THE BROOKINGS INSTITUTION

MEASURING PROGRESS ON FINANCIAL AND DIGITAL INCLUSION

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P R O C E E D I N G S

MR. WEST: Good morning. I'm Darrell West, vice president of Governance Studies and director of the Center on Technology Innovation at the Brookings Institution and I would like to welcome you to this forum on financial inclusion. And we are webcasting this event live, so I would like to welcome our viewers from around the world. For those of you who are wishing to post comments or questions during the forum, we have set up a Twitter feed at #FinancialInclusion, so we welcome any comments you have on that.

Globally, there are about two billion individuals who do not have bank accounts. This obviously makes it difficult for them to access financial services, pay bills, or transfer money to friends and relatives. In addition, it is difficult to be an entrepreneur in that situation, when you are outside the formal financial system. It's difficult to gain access to capital, or to form businesses when you don't have access to basic financial services. But the good news is that many nations around the world have made commitments to expanding financial services for the poor. A number have signed the Maya Declaration for Financial Inclusion; they have pledged to recognize the importance of inclusion, to develop a financial inclusion policy and implement regulatory frameworks that encourage inclusion.

So today, John Villasenor, Robin Lewis and I are launching the first annual Brookings scorecard measuring progress on financial access and usage. With the support of the Bill and Melinda Gates Foundation, we have embarked on a three-year study of inclusion in 21 developing countries. And the short summary of our analysis is that financial inclusion is taking off. There's been a surge in access to financial services. This is happening through mobile money, non-bank providers, and digital financial services. Africa is leading the charge in this area; four of the top five countries in our rankings are in Africa. So there's a lot of exciting and innovative work that is taking place here.

We have a short video which captures more about this project that's two minutes in length, so we're going to roll that video and we'll go from there.

[Video plays]

So our project seeks to answer three questions. Do country commitments make a difference in terms of progress towards financial inclusion? To what extent do mobile and other digital technologies advance financial inclusion? And what legal policy and regulatory approaches do the best job of promoting financial inclusion?

So we analyze inclusion in nearly two dozen different nations. That includes places such as Brazil, Colombia, India, Indonesia, Kenya, Mexico, Nigeria, South Africa, Tanzania, and Turkey, among other places. This week we have published our scorecard in our report. There are copies available for those of you who are here in the auditorium. For those who are watching the webcast, you can download our report at Brookings.edu/fdip.

We encourage you to read our report. If you have any comments or suggestions on it, you can email us at fdipcomments@brookings.edu. That's fdipcomments@brookings.edu.

So this is the first of three annual reports, so we would welcome any input that you have. We will be kind of thinking about our methodology, our indicators, and our recommendations in terms of future reports, so we'd like to hear any suggestions that you have.

We did get detailed comments from every country that was included in our report. We also talked with many leaders in the NGO world who are active on financial inclusion, and we're very grateful for their suggestions.

So to give you a sense of the highlights of our study, my colleague, John Villasenor, will summarize the key findings. John is a nonresident senior fellow at Brookings and a professor of Electrical Engineering, Public Policy and Management at

UCLA. He's written extensively on technology, financial inclusion, and the developing world. And then after John's presentation, we'll hear from several experts who will offer their suggestions on how to improve financial inclusion around the world.

So I will turn it over to John.

MR. VILLASENOR: So thanks to all of you. I know that there are many things you could be doing on an absolutely gorgeous day here in Washington, or if you're somewhere else in the world, there's also some other things you could be doing. So we're very appreciative that you take some time out of your day to be with us.

I'm going to spend about 8 to 10 minutes going over some of the highlights from this study. So just to echo what Darrell explained a moment ago, the objective is to evaluate financial inclusion -- the landscape, as well as the progress in each of 21 countries. You can see the list of 21 countries up here. I won't read through them all, but one kind of overarching characteristic you will hopefully notice is that this is a very diverse group of countries. It's diverse economically, geographically, politically. We've got some small countries there. We've got some enormous countries, like India, on this list as well. So we tried to -- we intentionally chose a list like this because this helps by casting kind of a wide net, and looking across such a broad array of countries we aren't limiting ourselves, for example, only to one region of the world.

So we have -- these are the scorecard -- the overall scorecard results ranked from the top for Kenya, South Africa, Brazil, Rwanda, and Uganda. And these are the overall scores. We also ranked each of these countries through each of four dimensions. So to measure financial inclusion, we identified four key dimensions. One is country commitment. A second is mobile capacity. Third is the regulatory environment and fourth is adoption. And we then aggregated scores for all of those together to come up with the overall score. And in addition, in the report, you can see the score breakdown for each one of those dimensions. So, for example, on the adoption dimension, we were fortunate to be able to have access to the data from the World

Bank's Global Findex, which just came out a few months ago, and for some of the other dimensions, we drew from a number of other data sources.

Some overarching observations. Countries are making real progress. There's really good news on that front. If you look at where things stand today versus where they stood not too many years ago, there's just been enormous growth, for example, in the number of mobile money deployments which are really playing a fundamental role in many jurisdictions.

There's also a clear -- we see clearly there are multiple pathways to financial inclusion. In some countries, for example, places like Kenya, mobile money, that is using mobile phones as a platform for transactions, has been an absolutely fundamental part of the inclusion story. But in other places -- so, for example, in South America, where there is a very well-developed traditional -- set of traditional banks, then the banks can then extend their reach by things, sort of corresponded banking associating with other entities that can allow people to reach -- have banking services closer to their residence or their workplace. That model has worked very well in South America, and mobile money, we have seen less penetration of mobile money in South America. And so there's really no "one size fits all." There's multiple ways to provide inclusion, and the good news is we're seeing good progress on multiple pathways.

The other observation is that we -- in our study, we did emphasize and take a very careful look at mobile and nonbank financial service providers. We believe that these are increasingly important mechanisms for financial inclusion. Just because of the complexity of the geography and the infrastructure in many places, it will be a very long time, if ever, before you'll see traditional bank branches, bricks and mortars in many of the -- so, for example, smaller villages and towns in some of these countries, whereas, of course, many of these places are covered or will soon be covered by very good mobile phone service, and that allows those mobile phones to then serve as a platform for financial transactions.

I'll summarize five key findings. One, country commitments matter. There are multinational financial inclusion networks, such as the Alliance for Financial Inclusion, which is -- we've got the Maya Declaration through that. Countries that have signed up for the Maya Declaration are, in many cases, most cases, making good on the commitments associated with that. There are countries that have joined the Better Than Cash Alliance (BTCA), which has also been a critically important organization for promoting financial inclusion. So the countries that actively engage with those sorts of networks in general, we found that those networks are extremely important and extremely effective in promoting inclusion.

Secondly, digital financial services can accelerate financial inclusion. There are enormous advantages associated with digital in many environments, including in financial services. It doesn't mean there aren't also concerns. So, for example, cybersecurity. But on balance, we believe that digital financial transactions offer enormous advantages in terms of security, efficiency, cost efficiency, access locations, and so on, and so as those digital financial services become more common, we believe that that will have a positive feedback cycle with respect to promoting financial inclusion.

Third, geography generally matters less than policy, legal, and regulatory changes. That said, we still observe some regional trends. So, for example, as I mentioned a moment ago, you see mobile money being much more common in places that lack as much of a traditional banking infrastructure, whereas in places with a more extensive infrastructure, you see mobile money playing less of a central role and banking correspondence playing a more central role.

Fourth, coordination among key players in the space is really important. Clearly, if you're looking at something like mobile money, that impacts clearly the telecommunications industry, but it also impacts banks and ministries of finance and things like that. So there are complex questions that then face governments and regulatory bodies and so on when you try to make sure that these services can be provided, available at reasonable cost, and critically can be interoperable. So, for example, a consumer is not locked only into sending or receiving money to and from money that happen to be customers of the same mobile phone network. So coordination is an area where it's extremely important for governments and also the private sector to be engaged.

And then finally, last, but certainly not least, full financial inclusion cannot be achieved without addressing the gender gap. We're certainly not the first to recognize this. It's well recognized that there's a persistent and significant gender gap under which women are often more -- significantly more excluded from access to formal financial services than men. And, of course, you cannot have full financial inclusion unless you have financial inclusion for everybody, including women. And so closing that gender gap, which unfortunately has not significantly appeared to close in the last couple of years in general is something that is really, really important.

And the other final point I'll mention here is that it's also important to account for diverse cultural contexts. Different countries have different sorts of infrastructures. I'll give an example. In the Philippines, pawn shops have become very important sort of physical locations for money transmission. You can go to a pawn shop and give them money and they will sort of transfer it to somebody else somewhere else in the Philippines, who can then pick it up somewhere else. And so different countries have different existing infrastructure that can be leveraged to deliver financial services. And what works in one place may not necessarily be applicable in another place.

So moving forward, as Darrell mentioned, we are just completing the first year of a three-year project. We are going to be publishing an annual report at the end of each project -- at the end of each year. So we started this project one year ago. The report that we published this week is the first of those reports. We plan to publish another report a year from now, and a third report a year after that.

We are very interested in continuing to foster dialogue among the many very active and critically important organizations in this space, which includes not only private sector companies, and includes organizations like the Alliance for Financial Inclusion and BTCA, and of course, the governments themselves that are trying to work to promote financial inclusion in these countries.

And I'll close by mentioning that we welcome feedback. We want feedback. Any time you're trying to devise a scoring system there are choices that you make, and it is impossible to design a system that is perfect. And we think we've done a reasonably good job, but we are also confident that we can do a better job. And so we would welcome feedback from the community on ways that we can improve our methodology in our analysis in the future so that we can have an even better product as we continue with this project. And we are also considering expanding the scope of a number of countries beyond the 21 that we've identified in this first report, and so we would welcome suggestions on countries which people in the community believe are particularly important for us to consider in future rounds of the study.

So with that, I will move on and I will ask our moderator and our panelists to come up, and we will have what I'm sure will be a very interesting discussion on financial inclusion. So thank you very much for your time.

(Applause)

MR. DONNAN: Thank you, John.

I'm looking at a very long and skinny room here, and I'm already seeing one of my challenges today, which is going to be spotting you guys in the back because we are going to insist that you folks in the back participate actively in this. I'm going to take the classroom approach.

My name is Shawn Donnan, and I'm the world trade editor of The Financial Times. I cover the international end of economics here from Washington and get very interested in development and things like financial inclusion. It's something I've been learning a lot -- one of the things -- one of the many things I've been learning a lot about since I moved here in January from our headquarters in London.

I'm very happy to be up here moderating this discussion. Also, as I learned over the last few days as I was getting in touch with these people, I'm the stranger on the stage. These are all friends and colleagues. They all know each other from the world of financial inclusion. I'm the one unknown component here. I feel a bit like the stranger invited to the Thanksgiving dinner for the family here. I will do my best to be provocative as a result.

Let me just quickly run through our panel and then move on to our discussion and get out of the way and really let these people who some of the leading experts on the subject share their knowledge and their thoughts on the back of this very good new report.

Starting all the way on my left is Leora Klapper. She is the lead economist at the Development Research Group at the World Bank. She is also the keeper of something called the Global Findex, a report which has everything and anything you ever want to know about financial inclusion. It's also the data that this Brookings report is based on. She also, if you go visit her, will give you The Little Data Book on Financial Inclusion which has just about every statistic you ever want to know about financial inclusion in the world.

Next to her is Jerry Grossman. Jerry is senior advocacy and regulatory specialist on Mobile Money at GSMA, the GSM industry association I guess we would call it.

Next to him, Karen Miller, who is chief knowledge and communications officer for Women's World Banking. Very well placed to talk about that gender gap that John mentioned.

Tidhar Wald next to her is a government relations specialist at Better Than Cash Alliance -- at the Better Than Cash Alliance, which is a UN-based alliance. Right? And he was up early this morning grabbing the train down from New York.

And next to me here is Loretta Michaels, who is senior policy advisor for financial inclusion at the U.S. Treasury and can tell us a little bit about why the U.S. Treasury cares about all this.

I thought we would start with Leora, who can really give us the kind of 30,000-foot view on what's happening in the world of financial inclusion. I mean, some astonishing things have been happening in recent years, Leora. Something like 700 million people have gained bank accounts, but then there's also some remarkable challenges as the report outlines. So why don't you give us the broad view?

MS. KLAPPER: Thank you. And thank you for a nice presentation of the report.

So what is the landscape? The landscape today is we find in 2014 about 62 percent of adults around the world have an account, either at a bank or financial institution, with a mobile money provider. That's an increase of 700 million adults since 2011. Globally, only about 2 percent of adults have an account at a mobile money provider; however, the number is over 12 percent in sub-Saharan African, where 45 percent of those adults, this is their only account that they have. We now have five African countries, including from the report, Tanzania, Kenya, Uganda, where more people have an account with a mobile money provider than with a traditional bank. So clearly, this is changing -- the technology is changing the financial landscape.

But 4G coverage is not only important for mobile money accounts, but it also permits the growth of agent banking. So, for example, in China, the government moved to rolling out digital payment for government payments, and they set up over half a million mom and pop shops that now operate as bank agents to distribute that money and to take deposits and provide additional banking services. And so the 4G network, the new technology is driving mobile money accounts. It's driving bank agents, card-based accounts. I've been saying that in 2017, we'll probably be asking questions about products we haven't even yet dreamed up.

But why does this all matter? So, yesterday, I logged onto the computer, set up an auto bill pay for my kids' school fees this year, and it was really convenient. But for tens of millions of adults around the world, especially women, these digital payments are a game changer. So, for example, in Bangladesh, I've been working with textile factories helping them automate their payments, and these women textile workers tell us how on payday their mother-in-law would wait outside the gate for them to take their pay away, their full paycheck, and now that they can't, that their husbands know their base salary but they don't keep track of their overtime, and now they're saving a little bit every month towards generally expenses for their children.

Digital payments is offering privacy and control over money, especially wage payments that people never had before. It's also -- it's safer. So, for example, a study funded by BTCA in the U.S. found that after the U.S. digitized -- began making electronic payments instead of checks, crime fell in the Midwest.

It also is critical for women's economic empowerment. The study is kind of rigorous. Randomized control trials, field experiments in Kenya and elsewhere, are showing that giving women an account where to keep her savings gives her more influence over household budget decisions. She's able to discuss budget spending with her husband at more opportune times. It has explicitly listed greater household spending on nutritious food.

It also can encourage savings. The same way that, you know, I have -- through auto deposits. You think about 401K plans, which digital payments allow money to be taken off the top. It takes away the need to wait on line and take that extra literal step to redeposit the money into a savings account. You don't have that temptation of spending the money because the money is taken off the top.

I'm doing a field study in Ghana. We're writing up the preliminary results where we offered them a government work -- Ghana was one of the first countries to commit to digitizing all of their own government wage payments and in the Findex data we do find public workers in Ghana, almost all of them report receiving their wages into an account, and we offer them this opt-out savings, about 10 percent of salary, which is quite high. And now 18 months later we're seeing where did the money come from? It comes from a drop in informal savings, a drop in reported gifts to family and friends, which are often involuntary gifts, and a drop in hair product consumption. So all of which are beneficial.

And finally, it allows people to build credit histories. I think one of the most exciting financial innovations happening today is the development of credit scores based on payment history. The same way over the past 10 years banks and other lenders have been showing if you receive a remittance payment, for example, every month, or wage payments certainly, this shows in the future you're able to make that payback of loan payments. And so increasingly now, tens of millions of new people, by digitizing their wage payments from the government and the private sector, by digitizing their remittance payments, suddenly, they have a payment history. In Kenya and elsewhere, this data is being used especially by small business owners to allow them to get appropriate credit.

However, certainly, we need to highlight that there are challenges in digitization. There are challenges at the very basic level of IDs. In many countries, in Bangladesh, for example, we're dealing with the fact that most, especially women, don't have any form of identification, which is a necessary step in today's age of KYC, et cetera, to simply open an account. As an interesting aside, in Bangladesh, the employer records counts as identification for a small account at the bank or another financial institution, but we can't get the mobile money accounts because to buy a SIM card requires documentation, some form of national, federal identification, and that's what they don't have.

We certainly have the technological infrastructure, as my colleagues will talk about. And then also the basic education. Making sure people understand their PIN numbers and to keep them private. In South Africa, tragically, the number of women that we spoke to who would give their PIN numbers to strangers standing at an ATM machine to withdraw the money for them because they didn't feel comfortable using this machine themselves.

So I'll end with a new favorite story. A colleague was recently in Zambia in a rural village, and she was talking to a school teacher, who told her that she's paid every month by the government in cash. So for the first two days of every month, she closes the school in this village so that she can travel by bus to the capital or to a larger city to collect her money. And she was complaining to us about the danger, the security risk of walking around, traveling with a wad of cash in her pocket. But there's more. By digitizing her wage payment, the schools would be open for an extra two days a month.

And so my point is that the financial inclusion I like to say is a means towards an end. It not only enables people to have a safe place to keep their money; it can have real effects on other facets as well.

Thank you.

MR. DONNAN: Well, there's reason number one why we need more financial inclusion. More school for Zambian school kids.

Loretta, this is on the agenda at the U.S. Treasury. Tell us a little bit more about why it's important for you at the Treasury.

MS. MICHAELS: Thank you. Yes. And thank you for having me here.

Yes. I was asked to come and talk about, you know, why does Treasury care about this and what are we doing about it? And I'm pleased to say that this is definitely a very high priority for Treasury, not just because financial inclusion is a good thing in its own right at an individual or household level, but numerous studies have shown that there are broad economic growth and stability issues related to financial inclusion and the evidence for this is growing by the day. And also, financial exclusion presents a problem for a lot of individuals and countries in terms of fulfilling their own full economic and social potential.

I would also add that besides the economic implications of inclusion, that financial inclusion is also a high priority in conjunction with another of Treasury's high priorities, which is safeguarding the global financial system from abuse. When people are having to operate in the informal sector, they are not able to be accounted for in any kind of safeguards or anything like that, traceability when it comes to money laundering and terrorist financing. And this is a huge problem for policymakers all over the world. So Treasury is very keen to see everyone involved in some sort of formal financial service.

And when I say that, I don't mean that we want to see everyone forced into a big fancy bank account, but rather, if there are services out there that are meeting the needs of individuals, especially low-income individuals in developing countries, and they aren't formal, we don't ban them, we formalize them so that they are actually protected and that policymakers have more information to go on.

The other aspect of this being a priority at Treasury is the fact that we are very much advocating technology-enabled financial inclusion, which, of course, is a big part of this report today. New technologies are obviously rapidly changing the face of financial services everywhere, enabling service providers not only to reach into remote areas and get up to scale much faster, but also it allows service providers to come up with far more responsive, innovative services that actually meet the needs of individual consumers. And of course, as I mentioned before, the digitization of all these services means that these services and transactions are traceable and accountable, not just for anti-money laundering purposes, but for consumer protection.

So where does Treasury fit in with this whole agenda? From an international perspective, we're very heavily involved at the global policy level, whether it's with the G-20s Global Partnership for Financial Inclusion where we're working very closely with all of their subgroups, particularly on markets and payment systems, technology-enabled solutions, customer protection, remittances, and the role of global standard-setting bodies. We work very closely with all of our friends in Basel on a number of these issues to make sure that they have taken into account the particular needs of low-income, financially-excluded individuals.

We are also heavily involved, which a lot of people don't fully realize, but Treasury has an Office of Technical Assistance that works very closely bilaterally with a number of their counterparts around the world, whether it's central banks, finance ministries, what have you, on strengthening their own financial systems, whether it's from a regulatory perspective or a government-accounting perspective.

And so the good news is that the importance of financial inclusion and the importance of digital financial inclusion are broadly accepted around the world, which we can't sniff at. I mean, this has really been quite a phenomenon over the last few years. Those of us that have been working in this field were arguing these points just a few years ago, and now everyone agrees. The challenge now with everyone agreeing is that the environment is now changing for them and they're saying, "Wait a minute. We need help. How do we do all this? Yes, you're right. We've got to do all this, but how do we do it?"

And so there is a growing need for assistance to a number of policymakers and regulators and supervisors in the emerging markets in a number of areas. And some of the key ones I'll mention are supervision of digital financial service providers, whether they be banks or nonbanks. You know, the traditional supervisor and regulator out there has typically been working with banks only, with prudentially sound regulations, et cetera. Now we've got all these new players who are digital payment players and they're playing an increased role. You know, we need to come up with new rules and ways of operating to deal with these different kinds of players. Supervision of new types of digital currencies. You know, bitcoin is getting all the press these days, but the whole issue of digital currencies and sovereign digital currencies is just going to keep growing. And supervisors need help in figuring out how to do this. Enacting a risk-based approach. Those of you who are steeped in this world know that FATF, the Financial Action Task Force, has stressed repeatedly that they expect countries to meet their needs in terms of anti-money laundering but that they are allowed to do so in a risk-based approach. So a lot of countries they say, "Yes, okay, we believe you, but how do we do that?" And so there's increasing conversation at the national level.

Consumer protection in the face of new instantaneous digital transactions is another area that policymakers are having to think about because, you know, you don't use an ombudsman for a digital transaction. The horse has left the barn by that point. Things like digital identity programs that Leora mentioned is critical and countries around the world are focused on this. Pooled account deposit insurance. You know, most of us take for granted that our bank accounts are insured. Well, you've got all these new players, including mobile money players with keeping their funds in trust accounts, et cetera, that are doing all sorts of phenomenal things and expanding the world of services for people, but there might not necessarily be deposit insurance for those accounts. And so more regulators are thinking they've got to figure this out. And even our FDIC is looking at this for the world of prepay cards in the U.S. And then, of course, digitization of government payments, which plays a huge role, and my colleague, Tidhar, will no doubt touch upon that.

So, as I said, there's a lot of enthusiasm, which is great to see. A lot of acknowledgement. And growing commitments, which is fantastic, but now those commitments need to be followed up with action, and that is a great aspect of this report that's come out, is being able to measure how well some of these countries have done and how they've done compared to each other. And what other areas that we and the rest of this community can support them.

MR. DONNAN: Tidhar, she's teed you up beautifully here, hasn't she? You are -- if now is a time for action, then surely you are the action man. You're one of the people governments can pick up and call when they need help. Why don't you just talk a little bit about what you're hearing from governments and tell us a little bit more about the Better Than Cash Alliance and what you guys do.

MR. WALD: Thank you, Shawn.

And let me start by congratulating Darrell and John and Robin for their great work. You know, for us, dealing with policymakers on a daily basis, this is a really useful tool because very often when we speak to government officials, they want to know how others are doing and what are interesting lessons that they can learn from other governments. So this is a very useful tool. So congratulations for this report.

Maybe a word about the Better Than Cash Alliance. Better Than Cash Alliance is a partnership of governments, companies, international organizations, donors, that are all committed to the shift from cash to digital payments as means to expand financial inclusion but also achieve other benefits. And what we see with our work is that there's a surge, as Loretta just mentioned, of interest from government officials in the issue of digital financial services and the benefits that governments can reap out of that transition from cash digital payments. And very often, when we speak to governments, it often comes from one aspect. Leora mentioned the issue of transparency or security, and when governments deal with how to design the best digitization scheme, they think of one aspect. But along the path of digitization, they realize there are more benefits. And so there could be a digitization of payments scheme that could deliver security but also transparency, and of course, the issue of financial inclusion.

So one of the things many of them struggle, and that's why they're interested in learning from other governments or getting some good results from this report is to understand how to make the most out of those programs. And many of them speak to us about their issue of eliminating ghost salaries or ghost recipients for cash transfer programs and others.

What we are trying to do as an alliance that brings together governments and companies and international organizations, is to help or support governments with the issue of developing a digital inclusive payments ecosystem. I know it's a little bit of a mouthful, so I will explain what do we mean with that.

In order for a digitization scheme or for expanding financial services for everyone in the economy -- meaning people, meaning companies, meaning governments, NGOs, local organizations -- all of those entities need to be able not only to receive payments but also make payments digitally. So it's not enough for governments to make a digital transfer instead of a cash transfer, but then the ideal scenario would be for you as an individual, or for a company, to be able to use that account further on and make payments and receive payments.

And so what we see, and that's a clear request for government, is they're looking for a convening party that will support them in having a collaborative approach where governments, companies, international organizations, donors in a certain country work together to develop this digital payment ecosystem where everyone can make and receive payments, and that will ultimately deliver what we're all trying to do and achieve, which is the financial inclusion for all.

We were discussing right before, you asked me if I thought about an interesting example where this thing we're seeing happening, and I immediately thought about India, because India is a place where we see all of this right now happening, and there are many people in this room working on it right now. A year ago, we saw the government of India launching a new financial inclusion scheme, and in the year's time they've only opened over a 170 million accounts. But the interesting example of India is that the government is trying to go beyond just opening accounts, but actually making sure those accounts are used and so they don't remain dormant accounts or where they actually become active. And so they have accompanied it with pension scheme or transferring cash transfers into those accounts and making sure that then those individuals who now have accounts or those households who now have accounts, actually starting using them also to make payments, receive payments, and that's where people are actually financially included and they only have an account on paper.

MR. DONNAN: I think we should come back to India later on. Fascinating. And that issue of dormant accounts, I think the figures that I looked at the other day, 175 million new accounts but half of them have a zero balance, which raises all sorts of interesting questions.

Karen, I want to come to you next and the question of gender. I was really interested when we were talking a couple days ago about this event. You mentioning the fact that one of the things you guys are working to improve is the fact that a lot of efforts to push financial inclusion actually manage to exclude women in the way or to make it harder for women to open bank accounts. So talk just a little bit about why that gender gap exists and why it is that those efforts to address it aren't always working.

MS. MILLER: Thank you.

I think the really interesting thing that we need to understand when we're talking about women and financial inclusion is that it does not require the key players out there -- financial institutions, regulators, MNOs -- it doesn't require a major overhaul to what they're doing. It just requires some tweaks. And it just requires frankly understanding what women want. There are very few industries I don't think that we would look at that are targeting women that wouldn't actually go and understand what women's needs are so that they can develop a product to serve women's needs, and specifically, when we think about digital financial services.

In the report, there was a lot of talk about mobile money accounts, but when we think about, okay, what are women's needs? How do we address them? I would say that savings is such a critical component of this. And we recently did some work looking at the landscape for digital savings. What was happening out there, what good examples there were, and how we could reach scale? And when you think about savings and you think about what women need, they want convenience. They have such busy lives, between being the manager of the household and working. They don't have time, and we've heard this over and over again in the last 35 years of doing research on women's lives, that they don't have time to go stand in line at a bank branch to deposit their money. Or they're so far away from a bank branch that the money it would take to take a bus to that bank ranch was actually more than they were depositing. So digital financial services has an incredible potential to serve women's needs for that convenience. It also helps address security. So women, you know, as Leora was talking about, carrying money around, a digital savings account can help address that security issue.

And confidentiality, which is so critical. A woman wants to know that the money that she earns is safe; that she can control her own assets and not have to be sharing and telling her husband, her relatives, other friends in the village what she is doing with her money. And so setting up savings accounts in a digital environment I think are the critical product to help with financial inclusion. And one of the things that John had said at the beginning, you know, the models look different. So when you think about digital savings in the context of an agent banking model, one of my favorite expressions now that just came about in the last two weeks, our team was in Malawi and they said that savings and agent banking go together like sima and relish. Now, sima and relish is probably the equivalent of peanut butter and jelly. It's maize, flour, and veggies. And so populations are really starting to recognize what delivering a bank product to a woman is going to do for her. And so we are absolutely excited about the opportunities that digital financial services have for women, but fundamentally, we need to start with the understanding of women's needs, and we need to be having gender disaggregated data so that you can actually measure what is happening with your women clients.

In the research that we did on digital savings and looking at the landscape, so few companies were actually disaggregating their data by gender. So how could they tell what the difference in behavior was and whether they were actually serving a client base appropriately?

So I would just leave you with the message, start with understanding women. You'll find that product design comes into play, so it'll be a well-designed product. That will help men also. So one of the great things we always find is if you design a product for women, men will like it also. If you don't take into account women's needs, they're not going to pick it up.

MR. DONNAN: That sounds like a rule for life.

Jerry, from the industry side, I mean, you are, to get a bit corny here, you're the guy who puts the mobile in mobile money. I'm struck again in the discussions we had a couple days ago about this that there's still some pretty serious regulatory barriers out there and there are some challenges in terms of rolling this out in countries. And I'm also struck by the scale of the challenge, and the reality is one in four or one in three and a half of the world's population still doesn't have a bank account or access to financial services.

So just walk us through from the telecommunications industry perspective, what are the kind of challenges that you see still?

MR. GROSSMAN: Great. Thanks. And one of the benefits of being the last person on the panel to speak is I get to listen to all the insights from everybody else and then I get to comment on them. So thank you for giving me that opportunity as well.

Just turning back to the report, we only had it up for a short time, but if you look at the list of the 21 countries, one thing I noticed right away was as they mentioned, there's a very diverse set of countries ranging from, you know, middle to upper income countries, all the way down to quite low income countries. And generally speaking, there's a strong correlation between level of economic development and financial inclusion. But what you see in this case is that the number one, the number four, and the number five countries are all low income countries -- Kenya, Rwanda, and Uganda. And the countries around them are much wealthier countries -- South Africa, Brazil, Chile, Colombia, Turkey.

Now, why is that? In all three of those countries, financial inclusion is being driven by mobile operator-led mobile money schemes, at least in significant part. And I think that that's a very important thing to remember.

Leora, you were talking about the fact that only two percent of the accounts the world are mobile money based. And even in sub-Saharan African, we're only looking at around 12 percent. So there's huge opportunity to grow, and a big part of the issue is the regulatory environment. Sub-Saharan Africa has seen higher levels of growth of mobile money because more countries there have taken an enabling regulatory approach than in other parts of the world. And the truth is that while we often think of sub-Saharan Africa as kind of a monolithic low-income area, there are significant differences in the levels of economic development, both within sub-Saharan Africa as a whole, and among countries within sub-Saharan African that are achieving high levels of not just adoption of mobile money but actual active usage.

So if we look at the top 10 countries around the world with respect to not just mobile money adoption but active usage, and we define active usage based on usage within 90 days, which is a much shorter period than a bank account would traditionally be considered to be active or nondormant, which would be about a year. But in the context of the top 10 countries, you have some lower-income countries, like Kenya, Tanzania, Rwanda, and Uganda, but then you have other middle-income countries like Namibia, Lisutu to an extent. You have four countries in southern Africa, four countries in East Africa. You also have Cote d'Ivoire in West Africa.

But this is not just an African story. We also have Paraguay in South America, which was highlighted as a region that because they had more traditional banks might be less welcoming to mobile money. So I really want to emphasize the fact that while mobile money has really developed much more quickly in sub-Saharan Africa, this is no longer just a Kenyan story or just an east African story. And it's not even a sub-

Saharan African story. With the right enabling regulatory environment, mobile money can develop in diverse economic and geographical environments around the world.

Now, why is it important though that you have an enabling versus a nonenabling regulatory environment? Well, today, GSMA has a mobile money tracker, and we track all the countries around the world, which have at least one active mobile money service. And that can be a bank-led service or it can be an MNO-led service, or it can be led by some form of a third-party entity that's neither a bank nor a mobile operator.

Today, just over half of the countries that do offer mobile money products have what we consider to be an enabling regulatory environment. That's when there's a level playing field where banks and mobile operators and other third parties can all directly offer mobile money services. It's one where the services can be provided through a broad agent network where customers can be registered at an agent, where customers can go and cash in and cash out at an agent. It's an environment where there's a recognition that while you do need prudential regulations in place to safeguard customer funds and ensure the protection of customers generally, you differentiate between mobile money and banking because the risks are different and the funds are not being intermediated in the same way. And it's an environment in which interoperability, while very important, is not mandated at an inappropriate time or using a model that's not going to be commercially viable.

So around the world, not just in sub-Saharan Africa or in successful markets, but if you look at all countries with an enabling regulatory environment and all the countries with a nonenabling regulatory environment, active customer usage with respect to usage of an account within 90 days is over three times higher in environments that we consider to be enabling versus nonenabling. And as I said, the top 10 countries with respect to active accounts as a percentage of the adult population are all countries which have an enabling regulatory approach. And in all those countries, mobile operators are leading and driving financial inclusion with respect to mobile money.

So I think that's a very important point, but I don't want this to become banks versus MNOs type of scenario. And you hear this a lot. You hear banks think that MNOs are competitors, and sometimes MNOs don't want banks to get involved in mobile money. And personally, I think this is completely the wrong idea and the wrong approach. The potential for digital financial services and for mobile financial services is huge. The pie is very big and is just starting to get opened up. If banks and MNOs see and seize these opportunities, there's potential to really dramatically grow that pie and to target a huge unbanked and underserved market that is not currently viable. It's not viable for traditional banking institutions. Mobile operators have the infrastructure and they can build the mobile money infrastructure. These are the rails. This is the way to bring people out of the informal sector where they're saving money in their homes, under their mattresses, perhaps investing in livestock, other ways that people who don't have access or don't have access that works to formal financial institutions, you can bring them into the formal financial sector. Once that money is in the formal financial sector, first of all, from a macroeconomic perspective, it can be intermediated, which can contribute to economic growth.

Beyond that, there are a number of other major benefits because now banks have the opportunity to provide credit. They have the opportunity to provide savings. And the banks are offering these services. Insurance companies have the opportunity to offer these services as well.

Looking just at one example from Kenya, many of you are familiar with the service called MShwari. This was a tie-up between Safaricom's M-Pesa service, but the services offered is a banking service, a deposit and credit service by CBA, the Commercial Bank of Africa. CBA was not focused on having lots of small accounts. Once they set up the MShwari service, they went from 89,000 loan accounts to 897,000 loan accounts in one year, and deposits from the MShwari service in one year reached

24 billion Kenyan shillings, which is about $245 million. Most of this money is coming from under the mattresses and is coming into the formal financial sector.

KCB, Kenya Commercial Bank also set up a service that is now focused more on the SME market, providing loans of up to $10,000 U.S. dollars. And in the insurance market as well, you're seeing 17 million policies that have been issued, five services with over a million customers. So I really believe that we shouldn't focus on banks versus mobile operators, but the opportunities that both can work together to help facilitate real and full financial inclusion.

MR. DONNAN: Great.

MNOs, just for people who are not familiar with the acronym, stands for?

MR. GROSSMAN: Mobile Network Operator. My apologies.

MR. DONNAN: Okay. Not multilateral organizations.

I just want to come back to something Tidhar mentioned there and that really is India as a kind of interesting case study. And I'm going to throw it back to you, Leora, and really ask, okay, India comes up in the report as a country that's doing interesting stuff. So does Peru and so do a few others. But when you look out there, who are the -- which are the countries that are kind of leading the way now in financial inclusion? And you're not allowed to say Kenya.

MS. KLAPPER: So I'm going to touch on a continent that we haven't touched on yet, which is Brazil, for example. I think coming back to sort of the Gill Taman story, it's sort of the chicken and the egg in building a financial infrastructure. You look at Latin America where from 2011 we've seen double-digit growth across the region, really anchored by Brazil and Mexico we kept seeing big growth. And again, I don't have evidence of this, but the perception of this is there's an enormously high rates of digital wage payments and government transfer payments. Eighty-eight percent of adults in Brazil that receive a government payment receive it directly into an account at a bank or financial institution. You have an average length in American of about 40 percent of adults are receiving a digital wage payment, and as a result, really interestingly, Latin America is the highest region globally of people reporting swiping their ATM card to make a payment, the same way we do. And so you have many Latin American countries where half of adults are saying they regularly swipe a debit card to make a payment. And I think what's happening is that the government and private sector taking the lead in digitizing payments, and not only -- they're doing it for selfish reasons in the sense of, as was mentioned, there is a recent study that can save the government up to 40 percent of costs by digitizing their payments.

I was telling the story earlier, I was working in Bangladesh where I met a factory owner who pays $2.5 million every month in 500 taka notes, which is $5 bills. He has to close his factory for days to make these payments. And so it's benefitting the employer. It's benefitting the government. And as a result, you have all these people's new accounts, and the financial sector is responding by creating this POS, the point-of-sale infrastructure.

On India, the Findex says, well, honestly, we find the highest dormancy rates in the world, 40 percent of accounts. But I would say this is really an opportunity. These are brand new accounts. You know, when I was piloting in India we met, you know, especially women who had their first accounts, were very excited about it, and now the challenge for India is to really step up and create a purpose by continuing to digitize government payments, by the private sector beginning to digitize their payments, and by making it easier for people to keep their money in an account by developing -- one interesting thing with India which is very noteworthy also is that the percentage of adults with an account who say they have an ATM card, a debit card, is very, very low. And again, making these accounts more convenient for people to use and keep their money there by encouraging debit cards, by encouraging point-of-sale, et cetera.

Thanks.

MR. DONNAN: Go ahead.

MS. MICHAELS: Yeah. Just to add to the India story, yes, I mean, they've made a huge public government commitment to this. I'm sure you could argue that there's a degree of top-down mandate activity going on there which always has mixed success in the marketplace. But to their credit, India has also acknowledged that not everyone wants a bank account, and they have recently licensed 11 new players who they are calling payment banks, which could be mobile operators or other types of nonbank service providers. So those 11, I think they were licensed just in the last week or so, and so India deserves a lot of praise for acknowledging that customer choice is just as important as access to a bank account.

And yes, I totally agree with Leora's comment about not just government payments but also the ability to have other places to use your account, to use your card, the whole merchant acceptance side of things. This is one area where my colleagues at USAID are doing a great deal of work with Indian agencies on putting together an extensive digital merchant acceptance network for just this purpose.

MR. DONNAN: Jerry, do you want to just talk about the Indian example? How does that look from the mobile perspective?

MR. GROSSMAN: Sure. In my prior life, before I joined the GSMA, I worked on regulations, looking at branchless banking, electronic money, mobile money, whatever you want to call them, agent banking, different laws and regulations related to financial inclusion. And India, you've seen over time they have continually loosened up their approach, but it's been a very, very slow progression.

So in 2006, I believe, India initially released their regulations on what they called business correspondence, which were essentially banking agents. And when they first released them they were very strict. I believe they limited them to nonprofits and maybe a couple other actors. Most commercial actors -- stores, merchants -- were not permitted at all to provide services. It was extremely limited. Then a year or so later they said, okay, we'll let certain nonbank financial companies offer these services. Then a couple years later they said, okay, now we're going to let different shops in the community do this.

So slowly, slowly over time they started opening it. But it was always limited to banks. Then, eventually, they came up with some form of a payment provider, which was similar to a mobile money provider but it had very strict limits on the types of services, the values that could be transmitted through the service, and I believe there was even a prohibition on cashing out. So it didn't have the full functionality.

So now they've come to the recognition over time that these efforts needed to be widened even more, and so now they've come up with the payments banks, which have a lot of functionality. And they call them payments banks, and so you may think that they might intermediate funds the way that a typical bank would do, but they don't. They really operate generally like an emoney issuer, like a mobile money provider in that they can collect funds from the public but those funds have to be placed in banks or in -- actually, I think 75 percent of it needs to be placed in Indian Treasury bills or bonds.

So you see over time that they've started to move to a more and more open approach, and now you've seen with the 11 that were just licensed, I think five or six of them have mobile operators who are either leading the scheme or are very actively involved as partners in the scheme. So I think that there is a lot of promise going forward for mobile operators to help contribute to that financial inclusion.

MR. DONNAN: And Leora, correct me if I'm wrong, India now accounts for one in five of the world's unbanked; is that right?

MS. KLAPPER: Yes.

MR. DONNAN: Yeah. Yeah. I mean, it's fascinating. And they have 900 million cellphones in circulation as well. And according to The Little Data Book on Financial Inclusion, just two and a half percent of the population now has a mobile account, which is pretty astonishingly low.

Tidhar, since you were the man who brought up India, do you want to come back on India?

MR. WALD: I just want to mention one comment which is the issue of time. You know, what we're seeing is this scheme is just one year old, and the progress that's been made, including now with the channeling of cooking oil gas subsidies into those accounts has already achieved over $2 billion savings for the governments, and I'm sure we're going to see more and more as the government sees that they are making their operations more efficient. So there's the issue of time.

But also the issue, as Leora mentioned, you know, down the line these are people who are managing their financial lives, and I remember myself visiting a small corner shop. Not in India; this was in an Eastern African country that you actually surveyed. And walking to the store there was this woman had actually an account. She was walking to the store. She asked the salesperson who is also an agent to cash out the money, and then she chased it out and she asked him if she could pay and buy some products. And so with a translator, I asked her why don't you just pay for the goods transferring from your account to his account. She said, "I don't know. I mean, when you pay for something, you pay in cash; right?" And then I asked him why don't you accept payment? Why did you encourage her? And he said, "I don't know. I haven't thought about it."

So, you know, there are these issues that, you know, this is an ideal scenario. She has an account. He has an account. He's an agent. She lives in the village. She has money in this account but she still makes her payments with cash because this is the way people are used to. So I think it's a little bit premature to judge after one year of an incredible scheme. The scales, when we're talking about India, are just mindboggling. I mean, we're talking about the biggest financial inclusion scheme, the biggest ID, the Aadhaar scheme, which is the biggest in the world. We're talking about the biggest cash transfer scheme. So the scale is just so big and it's going to take a while to see all the results happening. But we're already seeing a lot of improvement.

MR. DONNAN: Okay.

I'm keen to open it up to the floor shortly, but I have one last question from the podium here that I'm going to reserve the privilege to ask first. So if you can get ready. And we do have some microphones that will come through the room when we move to the floor.

And I want to go back to something Leora said at the very beginning, is that in 2017, you're going to be considering products that you don't even know about right now. So I want to get each of you to think a little bit about the future of financial inclusion and a little bit about the cool new thing. I mean, is it going to be bitcoin? Is it going to be some kind of other sovereign digital currency that we're going to be talking about? The things that as you think about financial inclusion, what are the cool new things that you think about?

Loretta, maybe we'll start with you. We'll put you on the spot. The future of financial inclusion. What excites you?

MS. MICHAELS: Oh, geez. I didn't prepare for that one.

Well, I mean, without a doubt, the growing movement towards some sort of mobile device and the moving away from the branch-based activity is enormous. And, I mean, just the growth of smartphones, low-cost smartphones across the developing world is phenomenal. I mean, five years ago we would have never anticipated the number of smartphones in the developing countries right now and the numbers are just growing, amazingly so. And yes, the issue of digital currencies is definitely going to grow, but I don't think bitcoin is going to be the answer. I think there are going to be other areas. I think central banks are going to start looking at how to issue their own digital currencies. So instead of, you know, minting a bunch of quarters, they're minting digital equivalents of those.

So I think those are some of the innovations I think we're definitely going to be seeing. We're already seeing any number of applications out there on financial education, managing your money, et cetera. And like many things, these are going to transfer into low-cost, low-income regions and we'll find the same thing in other places.

So it's very hard to anticipate the future because new things are coming up every day.

MR. DONNAN: Yeah. And at this point I owe Loretta an apology because last night when we talked I did promise you that I wouldn't ambush you on stage.

MS. MICHAELS: Right.

MR. DONNAN: And did that.

Leora, since you brought it up, I mean, what are the great innovations? And I also say this mindful of the fact that sitting behind us over our heads is the Center for Technology Innovation here at Brookings that we're talking about.

MS. KLAPPER: No, I agree with -- I was scared I would be the last one. I have a few ideas.

I was piloting like the slum in Calcutta. Even in slum, the number of oversized Samsung knockoff smartphones was absolutely mindboggling. I think -- and the question is it'll blur mobile money accounts from bank accounts because people I surveyed in India were saying, "Well, I use my smartphone to make bank transactions." So they're harnessing the power and the convenience and the affordability of mobile accounts through a bank account. And so that distinction even exists.

I also think there is going to be exciting growth in the use of digital payments to provide basic services. You know, the growth of the prepaid electricity minutes providing electricity. So basically, other infrastructure providers will invest because people will prepay on their phone. The increase of sanitation in Kenya, the number of these. It's actually worth visiting the slum, one of these toilets. That you basically make this small payment from your mobile phone for it to be opened, which keeps it clean and safe. And there's something like 40,000 of them that have been built in the past year. And so the ability of the growth of financial inclusion to enable the provision of greater basic services to people.

MR. DONNAN: Mobile sanitation. I'm glad you explained that.

Jerry?

MR. GROSSMAN: Well, it may not be as sexy as talking about bitcoin, but I think just the move towards real full financial inclusion from what has traditionally been more person-to-person payments, airtime top-ups, and the types of services that mobile money really kind of started out as to moving into what Karen was talking about, providing real digital savings. I mean, we have, for example, an example where Tigo Tanzania decided to take all of the interest they'd earned on their trust fund where they'd stored the funds and pay it out to all their users. That's small customers, their agents, any user that had any money in the system. All of a sudden, people who never could have afforded to have a bank account and to earn savings on that bank account were suddenly getting interest. A small amount of interest? Sure. But they're getting something. And if nothing else, that helps with respect to inflation and maintaining the value of their money.

Savings, credit, and moving from some of the short-term, small emergency loan products to things more like microfinance, small and medium enterprise, access to financial services insurance. There's a long way to go with all these different products, and I think -- oh, cross border. We're seeing a lot of international remittance products, not just from wealthier countries to low-income countries, but we're now seeing with mobile money a lot of connections, particularly within sub-Saharan Africa, where you're seeing different countries in east and west Africa interconnecting services, either with the same provider or even with different providers, to be able to provide access in a region of the world where borders are kind of arbitrary. And people have been traveling and working and living across borders for many, many years, long before mobile money came along. So I think those are the exciting things for me.

MR. DONNAN: Okay. Karen, I'm going to come to you next, but first I want to come back to Loretta because she just told me that she has one more point and I did ambush you, and I owe you one.

MS. MICHAELS: Well, you didn't have to cut straight to me. It's not like some new innovation that I just thought of.

But I did want to make the point, partly following up on Leora that, you know, when we talk about financial inclusion, we -- the royal "we" tend to think about just the regulator, the financial regulator, or maybe the Fintek industry. But the reality is that certainly from a policy perspective, in fostering the growth of this industry and furthering financial inclusion involves multiple levels of government and involvement. And we can't forget that.

So a government might make a commitment to financial inclusion, but if it's only the financial regulator, they aren't the ones who are responsible for customer IDs in that country. There are multiple agencies that come up with customer IDs. There needs to be broad coordination between all those players.

Let's not forget that in many countries in the Middle East and North Africa, other government departments have guardianship laws that prevent women from opening up their own bank account without, you know, the permission of a male relative. So if we don't deal with those folks, then all these other great initiatives are not going to get anywhere. And then, of course, to Leora's point about all the different ways that these services can be used for education, energy, all sorts of things. So we mustn't forget that this is not just about talking to the finance guy; it cuts across all areas of a country's policymaking environment.

MR. DONNAN: That's a really interesting point that's made in the report. Actually, key point four of that need for coordination. I mean, when you get the kind of -- the central banks, talking to the finance ministry, talking to the communications ministries, talking to all the rest, I mean anyone who has worked in the developing world knows that coordination is not always easy.

Karen, I cut you off. I'm sorry.

MS. MILLER: You didn't cut me off. That's okay.

I think what's really exciting for us is what technology is going to allow in order to deliver for what women need at each stage of their life. So I think there's a real opportunity for multiproduct offerings that are delivered through digital platforms. We've talked about savings. We talk about credit products. Talk about insurance. And that could be health insurance products. It could be agricultural insurance products. All of those that can be delivered for a woman to address her needs for convenience, security, and confidentiality, we have the opportunity now. And so it's a matter of investment by the financial institutions and MNOs to think through this. It's the donor community saying, okay, if we're going to be investing in certain projects, they need to take into account the needs of women. And, of course, it is the regulatory community. And Leora used the word "game changer" before in terms of, you know, digital, but I would argue that the regulators have a game-changing role right now. And if they think about what is best for their entire population, there is going to be huge improvement and economic empowerment of all the citizens in their countries.

MR. DONNAN: Tidhar, we'll close with you before we go to the floor here. What was the cool, new financial inclusion product you were thinking about at 6 a.m. at Penn Station this morning?

MR. WALD: I cannot predict what will be the next big financial inclusion innovation, but I can predict where it's going to come from, and that I'm certain. And it's going to come from one of the countries that were surveyed in this report. One of the important parts of our work is facilitating knowledge exchange between governments, and when they come to us and ask us, you know, what others are doing, they're not asking us to know what the U.S. or Germany is doing; they want to know what other countries that are surveyed here, be it Brazil, be it India, be it China, and I think that's where the big next innovation will come from because this is where innovation is now happening because technology is now erupting and responding to needs that have been there for a while. And suddenly there's this surge on one hand of new innovation, but also government leadership that is trying to facilitate that happening. And with the incredible spirit of entrepreneurship that I'm sure all of my fellow panelists see and meet when we visit those countries, I'm sure that's where it's going to happen.

MR. DONNAN: Great. Well, let's open it up to the floor. If you can put your hands up. If I can ask you to kind of limit it to questions, to be snappy, and quick and to the point, and also to let me know which member of the panel you'd like to direct it to. And, of course, to introduce yourself. We'll take these questions in kind of groups of three and then we'll come back to the panel for responses.

So why don't we -- we've got a big cluster here in the front here. Why don't we start with the lady in the second row here?

SPEAKER: Thank you. I'd like to address my question, which I'll try to make a question and not a comment, to Tidhar. And it goes to the issue that both you and Leora and Loretta, who is my colleague at the Department of Treasury, where I work in the Office of Terrorist Financing and Financial Crimes dealing with new payment methods and financial inclusion primarily. And that is when I hear you talking about the digital financial sector, you're primarily talking about, it seems to me, the mobile technology and the rails. And I am wondering to what extent you are also working with governments or conceptualizing the notion of digital identification as an integral component of the digital financial sector. And when you talk about India, for instance, it's my understanding that the Aadhaar biometric identification system was a crucial component of the financial inclusion effort across the different governments that have come into place; that this isn't just a new financial inclusion initiative that, in fact, Aadhaar was revived, in part, because of the new emphasis on financial inclusion. But when

Leora is talking about kind of payment histories, for instance, either receiving payments from an employer or government payments, that in point of fact, those are digital identity points that can be used as, in part, you know, identifiers to build up an identity so that the government, when it makes payments, for instance, in the digital landscape, knows who it's giving it to and the financial institution also is able to.

So I'm a little concerned about to what degree there's stove piping and a separation of the issue of digital identity and know your customer. Loretta, you know, very articulately expressed the view that that was an integral component and I'm wondering if, in fact --

MR. DONNAN: Okay.

SPEAKER: -- that's a broad understanding.

MR. DONNAN: Okay. Well, digital identity, which is a question in the news via this Ashley Madison leak. Different element.

The second row there. Yes.

SPEAKER: Thank you. My name is (inaudible). I'm from CGAP.

I listened carefully and I thought it was great. And I think we have to return to the report a little bit. And the notion I want to return to is the notion of inclusion, access, and use. We haven't heard much at the panel level about how can we improve use, because even though we say that 30 percent, or 32 percent of people use a mobile product or mobile account once in three months, it means that a lot of people don't. And we've registered them.

So the question for me is what would you contribute to the sort of improvement in use that we need? It relates to the India example (inaudible) all over but we haven't heard much. And what we also haven't heard much of is actually the customer, except Karen came in with a specific customer group. And then what we also haven't heard much of, the people actually should implement this, the financial service providers. So if we can just get a few remarks from the whole panel or one person on that. Thanks.

MR. DONNAN: Sure. Okay.

And behind you there were -- just at the end of the row there. Just pass it in front of you. We'll get to you in the next round.

MS. RYAN: So I'm Beth Ryan from the Center of Financial Inclusion. Gerard asked about the customer. We could predict that. You can predict I'm going to ask about consumer protection. And so I would just like -- when I look at the report, I see that several of the countries that scored very well actually are very poor in consumer protection. And so just to comment on what needs to happen -- what do you see that needs happening, and what does need to happen in that area?

MR. DONNAN: Okay. Well, Tidhar, why don't we start with you on this question of digital identities?

MR. WALD: So I'm not an expert on this issue. I just want to say that as an alliance, as the Better Than Cash Alliance, we don't prescribe digital financial services solutions. We don't tell governments you should use this or that. And what we have seen is working with all the governments that are members of the alliance and others that are working with us more broadly, is that there are different solutions that work for different contexts with different logistical or different infrastructures. And so in some cases that's what works, and in other cases there are other solutions.

You mentioned that I naturally spoke about mobile financial services. There's definitely a contingency about the report but there are also other solutions that are working very well in other contexts and other countries. And so yes, definitely. There are the issues that I'm sure Loretta can address better around KYC, et cetera, but it doesn't have to be limited to necessarily mobile financial solutions. There are other solutions out there that work well.

MR. DONNAN: Jerry, do you want to just jump in on this question? I'm struck by one of the things that came up in the initial discussion was talking about the regulatory barriers to getting a SIM -- or was it you who mentioned it, Leora, the need for an ID to get a SIM card in some countries, and that is a barrier to financial inclusion. I mean, for you, Jerry, this question of identity and digital identities, how do you think about it?

MR. GROSSMAN: Thanks. I think it's a real challenge. And the issue of KYC in general, which I think is probably the best thing to talk about, is a real challenge because you have a balancing act. And Loretta talked about it earlier in terms of a risk-based approach. And I want to emphasize that the FATF back in 2012, they changed from recommending or allowing a risk-based approach to mandating a risk-based approach. They said not only is it something you should do, it's something you must do. You have to look at the different risks within your country, within the financial sector, different types of providers, different types of products, different types of customers, and you need to develop a risk-based approach because only by doing that can you dedicate different resources and different levels of resources to different types of risks based on the actual risks that are present there.

So the question is, how do you develop a risk-based and proportional KYC framework so that you mitigate the major risks while also not unintentionally preventing low-income people who want to use basic accounts from accessing the formal financial sector?

And this gives me a chance for a shameless plug because we just published a new report, a technical paper at the GSMA on proportional KYC. And it addresses this specific issue in the context of how regulators and assessors that are looking at this issue can try to address and create proportional anti-money laundering and countering the financing of terrorism frameworks. And it was literally just published within the last couple weeks. I'm a co-author for disclosure. Happy to talk about it more. But I think if you have a look at the report, I'm happy to discuss it further.

MR. DONNAN: Loretta?

MS. MICHAELS: Yeah. Just to add to that, one major challenge in a lot of countries, you know, everyone looks at India over the last couple years and they see Aadhaar, this digital ID with biometrics and they think ah-ha, that's the answer. The reality is that every country has multiple forms of IDs already in existing. Some of them digitized on databases. Some of them not. I was speaking with the World Bank guy who is going to put out the WDR shortly, and I think he mentioned that either 76 percent or 76 in total -- I apologize. I can't remember -- already have some form of digital ID. The problem that you find in a lot of countries is that you have multiple IDs that no one has access to. You've got voters rolls, birth certificate registries, school registries, municipal residency registries. And either these don't provide electronic access, or they just don't provide access to anyone. And so you've got financial service providers that want to be able to use this information for their own KYC purposes but they don't have access. And so that comes back to some of the coordination needed amongst the different levels of government.

MR. DONNAN: Let's go to this question of, how can you improve use? I am struck by the dormancy rates that you see in a lot of countries.

Leora, do you want to?

MS. KLAPPER: Sure. And I think we touched on some of the larger ones -- encouraging payments -- the receipt of payments, and encourage the sending. Globally, according to the Findex, there are over half a billion accountholders who are still paying their school fees in cash. So this is simply low-hanging fruit that hopefully the market will reply to.

I also want to mention another sort of elephant in the corner of use which is encouraging merchant acceptance of payments. It's one thing to say, oh, I never thought about it, but when you ask any merchant they say, "I'm not formalizing anything. I accepted a digital payment. I have an electronic track record. The tax authority will be on my doorstep tomorrow." The surveys of small merchants in developing countries, 70 percent report "I do my accounting in my head." So who knows how many different books they have?

But this has been a tremendous challenge globally. And I think this is also really critical to expanding use is somehow breaking, you know, figuring out how to encourage merchants who are often operating relatively informally to accept electronic payments.

MR. DONNAN: Jerry? Karen? Do you want to jump in?

MS. MILLER: Gearhart, thanks for asking that question.

In response also to what Leora just said, you know, that's the usage through the lens of digital payments. But when we think about once again the broader set of financial products, whether they're delivered via digital channel or not, how do we increase that usage? And I think one of the elements that we certainly need to look at is what is the corresponding financial education and consumer marketing that goes along with a product? So when it is a savings account, how do you encourage behavior and educate? If I put in, you know, a certain amount of money every week, I am going to be able to save for my children's school fees or my child's wedding in two years. How do you integrate that education that encourages that usage to drive the behavior and adoption that you want and what is going to be beneficial for the client? So I think we do need to look at the education element.

And then also, and we certainly find this when it comes to women, is how a product actually is marketed. We are working on an insurance product in Morocco right now, and it was actually a very good, well-designed health insurance product. And when we went in to do the market research with clients and we started describing the product, everyone's eyes lit up and they were like, "That would be amazing if we had a product like that." And we said, "Well, you do have a product already just like that." But because the consumer education, the marketing of the product was so complicated -- and we all know when you're talking about insurance it is very complicated -- but basically, taking a step back and revising how that product was communicated to clients has increased the claims for that product significantly.

So once again, sometimes it is just some of those tweaks that you need to make in order to increase usage.

MR. DONNAN: Jerry, do you want to jump in? And also, let's pivot a little bit to this question of customer protection.

MR. GROSSMAN: Sure. So first, on how we can improve usage. I think, first of all, you need to have a product that has a functionality that is really useful to the people that have the product. So if you just focus on getting someone a bank account but it's not an account that they can use, then what type of financial inclusion are we really talking about? If, like our panelists have said, you have to travel a long way to access the account, if there are monthly fees, if there's a zero balance on the account or a low balance on the account, people aren't going to want to use that account and it's likely that it will remain dormant. So functionality is a big part of that. And Gerard, you at CGAP, all the folks at CGAP are looking at human-centered design in the type of work that is going on in the digital financial services realm. And I think that's a really important part of it as well. Trying to really understand what the users' true needs are and working with the financial service providers to develop products that meet the actual needs of the unbanked and underserved.

Turning to consumer protection, I know that this is often an issue that is treated from the perspective of regulators only, and I certainly believe that regulators have a very important role to play with respect to consumer protection. But I would like to talk about something that the GSMA is doing in this space.

In November of last year, the GSMA launched the Code of Conduct for Mobile Money Providers. And it was endorsed by all the major mobile network operator groups that are providing mobile money services. So when you think about the Vodafone, Airtel, MTN, Orange, Tigos of the world, all of them have endorsed this initiative.

The Code of Conduct itself is a set of eight high-level principles, of which several of them are specifically focused on protection of consumers. The first principle focuses on the issue of safeguarding customer funds, which Loretta mentioned earlier in the context of deposit insurance. The last three issues are all very consumer-protection specific, focusing on disclosure, transparency with respect to fees in terms and conditions, teaching people how to use financial services safely. Leora mentioned PIN security as an issue that's very important, and I think that's one of the things that we're focusing on in the Code of Conduct.

Dispute resolution is another issue that we address in the Code of Conduct, and another issue is data privacy. How do we ensure that customers understand how their data are used and how to ensure that mobile money providers get the consent of users before they use their personal information in a particular way?

So this is an industry-led effort that complements and doesn't substitute for initiatives in particular countries, but I think that it's a very important initiative, and it's a very promising sign that all the major groups that are providing mobile money have endorsed this and have committed to improving their consumer protection practices.

MS. DONNAN: Loretta, do you want to jump in on this, on consumer protection questions? You were mentioning in your opening remarks the FDIC's interest in this.

MS. MICHAELS: Yeah, absolutely. I mean, with the advent of new types of players, there needs to be a new look at how those players are operating and how their funds are protected, et cetera. And so the one I mentioned earlier was the issue of deposit insurance for digital payments providers, and that's one of many areas that regulators from Basel on down to the national level are looking at these issues.

And then as Jerry said, there's the whole aspect of what is the service provider required for in terms of fee transparency, recourse, easy ability to reverse a transaction and that sort of thing. And these are all areas that the GSMA and others are looking at very closely right now in this era of digital transactions that happen immediately. You need a pretty quick recourse. And, of course, part of that involves customer education and how much of that is the responsibility of the service provider versus the individual and the schools, et cetera. It's a question that a lot of folks, including Beth's center, the CFI, are leading the way in looking at. But there's no clear cut, you know, this is the new answer and that's it. I think it's going to evolve as technology evolves.

MR. DONNAN: Okay. Should we go back to the floor? I promised you a question there for being polite. And we'll go to your neighbor. And then I saw -- there's a guy way at the back of the room, and I promised I would call him in later. So, yep.

VANESSA: My name is Vanessa. Thank you so much for coming and speaking about financial inclusion. It's a very educative talk.

My question -- I have two questions, and I'll begin with a comment. This outlook reminds me of the micro financing, microloans talks that happened several years ago. Very similar outlooks. A lot of people very excited. A lot of finances going into things like that because of the opportunities, such a big of a pie as you were saying that is available.

My first question is how are banks making money out of this? If there are accounts that are dormant, they're still providing that service. How -- what is their own incentive as a private sector to expand into this bottom of the pyramid communities in developing countries and in emerging markets?

And then the second one is when you have such positive outlooks and a lot of profit to be made, you usually have offshoots. And especially nowadays when you have the opportunity to be more of an entrepreneur, you have more technology to kind of create a banking payment, and especially when you go into communities when people trust you and you create all of this, they're going to start using your services. So the question with that is what advice would you give to policymakers and regulators, keeping in mind that this is not necessarily the capacity of implementation, but what advice would you give them concerning offshoots that could potentially harm communities instead of help them in emerging markets?

Thank you.

MR. DONNAN: Okay. Right next door?

MR. SCHIFFMAN: Thank you. My name is Henry Schiffman. I'm a lawyer and consultant to the IMF and World Bank on policy and legal reform in financial services.

Starting with the 30,000-foot view, you know, the biggest problem of development is governance, and probably one of the two biggest challenges in governance is corruption. And most of the developing countries are pretty corrupt.

So my question is, are any of your organizations doing any work in the scope of digital payments for combatting corruption? You know, it seems when you have indelible records and you can trace payments, that could go a long way. And so are any of your institutions focusing on this?

Thank you.

MR. DONNAN: Financial inclusion as a corruption buster.

And then all the way in the back we had two questions there. Or was it just one?

Just introduce yourself.

MR. NELSON: John Nelson with Wall Street without Walls. And I'm also the chairman of the National Disabilities Institute. So I specifically want to ask about people with disabilities being included in the data. I don't see any references at all that people with disabilities are disproportionately not banked or underbanked, and both the FDIC and FINRA, in India, I have recently released some data about this situation. So I wondered if anybody could speak to it, and specifically, Loretta, about domestic activities related to people with disabilities being underbanked or unbanked.

MR. DONNAN: Okay. Was there another question back there? Okay, we'll come back to you in the next round if that's all right. Why don't we just quickly run through those?

Should we start with corruption? Loretta, do you want to start with that?

MS. MICHAELS: That's right. Look at Treasury.

Well, I mean, I suppose Tidhar is going to be the better respondent for this, but absolutely. Digital financial services, with their ability to be traced, just completely changes the game for corruption. I mean, one of the early projects that I worked on was in Afghanistan helping to set up a mobile money payment system for the Afghan National Police because they were getting, you know, shipped out in cash -- payments shipped out in cash. And, of course, easily a third to half of their salaries were ending up in the pockets of their commanders. And so to suddenly be getting this full amount via their mobile money account was just a complete shock to the soldiers, not to mention their commanders. And that was a bit of a problem.

So without a doubt, you know, these services go a long way in addressing issues of corruption. Also, in reducing ghost accounts, whether those be salary accounts or subsidy accounts. But, you know, like everything, I mean, yes, these things will go -- these new technologies go a long way in addressing these problems, fixing the problems or at least providing a means to fix them. But all innovations, you know, make their own way. I mean, there are people, border guards in Kenya, demanding their bribes by M-Pesa now. So, you know, people will rise to the level of innovation however they can at the moment. You know, that's just the way it is.

MR. DONNAN: Tidhar?

MR. WALD: Yes. I can just concur that. Definitely. A lot of governments are interested in digitizing payments as means to reduce corruption and hence, transparency and eliminate, as Loretta said, ghost salaries or ghost recipients. I think one of the most interesting benefits not only sort of at the macro level is for a government to see that they have been able to save one billion or two billion dollars by digitizing payments. It's actually enhancing or improving the experience of individuals on a daily basis. If you are arrested or you are cited by a policeman and suddenly you don't have to pay them immediately on the spot but could actually then pay your fine via digital means to the government directly, then that reduces the incentive for a policeman to ask you for that fine on the spot and put it in their pocket.

The other issues that we've seen research done by World Bank and others is that as soon as you receive your payment directly to an account, you are not subject to requests for bribe by the person who is managing your cash transfer as the recipient. And so there is not a clear code to say, well, I will give you your cash transfer if you give me a small percentage out of it because you get that directly to your account and you don't have to negotiate your way to get what you deserve. But also, the government doesn't see complaints anymore because the recipient did not receive the full amount that they were due to.

MR. DONNAN: Leora, do you want to just talk inclusion and inclusion of people with disabilities and also this question of kind of the microfinance example of how do you make sure this helps communities rather than hurts them?

MS. KLAPPER: On the disability side, I agree it's hugely important. In specific work and research we've been doing it's of specific interest. Unfortunately, at least with the Findex data, the methodology is we add on the questions on financial inclusion to this preexisting Gallup World Poll Survey, which is relatively short and does not have robust enough questions on disability. We actually tried, you know, there is one sort of question on are you able to do the physical activities that people your age should be able to do? But we simply don't have the data. But I certainly agree that it's an important topic to explore.

In terms of opportunities to make money, and I'll sort of bring that question back to the consumer protection questions, something that keeps coming up every time I present the data, often the first question is there's this tremendous concern about -- and my mobile colleagues can talk about it -- mobile credit offerings keep saying how people are going to make money off of this. This is certainly one very quick way where people get on their mobile phone, even text-based offers of credit and all they have to do is click to get the credit and suddenly they're indebted. And certainly, people may not understand the credit terms or conditions, and often there are very high fees and interest.

And again, this goes back to just the general bread and butter. And also, I would even take your comment a step further and encourage the authors in the next rounds to explore in greater detail the consumer protection frameworks around particularly these new technologies and new products, and just make sure, you know, we need, both on the regulatory side, understanding of who's offering the products and how -- and again, from the consumer side, to make sure that there's transparency and disclosure and appropriate recourse in the case of trouble.

MR. DONNAN: Jerry or Karen, do you want to jump in on any of these questions?

MS. MILLER: I'll jump in on the microfinance and then, you know, how this has evolved and we're starting to work with, you know, more and more types of players as we've discussed today. You know, a perfect example of this is we started work a couple years ago with Diamond Bank in Nigeria, a very large commercial bank. And they wanted -- they were interested in serving the 56 million unbanked Nigerians, and they did have an interest in, oh, and what does that mean for women clients? We've never thought about women clients before.

But in order for them to invest in that market, they required a two-year payback period so that, you know, whatever investment was made, they could start making money in two years. This is a commercial bank, standard procedure there. And they weren't sure this was going to happen with developing a savings product for an entirely new segment they hadn't worked in before. So Women's World Banking brought in some philanthropic capital from Visa and Athena to invest in that upfront market research part and early product design, which then helped launch the savings product for Diamond Bank. And what has now happened is now that the product has been out for two years and it is a savings account that is opened up with a mobile phone. There's a field of agents that go into the open air markets across Nigeria. It takes about a minute to open up the account, and they have now seen through the savings behavior that this is a very viable market segment. So now Diamond Bank is investing millions of their own dollars in broadening the value proposition for the unbanked segment in Nigeria. So we are working with them on developing credit products for this market now. Commitment savings products. A youth savings value proposition. So sometimes when we think about the ecosystem and the different players it involved to make this work for all parties, we, you know, the donor community plays this critical role and the commercial bank plays that role and in the end, the client is going to benefit. So I think it's a really exciting opportunity bringing all these different players together.

MR. DONNAN: Jerry, the last word?

MR. GROSSMAN: Sure. Just two quick comments on combatting corruption. One topic we haven't really discussed much today is small holder farmers and small holder agriculture. And before I joined GSMA, I looked at this topic in the context of digital financial services in Nigeria, and Nigeria overhauled its fertilizer subsidy delivery program and they digitized it. And they found that they were able to get huge increases in the number of farmers who actually received fertilizer because they created a digital system that didn't eliminate corruption, but it dramatically reduced the opportunities for corruption. So there are many different sectors beyond just pension payments or salary payments. In the small holder financial sector as well there's a real opportunity there.

Quickly, on the issue of quick access to high-cost credit, I think that is something we need to take a look at. It's an issue anywhere in the world. In the United States, access to payday loans is a very controversial issue and disclosure and transparency over the cost of those loans, both over the specific time period and over the entire year if you roll it over over time. I think the transparency and disclosure are key, and I think that these things need to be monitored so that we make sure that the benefits exceed the negative elements of those types of services.

MR. DONNAN: Well, thank you very much. I think, unfortunately, we've run out of time. This is a huge and fascinating subject. We could spend the rest of the day discussing it. I'm sure the panelists are going to be here for a few minutes after the panel, and if you do have some questions, I'm sure they'll be open to addressing them.

But thank you very much for bearing with us. And Darrell, you had some --

MR. WEST: Yes. I just want to thank Shawn. Great job of moderating the panel, and also our speakers, Jerry, Leora, Loretta, Karen, and Tidhar. We really appreciate all the insight you offered. Suggestions from the audience, consumer protection, digital identity and other issues that we need to think about going forward, we certain appreciate that.

Anyone else who has suggestions in terms of our future reports, what we should be looking at, maybe things that we might have neglected in the first round, feel free to email us at fdipcomments@brookings.edu, and we look forward to hearing your reactions. So thank you very much for coming out.

(Applause)

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