



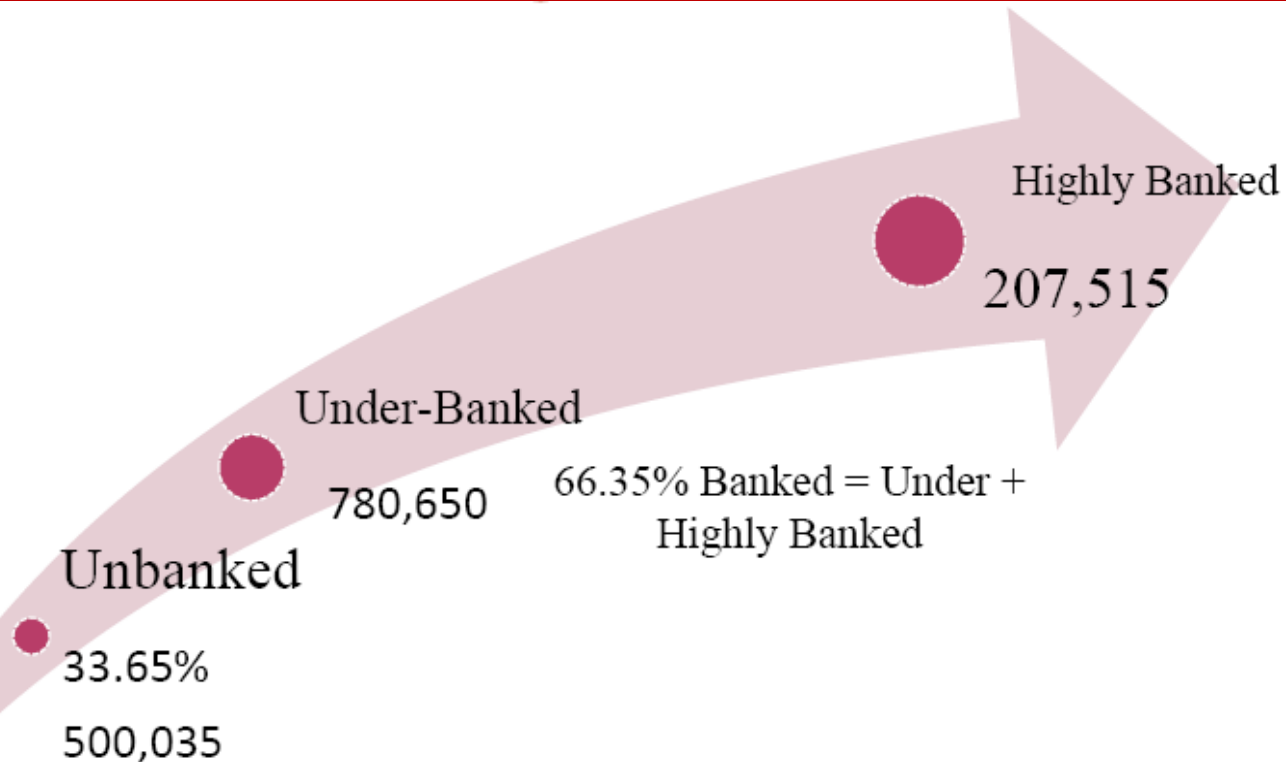
Digital Financial Services Workshop

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

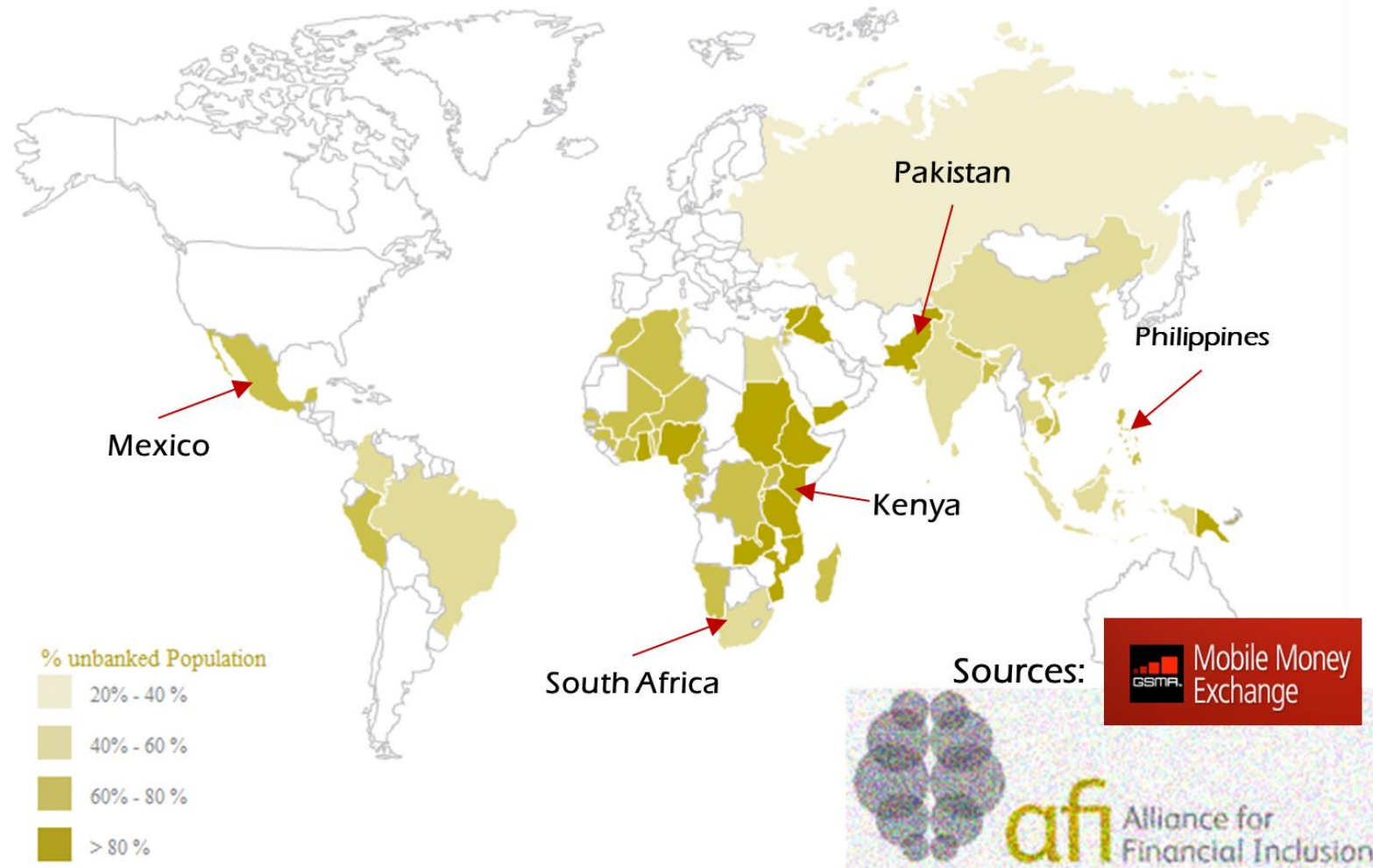
UWI-led Research Findings (2011)



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



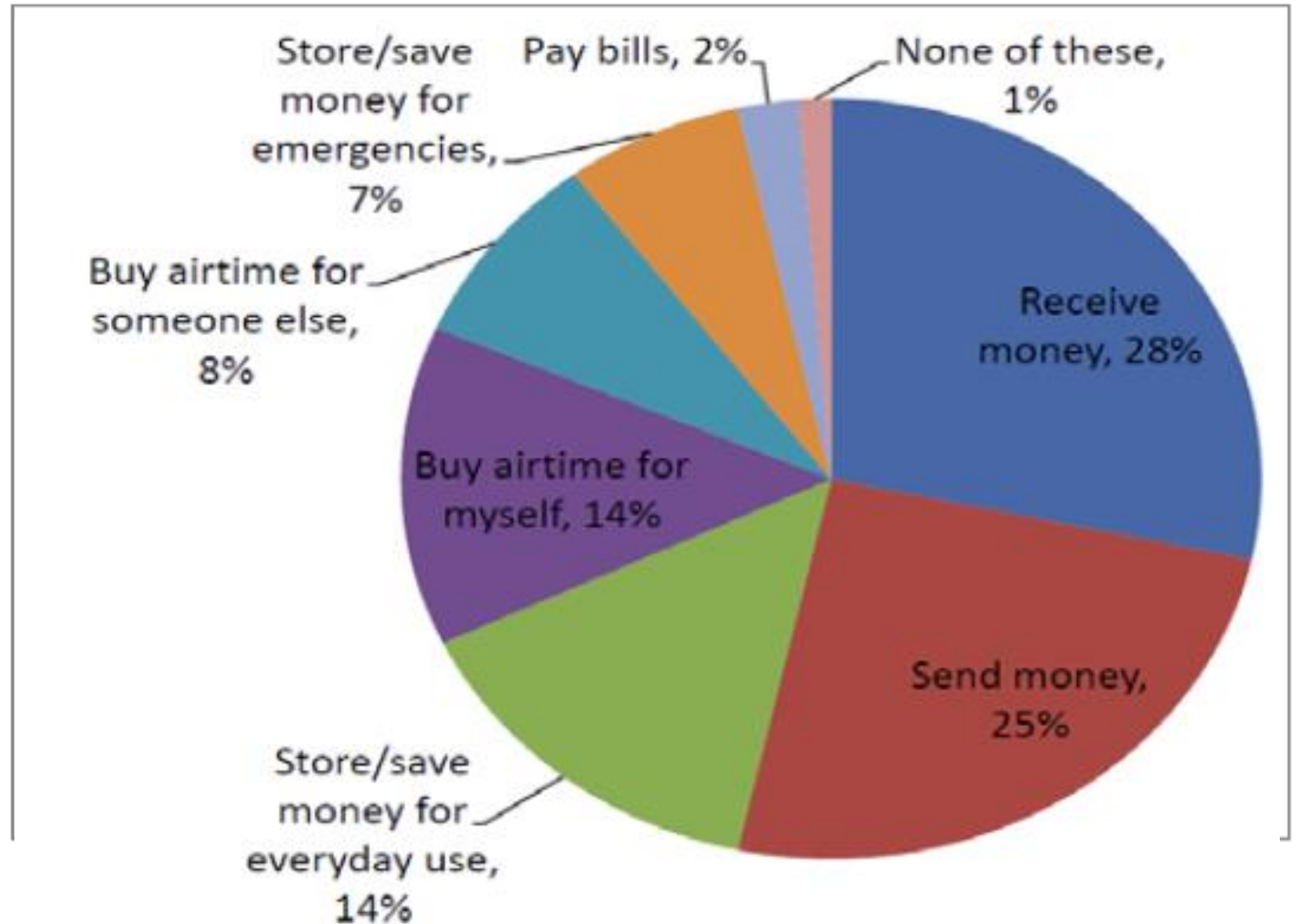
Strong correlation between countries with high levels of unbanked citizens and the impetus for mobile payments services

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">- 70% rural population; 19% Kenyans with bank accounts;- 1.5 bank branches and 1 ATM per 100,000 people- Mobile phone penetration ~30 percent and growing much faster
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"> - 65% banked, but only 14% with transactional accounts; - Bank Branch/ATM 6.64 per 100,000 people - Mobile phone penetration >100 percent and growing
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>) - defines electronic payments as being anchored in the Banking infrastructure
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	Banking Services Act - 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

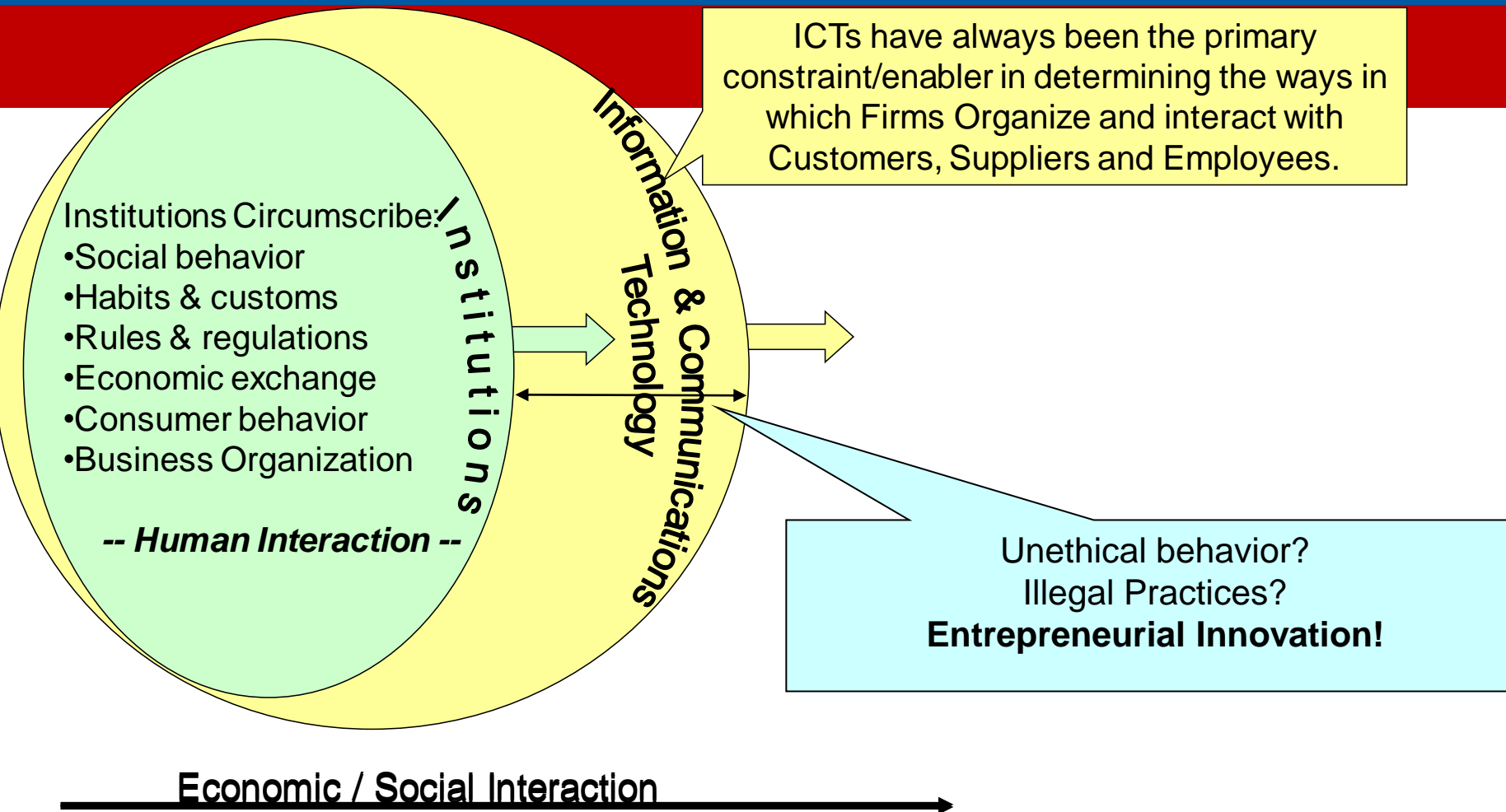
Kenya

- 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

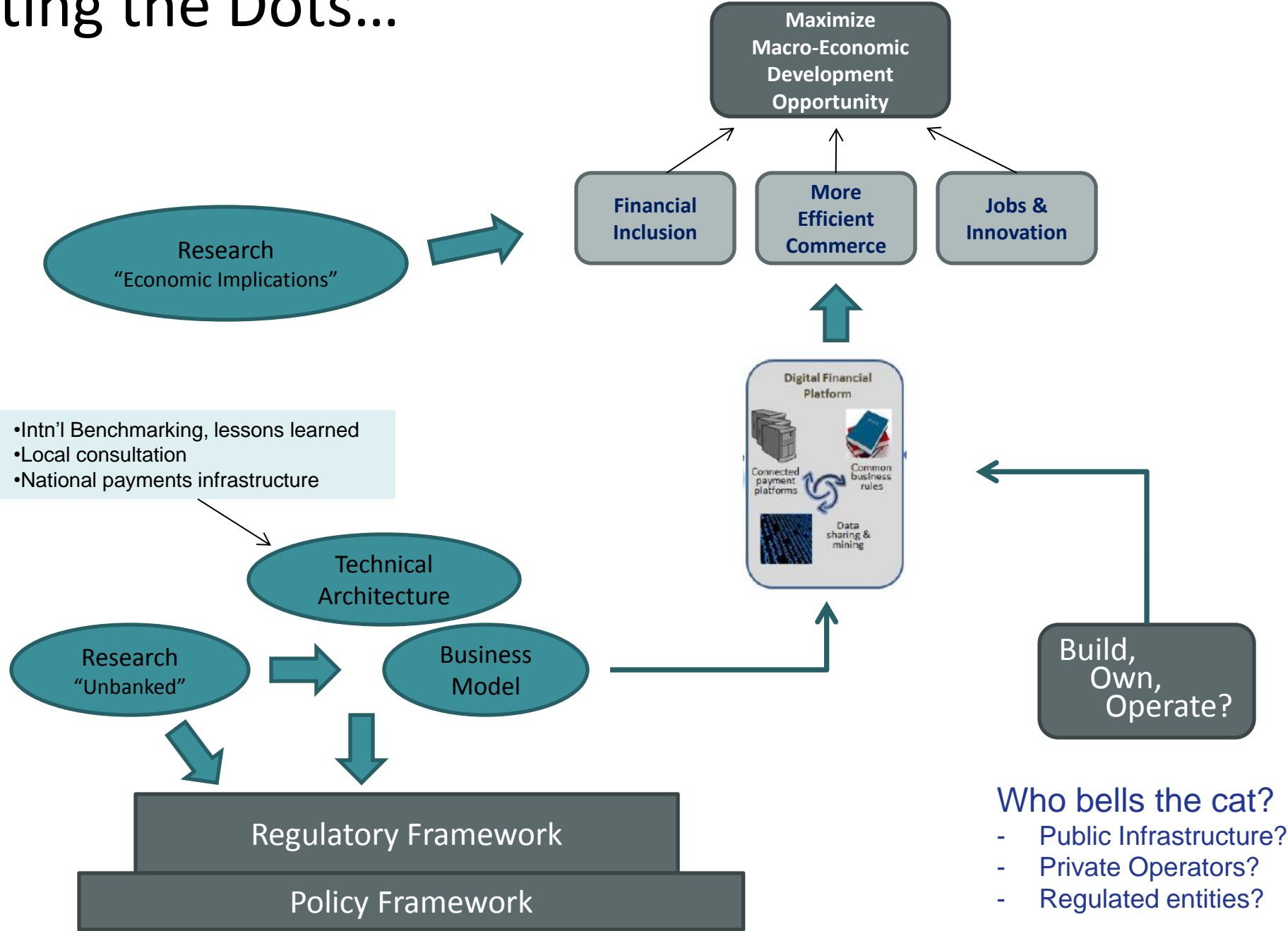
Institutions & Technology Interdependence



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

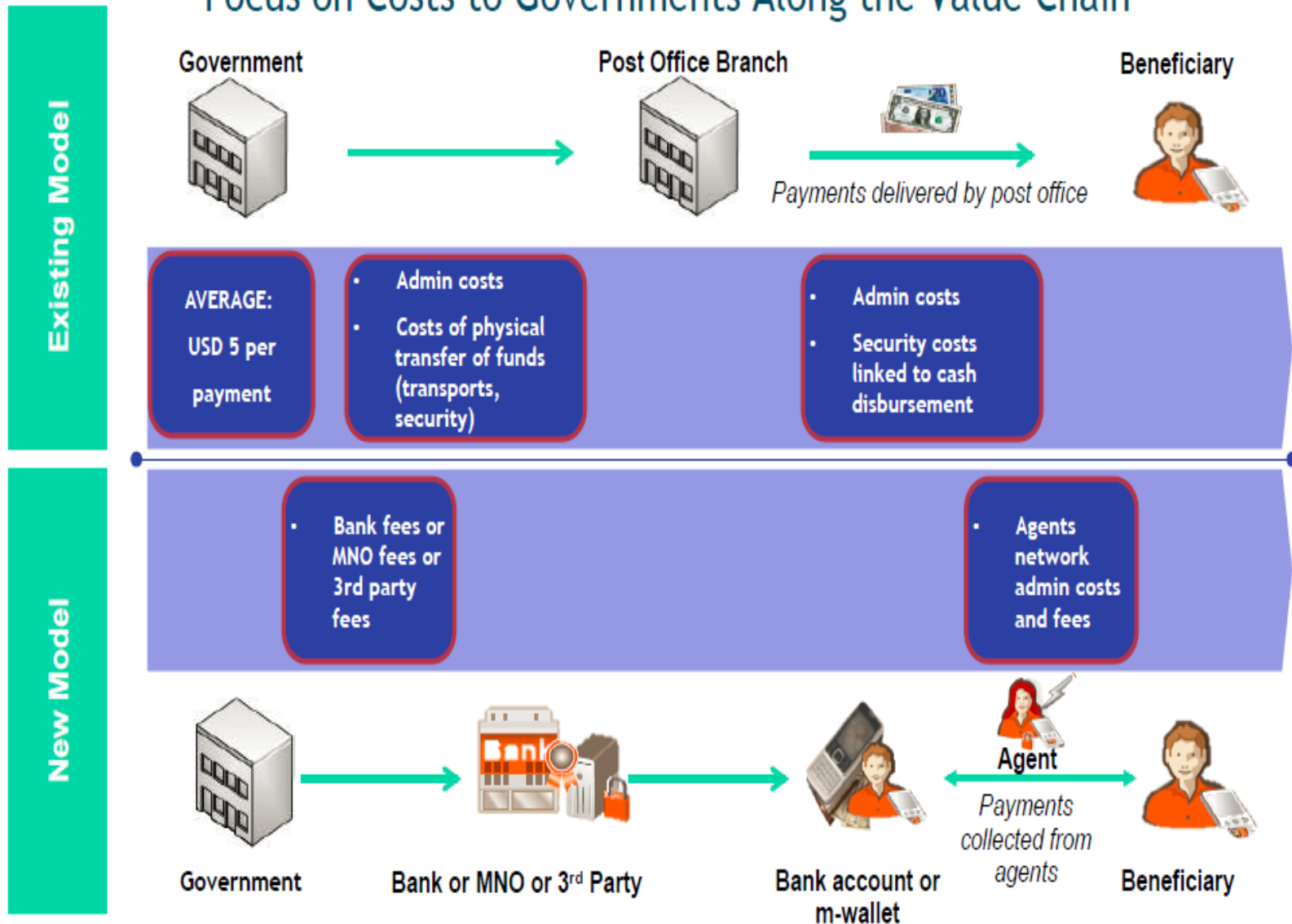
A Conditional
Cash Transfer
(CCT)
Programme

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