Keynote speech

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Third GPFI Conference on Standard-Setting Bodies and Innovative Financial Inclusion: New frontiers in the supervision and oversight of digital financial services

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Ladies and gentlemen,

Let me open by saluting this gathering. It brings together not only leaders on the frontlines of adapting policy, regulatory and supervisory frameworks at the global and country levels to enable safe and sustainable innovation reaching the unserved and underserved, but also members of the development community, who recognize the contribution that the usage of formal finance can make to inclusive growth, by allowing poor people to manage shocks, increase incomes, and build enterprises. As the leader of an organization established to facilitate responsible and inclusive financial market development, this combination is inspiring to see.

I would also like to thank Mr. Caruana for his welcoming remarks, which resonate for Tanzanians. Our experience echoes at the country level Mr. Caruana's opening observation – how much has changed in digital financial inclusion in just the last two years! Two years ago, Professor Benno Ndulu, Governor of the Bank of Tanzania, was invited to the BIS for the third closed-door, high-level meeting of the Chairs and Secretaries General of most of the standard-setters with us today, convened by Her Majesty Queen Máxima of the Netherlands, the United Nations Secretary General's Special Advocate for Inclusive Finance for Development (and Honorary Patron of the GPFI) and Dr. Stefan Ingves, Chairman of the Basel Committee on Banking Supervision. At that time, global attention was already focusing on Tanzania because of our recent rapid progress on financial inclusion generally and on digital financial inclusion in particular.

There has been further process since then. Let me share with you some of the most recent numbers on financial inclusion in Tanzania: the percentage of account holders increased from 17 per cent of Tanzanian adults in 2011 to 40 per cent in 2014, attributed almost entirely to the inclusion of mobile accounts in the 2014 data (32 per cent of Tanzanians in 2014); an impressive 63 per cent of Tanzanians received domestic remittances through a mobile phone in 2014. According to the Bank of Tanzania, active users of mobile financial services reached over 60% of the adult population by June 2016.

How did this happen, and what can the world learn from our experience?

Allow me to introduce one topic that we'll come back to at the end of the day today – interoperability of digital transactional platforms. In the Tanzanian case, I am referring to the payments and value storage platforms offered by competing mobile network operators (or MNOs), colloquially referred to as 'mobile money'. We Tanzanians, though we tend to be modest people, are legitimately proud to be the first country in the world to achieve, in the last two years, interoperability among all mobile money offerings in the market.

I come at our interoperability story from the perspective of what the development professionals in the room know as a 'market facilitator'. The Financial Sector Deepening Trust works to build the new kind of relationship, to which Mr. Caruana alluded in his welcoming remarks, between innovative financial service providers like our MNOs on the one hand and our policy makers, regulators, supervisors and payment system overseers on the other.

In Tanzania, these public bodies did not attempt simply to command this to occur (as has been tried – with market-stifling effect – in other countries in Africa and elsewhere). Instead, the Bank of Tanzania, capitalizing on one of its most valuable assets – its independence – gave its enthusiastic blessing to a neutral convening of interested parties spearheaded development partners – the Bill & Melinda Gates Foundation and the Financial Sector Deepening Trust (my own organization, established by the UK Department for International Development and supported by multiple donors) who funded the IFC to manage the initiative. These parties funded and provided technical assistance to develop, for example, the system rules needed for the MNOs to interoperate and to connect with the banking system – rules dealing with participation criteria, governance, operational and technical requirements, dispute resolution, clearing and settlement, reporting, pricing principles and risk management.

Another critical element in the Bank of Tanzania's approach was the proactive outreach to coordinate with other relevant authorities including non-financial authorities. Having harmony with the regulation and decisions of the Tanzanian Telecommunications Regulatory Authority from the beginning was critical, not only to assure that the rules developed would permit the MNOs' back-end systems to 'talk' to core banking systems, but also to assure the robustness of security protocols and the like.

The success of our interoperability journey, though, was not just reliant on a neutral and proactive convener of innovators and other relevant financial and non-financial public authorities. Another key element has been a keen awareness of the demand side: without customer-centric innovation, products that excluded and underserved clients actually use on a sustained basis will not emerge. Although it's still early stages, indications of usage patterns signal we're on the right track, with roughly two million interoperable transactions currently taking place per month.

As you will hear later, with Tanzania's progress on the usage of digital accounts made since 2014, and on their interoperability, Tanzania is now shifting attention to other financial services to serve the needs and aspirations of lower-income Tanzanians, in turn stimulating the broader economy in which their livelihoods are embedded. The sphere of regulatory, supervisory and oversight bodies that need to join in the coordination effort has also broadened, as it has now become possible to access interest bearing savings, digital credit, insurance via mobile – with more new products targeting base-of-the-pyramid customers on the horizon, including investment products and novel hybrids.

Today, such products serve predominantly customers of a single MNO; but interoperability among mobile money platforms raises the prospect of vigorous competition among them, calling upon the Tanzanian Fair Competition Commission to ensure a fair playing field is maintained.

Consumer protection for the new users of digital finance is another area being given serious attention. And, candidly, there is much to be done to unify what is currently quite a fragmented picture, with gaps in authority that raise the spectre of regulatory and supervisory arbitrage and overlaps that introduce potentially innovation-hampering ambiguities and inefficiencies for providers and supervisors alike.
Neither the new products and bundles of products, nor the increasingly complex ecosystems of bank and non-bank providers involved, nor the new users themselves neatly fit within old consumer protection and market conduct paradigms designed in developed economies for legacy financial products and providers. The stakes are high here on the digital frontier, as the customer value that drives usage of digital financial services evaporates if the products actually harm users.

Given the rapid scaling of mobile money in Tanzania (far eclipsing growth in retail banking), questions arise even as to the possible systemic dimensions if customers' funds are not adequately protected. Last month Tanzania hosted in Zanzibar a meeting of the Africa Regional Committee of the Basel-based International Association of Deposit Insurers, attended by IADI's new Secretary General David Walker. Concerns were raised as to the adequacy of trust arrangements for mobile money customers' funds. And although ground-breaking policy change affords Tanzanian mobile money customers payments in lieu of interest on their e-money balances, we are still a long way from a practical means to extend deposit insurance to them.

Such regional conversations are vital for us, as digital financial services are fast becoming a cross-border affair. As of last December, the MNO industry association GSMA reported that there are now at least 21 active money transfer corridors in sub-Saharan Africa, many in East Africa, and cross-border money transfers have been the fastest growing mobile money product for the last two years. Money transfers are taking place between countries by the same MNO, but are also increasingly being enabled across networks. These transactions are facilitated by hubs that manage the transfers between networks as well as the treasury and foreign exchange functions. These hubs are generally registered in other jurisdictions, with the MNOs seeking regulatory permission to engage in cross-border transfers in their own markets.

Less than one month ago, our generous hosts for this conference welcomed back the Chairs and Secretaries General of the SSBs with us today for the 4th high-level meeting on financial inclusion, convened here in Basel again by Queen Máxima and Dr. Ingves. GPFI Implementing Partners AFI, CGAP, IFC, and the World Bank Group all participated, and CGAP presented on what's happening with cross-border mobile money in East Africa.

To understand current dynamics in the market, CGAP undertook a 'back of the envelope' exercise to cost and test small-ticket money transfers (just US$ 10) between the markets of the East African Community. The exercise demonstrated that this product is not yet fully established, with money transfers between countries within the same mobile network going through successfully in all cases, but (for the time being at least) high failure rates for cross-operator, cross-border transfers. Yet CGAP learned that where the service is functioning, it is at an all-in cost to customers roughly comparable to existing services, but for much smaller amounts – amounts small enough to be useful to very poor people. In theory, MNOs, with their large existing cash distribution networks and high volumes of domestic payment transactions, should be able to bring the cost of cross-border money transfers down considerably, provided there are systems in place to address friction points and risks – many of them on the agenda for discussion over the next day and a half.

Unfortunately, not all the news from my country and our region on the topics we'll be discussing together is good: as the inclusion picture improves domestically, Tanzania and the African continent face the threat of decreasing access to correspondent banking, with potential adverse ramifications, not just for financial inclusion, but for development generally and for our integration into the global financial system. For a market facilitator like us, the phenomenon misleadingly called 'de-risking' by the exiting banks is of grave concern.

Will further innovation come to the rescue to address this issue? The unfolding, market driven regionalization of mobile money and digital financial services more broadly in East Africa that I just mentioned gives me hope, and I am eager to learn more about the FinTech revolution across the globe and the responses of policy makers, regulators, supervisors and overseers during the course of the conference. By sharing what we're learning – and learning from each other – we reinforce our collective ability to keep pace with exciting change.

Are there concrete lessons that we can share today? Definitely, we have these lessons. Let me focus on a few of these: First, it is clear to me that digital finance has taken markets (including Tanzania) to a point of no return, as demonstrated by the high adoption rates. Second, technology and innovation have allowed markets to move quickly and in a dynamic manner as compared to the traditional banking and insurance worlds. Third, cooperation and collaboration have helped in identifying synergies, knowledge transfer, and improved compliance, while instilling good practices in our markets.

Whilst technologies and innovations are moving very fast, equally regulators, supervisors, payments overseers and standard-setting bodies have to increase their pace. Let's work together to minimize the risks and maximize opportunities for poor people who need the most. It is my sincere hope that this conference will advance all our thinking regarding such solutions.

I wish us all constructive and fruitful deliberations in the course of this conference.
I thank you for your attention.

"ASANTENI SANA"