

Mobile Money: A Path for Increasing Financial Inclusion?

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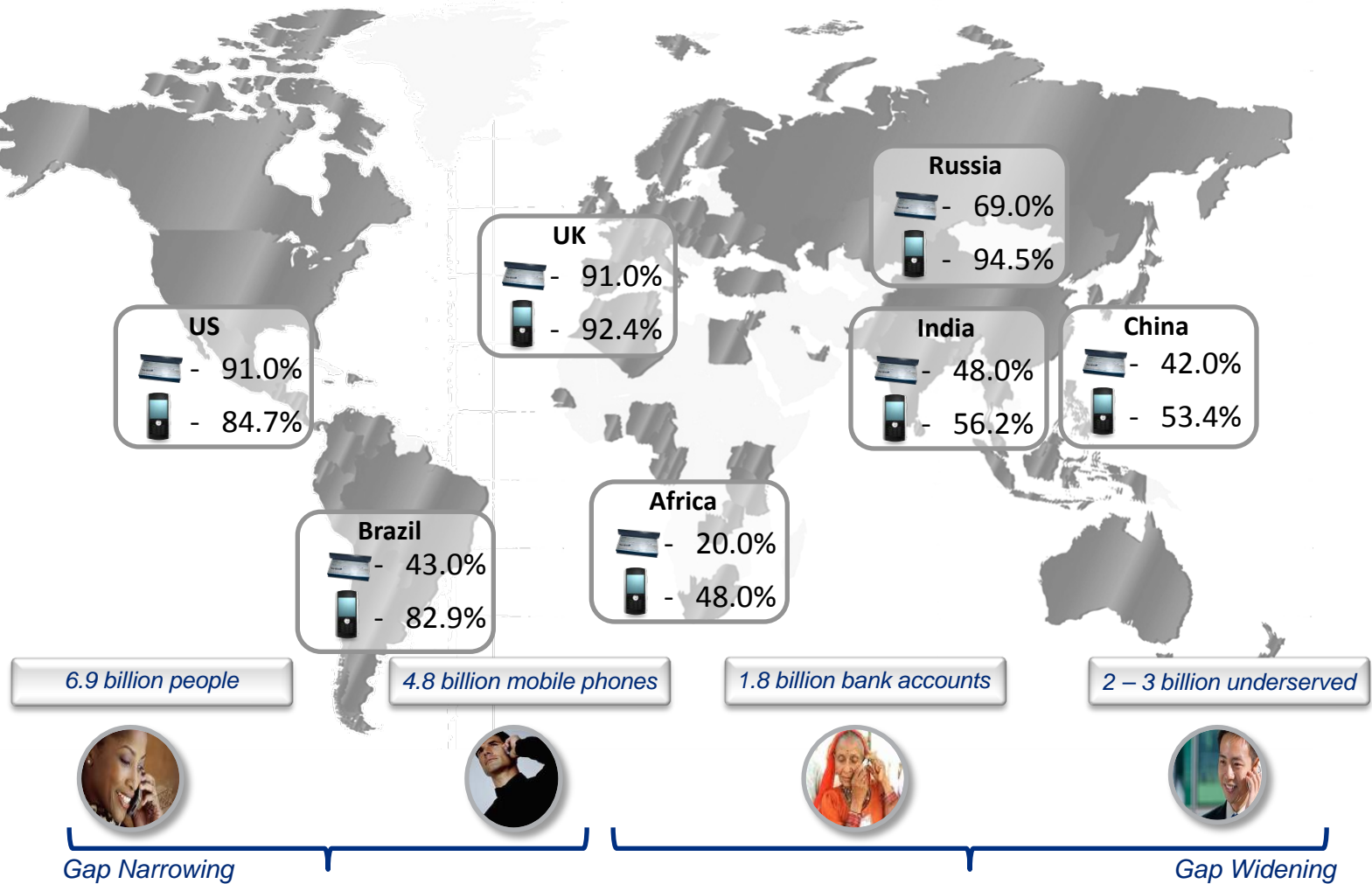
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Mobile Phones: the new Local Bank?

In developed countries approximately 81% of adults are banked vs. 28% in developing countries

There are ~5 billion mobile phone users worldwide but only 1.8 billion bank accounts



Mobile Money: 800MM potential accounts in 5 years, already 100+ services

A significant need...



Addresses the needs of **2.5B underserved consumers**¹

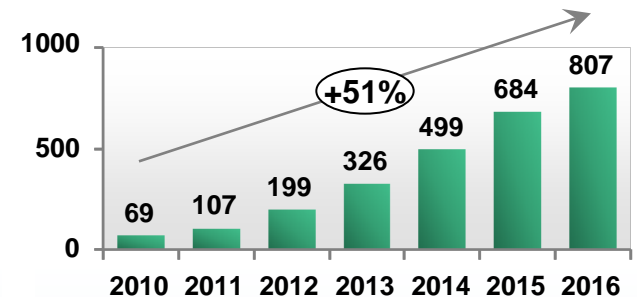
...increasingly being addressed...



100+ Services being launched

...will generate a large number of new accounts

Mobile Money accounts (MM)



Current accounts estimated at **70MM**

These accounts are currently mostly stored value accounts that allow person-to-person payments, are managed by MNOs, and are untapped by branded financial networks

¹Consumers in countries with large gaps between mobile and bank penetration; defined as mobile penetration >50% and banking penetration <50%; 72 countries qualify.

Goal: Mobile Wallets that provide a full range of payments

Mobile money capability development is primarily focused on providing a rich payments experience. Banking capabilities (savings, credit) are generally not within scope in initial phase.

Current mobile payments services are closed loop with limited functionality



A full range of payments capabilities are needed to provide a “bank-like” experience



Financial Empowerment: the True End Goal of Inclusion

- Current mobile wallet capabilities focus almost exclusively on payments
- “Banking-like” offerings limited to stored value accounts for savings and mobile billing for credit
- Banking relationships provide far deeper financial empowerment, beyond movement of money

Convert:

Access to products that facilitate receiving and sending payments with minimal friction and a choice of channels, maximizing value of capital to the consumer, and minimizing fees paid

Save:

Products that move consumers from carrying their assets “in their pocket” to having their money work for them 24/7, reducing risk and building a financial cushion

Banking:

Critical contributor to financial well-being and success

Borrow:

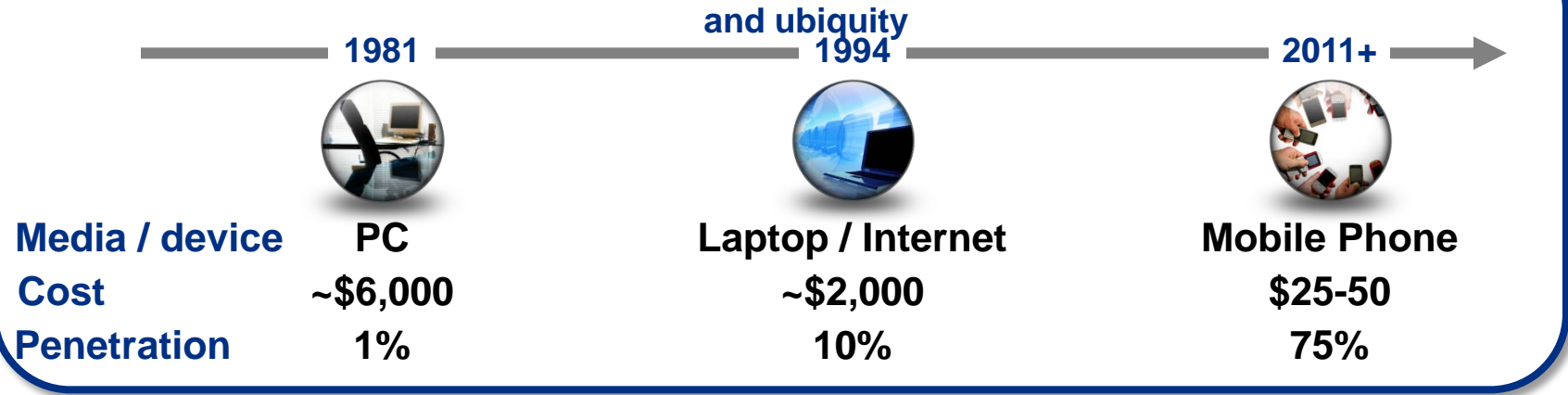
Provide consumers with financial leverage through credit products to increase their opportunities and improve their quality of life (mortgage, business, education)

Financial Education:

Access to information, tools and advice that help consumers make better choices for purchasing, saving and borrowing

Decreasing cost and increasing power is driving growth in digital commerce

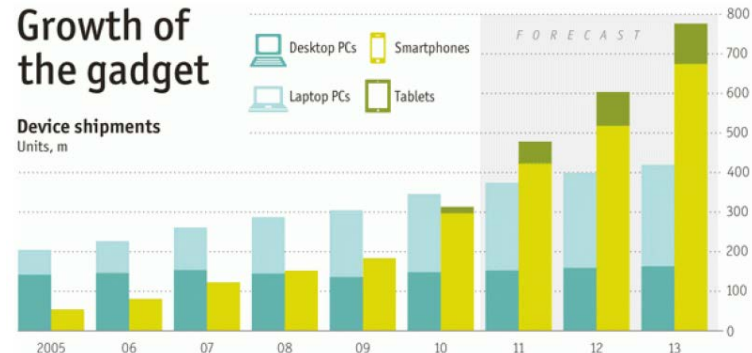
The last three decades have witnessed tremendous progress in global digital connectivity and ubiquity



Growth of mobile phones has already outpaced PCs and laptops in penetration and speed of adoption.

Growth of the gadget

Device shipments
Units, m



Devices in use:

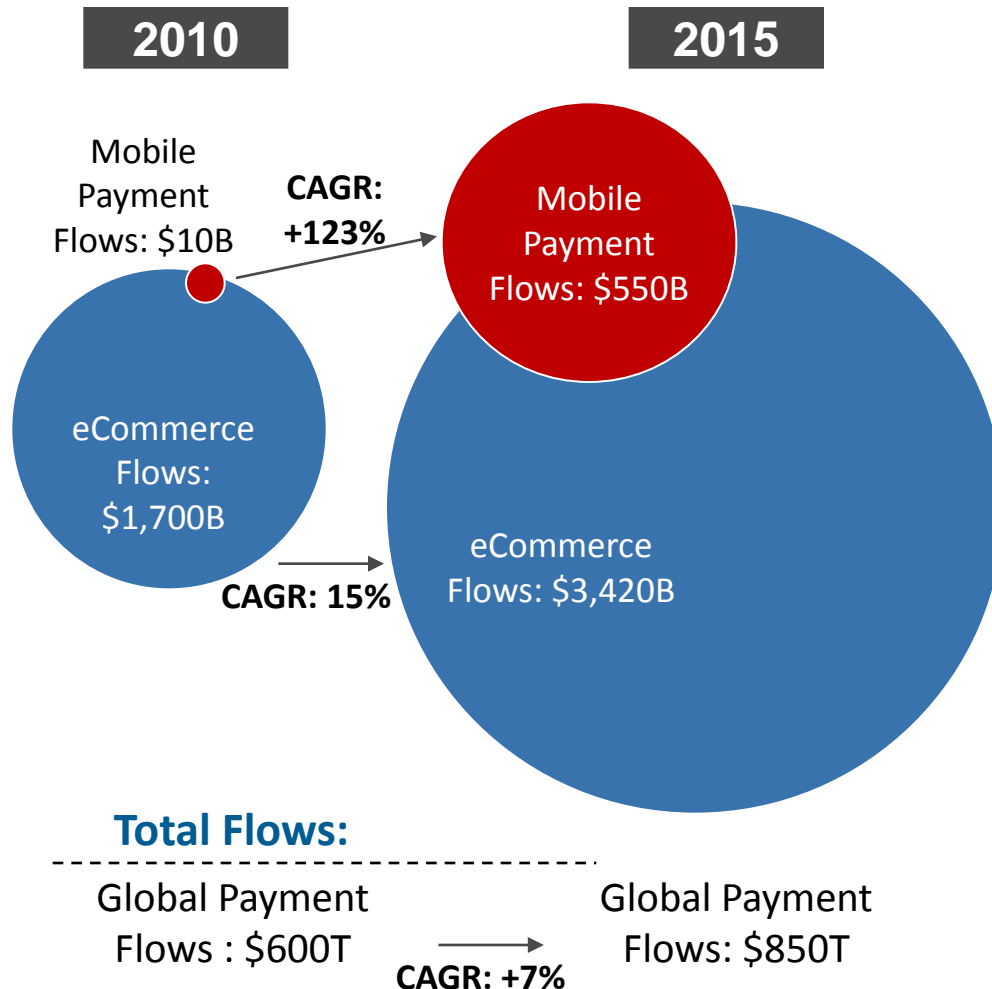


Source: Economist



Mobile Flows: the Future of Payments

eCommerce will comprise an increasingly larger percentage of payments volumes, with Mobile as the fastest growing component of these flows

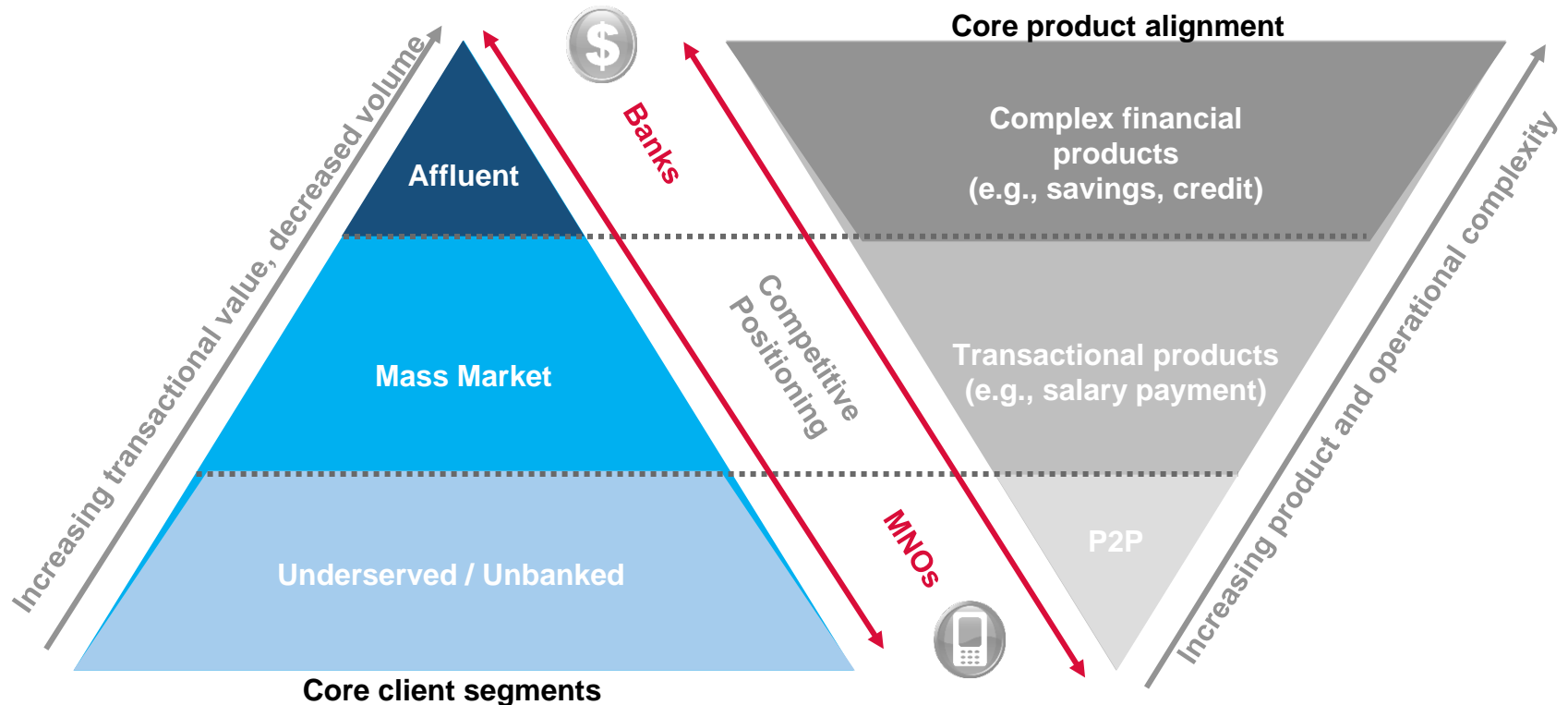


Why?

- Phone is more widely accessible across the global population with 5x more phones than PCs
- Phone is a more powerful device than the PC
 - Knows who you are
 - Knows when you are in/near store
 - Delivers instant gratification
- In store sales are still 19x greater than eCommerce

Emerging Markets: Cost and Distribution Models Drive Scale

In emerging markets, banks face different economic and access issues to compete effectively for the mass market and underserved / unbanked



- In emerging markets, mobile operators leverage their existing airtime distribution infrastructure to enable and deliver simple peer-to-peer payment and bill payment products which are aimed at the underserved/unbanked and mass market segments
- Mobile operators operate these accounts as pre-paid value transfers, limiting their exposure and risk

Key Issue: If risk management is not industrial strength, it can be dangerous if payments are driven to open networks

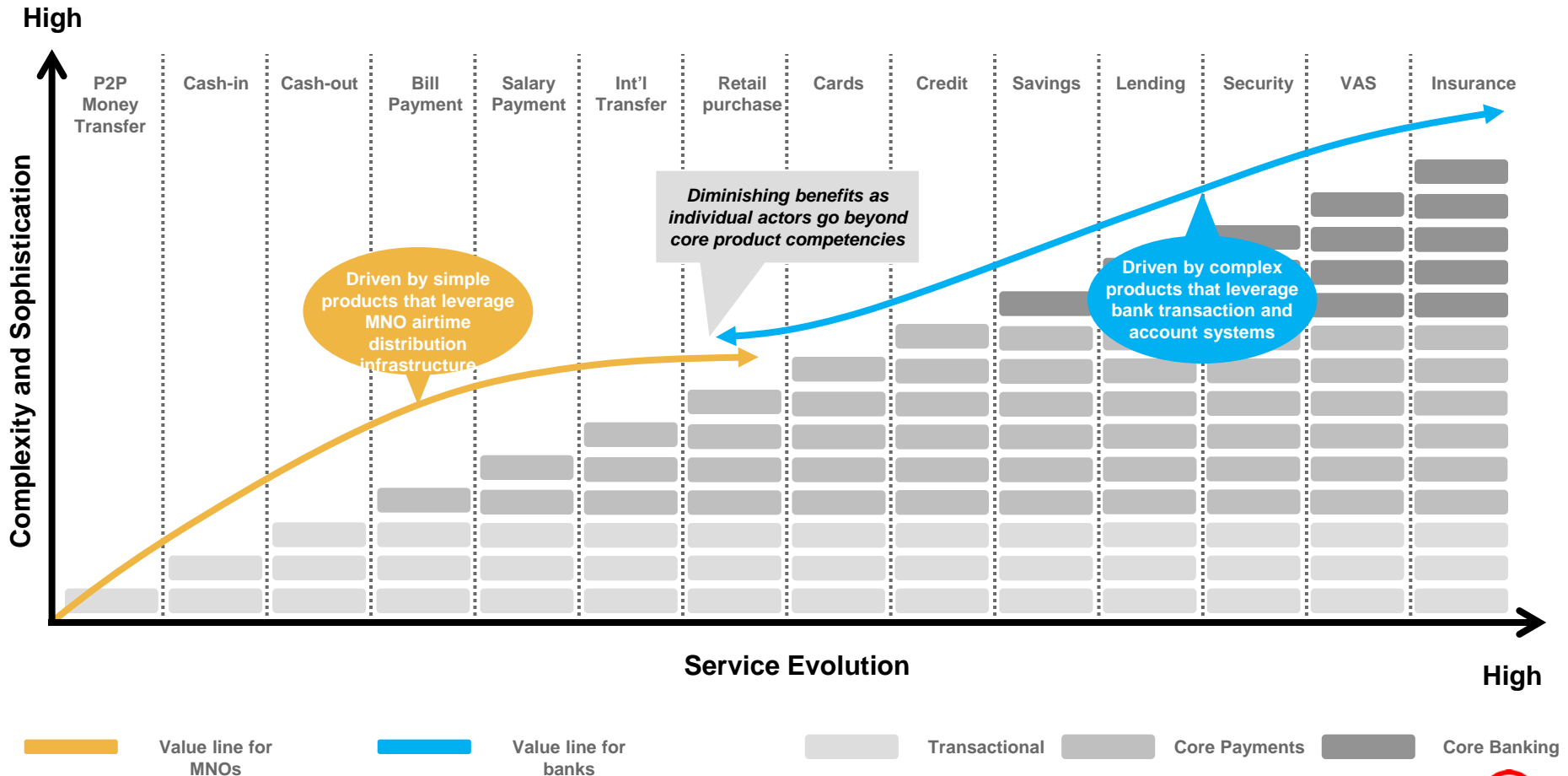
- As the underserved/unbanked mobile payments customers build their financial resources, there is an increasing need for banks to enable and underwrite more sophisticated services
- This leads to greater partnership and commercial opportunities for banks and MNOs, as well as potentially to increased friction

Key Issue: Banks and MNOs will compete to optimize asset structures, customer data, and revenue flows

MNOs: Advantages, Up to a Point

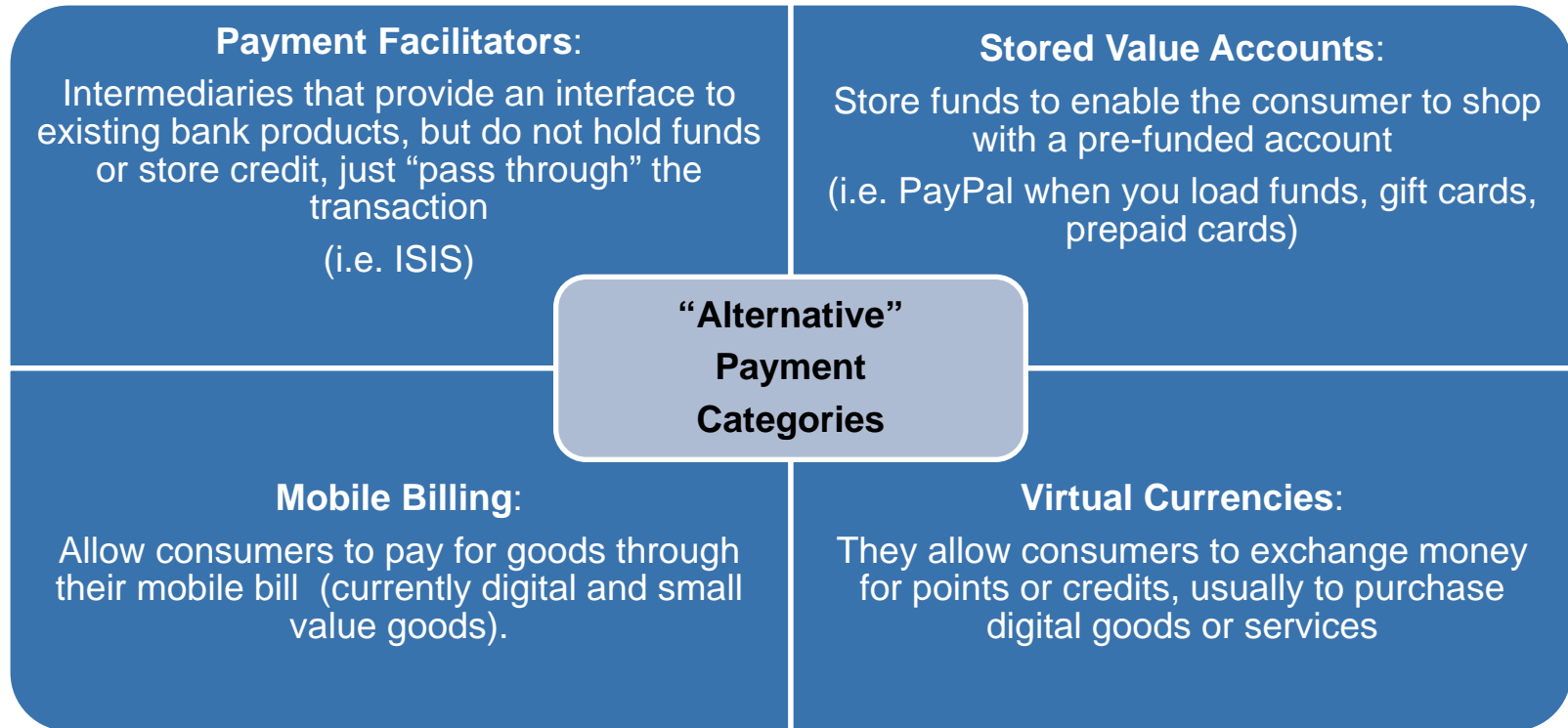
MNOS have more efficient entry economics but plateau quickly, banks have financial sophistication but are unable to get early economics to work

Comparative product value for MNOs and banks



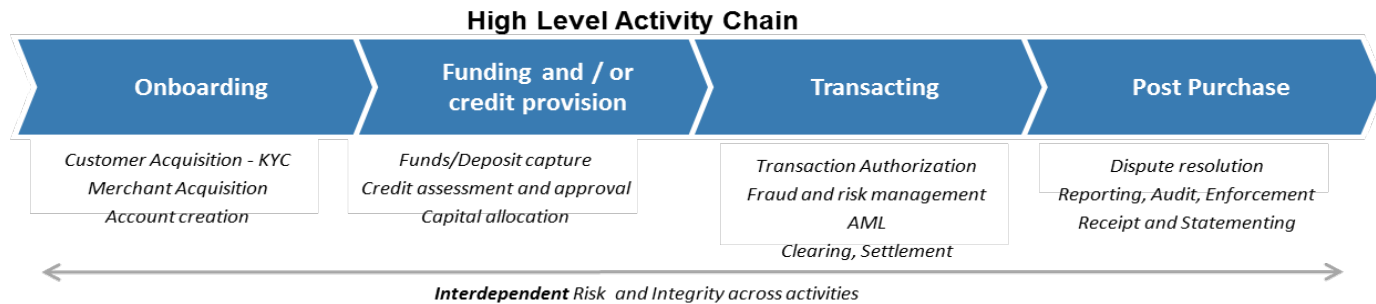
The Mobile Landscape: A Closer Look

- Plethora of new participants with a focus on innovative payment solutions, many of which fall outside the scope of formal prudential and consumer regulation
- “Banking-like” offerings limited to stored value accounts for savings and mobile billing for credit



Compared with bank-grade payments, many of the protections in place for traditional ‘bank-based’ payments, are at best optional in the new models, and rarely auditable and enforceable.

Mobile Operators vs. Banks: Different Models, Different Cost / Benefit Tradeoffs



Bank-grade

- Identification / KYC processes
 - Risk profiling
 - Account creation
 - Regulated, transparent contractual terms
- Funds capture, fund segregation, deposit protection
 - Credit approval, capital allocation
- Transaction authorization
 - Fraud monitoring, AML
 - Regulated Clearing and Settlement
- Dispute resolution, consumer made whole
 - Disclosure, privacy, non-discriminatory, unclaimed property rights, funds availability
 - Regulatory reporting, compliance and audit

Payment Facilitators

- Rely on underlying bank products to fulfill formal legal responsibilities

- AML?

Non Bank Stored value accounts (plastic & non plastic)

- For non-banks, no prudential regulation or enforceable protections
 - KYC: Varies by organization, some adhere but are not regulated
 - No mandated competition or rate setting
- Segregated funds optional
 - No (optional) Deposit & bankruptcy protection
 - No (optional) capital requirements

- Optional AML, fraud and counterparty risk management

- No Prudential regulation, therefore no examinations, regulatory reporting, receiverships
- Optional disclosure, privacy, non discriminatory and unclaimed property rights
- No funds availability rules

Mobile Billing

- Undertaken to Telecommunication regulation standards

- N/A
- No funds held
- Credit offered, secured through underlying payment instrument

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- No funds held
- Credit offered, secured through underlying payment instrument

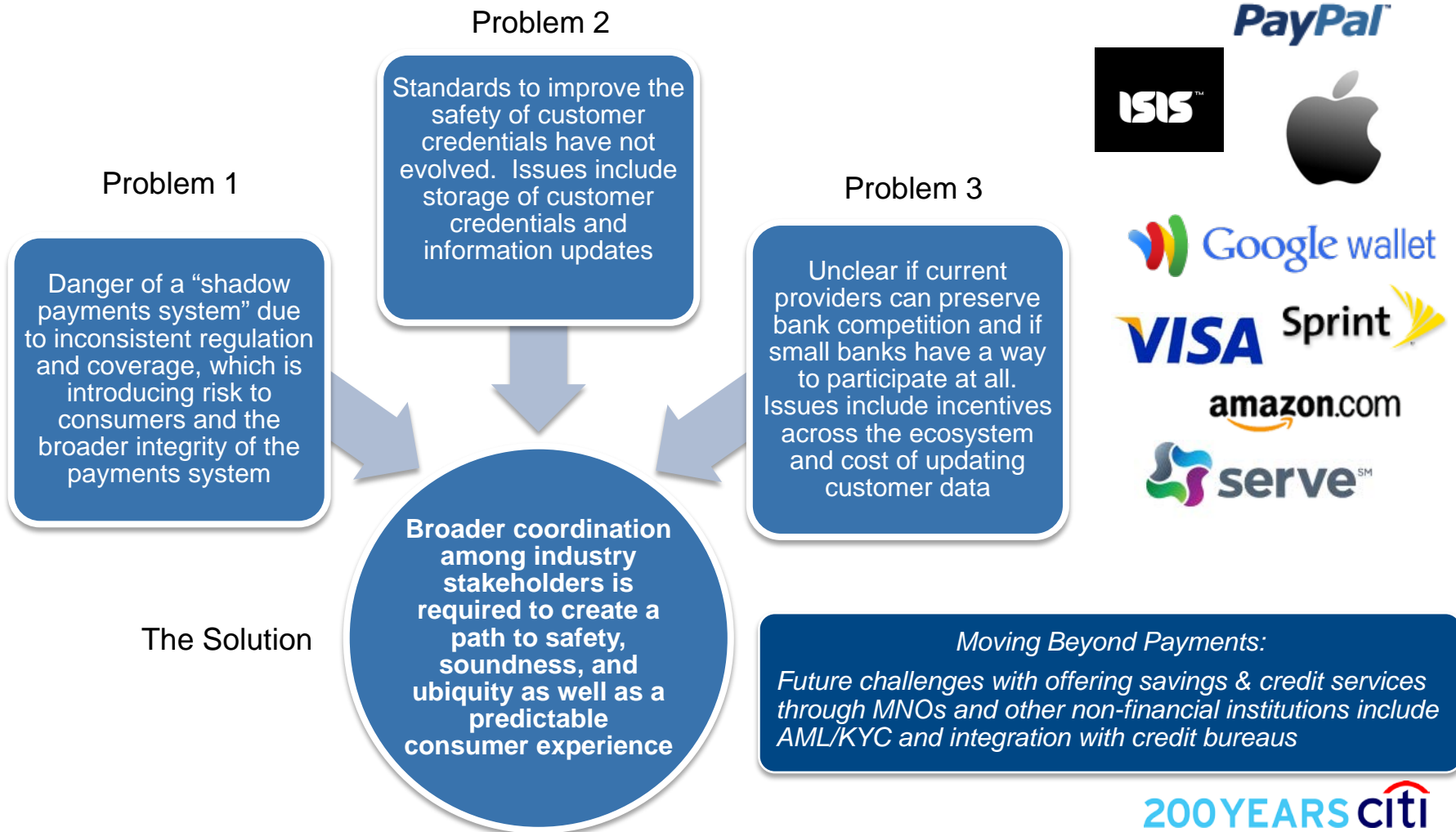
- No prudential regulation
- Different consumer regulation (less stringent)

Virtual Currencies

- Not covered by prudential regulation, despite usage as a stored value vehicle for payments

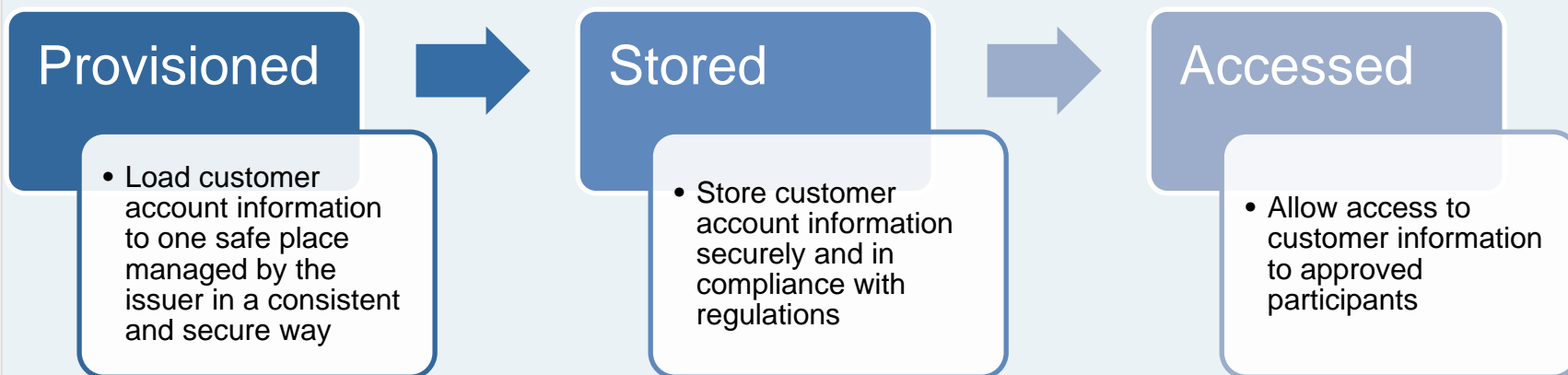
U.S. Situation Analysis: mobile payment solutions are proliferating but are not ready for broad success

Digital payments have grown explosively, driving convenience, access, personalization and innovation across the payments industry, but...



Mobile Payments Guidelines: Bank Industry POV

- Consumers expect and deserve parity in protection across all payment methods and providers
- To ensure the ongoing safety and soundness of the payments industry, there is a need to define consistent regulations, compliance and standards, and to ensure they are applied across all participants that enable payments
- This effort should target how and where payment credentials should be:

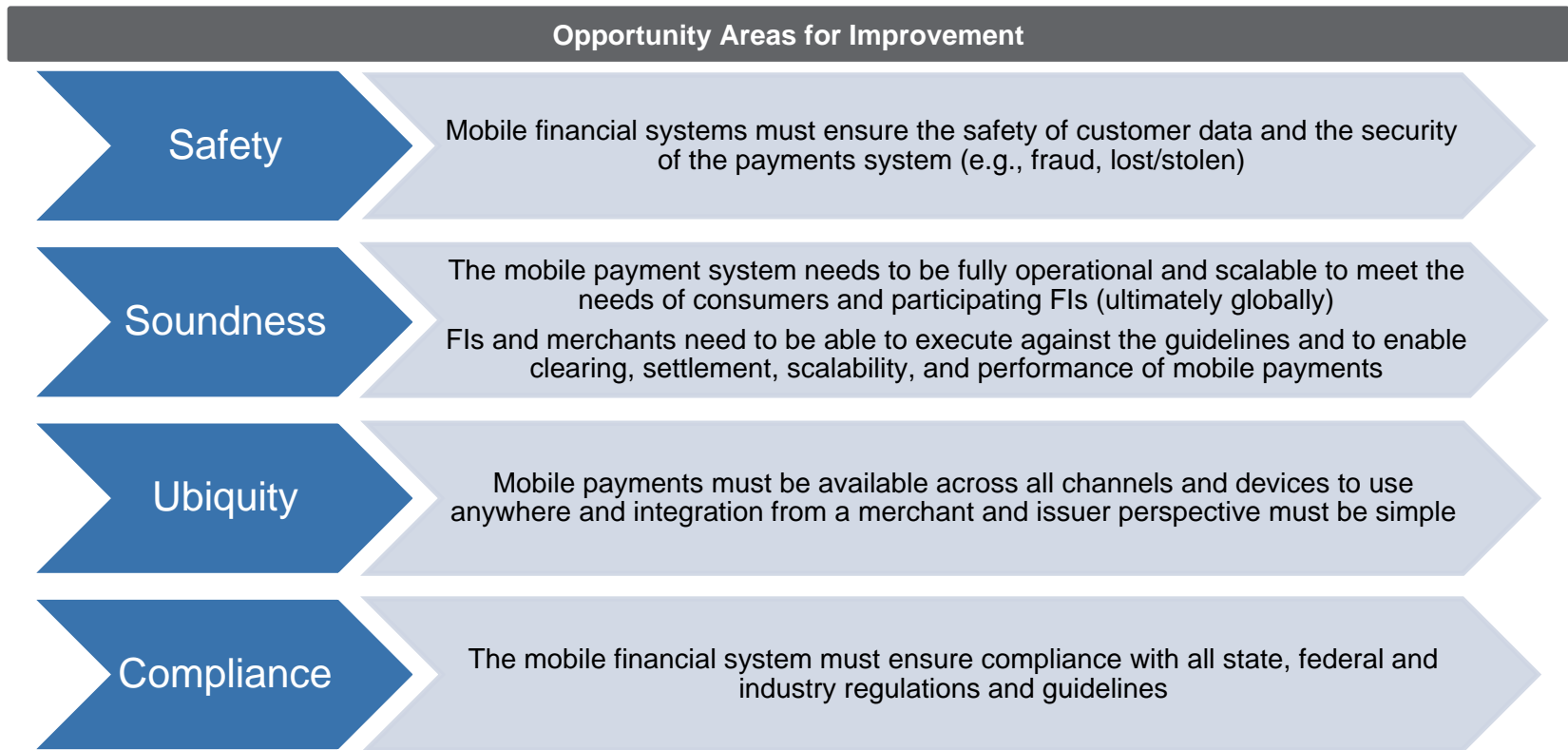


Structure and guidelines will help focus the mobile payments ecosystem and ensure its successful growth

Action is needed to ensure preservation of a bank's ability to fulfill commitments to its customers and protection of a customer's right to choose how they want to make payments while promoting an environment that will foster participation, competition, innovation and differentiation among banks large and small and among all stakeholders in the ecosystem.

Moving Forward

Progress towards broad adoption will rest on establishing a set of guidelines that define the minimal rules of engagement for mobile payments, and ultimately for all financial services. As the lead product in driving broad adoption, payments are serving as a model for the industry architecture.



We have a responsibility to ensure that the above conditions exist in order to promote competition and innovation to ultimately benefit the end consumer, fostering convenience, accessibility and inclusion.

Conclusions

- Mobile money services are rapidly gaining consumer adoption globally and in the U.S.
- Among U.S. bank customers, there is increasingly broad usage of mobile apps for banking functionality
- Current offerings outside of bank relationships are focused on mobile payments with limited other bank services covering savings or credit
 - While MNOs are well-positioned to offer basic payments services across consumer segments, they are not effective models for providing more complex banking products
- Mobile money offerings for underserved and unbanked consumers are focused on payments capabilities and can serve as an effective entrée into the formal financial economy, providing convenience and access to digital goods and services
- Concerns about safety and security are the most significant barriers to broad adoption of mobile payments across all segments of the population

To ensure the ongoing safety and soundness of the payments industry and instill consumer confidence, there is a need to define consistent regulations, compliance and standards, and to ensure that they are applied across all participants that enable payments, and all financial services.