Denise Dias

Denise Dias:
Hello, everyone. Thank you so much for the invitation and the opportunity to be here today. Let me see if I can use this.

I'll be opening the discussion. I'll be talking about very basic concepts and ideas for regulators. I'm not going to go to the details of this because I have a table full of lawyers, and I'm not a lawyer, so if the discussions go into the details, and since I have a message of motivation and the lawyers don't agree with me, I have my own lawyer. I brought my colleague, Michael Tarazi, who actually leads the work on branchless banking regulation at CGAP.

So, for the majority of you…Oh, whoops. What happened? Oh, this is not the latest version.

Anyway, let me go to the end of it, then. I just want to talk -- for the majority of you who do not know CGAP at all. Most of you -- probably everybody knows what the World Bank is, but CGAP is the institution housed at the World Bank, and it's actually a group of people, over 30 international organizations who believe in financial access and want to promote financial access. So, this is pretty much CGAP, and our mission and our only business is financial access -- promote financial access worldwide, and this includes mainly low-income people who are not integrated into the financial services -- former financial services.

Well, to begin with…Oh, my God. I'm having technology issues. Thank you.

I'm going to ask you -- I know many of you are regulators -- what do you look for? Usually, regulators look for financial stability in the first place. Many regulators -- and increasingly, a lot of the regulators around the world and maybe the U.S -- regulators are looking into financial access, too. How their regulators can affect and can promote financial access.

So, what we're talking about here today is pretty much what is the role of the regulator in promoting financial access but, at the same time, protecting the system, protecting the stability and market confidence. So, pretty much consumer protection is the convergence of these two policy goals.

We talked a lot about mobile finance, mobile bank, and mobile money, and you can find these expressions all over the world now. It's a hot topic, but when you come down to consumer issues, that's a very difficult question, and one that regulators are thinking about today.

So, I said that this is the convergence -- consumer protection is the convergence of these two policy goals, and CGAP refers to this convergence as "healthy access to finance," and that's pretty much what we should look for, and that requires a little bit of balance, and when you are looking into new regulations or changing the regulations, you should balance protection and your goal of including more people into your financial system. Usually, you have conflicts between different regulatory agencies in a country, or even within a regulatory agency in different departments, and usually, the goal that is forgotten is inclusion, is financial inclusion.

We hear a lot of the buzz around mobile payments, mobile banking, mobile phone, mobile finance -- we saw some interesting examples today -- but what is the difference for the consumer? What is the difference for you, who are regulating consumer protection? Pretty much, mobile finance offers remote, indirect, and technology-based financial services.

How is this different from traditional banking, and what kind of implications for you regulators -- for your regulations, what does it mean? So, basically, remote and indirect, in most cases that we're seeing around the world, this means not only having a device that is a card or a mobile phone, but also the use of [unintelligible] agents, as was mentioned here before. All models that we study at CGAP have the use of [unintelligible] agents, and that has a lot of implications from consumer protection perspective.

But first, before talking about the risks for consumers and the subjects that you're going to deal with now with a regulator -- regulations, we should remember the benefits of all this, because this is the most important difference between traditional banking and this alternative ways of delivering financial services, because the main thing is that these new models have the potential to serve the people who are not being served today for the various reasons. It doesn't matter if the bank is not interested or if the business case doesn't attract banks or other actors; the fact is that there is a lot of people out there who are not being served, so we need to look at alternative models.

So, you can also have other benefits besides the access itself. You can have more suitable services, more, like, simpler services, and sometimes they are way cheaper than the traditional services that you have out there. You can see this difference in pricing, the remittances market. You can have improved transparency; that can be done through the same technology that you use to deliver the services through alerts with your customers and real time information and pricing, and it doesn't stop here. You can have many other benefits also for regulatory purposes. For example, the most obvious one for me is combating the risk of money laundering. When you bring people who today are transacting with cash, which is untraceable, when you bring those people to transact through electronic channels, you can have a lot more control, so that is a very huge benefit for policy makers.

So, since we're talking about regulations and consumer protection regulations, regulations, in great part, are there to reduce the risks. So, let's put the benefits aside for the moment but not forget about them. We have conducted some research -- and we continue to conduct some research -- on consumer experience in branchless banking, and we have some evidence from some countries that are leading in this space, and we found some common problems that usually occur to clients that are using mobile banking and agents -- with new agents in these countries. So, I might mention some of them.

First, the client may not be able to transact for different technical reasons. So, that's a technical failure in the system or in the devices. Or the client's personal information is stolen or wrongfully accessed or shared with a third party. It can also happen that a [unintelligible] agent, where the cash-in/cash-out functions are conducted on behalf of the financial services company, that the agent charged an extra fee for conducting the service, and that was seen in some countries. Also, we have many cases that fees and prices were not fully and clearly informed at the points of service, including agent points.

Another common problem is lack of cash at the cash point, usually the agent point, so [unintelligible] agent who does not manage well the cash flow between its own business and the business of providing financial service, so you have lack of cash, or the client may be required or is strongly induced to buy another product while conducting a financial transaction, as such buying a pack of cigarettes before conducting the financial transaction.

Also, it can happen that the client is poorly treated by the personnel of the financial institution, so, for the agent -- for the [unintelligible] agents. The client may face financial loses if the provider, just like in the banking system, if the provider goes bust or due to some fraud. So, you can see some agent fraud, some fake agents. We had identified some cases of commercial establishments that were not agents at all, but since, in the country, the use of agents is so common that people are so used to go [sic] to agents, they go to a commercial establishment and conduct the transaction, but the establishment was not an agent.

So, what should be the priorities for regulators, taking into account those main problems that we can identify? The problems are not new, pretty much; they don't sound new to bank regulators. But taking into consideration, we identified eight priority areas that should be the focus of regulators concerned with consumer protection in this mobile finance world.

First of all, it's necessary to find ways to protect client funds. So, that does not mean that you need a bank, always, holding the account. CGAP thinks that non-banks have a role to play, and it's really, possibly, not that complicated to have those funds secured in very different ways.

Second, regulations -- we need to establish minimum requirements for security, reliability, and availability of electronic channels and transactions. This is way more difficult than protecting clients' funds, and easier said than done. So -- and usually, many of the obstacles for new models to take call [spelled phonetically] for or even to be created at all, are going to be obstacles in this second point. This goes hand-in-hand with the need to establish rules for protecting clients' personal information. Also, there will be need [sic] to create rules and actions that reduce agent frauds and misbehavior, and that's really possible. We can talk a little bit more about this later.

Rules can also require the provider to have clear policies and criteria to select agents, [unintelligible] agents, that I think we had a question about this today. So, providers should have their policies to select the agents. Comprehensive and clear disclosure may also be required in all places that the financial services are being delivered.

And also, when a problem occurs, and a client needs to file a complaint or solve a problem with the financial provider, the regulation can have a role in that in setting some minimal requirements for complaint-filing mechanisms.

And last, I think it's very important to talk about liability; who is liable for the financial services, liable for the acts of agents and all the third parties involved within the network. So, the regulation should really touch on that point.

So, you can see that this is not very different from what you're usually regulating traditional banking. The difference is what are your, actually, points of comparison? Are we talking only about clients who already have bank accounts and they're just moving into mobiles and they're well-educated and understand everything? Are we talking about the underserved or unbanked? What is that they get today? So, what are the risks that they face today? Ask yourself that first, and see how mobile can change that, and I'm sure you're going to find more benefits than risks for those consumers who are being underserved today.

So, asking those questions, you can begin having a proportional regulation, one that balances innovation and financial access, and that's pretty much it. It's just trying to find rules that really, really address the risks that exist in the segments, in the models that are being developed in the market, and you can see that not only the risks, but also the regulatory priorities, are not very different from what most regulators do nowadays with traditional banking. The difference is that you can reach and you can make possible that under-banked access financial services in a secure way with minimal regulations, and I think someone today mentioned about an approach that led a big -- yeah, it was you -- sometimes you may find it possible and really reasonable to just let models develop a little bit, and then you can monitor what are the real risks and then you can come up with a very proportional regulation.

So, I'll let my colleagues go into the detail, and I'm open to questions.

[applause]

Male Speaker:
Thanks.

[applause]

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