

Regulators as Change Agents

The term “innovation” is not naturally associated with regulation. Innovation is the purview of inventors, investors, and entrepreneurs, who search constantly for a competitive edge, pushing boundaries and taking risks. Regulators, on the other hand, are most concerned with controlling risks. They strive to preserve stability and set the conditions within which market participants compete. In specific industries, regulators may also address the allocation of scarce resources or consumer protection.

In the financial sector, regulators focus primarily on stability, predictability, and avoiding shocks. The recent financial crisis led many commentators to speak out on the difficulty, if not the failure, regulators had in controlling innovation, which had damaging consequences not only for the financial services industry but the world. This debate, which has taken place in developed countries, may have overshadowed another discussion—that of how regulators, working alongside entrepreneurs and investors, can and must enable innovation. This second debate is currently growing in the global South, where innovation in the financial services sector is unfolding as a positive force that has the potential to improve the quality of life of many individuals. This is one paradox of financial services: while the North worries about whether the new rules for the provision of financial services are tight enough, the South is thinking about whether a new regulatory regime might restrict access to financial services.

In developing countries, 70 percent of the population relies on cash, physical assets, and informal services to make their modest means serve their most important needs. Where investment in infrastructure has been increased, the focus is usually on water, electricity, or roads; little attention has been given to the infrastructure needed in the financial services sphere. In the last 10 years, the develop-

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ment agenda for financial services has mostly revolved around a single service: microcredit. This is now changing, thanks to mobile connectivity, which is spreading in most developing countries. It could lead to dramatic reductions in infrastructure costs, and thereby unleash other innovations at the service level—for instance, in the distribution of retail financial services, in mobile payments, and possibly in the design of financial services.

No matter what their strategy is for financial exclusion, financial services regulators in developing countries cannot ignore these innovations. Their reaction to mobile payment, mobile money, or agent banking has a direct impact on the progress of financial inclusion. Several approaches are currently being explored, with varying degrees of success in promoting the opening of new accounts, easier access to financial services, and the emergence of mobile money. Ultimately, regulators' willingness to become change agents will be a determining factor in this progress. Interestingly, regulators sometimes end up not only promoting innovation but also innovating themselves, both in how they approach key regulatory concepts and tools, and how they organize and interact. This not only casts an optimistic light on the prospect of advancing financial inclusion, it also revisits the relation between innovation and regulation.

INNOVATION IN FINANCIAL SERVICES: REGULATORY CHALLENGE AND OPPORTUNITY

Emerging and developing economies face the great challenge of financial exclusion. Senegal has only 4.05 commercial bank branches for 100,000 adults, and Malawi has 2.65 ATMs per 100,000 adults. By comparison, Spain has 38 commercial bank branches and 155 ATMS per 100,000 adults.¹ The current banking infrastructure in developing countries does not extend to the areas where poor people live and work, which makes access to formal services difficult and costly.

Regulating for 30 percent of the Population

If 70 percent of the population does not have access to formal financial services, it also means that financial services regulators actually only oversee a very small part of the overall market, one that serves only 30 percent of the population—a fact that should raise eyebrows. Until recently, however, headlines in the financial services sector were more focused on the risks of new schemes than on the lack of access, even in developing countries. Moreover, very few voices questioned whether the regulatory framework played any role in creating this situation.

This relative indifference may be due to the fact that the regulated sector represents most of the value of the financial services market. However, it also means that only a small fraction of the total number of transactions is regulated. Most transactions conducted in developing countries end up being made in cash, and the assets of the majority of the population are held outside the formal financial sector. In the last couple of years, there has been growing awareness that financial

exclusion does create risks for financial stability, a concept that is the cornerstone of the mandate of financial services regulators.

Regulating for Stability

The mission of most regulators in the financial services space revolves around stability. The mission of Bank of Indonesia, for instance, is “to achieve and maintain rupiah stability by maintaining monetary stability and by promoting financial system stability for Indonesia’s long term sustainable development.”² The Central Bank of Ghana aims to “pursue sound monetary and financial policies aimed at price stability and create an enabling environment for sustainable economic growth.”³ Addressing financial exclusion or trying to promote financial inclusion does not appear explicitly in these mission statements, making it clear that the idea of a central bank pursuing a development objective is not always recognized. Sanusi Lamido Sanusi, governor of the Central Bank of Nigeria, put it this way:

Some schools of thought have questioned the rationale for any central bank to pursue the so called multiple objectives. Let me emphasize the fact that in a developing economy such as ours in need of strong growth, typically a central bank’s objectives should include developmental role in addition to its core mandate of ensuring price stability.⁴

Beyond the question of a mandate or mission, financial regulators can also be constrained by their position. In Kenya, for example, the Central Bank Act states that in addition to two stability objectives (prices and financial systems), “the Bank shall support the economic policy of the Government, including its objectives for growth and employment.” This is a reminder that, although the Central Bank is an independent institution, it plays a supporting role in the policy objectives set by the government, in this case on economic policy. Its responsibility in setting up and implementing a regulatory framework to manage risks is part of a wider ecosystem that includes a large number of stakeholders, including policymakers, service providers, and users. Financial services regulators are not expected—or able—to make financial inclusion happen on their own.

Mobile Innovation

The impressive progression of mobile connectivity within developing countries, including those on the African continent, is certainly bound to play a major role in advancing financial inclusion. This innovation in the telecommunications space means that financial institutions can rely on a much cheaper infrastructure, and thereby envisage deploying a presence throughout a much larger territory. Real-time connectivity unleashes the power of banking agents, which can represent banks in areas where it would be far too costly to establish bank branches. Banks can use mobile connectivity to conduct real-time transactions well beyond their existing branches.

Mobile operators first brought voice and text telecommunications to remote locations. They are now enabling a growing number of villages and communities

to conduct electronic financial transactions from anywhere with mobile coverage—the SIM card generally present in the handset works very well as an authentication tool. As more and more people gain the ability to move from a world dominated by cash to an ecosystem where electronic transactions play a key role, it is easy to envision that financial services more sophisticated than money transfer and payments will soon be within reach.

Innovators Meet Regulators

About 10 years ago, innovators in countries like South Africa, Kenya, and the Philippines started to approach financial services regulators to bring to their attention how mobile solutions could transform the retail financial services space, in particular by addressing the access deficit. Brian Richardson developed the WIZ-ZIT service in South Africa, which combines mobile transfer functionalities, payment cards, and bank accounts. As their website explains:

The initiative was conceived at the beginning of 2002 and following three years of in depth research to the market needs, finding an affordable solution, securing a banking partner, the business was test launched in November 2004, and commercially launched with all the necessary regulatory approvals on the 24th March 2005.⁵

Those three years no doubt included numerous exchanges with the South African Reserve Bank.

Meanwhile, in the Philippines, mobile operator Smart had already launched its Smart Money mobile money service, and its competitor Globe did so with GCASH in 2004. The governor of the Central Bank recalls that, in 2009,

our country's experience in Mobile Money Transfer (MMT) represents solid proof that the convergence of ideals for service innovations can create new pathways that benefit and transform lives of millions of people. In the Philippines the major drivers for MMT are a large domestic market, our ground-breaking telecommunications companies, the continuously expanding banking sector, and responsive regulators.⁶

It is not surprising that the regulator is representing himself as part of the solution: the Central Bank of the Philippines's vision includes the aim to be “a catalyst for a globally competitive economy and financial system that delivers a high quality of life for all Filipinos,”⁷ which may be one of the most “financial inclusion friendly” visions within the regulatory community.

With around one hundred mobile money deployments currently in operation around the world and banking agents outnumbering the total of bank branches and ATMs combined in some countries, it is easy to forget how odd those innovators' plans must have sounded initially to those regulators. The Central Bank of the Philippines had dealt primarily with banks; mobile operators were the domain of the telecommunications regulators. There was no regulatory framework for these mobile money and mobile payment services, thus no rules for the industry to

adhere to and no rules to guide the regulators. The same was true for the Central Bank of Kenya (CBK), when Nick Hughes of Vodafone and the Safaricom team contacted them in 2003 to talk about using SMS and mobile phones to transfer money. Had CBK reacted like the central banks did later in other countries, it would have deterred Hughes et al. from the idea of using “mom-and-pop” shops to act as cash-in and cash-out points. CBK even could have refused to meet with Safaricom on the basis that it is not a bank. Had CBK not been open to innovation, there would not be 16 million customers, a large part of which are unbanked, currently using M-PESA mobile payment accounts to meet their financial transaction needs.

REGULATORS ENABLING INNOVATION

As mobile connectivity devices and services are helping to redefine the landscape of access to financial services for the poor, regulators are adopting different approaches to these innovations—at times they seek to enable them, sometimes to constrain them, but in all cases to regulate them in some way or form. These approaches all reflect specific cultures and contexts. In the end, the main differentiator comes from the willingness to drive change.

Services versus Institutions Approach

Early discussions around the regulatory models for electronic money and mobile payments have been around the conflict between bank-led and non-bank-led models. Kenya was presented as pro-non-bank and favoring mobile money services offered by mobile operators, such as Safaricom, Airtel, and Orange. Pakistan, on the other hand, was portrayed as a proponent of a bank-led model. It is fair to say that the starting point of many financial services regulators is still to approve new services and even new partnerships, on the condition that the service is offered by a bank as the regulated entity. However, the jury is still out as to how effective this model is. It's important to keep in mind that what is at stake is a way to remedy a market failure, whereby providers have to date only served a small proportion of the population. Therefore, increasing market contestability ought to be an important objective. But while there are certainly two schools of thought on the topic, it would be unfortunate to reduce the debate to key players' views on mobile operators, whether for or against.

Regulators should not have to decide which type of provider is best placed to offer a service, as long as that provider can meet their requirements. Ideally, there should be a shift from an emphasis on institutions (i.e., banks) to a focus on services (i.e., credit or payment), which would reflect the vision of an unbundled value chain for financial services where different entities compete at different levels. Mobile connectivity enables just that: it is less about technological innovation than about enabling indirect distribution and separating production of the service from its delivery. To date, banks have done everything, from deposit-taking to intermediation to payment. A service-based approach does not prevent them from contin-

uing to do so, but it opens each market to being contestable and regulated, based on its own risks. Dittus and Klein call for regulation to be “calibrated to the type of service offered, but which can be tightened if and when such schemes become bigger with the potential to impact financial stability: risk-proportionate regulation by service type.”⁸ With a service-based approach, regulators focus more on the actual risks than on the type of service provider—there is no need to be regulated as a credit issuing institution if you only provide payment services. Of course, that entity ought to be regulated, but it would be as the provider of a specific service, not as an institution whose purpose is set in stone.

INNOVATION OR REGULATION: WHICH COMES FIRST?

It is difficult to point to a specific model to enable innovation and thereby foster financial inclusion. This type of regulatory development is very context sensitive. That does not mean, however, that one cannot outline some useful categories. A pragmatic approach, which closely reflects the situation of many regulators when faced with innovations they need to address, is to consider what comes first, regulation or innovation. Three primary approaches can be identified: regulation follows innovation; regulation precedes innovation; regulation prescribes innovation.

Regulation Follows Innovation

In both the Philippines and Kenya, there were no specific regulations for mobile money or mobile payments when mobile operators approached the central banks. The central banks could have told the industry to wait for such regulations to be in place before launching their services. The issue, however, was that it would not be easy to determine what to include in these new regulations. If, to the contrary, the regulator worked closely with the service provider to understand the service and let it develop under scrutiny, the regulator was more likely to learn about the service and its actual risks. Providing space for experimentation, including through pilot programs, helped the central banks draft relevant and more efficient regulations. Smart Money and GCASH launched in the Philippines in 2001 and 2004, respectively, and in March 2009, the Central Bank released its circular on mobile money.

The trend for mobile money was similar in Kenya: CBK worked closely with Safaricom, observed how different pilots unfolded, and then issued the non-objection letter that allowed the launch of M-PESA in March 2007. CBK did the same thing with Zain/Airtel when it decided to launch its Zap service. At that time, the mobile payment services were being regulated on the basis of Article 4 of the Central Bank Act, which gave CBK the power to oversee payment systems. For instance, the operators provided monthly reporting to the central bank, and no new functionalities were launched without the central bank’s approval. In 2011, in a timeframe similar to that of the Philippines, CBK issued draft e-money and draft electronic retail payment guidelines. This approach means that the regulator does

not have to guess what the regulations should be and, what is more important, presents less risk to innovation.

Tanzania's experience is relatively close to that of Kenya and the Philippines. The financial services regulator did not wait to have specific regulations in place before allowing service providers to launch mobile money, and they gave their go-ahead to the partner bank the mobile operator had chosen.⁹ The Bank of Tanzania is currently drafting guidelines for mobile financial services.

One key to the success of this approach, where the regulatory anchor becomes specific only after the service has been launched, is regularly addressed by Nestor Espenilla, deputy governor of the Central Bank of the Philippines, who is a sought-after "practitioner" and leader in his field. Regulators need to understand the incentives of the market players, and to realize that they can in fact be aligned with their own. A financial institution, for instance, not only will work closely with its agents for compliance reasons and to avoid a fine; it is in its own interests to have a network of retailers that provides its customers with a positive experience.

Regulation Precedes Innovation

Another approach is for regulation to develop in close synchronization with the market. Typically, the regulator would engage with a service provider and allow it to gradually develop and test its idea, including undertaking pilots, but it would only allow a full launch with formal regulatory approval. The main difference between this and the previous approach is that regulation precedes innovation, and if there is no relevant regulation in place, the regulator has to take formal steps to ensure that it is in place before the service can be launched. Moreover, as the service develops, the regulator needs to ensure that its regulation is always up-to-date.

This is the approach that took place in Afghanistan, where mobile operator Roshan launched its M-Paisa service in 2008 as a regulated money transfer service. Da Afghanistan Bank (DAB), Afghanistan's central bank, relied on the existing regulation for money service providers. However, DAB did not stop there, as it would have limited the development of mobile money in Afghanistan. In November 2009, DAB amended the money service providers regulations to introduce new provisions for the establishment of electronic money institutions. The bank reviewed the regulations again in 2011.

DAB explains its choice in its latest strategic plan:

The opportunities provided by mobile banking must be carefully weighed against the regulatory risks: credit risk, operational risk, legal risk, liquidity risk and reputation risk. In addition to the regulatory risks mobile banking requires careful consideration of e-money risks i.e. that an unlicensed, unsupervised non-Bank entity will collect repayable fund from the public in exchange for e-money and will either steal the money or use it imprudently, resulting in insolvency and the inability to honor customer claims. As regulator of the financial sector, it is the responsibil-

ity of DAB to create an enabling regulatory environment where the new technologies are put to effective but safe use.¹⁰

The Central Bank of the Democratic Republic of Congo is currently following a similar approach: a taskforce was established in February 2011 with a mandate to issue mobile money guidelines by the end of the year. The industry, including the mobile operators, is involved in the exercise, and once regulations are adopted, service providers will be allowed to launch their services. In Haiti, two partnerships, one between Scotia Bank and mobile operator Digicel, and another between Unibank and mobile operator Voila, each launched a mobile money service at the end of 2010, after a number of exchanges with the Banque de la Republique d’Haiti (BRH). BRH released its guidelines for branchless banking in September 2010 and revised them further in February 2011. This is the same approach CBK followed for banking agents: banks only got approval to roll out an agent network after guidelines were adopted in 2010.

The role of the regulator in this approach is to create the right framework from the start. It contrasts with the “regulation follows innovation” approach, which is focused on enabling rather than preceding the launch of new services. When regulation precedes innovation, it is essential that the regulators be ready to revise regulations regularly to ensure that they reflect the ongoing lessons they learn from the market.

Regulation Prescribes Innovation

Some financial services regulators go one step further. As in the previous approach, they make sure there is a specific regulatory framework in place before new services can be offered or new providers are authorized to launch. They also often prescribe what the service should look like or how it should be provided. In most cases, this reflects a strong commitment to the underlying policy objective, for example, financial inclusion, but it also reflects strong views about how the market should operate.

India is a case in point, with its ambitious and prolific financial inclusion strategy, which has translated into new bank licensing rules that require new banks to set up 25 percent of their branches in rural areas. The Reserve Bank of India hopes this will help achieve its goal of all households in villages of more than 2,000 inhabitants having a bank account. New regulations that allow banking agents (called business correspondents) have gradually been made more flexible, but initially they defined very specifically the entities that could become agents. India is also initiating the use of an interbank mobile payment service for account-to-account transactions initiated from and notified to a mobile.

India has also created no-frills accounts, which the banks must offer to customers who request one. There would be 75 million such accounts, but they conduct very few transactions.¹¹ South Africa has also promoted no-frills accounts as a way to increase financial inclusion. These so-called Mzansi accounts are reaching six million customers just four years after launch, which is a good result among

a population of 32 million.¹² The usage of these accounts, however, has remained very low; more than 40 percent are dormant and many others are used solely to collect payments.

The Central Bank of Ghana is another example of a regulator committed to expanding the market for financial services and with clear ideas of how to go about it. It was relatively early in issuing regulations that allowed non-bank financial institution to enter the financial services space. In its guidelines on branchless banking, which were enacted in 2008, it was particularly prescriptive on one topic: interoperability. It mandated a so-called many-to-many model, whereby any mobile money service provider would have to partner with several banks and process transactions centrally through the Ghana Interbank Payment and Settlement System. Mobile money services have been launched, but traction in the market is to date relatively limited.

There may be several possible approaches, but they have one thing in common: the service provider for mobile money, mobile payment, or other new financial services is always regulated, even with the “regulation follows innovation” approach. Therefore, the question is not if there should be regulation but how. While there are some hints as to what may be more or less effective, it is still too early to say which approach works best.

REGULATORS AS INNOVATORS

As many financial services regulators in developing countries have chosen to embrace innovation and thereby help improve financial inclusion, they have in many ways started to innovate themselves, whether in relation to the regulatory concepts they have had to grapple with or the way they relate to each other within the regulatory community.

E-Money and Deposits

Some of the regulatory questions that have emerged relative to mobile money services and mobile payment solutions require regulators to think differently about some concepts and tools that have been central to their work and their framework for a long time. Take, for instance, deposits, which could be considered the cornerstone of banking activities, the basis of intermediation, and a major source of revenue for banks. Accepting deposits from the public is generally considered a sensitive activity, in that the public expects to get its funds back when it wants them. The activity of deposit-taking has therefore been highly regulated and restricted to a few organizations, namely, banks.

So when e-money emerged, one of the first questions regulators had to consider was whether the funds the customers were putting into their e-money accounts were in fact deposits. To some the answer was very straightforward: if an organization accepts funds from the public, it is a deposit. From there they concluded that e-money accounts can be only issued by banks. That was the end of the story.

Others regulators decided to look a bit further into the concept of deposits. The reason for deposits to be protected is not so much because the funds come from the public or that holding deposit is risky, but because intermediating deposits is risky. Thus they determined that as long as an institution is committed to protecting the funds it receives as e-money, and not to intermediate them but to keep them liquid, the risks were limited and the institution could accept funds from the public.

This second group of regulators effectively created a new category of funds, distinct from deposits, that allowed the development of mobile money services, which are particularly relevant for the bottom of the pyramid. As mobile money gets adopted in more markets and regulators learn more about it, it may spark further debate on the concept of deposits and, who knows, on the relevance of having different regulations for intermediated deposits and non-intermediated deposits.

Interestingly, this debate around the issuance of e-money, the nature of the funds, and which type of organization can offer them started in the late 1990s in Europe as a new electronic money directive was debated. It took nearly 10 years and a second directive for the framework to be redesigned in a way that actually enabled e-money rather than restricted it. The second EU directive was adopted six months after the Philippines issued its own circular on e-money in March 2009.

Opening and Using an Account

Some regulators can also be considered innovative in how they are promoting the opening and use of accounts. One option is to intervene in the design of the account, and some regulators have mandated the offering of so-called no-frills accounts, with the disappointing results on usage mentioned above, which is mainly due to a lack of understanding of both the needs of customers and the incentives of the service providers.

Another option is to consider the barriers to opening and using accounts. One of them relates to the obligation to produce an identification document upon opening an account and to have the authenticity of that identification verified by the service provider. This creates a major hurdle for all individuals—not an insignificant number in developing countries—who do not have an official identification document. Simply put, no identity document, no account. This often delays when a new customer can start using their account, and experience has shown that the later a customer can start using the new service, the less likely he or she is to use it.

Some regulators have therefore been enacting rules to adapt these obligations so they do not act as barriers to opening and using accounts. For example, in June 2011, Mexico introduced a tiered system whereby different types of accounts have different identification and verification rules, according to the functionalities of the account and the related level of risk. In 2011, the Central Bank of the Philippines updated its anti-money-laundering rules to implement a risk-based approach and serve the specific needs of the lower end of the market:

Updated Anti Money Laundering (AML) Rules and Regulations now recognize that some AML rules applied uniformly across all types of transactions may not be the proportionate approach especially in dealing with low-value transactions of the unserved and underserved market. The consolidated rules now take into consideration the risk based approach in conducting customer due diligence, record keeping and customer retention policies, . . . arrangements for reliance on third party customer due diligence and the use of technology to produce the necessary photo bearing identification cards. These new rules will lower the AML costs associated with servicing low risk customers and therefore make financial services more accessible to those that are currently marginalized due to prohibitive AML requirements.¹³

The existing identification and verification rules have been in place since the 1980s, when the intergovernmental Financial Action Task Force (FATF) was created and it established some global standards against money laundering. The know-your-customer (KYC) standard had some flexibility in adapting the requirements to the risks, but to date this flexibility for low-risk products had been mostly unexploited. Mexico and the Philippines have been among the first to take advantage of that option and to innovate. They did so within a defined framework—for instance, they have to show how they have assessed the lower risk—but nevertheless, it would have been easier for them to do nothing.

Agents and Distribution

Another area where financial services regulators have had to stretch their thinking with the availability of mobile solutions is distribution. Many are familiar with the concept of agents, which represent a financial institution and act on its behalf, but banks are not always authorized to use them. In some countries, only a few types of organizations can be agents; in others the authorization is given under such strict conditions that it often defeats the purpose of a cheaper outreach mechanism. The types of activities agents can undertake has an impact on their attractiveness; for example, they sometimes can accept deposits but are not allowed to offer cash out.

In this area, the development of mobile connectivity has really changed the game. Real-time connectivity means that a customer can get near-instant confirmation that his or her transaction has been successful. It dramatically changes the process of building trust, which is so important in this sector. So although progress is slow, the need to leverage retail networks to improve the distribution of financial services is being increasingly recognized, and in many jurisdictions new regulations are allowing use of banking agents.

Beyond empowering agents to play a new role with greater impact, mobile solutions—in particular the development of mobile money offerings and mobile payment services—have created a new category of player in the value chain for retail financial services. They're called cash merchants. These retailers, often the

very small shops present in most communities, are mainly cash-in/cash-out points. They are essential for economies where cash plays a predominant role, as they represent the entry point into the electronic world. When a customer uses cash in, he or she exchanges cash against electronic value. Also supporting cash out helps the overall ecosystem to gradually expand, as users feel comfortable having the option to use cash when they want.

These cash merchants do not trade on behalf of the financial institution they have a contract with; they exchange their own funds (cash or pre-paid electronic value) against the customers'. They are only users of the electronic platform that is managed by the electronic money issuers. In these conditions, their risk profile is very different from that of an agent, which provides a wide range of services under different legal circumstances. This has led some forward-thinking regulators to innovate and start regulating cash merchants differently from agents. CBK's draft regulations on electronic retail transfers contain provisions to define and regulate cash merchants.¹⁴ It will be interesting to see if others follow suit.

Learning through Peers

Financial services regulators do not work in isolation. They interact within a broad regulatory community, and many of the rules they apply have the same origin. As mobile innovations make their way in the financial services space, regulators adapt their organizations accordingly.

Among the innovations in the financial services regulatory space in the last few years, the Alliance for Financial Inclusion (AFI) deserves mention. Created in 2009, this network of financial services regulators from developing countries now has 82 member countries and includes regulators and some policymakers who are working on financial inclusion. The members exchange their experience and knowledge through working group activities, study visits, online discussions, and peer reviews, and compare their practices. AFI is therefore particularly relevant for countries that prefer to see regulation precede innovation, as they can learn from regulators in other jurisdictions and thereby reduce the time it takes them to issue new regulations and let innovative service providers launch their services.

At its third Global Policy Forum held in September 2011 in Mexico, the AFI members expressed their commitments to the organization and to financial inclusion. AFI is a unique organization, as it is managed by its members and seeks to respond to their needs. Similar entities exist for corporations in other industries, but AFI seems to be the first body of this kind for public decisionmakers.

AFI was born out of the simple observation that an increasing number of innovations were taking place in the South, while most of the coordination mechanisms, technical assistance schemes, and other platforms were shaped in or sent from the North. The organization was intended to address a gap in peer exchange and to redress a bias whereby solutions often come from the North. Ironically, less than three years after its creation, AFI has been recognized on the global scene as one of the three implementing partners of the G20 Global Partnership for

Financial Inclusion, alongside with the World Bank's CGAP and IFC. It has given the South a voice in the global debates on financial regulation and financial inclusion. AFI does not represent one more additional international regulatory body. To the contrary, it helps its members participate in the activities led by international standard-setting bodies.

The Paradox of Finance

Thinking about how regulatory frameworks impact access to financial services and enable (or not) innovations such as mobile money or mobile payment raises the question of how these rules are set in the first place. Therefore, as discussions took place in the South about how to regulate mobile money, whether a mobile operator could be licensed as a financial institution, or whether a low-value account had to meet full KYC requirements, the role played by international standards became more apparent. Regulators in developing countries would either mention that the standard did not allow them to do certain things or that they were unclear if they could do something differently.

Those international standards are generally set by the Basel Committee of Banking Supervision and for anti-money laundering by the FATF. They impact questions about KYC or agents. Even if those standards are meant to apply to all jurisdictions worldwide, the members of those organizations only represent a few countries (34 in the case of FATF), most of them developed economies, in addition to some emerging markets. Developing countries are bound by the same rules but are not taking part in their elaboration. They also face very different market conditions and institutional capacity. Without necessarily challenging the need for global standards and arguing for larger organizations to issue and manage them, from an efficiency perspective, the following questions seems legitimate: how to improve the awareness around the implementation of the standards beyond developed countries, and how to consult with nonmembers to understand the impact of the current rules in their jurisdictions and their views on these rules.

The standard-setting bodies are not ignoring the issue of financial inclusion. As documented in a comprehensive review undertaken for the G20 Global Partnership of Financial Inclusion, they have taken several initiatives, although often related to the area of microfinance and the service of microcredit. Most recently, FATF released guidelines on financial inclusion, and both FATF and the Committee on Payments and Settlements Systems studied the M-PESA "case" and considered it in their work on new payment methods.

International standard-setting bodies may not focus on developing countries and their financial services markets significantly enough. While the BASEL III framework has been rapidly adopted and strengthens capital and liquidity requirements on banks to improve stability and address the challenges unveiled by the recent financial crisis in developed markets, developing countries are still working on implementing BASEL II. More important, some of the solutions to financial exclusion rest elsewhere, with non-intermediating services, such as payment and e-

money, which are receiving less attention in global discussions. Finally, international standard-setting bodies may not have thoroughly assessed the impact that financial exclusion, in particular in the South, can have on stability globally.

Despite an ever integrated financial service market, the pursuit of financial stability may require different regulatory approaches that are adapted to the particular market realities of the South and the North. This is one of the current paradoxes of finance.

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