

Ensuring Consumer Access to the Payments System in the Connected Age

Moderator: Rachel Schneider

Ms. Schneider: This panel is going to be a bit different in format from the other sessions today. None of us has a Ph.D. in economics, as far as I know. We are talking as practitioners, and the idea of this panel is to shift the lens through which we are thinking about payments innovation.

So far today, we have mostly been talking about the ways in which payments innovation will change payments for the mass market and for the affluent market. We have been talking about payments at a systemic level. What we have been thinking about is how payments change is going to impact the way people interact with their current payments system. If people have an account and they also use mobile, for example, how does that change consumer behavior?

What this panel is attempting to talk and think about is how payments innovation might actually change who is in the payments system. How does payments innovation lead to greater access? All of the individuals on this panel help bring a different perspective to that answer.

Kevin Morrison is from U.S. Bank, where he is a senior vice president of prepaid. He will share with us more about the bank perspective on increasing access.

Steve Streit is a founder and CEO of Green Dot, a provider of prepaid services, largely to the underserved market.

We will also hear from Louisa Quittman, who is the director of the Office of Financial Education within the U.S. Department of the Treasury. She will share information about the government's role in directly delivering new payments vehicles, as well as how the Treasury is thinking about this issue more broadly.

Finally, Paul Breloff is here from ACCION International where he is managing director of the Venture Lab. He will give us an international perspective on new models, new interesting ways of thinking about how to bring more people into the financial system.

In this panel, we are taking the approach of hearing multiple different perspectives, different people within the ecosystem, if you will, of serving underbanked consumers. And I will exercise the moderator's prerogative and speak for just a moment or two to kick off the conversation.

I am from the Center for Financial Services Innovation (CFSI), where our sole focus is on advancing the marketplace's ability to serve lower- and moderate-income consumers. I will share a little bit more about whom we mean and what this issue is about as background for the conversation.

Thirty million to 40 million U.S. households do not rely exclusively on traditional banking products. In addition to using bank accounts, 30 million to 40 million households also use financial services such as check cashing, money orders, prepaid cards, and a variety of other products. Within that group of financially underserved households, about one-third has neither a savings account nor a checking account.

Our temptation is to think about this group as not really that important to the payments infrastructure. There is a myth this is a group that has such insufficient resources to put through the payments infrastructure that they should not be our primary focus.

I want to share a few data points to try to counteract that perception. First of all, this group is not all low income. People within the income bracket of \$30,000 to \$50,000 in annual income are just as likely to be unbanked as people with annual income of \$30,000 and below. Actually, 18 percent of households with incomes between \$50,000 and \$75,000 a year are underbanked. So this group is not entirely low income.

This group also generates, by CFSI's estimate, about \$45 billion in revenue each year for the financial services industry. This group is moving a significant amount of dollars through the payment system. They are just not always doing so through a checking account or a traditional debit card.

The second myth is that this group is not technology-enabled. This group very much is technology-enabled. I know Kevin is planning on sharing statistics about this. The Federal Reserve just completed a study on this topic. Smartphone usage is high among this group and, what you see with this population, is that their interest in mobile technology or in new ways of paying their bills electronically is actually much higher than in the mass-market population.

The best way to think about this is in terms of a convenience differential. For many of us, the payments system works seamlessly. It is flawless as is; it is fine. I am marginally happier—a tiny bit—if I can pay for something on my phone, but mostly because it is a little bit faster. If I swipe a card instead, it basically works for me.

If I am an underbanked consumer and I do not have a payment card in my wallet, the incremental improvement in my life by being able to use mobile financial services is enormous. It is actually an incredible difference for me. That difference is coming from a few things. It is coming from immediate access to funds. It is coming from real-time-balance information.

I want to put that in context by sharing one story about an underbanked person. CFSI does a decent amount of consumer research, so I was talking with a woman in Cincinnati about a month ago. I was asking her about how she manages her financial life. She was talking about how she gets back and forth from the job-training program she is enrolled in. She drives. She was complaining about the cost of gasoline, but mostly what she was saying was, “I go to the gas station every few days and put in a dollar or few dollars’ worth of gasoline, because putting in \$20 is too much risk. I have \$20 in my wallet, but I need that \$20 in cash, because I do not know what bill is going to come that I might need that \$20 for.”

Her perspective was, really at a micro level—I need to manage my cash flow to the penny over the course of a week. It is a very different payment need, in some way, that you are solving for with a customer like that. The need for real-time-balance information and the need for immediate clearing of funds are magnified to a huge degree.

Part of what I was so enthused about as I look at the agenda for this conference and what I am really excited to hear about from these panelists is that the answers to these problems lie largely in technology. Not entirely, but for a consumer like the one I was describing there is absolutely a technological advancement we can make that would solve her problem. Such an advancement would enable her to do better financial planning so she knew whether or not she could put \$15 of gasoline in her car instead of \$5. Technological improvements could help manage her cash flow more accurately and more immediately so that she would know which bills were coming when. Much of that is what you can see as being the next phase of payments innovation.

So, I want you to have the idea of that customer in your mind, but also know, as I pointed out, this is a very large, very diverse segment of our population. There are lots of reasons why people are not using traditional payment mechanism and, hence, a lot of different and possibly very successful approaches to providing new payment mechanisms.

With that in mind, we are going to hear four different perspectives about how you could bring more people into the payments system. I am going to ask Kevin to come up first.

Mr. Morrison: Thank you, Rachel. And thank you all for allowing me to be here.

The U.S. Bank position on how we address the needs of the unbanked/underbanked is taken from what we have learned from our friends at the FDIC and

other organizations about the inclusion of this segment into mainstream financial services. So it is really the idea of offering these types of products and services for this unbanked/underbanked population, who cannot normally afford them.

The overall objective or goal of U.S. Bank is to really build on that and look at what products and services we can offer. From a prepaid standpoint, for which I am responsible, we got into this business early, not directly to the consumer, but more through the government-benefits standpoint. State governments were looking for ways to cut back on check processing costs and other costs as well. The prepaid benefits card fit in there very well. We do it, as well as Bank of America and Chase. That is where we really got our start.

We also have a fairly significant nonreloadable (or gift card), corporate reward, and rebate portfolios. We have been doing this for probably about 10 years now in one capacity or another. In the last couple of years we started getting into products that really were geared toward the consumer—direct consumer general purpose reloadable cards.

We started doing that in a number of ways, but probably the most interesting way has been through our own branches. In November of last year, U.S. Bank launched a general purpose reloadable card in the branch channel called Convenient Cash. When someone walks into the branch and asks for banking services, they are provided a number of choices. Some choose Convenient Cash, based on a price or free structure. Some choose it, or are put into it, if for some reason they are denied a traditional DDA or checking account. We have found these people take the Convenient Cash card and use it for their everyday purposes. They take it to the grocery store, etc.

What is even more interesting is that they come back into the branch to deposit more money on the card and continue to use it. In effect, we are establishing that relationship with that individual and doing exactly what the objective was, introducing them into the financial mainstream.

It is fair to say definition of the term “mainstream” continues to evolve and “financial services,” based on this conference alone, continues to evolve, with mobile and everything else that is coming out.

Rachel did mention research. Sandra Braunstein, director of the Division of Consumer and Community Affairs, testified before the Senate this morning and referenced specifically the Consumers and Mobile Financial Services Survey that was done last year by the Fed. It talked about the fact unbanked/underbanked folks do utilize smartphones.

Even more so, in some of the research we have done, we found the reason is because some of these folks who fall into this category actually spend the money they would normally spend on everything else on a smartphone because it takes the place of a laptop or desktop computer. Therefore, they can have their computer, their phone, everything right there in their hand. So it is an investment they

are willing to make and this is why we see the usage of the smartphone for mobile apps and mobile banking very predominant for our products. We offer those types of mobile products for both our government benefits card and our corporate payroll card. Both have mobile apps and we see a very high usage of those taking place.

Again being a traditional bank, we are very fortunate in that we have existing infrastructure in place to service these types of payment transactions. We have an existing ATM network, a branch distribution network, all the way down to fraud—which was a very interesting topic in the last session. We already have those fraud tools that we can utilize on the spend side. On the load side, we have had to work on validating the amount that is loaded. But on the spend side, we can utilize some of those same tools we already have in place. We are very fortunate and in a very good position to offer these types of products. That is all I have, Rachel.

Mr. Streit: How many folks in the room are aware of Green Dot or you know what we do? That is encouraging and maybe a little scary. We are a publicly traded bank holding company in the space of issuing prepaid debit cards. We also have a reload network called the Green Dot Network, which reloads about 120 bank programs that have similar prepaid cards. We also do things for PayPal and others, but that is the core of our business.

I'm going to speak a little bit about our views on inclusion. I will tell you what we do, which is a simple formula. U.S. Bank has done a great job too and Kevin has done a superb job with it.

Going back 12 years ago when the company started, the thought was, How do you productize financial services? For example, when you close your eyes and think of a “bank account,” it is not a thing. It is not like a cup or a tablecloth—it is a service. It is difficult to package a service as a product, but we knew we had to do that and so we came up with the prepaid debit card, the packaging, and the things you see in stores.

Then we knew we had to sell it at a location where folks in our demographic would likely be. We knew from research and a little bit of common sense they were not hanging out in the branches of banks and that kind of thing. But they were in retail stores and so we started with 98 Rite Aid stores in 2001 and built from there. Today we are in 59,000 stores nationwide.

We understood initially people did not know what they are. Frankly, education is still a huge challenge. What are these things? Are they gift cards or are they credit cards? What are they? People fairly quickly figured out they were not credit cards, because you have to put your own money on it.

So then we came up with TV marketing and other kinds of in-store marketing to try to help people understand that this is better than cash. You can have direct deposit, you save on check-cashing fees, and all the good things that go along with it.

As the market grew and we started selling more products, we knew we had to make the product more and more mainstream, which includes mainstream from a regulatory point of view. Green Dot has always been a regulator-friendly company and very collaborative with our regulators and other stakeholders.

We knew that to become a long-term sustainable company—let alone a long-term sustainable publicly traded bank holding company—we needed to make sure the products really continued to look more and more banklike. So if you think of a Green Dot product today versus what it would have been a decade ago, today we have FDIC insurance, we are fully regulated, Regulation E-compliant, and proudly note our disclosures. We are always mentioned in lots of quarters of the legislative world for being an example of how all bank products could and should be disclosed and we are really big on that.

Then we seek the support of consumer advocates. If do not have that halo of being pro-consumer, especially in this demographic, that hurts, too.

When you put the functionality, distribution, and the product together with making sure we are aligned with our stakeholders—meaning our government, our regulators, consumer advocates, and others—then hopefully you have an opportunity to serve a group of consumers that heretofore have not been well-served by traditional retail branch banking.

To give you a sense of our size, this year we will do something on the order of 9 million to 10 million FDIC-insured accounts sold out of retail channel. Last year, we did \$16 billion of cash loads or deposits and this year, we will do close to \$24 billion.

Yet we feel, as you do the research and look at the evidence, we are at the earliest stages in terms of the product and how to market it. We still come to work every day, look at some research, and go, “Ha! I had no idea. That makes sense.” Then you have to retool. So we are fairly early on in the prepaid industry is my guess. That is my spiel.

Ms. Quittman: I am going to take a little bit different approach and talk from the policy perspective. I am here representing the Department of the Treasury and we have a broad mission of promoting the economic well-being of the country and to protect it, as well. We have all learned over the last few years that the nation will not have a strong economy if individuals, households, and communities are not financially strong and are not making sound financial decisions. We spend a lot of time thinking about how we can improve household balance sheets and help people make better financial decisions.

Americans need fair and appropriate products and services, as well as information, knowledge, and skills about how to make decisions about those financial products and services. They also need protections from unfair products from tricks

and traps to protect them and their families. Clearly payments are a key part of this. They are really in some ways the starting point in financial products and services that households use every day. Certainly, they are not the only thing, but it is really important to look at payment systems that are valuable to the average American, and especially to those who are operating on the fringe of the financial mainstream, as Rachel described.

We have been talking about payments so much today; specifically, outgoing payments and how people use payment products to spend money. But it is also important to talk about payments as a way of getting money in and getting funds—getting wages, getting wages from multiple sources, as many low- and moderate-income people do. People might have one main job, but they might have entrepreneurial activity on the side. They may also receive payments from benefits or from other types of sources, not just one source. For a lot of low- and moderate-income people, even their wages and where they get their earnings from are more complicated on a regular basis than someone like me, who gets the same check every month from the same employer. That is one thing that is worth talking about.

At the Treasury, we have been thinking a lot about payment methods over the last decade, as we have been moving to an all-electronic Treasury initiative. We are moving toward that and a year from now in March 2013 we are aiming to be all-electronic. Since 2005, we have been focusing a Go Direct Campaign on federal benefit recipients, most notably Social Security recipients, to get them to convert voluntarily to receive their Social Security benefit direct-deposited into a bank or credit union account.

We have been moving the needle. This year we are down to 6.8 million checks issued a month; that is a lot of checks still, but it is down a lot from the 11 million it was on a monthly basis in January of last year. The voluntary effort has been working and we are going to continue to step up the message. I have to ask all of you to help us continue to step up that message that people should be finding a receptacle for those electronic payments, if they are receiving Social Security and other benefits.

The other thing we have done at Treasury to enable this is create the Direct Express Prepaid debit card. It provides a low-cost way for recipients to receive their benefit payments and can also serve as a first step into the financial system. It is a low-cost product and it is very safe and consumer-friendly. In four years, over 3 million people have opted to get their benefits on the Direct Express card. We suspect those are really people who would otherwise not have a financial product and be out of the financial mainstream. So we have been working very hard to develop these products in ways that set standards for use by vulnerable consumers.

I want to talk a little about how we think those standards can be disseminated and used throughout the field. In addition to the Go Direct products and

the Direct Express card, last year we implemented a pilot to test two methods of encouraging people to receive their tax refunds through an electronic payment. You probably know there are over 110 million tax payments, just to individuals, each year. That is a lot of payments. Most of those are electronic these days, but there is still a lot of movement possible in that area.

We had two approaches. We did a payroll card approach and a My Accounts approach. We worked with ADP, a payroll card provider, to encourage existing and potential payroll card recipients to get their 2010 tax refund on that payroll card. Again, we sent our messages highlighting the safety and ease of direct deposit for people who are not used to getting their benefits or their payments into a bank account.

We also developed the MyAccountCard, which is a reloadable prepaid debit card offering taxpayers a safe, convenient, and low-cost financial account for delivery of their tax refunds. This was done on a pilot basis. We sent out offers to people we expected were unbanked, based on their income, and we sent out different options to see what were the most favorable and most desirable options.

We had options around cost. One had a monthly cost, while the other did not. We had different options around messaging—a convenience messaging versus safety messaging. We also had options around having a savings account versus no savings account. I am going to talk more about savings in a few minutes.

So we sent the options. Perhaps it's no surprise the most popular option was the one with no cost, as opposed to one with a cost. There was a statistically significant difference. Basically people were 40 percent more likely to choose a card if it was offered at no cost versus a monthly cost. And the other findings were interesting but they were not statistically significant. We are taking that into account, as we look at future products that Treasury might develop and make available to American consumers. Certainly, the key takeaway there is that cost matters. Perhaps that was obvious, but it always helps to have a pilot and the data to back that up.

Again, we have been thinking about all these factors as we determine future payment products that Treasury might offer. These principles might be useful for some of you looking to serve the underserved market. So I will try to go through a few of them.

As Rachel talked about in her example, payment products need to be quick, simple, controllable, safe, and transparent. People really need to know where the money is going, when it is going, how it is going. The last panel talked about getting a receipt for where it went and when it went there. That was a really good point, as well.

When you are living on the fringe, from paycheck to paycheck, those matter. Those matter very much. Because whether you pay your electric bill today or tomorrow, that is money in your pocket. It makes a real difference if that bill

was paid or not. For people in this population group, the type of payment product and how it works are a lot more significant than saving 30 seconds in buying a cup of coffee in the morning.

It is also important to think about money wiring. A lot of Americans send money to loved ones and family members across the country and overseas. While I realize there are a lot of protections and concerns about money wiring, that is a lifeline for a lot of people and maybe Paul will talk about this a little, as well. It is a lifeline and it is also a savings venue for people all around the world to be sending money to loved ones in other countries. Certainly we think those products should be fair, transparent, and reasonably priced.

Let me come back to savings, because it is something that, as a policy person, we think a lot about. Obviously payment products are not primarily geared to savings, but there is an opportunity for payment products used to promote savings. There is an opportunity for savings products to be as easy for low- and moderate-income people as it is for me to open a savings account when I open my checking account at a bank. It is important to have low barriers to entry and low balance requirements.

But there may be some options—such as an out-of-sight, out-of-mind type of savings product—that lets people put money away, lock it up, and use it either as needed or after a certain period of time to achieve a goal. One example of this, while it is not an automatic savings product, is a product called “Save NYC Account,” developed in New York City and now being tested in three other cities. Through this product, people take their tax refund, commit putting some of it away for a year, and after a year it was matched. A lot of people took up this product, were able to save, and meet the match requirement. What is really stunning about this is the average person who saved money in this account had an average income of \$17,000 a year. In New York City, it is hard to live on \$17,000 a year, yet people were able to find money to put away, commit to saving, and building that nest egg for their future or their children’s future. There are a lot of opportunities there.

I will run through a few other things. There is a lot of controversy about whether reasonable credit should be a part of payment, but it is something to consider.

Safety and insurance. Certainly users and government payees need to know that their funds are secure and insured, and their personal data and privacy are protected. There was a great discussion on the last panel about the challenges and importance of that.

Also it is important for people to know when their rights are being violated and know where to go for help when they think their consumer protections have been violated. It is important for financial products to have a way of building those financial skills and knowledge. That is so important for people to move ahead.

I am not really talking about a brochure or a website that may teach people how to use the product, but it really does not change behavior and help people

change their lives. We have to think through other innovative and creative ways we can build on people's financial knowledge through connecting products to education opportunities.

I will talk about consumer protection. This administration is very committed to consumer protection, which is demonstrated in the establishment of the Consumer Financial Protection Bureau (CFPB), which is now up and running. It is important to have a regulatory structure that looks at diverse kinds of financial institutions and providers, treating them all the same, and having a level playing field. Certainly the CFPB will be looking a lot at promoting consumer protection in this space. But I am not here to talk about that in detail, so I will not.

There is a lot of technology discussion here today. But I want to take one other tweak on that, which is there is a lot more we can use to get people access to their own data and their own information to help them develop a better product. We can take that big data and turn it into decision-making tools for consumers.

That being said, the other thing I wanted to put out here is there is still a lot more we can learn. We think that is true as government policymakers. That is true for those of you who are practitioners. And that is true for the industry as well. Also, I want to point out that we are trying to make data available through the government.

We are going to be putting out a set of consumer finance datasets from across the government. We are going to try to make them easier to find through a data.gov website and through the mymoney.gov website. We hope that will encourage innovation in the industry, in research and academia, and I also want to encourage all of you to do the same. Think about ways you can put your data out there and share it with academics, so we can have greater learning and inform great meetings like this and inform the research in that field.

I will stop by saying that. There is a lot more we can learn, but certainly I want to bring this back to the fact that good financial decisions and options for consumers of all kinds are really critical for all of us. It is critical, not just for that woman who is trying to get to work and does not have any money in her pocket to pay for her gasoline each week, but it is critical for all our communities and for our nation.

Mr. Breloff: I have learned a lot today about the domestic space and so I really appreciate the opportunity to be here. I am going to share a few observations based on the work we have been doing internationally and particularly in developing markets around some of these issues and talk about a few examples of things we are excited about. What you might find, or what I often find, is some of what we talk about in emerging markets sounds painfully remedial and some feels like a leapfrog over and above what is happening in more-developed markets. I will let you guys be the judge of which is which.

Just a quick word about who we are and what we do. ACCION International is a global nonprofit that primarily invests in and manages microfinance

institutions around the world. By microfinance, we are more or less referring to providing small sums of credit to low-income entrepreneurs to build businesses, build assets, and hopefully pull themselves out of poverty.

We have worked with over 60 institutions in over 30 countries around the world over the last 30 years. I focus beyond microfinance institutions. We increasingly realize the poor and emerging markets need more than just enterprise credit, and there are a lot of new ways to do that.

I have just established a new investment fund that invests seed capital under \$500,000 in start-up enterprises globally that work on issues of financial inclusion. We focus in a few different areas, but hone in on new technologies, new distribution approaches, or new products that connect to our mission of financial inclusion.

Some of the themes we are interested in are mobile-based financial services—a lot of what we have talked about today—but really much broader than that. We are interested in new methods of underwriting credit for first-time borrowers, data analytics, social media-based financial services—which is becoming a theme—new niche credit providers, savings accounts, and generally new technological approaches to help microfinance institutions and other financial institutions that serve the poor and operate better, quicker, faster, etc.

I want to offer a few observations. It is a little dangerous to do this, because everything I will say is probably hotly contested in my own world, but I'm lucky that there is no one here who focuses on international financial inclusion to disagree and counter my point of view. But we will not get into that.

One of the points I would like to make is the distinction between what we call “transformational financial services” and “additive financial services,” or transformational branchless banking and additive branchless banking. A lot of what we have talked about today—and I am repeating Rachel's point—is how do we incorporate new payment devices into the systems that already exist? How do we give more options to customers? In the emerging market, it is really about offering customers initial access to a formal financial service. It is about bringing them into the system.

We estimate there are 2.7 billion people who lack financial services around the world; 1.7 billion of those would have a cell phone. That is 1.7 billion people who do not have a bank account that do have a cell phone. That indicates a pretty significant opportunity to either use the cell phone directly to reach these people in different ways but, at bare minimum, recognize that formal providers of services have found a way to reach these people and make a business out of it. Can't we do the same in financial services?

There is a pretty big opportunity in some of these markets, particularly ones that do not have a sophisticated traditional payments infrastructure, to essentially leapfrog the payments infrastructure that exists.

The example that always gets talked about is Kenya, where maybe there is not the most sophisticated ACH and RTGS and all the rest, but they have a cell phone network that covers almost all Kenyans. And there is a service called M-Pesa, which enables customers to load money onto the phone and use it to pay or, the most common-use case, to make transfers by allowing split families to send money home more easily and cheaply. That is a pretty exciting opportunity. Maybe in that case you, more or less, skip a stage of development or maybe not. That is a discussion point.

As we think about it, payments in emerging markets are not about payments, per se. It is not about payments as payment options for the sake of payments. It is about, What do payments offer as a gateway to other products and services? How do we use payments to get people credit or insurance more cheaply or quickly? How do we use payments to allow split families to get money from the city where the husband works to the rural area where the wife works, without having to lose 50 percent of it in leakage as you are paying off truck drivers and the rest.

How do we more easily get government transfers to where they are supposed to go? I work a lot in India. The leakage in a place like India is tremendous. So there are huge pushes by government and policymakers to migrate the various social program payments, pension payments, and things like fuel and fertilizer subsidies to electric channels, which we can track more easily.

Another way things might be different are the kinds of challenges we face. As I hear about things even today in the domestic space, it seems a lot of the challenges we talk about are more technical and technological, and then different issues of stakeholder coordination and negotiation. The value chains for different products here are pretty rich—a lot of characters and a lot of people who need to get negotiated. The value chain for financial services in a lot of emerging markets does not exist, so you are creating the whole thing. If you are not ready to be the whole solution, there probably will not be one.

A big challenge—one that is not as big an issue here, I do not think—is distribution of cash. Cash in, cash out, reload, recharge, whatever you call it. Most solutions are falling flat in emerging markets, not because the technology platform is not there, but because there is no way for people to put money onto the payment instrument. There also is no way for them to spend it, but there is also no way for them to get it back out. If that is not there, these are people who are not accustomed to virtual money. They want to test the system. They want to put money on and prove to themselves they can get it back out and it all stays there. If that agent network—as we often call it—is not there, things will not work.

Marketing is a huge issue. I will break that down in a few ways. One is thinking more about the use case and what will be the killer app. There is an approach, and this is largely driven by development organizations and the rest, “let’s build this stuff and everyone will flock to it, because it is great. Of course it is great, it is digital payments. Everybody wants that!” I do not think that is the case with poor people. It has to solve a felt need.

In Kenya, where there is a huge phenomenon of split families and everybody needs to figure out how to get money from the city to the country, it took off. The killer app is P2P transfers. In other markets, it is not always clear what that is going to be.

People are not always designing these solutions to solve a problem. They are more just designing them and hoping people will get on board.

Another is trust and building trust in the system. How do you do that, if there is not an agent network?

Another is the capacity of the person using it and creating enough awareness of what the product is, its financial capabilities, and how to use it. That is not really there, particularly for people who are using this for the first time.

The last challenge I will mention is generally the role of regulation, particularly, the uncertainty around regulation. I do not know as much about how things work here, but in a lot of countries, a big issue is whether or not banks or nonbanks are permitted to drive the answer.

You can see differences and I will give three quick examples: Kenya, India, and Pakistan. Kenya is a regulatory vacuum. Whatever you want to do, you can do as a mobile carrier. Safaricom, who has been driving this M-Pesa product, simply had a couple of letter agreements with the Central Bank of Kenya and they launched. There are a lot of reasons—and we could have an hour-long conversation about why this one succeeded where it has failed so many other places—but one is certainly the regulatory environment. There is really nothing else that holds Safaricom back. They, arguably in that market, were in the best place to execute this. They had the most established relationship with customers. They had the most extensive air-time distribution network.

In a place like India, the Reserve Bank of India says, “No. Mobile network operators (MNOs) can play some minor role in this system, but really we expect the banks to be driving it and everyone must have a bank account. Maybe we will let the MNOs play some minor role as a cash-in, cash-out network, but that is it.”

The same happened in Pakistan. In fact, in Pakistan, what one of the big mobile network operators did was go out and buy a bank, so they could do this. Telenor bought Tameer Microfinance Bank so they could build this business. That move was one of the things that puts Pakistan in one of the more exciting positions in this space, and is growing something that seems to be working with customers.

There are also issues around Anti-Money Laundering (AML), Combating the Financing of Terrorism (CFT), and Know Your Customer (KYC) requirements for low-income customers, and how agents are regulated. So, there are a lot of different kinds of challenges.

Just to give you a sense of a few things we are excited about, I will not go into details here, but will dangle them, because we may be running out of time. Once

you have established a safe, secure, easy, cheap way to move money, what kinds of business models you can build on that platform?

In Kenya, CGAP has been supporting an initiative to design a credit product where you never meet the customer, you never underwrite them, and you never do anything. They ask for money and you send them money. You start small and they can pay it back when they want it. They pay an initial fee on that money. If they want to pay it back in a day, great. If they want to pay it back in two months, fine. The next time they pay it back, they can access more money. People look at that and say, “That’s insane. You are holding out a bucket of money and asking people to walk away with it. Why are they paying back?” Some do—they have been losing maybe 12 percent. But, they view that as relatively cheap—at a first loan of \$20—way of acquiring a customer. For the 85 to 90 percent that they get up the curve, this is an interesting business that actually uses this m-payments platform to match the cash flow needs and cycles of poor customers.

Micro leasing solar. There is a huge issue of grid electricity access and people not having access to electricity, so everyone is trying to push solar on poor customers. The issue is that solar requires a significant upfront investment by the poor person. That has been a problem and distribution has been a problem. There are a number of companies in Kenya trying something where, essentially, they build financing into the product by offering the solar panel on a lease. Instead of having to deal with what would be a traditionally nightmare collection process of sending someone around and hassling, they do it automatically over the M-Pesa platform. They use an automatic switch-off, essentially, if someone does not repay. People are trying to pioneer these models of pay-as-you-go in water, education, and a lot of other areas that are completely payments-enabled, but they are not necessarily payments businesses themselves.

The last one I will mention, although I have a bunch more, is social media in general. This is not as much about payments, but it has come up a few times today. This is an area that is increasingly interesting. Two years ago I would have said this is crazy, but every bit of data we are seeing now suggests that Internet access is rising quickly among poor customers, even in emerging markets. Smartphones are on the rise, tremendously. Facebook is everywhere.

If we can use that platform, somehow, as a way to find customers more cheaply than we have been doing, assess whether or not they can get credit or other products, and actually deliver these services; that is a huge potential cost savings, and possibly a huge potential improvement in customer engagement over the current absoluton.

We are looking at a couple of enterprises along this theme. Some are using the data generated to do different things, but others are actual sites that are being set up to mimic some of the principles and the group dynamics of microfinance in this virtual world, which—as you would have guessed—is dramatically cheaper. It is pretty exciting stuff.

As I said, there is a lot of exciting stuff we are seeing. Some of it may sound pretty remedial, but some of it is pretty exciting and I certainly look forward to continuing to learn what is happening in the United States, as well. Thanks.