DIGITAL FINANCIAL SERVICES
BASIC TERMINOLOGY

INCLUDING ACRONYMS FOR DFS TRANSACTIONS

THIS GUIDELINE NOTE WAS DEVELOPED BY THE AFI DIGITAL FINANCIAL SERVICES (DFS) WORKING GROUP TO PROVIDE UNIVERSAL DEFINITIONS OF KEY DIGITAL FINANCIAL SERVICES TERMS.

Guideline Note No. 19
August 2016

CONTENTS

GENERAL TERMS

BRANCHLESS BANKING

Definition
The delivery of financial services outside conventional bank branches. Banking beyond branches uses agents or other third-party intermediaries as the primary point of contact with customers and relies on technologies such as card-reading point of sale (POS) terminals and mobile phones to transmit transaction details.

Why is banking beyond branches important?
Reliance on existing technology, infrastructure and retail establishments has significant potential to lower the costs of delivery and reach financially excluded households that cannot be served profitably with conventional bank branches, especially in remote and sparsely populated areas.

FURTHER EXPLANATION
In spite of its name, banking beyond branches is not limited to bank services; it also includes an array of financial services provided by non-banks.

Besides POS terminals and mobile phones, a wide variety of technologies can be used for banking beyond branches, including automated teller machines (ATMs) and near-field communications (NFC).

DIGITAL FINANCIAL INCLUSION

Definition
The use and promotion of digital financial services (DFS) to advance financial inclusion.

Further Explanation
The essential components of digital financial inclusion are a digital transactional platform, a device used by the customer to electronically connect to this platform and perform financial transactions, the use of retail agents for the customer to transact from and the provision of a wide range of financial products and services.

DIGITAL FINANCIAL SERVICES (DFS)

Definition
The broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance. The digital financial services (DFS) concept includes mobile financial services (MFS).

Further Explanation
In this context, the term “digital channels” refers to the internet, mobile phones (both smartphones and digital feature phones), ATMs, POS terminals, NFC-enabled devices, chips, electronically enabled cards, biometric devices, tablets, phablets and any other digital system.

DFS models usually employ agents and the networks of other third-party intermediaries to improve accessibility and lower the overall service delivery cost.

ELECTRONIC BANKING (E-BANKING)

Definition
The provision of banking products and services, including electronic payments, through electronic channels.

Further Explanation
The electronic banking (E-Banking) concept includes mobile banking, internet banking, ATMs and POS banking transactions, among others.

FINTECH

Definition
The use of technology and innovative business models in the provision of financial services.

Why is fintech important?
As the mobile internet has expanded, fintech has exploded, introducing a wide variety of technological interventions into personal and commercial finance.

Non-bank institutions providing disruptive financial services can boost financial inclusion initiatives.

Further Explanation
The term is a contraction of “financial technology”. It refers mainly to technological innovations in the financial sector, including innovations in financial literacy and education, retail banking, investment and even crypto-currencies.

MOBILE BANKING (M-BANKING)

Definition
The use of a mobile phone to access banking services and execute financial transactions. This covers both transactional services, such as transferring funds, and non-transactional services, such as viewing financial information on a mobile phone.

Further Explanation
The term ‘mobile banking’ is often used to refer only to customers with bank accounts.

Mobile banking is a type of electronic banking, or E-Banking, which includes a broad array of electronic banking instruments and channels like the internet, POS terminals and ATMs.

MOBILE FINANCIAL SERVICES (MFS)

Definition
The use of a mobile phone to access financial services and execute financial transactions. This includes both transactional services, such as transferring funds to make a mobile payment, and non-transactional services, such as viewing financial information.

Further Explanation
Mobile financial services include mobile banking (M-Banking), mobile payments (m-payments), mobile money, mobile insurance, mobile credit and mobile savings.

MOBILE MONEY (M-MONEY)

Definition

A type of electronic money (E-Money) that is transferred electronically using mobile networks and SIM-enabled devices, primarily mobile phones.

The issuer of mobile money may, depending on local law and the business model, be an MNO, a financial institution or another licensed third-party provider.

MOBILE NETWORK OPERATOR (MNO)

Definition

A company that has a government-issued license to provide telecommunications services through mobile devices. An MNO is also known as a telco.

Why are Mobile Network Operators Important?

Due to their experience with high-volume, low-value transactions and large networks of airtime distributors, MNOs have been critical players in digital financial services.

NON-BANK FINANCIAL INSTITUTION

Definition

An institution, different from a bank, that is allowed to provide certain financial services by virtue of the regulatory framework in place.

Why are Non-bank Financial Institutions Important?

In situations when obtaining a full banking license is costly or burdensome, non-bank financial institutions may enable providers to offer basic financial services to the financially excluded.

Further Explanation

Non-banks usually operate under a license (following a registration procedure) or based on 'letters of no objection' from the regulator. One common example of a non-bank financial institution is an MNO or entity established by an MNO to provide a limited range of financial services.
Non-bank financial institutions are usually subject to lighter prudential regulations than banks.

BUSINESS MODEL TERMS

BANK-BASED MODEL

Definition
A digital financial services business model, bank-led or non-bank-led, in which (i) the customer has a contractual relationship with the bank and (ii) the bank is licensed or otherwise permitted by the regulator to provide mobile financial services.

Further Explanation
In bank-based models, the bank often outsources certain activities to one or more service providers (such as an MNO) for the transmission of transaction details and sometimes the maintenance of customers' sub-accounts.

BANK-LED MODEL

Definition
A digital financial services business model, bank-based or non-bank-based, in which the bank is the primary driver of the product or service, typically taking the lead in marketing, branding and managing the customer relationship.

NON-BANK-BASED MODEL

Definition
A digital financial services business model, bank-led or non-bank-led, in which (i) the customer has a contractual relationship with a non-bank financial services provider and (ii) the non-bank is licensed or otherwise permitted by the regulator to provide mobile financial services.

NON-BANK-LED MODEL

Definition
A digital financial services business model, bank-based or nonbank-based, in which the non-bank is the primary driver of the product or service, typically taking the lead in marketing, branding and managing the customer relationship.

PAYMENT SERVICES PROVIDER (PSP)

An entity that provides services enabling funds to be deposited and withdrawn from an account; payment transactions involving transfers of funds; the issuance and/or acquisition of payment instruments such as checks, E-Money, credit cards and debit cards; and remittances and other services central to the transfer of funds.

Further Explanation
Payment services providers include banks and other deposit-taking institutions, as well as specialized entities such as money transfer operators and E-Money issuers.

THIRD-PARTY PROVIDER

Definition
Agents and others acting on behalf of a DFS provider, whether pursuant to a services agreement, joint venture agreement or other contractual arrangement.

Further Explanation
DFS providers should be liable for the actions of third-party providers acting on their behalf regardless of the third party's legal status and whether they are agents or not. The relationship between the DFS provider and the third-party provider is usually regulated by the main MFS regulator.

E-MONEY TERMS

ELECTRONIC MONEY (E-MONEY)

Definition
A type of monetary value electronically stored and generally understood to have the following attributes: (i) issued upon receipt of funds in an amount no lesser in value than the value of the E-Money issued and in the same currency, (ii) stored on an electronic device, whether or not it is SIM enabled (e.g. a chip, pre-paid card, mobile phone, tablet, phablet or any other computer system), (iii) accepted as a means of payment by parties other than the issuer and (iv) convertible into cash.

Further Explanation
Regulators often consider interest payments a feature that is unique to deposits. Consequently, when E-Money is considered a payment service, and not deposit-taking, the payment of interest is prohibited. However, some regulators are allowing interest from the trust funds that back up the e-money to be distributed to customers—an innovative regulatory practice.

E-FLOAT

Definition
The total outstanding value of E-Money issued by an E-Money issuer.

Further Explanation
Customer funds backing an E-Float should be subject to fund safeguarding and fund isolation measures.

E-MONEY ACCOUNT

Definition
An account held with an E-Money issuer. In some jurisdictions, E-Money accounts may have similar characteristics as conventional bank accounts, but are treated differently under the regulatory framework due to the nature of their purpose (i.e. surrogate for cash, or stored value to facilitate transactional services).

Further Explanation
The funds backing the value of E-Money stored in E-Money accounts are usually pooled and held in a bank account or, in some cases, in a special trust account opened at a bank.

E-MONEY ISSUER

Definition
The entity that initially issues E-Money against receipt of funds. Some countries only permit banks to issue E-Money (see Bank-based and Bank-led Models), while other countries permit non-banks to issue E-Money (see Non-bank-based and Non-bank-led Models).

Why are E-Money Issuers Important?
E-Money issuers, particularly non-banks, have become very important; in some contexts they are a cost-effective way to extend services beyond existing financial services models and channels.

FUND ISOLATION

Definition
Measures aimed at isolating customer funds received against an equal value of E-Money from other funds, which may be claimed by the E-Money issuer or the E-Money issuer's creditors.

Why is fund isolation important?
Fund isolation, together with fund safeguarding, are the primary means of protecting customer funds.

Further explanation
Fund isolation is usually the regulatory obligation of the E-Money issuer.

FUND SAFEGUARDING

Definition
Measures aimed at ensuring funds are available to meet customer demand for cashing out electronic value. Such measures typically include (i) restrictions on the use of such funds, (ii) requirements that such funds be placed in their entirety in bank accounts or government debt or any other low-risk and liquid financial instruments, and (iii) diversification of e-float among several financial institutions.

Why is Fund Safeguarding Important?
Fund safeguarding, together with funds isolation, are the primary means of protecting customer funds.

AGENT TERMS

AGENT

Definition

Any third party acting on behalf of a bank, a financial institution or a non-bank institution (including an E-Money issuer or other payment services provider) to deal directly with customers, under contractual agreement. The term “agent” is commonly used even if a principal agent relationship does not exist under the regulatory framework in place.

Why are Agents Important?

Using existing retail outlets as agents, particularly those located in low-income areas, can help drive down the delivery costs of financial services for underserved populations.

Further Explanation

Agents may (if permitted under local regulations) engage sub-agents to carry out activities on behalf of the financial services provider, which may also engage an agent network manager to help select, train, manage and oversee agents. Agents are usually sub-divided into “bank agents” and “non-bank agents”. Bank agents are employed by the banks to provide services on their behalf while non-bank agents are employed by non-bank entities, like telco companies.

CASH AGENT

Definition

A type of agent that only provides cash-in and cash-out services.

Why are Cash Agents Important?

Due to their limited functions in a DFS model, cash agents are usually viewed as less risky and are therefore subject to less stringent regulations than regular agents that perform account opening and loan processing.

DFS CASH POINT

Definition

All locations where users can perform cash-in and/or cash-out transactions. Types of cash points may include active cash outlets, such as bank agents, ATMs, MNO agents and cash agents where DFS services are offered.

AML/CFT TERMS

AGENT DUE DILIGENCE (KNOW YOUR AGENT)

Definition
Any third party acting on behalf of a bank, a financial The measures undertaken by a digital financial services provider to assess potential agents and their ability to carry out agent functions related to the provision of digital financial services.

Why is KYA Important?
Banks and non-banks perform KYA on agents to prevent abuse and illegal activities, and to minimize the risks posed by these third parties. Due diligence measures for agents may be more thorough than those for customers.

BALANCE AND TRANSACTION LIMITS

Definition
Limits placed on a financial services account, including E-Money accounts, such as limits on maximum balance, maximum transaction amounts and transaction frequency.

Why are Balance and Transaction Limits Important?
Limits on financial services accounts may help to reduce the risk of money laundering and terrorism financing and allow KYC rules under a risk-based approach to be simplified. Setting limits also helps to mitigate many of the operational risks involved in the provision of digital financial services.

BIOMETRIC IDENTIFICATION SYSTEM

Definition
A system that facilitates the identification of a person through biometric verification or by evaluating one or more distinguishing biological traits, such as fingerprints, hand geometry, earlobe geometry, retina and iris patterns and voice waves.

CUSTOMER DUE DILIGENCE (CDD)

Definition
Often used synonymously with Know Your Customer (KYC) measures, CDD generally refers more broadly to the policies and procedures used by a digital financial services provider to obtain customer information and assess the risks of money laundering and terrorist financing posed by a customer, including detecting, monitoring and reporting suspicious activities.

Further Explanation
Although the main purpose of the CDD procedure is to mitigate the risks of money laundering and terrorist financing, in certain situations, CDD may also be used to analyze a customer's financial standing and overall profile for the purposes of a broader risk mitigation strategy.

KNOW YOUR CUSTOMER (KYC)

Definition
A set of due diligence measures undertaken by a financial institution, including policies and procedures, to identify a customer and the motivations behind their financial activities. KYC is a key component of AML/CFT regimes.

Why is KYC Important?
The Financial Action Task Force (FATF) Recommendation 10 requires identifying customers and verifying their identities. However, since poor customers do not always have a form of identification, this can be a hindrance to financial inclusion. FATF recommendations do not prescribe specific KYC measures, so digital financial services providers must develop their own KYC procedures using a risk-based approach that simplifies or enhances requirements based on the risks posed by a customer.

RISK-BASED APPROACH

Definition
The method for complying with AML/CFT standards based on the general principle that, where there are higher risks, countries should require digital financial services providers to take enhanced measures to manage and mitigate those risks. Where risks are lower, and there is no suspicion of money laundering or terrorist financing activities, simplified measures may be permitted.

Why is a Risk-based Approach Important?
A risk-based approach, conducted through a proper assessment of the risks involved, can often lead to greater financial inclusion. A risk-based approach is relevant for countries that want to build a more inclusive financial system by bringing the financially excluded, who may present a lower risk of money laundering and terrorist financing, into the formal financial sector.

Further Explanation
It is broadly recognized that this approach requires significant domestic consultation and cross-sector dialogue.

PAYMENT TERMS

CASH-IN

Definition
The process by which a customer exchanges cash for electronic value.

Further Explanation
Cash-in transactions are usually a credit to the customer's E-Money account.

CASH-OUT

Definition
The process by which a customer exchanges electronic value for cash.

Further Explanation
Cash-in transactions are usually a deduction from a customer's E-Money account.

ELECTRONIC FUNDS TRANSFER (EFT)

Definition
Any transfer of funds initiated through an electronic terminal, telephone, mobile phone, tablet, phablet, computer system or magnetic tape for the purpose of ordering, instructing or authorizing a payment services provider to debit or credit a customer's bank or E-Money account.

ELECTRONIC PAYMENT (E-PAYMENT)

Definition
Any payment made through an electronic funds transfer (EFT).

INTERCONNECTIVITY

Definition
The technical capability to enable a connection between two or more schemes or business models, such as a payment services provider connecting to another payment services provider's digital financial services model.

INTEROPERABILITY

Definition
Enabling payment instruments belonging to a particular scheme or business model to be used or interoperated between other schemes or business models. Interoperability requires technical compatibility between systems, and can only take effect once commercial interconnectivity agreements have been concluded.

MOBILE PAYMENT

Definition
An e-payment made through a mobile phone, tablet or phablet.

NATIONAL RETAIL PAYMENT SYSTEM

Definition
The complete range of institutional and infrastructure arrangements and processes in a country for carrying out retail payments. This includes payment instruments, participating institutions, payments infrastructure, market arrangements and the regulatory framework.

SWITCH

Definition
A payment ecosystem platform that enables payment transactions to be routed from one payment system participant to another, whether within the same network or between different networks or schemes.

DFS TRANSACTION ACRONYMS

B2B

Definition
Business to business payment

Further Explanation
B2B payments usually include those made between two companies engaged in commercial activities.

B2G

Definition
Business to government payment

Further Explanation
B2G payments include paying taxes and fees.

B2P

Definition
Business to person payment

Further Explanation
B2P payments include salary payments.

G2B

Definition
Government to business payment

Further Explanation
G2B payments include tax refunds, goods and services purchases and subsidies.

G2P

Definition
Government to person payment

Further Explanation
G2P payments include the disbursement of government benefits and salary payments.

P2B

Definition
Person to business payment

Further Explanation
P2B payments include payments for the purchase of goods and services.

P2G

Definition
Person to government payment

Further Explanation
P2G payments include paying taxes and fees.

P2P

Definition
Person to person payment

Further Explanation
P2P payments include both domestic and international remittances.

Alliance for Financial Inclusion
AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
t +60 3 2776 9000 **e** info@afi-global.org www.afi-global.org
www.facebook.com/AFI.History @NewsAFI