

March 2013



Welcome to the second issue of Velocitates! One of the core tenets of the SWIFT Institute is the dissemination of knowledge and information, and through this quarterly newsletter that is exactly what we will do.

We've have had an exciting and very busy start to 2013. The year began with five new research grants being issued covering four varied topics: Collateral Management, a Common Financial Language, Network Liquidity Effects and the Unit Cost of Financial Services.

Significant progress has been made on the first three grants issued when we launched the Institute last year. The working paper on mobile money in northern Ghana, authored by Jenny Aker and Kim Wilson, was published in February. Earlier this month the interim white paper on financing SME supply chains, authored by Asad Ata, Manish Shukla and Mahender Singh, was published. Both papers are available on our web site. And Jonathan Batten and Peter Szilagyi write about the complicated path of RMB internationalisation in this very issue of Velocitates.

And finally, we hosted the Financial Inclusion Research Conference in partnership with the Harvard Kennedy School. It was a great success, attended by an invitation only audience of 55 academics, bankers and think tanks. A report on the conference will be published soon. Meanwhile, in keeping with the financial inclusion theme, Dr. Guillermo Ortiz shares his thoughts in this issues Hot Topic interview.

Our next conference is shaping up nicely. We'll be in Shanghai in July to host a two-day event focused on China's Emergence in International Finance. And we have some exciting plans for [Sibos](#) in Dubai in September. New research grants are on the way, with new Calls for Proposals issued last week on the development of financial market infrastructures, diversity in the financial industry, cybercrime, regulatory extraterritoriality and the cost of outages at market infrastructures.

It looks like the remainder of 2013 will be even busier and more exciting than the start of the year!

Peter Ware

Topics in this issue

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Bridging the Gap: How can banks reach the unbanked?

The SWIFT Institute, in partnership with the Ash Center for Democratic Governance and Innovation and the Mossavar-Rahmani Center for Business and Government, held its first conference at the John F. Kennedy School of Government at Harvard Kennedy School on Thursday, February 28 and Friday, March 1, 2013. The topic was financial inclusion, and several academics presented their research findings to an audience of commercial bankers, central bankers, regulatory experts and other financial industry specialists.

Financial inclusion has been widely researched, yet many questions are unanswered, and how to structure the financial system to include the excluded in an appropriate and cost-effective way is unclear. It is thought that nearly three billion people worldwide do not have access to a bank account or any formal banking services, and many more of the world's poor who do have a bank account either rarely or never use it. The majority of the unbanked population is located in low-income countries, so while this is predominantly a developing world problem, there are also significant numbers of excluded or unbanked adults in developed regions, including Europe and North America. For the unbanked it is a challenge to gain access to banks and the services they offer. For banks it is a challenge to reach the unbanked.

[Read full article](#)

Behind the Scenes: What is it like conducting research in the field?

You may have read the working paper produced by US-based Tufts University on how mobile money can help to promote financial inclusion and boost savings rates amongst remote communities in Ghana ([download](#)). The SWIFT Institute recently spoke to the authors of the paper, Jenny Aker and Kim Wilson of the Fletcher School, Tufts University, to find out more about their personal experiences in the field, and why they chose Ghana.

There were several countries Jenny and Kim could have selected for their field work, but the choice of Ghana over other possibilities was as much opportunistic as strategic. Mobile money was partially developed there already - an existing infrastructure was in place but uptake was not very high, especially in the villages and rural areas. Jenny had lived in Ghana for five years while working for a non-governmental organisation (NGO), so she already had an appreciation of the system and how things are done in Ghana. Many of her NGO contacts were still around and proved to be invaluable in providing insights into the workings of the government and the private sector mobile network operators. "Choosing the right villages was a stroke of luck" said Jenny, "as a personal contact knew of a set of villages that had established cash-based savings groups". She explained that the existence of a financial activity in progress meant that the villagers were likely to be more receptive to the benefits of mobile technology and how it could help with their savings.

[Read full article](#)

The Complicated Path of RMB Internationalisation

Jonathan A. Batten and Peter G. Szilagyi

At the end of January 2013 the Bank for International Settlements (BIS) released its preliminary

international banking statistics for the period up to September 2012. The aggregate level data suggested only very modest improvement in international bank lending activities (external assets of US\$29.41 trillion) broadly consistent with an international economy not so much stalling but operating in very low gear. Importantly, this report made reference to a decline in cross-border claims by banks to China, which fell US\$49 billion for the period June to September 2012, while claims elsewhere in the Asia-Pacific region increased. Closer examination of this data shows that international bank lending to China declined from US\$436.3 billion in June 2012, to US\$401.7 in September 2012, while deposits from China also fell from US\$408.1 billion to US\$388.1.

Taken together this data is more consistent with China's withdrawal from international banking markets rather than an expansion. Such an outcome would appear at odds with the common view of the increasing internationalisation of both China's economy and its currency the renminbi (RMB). For example, while during the same period international trade settled in RMB declined below the earlier peak of 12.0% of trade flows, the most recent data from the Hong Kong Monetary Authority for Hong Kong cross-border RMB suggests that the long term upward trend remains intact. This means that RMB settled trade at year-end 2013 should approach 15%.

[Read full article](#)

Hot Topic

Financial Inclusion: Where the Formal and Informal Financial Systems Meet

'Financial inclusion' has become a popular topic amongst both policymakers and financial service providers. Policymakers consider financial inclusion a worthwhile measure for its potential to provide economic growth and alleviate poverty. For financial companies it represents approximately 2.5 billion potential adult worldwide customers who do not currently have access to formal financial services. Given the recent financial crisis, however, is it really a good idea to incorporate the informal sector (the untaxed, unmonitored part of an economy) into a formal financial system that some considered insufficient, broken even? Is there not a risk that the additional regulatory burden of a formal system would raise costs for the informal sector? Would these costs inadvertently alienate the very customer-base the financial inclusion was intending to include?

To explore these questions further, the SWIFT Institute interviewed economist Dr. Guillermo Ortiz, Chairman at Grupo Financiero Banorte-IXE and former Governor of the Bank of Mexico, a highly regarded authority on the topic of financial inclusion. What expectations should policymakers have regarding the development of financial inclusion models?

Did you know...



Did you know that there are more mobile users in the world than owners of toothbrushes? In Kenya the same can be said for mobile banking and bank accounts. Only 4 million Kenyans own a bank account whilst 10 million people use the M-PESA money transaction service. Approximately €6.5 billion was transferred through the service in the first half of 2012 according to the Central Bank of Kenya.

The mobile phone has begun to greatly influence Kenyans on how they spend their daily wage. One in 5 respondents from a recent study had foregone an everyday expense, usually food, in order to reload their mobile phone with credit. How can a Kenyan living on less than two euros a day find a mobile phone so useful?



Guillermo Ortiz

Chairman of Grupo Financiero Banorte-IXE

Guillermo Ortiz is Chairman of Grupo Financiero Banorte-IXE. He was Governor of the Bank of Mexico from 1998 to 2009, and Secretary of Finance and Public Credit of the Mexican Federal Government from 1994 to 1997. Prior to heading the Finance Ministry, he served briefly as Secretary of Communications and Transportation at the outset of the Zedillo Administration. Other professional experiences include being Undersecretary of Finance and Public Credit (1988-1994), Executive Director at the International Monetary Fund (1984-1988) and Manager of the Economic Research Department of the Bank of Mexico (1977-1984). In 2006, he was appointed to the Board of the Bank of International Settlements (BIS) and was elected Chairman of the Board in 2009. At the BIS he also chaired the Central Bank Governance Forum. He was also a member of the Committee to Study Sustainable Long-term Financing of the IMF (2006-2007), and of the Committee on IMF Governance Reform (2008-2009). At the IMF he also chaired the External Panel for the Review of the Fund's Risk Management Framework (2010-2011). Currently, he is a member of the Group of Thirty. Dr Ortiz has taught at universities in Mexico and the United States. He has written and published two books and numerous papers on economics and finance in specialised journals in Mexico and abroad, and has received several honours and awards. Guillermo is also a member of the SWIFT Institute's Advisory Council.

One answer could be in the creation of innovative services such as M-Farm, which allows rural Kenyans to know the market price of the products they sell in regional markets. Farmers simply tap in the product and the location they are interested in, and the price will be sent within 10 seconds. The farmer then knows where he will get the best price for his product on that day.

The popularity of mobile money market has not gone unnoticed by the government of Kenya. Indeed, the finance ministry plans to apply a 10% excise duty on the fees charged by operators of mobile-money transfers. Kenya has become a shining example worldwide for the benefits of mobile banking. Will regulators end up stifling the innovative services that have become so integral in Kenyan daily life?

[Read full topic discussion](#)

Research

Mobile Money Working Paper

One of our first grants, this study is now complete with the first working paper resulting from a SWIFT Institute grant now published. Jenny Aker and Kim Wilson from The Fletcher School, Tufts University conducted research in northern Ghana where they aimed to answer the question, 'Can mobile money be used to promote savings?' Their research demonstrates that mobile money can help to promote financial inclusion and boost savings rates amongst remote communities.

The research, conducted in rural communities in northern Ghana with little access to financial services, demonstrated that take-up of mobile money can be easily promoted, and that use of mobile money services can help to encourage a savings culture. A month into the research project, 10% of participants had used the service solely for money transfer; two and half

Did you know...



The name of the SWIFT Institute newsletter, Velocitates, comes from the Latin velocitas meaning swiftness, and in our case the plural, therefore swiftnesses. Velocitates appeared in print in the early 1700's in the world's first scientific journal; The Philosophical Transactions published by the Royal Society of London for Improving Natural

months later, usage increased to 26% of households, with 86% of users receiving money transfers and 70% of users saving on their mobile phone.

Download the working paper [here](#).

Financing SME Supply Chains White Paper

The second publication resulting from research funded by the SWIFT Institute is an interim white paper focusing on the issue of finance in SME (small and medium enterprises) supply chains. The final working paper will be issued mid-2013. The study is being conducted by Asad Ata, Manish Shukla and Mahender Singh at the Malaysia Institute for Supply Chain Innovation.

Asia's economic miracle is often associated with large, multi-national companies. While these organisations are important drivers of the region's growth, SMEs have played a key role. However, unlike larger companies SMEs struggle with finance as a limiting factor rather than a lever for value generation.

On the demand side the researchers look into the common financial challenges faced by these organizations in terms of access to finance, ease of availability, cost, control etc. On the supply side, they explore the challenges faced by financial institutions in helping SMEs. They use the case study approach to take a closer look at real-life scenarios that illustrate the key constraints restricting the growth of SMEs. Some of the successful attempts and innovations are discussed, and suggestions are made for developing a more holistic approach to make SMEs more competitive in the global environment.

Download the white paper [here](#).

Knowledge. The journal's aim was and continues to be, to inform readers of the latest scientific discoveries. A worthy aim, and a goal the SWIFT Institute will strive to emulate.

Research Underway

To date we have issued eight research grants:

RMB Internationalisation
Financial Supply Chain
Management (SMEs)
*Financial Inclusion (Mobile
Money in Ghana) - finished*
Collateral Management
Common Financial
Language
Unit Cost of Financial
Services
Network Liquidity Effects
(two separate studies)

For more details visit our web site.

Conferences

Every year we will host two or three conferences where we will bring together academia and the financial industry to engage in dialogue on a specific topic. Some of these conferences will be intimate gatherings by invitation only, whilst others will be much larger in scale for which you can register to attend. Visit the [SWIFT Institute](#) regularly to find out about upcoming events.

Our first event, the Financial Inclusion Research Conference, was a great success! It was held in partnership with the Ash Center for Democratic Governance and Innovation and the Mossavar-Rahmani Center for Business and Government at the John F. Kennedy School of Government at Harvard Kennedy School on Thursday, February 28 and Friday, March 1, 2013. The research papers and presentations are available to [download](#) now. See the [News](#) section above for a brief overview of the conference, and check back to our web site soon for a full report on the days discussions.

Coming up

- 10/7/2013 - 11/7/2013

- **China's Emergence in International Finance 2013**
Intercontinental Pudong, Shanghai, China

Partners: The Ash Center for Democratic Governance and Innovation, and The Mossavar-Rahmani Center for Business and Government (Harvard Kennedy School)

Overview: As China's economy is globalising, its emergence in international finance is a matter of great importance to the global financial community and the policymakers, scholars, and corporate leaders from around the world. How far will China go in internationalizing its currency? What kind of global financial power will China become? What challenges does China face domestically in areas of financial and banking reform? Are new financial centres emerging in the greater China region?

The two-day conference is devoted to an in-depth discussion of these and related issues facing China and the greater China region. The conference is built around three broad themes of competition (e.g. the emerging power of RMB, China's outbound direct investment, the competitiveness of capital market in the region, the development of IT-enabled financial transaction and other technology infrastructure), compliance (e.g. China's reform on banking structure and performance, compliance issues in China, corporate governance concerns, government debt), and collaboration (e.g. emergence of financial centres in this region, development of standards, financial development in the greater China region, and China's relations with the international financial system).

Agenda: The agenda will be finalised in the coming weeks and available [here](#).

Coming Soon

Here is what you can look forward to from the SWIFT Institute in the months ahead...

- Calls for Proposals for the next round of research grants - *March 2013*
- Report on the Financial Inclusion Research Conference - *April 2013*
- New working papers published on RMB Internationalisation, SME Supply Chain and Common Financial Language - *June 2013*
- China's Emergence in International Finance Conference - *July 2013*
- Next issue of *Velocitates* – *August 2013*
- SWIFT's annual conference, [Sibos](#), taking place in Dubai this year - *September 2013*

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