Indo African Knowledge Exchange Workshop on Regulation of Cross-Border Mobile Payments and Regional Financial Integration

CONCEPT NOTE

Mumbai, India
March 29 - 30, 2012
Background and Introduction

The increasing role of India and other emerging market economies in global trade and economic growth has rekindled interest in South–South cooperation, thus opening up opportunities for sharing development experiences and lessons between Africa and other developing countries. To get an insight into Asian developing countries’ economic transformation and integration, the African Development Bank’s Regional Integration and Trade Division has launched a program to share experiences between the two regions.

The recent advances by India and some African countries in mobile payments provide a basis for experience sharing in this area. India’s Payment and Settlement Act came into effect in 2008, with the aim of regulation and supervision of payment systems in India. The Reserve Bank of India (RBI) is authorized by the Act to regulate both domestic and cross-border payments in India. To promote mobile financial services in the country, RBI issued a framework for mobile financial service and “mobile wallet” guidelines in 2009 and 2010 respectively. As encouraged, PayMate, Obopay, mChek, OxiCash and other mobile payment services have been active lately ever since. The RBI is reported to have approved inbound remittance on Visa Debit and Visa Prepaid cards. Two companies (Oxigen and Luup) are also reported to plan to launch cross-border remittance services soon.

Over the past five years, a couple of mobile-money providers have offered cross-border mobile payment services in Africa. A mobile money operator (Safaricom) in Kenya began to provide cross-border mobile remittance services between the United Kingdom and Kenya in June 2009. Senders go to brick-and-mortar, remittance-transfer retail outlets in the United Kingdom, and the money is remitted directly into the recipients’ Safaricom accounts. In late 2010, MTN Group launched a similar regional mobile money product in Uganda. If Ugandan introduction of regional mobile money system is successful, MTN’s cross-border Mobile Money service will be extended gradually to 20 other countries. More African countries (Senegal, for example) are expected to follow suit.

Issues and Challenges

For the informal sector, limited cross-border banking service means that most transactions are conducted through informal means (insecure cash or through friends or relatives). For many

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3 According to MTN headquarters, MTN has a plan to extend cross-border mobile money services to other African countries including Cameroon and Congo Brazzaville in Central Africa; Ghana, Cote d’Ivoire, Nigeria, Benin, Guinea Bissau, Guinea and Liberia in West Africa; and South Africa in Southern Africa.
4 Via Mi-Pay's online and mobile international remittance service, customers in the Sierra Leone corridor will be able to use their mobile phone or the web to send or receive money payments to or from friends and relatives abroad.
cross-border traders, it also means resorting to insecure cash trade\(^5\). Bring financial services across borders to the informal sector and cross-border traders is a key element in improving living conditions, and it is crucial in fostering financial integration. Therefore, cross-border mobile payments provide access to finance.

The development of cross-border mobile payment is creating unprecedented opportunities for Africans living in the diaspora. For the African diaspora, a mobile phone represents more than just a tool for communication; it has become a payment terminal in the pocket. With the increasing cross-border use of mobile money services, more cross-border traders and the people engaged in informal trade will be served in Africa.

Despite the opportunities, African regulators are increasingly challenged to support the growth of these new cross-border services while mitigating the potential risks (including fraud, money laundering, and financing terrorism). Mobile money transfer is fast, anonymous; and without a bank account. Concerns on cross-border money laundering and terrorist financing risks deserve African regional and national regulators’ careful attention - first, because they cannot afford to put this vulnerable group of people at risk; and, second, because trust in those services is key to their development across borders.

At the same time, it is important not to overestimate these risks, particularly when the alternative is financial exclusion of the African diaspora. African policy makers are expected to do more and to be more creative, flexible, and agile while keeping in mind that pushing access to financial services across borders should not come at the cost of regional and national financial stability and integrity. Bad and overly restrictive regulation is also a major obstacle to the expansion of cross-border mobile money services to the under-served Africans living abroad.

Excessive regulatory rigidity may stifle greater investment and innovation in mobile money programs by unnecessarily raising regulatory compliance costs\(^6\), increasing barriers to entry, and jeopardizing providers’ and regulators’ shared goal of bringing financial services across borders to the informal sector and cross-border traders in a responsible manner.

Rules and regulations should be issued in a clear, precise manner so that the meaning of such rules can be easily understood by those who must comply with them - in particular, Mobile Money Providers (MMPs). Insufficient clarity may jeopardize effective implementation of Anti-money Laundering/ Counter Financing Terrorism principles in cross-border mobile payment transactions and create an unequal business environment. In turn, that will lead to confusion and to an uneven application of the rules, keeping the supervisory body from attaining its ultimate goals.

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\(^5\) Many of them tend to travel short distances to their neighboring countries, and stay within a calling range of domestic mobile phones. Due to lack of credibility and required documents, most of the cross-border traders cannot open bank accounts in the host countries. Nor nearby banks do not want to serve them due to excessive costs and risks. As a result, they tend to cash trade that is both inefficient and insecure.

\(^6\) According to MTN Group representatives operating in the area, m-money providers in Ghana are actually driving to low-income subscribers’ houses because they have no other way to verify their addresses, in compliance with KYC requirements.
compliance objective. Both public and private sectors benefit when supervisors and financial institutions collaborate to produce clear rules and regulations.

To reduce the operational risks arising from unclear rules and regulations, there should have had a clear and transparent global framework on regulation of mobile payments. The related challenges and issues include:

- **Current** cross-border mobile payments operate under the insufficient regulations in the existing jurisdictions. “With very few exceptions, supervision of m-money has not really been implemented. The level of acquaintance that supervisors have with these new topics is really uneven; until recently, they were not well versed on the implications of e-money concepts.” *(World Bank, 2011)*

- “**Lack of resources, limited experience on AML/CFT issues, and an unstable regulatory regime for m-money may seriously hamper effective supervision.**” *(World Bank, 2011)*

- African regulators are also challenged with potential integrity issues that may stem from the cross-border use of mobile money, in which the delineation between home and host supervision is blurred. In effect, these services involve three regulatory spaces: (1) that of the sender, (2) that of the receiver, and (3) that of the international regulations that apply to international remittances. Cross-border mobile payments tend to occur in host countries, where mobile money users use their own countries’ mobile money systems. Legally speaking, host countries’ authorities are authorized by their national payment acts to regulate any payment transactions within their territories. In practice, the cross-border mobile payments are settled and cleared (through SIM cards on the users’ mobile phones) in their own countries. On that score, home countries’ regulatory authorities are also entitled to regulate. International regulations are of little help in this regard. On that score, the delineation between home and host supervision is said to be blurred.

To ensure that cross-border mobile payments are safe and sound, regional and national regulators need to engage in dialogues with stakeholders to develop a multilateral policy framework. The framework needs to identify who is the primary supervisor for cross-border mobile payments in hosts’ countries; whether nonbank providers (such as telecoms) fall under a different regulation regime for their cross-mobile payment services; and whether the delineation of duties between supervisory authorities needs to be clearly set in national payment and settlement acts and understood by all parties if mobile money providers are subject to different oversight regimes.

Developing such multilateral regulatory frameworks, however, can be a difficult and time-consuming task. It would therefore be useful to implement pilot programs to test various

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regulations. Pilot programs can be undertaken either in East and Southern African Economic Communities (RECs), the West African Monetary Zone, or other regional groupings such as West African Economic and Monetary Union (WAEMU) and Central African Economic Community and Monetary Union (CEMAC), which have a common currency.

These pilot programs have several benefits, such as encouraging innovative regulatory solutions to difficult problems, and demonstrating for governments how regional regulation can yield tangible benefits for national economic development. Similarly, the pilot projects can help to identify and overcome problems with proposed regional regulation. The final result is that regulation will be more effective at expanding access to cross-border payment services, while at the same time limiting their negative externalities.

Against this backdrop, the African Development Bank Group (AfDB) will hold, in collaboration with Yes Bank, India, an Indo-African Knowledge Exchange workshop on Regulation of Cross-Border Mobile Payments and Regional Financial Integration on March 29 - 30, 2012.

The Objectives

The primary objectives of the seminar are to:

- Create a knowledge forum for Indian and African policy makers\(^9\) to discuss challenges faced in regulation of mobile financial services in and across borders.

- Share experiences on the financial integration brought about by the existing cross-border mobile payments; and

- Explore ways of facilitating financial integration by facilitating cross-border mobile money flows, however not at the expense of regional and national financial stability and integrity.

Expected Outputs

Key outputs will comprise:

- The sharing of information on telecom, mobile banking, operator-led mobile commerce and mobile payment, financial integration through cross-border mobile payments and related regulatory issues among African/Indian policy makers, regulators, mobile money service providers, commercial banks and other related stakeholders;

- Improved knowledge about challenges and opportunities for supporting cross-border mobile payments programs in Africa;

\(^9\) It includes Central Bank, Ministry of Finance and Telecom Authority among others.
Increased awareness among participants regarding the importance of the sound regulation for cross-border mobile payments and regional financial integration;

Agreed consensus on a strategic approach of African Development Bank in supporting regional mobile payments regulation in African Economic Communities and their member states;

A report of the seminar proceedings and recommendations for consideration by appropriate institutions, organs and strategic partners.

The Audience

The Workshop will bring together key stakeholders from African countries, regional economic communities, regional central banks, specialized regional institutions and India, including representatives of central banks, national telecom authorities, selected participants from the private sector (banks, mobile money service providers, telecom operators, platform operators and micro financial institutions), Non-Government Organizations (NGOs), as well as bilateral and multilateral organizations representatives.

Format

The Workshop will discuss global and regional trends in global mobile money development with a focus on opportunities for financial integration, and challenges for sound regulation. Discussion will take the form of presentations and panel discussions to facilitate effective participation and learning from each other, taking into account the Indian experience. Participants will be at liberty to make interventions on issues raised by presenters and discussants. The working language for the workshop will be English, however, with a simultaneous interpretation into French and vice versa.

Topics

The seminar will last two days, with a focus on a number of topics of significance such as:

Day 1: Setting for Discussion on Mobile Banking Development and Regulation

- Development Challenges: Financial Exclusion

Discussion on “Current Scenario of Mobile Payments in India – A Regulatory Perspective” (Senior RBI Official)

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10 RBI=Reserve Bank of India, the Central Bank of India.
Discussion on “Africa’s Development Challenges: How Can Mobile Payments be used to Reach Unbanked Potential Borrower?”
(Senior African Central Bank Official)

• **Past Experiences of Mobile Payments**

Indian Perspective on: Technology Advancement, Financial Innovations, Financial Inclusion, Mobile Banking, Branchless Banking and Mobile Money
(Senior Official from IDRBT\(^{11}\) or MPFI\(^{12}\)).
(Senior African Banking Association Official)

• **Putting Mobile Money in Motion**

Indo/African Experiences and Lessons in Mobile Remittances\(^{13}\)

**Day 2: Discussions on Mobile Banking and Regulation**

• Indo/African practices in using ICT as enabler for mobile banking services through various uses\(^{14}\)

• Indo/African practices in financial inclusion through mobile banking and handheld devises

• **Payment System for Mobile Financial Services Development and Regional Financial Integration**

• Regulation on international remittances (Central Banks’ cooperation and regional framework for regulating cross-border mobile payments\(^{15}\))

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\(^{11}\) IDRBT = Institute for Development and Research in Banking Technology.

\(^{12}\) MPFI = Mobile Payment Forum of India.

\(^{13}\) Indian banks’ business correspondents partner include Suvidhaa, Oxigen and FINO; and African Mobile Money Service Providers include **M-PESA, Kenya, MTN MobileMoney, Uganda**; txtNpay, Ghana; Orange Money, Cote d’Ivoire; CelPay, Zambia; Mi-Pay, Sierra Leone; Saraf Mobile, Sudan, Mukuru.com, Zimbabwe and Bank a billion.

\(^{14}\) The cases include: (1) Implementations in urban and rural areas of India and African countries – Catering to various customer segments; (2) B2B, B2C use cases – Designing and refining business model to ensure return on investments for all stakeholders; and (3) Transforming the market through a product, price and process; and innovation to increase ROI(Indian/African Officials).

\(^{15}\) It may include common requirements for licensing (business scope: payment services, depositing taking and others), initial capital, liquidity, consumer protection (rights and obligations of providers and users), risk management (Anti-Money
Discussion Issues

The following are non-exhaustive examples of issues to consider and comment upon during the Workshop:

- How do financial services providers maintain funds’ safety while delivering financial services to poor borrowers who cannot afford security/collateral?

- Who is the primary supervisor: home countries’ authorities or host countries’ authorities, when cross-border mobile payments take place in hosts’ countries?

- Should nonbank mobile money service providers (such as telecoms) be regulated under a different regulation regime from that for mobile banking providers in facilitating cross-mobile payment services?

- Should the delineation of duties between telecom authorities and central banks be clearly set in national payment and settlement acts?

- Will it be necessary to harmonize home and host countries’ legal and regulatory framework for jurisdictions over cross-border mobile money?

- How will financial integration be promoted by promoting cross-border mobile money flows, not at the expenses of regional and national financial stability and integrity?

Budget

The Workshop will bring together thirty four (34) African experts including four (4) resource persons, a score of Indian participants, and representatives from multilateral financial institutions. African Development Bank Group (AfDB) will pay the related costs for African participants, including the costs of travel of one (1) official or professional from each invited African country and daily subsistence allowance at the prevailing AfDB rate; and (2) interpretation and translation fees as well the workshop organization expenditures.

Logistical Arrangements
Hotel reservations will be secured on behalf of sponsored participants. Entry visa and inoculations are the responsibilities of each participant; participants are advised to inform themselves of the relevant requirements.

Contacts:

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<thead>
<tr>
<th>African Development Bnk</th>
<th>Yes Bank, India</th>
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<tbody>
<tr>
<td>Ms. Moono MUPOTOLA</td>
<td>Ms. Suzie Michael</td>
</tr>
<tr>
<td>Division Manager, Regional Integration and Trade Division</td>
<td>Senior Vice President – YES BANK Ltd.</td>
</tr>
<tr>
<td>E-mail: <a href="mailto:m.mupotola@afdb.org">m.mupotola@afdb.org</a></td>
<td>Officer in-charge of the Republic of Cyprus, Maharashtra</td>
</tr>
<tr>
<td>Tel: +216 71 10 2156</td>
<td>(T): 022-6669 9298</td>
</tr>
<tr>
<td></td>
<td>(M): +9198200 67998</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:Suzie.Michael@YESBANK.IN">Suzie.Michael@YESBANK.IN</a></td>
</tr>
<tr>
<td>Mr. Jian ZHANG</td>
<td>George Koshy</td>
</tr>
<tr>
<td>Email: <a href="mailto:j.zhang@afdb.org">j.zhang@afdb.org</a></td>
<td>YES BANK</td>
</tr>
<tr>
<td>Tel: +216 7110 2756</td>
<td>Ph.: + 91 22 6669 3500</td>
</tr>
<tr>
<td></td>
<td>Handphone: +91 9819808042</td>
</tr>
<tr>
<td>Mr. Lassaad LACHAAL</td>
<td>Email: <a href="mailto:george.koshy@yesbank.in">george.koshy@yesbank.in</a></td>
</tr>
<tr>
<td>Email: <a href="mailto:l.lachaal@afdb.org">l.lachaal@afdb.org</a></td>
<td></td>
</tr>
<tr>
<td>Tel: +216 7110 3487</td>
<td></td>
</tr>
<tr>
<td>Mrs. Ekua K. BAIDEN</td>
<td></td>
</tr>
<tr>
<td>Email: <a href="mailto:e.baiden@afdb.org">e.baiden@afdb.org</a></td>
<td></td>
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