What Is Meant by “Digital Financial Inclusion”? (Part I)

“Digital financial inclusion” refers broadly to the use of digital financial services to advance financial inclusion. As specifically addressed in this Issues Paper, digital financial inclusion involves the deployment of digital means to reach financially excluded and underserved populations with a range of formal financial services suited to their needs, delivered responsibly at a cost affordable to the customer and sustainable for the providers. The essential components are as follows:

**Digital transactional platform.** A digital transactional platform enables a customer to make or receive payments and transfers and to store value electronically through the use of a device that transmits and receives transaction data and connects—directly or through the use of a digital communication channel—to a bank or non-bank permitted to store electronic value.

**Device.** The device used by the customer can be digital such as a mobile phone that is a means of transmitting data and information or an instrument such as a payment card that connects to a digital device such as a point-of-sale (POS) terminal.

**Retail agents.** Retail agents that have a digital device connected to communications infrastructure to transmit and receive transaction details enable customers to convert cash into electronically stored value (“cash-in”) and to transform stored value back into cash (“cash-out”).

**Additional financial services via the digital transactional platform.** A digital transactional platform may be leveraged by combinations of banks and non-banks to offer additional financial products and services to the financially excluded and underserved—credit, savings, insurance, and even securities—often relying on digital data to target customers and manage risk.

How Digital Financial Inclusion Affects the Financially Excluded and Underserved (Part II)

Digital transactional platforms offer the possibility of providing the financially excluded and underserved with access to formal financial services. The typically lower costs of digital transactional platforms—both to the provider and thereby the customer—allow customers to transact locally in irregular, tiny amounts, helping them to manage their characteristically uneven income and expenses. The payment, transfer, and value storage services embedded in the platform itself, and the data generated, enable additional financial services tailored to customers’ needs and financial circumstances.
Digital financial inclusion reduces the risks of loss, theft, and other financial crimes posed by cash-based transactions, as well as the costs associated with transacting in cash and using informal providers. It can also promote economic empowerment by enabling asset accumulation and, for women in particular, increasing their economic participation.

Digital financial inclusion also carries risks for the same vulnerable financially excluded and underserved customers that benefit from the opportunities. Agent-related risks figure among the most distinctive compared with the risks posed by conventional financial services.

**Key Regulatory Issues in Digital Financial Inclusion (Part III)**

The key regulatory issues raised by digital financial inclusion relate to agents, anti-money laundering and countering financing of terrorism (AML/CFT) rules, regulation of e-money, consumer protection, payment system regulation, and competition. Many of these issues fall within multiple regulators’ competencies, requiring effective communication and collaboration among them.

**Models of Digital Financial Inclusion and Their Risk Implications (Part IV)**

The models of digital financial inclusion emerging in countries around the world introduce new market participants and allocate roles and risks (both new and well known) in different ways as compared with traditional approaches to retail financial service delivery. Some risks are common to most or all approaches to digital financial inclusion. The engagement of mobile network operators (MNOs), whether as e-money issuers or as a channel for a bank or similar provider, presents certain potential risks that differ from approaches without MNOs. Some risks are triggered by the model of the digital transactional platform in question. Finally, some risks relate to the provision of additional financial services beyond the payments, transfers, and value storage services offered by the digital transactional platform itself.