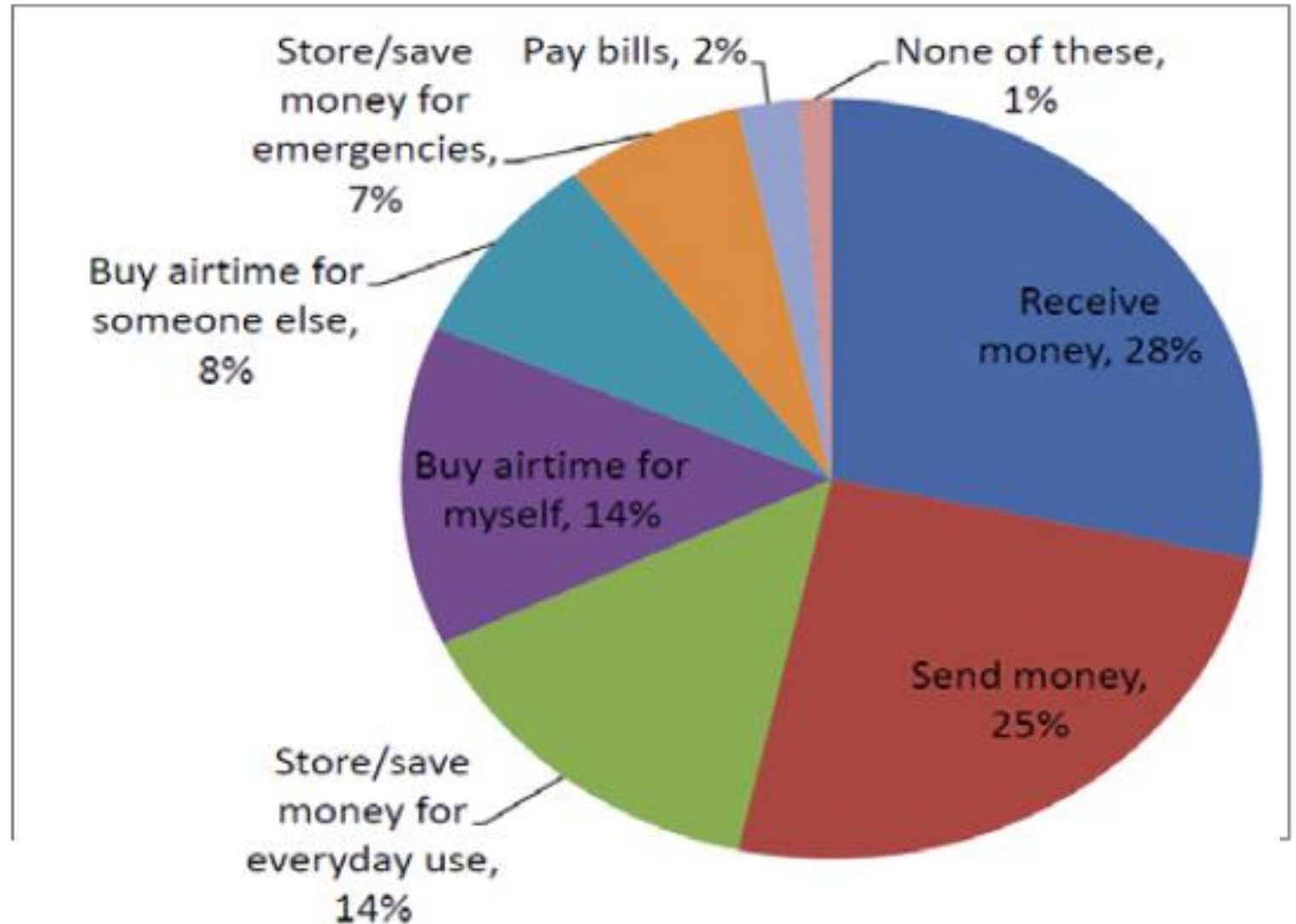
Strong correlation between countries with high levels of unbanked citizens and the impetus for mobile payments services

Jamaica is well-positioned in terms of mobile penetration and the value opportunity for establishing a more efficient way of delivering financial transactional services

# Mobile Financial Services in Kenya: *M-Pesa*

Dates	Key Events / Developments
Jun, 2006	Financial Access Survey of 2006 highlighted the very low reach of the traditional banking sector in Kenya <ul style="list-style-type: none"> <li>- 70% rural population; 19% Kenyans with bank accounts;</li> <li>- 1.5 bank branches and 1 ATM per 100,000 people</li> <li>- Mobile phone penetration ~30 percent and growing much faster</li> </ul>
Aug, 2006	Safaricom approaches the Central Bank of Kenya (CBK) regarding M-Pesa
Sep 2006 – Jan 2007	CBK conducts detailed assessment / due diligence of M-Pesa systems, risk mitigation program; Legal opinion determines that M-Pesa is not banking business
Feb, 2007	Safaricom issued a “Letter of No Objection” by the CBK
Mar, 2007	M-Pesa mobile phone-based payment and money transfer service, officially launched by Safaricom in March 2007
Jun, 2007	M-Pesa: 175,000 customers, 577 agents
May, 2008	2.5m active M-Pesa customers
Sep, 2008	4m customers, 4,230 agents; Survey of 3,000 M-Pesa users (shows high usage & product confidence)

# Mobile Financial Services in Kenya: M-Pesa



# Electronic Payment Services in Jamaica

Dates	Key Events / Developments
2011	UWI-led Research/Survey of 2011 highlighted value opportunity for mobile payments system in Jamaica: <ul style="list-style-type: none"> <li>- 65% banked, but only 14% with transactional accounts;</li> <li>- Bank Branch/ATM 6.64 per 100,000 people</li> <li>- Mobile phone penetration &gt;100 percent and growing</li> </ul>
Apr, 2013	Bank of Jamaica (BOJ) issues “Guidelines for Electronic Retail Payment Services“ - operating parameters for providers of electronic retail payment services ( <i>including mobile payments</i> ) - <b>defines electronic payments as being anchored in the Banking infrastructure</b>
Apr 2014 – Jul 2015	BOJ has received 13 applications from various entities for authorization to provide electronic retail payment services primarily using mobile devices.
Jun, 2014	<b>Banking Services Act</b> - Legislation provides Agent banking framework; enables commercial banks, other deposit taking institutions to use agents in delivery of banking services
Sep 2013- Dec 2016	Authorized Pilots / Trial testing of mobile banking services by several applicants: DBJ and Jamaica Co-operative Credit Union League , GKMS
Jul 2016 – Feb 2017	BOJ issues Licenses authorizing Launch of 3 mobile money services: CU CONEC, NCB Quisk, GKMPay

# Key Institutional Artifacts

## Kenya

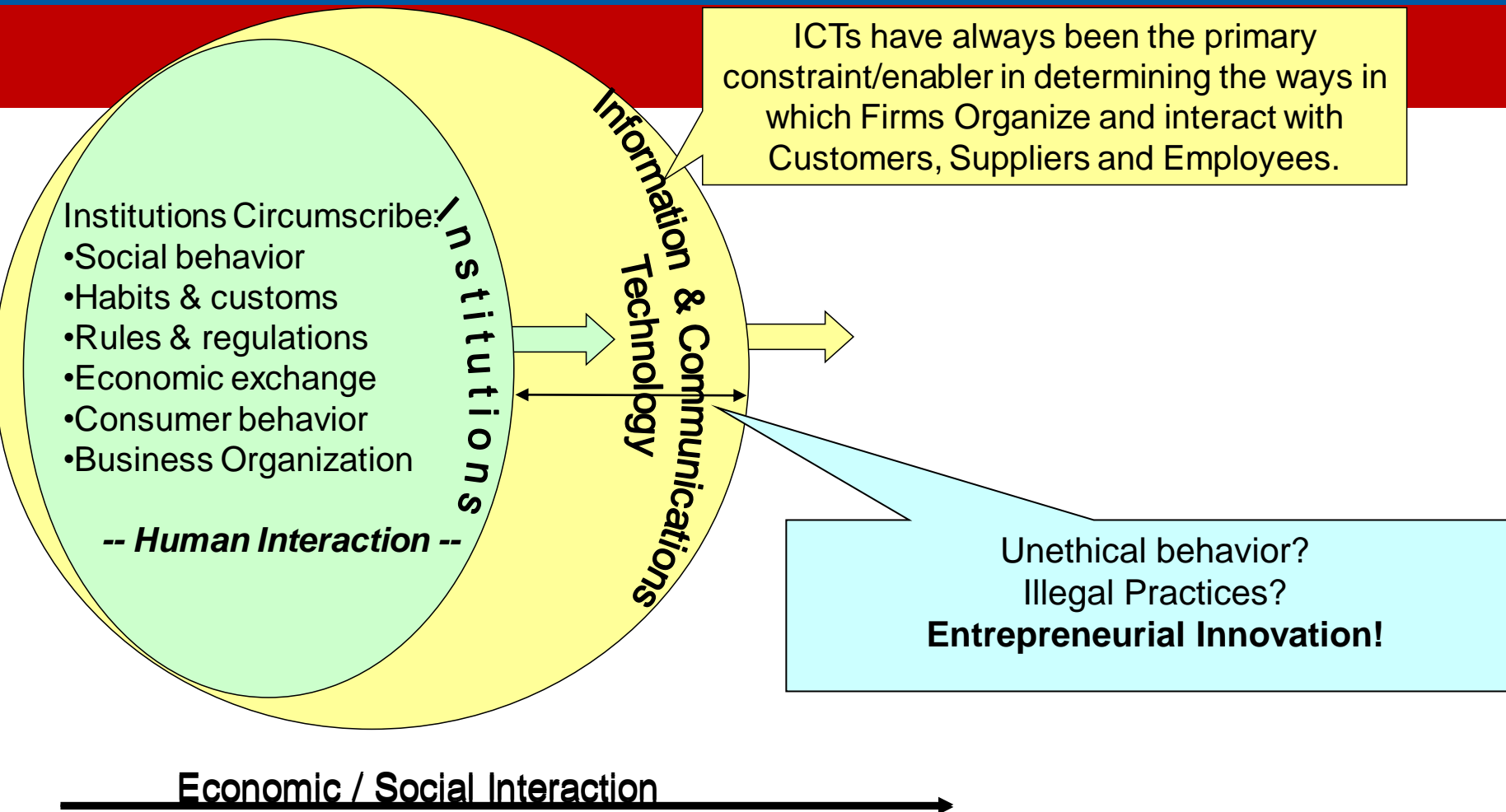
- The Central Bank of Kenya Act (2003) gives CBK broad oversight mandate over payment systems
- CBK's agency guidelines issued in 2011
- National Payment Systems Act (2014) to regulate mobile transfers

## Jamaica

- Electronic Money Order Act (2006) of the BOJ along with the Electronic Transactions Act (2006) – established electronic money as business of banks
- Payment Clearing & Settlement Act (2010) gives BOJ responsibility for oversight of national payment systems
- Guidelines for Retail Payment Services (2013)
- Banking Services Act (2014) – Omnibus Legislation that provides Agent banking framework; Regulations still being developed



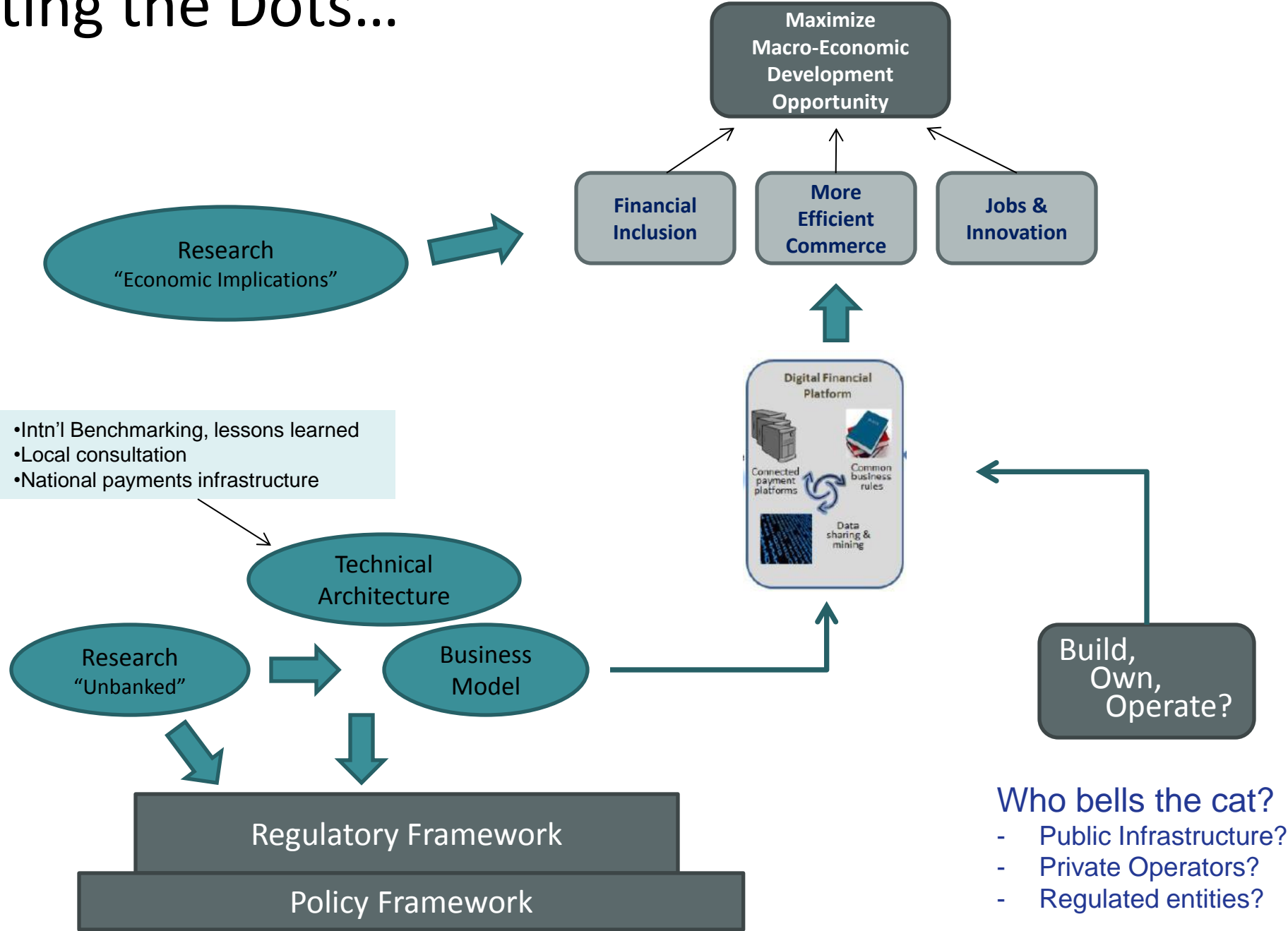
# Institutions & Technology Interdependence



# Institutions Matter!

- Legislation/Regulations and Technology are interdependent institutional actors
- Path Dependency influences Institutional effects
- Moderately loose regulatory structure facilitated the development and success of the M-Pesa system
- Conservative Regulation can be the enemy of Innovation
- Ideally: Regulatory response should adopt an incremental, adaptive and proportionate approach, that balances multiple goals of *financial inclusion, innovation and entrepreneurship* while maintaining *stability of the financial system*
- *Institutions matter.* The legislative & regulatory framework imposed will determine the rate of development, scalability & scope of MFS entrepreneurial initiatives

# Connecting the Dots...





**An Alternative  
*Path* to Scalable  
Mobile Financial  
Services – A  
*Jamaican Case***

# About PATH

- Programme for Advancement through Health and Education

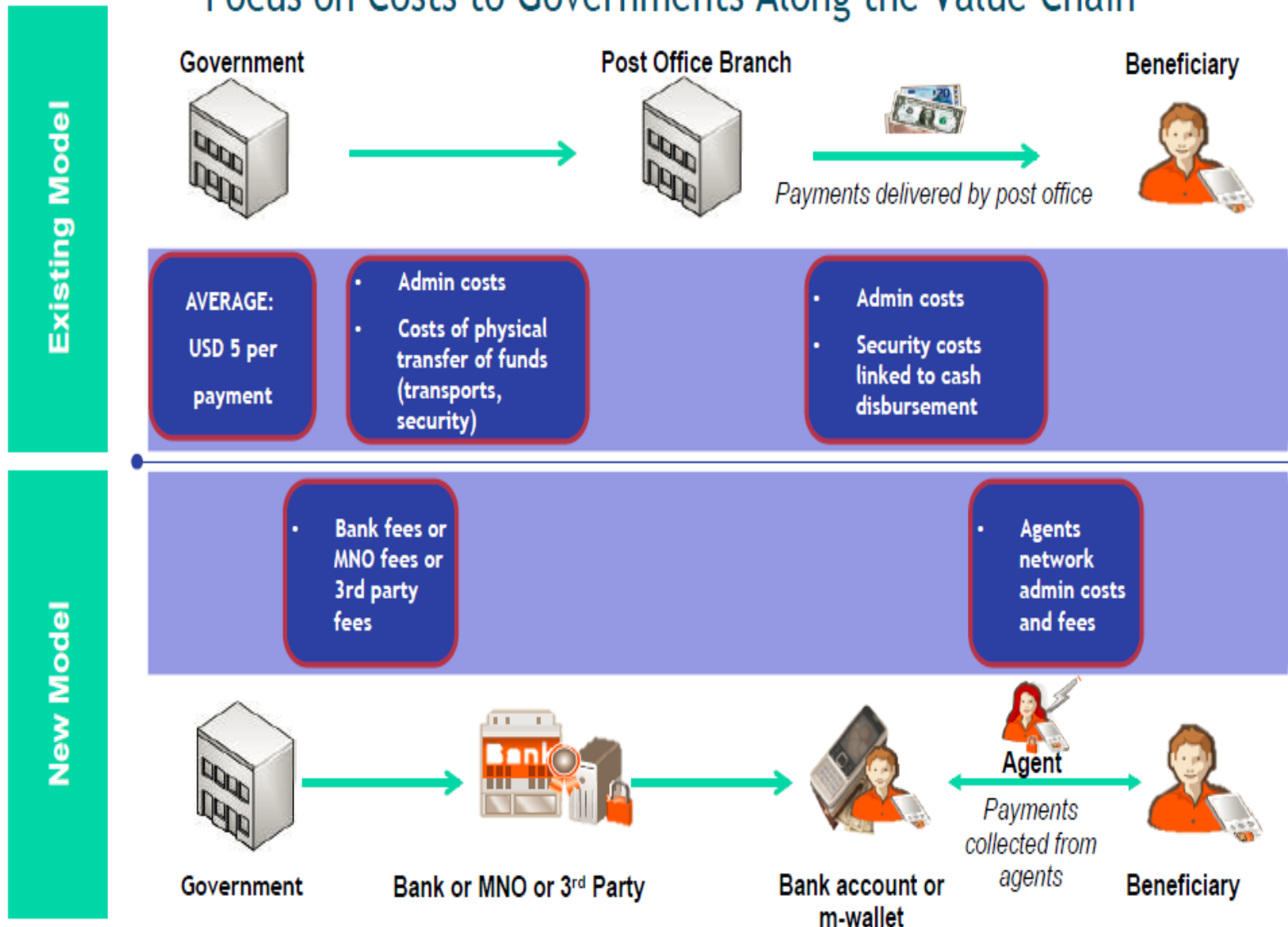
A Conditional  
Cash Transfer  
(CCT)  
Programme

Payments on  
the condition  
of making  
investments in  
health,  
education

375,000  
beneficiaries  
using cheques  
(91%) and  
Debit cards  
(9%)

# G2P and Electronic Payments Benefits

## Focus on Costs to Governments Along the Value Chain



Yet a case by case cost assessment is required since the prices paid by governments vary widely.

# G2P and Electronic Payments Benefits

- Reduces labour intensity and cost of delivery
- Access to the most pervasive channel in Jamaica to reach beneficiaries  
More than 90% of PATH beneficiaries own mobile phones
- Promotes socioeconomic welfare via financial inclusion at all society levels
- Amplify the developmental benefits associated with the conditional cash transfer schemes by facilitating access to a wider scope of financial services
- Catalyst for Scalable Mobile Financial Services?

# Government Role in Building Digital Financial Ecosystem

## Examples of Promoting Infrastructure

- Ownership of retail points of service (e.g. post offices)
- Promote/own credit bureaus
- National switch
- Remove consumer barriers to access (e.g. national ID)

Spur growth of infrastructure

Catalyse volume

AIM:  
massive improvement in financial access

Develop shared rules

## Examples of Driving Volume

- Direct G2P flows into e-channels
- Incentives for users and providers to participate

## Examples of Rule Making

- Regulation of new services, new players
- Competition policy
- Consumer protection
- Anti-crime standards (e.g. AML/CFT)



# Lessons Learned from Multiple Case Studies

- Regulation as the Starting Point
- Market Research and Assessment of Beneficiary Readiness
- Assign Key Drivers/Responsibilities
- Develop the Electronic Payments Ecosystem
- Effective Awareness & Education Campaign
- Establishing Key Partnerships and Institutional Alignment

# A Compelling Case

1

## Conditions

Jamaica has the right pre-conditions

2

## Catalyst

eG2P could catalyze a national electronic payments ecosystem

3

## Opportunity

Government has the opportunity to stimulate the system

4

## Necessity

Unlikely that pure market-led development could realise a similar outcome as quickly

# Ultimately Balance Opportunity & Risk...

- The Developmental Opportunity associated with Digital Payments is considerable, in terms of inclusion, innovation & efficiency
- Demands the design of responsive, adaptive regulatory framework that both supports innovation and mitigates the risks that threaten its integrity
- Requires greater cooperation among financial and utilities regulators to facilitate the convergence of regulations of financial services and mobile value-added services
- Recognize the potential for digital payments to enhance customer protection, prudential risk mitigation, and transparency through formalization and the ability to trace, monitor and analyze digital transactions