Grant Snapshot

Alliance for Financial Inclusion
Bringing smart policies to life

Financial access in Russia: challenges and constraints

In the Russian Federation, uneven access to financial services and low levels of financial literacy have left approximately one-third (46 million) of the country's people either unbanked or underbanked. Residents of remote regions are particularly underserved as banks find it costly and unprofitable to set up and operate branches. However, geography and access challenges have been overcome to a certain extent through non-banking agents.

Table 1 provides a snapshot of the types of financial services available in Russia and the extent to which the population utilizes these services.

Table 1: Access to financial services in Russia[1]

Financial service	% of population with access (approximate)
Micropayments	80% (70% through non-banking agents)
Settlements	50% (20% through Russian Post)
Bank savings accounts	20-25%
Consumer loans	25%
Mortgage loans	Less than 2%
Microlending	Less than 2%

These figures indicate that access to financial services such as micropayments is significantly higher when non-banking agents are in operation (only 10% of the population have access to micropayments through banking agents). Despite widespread access to non-banking agent services, there has not been an adequate regulatory framework in place to define and supervise their activities. Transforming the role of these agents has become a top priority in the Russian government's financial inclusion strategy (in addition to promoting microfinance and e-money/mobile payments).

Responsibility for promoting financial inclusion in Russia is shared by the Ministry for Economic Development (MED), Ministry of Finance, the Central Bank of Russia, and the Russian Microfinance Center. Together, representatives from these institutions have formed a project team to assess financial access in Russia and draft regulations that support the expansion of banking agents and e-money.

As a first step, a delegation from these institutions visited Brazil's central bank, Banco Central do Brasil (BCB) in May 2009 on a knowledge exchange with funding from the Alliance for Financial Inclusion (AFI). The purpose of the visit was to learn from the central bank's experience regulating and supervising banking agents, as well as federal measures for stimulating microfinance and broad policies for increasing access to financial services. The visit was timely since Russia's federal law on payment agents[2] was in the process of being adopted (which aimed to expand the reach of banking agents), and amendments were being made to both the law on banks and banking activities[3] and the law on AML/CFT.[4] BCB provided the Russian delegation with its normative acts for regulating the performance of banking agents in Brazil, which the project team used as a guide for developing their own.

Legal and regulatory obstacles

One of the main limitations of Russian legislation was that it only recognized licensed credit institutions (banks) and the Russian Post (the national postal operator) as legitimate providers of money transfers and most payment services. This severely limited access to financial services, especially in remote areas where bank branches are sparse. However, under the federal law on payment agents, which came into force on 1 April 2010, non-banking agents are now allowed to accept cash from individuals as payment for goods, work, or services, and to transfer these funds to the supplier (P2B). Banking agents are generally allowed to offer more services, including opening savings accounts, loan repayment, money transfers, and tax payments and other government fees (P2P).

The amendment to the law on banks and banking activities granted banks the right to use banking agents to perform money transfers and payments. The law on AML/CFT lifted a Know Your Customer (KYC) rule that only bank officials could verify the identity of a customer, which had prohibited remote account opening. The amendment also lifted identification requirements for transactions below a certain amount (approximately US$ 500).

Despite these legal and regulatory reforms, banks were not taking advantage of expanded agent banking services because there were no secondary regulations in place that defined their activities, including AML/CFT and KYC rules for agents. Additional regulation was required to allow both banking and non-banking agents to offer financial services to underserved populations. In order to draft these regulations, the project team needed to learn more about regulatory frameworks for governing and supervising banking agents and e-money.

Seeking solutions through agent banking

With the support of a long-term grant from AFI, the MED launched a project in partnership with the Ministry of Finance, the Central Bank of Russia, and the Russian Microfinance Center in September 2010 aimed at promoting innovative regulation and supervision of banking agents and improving access to financial services across the country.

The primary goal of the project was to expand agent banking to enable 5 million unbanked low-income Russians to access remittance and payment services, as well as loans and savings accounts. To achieve this, the project focused on developing secondary regulations to support the recently adopted federal law on payment agents. The MED was convinced that developing a set of regulations to define the specific activities of banking and non-banking agents, including AML/CFT and KYC rules, would improve access to financial services for unbanked and low-income individuals.

Information gathering: knowledge exchange visits to Mexico and Kenya

Two knowledge exchange visits were scheduled to help the project team learn more about agent banking and e-money regulations. The first visit was to Mexico (29 January to 5

1 Data source: National Agency of Financial Research
2 Federal Law "On payment agents' activity concerning reception of payments from individuals".
3 Federal Law No. 17-FZ date 03.02.1996 "On Banks and Banking Activities".
4 Federal Law No.115-FL dated 07.08.2001 "On Anti-Money Laundering and Terrorism Financing".

February 2011), hosted by the National Banking and Securities Commission (CNBV). A delegation from the MED, Ministry of Finance, Russian Microfinance Center, the Higher School of Economics, and leading Russian e-money companies, were introduced to a range of agent banking issues. The delegation also had the opportunity to learn directly from AFI policy champion, Raúl Hernández-Coss.

A second delegation representing Russia's e-money and microfinance sector visited the Central Bank of Kenya (14 –16 December 2011) to learn about innovations in mobile financial services (MFS) through Kenya's mobile operator Safari.com. Similar services are emerging in Russia and showing great promise; mobile penetration is high and the recently adopted law on the national payment system[5] has unlocked opportunities for MFS to expand.

Measuring the reach of banking agents

When the project team returned, they determined that existing data on financial inclusion in Russia was fragmented and not organized in a systematic way. They developed a set of criteria to measure access to financial services and then issued a proposal to the Russian government and the Central Bank of Russia that this criteria become the official measurement tool for financial inclusion in Russia. They also proposed that banks and other financial institutions use the criteria for official reporting.

The next step was to develop a survey to measure financial access in Russia. They began by defining the basis for analysis and sources of data collection, identified the experts that would be responsible for drafting the survey and assessing the results, and then conducted the survey, gathering information from 1,800 respondents.

A follow-up survey in 2012 revealed a stable number of transactions performed by banking agents, but progressive growth in the total volume of transactions. The survey also found that banking agents had filled a niche for minor payments/P2P money transfers (which are not profitable for banks and help to improve access to financial services).

A final survey was conducted to assess the impact of normative regulatory acts on the provision of financial services, including those provided by banking agents. It found that regulations emerging from the federal law on payment agents have opened up new opportunities to credit institutions, enabling them to expand their regional presence, create additional channels for banking services, and bring new unbanked clients into the formal financial system.

Three regulatory and legal changes have been proposed with the following objectives: to establish procedures for identity verification, to define procedures for opening accounts, and to regulate the activities of banking agents on behalf of the Central Bank. These proposed changes will be implemented in three stages, with the pace of progress determined by the legal status of new providers, availability of technical equipment, and overall capacity of banking agents.

A new role for banking agents in Russia

Using the experience, knowledge, and insights gained from the knowledge exchanges, the project team was able to develop more sophisticated regulations for banking and non-banking agents. **The federal law on the national payment system was adopted in June 2011 and officially enforced on 30 September 2011.** Three additional policy regulations for banking agents were implemented, including special reporting forms for banks that provide services via banking agents and a list of specific services that banking agents are allowed to provide. Banking agents have significantly expanded their offerings as a result, including verifying customer identities on behalf of banks for the majority of retail financial services (including e-money operations and P2P, P2B, and P2C money transfers). The agents also have the right to collect personal documentation and submit it to banks to carry out KYC procedures.

While non-banking agents are regulated by the civil code, national payment system regulations now allow all money transfer operators to use the services of banking agents. In addition, money transfer operators and e-money providers are now considered banks since they fall under the supervision of the Central Bank of Russia. However, they have special legal status and more flexible regulations than banks because they are supervised using the regulations for banking agents.

Moving forward

There are currently about 40,000 bank branches in Russia serving 143 million people. It is estimated that when the project is implemented, 50,000 banking agents will be operating across the country (with a lesser presence in small towns and rural areas) and three million people will have access to a savings account. Making financial services accessible to five million additional people is expected to contribute to poverty reduction and growth of the country's middle class. Data is not yet available on the impact of these regulations or whether the project has met its target of reaching five million people. In general, however, the reform of agent banking regulations has dramatically increased the number of financial services available through banking agents, made the agent banking system more transparent, and improved consumer protection.

About this grant snapshot

Supported by long-term or short-term grants from AFI, developing and emerging country policymakers from the AFI membership engage in leading innovative solutions to address particular challenges in their country through policy reforms. AFI grant snapshots capture the on-the-ground policy development experiences of these AFI members. This grant snapshot focuses on the experience of Russia and the unique challenges the country faces with financial access, as well as the efforts undertaken by the Russian Ministry for Economic Development, Ministry of Finance, the Central Bank of Russia, and the Russian Microfinance Center to find solutions by expanding agent banking and e-money in the country.

[5] Federal Law No. 161-FZ of June 27, 2011, "On the National Payment System".

About AFI

The Alliance for Financial Inclusion (AFI) is a global network of financial inclusion policymaking bodies, including central banks, in developing countries. AFI provides its members with the tools and resources to share, develop and implement their knowledge of financial inclusion policies. We connect policymakers through online and face-to-face channels, supported by grants and links to strategic partners, so that policymakers can share their insights and implement the most appropriate financial inclusion policies for their countries' individual circumstances.

Learn more: www.afi-global.org

Alliance for Financial Inclusion

AFI, 399 Interchange Building, 24th floor, Sukhumvit Road, Klongtoey – Nua, Wattana, Bangkok 10110, Thailand
t +66 (0)2 401 9370 **f** +66 (0)2 402 1122 **e** info@afi-global.org www.afi-global.org

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