

## Working Paper

# Digital Financial Services: Payment Aspects for Financial Inclusion in the Arab Region

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Carol Coye Benson



صندوق النقد العربي  
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## **Working Paper**

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Carol Coye Benson

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## Acronyms and Abbreviations

ACH	Automated Clearing House
ACPSS	Arab Committee on Payment and Settlement Systems
AFI	Alliance for Financial Inclusion (AFI)
AMF	Arab Monetary Fund
AML-CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ARPS	Arab Regional Payments System ARPS
BCEAO	Central Bank for the UEMOA
BIS	Bank for International Settlement
BMGF	Bill and Melinda Gates Foundation
CACBMA	Council of Arab Central Banks and Monetary Authorities' Governors
CBRs	Correspondent Banking Relationships.
CDD	Consumer Due Diligence
CGAP	Consultative Group to Assist the Poor
CPMI	Committee on Payments and Markets Infrastructure
CPMI-IOSCO	Principles for Financial Market Infrastructures
DFS	Digital Financial Services
FATF	The Financial Action Task Force
FDPs	Forcibly Displaced Persons
FIARI	Financial Inclusion for the Arab Region Initiative
FITF	Financial Inclusion Task Force
FSI	Financial Stability Institute
G20	Group of Twenty
GCC	Gulf Cooperation Council
GDPs	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GPF	Global Policy Forum
GPFI	Global Partnership for Financial inclusion
ICT	Information and Communications Technology

IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
ITU	UN’s International Telecommunications Union
JoMoPay	Jordan Mobile Payment
KYC	Know Your Customer
LCTA	Low-Cost Transaction Accounts
L1P	Level One Project
MENA	Middle East and North Africa
MSMEs	Micro, Small & Medium Enterprises
NFIs	National Financial Inclusion Strategies
NRAs	National Risk Assessments
OECD	Organization for Economic Co-operation and Development
OFDA	Office of U.S. Foreign Disaster Assistance
OTP	Over-the-Top
PAFI	Payment Aspects for Financial Inclusion
QoE	Quality of Experience
QoS	Quality of Service
RTGS	Real-Time Gross Settlement
RTRPs	Real-Time Retail Payments Systems
SADC	Southern African Development Community Banking Association
SDD	Simplified Due Diligence
SDGs	Sustainable Development Goals
SEPA	Single Euro Payments Area
SMEs	Small and Medium-sized Enterprises
SSBs	Global Standard-Setting Bodies
UFA 2020	Universal Financial Access 2020
UNHCR	UN Refugee Agency
WAEMU	West Africa Economic and Monetary Union



## 1 Executive Summary

Over the past five years, the Arab region's financial services industry and policymakers have taken significant steps to recognize and address challenges to meaningful financial inclusion for its people. Still, the Arab region continues to face challenges in pursuing financial inclusion compared to other parts of the world, and most measures of financial access and use show substantial opportunities for improvement. As the region refines its financial inclusion strategies, one area of top focus is payments systems in the region.

Globally, there is a growing consensus as to the importance of the digital payments infrastructure within a country and region to the realization of its financial inclusion goals. This policy paper reports on the varied capabilities of the payments infrastructure in the Arab region; on emerging elements of the infrastructure, including the ARPS project, that can help drive financial inclusion; and on the opportunities for policymakers to take actions to strengthen the infrastructure. The paper also reports on the findings of a survey conducted by the Arab Monetary Fund (AMF) among its member countries in August 2017, following a workshop on payments infrastructure that was held in March 2017, in collaboration with Bill and Melinda Gates Foundation.

The region can capitalize on major bodies of work that have been recently completed on payments infrastructures, including the CPMI–World Bank study on the "Payments Aspects of Financial Inclusion" and the Bill and Melinda Gates Foundation's Level One Project. The region can also benefit from the experiences of other countries that have deployed payments infrastructures designed to address financial inclusion. These projects have had mixed results, and there are valuable lessons learned that could be applied to new projects within the Arab region.



Finally, we should note that there are five major, and relatively recent, global trends in digital payments. These are:

- The rapid development and introduction of real-time retail payments systems (RTRPs) in many countries throughout the world. These new systems are allowing consumers and enterprises to make and receive instant, electronic transfers.
- The emergence of regional, rather than national, payments infrastructures – facilitating low-cost domestic and cross-border remittances and payments and leveraging inward investments by workers abroad.
- The use of virtual or crypto currencies, their associated blockchain technologies, and consideration of challenges and opportunities for the introduction of national crypto fiat currencies.
- The emergence of powerful over-the-top payments providers, lowering the cost of transactions and enhancing the range of low-cost savings options, often leveraging global social or eCommerce platforms.
- Increased focus on the potential for RegTech to have a significant impact on the costs and risks associated with regulatory compliance.

The potential impact of these trends on the development of Arab region payments infrastructures needs to be carefully considered, while balancing financial inclusion technology-led transformation, consumer safeguards, and financial stability.

This paper presents nine recommendations for Arab policymakers to consider:

- Enhance and/or Build Digital Payments Infrastructures.
- Support Access to Low-Cost Transaction Accounts.
- Encourage and Incent Transaction Account Usage.
- Improve Remittance Processing.

- Promote Fair Competition and Balance Innovation and Stability.
- Mitigate Negative Consequences of De-Risking.
- Promote and Encourage RegTech and SupTech.
- Improve Digital Humanitarian Assistance Distribution.
- Monitoring and Evaluation to Inform Effective Regulation and Interventions.

This paper has been developed to support the ongoing efforts of Arab policymakers to address Financial Inclusion challenges across the region and provide insights and strategic priorities for the Financial Inclusion for the Arab Region Initiative (FIARI) in the areas of payment aspects for financial inclusion.





## 2 Financial Inclusion

Growing ranks of stakeholders, including governments, international bodies, non-governmental organizations, and commercial enterprises now recognize that the provision of financial products and services has historically excluded many of the world's most vulnerable populations, in particular low-income individuals and families, people facing fragile situations and small businesses. Not only has this exclusion threatened the personal wellbeing of individuals and households, but it has also impacted the robustness of healthy and sustainable economic growth. In response to this, these same stakeholders have taken up the cause of financial inclusion. The AMF and CGAP jointly define financial inclusion as “a state where individuals, including low-income people and companies, including the smallest ones, have access to and make use of a full range of formal quality financial services (payments, transfers, savings, credit, and insurance) offered in a responsible and sustainable way by a variety of providers operating in a suitable legal and regulatory environment.”<sup>1</sup>

It has been well established that financial inclusion, though a worthy goal, is not an end to itself, but rather a productive means to achieving more inclusive and sustainable economies. The Arab region's opportunities to see such benefits are numerous.

Importantly, financial inclusion can act as a mechanism to deliver impact beyond simply increasing the number of people who have financial accounts. A direct link can be drawn between benefits of financial inclusion and the UN Sustainable Development Goals, especially SDGs 1, 5, 8, and 10: contributing to poverty alleviation, women's participation and equity and sustainable equitable economic growth, respectively. The McKinsey Global Institute's 2016 report *Digital Finance for all: Powering Growth in Emerging*

<sup>1</sup>“Financial Inclusion Measurement in the Arab World.” *AFM CGAP*, January 2017.

<sup>2</sup>“Digital Finance for All: Powering Inclusive Growth in Emerging Economies.” *McKinsey Global Institute*, September 2016.

*Economies* suggests that over half of new accounts ushered in by an expansion of digital financial services will be owned by women, and 45 percent would hail from the bottom two quintiles of the income pyramid.<sup>2</sup>

The same report paints an impressive picture of potential economic boosts to national GDPs as a result of the adoption of inclusive digital financial services. Globally, it estimates a \$3.7 trillion USD increase to global GDPs of emerging countries by 2025. This figure is based on the following factors: an extension of services to new customers, savings in direct costs and labor to financial service providers and businesses, increased issuance of credit to MSMEs, and reductions in government leakage. National outlooks vary, but the demonstrated demand and current supply of these services in the Arab region suggests even greater potential benefits to the growing economy.

Practically, financial inclusion calls first for increasing access to suitable products and then ensuring their optimal use. This policy analysis focuses on the role that payments infrastructures and systems contribute to these twin goals. Well-functioning payments systems can support a host of use cases: enabling users to send payments from and receive payments into a transaction account; this account can also be used to store funds. Well-designed, interoperable payments systems can drive down costs and increase the utility of the systems. This in turn can motivate active participation in the system, creating a virtuous circle of increased usage and lower costs.

### **Global Initiatives in Financial Inclusion**

The AMF joins a cohort of highly engaged global bodies and stakeholders committed to advancing financial inclusion globally. Many of these initiatives are working directly with the AMF and its member countries to deliver on national priorities and exchange

international standards and best practices. Below we call out those most relevant to the efforts of AMF.

### **Universal Financial Access 2020 (UFA2020)**

One of the most significant global champions for inclusion is the World Bank Group and International Finance Corporation (IFC) UFA2020 initiative, which calls for Universal Financial Access for all adults by the year 2020. UFA2020 goals call for access to a financial transaction account, which enables a holder to “perform most, if not all, of their payment needs, safely store some value, and serve as a gateway to other financial services.”<sup>3</sup> The UFA2020 initiative galvanized commercial implementing partners and national banks to work together to increase access to transaction accounts. As of the writing of this paper, the WBG and IFC anticipate reaching a combined total of 28.7 new transaction accounts by 2020 in the MENA region.<sup>4</sup>

### **GPMI High-Level Principles for Digital Financial Inclusion**

Established in 2010, the Global Partnership for Financial Inclusion (GPMI) is a body overseen by G20 leadership and consisting of G20 country members and non-member stakeholders. The body was convened under the Korean G20 presidency as a practical measure by which to advance national prioritization of the financial inclusion agenda. The GPMI consists of thematic subgroups who meet to set forth global goals and agendas for inclusion. These subgroups are Regulation & Standard Setting Bodies, SME Finance, Financial Inclusion Data and Measurement, Financial Consumer Protection and Financial Literacy, and Markets and Payment Systems. The Market and Payment Systems subgroup is of particular interest to the objective of this paper, with the stated goal “to advance utilization of payment systems, including

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<sup>3</sup> Payments Aspects of Financial Inclusion.” *Committee on Payments and Market Infrastructures & World Bank Group*, April 2016

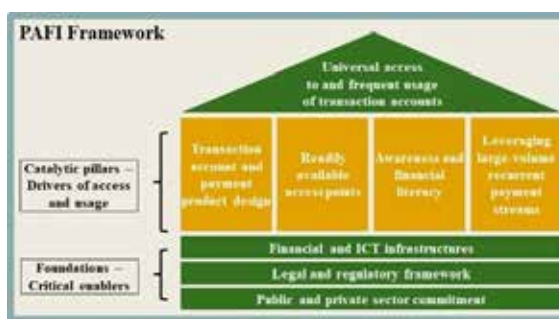
<sup>4</sup> The World Bank Group. 2018. “UFA2020 Global Progress Tracker.” <http://ufa.worldbank.org/global-progress#mena>.

remittances, in the pursuit of increased and sustainable financial inclusion.”<sup>5</sup> Also of note are the 2016 G20 High-level Principles for Digital Financial Inclusion. These build upon the 2010 Principles for Innovative Financial Inclusion and have evolved from the original G20 Financial Inclusion Action Plan, taking into account subsequent work and changing priorities.<sup>6</sup>

The work of the GPMI is guided by G20 Financial Inclusion Action Plans and carried out in conjunction with GPMI Implementing Partners. This cohort currently includes: Alliance for Financial Inclusion (AFI), The Better than Cash Alliance, The Consultative Group to Assist the Poor (CGAP), the International Finance Corporation (IFC), International Fund for Agricultural Development (IFAD), Organization for Economic Co-operation and Development (OECD), SME Finance Forum, and the World Bank Group.

### World Bank and BIS CPMI PAFI Taskforce

Led by the World Bank Group and the Bank for International Settlements’ Committee on Payments and Markets Infrastructure (CPMI), the Payment Aspects for Financial Inclusion (PAFI) Taskforce convened to issue a guiding framework for the creation and governance of sound payments infrastructures for financial inclusion. The Taskforce consisted of high-level representatives from Central Banks and Ministries of Finance. Given its pivotal role in financial inclusion



<sup>5</sup> Global Partnership for Financial Inclusion. “Subgroup on Markets and Payment Systems.” <https://www.gpfi.org/subgroup-markets-and-payment-systems>.

<sup>6</sup> Global Partnership for Financial Inclusion. “G20 High-Level Principles for Digital Financial Inclusion.” <https://www.gpfi.org/publications/g20-high-level-principles-digital-financial-inclusion>.



and payments space in the Arab region, the AMF joined PAFI as a member in July 2017. The PAFI final report sets standard definitions for inclusion-related payments terms. For example, it defines a transaction account as “an account which acts as the funding source for the corresponding payment or payments being made, and to which the funds from payments received are credited”.<sup>7</sup> It heralds this account as a building block of financial access and goes on to define ways in which payment systems can facilitate access to and meaningful use of such accounts. Aligning with AMF priorities, the PAFI Framework identifies both legal and regulatory frameworks and financial and ICT infrastructures as “critical enablers” of financial inclusion.

### **Alliance for Financial Inclusion (AFI)**

The Alliance for Financial Inclusion is positioned as a membership organization for Central Banks and Financial Ministries of primarily developing and emerging economies. In 2010, AFI introduced the Maya Declaration as the basis of individual national Commitments, which regulators may use to publicly announce a commitment to advancing the goals of financial inclusion alongside their traditional mandates to preserve integrity, stability, and protection.<sup>8</sup> AFI members drive their own national strategies and measure progress against these Maya principles. In addition, members and invited guests participate in peer exchange and knowledge sharing at its annual convening, the Global Policy Forum. AFI members number more than 90, and its ranks now include private sector and knowledge center partners.

AFI is one of the AMF’s partners in its newly established FIARI initiative.

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<sup>7</sup> Payments Aspects of Financial Inclusion.” *Committee on Payments and Market Infrastructures & World Bank Group*, April 2016

<sup>8</sup> For more on the I-SIP framework, see: CGAP, November 2, 2012. “Financial Inclusion – Linkages to Stability, Integrity and Protection.” <http://www.cgap.org/publications/financial-inclusion-linkages-stability-integrity-and-protection>

### **ITU Focus Group Digital Financial Services (ITU FG DFS)**

A two-year initiative of the UN's International Telecommunications Union – Telecommunications Standards Bureau, the Focus Group Digital Financial Services acted as a convening body for stakeholders from financial and telecommunications regulatory bodies and interested non-governmental organizations. Chaired by the Bill & Melinda Gates Foundation, the Focus Group Digital Financial Services issued comprehensive guidance on best practices for standard setting in financial inclusion. Although the work of the Focus Group has concluded, its diversity of participants and prolific deliverables render its outputs a useful resource for implementing stakeholders.<sup>9</sup>

### **Level One Project (L1P)**

The Level One Project (L1P) and accompanying Level One Design Principles offer practical guidance on the creation and governance of payments infrastructures to best advance financial inclusion. Developed by the Bill & Melinda Gates Foundation through broad, cross-sector consultations, L1P offers actionable toolkits for policymakers, nongovernmental organizations, and private sector actors, including those in the telecommunications, finance, and merchant sectors. Its vision is to implement open and inclusive payments systems, toward a goal of fostering inclusive and prosperous economies. Its newest addition to the L1P toolkit is an open source software, Mojaloop, released in October 2017, which offers developers free source code with which to build low-cost, interoperable payments platforms<sup>10</sup>.

In this regard and to build capacity on the design principles and system components of the programme designed to deliver low cost digital financial services and build inclusive interconnected digital economies, Senior Policymakers from the Arab region attended a

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<sup>9</sup> For a report of main findings, see: ITU. March 2013. "ITU Focus Group Digital Financial Services: Main Recommendations." [https://www.itu.int/en/ITU-T/focusgroups/dfs/Documents/201703/ITU\\_FGDFS\\_Main-Recommendations.pdf](https://www.itu.int/en/ITU-T/focusgroups/dfs/Documents/201703/ITU_FGDFS_Main-Recommendations.pdf).

<sup>10</sup> More details in the following website: <http://mojaloop.io/>

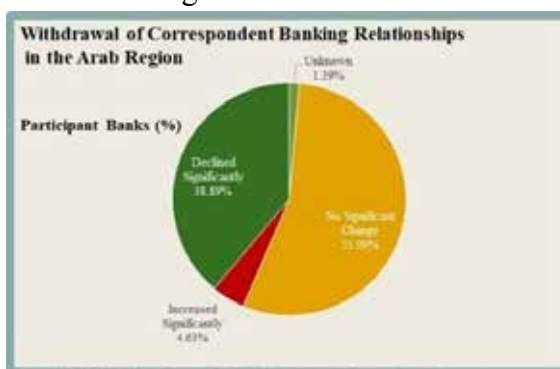
L1P Workshop, jointly organized by the Arab Monetary Fund (AMF) and Bill & Melinda Gates Foundation in Abu Dhabi, in March 2017.

## Global Emerging Issues in Financial Inclusion

### De-Risking & AML-CFT

The unbanked population not only face personal risks but must also endure increasingly burdensome demands by financial institutions and providers, who in turn face institutional pressures to apply exceedingly high barriers to enter formal financial systems. The phenomenon of de-risking is the practice of closing accounts and access due to a fear of these accounts being too “high risk” often because of lack of transparency in sender or recipient information and subsequent suspicions regarding the legality and/or criminality of the transaction.<sup>11</sup>

Concerns over de-risking pullback by global banks are growing worldwide, including in the Arab region. While banks around the world have been affected by the practice of terminating correspondent banking relationships, the impact has been particularly notable in the Arab region.



According to an AMF-IMF-WBG report published in September 2016, 39 percent of the local/regional banks surveyed reported a

<sup>11</sup> For more on de-risking, see: Durner, Tracey and Shetret, Liat. “Understanding Banking De-Risking and Its Effects on Financial Inclusion.” *Oxfam*, November 2015. [https://www.oxfam.org/sites/www.oxfam.org/files/file\\_attachments/rr-bank-de-risking-181115-en\\_0.pdf](https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/rr-bank-de-risking-181115-en_0.pdf).

significant decline in the scale and breadth of their Correspondent Banking Relationships (CBRs).<sup>12</sup>

The rise of strict AML–CFT requirements, and a resulting high level of de-risking, have inadvertently excluded some of the very people and businesses most in need of financial inclusion. By limiting access to small-denomination transfers and digital financial services, these practices not only restrict access and use, but in many cases work counter to the goals of anti-money laundering and the suppression of terrorism financing (AML–CFT). They can drive financial transactions into the informal and, at times, illicit markets.

The AMF, as part of its mandate to promote macroeconomic and financial sector stability, has been monitoring global trends in the withdrawal of CBRs in collaboration with IMF and other global and regional partners. Additionally, it advises its member countries on policies and regulatory best practices to ensure proportional applications of these compliance measures and help tackle related adverse impacts. An embracing of digital innovations in oversight and compliance may ease regulatory burdens on individuals and small businesses, which in turn may re-expand access to products and services for those most in need.

### **SSBs Responses**

Global Standard-Setting Bodies (SSBs) recognize the importance of digital innovation to increasing financial inclusion and are continuing its study and deliberation to assess best responses to the accompanying risks. The 2016 convening of the G20 GPF and BIS Financial Stability Institute (FSI) focused specifically on digital

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<sup>12</sup> “Withdrawal of Correspondent Banking Relationships in the Arab Region.” *AMF, IMF, World Bank Group Report*, September 2016.  
[www.amf.org.ae/sites/default/files/Files/content/CBRs%20in%20the%20Arab%20Region%20Survey\\_FINAL%20Report\\_Final.pdf](http://www.amf.org.ae/sites/default/files/Files/content/CBRs%20in%20the%20Arab%20Region%20Survey_FINAL%20Report_Final.pdf)

financial inclusion.<sup>13</sup> Topics of note were summarized by a companion publication, the GPFi's Global Standard-Setting Bodies and Financial Inclusion – The Evolving Landscape.<sup>14</sup> Its recommendations to SSBs shed light on relevant issues; it calls for continued investigation and guidance regarding proportionality in supervision of new third-party providers. It warns of potential supervisory gaps introduced by a widening pool of participants in payment systems and DFS provision and suggests this be a topic for further global discussion.

The Financial Action Task Force (FATF) strongly aligns with the dual mandate of pursuing AML–CFT initiatives and enabling financial inclusion. To this end, it has issued guidance alongside revised recommendations. Its most recent and relevant issuance is the 2017 Supplement on Consumer Due Diligence – which was amended to 2013 FATF Guidance on AML–CFT Measures and Financial Inclusion.<sup>15</sup> This 2017 supplement outlines detailed approaches and describes national examples to inform ways in which national regulators may consider enforcing simplified, tiered approaches to KYC identification and verification requirements. The Supplement suggests proportionate application of AML–CFT controls based on risk-assessments with consideration of low and lower risk populations and products. This could take the form of tiered consumer due diligence (CDD) to include a simplified due diligence (SDD) protocol for proved or assessed low and lower risk scenarios. The guidance further suggests options for simplified and alternate forms of identification and methods of verification and concludes with specific considerations for digital financial

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<sup>13</sup> For a summary of the event proceedings see: Bank for International Settlements. October 27, 2016. “Digital financial inclusion the focus of third GPFi-FSI conference.” <https://www.bis.org/press/p161027.htm>.

<sup>14</sup> For more information, see: Global Standard-Setting Bodies and Financial Inclusion. March 2016. “The Evolving Landscape.” [http://www.gpfi.org/sites/default/files/documents/GPFI\\_WhitePaper\\_Mar2016.pdf](http://www.gpfi.org/sites/default/files/documents/GPFI_WhitePaper_Mar2016.pdf).

<sup>15</sup> For more information, see: FATF. 2017. “Supplement to the 2013 FATF Guidance on AML/CFT Measures and Financial Inclusion: Customer Due Diligence and Financial Inclusion.” <http://www.fatf-gafi.org/publications/financialinclusion/documents/financial-inclusion-cdd-2017.html>.

services. In the case of digital financial services, the FATF Supplement recommends:<sup>16</sup>

- *“Establish the unequivocal responsibility of the supervised financial institution for the sound and safe functioning of the system. This includes effective training and oversight of the network of agents to ensure that all of them are fully aware of their AML–CFT duties;*
- *Make supervised institutions accountable for actions of their agents, including in the AML–CFT field, through agent agreements and agents managers, and responsible for the consequences in case of fraud, misconduct or breach of AML–CFT obligations by the agents.”*

### **Compliance Costs and Pressures**

The regulatory demands described above not only restrict access for people and SMEs, but also add to the already-heavy burdens of oversight bodies. Regulators and their institutions face increasing costs in time and infrastructure to ensure compliance. Providers, too, face costs in time and capital to learn, respond to, and implement new compliance protocols. Indeed, perceived costs of compliance associated with managing higher risk relationships are significant influencing factors for both domestic and global banks. Indeed, according to the 2014 KPMG Global Anti-Money Laundering Survey, 78 percent of compliance professionals in top global banks reported increases in the total investment in AML–CFT compliance, with 22 percent of those respondents indicating an increase of 50 percent during the three-year period from 2011 to 2014.<sup>17</sup> These pressures can result in an imperfect application of well-intended regulatory requirements, and, in the interim, result in financial exclusion, rather than consumer protection and increased access.

<sup>16</sup> For more information, see: FATF. 2013. “Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion.” <http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf>.

<sup>17</sup> “Global Anti-Money Laundering Survey.” *KPMG LLP*, 2014, 13. More details on KPMG website.

Efforts to automate compliance procedures and use digitally collected data from providers and users may hasten lethargic implementation of new rules and obviate the need for regulatory moratoriums on innovations in the Fintech space.







### 3 Financial Inclusion in the Arab Region

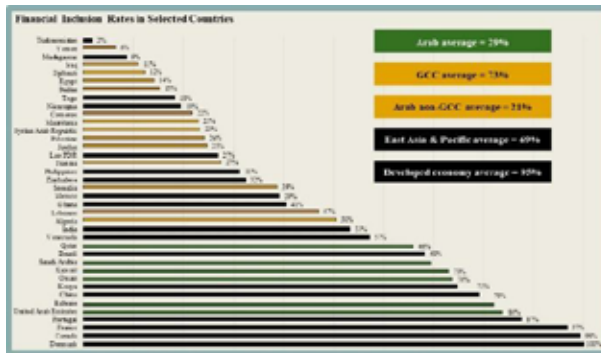
#### Goals for the Region

In addition to overarching goals envisaged by the global community and taking under consideration the emerging issues named in 2.3, the

AMF and the Council of Arab Central Banks and Monetary Authorities’

Governors have set intermediary goals, covering a wide range of

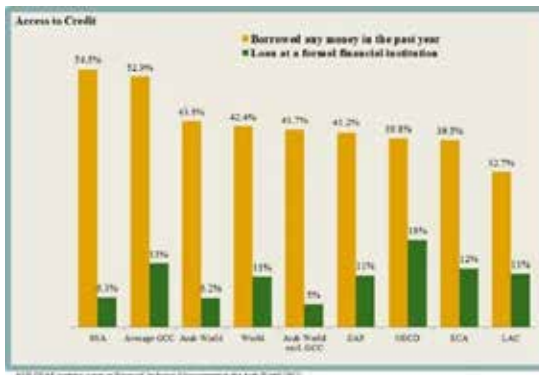
relevant financial inclusion policy domains, including: (i) financial inclusion data and measurement to support evidence-based policy making; (ii) women’s financial inclusion, employment and empowerment; (iii) financial services for MSMEs including credit guarantee mechanisms, finance for Arab startups, innovation and rural entrepreneurs; (iv) financial market infrastructure; (v) responsible finance towards more sustainable and resilient development; and (vi) digital financial services and institutional innovation.



AMF’s own analysis conducted with CGAP<sup>18</sup>, draws from the World Bank Findex Database for 2014 and illustrates that enabled financial inclusion can help bring 71 percent of the region’s individuals into the formal economy and offer them access to finance. When looking at gender gap, there is an even greater opportunity, as the weighted average of women adults that could be included into formal financial systems increases to 78 percent.

<sup>18</sup> “Financial Inclusion Measurement in the Arab World.” *AMF-CGAP Working Paper*, January 2017.

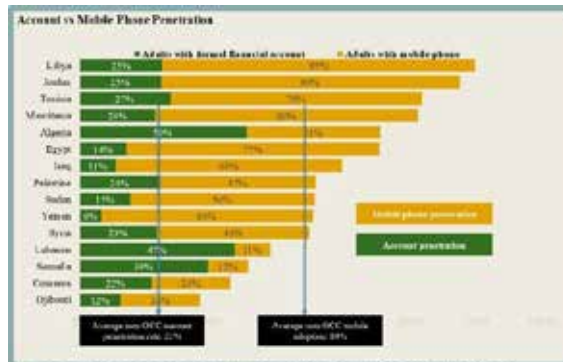
Access to credit is less than half the global average, with just 6 percent borrowing from a formal financial institution, while still 43.5 percent of adults in the Arab region have access to loans from all sources.



6 percent borrowing from a formal financial institution, while still 43.5 percent of adults in the Arab region have access to loans from all sources. According to the AMF estimation, borrowing from non-official channels represents a bottleneck to financial inclusion, as the degree of negative correlation with financial inclusion is about (-0.39).

Despite high levels of entrepreneurship and SMEs – representing nearly 80 percent of businesses in the region – only one in five has a loan or line of credit and the available financing options for MSMEs are typically in working capital forms, as long-term funding for SMEs remains small.

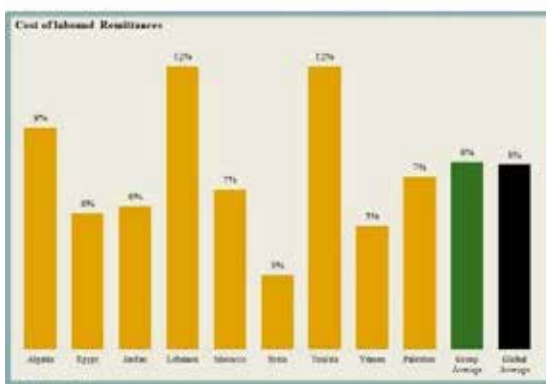
Despite low participation in and access to formal financial services, robust participation in informal financial activities and in cash-based transactions points to a ripe opportunity to improve household wellbeing and bolster national economic activity by extending suitable formal financial services to individuals and small businesses. Certain nascent and emerging solutions show



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promise but are currently undersupplied, these include: Microfinance Institutions, postal networks, and robust DFS.

The combination of diverse national contexts in close proximity and with certain shared commonalities, renders the Arab region uniquely poised to pursue collaborative financial inclusion efforts. Despite this potential, the region has lagged compared to other geographic regions, showing spotty access to payments infrastructures and systems. This positions the Arab Region at the forefront of deriving new solutions to these challenges.

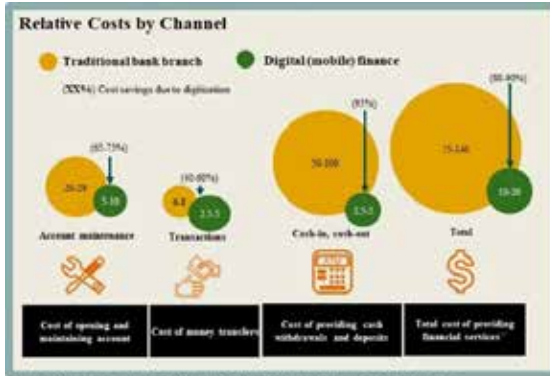


Innovations in cross-border payments and regional payments infrastructures offer promising solutions to the challenges facing workers abroad, for both individuals and governments.

Remittances, of course, are of unique importance to the region. There continue to be significant differences in the use of remittances, both outbound and inbound, by countries as well as the costs of processing these for the end user.

Mobile phone penetration has grown significantly across the Arab region, reaching 84 percent of non-GCC Arab adults, which can help bring 71 percent of the region's individuals into the formal economy and offer them access to finance. Developing the usage of digital-based financial services is becoming of growing interest for Arab policymakers, given its potential impact in expanding alternative channels for financial system access and usage.

Mobile network operators have started working with financial



institutions to provide innovative financial services and products, which could cut the cost of financial services by 80 to 90 percent.

This new trend elicits a great potential to

expand financial inclusion in the Arab region, by amplifying effects of technological reach; however, it requires adjustments in the regulatory framework in order to establish an enabling environment to promote innovation at the junction of the telecommunications and financial sectors.

### Regional Initiatives

Building on efforts from global bodies and standard-setters, multiple actions have been undertaken by Arab financial regulators and predominately the AMF, to promote best practices, knowledge sharing, and troubleshooting of financial inclusion issues. To these ends, it has established dedicated initiatives to provide technical assistance to its Member Countries and helped to address inclusion challenges by working toward encouraging inclusion through enabling regulatory regimes and legal frameworks. The efforts exerted by the AMF in this regard are driven by its role as the Secretariat of both the Council of Arab Central Banks Governors and the Council of Arab Ministers of Finance, and by its Strategic Plans, aiming to help Member Countries to improve access to financial services by the underserved and to broaden and deepen the region’s financial systems. Selected initiatives are featured below.

### **Financial Inclusion Task Force (FITF)**

To capitalize on financial inclusion efforts and experiences across the region, the Arab Monetary Fund established in 2012, under the umbrella of the Council of Arab Central Banks Governors, a regional Financial Inclusion Task Force, (FITF) which comprises managers in charge of financial inclusion at Central Banks across AMF Member Countries.

The main objective of the Task Force is to contribute to the ongoing efforts across Arab countries by supporting national authorities in scaling up their financial inclusion-related regulation and tools. During its inaugural meeting in December 2013, the Task Force established the main pillars of its mandate: to take an active role in developing National Financial Inclusion Strategies (NFIs); contribute to financial inclusion policies and data measurement; facilitate knowledge exchange; analyze the various pathways to improve financial inclusion; apply international best practices and adapt them to the specificities of the Arab region; and raise awareness on both financial inclusion and consumer protection.

Moreover, the Task Force, through the AMF as its Technical Secretariat, maintains close cooperation with the World Bank, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Consultative Group to Assist the Poor (CGAP), the Alliance for Financial Inclusion (AFI), and the Islamic Development Bank. Representatives of these international institutions and bodies attend the regular Task Force meetings as observers. Similarly, representatives of the Union of Arab Banks, the Union of Arab Securities Commissions, the Secretariat General of the Gulf Cooperation Council as well as the Middle East and North Africa Financial Action Task Force against Money Laundering and Terrorist Financing, are observer members of the Task Force, on their quality of observer members of the Council of Arab Central Banks and Monetary Authorities' Governors. In addition, Task Force meetings are attended sporadically by invited international organizations; these include the Bill and Melinda Gates Foundation

(BMGF), the International Finance Corporation (IFC) and the International Monetary Fund (IMF).

The FITF is also collaborating with other AMF Committees and Task Forces on payment systems, banking supervision, and credit reporting, as this supports the creation of open and inclusive payments infrastructures as a core element of financial inclusion activities.

### **Arab Financial Inclusion Day**

Agreed upon in 2016, April 27, 2017 marked the first regional celebration of Arab Financial Inclusion Day. Established by the AMF and adopted by the Council of Arab Central Banks and Monetary Authority Governors, following FITF recommendations, the day aims to raise awareness of the importance of financial inclusion among all stakeholders in the Arab countries. This also comes in the context of thoroughness given by Arab countries to achieve the Sustainable Development Goals by 2030 and ensure access to a full range of quality, cost-effective, and appropriate financial services to unbanked and/or under-served populations and businesses in the Arab countries.

### **Financial Inclusion for the Arab Region Initiative (FIARI)**

To support ongoing efforts and build on the regional momentum toward financial inclusion, the AMF, GIZ, and AFI, with support of the World Bank, have recently joined forces and established—under the umbrella of the Council of Arab Central Banks Governors – the Financial Inclusion for the Arab region Initiative (FIARI). The initiative was officially launched on September 14, 2017, during the 2017 AFI Global Policy Forum held in Sharm El Sheikh, Egypt, in the presence of President of Egypt, H.E. Mr. Abdel Fattah El Sisi and Central Banks governors from the Arab region.

The objective of FIARI is to promote inclusive and sustainable growth and poverty reduction through sustainable financial inclusion policies by supporting efforts to expand access to the formal financial system for the underserved and financially non-included populations, with a focus on catalyzing the provision of appropriate financial products and services to meet the needs of households and businesses.

The regional focus of the initiative intends to capitalize on learnings across borders from countries who share certain cultural and structural commonalities, for example language, climate, and proximity. Still, the initiative preserves its global ties: FIARI activities align closely with the G20 Principles of Innovative Financial Inclusion and I liaise with the GPMI global conversation. The goals and approach of FIARI were presented to the G20 GPMI under the German Presidency. Driven by the regional financial inclusion priorities stated above, FIARI partners will combine efforts to support the implementation of national financial inclusion strategies, by way of regional technical assistance, peer exchange, and targeted advising to national regulators and policymakers. These planned activities recognize the role of financial inclusion in fostering sustainable development in the Arab region and furthering the UN Sustainable Development Goals (SDGs), specifically SDGs 1, 5, 8: the reduction of poverty, promotion of gender equality, and advancement of adequate work and economic growth, respectively.

Specific priorities include:

- Financial infrastructures to promote inclusion
- Gender equity and women's financial inclusion
- SME financing
- Ensuring data-driven policy by setting regional financial inclusion indicators
- Digital financial services and institutional innovation as means to expand alternative distribution channels of financial services



## SMEs Enabling Environment Facility

In line with the growing global and regional recognition of SMEs' contributions and their critical role in promoting inclusive growth and creating jobs, the AMF established (in 2016) an SMEs Enabling Environment Facility to cultivate a conducive environment for SMEs in its Member Countries by providing financial and technical assistance to meet regional needs of a developing SMEs sector. As of February 2018, the facility has approved USD 178 million in support to Member Countries.

## Level One Project Workshop

In March 2017, policymakers from AMF Member Countries, including

members from the Financial Inclusion Task Force (FITF) and Committee on Payment and Settlement

Systems



Source: [www.leveloneproject.org](http://www.leveloneproject.org)

attended a two-day workshop on Level One Project (L1P), organized jointly by the AMF and the Bill & Melinda Gates Foundation. This highly participatory L1P Training offered attendees the opportunity to explore best practices in national and regional payments infrastructures, with an emphasis on establishing open and inclusive infrastructures.

The technical training emphasized key design principles for consideration and reviewed specific Arab regional case examples.



## 4 Digital Payments Infrastructure: Global Experience

Globally, there is a growing consensus as to the importance of the digital payments infrastructure at country and region level to the realization of financial inclusion goals. In this section we look at key country models, cross-border models, and key global trends in payment systems.

### Key Country Models

Early work on financial inclusion enablement differentiated between “bank led” and “non-bank led” models. At this point, we believe that this distinction is too simplistic. Rather, we need to differentiate among models for transaction accounts, RTRP payments rails, and usage stimulation.

One observation is abundantly clear: no strategy which focuses on one of these elements at the expense of the other will be successful. All three elements are necessary.

Here we examine various models for payments infrastructure, these include models for transaction accounts, payment rails, and cross-border payments. In section 6.3 we examine the question of usage stimulation and recommend strategies to incentivize meaningful participation in digital payments infrastructure.

### Transaction Accounts Models<sup>19</sup>

We see three broad categories of regulatory permissions for transaction accounts:

- *Bank-only*: Some countries allow only banks to hold transaction accounts, and take varying actions to encourage banks in the country to reach “down market” and offer low-cost basic

<sup>19</sup> CPMI/World Bank PAFI report defines a transaction account as “accounts held with banks or other authorized and/or regulated service providers (including non-banks), which can be used to make and receive payments. Transaction accounts can be further differentiated into deposit transaction accounts and e-money accounts.”

accounts. The problems with this approach are well-documented, but the most critical is the financial challenge of the traditional bank business model, which is too expensive to serve low-balance customers. However, the benefit is that existing bank payments systems, and newly introduced bank RTRP systems, reach all transaction accounts without complex negotiations around interoperability.

- *Bank and Special Charter/Limited Purpose Financial Institutions:* Other countries are expanding traditional bank chartering processes to recognize new classes of financial institutions, some of which are focused on financial inclusion. India’s Payments Banks and Pakistan’s MicroFinance banks are good examples of this.

The benefit of this approach is the same as the category above, in terms of enabling payments systems – especially new

**Example: India**

The Reserve Bank of India chose to create a new charter class of banks, called “Payments Banks”, rather than pursue an eMoney issuance model. Payments banks open transaction accounts (current and/or savings accounts) for customers and connect these to the national payments systems, but are not allowed to lend. The program was announced in 2014 and 41 institutions applied. Licenses were granted to 11; three are currently live and four have surrendered the license.

The model is particularly interesting from a payments system perspective, as it avoids the complexities of eMoney and questions around money movement between eMoney wallets and bank accounts. Both “regular” banks and payments banks are participants in the same core set of payments systems (including an RTRP system), so money can be transferred directly between accounts.

RTRP systems – to easily reach all accounts. The challenge with this model is that limitations put on the new charter classes may make it difficult for those entities to create sustainable businesses, particularly if profitable “adjacencies,” such as lending, are not allowed.

- *eMoney Issuance:* Other countries have taken steps to license non-banks to hold customer funds in transaction accounts, and make and receive payments in those accounts. This is typically referred to as “eMoney

**Example: Kenya**

The well-documented success of Kenya’s M-Pesa system is an argument in favor of eMoney issuance as a model to help get transaction accounts open. By creating a closed loop payment system, requiring payer and payee to both have account with M-Pesa, owner Safaricom could profit from its investments in agent networks and infrastructure, and keep all of the direct revenues associated with transactions. The downside, from a payments perspective, was the limited reach of the system: paying the subscriber of another network, or paying into a bank account, required separate connections and typically greater expense. Under government pressure, M-Pesa has recently agreed to interoperate with other mobile carriers. But this still falls short of true all-transaction account interoperability connections to bank accounts are not included. Interestingly, the Kenyan banks have responded with their own RTRP system. It looks like the country is heading to a two-tiered RTRP ecosystem, one system connecting the mobile money operators, and another connecting the banks.

Issuance” and normally requires the eMoney issuer to maintain

a 100 percent reserve requirement in escrow or trust accounts at one or more commercial banks. In many countries, eMoney issuance has proven to be successful in reaching unbanked customers. Kenya and Tanzania are both good examples of this. The challenge of this model has been the economics for the provider, which have encouraged providers to develop closed-loop or limited-interoperability payments systems. Agents, used for “cash-in” and “cash-out,” are an essential component of these models and their economics, and again, frequently contribute to the challenges of the models. In other countries, including Peru and Egypt, banks may also become eMoney issuers; this is a choice connected to a country’s design of its real-time retail payments systems.

### **RTRP System “Rails” Models**

Most countries have already installed or are planning to install one or more real-time retail payments systems. These systems are particularly well suited for financial inclusion purposes, as they lend themselves well to mobile-initiated, low-cost payments transactions which are a necessary component of a successful financial inclusion strategy. They are discussed in more detail in section *Real-Time Retail Payments Systems (RTRPs)*, but we see three broad categories of systems being introduced at the country level:

- *Whole country systems* are designed to reach all providers of transaction accounts, either directly, or with a tiered or sponsored access model (in which non-bank or limited charter participants access the system through a relationship with a larger bank). The simplicity of this design is very attractive from a financial inclusion perspective, as it maximizes the reach of the system: any account can make payments to and receive payments from any account. Faster Payments in the United

Kingdom, Bim in Peru, and JoMoPay in Jordan are examples of this approach.

### Example: Jordan

Jordan presents an excellent example of how a determined focus on mobile payments and financial inclusion can result in inclusive, interoperable digital payments platform. JoMoPay began as an initiative of central bank of Jordan, who has remained the sponsor and champion of the program. JoMoPay is a real-time clearing, credit/debit, transaction national switch, which connects both banks and licensed financial institutions (non-banks payments services providers, or PSPs) for the exchange of payments transactions. This alone is unusual in several countries around the world, new payments platforms interoperate only among PSPs, or among PSPs and banks acting as eMoney issuers: in those countries, the transfer of money from a PSP wallet to a bank account happens outside the system, and generally requires some type of bilateral connection between the bank and the PSP.

JoMoPay was conceived of as a payment system to be used for multiple purposes, or "use cases". Like many systems, the initial use case, and still the dominant one, is handling person-to-person payments. But JoMoPay is also handling bill payment, merchant payments, and government-to-person payments. The central bank's expansive vision for the service has led to interconnections with other systems: for example, JoMoPay interconnects with the ATM switch, to enable cash-out and cash-in for PSP wallets. It also supports PSP wallet providers' the ability to offer network-branded "companion cards". It has a somewhat unusual but imaginative connection to an established bank bill payment network, eFawateer.com. That system continues to independently manage bank-to-biller payments, but wallet-to-biller payments are accomplished through the interconnection. eFawateer.com also supports bill presentment to both banked customers and PSP wallet holders.

JoMoPay was developed by Central Bank of Jordan, but Central bank worked closely with a group of stakeholders, including both banks and PSPs, who met frequently to work on the project. Shortly after the launch of the project, ownership of JoMoPay was transferred to an industry group, called JoPACC, which is owned by banks and Central Bank of Jordan. Currently, there is no charge to the banks and the PSPs for their use of JoMoPay, although that may change as volumes grow.

JoMoPay, like many such projects worldwide, has struggled with gaining traction: there are still a limited number of active users. Central Bank of Jordan and other stakeholders are working on a number of initiatives to accelerate adoption. These include a variety of merchant payments options, including both NFC "Tags", QR codes, and companion card mentioned above.

The project has laid a strong foundation for future growth – and by including both PSP customers and bank customers on the same platform, Jordan has ensured that financial inclusion will really be inclusive: there will not be separate systems for the banked and unbanked.

Jordan presents an excellent example of how a determined focus on mobile payments and financial inclusion can result in inclusive, interoperable digital payments platform.

- *Multiple in-country systems* exist where different groups or categories of transaction account providers participate in different RTRP systems. This approach may arise from strategical factors, where different categories of providers are most comfortable working with other providers in their category (e.g., Kenya) or from economic factors, where different payments system operators compete for business from transaction account providers. The United States is an example of this approach. Note that where there are multiple networks,

some form of network interoperability (best case) or bilateral connections among providers using different networks (worst case) are necessary in order to create true reach among transaction accounts.

- In some countries, the practical effect of an RTRP system is created through the presence of *Over-the-Top (OTP) providers* (discussed further in section *Payments Services Providers*) who, thanks to an overwhelming market share on a platform basis, are able to connect people throughout the country. These OTP players rely on underlying bank accounts for funds storage, and on a variety of existing payments networks (which may or may not be RTRP) to fund their wallets. Alipay and We Chat Pay in China are the leading examples of this, and PayPal is an example of an early adopter.

#### Example: China

The world's attention has been drawn to the rapid growth of mobile payments in China, with frequent anecdotal reports of the possibility of a cash-free existence for its residents. To all appearances, China is the first country among emerging economies to come close to the promise of "digital liquidity", where people are content to leave money in electronic form, knowing that it can be spent easily, without cost, wherever they need to spend it.

China, like India, has an extensive network of banks throughout the country, and increasingly sophisticated systems connecting those banks. But the way that mobile payments are accomplished is not through apps offered by those banks, but by one of the two "super apps" – Alipay and WeChat offered in the marketplace. Alipay and WeChat Pay enable the user's payment experience, and handle the actual plumbing of moving money behind the scenes – generally relying on bank accounts held by the payer and payee. This works well, although the de facto market dominance of the two players must give regulators some cause for concern. From a payments system perspective, it is interesting that the revenue model of the firms does not depend on payments transaction revenue, but rather from the business models of the underlying commerce structures supported by the Alipay and WeChat Pay marketplaces.

## Global Models

### Cross-Border Payments and Remittances Models

The funds transferred via the large and growing amount of remittances and cross-border payments around the world constitute the lifeline for many families in receiving countries. In many ways, this means that remittances services are themselves, critical services, and as such, the cost, transparency, and quality of remittances have become the focus of governmental policy action and commercial endeavors to lower cost. The new commercial entrants and efforts often involve the increased utilization of new technology or partnerships.

- The U.S. Federal Reserve's *FedGlobal ACH*<sup>™</sup> is an example of one effort to leverage the power of aggregating payment volumes from financial institutions across the U.S. to lower transaction costs and improve foreign exchange rates. In *FedGlobal ACH*, the Federal Reserve acts as the correspondent for participating financial institutions, makes arrangements with foreign institutions for sending and receiving payments, and negotiates low fees that financial institutions can pass along to their customers. In the very large remittance corridor between the U.S. and Mexico, *FedGlobal* further developed the product with Spanish language marketing collateral for banks to use and coined the service *Directo a México*<sup>™</sup>. Notably, a key proponent and beneficiary of the *FedGlobal ACH* is the U.S. Treasury, which uses these low-cost, global connections as the secure delivery channel for tens of thousands of social security beneficiaries who reside outside the U.S.
- In Africa as is now starting to occur in the Arab world, intra-regional trade and population patterns have stimulated the creation of regional payments arrangements to improve cross-border payments exchange. In western Africa, the BCEAO – the Central Bank for the West Africa Economic and Monetary Union (UEMOA) – and in southern Africa, the Southern African Development Community Banking Association (SADC), are in the midst of creating ambitious, multi-country payment blocs. Both of these initiatives began with the exchange of high-value or wholesale payments and are now transitioning to a focus on low-value or retail payments exchanges. In both the UEMOA and SADC regions, non-bank providers of digital financial services are playing a critical role in the creation of the retail payments developments. Other regions in Africa as well as Latin America either have or are starting to develop similar arrangements.
- Not all proactive public policy efforts have focused on transfers from developed to emerging market countries. In fact, the most ambitious cross-border arrangement is the Single Euro

Payments Area (SEPA) in Europe which created a unified payments experience in 33, mostly middle-income, countries. While the Euro is the common currency shared by most of the SEPA countries (cross-border but single currency payments), this effort also included the standardization of payment methods and regulatory frameworks as well as the harmonization of the legal underpinnings of payments-related law.

- Of course, many companies in the private sector are also working to facilitate and lower the overall cost of cross-border payments. While PayPal should be considered an early pioneer in these efforts as it made it possible to transfer money across borders from a digital wallet, other companies have also used different aspects of fintech and business process specialization to improve cross-border payments. One example is U.K.-based TransferWise, which focuses on matching payment flows in common payment corridors and thus avoiding currency conversion. There are many competing cross-border payment providers emerging from fintech, all contributing to increased competition in cross-border payments.

## Trends

Numerous significant global trends in payments are informing the decisions that regulators, payments systems operators, product and service providers, and fintech entrepreneurs make in bringing new payments systems to market. The objective in this section is to explain each well-studied trend at a high level and consider its impact on the delivery of digital financial services for financial inclusion.

### **Real-Time Retail Payments Systems (RTRPs)**

Around the world new real-time payments systems (RTRPs) are emerging online for consumer use and their counterparties. In many respects, these systems are the same as the RTGS systems now pervasive for high-value commercial payments. The systems take advantage of widespread mobile and online access by



consumers and enable consumers to make real-time payments to counterparties; the same systems allow governments, employers, and other payers to direct payments to consumers in real time. RTRP systems are emerging in the *developed* world for reasons of efficiency, and to reduce the use of cash or slower, older systems. RTRP systems are cropping up in the *developing* world to help with financial inclusion; and are a means of reaching newly included consumers, who have transaction accounts at non-traditional account providers.

RTRP systems have the potential to dramatically lower transaction processing costs and lessen risks of older systems. Their “push only” structure eliminates much of the fraud risk inherent in “pull” systems, such as cards and ACH direct debit, where a stolen credential can result in the loss of funds. While, today, most RTRP systems are using traditional net settlement models, there are examples (Mexico, United States) where such systems are using gross settlement or hybrid net/gross models.

Lower risks and lower costs mean the potential for offering either very low-cost or free payments services to consumers and small merchants. Many industry observers believe this will be necessary before any large-scale move away from cash can occur.

### **Regional Systems**

Regional payments systems have existed for years; the EU SEPA systems and the global card network systems are examples. Recent years have seen increased interest in this architecture, again, for reasons of both efficiency and inclusion. In Africa, SADC and Western Africa are examples; work is also underway in East Africa. ARPS is an important development in this space. Although some of these systems exist only to handle cross-border payments, increasing consideration is being given to the potential of having domestic payments processing handled by regional processing centers. This is of significance to financial inclusion because



higher volume processing (by sharing across countries) can lower costs, making affordable products for the poor more feasible.

### **Over-the-Top (OTP) Payments Services Providers**

OTP refers to a payments service, offered to consumers (or merchants or billers) by an entity that does not provide the funds-holding transaction account out of which the payment is made. This practice is long standing: many payments aggregators and wallet providers such as PayPal have created significant payments businesses. One can observe that the market need that these providers satisfy exists because of gaps in the underlying payments infrastructure, which is either too slow or too fragmented to meet customer needs. The OTP provider steps into the middle of the transaction, taking and managing the risks of using the underlying systems.

Recently, attention has been focused on China, where the rapid rise of WeChat Pay and AliPay has been stunning: the idea that a national economy could become cash-free in the near term now seems possible. These providers are particularly interesting because the underlying business models do not rely on payments transaction revenue, a critical stumbling block for more conventional payments providers, especially when trying to reach the “bottom of the pyramid.”

### **Blockchain and Crypto-Currencies**

The use of blockchain technology (apart from crypto-currencies) has, in the long run, significant potential impact on costs and risk management associated with payments accounts and transaction processing. This is particularly interesting from a RegTech perspective, where an underlying account, as just one example, could be held at an institution and be visible to regulators (and their automated processes) simultaneously, without risk of alteration of the records. The realization of this technology seems more mid- than near-term but is in general highly positive.



The use of crypto-currencies, in either a non-permissioned blockchain (e.g., Bitcoin) or a permissioned blockchain (e.g., national fiat currency) is more immediate and less clearly beneficial from a financial inclusion perspective.

### **RegTech and SupTech**

Financial inclusion programs, in most countries, leverage the ability of institutions other than traditional banks to provide transaction accounts and basic services to the unbanked. Success, on any scale, in enabling new providers and their customers to offer and use these accounts is apt to cause serious stress on the oversight capacity of regulators. Certainly, legacy models of managing compliance reporting, many of which are time-lagged and manual, need to be replaced or augmented with automated capabilities for supervision. “SupTech” or Supervisory Technology might include any number of automated processes to ease the expanding mandates and increasing burdens on supervisory capacity. For example, the combination of real-time visibility into accounts and transactions with AI-enhanced algorithmic detection of fraud or abnormal patterns can create powerful new regulatory capabilities. This is a desirable capability currently and will quickly become essential as financial inclusion programs hit scale and bring millions of new customers into financial systems. At the same time “RegTech” or Regulatory Technology sandboxes may offer central banks the opportunity to pilot new approaches to regulation and service provision at a small scale, with maximum monitoring capabilities. With controlled tests conducted, these RegTech pilots may be scaled to a national or regional level.

## 5 Payments Systems in the Arab Region

This section reflects the results of desk research into payments systems in the region. The existing payments infrastructure within Arab region countries is, not surprisingly, quite varied. Most

	ACH	RTGS	Debit Card	RTRP System
Arab countries reported having payment systems infrastructure in place	58%	73%	88%	18%

Data sourced from AMF 2017 survey, July - September 2017

countries have an RTGS system and a debit card system in place. Many have an ACH system, although capabilities (direct debit and/or credit transfer) vary. A handful of countries have what we describe as an RTRP (real-time retail payments) system in place.

### Survey of Countries

Following the LIP workshop, AMF conducted an informative survey among its member countries in August 2017, to gather data points on current and future payments system capabilities, determine each country’s interest in establishing and using a digital payments platform system, and how that fit in to financial inclusion objectives within the country. It should be noted that the survey was fielded for informational purposes only and the results do not represent formal positions on the part of country regulators. Eleven countries provided responses and the survey responses yielded notable findings:

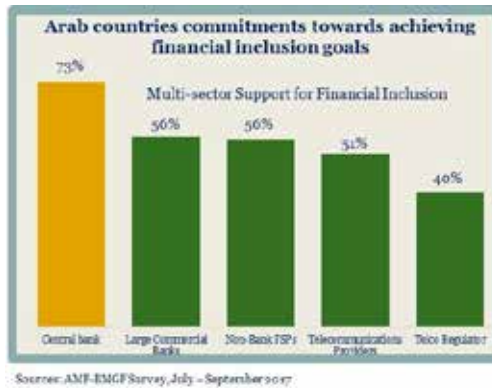
- 27 percent of respondents’ countries indicated having plans to implement an RTRP system,



bringing the total of actual plus planned systems to seven. 82 percent of respondents’ countries have an official financial

inclusion plan; four of which took the form of Maya Declarations, two have been incorporated into national law.

- Institutional support for financial inclusion comes from multiple sectors, with Central Banks rated highest at 73% of responses countries. Telecommunication regulators rated at 40%.



- 55 percent of respondents' countries indicated that their countries measure financial inclusion and have set targets related to those metrics.
- 55 percent of respondents' countries allow banks and licensed non-banks to have agents; 9 percent of them allowed only banks to have agents. However, in no country are agents required to operate exclusively for one provider.
- Only 18 percent of respondents' countries said they consider their strategy for increasing account ownership as very effective, while 36 percent report their strategies are still in the process of being implemented or will be implemented in the next year.

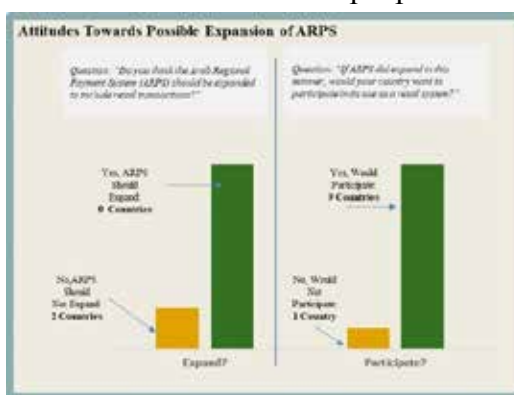
Detailed questions were asked about real-time systems in the country. Answers reflect both RTGS and RTRP systems.

- 64 percent of the responding countries operate a real-time, credit push digital payments platform system.
- Half are owned and operated by Central Banks; the other half are operated by a payment utility owned by commercial banks.
- 55 percent of them were established within the last five years.
- 27 percent of the responding countries report that all eligible institutions use the platform, while the remainder still have non-participants.

- In 36 percent of the responding countries, the digital payments platform supports both mobile money and mobile banking. In half of them the platform system only supports mobile money, while quarter supports mobile banking only.
- Countries were evenly split between having the digital payments platform handle net settlement among institutions on the same day versus a later basis.
- Payments affected over the digital payments platform are irrevocable in four of six reporting countries.

Other questions were asked about future systems, or planned enhancements to current systems:

- Central Banks are expected to play a role in three of seven future digital payment platforms and will write or help operate the digital platform system.
- Person-to-person and person-to-biller use cases are expected to be universally supported in future systems. However, only half of the respondents plan to support government-to-person payments.
- Countries are evenly split between government determining consumer protections and allowing scheme participants to determine protections.
- Nine of the countries thought Arab Regional Payments System (ARPS) should be expanded to include retail transactions. All countries that wish to see ARPS expand would participate in its use as a retail system.



Survey questionnaire and detailed findings in appendices 1 and 2

## **The Arab Regional Payments System (ARPS)**

ARPS is a proposed intra-Arab regional, cross-border, multi-currency payment system designed to provide more efficient and less costly cross-border transactions. At the onset, ARPS will primarily support credit transfers including business activities, remittances, and interbank transfers.

### **Objectives:**

The purpose of ARPS is to provide an alternative to the incumbent correspondent banking system which is expensive, complex, and slow. Today, a regional correspondent banking transaction takes an average of three to five days and costs 33 USD to complete. Moreover, under the current system, financial institutions have high liquidity requirements associated with their multiple, bi-lateral correspondent banking relationships. The complexity of correspondent banking also results in a challenging environment for compliance and Central Bank oversight.

The efficiencies ARPS delivers in intra-Arab transactions are expected to support the usage of Arab currencies and facilitate trade and other economic activities among all Arab countries and beyond through a simple, low-cost, and risk-controlled payment clearing and settlement system. The proposed system significantly improves efficiency and addresses the challenges listed above. Payments occur significantly faster. Additionally, routing transactions via an axial platform improve Central Bank oversight capabilities by increasing transparency of regional transaction flows and facilitating standardized compliance through common requirements aligned with international standards.

In this context, the key objectives of ARPS are to:

- Increase the efficiency of cross-border payments with respect to reducing the duration of transaction completion
- Reduce the costs incurred by banks and decrease the liquidity requirements associated with the existing channels

- Enhance and standardize the level of compliance through applying common requirements, conduct minimum checks, and provide value-added tools
- Enhance the level of Central Bank oversight through effective reporting and governance
- Ensure minimal disruption to market participants to promote and facilitate market uptake

**Features:**

The system is designed to operate via a centralized model that consists of a single cross-border payments platform shared by all participants. The system supports both direct and indirect participation, where the Central Bank in each market has the flexibility to determine whether local financial institutions connect indirectly through them or directly to the system. Direct participants are expected to be central and/or commercial banks that meet ARPS eligibility and participation criteria<sup>20</sup> and submit their intra-Arab cross-border transactions directly to ARPS.

ARPS functions as a single, central institution and holds pre-funded accounts for all direct participants. They clear and process cross-border transactions through real-time gross settlement when sufficient liquidity exists and is within its operating window. Transactions that are not backed by sufficient liquidity are queued. Additionally, the system supports future-value dated payments; these payments are netted prior to the opening of the settlement day.

To promote uptake and ensure an attractive business case, ARPS is a multicurrency system, supporting the processing of payments in regional currencies that meet the defined pre-requisites, as well as the USD and EUR. The system offers the ability to configure

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<sup>20</sup> ARPS participation criteria Stringency is similar to participation criteria for participants to connect to their local Central Bank's RTGS and has been standardized for all ARPS participants to ensure no exposure of participant risk from one Arab country to another.

support for additional currencies. For each onboarded currency, ARPS maintains an independent closed circuit. Each currency circuit is managed independently, with each payment in any supported currency backed by funding in that same currency. ARPS participants have the discretion to elect which currencies they transact in and will hold accounts in said currencies accordingly<sup>21</sup>. Over time, a cross-circuit facility would be introduced.

A key design feature of the settlement model is the potential use of a single ARPS account per currency. As a rule, single ARPS accounts in Arab currencies are maintained at the Central Bank of issue. Having ARPS single account with the Central Bank of issue for each currency supported by the system eliminates credit risk and ensures payment system stability, in line with principle four of the CPMI-IOSCO Principles for Financial Market Infrastructures.

ARPS design supports instant payment, and participants can submit payments 24/7. However, at the onset, the system will provide a 14/6 availability window to maximize the time for participant transactions for both local Arab currencies supported by ARPS and international currencies, such as USD and EUR. This window covers the operating hours of all local RTGS for each currency potentially supported by the system and an eight-hour working day for participants across the Arab region. Payments made outside this window are queued for the next business day.

### **Benefits:**

The proposed ARPS system has several key benefits that are critical enablers for future financial inclusion initiatives.

- **Facilitating regional harmonization:** the ARPS system lays the foundation for future regional financial inclusion initiatives by facilitating a cost-effective exchange of cross currency

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<sup>21</sup> It should be noted that a country does not need its currency supported by ARPS for its participants to make use of the system.



payments. The sustainability of an inclusive financial ecosystem hinges on scale. Countries looking to increase financial inclusion aim to create a system where low-value, high-volume transactions can occur. However, it can be cost prohibitive to implement such a system for a country with low payment volume. Even countries with enough transaction volume to sustain such a system could benefit from further cost savings driven by economies of scale. ARPS enables regional financial inclusion initiatives that can benefit from volume driven savings and the reduction of infrastructure friction.

- Promotion of cross-border trade and commerce: the ARPS system reduces both the cost and complexity of making an intra-Arab payment transaction. The elimination of this barrier is expected to boost regional trade and commerce. Historically, such efforts have positively impacted the investment in productive assets as well as employment-generating activities in rural areas.
- Increasing the number of transaction accounts: the number and frequency of usage are key measures of financial inclusion. Easy and affordable remittance can drive the creation of account openings generate frequent usage. ARPS facilitates remittances by lowering the cost of cross-border transfers and making them more accessible.





## 6 Policy Recommendations

The below recommendations are intended to support policymakers in the Arab region and guide the work of the AMF in supporting Arab countries' national financial inclusion priorities and in promoting effective regional alignments and strategies. The guidance addresses the specific context of the Arab region while building on global best practices and international standards. Specifically, these recommendations help AMF member countries to practically implement the G20 High-Level Principles for Digital Financial Inclusion.<sup>22</sup>

### *Recommendation 1. Enhance and/or Build Digital Payments Infrastructures*

#### **Prioritize RTRP Systems and Access**

Arab countries to prioritize access to low-cost domestic payments via RTRP systems. AMF to encourage the implementation of national RTRP systems which are open to providers (bank and non-bank providers of transaction accounts) and inclusive of multiple providers and end users. AMF to encourage national regulators to permit full access to RTRPs for suppliers regardless of type and should support full interoperability between them.

#### **Leverage Existing Financial Networks**

Arab regulators to leverage existing financial services networks and facilitate their digitization and connectivity to national and regional payments infrastructures. In some countries, it will make more sense to use existing networks, with some enhancements (such as moving to real-time), rather than building new systems.

The Arab region enjoys powerful networks which connect people to each other and institutions. Paramount among them are branchless banking agents' networks, microfinance institutions,

<sup>22</sup> For a full list of the G20 High-level Principles for Digital Financial Inclusion, see: <https://www.gpfi.org/publications/g20-high-level-principles-digital-financial-inclusion>

national postal networks, and informal financial services. Rather than replace these existing cash-based structures, efforts should be made to harness their existing scale and augment their scope and suitability with digital innovations and connections to formal payments infrastructures.

The power of existing networks is twofold: scale and trust. In many countries, postal networks offer extensive coverage of remote geographies and vulnerable populations. So too, do banking agents and microfinance institutions, many of which were established to serve rural communities. They have reach that traditional formal financial services do not enjoy.

It is particularly interesting to consider how informal money transfer services and savings strategies, such as Hawala transfers and savings and lending groups, could be used within the emerging digital financial services ecosystem. These services are widely popular and cover broad swaths of the Arab region. They serve consumers with reliable service, and importantly, have established trust with their constituents. There may be ways in which these networks can use the same RTRP rails as other institutions, but provide the needed connectivity to key consumer groups.

### **Consider Regional Processing of Domestic Payments**

As outlined above, this is a significant global trend. With the region's ongoing ARPS regional system, it may be useful to consider ARPS as a model, if not as a processing asset for future regional processing centers for national RTRPs.

#### ***Recommendation 2. Support Access to Low-Cost Transaction Accounts***

Regulators to continue efforts to establish tiered KYC programs for both consumers and SMEs. In particular, efforts should be made to link these programs to biometric national identity programs. Where

these exist, there is potential for fraud reduction, and therefore cost efficiencies.

### ***Recommendation 3. Encourage and Incent Transaction Account Usage***

Even in countries where permissions and plans are in place to provide access to transaction accounts, and to connect those accounts to RTRP rails, we see the potential for full usage of these services. In many markets, providers see dormant accounts and merchants face low volumes at their electronic points of sale. Governments see benefit and salary payments cashed-out immediately upon receipt. Many interesting programs are underway worldwide to counter this trend and create incentives for consumers and for their counterparties.

On the supplier side of payment infrastructures, incentivizing participation requires regulatory oversight to ensure openness to multiple providers. With more participation on the supply side, and large-scale participants such as governments themselves, systems may achieve scales to drive down costs while maintaining interoperability. On the demand-side, motivating participation requires sensitivities to consumer and merchant affordability and trust. Users should face minimal and simple fee structures and be educated on any implications of transitioning to a digital financial life, such as formalization in the eyes of regulatory authorities, subsequent compliance, or tax liability issues.

If financial inclusion demands not only access to finance, but access to low-cost and suitable products, it may be essential in this next phase of inclusion efforts to focus attention on the usefulness or suitability of products to fulfill consumer needs. The question of which products meet consumer needs, including those of Sharia compliance fall within this critical category, as a lack of compliant features and distribution will render products inappropriate and underused. Shifts towards consumer centricity in feature design,



and interoperability that supports multiple cases in infrastructure design, have provided opportunities for improved sustainability.”

There are interesting opportunities to create incentives for particular use cases. Perhaps the largest focus currently, worldwide, is on merchant payments.<sup>23</sup> Increasingly, it is recognized that if a consumer is not able to spend mobile money for goods and services, they will cash-out. Getting merchants to agree to accept electronic payments is highly challenging, particularly if acceptance has a transaction cost and/or leads to exposure to taxes. Several programs can help with this, including ensuring that merchant services providers are enabled to provide auxiliary services, such as lending which can provide a financial return, and ensuring that regulators allow merchants and their service providers to work together on shared infrastructure.

#### ***Recommendation 4. Improve Remittance Processing***

A critical goal for the region is to facilitate low-cost cross-border payments through support of a regional system. Policymakers should work to ensure broad support in the region for ARPS, both at an infrastructure level and at the product and services level. This has the potential to substantially lower costs for intra-Arab regional payments and expand access. Welcoming more suppliers into the system and supporting interoperability and multiple use cases will drive volumes and reduce costs.

#### ***Recommendation 5. Promote Fair Competition; Balance Innovation and Stability***

Arab regulators AMF can encourage fairness and stability by promoting shared rails and competition on value-added adjacencies.

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<sup>23</sup> “Merchant payments” as a term is used to include all payments acceptors, including point of sale and remote sellers, billers, governments, etc.

A focus on the financial inclusion can enhance the stability, integrity, and protection, mandates of Central Banks.<sup>24</sup> An important consideration is where the line is drawn between infrastructure and commercial opportunity. From a payments infrastructure point of view, regulators are encouraged to view the rails and rules of RTRP systems as infrastructure: to be developed and operated collaboratively by the industry, preferably on a not-for-profit basis. Rails should be kept as minimal as possible, allowing competitive value-added services to run over them. This philosophy is gaining adherents around the world, with countries such as Australia advocating an “overlay” approach to ensure competitive services can run on the common rails.

It should be noted that competition at the rails level, which may sound appealing, can actually be counterproductive. If each institution chooses its own rails, then network interconnectivity requires layers of connections or gateway services to enable a person or business to reach their counterparty. Enhance Consumer Experience and Protection.

**There is a room to improve customer experience by maintaining a commitment to thoughtful measurement & design.** With opportunities ushered in by improved payments infrastructures and DFS innovations spurred by those rails, comes an imperative to ensure thoughtful product design to meet the needs of providers and end users. Global bodies have paid increasing attention to the importance of measuring progress against financial inclusion goals, as evidenced by new indicators and measurement frameworks put forth by the G20 Financial Inclusion Indicators.<sup>25</sup> In addition to encouraging measurement against these goals, policymakers should include surveys to gather demographic data

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<sup>24</sup> CGAP’s I-SIP framework: Financial Inclusion (I) – to promote Stability (S) Integrity (I) Protection (P).

<sup>25</sup> For full text, see: AFI. “Measuring Financial Inclusion: Core Set of Financial Inclusion Indicators.” <https://www.afi-global.org/publications/264/Measuring-Financial-Inclusion-Core-Set-of-Financial-Inclusion-Indicators>, and GPFI. “G20 Financial Inclusion Indicators.” <https://www.gpfi.org/news/g20-financial-inclusion-indicators>.

on populations to best ensure coverage of vulnerable groups and maximization of economic gains from integrating people and communities. Measurement should take two forms, high-touch consumer-centric research and census-style big data flows.

**The need to encourage consumer-centric design and research to best serve needs of the financially excluded.** This benefits the most vulnerable populations, including women and forcibly displaced persons (FDPs), who may not be counted in national surveys without disaggregated data. An example was given recently by Central Bank of Jordan, who described how onsite visits to FDP camps and villages gave critical, wholistic data about the real wellbeing and needs of end-users.<sup>26</sup> Rich, qualitative data captured in the field was leveraged to design suitable financial services that better serve Jordan’s refugee population.

**To encourage the safe, transparent use of big data to inform policymaking and governance.** Qualitative data measured in small batches with wholistic focus should be paired with large sets of data captured by DFS providers and governmental entities, as they shift to digital distribution, surveying, and motoring. Large sets of data can map demographic trends and transaction flows, enabling regulators to better design policies to enhance access and use of suitable products, and ensure comprehensive protection measures. In both qualitative and quantitative endeavors, it remains critical that regulators ensure that privacy concerns over consumer-level data be addressed. This is particularly relevant in conflict zones and for vulnerable groups fleeing potentially dangerous situations. The mishandling of personal identifying information could have disastrous consequences for people and communities.

<sup>26</sup> “CBJ visited the camps to see the refugees’ financial needs firsthand, as well as understanding the implications of providing them. This was assisted by UNHCR and GIZ and was an eye-opening experience and paramount to providing a provision which more accurately met refugee camps’ financial needs, requirements and individual security considerations.” “Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators.” *Alliance for Financial Inclusion*, August 2017. [https://www.afi-global.org/sites/default/files/publications/2017-11/AFI\\_displaced%20persons\\_AW\\_ISBN\\_digital.pdf](https://www.afi-global.org/sites/default/files/publications/2017-11/AFI_displaced%20persons_AW_ISBN_digital.pdf).



**There is a need to encourage continued knowledge exchange to develop best practices for data privacy and ownership for consumers to avoid these unintended consequences.**

**Regulators to work across institutions to enshrine consumer protection for new solutions and new participants.** Great strides have been made by national financial regulators within the region to promote consumer protection in digital financial services. The Palestinian Monetary Authority instated a market conduct department and arbitration mechanism, based in part on peer knowledge exchange from Morocco, whose Bank Al-Maghrib has instituted redress mechanisms and integrated consumer education.<sup>27</sup> Still the evolving distribution channels for DFS will demand that consumer protection transcend the purview of financial regulators. Efforts should be made to encourage collaboration with relevant counterparts within telecommunications ministries and regulatory bodies to ensure that consumer protection efforts are comprehensive and aligned. A joint understanding of jurisdictions and improved quality standards for consumer protection from telecommunications regulators will prevent loopholes in protection frameworks. Telecom regulators may be best suited to take up issues of QoS and QoE in the provision of services, which can complement the more traditional roles of Central Banks. A list of detailed recommendations for Consumer Protection has been suggested by the ITU Focus Group DFS, which brought together financial and telecom regulators.<sup>28</sup> This example of collaboration and resulting joint recommendations can serve as a model for a region priority.

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<sup>27</sup> “Responsible Financial Inclusion for Social Inclusion and Stability.” *Alliance for Financial Inclusion*, April 28, 2015. [https://www.afi-global.org/sites/default/files/publications/conference\\_report-g7\\_deauville\\_partnerships-final.pdf](https://www.afi-global.org/sites/default/files/publications/conference_report-g7_deauville_partnerships-final.pdf).

<sup>28</sup> For more information, see: ITU. 2017. “Final Recommendations of the ITU FG DFS Working Group on Customer Experience and Protection.” <https://www.itu.int/en/publications/Documents/tsb/2017-DFS-ConsumerExperienceProtection/mobile/index.html#p=20>.

### ***Recommendation 6. Mitigate Negative Consequences of De-Risking***

The AMF and Arab regulators are encouraged to join a growing global consensus of stakeholders who seek to mitigate unintended negative effects of de-risking and AML–CFT compliance on financial inclusion efforts. These follow FATF’s own guidance<sup>29</sup> according to its report on the topic. Policy recommendations take two main forms:

**To encourage Arab banks to pursue and update national risk assessments (NRAs).** NRAs allow regulators to standardize categories of risk, from which they can construct tiered, proportionate regulations for various actors and transaction types. Critical to the region, NRAs should explicitly consider high (inclusion) impact use cases such as remittances and service delivery to FDPs.<sup>30</sup> In its 2017 supplement on consumer due diligence, FATF suggests manners in which countries may apply a simplified consumer due diligence (CDD) protocol in low and lower risk cases. These could take the form of relaxed or delayed identification requirements.<sup>31</sup> An example can be seen in Egypt’s simplified due diligence (SDD) protocol for mobile transactions. This scheme enacts an onsite and/or eKYC component and lower customer identification requirements with limits on transaction amounts, balance limitations, and a predetermined tiering of these requirements based on type of institution.<sup>32</sup>

A persistent challenge has been developing a sound and systematic approach to avoiding a blanket classification of “high risk” to any

<sup>29</sup> For more information, see: FATF. 2013. “Anti-money laundering and terrorist financing measures and financial inclusion with a supplement on customer due diligence.” <http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf>.

<sup>30</sup> [https://www.afi-global.org/sites/default/files/publications/2017-11/AFI\\_displaced%20persons\\_AW\\_ISBN\\_digital.pdf](https://www.afi-global.org/sites/default/files/publications/2017-11/AFI_displaced%20persons_AW_ISBN_digital.pdf).

<sup>31</sup> “Guidance for a Risk-Based Approach: The Banking Sector.” *FATF*, October 2014. <http://www.fatf-gafi.org/media/fatf/documents/reports/Risk-Based-Approach-Banking-Sector.pdf>.

<sup>32</sup> “Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion: With a Supplement on Customer Due Diligence.” *FATF*, 2017.

person originating from a high-risk geography. The region should encourage active research into this challenge in consultation with FATF, UNHCR, and global bodies who may provide guidance. In line with FATF's recommendations, Arab regulators should also encourage active monitoring and adjustment of NRAs based on new evidence and changing circumstances.<sup>33</sup>

**To support implementation of national and international identification schemes and encourage their integration into payments infrastructures.** Linking payments infrastructures to a robust national identity platform has clear benefits for access and use of the system: it can reduce costs and risks associated with more ad hoc KYC application, and thereby improve confidence in the system and reduce costs.

Customer identification is exceedingly complex in contexts of refugee population. To this end, the region may consider encouraging the use and acceptance of globally issued identity cards for refugees, such as those issued by UNHCR, and alternate forms of identification for FDPs. It is worth noting that FATF has no explicit requirements for the type of identity data or verification sources, and that it is left to banks themselves to define adequate identification and verification mandates.<sup>34</sup> As such, there is a need to encourage regional knowledge sharing and standardized lists of alternate identification data sources and verifications.

**Regulators to work with industry to increase consumer financial literacy.** To complement national financial literacy programming and financial education campaigns, regulators should endeavor to work with industry to complement simple, intuitive

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<sup>33</sup> *ibid.* "Countries and institutions should keep these assessments under review. They should consider doing post-implementation assessments to determine whether in practice, the risks were actually lower, and the SDD measures were appropriate. This assessment may also analyze whether the simplified CDD serves to the objective effectively and improves financial inclusion. Such assessments are particularly important because risks tend to change over time. Risks associated with types of customers evolve, criminal abuse patterns also change, and risk levels of products assessed as lower risk may increase over time, especially where criminals start to exploit simplified controls."

<sup>34</sup> *ibid.*

product design with companion education. Education offered in tandem with products and services has the distinct opportunity to result not only in literacy but financial capability, as customers are able to put into practice skills and knowledge learned. Using this capability approach and employing methods like simplified ‘Rule of Thumb’ messaging may result not only in knowledge but changed, enduring behaviors. As digital financial services products for consumers grow and proliferate, there is both an opportunity to foster greater consumer financial literacy, and risks associated with single-provider communications. Regulators are encouraged to study provider communication programs and, where appropriate, take steps, perhaps working with financial industry bodies, to develop clear consumer messaging programs. Regulators are further encouraged to see that existing consumer financial literacy programs are updated to reflect new digital payments capabilities in their markets.

***Recommendation 7. Promote and Encourage RegTech and SupTech***

Encourage the use of automation, technology, and “regulatory sandboxes” to meet compliance and oversight needs. As the Arab countries open and modernize their payments infrastructures, particularly in the implementation of RTRP systems, they will be faced with evolving compliance schemes. With care given to risk-based assessments and enforcement of AMF–CFT, they face increasingly complex tiers of consumer protection regulation. Collectively, regulatory burdens can become costly and labor intensive. An embracing of technological solutions to automate certain oversight and compliance functions (collectively termed “SupTech”) can reduce costs for regulators and increase real-time data and transparency. Implementation of these technologies and learnings from small-scale tests in regulatory sandboxes (often referred to as “RegTech”) can enable Central Banks to act more nimbly with better access to data, ensuring greater stability while pursuing the goals of inclusion.

### ***Recommendation 8. Improve Digital Humanitarian Assistance Distribution***

To consider digital humanitarian assistance cases which may be prevalent in jurisdictions with FDPs and refugees. It is suggested to the concerned Arab countries to follow best practices, such as those articulated in the 2016 Barcelona Principles,<sup>35</sup> to ensure that digital distribution of humanitarian assistance can be conducted safely and securely. The region may allow for the possibility that what begins as digital assistance bulk payments may spur the creation of transaction accounts, a trust and familiarity with the distribution mechanism, and demand for digital financial services which may ultimately contribute to meaningful financial inclusion and economic integration.

### ***Recommendation 9. Monitoring and Evaluation to Inform Effective Regulation and Interventions***

Support robust, regular monitoring and evaluation to ensure efficacy of financial inclusion efforts. Without sound data collection methods and insistence that inclusion programming be monitored for efficacy and spillover effects, it will be impossible to regulators to properly understand the impact of their interventions. It is encouraged that regulators use pre-established, best practice indicators for financial inclusion program evaluation to enable sound comparisons between datasets collected across

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<sup>35</sup> Eight Principles for Digital Payments in Humanitarian Response, as articulated by a cross-sector group of humanitarian and financial inclusion professionals and convened by OFDA, FFP and the U.S. Global Development Lab. The principles are:

1. Select payment mechanisms for recipient empowerment.
2. Collect data that is relevant and proportional.
3. Safeguard the right to data privacy and protection.
4. Facilitate pathways to financial inclusion where possible and appropriate.
5. Prioritize and build on local systems and infrastructure.
6. Invest in organizational preparedness to quickly leverage digital payments, when appropriate.
7. Develop institutional and collective capacity for effective humanitarian/private sector engagement.
8. Coordinate the use of shared and multipurpose platforms.

For more, see coverage of the convening: Aid & International Development Forum. September 30, 2016. "Eight Principles for Digital Payments in Humanitarian Response."

<http://www.aidforum.org/topics/mobile-for-development/eight-principles-for-digital-payments-in-humanitarian-response>.

countries and programs. Ongoing consultation with global bodies and the impact measurement community may assist in informing the choice of indicators and methodologies that best fit interventions. Automation in data collection afforded by updated payment systems and fintech innovations is likely to deliver large, powerful datasets to regulators. With attention to user data privacy, these data may be analyzed more affordably and efficiently than traditional approaches to surveying, and thereby offer a basis for robust, practical evaluation of regulatory approaches and inclusion interventions.

## 7 Supporting Material

### Glossary

To maintain standards in terminology, we append for reference the World Bank CPMI PAFI Glossary.

**Access point:** Point that is necessary to initiate a payment. Access points can include branch offices, ATMs, terminals at the POS, or a personal device of the user (for access via the internet or other telecommunication networks).

**Agent banking:** Business arrangements of banks and non-bank payment service providers using local entities (i.e., PSP agents) such as small shops, to provide basic payment and transaction account-related services on their behalf. This arrangement is also referred to as banking through business correspondents.

**Basic account:** A bank account that is typically focused on payment services and characterized by low-cost and no-frill features. These accounts are often offered in combination with a debit card.

**Deposit transaction account:** Deposit account held with banks and other authorized deposit-taking financial institutions that can be used for making and receiving payments. Such accounts are known in some countries as current accounts, checking accounts, or other similar terms. See also “Transaction account.”

**E-money account:** Prepaid instrument based on e-money that can be offered by banks and other authorized deposit-taking financial institutions, as well as by non-deposit-taking payment service providers such as mobile network operators. These accounts include prepaid accounts. See also “Transaction account.”

**End user:** Individual, business, and/or government agency that is a customer of a payment service provider and is in the role of a payer or a payee of a retail payment transaction. See also “Payment service provider.”

**Float:** The amount of funds withdrawn from the account of the payer but not reflected immediately in the account of the payee. In the e-money context, float is typically referred to as the total value of outstanding customer funds.

**Money transfer operator (MTO):** A non-deposit-taking payment service provider where the service involves payment per transfer (or possibly payment for a set or series of transfers) by the sender to the payment service provider (e.g., by cash or bank transfer) as opposed to a situation where the payment service provider debits an account held by the sender at the payment service provider.

**National payment system:** This system encompasses all payment-related activities, processes, mechanisms, infrastructure, institutions, and users in a country or a broader region (e.g., a common economic area). This is also referred to as a “payments system.”

**Payment service provider:** An entity that provides payment services, including remittances. Payment service providers include banks and other deposit-taking institutions, as well as specialized entities such as money transfer operators and e-money issuers.

**Payment system operator:** An entity that operates a payment network and/or other payment infrastructures.

**PSP agent:** Local entities, such as small shops, that provide basic payment and transaction account-related services on behalf of banks and/or non-bank payment service providers based on business arrangements with them. See also “Agent banking.”

**Transaction account:** Broadly defined as an account held with a bank or other authorized and/or regulated service provider (including a non-bank) which can be used to make and receive payments. Transaction accounts can be further differentiated into deposit transaction accounts and e-money accounts.

**Trust account:** Account held by non-bank payment service provider issuing e-money with a deposit-taking institution to deposit the outstanding e-money float.



## Appendices

### Appendix 1: Digital Financial Services Survey

Survey conducted by the AMF among Arab Central Banks and Monetary Authorities from July to September 2017, as a follow up on the DFS Workshop jointly organized by the AMF and Bill & Melinda Gates Foundation, Abu Dhabi, United Arab Emirate on March 13-14, 2017

Please provide your institution's name

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1. Please indicate the institution type

- Central Bank
- Ministry of Finance
- Other Government Organization (*please specify*) -----

2. Please provide your contact details

Name : -----

Position : -----

Email : -----

Mobile phone : -----



3. Does your country have a formal regulation, plans or national commitment to increasing financial inclusion?

*Check all that apply*

- Yes – national law
- Yes – official financial inclusion plan
- Yes – Maya declaration
- No
- Other commitments (*please specify*): -----

4. [*if answer to “3” is anything except “No”*] To what extent do institutions in your country support the national financial inclusion goals?

*For each question, respond on a scale of 1-5, with 1 being “strongly support” and 5 being “does not support”*

<i>Central Bank</i>	
<i>Telecommunications Regulator</i>	
<i>Large Commercial Banks</i>	
<i>Telecommunications Providers</i>	
<i>Non-Bank Financial Services Providers</i>	
<i>Others (please specify)</i>	

5. Does your country have a strategy to increase financial account ownership among currently financially non-included people?

*Check all that apply*

- Yes – **e-Money** issuance by non-banks (*see definition of “e-Money” in Glossary*)
- Yes – **branchless banking** regulation (*see definition of “branchless banking” in Glossary*)
- Yes – new class of chartered financial institution
- Yes – **tiered KYC** rules (*see definition of “tiered KYC” in Glossary*)
- I don’t know [*if so, please indicate who might have the answer*]:  
-----
- Other (*please specify*): -----

6. How are **agents** treated within your country? (see definition of “agents” in Glossary)  
 Check all that apply

- Allowed for banks only
- Allowed for banks and licensed non-banks
- Required to operate exclusively for one provider
- Allowed to represent multiple providers
- I don't know [if so, please indicate who might have the answer]:  
 -----
- Other (please specify): -----

7. Do you measure financial inclusion in your country (accounts open, activity, etc.)  
 Check all that apply

- Yes, we measure
- Yes, we have set targets
- Yes, we have set budgets to get there
- I don't know [if so, please indicate who might have the answer]:  
 -----
- Other (please specify): -----

8. How effective has the strategy been in increasing account ownership?

- Very
- Somewhat
- Not yet successful but promising
- Not successful

Comment: -----



*Branch to 10a (Yes) or 10b (No)*

10A1: Has the digital payments platform system been established in the last five years?

- Yes
- No

10A2: Who owns the digital payments platform system?

- Central Bank
- Commercial Banks
- Other (please specify): .....

10A3: Who writes the operating rules of the digital payments platform system?

- Central Bank
- Scheme formed by participants of the system
- I don't know [if so, please indicate who might have the answer]:  
.....
- Other (please specify): .....

10A4: Who operates the digital payments platform system?

- Central Bank
- Payments utility owned by commercial banks
- Commercial provider
- I don't know [if so, please indicate who might have the answer]:  
.....
- Other (please specify): .....



10A5: Who is able to join the digital payments platform system?

- Commercial banks only
- Any financial institution
- Invited parties only
- I don't know *[if so, please indicate who might have the answer]*:  
-----
- Other *(please specify)*: -----

10A6: Does the digital payments platform system support only **mobile money** transactions, or conventional mobile banking transactions as well? *(see definitions of "mobile money" and "mobile banking" in Glossary)*

- Mobile money transactions only
- Mobile banking transactions only
- Both mobile money and mobile banking transactions?
- Other *(please specify)*: -----

10A7: Are all institutions entitled to use the digital payments platform system actually connected and using it?

- Yes
- No
- Other *(please specify)*: -----

10A8: What use cases are enabled on the digital payments platform system?  
*Check all that apply*

- Person to person
- Government to person
- Person to biller or merchant
- I don't know *[if so, please indicate who might have the answer]*:  
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10A9: Are consumers aware of the capabilities of the digital payments platform system?

- Yes
- No
- I don't know *[if so, please indicate who might have the answer]:*  
-----
- Other *(please specify):* -----

10A10: Are agent accounts accessible by the digital payments platform system?

- Yes
- No
- I don't know *[if so, please indicate who might have the answer]:*  
-----
- Other *(please specify):* -----

10A11: Does the digital payments platform system handle net settlement among institutions on a same day or later basis?

- Same day
- Later
- I don't know *[if so, please indicate who might have the answer]:*  
-----
- Other *(please specify):* -----

10A12: Are payments effected over the digital payments platform system irrevocable?

- Yes
- No
- I don't know *[if so, please indicate who might have the answer]:*  
-----
- Other *(please specify):* -----



10A13: What are the fees to the end customer of doing a transaction on the digital payments platform system? Is there a goal or plan to lower that price?

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 -----

**Branch to 10a (Yes) or 10b (No)**

10B1: Are there plans to establish a digital payment platform system for real-time credit push retail payments in your country?

- Yes
- No
- I don't know [if so, please indicate who might have the answer]:  
 -----
- Other (please specify): -----

**The following questions or only asked if 10B1 is "yes"**

10B2: Who will own the digital payment platform system?

- Central Bank
- Commercial Banks
- I don't know [if so, please indicate who might have the answer]:  
 -----
- Other (please specify): -----

10B3: Who will write the operating rules of the digital payment platform system?

- Central Bank
- Scheme formed by participants
- I don't know [if so, please indicate who might have the answer]:  
 -----
- Other (please specify): -----



10B4: Who will operate the digital payment platform system?

- Central Bank
- Payments utility owned by commercial banks
- Commercial provider
- I don't know *[if so, please indicate who might have the answer]:*  
-----
- Other *(please specify):* -----

10B5: Who will be able to join the digital payment platform system?

- Commercial banks only
- Any financial institution
- Invited parties only
- I don't know *[if so, please indicate who might have the answer]:*  
-----
- Other *(please specify):* -----

10B6: What use cases will be enabled on the digital payment platform system?

*Check all that apply*

- Person to person
- Government to person
- Person to biller or merchant
- I don't know *[if so, please indicate who might have the answer]:*  
-----
- Other *(please specify):* -----





11. How are consumer protections relating to retail financial transactions handled within your country?

- National law or regulation specifies rights and responsibilities
- Payment platforms (scheme) rules specify rights and responsibilities
- Left to the market

Comment: -----

12. Do you think the Arab Regional Payment System (ARPS) should be expanded to include retail transactions?

- Yes
- No

Comment: -----

13. *If ARPS did expand in this manner, would your country want to participate in its use as a retail system?*

- Yes
- No

Comment: -----

14. General question: what would you like to bring to our attention regarding Digital Financial Services Development in your countries.

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-----  
-----  
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## **GLOSSARY OF TERMS**

**e-Money:** monetary value that is recorded in electronic media, exchangeable for physical cash at par value, and typically required by regulation to be backed by liquid bank assets. The bank backing can be direct if the e-money is issued by a bank, or indirect if it is issued by a licensed non-bank entity as long as it holds an equivalent amount of value in liquid banking assets.

**Agents:** retail outlets that exchange e-money for physical cash and vice versa instantaneously, on-demand, for a fixed commission. Agents represent a bank or a licensed non-bank issuer of e-money.

**Branchless banking:** Financial services delivered outside conventional bank branches, often using agents and relying on information and communications technologies to transmit transaction details – typically mobile phones or card-reading point-of-sale (POS) terminals

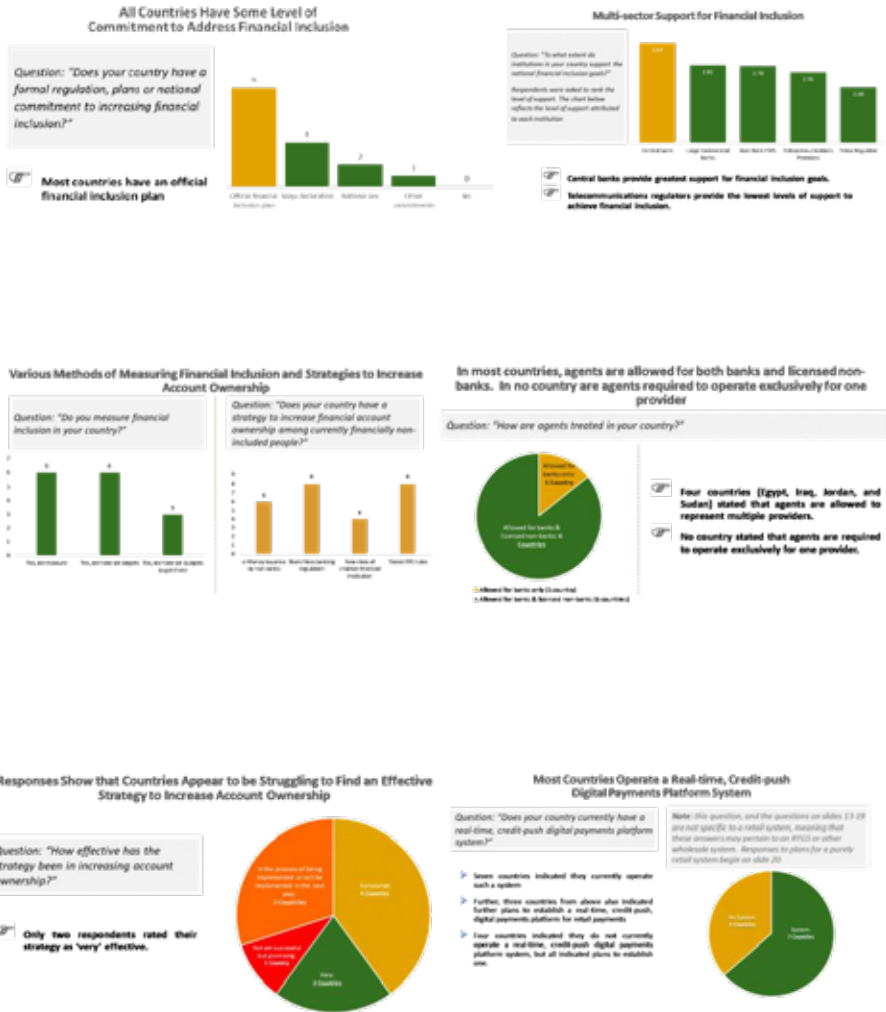
**Mobile money:** a term used when e-money issued by a licensed non-bank is accessed by customers primarily through a mobile phone.

**Mobile banking:** a term used when a bank account is accessed by a mobile phone. Most mobile banking applications are additive in that they provide a new delivery channel to existing bank customers.

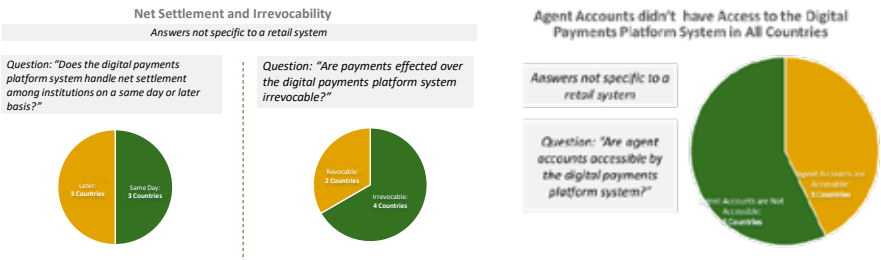
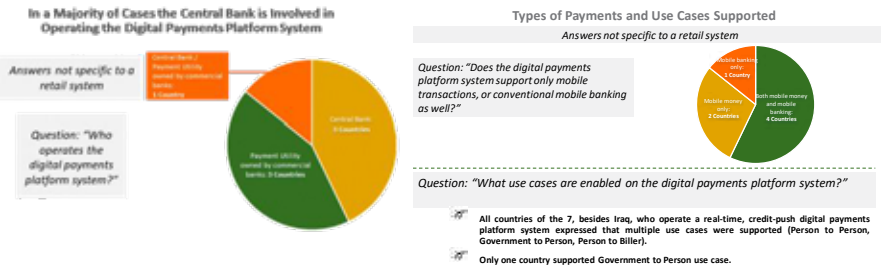
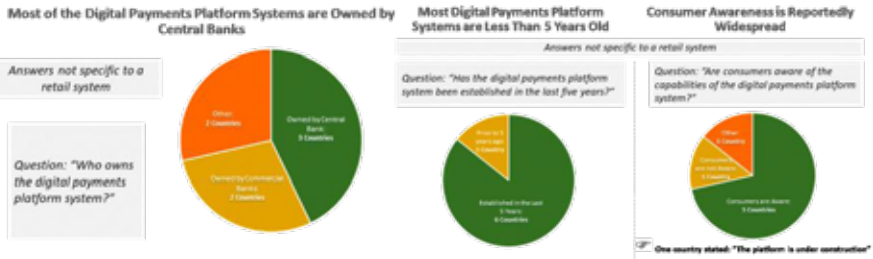
**Tiered KYC:** Rules that relax the “know your customer” requirements to allow for participation by end users in correlation to level of use. For example, a tiered KYC system allows people lacking documentation to open basic accounts, and the risk related to these accounts may be managed by imposing strict maximum account balance and transfer limits.

## Appendix 2: Detailed Survey's Findings

### 1. Background



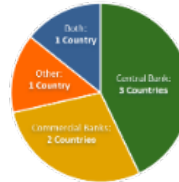
## 2. Current State of Digital Payments Platform Systems



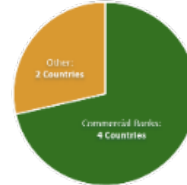
### 3. Future Plans for Digital Payments Platform Systems

#### A Majority of Respondents Indicated Openness for Any Financial Institution Joining the System

Question: "Who will own the digital payment platform system?"



Question: "Who will be able to join the digital payment platform system?"



#### In Majority of Cases, the Central Bank will Write or Help to Write the Operating Rules

Question: "Who will write the operating rules of the digital payment platform system?"



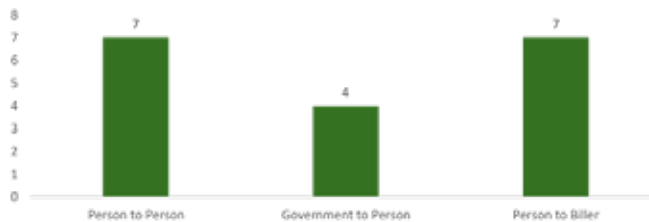
Question: "Who will operate the digital payment platform system?"



#### Various Plans for Use Case Support

Question: "What use cases will be enabled on the digital payments platform system?"

While all plan to support person to person and person to bills, only half of the respondents plan to support government to person payments.

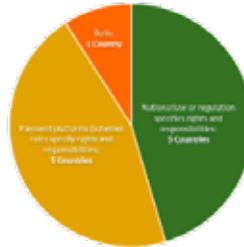


## 4. Additional Questions

### Countries are Evenly Split Between Government Determining Consumer Protections and Allowing Scheme Participants to Determine Protections

Question: "How are consumer protections relating to retail financial transactions handled within your country?"

One country indicated "Other," stating: "National law or regulation specifies rights and responsibilities / Payment platforms (scheme) rules specify rights and responsibilities," which was categorized as "both"

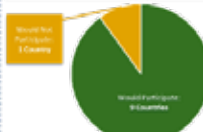


### All Countries that Wish to See the Arab Payment System (ARPS) Expand to Include Retail Transactions Would Also Participate

Question: "Do you think the Arab Regional Payment System (ARPS) should be expanded to include retail transactions?"



Question: "If ARPS did expand in this manner, would your country want to participate in its use as a retail system?"



Note: All countries (7 out of 7) with plans to implement a retail system are interested in seeing ARPS expand and would be interested in participating were it to expand, besides Monaco

## Ownership of the Digital Payments Platform is Related to both Writing the Operating Rules and Operating the System

- ☞ In a majority of cases (5 out of 7), the entity or group of entities that own the digital payments platform system also write the operating rules, or at least are involved in writing the operating rules.
- ☞ In a majority of cases (5 out of 7), the entity or group of entities that own the digital payments platform system also operate the system. In every case where the central bank owns the digital payments system, it also operates the system, in whole or at least in part.
- ☞ In nearly every case (6 out of 7), the entity or collection of entities involved in writing the operating rules, also operates the system, either alone or as a joint effort.

## Central Bank Involvement in the Digital Payments Platform System is Related to Increased Participation by Eligible Institutions

- ☞ In every case where the central bank owns the digital payments platform system, both mobile money and mobile banking are supported. In other cases the results are mixed.
- ☞ Ownership by either the central bank or commercial banks is related to more instances of all eligible institutions actually using the system (4 out of 5). Other schemes of ownership result in no instances of all eligible institutions actually using the digital payments platform (0 out of 2).
- ☞ In the cases where the central bank wholly writes the operating rules of the system, all eligible institutions are actually using the system (3 out of 3). However, when the scheme formed by participants is involved in writing the rules, the instances of all eligible institutions using the system goes down (1 out of 4).
- ☞ Central bank operation of the system, even partially, is related to increased instances of all eligible institutions actually using the system (3 out of 4). Payment utilities owned by the commercial banks exhibit the lowest instances of all institutions actually using the system (1 out of 3).

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