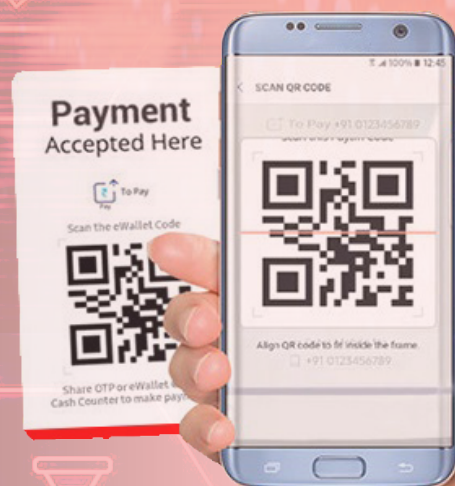


Report of the Webinar on Digital Payments Dialogue: Experiences among Developing Countries

GDC
GLOBAL DEVELOPMENT CENTRE



Digital Payments Dialogue: Experiences among Developing Countries

Report of the webinar held on 22 July 2021

Background

Digital payment channels are rapidly evolving in developing countries. They are at different stages of evolving an inclusive digital financial system. In addition to prioritizing and promoting digital financial services (DFS), an inclusive financial system needs to promote a well-coordinated and monitored national strategy with distinct action plans.

The more participants enter the space of digital payment value chain, the greater system functionality can be ensured with sufficiently low costs and a high probability of attractive returns. However, including more participants may also increase the system's vulnerability, particularly as networks and products become inter-operable. Providers may, therefore, need to make trade-offs between full security and low cost and/or robust functionality. As digital innovation is redefining what it is to be a service provider, financial regulators have to take a more proactive, data-driven approach to engagement with the industry.

Knowledge Sharing Points

- Experiences of moving from cash to digital transactions in different geographies
- How DFS has proven effective during the pandemic, its growth prospects beyond the pandemic especially to deal with issues pertaining to financial exclusion or underserved citizens
- Current and emerging developments for open innovations and technology
- Role of governments as an enabler and regulator
- Scope of partnership and collaboration between India and Africa for safe, secure and real time access to money by the customers



Ambassador
(Dr) Mohan Kumar

Chairman, RIS



With the right ecosystem and innovations, Asia and Africa can be rule setters in digital payments systems.



Opening Remarks

The webinar was steered by Ambassador (Dr) Mohan Kumar, Chairman, RIS highlighting that Asia and Africa, are emerging as the most important digital payments markets due to their young and growing population. He strongly felt that these continents should take the roles of 'rule-shapers' than 'rule-takers'. He also emphasized that governments must play the role of both facilitators as well as enablers. With appropriate innovations, Asia and Africa can be rule setters in digital payments systems thereby promoting harmonization of best practices to leverage an ecosystem for the marginalised and deprived.



Ambassador Amar Sinha

Chairman, Advisory Committee - GDC;

Distinguished Fellow, RIS



While companies will innovate, we need a very progressive regulator who thinks ahead of time, stays ahead of the curve and is a problem solver rather than a barrier creator.



While discussing further, Ambassador Amar Sinha, Chairman, Advisory Committee – Global Development Centre (GDC) elaborated that the focus of the webinar was on the entire ecosystem of digital payments, that is evolving around the world. He said that the webinar would explore the experiences from different countries, which can be of help and in learning from each other's advances and innovations brought in the areas of financial inclusion (FI). India and Africa have lots of commonalities and focus on new modalities of payment, transacted between individuals and peer-to-peer. He suggested that the webinar would look into the entire spectrum of the regulatory systems, role of mobile service providers, and innovations that have evolved in the DFS ecosystem of India & Africa. Future of digital payments depends largely on its people, and the continents of Asia and Africa are envisaged to astound potential market for DFS.

The webinars value proposition was attuned by distinguished invitees from India and Africa:

- **Professor D. Janakiram**, Director, Institute for Development and Research in Banking Technology (IDRBT), India
- **Mr Ritesh Shukla**, CEO – NPCI International Payments Limited (NIPL), India
- **Mr Ganesh Ananthanarayanan**, COO, Airtel Payments Bank, India
- **Mr Kennedy Kipkemboi**, Regulatory Specialist, Mobile Money Programme, GSMA, Kenya
- **Mr Mackay Aomu**, Director, National Payment Systems, Bank of Uganda, Uganda
- **Ms Olanike Kolawole**, Head, Agency Banking, Consumer Bank, Ecobank Nigeria Ltd., Nigeria
- **Dr Emmanuel Mungongo**, Senior Principal Officer, Bank of Tanzania, Tanzania

PANEL DISCUSSION



Gist of Deliberations

- IDRBT has been playing an instrumental role in digital payments technology space in India. The institution pioneered National Financial Switch (eventually being transferred to NPCI, Indian Financial Technology and Allied Services (IFTAS)).
- One of the key achievements under FI in India is Jan Dhan Yojana, through which nearly 40 crore bank accounts have been created to move the common people in the FI space.
- Transactions through cash by common people are still prevalent. Recent report of RBI highlights the digital payment challenges that are being faced by different digital payment systems. Therefore, it is essential to bring in qualitative change vis-a-vis shift to bring the marginalised sections into the fold of digital infrastructure. Consequently, the government is pumping a large amount of money for giving subsidies to the poor and marginalised sections. In this context, it will be more effective if the subsidy amount is only handled as part of the Central Bank Digital Currency and develop an infrastructure through which digital wallets can be created instead of bank accounts. These wallets can be connected with the national block chain infrastructure or any other secured infrastructure. These digital wallets can bring down the load on regular financial infrastructure of the bank in holding the accounts, widen financial inclusion and tracking of the subsidy money, plug leakages and other associated things.
- This will enable a mechanism for regulatory policies in place by the government for linking digital payments to the digital wallets. There is a need to create a next generation infrastructure that actually moves all subsidies into the digital currency space. Everybody who is able to do a video Know Your Customer (KYC) automatically gets a digital wallet that becomes the single point of handling as far as the government subsidies are concerned. This could also provide a mechanism by which the whole infrastructure can control track of what is happening, and stress more on the mechanisms of regulated exchange. It is envisaged that this will bring in efficiencies beyond holding bank accounts.

Professor D. Janakiram

Director, Institute for Development and Research in Banking Technology (IDRBT), India



As part of digital payments, subsidies can be transferred by linking it to digital wallets connected with national block chains.





Mr Ritesh Shukla

CEO - NPCI International Payments Limited (NIPL), India

With an ever rising increase in mobile and internet penetration in Africa and Asia, there are greater scope and emerging opportunities to extend & expand engagement.

Gist of Deliberations

- Technology is a big enabler in today's times, growing mobile and internet penetration have helped create better access and develop new use-cases. These have been layered with young population in India and Africa. Youngsters, as early adapters, have increased the role of technology in FI. All these factors make technology the true enabler of FI.
- Unified Payments Interface's (UPI) success in India demonstrates the role of technology in driving FI:
 - o UPI has delivered commerce worth \$457B in 2020 (equivalent to 15% of India's GDP), 40% of this is Person to Merchant (P2M) transactions. It has been used by over 90 million Quick Response (QR) enabled merchants spread across the rural and urban landscape. This scale has been achieved in short span of time at a Compound Annual Growth Rate of 285% since 2017
- All this was enabled by **7 key aspects of UPI**:
 - o **API driven**, for easy integration
 - o **Interoperable**, which drives inclusion at eco-system level
 - o **Real-time**, to ensure faster movement of funds
 - o **Runs on aliases**, hence no need of sharing bank account or card number. Providing – simplicity, safety and security
 - o Operates on **Open Banking** ethos and Apps are mapped to bank accounts, so there is no need to load or reload funds
 - o Can be **integrated with multiple servicing channels** including mobile, internet, including USSD based transaction mode – giving users wider choice
 - o It offers **collaborative engagement model**, that allows participant drive innovation in UI and UX driving traction
- NPCI has historically deep rooted ties with Africa
- Africa with 54 countries in continent is diverse and vibrant; it is home to over ~1.3 billion people
- All this coupled with current levels of financial inclusion (35-40% banked), makes Africa an exciting place to be for NPCI International and evince collaboration in areas of:
 - o Acceptance to enable seamless usage of RuPay Cards,
 - o Connecting UPI with other such networks to enable real-time cross border payments
 - o Collaborating to create UPI-Like Ecosystems in Africa to create interoperability and deliver same benefits and experience



Gist of Deliberations

- India has more than 200 million customers who are financially excluded and underserved which forms the key target segment for Airtel Payments Bank (APB). More than 2/3rd customers belong to Tier 5 and 6 markets. These customers are served in fully digital and secured manner through the banking correspondence (BC) agents.
- APB has set up a distribution structure with half a million BC agents in rural India. Effectively, India has only 1 ATM for 10 villages in the country. Given the vast population, length and breadth of the country, travelling to the nearby ATM, and withdrawing cash creates multiple challenges for the customers.
- Riding on the platform of NPCI, APB has created BC agents where the retailers are very close to the customer's residence. The customer can go to these retail points and give the fingerprint which works as a biometric identity for the customer to withdraw cash in a fully secured and safe manner.
- There is no concept of MPIN or OTP which has bigger tendency of misappropriation. This is effective with low-income consumers in rural areas. This is one of the key platforms on which APB has been built. An additional layer of safety is being imposed by going digital.

**Mr Ganesh
Ananthanarayanan**

COO, Airtel Payments Bank, India

UPI is the single largest innovation, which the world has recently seen in the financial services space. It is a key element for driving digital growth.

Gist of Deliberations



Mr Kennedy Kipkemboi

Regulatory Specialist, Mobile Money Programme, GSMA, Kenya



The biggest contributor to mobile money growth has been sub-Saharan Africa, East Asia and Pacific. South Asia brought in 16 million new registrations for mobile money which is quite phenomenal.



- Mobile money industry globally has 1.2 billion registered customers under GSMA. Nearly 2 billion dollars are being processed daily by the mobile money industry. During 2020, especially due to COVID crisis, international mobile money transfer has seen a jump of 65%.
- The biggest mobile money contributors are Sub-Saharan Africa and East Asia. Among the countries, the highest additions to the industry are Latin America which was previously being left behind. South Asia has been phenomenal in bringing around 16 million registered customers.
- In Africa, early adopters of mobile money were: Kenya, Uganda and Tanzania followed by Ghana, Rwanda and Zimbabwe. Limited adoption of mobile money has been seen in Nigeria.
- There are many mobile money models: Mobile Network Operators (MNO) led, Bank led, Payment Services Banks (India following this model), and emerging ‘controlled’ model. MNO has been the most successful model with significant footprint in many countries and many lessons can be learnt from this model. In the context of COVID-19, various countries instituted policy initiatives such as: fee waivers, increasing transaction and balance limits, social and humanitarian transfers, flexible KYC and on-boarding, promoting digital and electronic payments, promoting interoperability, mobile money essential services declarations and support to agents etc. These initiatives have proved to be critical to SMEs and MSMEs who are now able to use mobile money due to increased transaction and balance limits. Regarding flexible KYC and on boarding, countries like Ghana have adopted the Indian model of remote on-boarding and the same is also being learnt by Sub-Saharan Africa.
- Regulatory policies should be in place to have an open and level playing field for innovative players to come in. The regulation should allow cost effective and new innovations. It’s important to have a test and learn approach before launching any new innovation in the market. Mobile money innovations should be technology neutral; what is known as digital payments today might not be digital payments in 10 years from now. Policy regulations and relations should consider that innovation is very fast paced and regulation should be an enabler in the entire process of growth. Interoperability is also a key parameter for policymakers to have these conversations. It has been noticed that countries with proportional and progressive regulations have higher mobile money adopters.

Gist of Deliberations

- Currently, there are 30 million mobile money subscribers, and it has been observed that about 70% of the adult population tend to use mobile money service every month. A lot of growth in the field of mobile money is expected in the near future.
- Agent banking is present across the country extending banking services to the unreached population, where more than 85% of cash deposits are coming through these agents.
- Significant growth has been observed in the fields of Fin Tech, and currently over 100 of such institutions are operating in Uganda. Bank of Uganda (BoU) has regular engagements with Fin Techs through its 'CEO-Forum' enhancing its collaborative arrangements with Fin Tech. The process has been initiated to provide licenses to the Fin Techs, which meet the criteria set by the bank. Recently, a regulatory sandbox framework has been launched that sets the rules and requirements and allows innovative financial solutions to be tested in a live controlled environment. The regulatory sandbox will be under the BoUs oversight and subject to necessary safeguards. Uganda hopes that this will be an area that will promote innovations in the country.
- Until 2020, BoU was working in collaboration with the Telecom Regulatory Authority and adopted an indirect regulatory framework for mobile money service providers and digital financial services. Uganda adopted mobile network operator (MNO) model through which mobile money service providers were allowed to partner with banks, open and maintain escrow accounts with the bank to the extent that credit money issued is backed-up by money in the escrow account. Mobile money guidelines were issued to support this process.
- The country enacted the National Payment Systems Act in September 2020. The Act which took effect in March 2021 streamlined the institutional framework for mobile money regulation by giving the BoU full licensing and regulatory mandate over parent service providers and payment systems operators.
- At present, BoU has a three tier (small, medium and large) categorisation of electronic money issuers. In the current system, the capital required for the annual licences is a challenge for some service providers. BoU has realised this concern and it is in a process of moving to six tier (comprising of micro, small, medium one, medium two, medium three and large money issuers). It is envisaged that this new design will provide opportunity to many more service providers to get on board. The key challenges faced by Uganda include regulatory gaps, appropriate infrastructure, issues of connectivity and interoperability in the digital financial space. Moreover, there is ample need to raise public awareness on the availability digital financial services.
- BoU is also looking to work with relevant stakeholders in order to come up with the needed regulatory reforms, resolve issues of infrastructure, fair competition and consumer protection.



Mr Mackay Aomu

Director, National Payment Systems,
Bank of Uganda, Uganda

“Mobile money continues to serve the mass market, both people at the bottom of the pyramid as well as those at the higher levels.”



Ms Olanike Kolawole

Head, Agency Banking, Consumer Bank, Ecobank Nigeria Ltd., Nigeria

Digital payments are a game changer for the developing nations.

Gist of Deliberations

- Agency banking model is a function of certain commercial banks in Nigeria, which is regulated by the Central Bank of Nigeria, which allows banks to contract third-party retail networks as a banking agent.
- Agent banking is gradually becoming one of the top businesses for individuals and the cost of operation is relatively low.
- There has been significant growth in the payments industries like instant payments, POS transaction, Mobile-Inter Scheme Transfer etc. in terms of transaction value, volume of transaction and number of agents.
- Digital payments are a game changer for developing economies. The industry will continue to be one of the biggest job creation avenues in the developing economies.
- FI is still massively untapped, and there are a lot of opportunities to invest, provide service to the grassroots and remain profitable.

Gist of Deliberations

- It is important to identify the processes through which dependence on infrastructure is reduced in DFS. Simultaneously, it is significant to leverage technology to address specific barriers of the marginalised economic segments.
- There is an emerging need and greater scope to explore mutually as developing countries on how to use the data generated by DFS on improving digital payment product design and address the remaining barriers of financial access.



Dr Emmanuel Mungongo

Senior Principal Officer, Bank of Tanzania, Tanzania

There is scope for cooperation among countries in designing digital financial products.

Way Forward

- The emerging challenges in the space of digital payments highlighted by eminent speakers and key recommendations that came during the deliberations, paves way for further dialogue by GDC in association with Institute for Development and Research in Banking Technology (IDRBT) and NPCI International Payments Limited (NIPL). NIPL along with GDC can together connect with the Central Banks of African Countries and extend assistance by providing UPI like solution for FI and Displacement of Cash with regulatory body to control the usage for mobile money.
- Ecobank Nigeria showed interest in understanding Indian digital payments solutions, with appropriate intervention from GDC, which can be of use to them.
- In the entire process, GDC plans to curate, engage with distinguished Indian invitees, and explore the possibility of replicating India's success stories in the areas of regulation, technical collaboration, capacity building and thereby support interested partners from Africa for co-learning and suitable adoption of relevant options as offered by different financial institutions.
- The webinar was attended and appreciated by audiences from Japan, Russia, Greece, United Arab Emirates, Malaysia, Egypt, Myanmar, Uganda, Nigeria, Mozambique and Brunei. GDC plans to engage with experts from other partner countries for future scope of collaborations under South-South Cooperation.

About GDC

Global Development Centre (GDC) established at RIS aims to take the Indian development experience to other countries. The Centre will contribute towards evolving an alternative development paradigm anchored on the virtues of inclusiveness and sustainability. It strives to promote indigenous alternative development programmes/flagship missions advocated by India for their possible replication among its partner countries in Asia, Africa and Latin America.

GDC envisages institutionalising knowledge on India's development transformations and external cooperation. The Centre shall support India's efforts in creation of global public goods and help in establishing global relevance of India's development efforts. It will also help India learn from the experiences and development initiatives of other countries.

The broad thematic focus/verticals for research and advocacy under GDC include: Health, STI & Digital Technologies, Agriculture and Development Practices & New Frameworks.

For more information about GDC and its work programme, please visit its website: www.gdcin.org



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