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Mobile Money Services, Regulation and Creating an Enabling Environment in Africa

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The success of Mobile Money Services (MMS) led many Mobile Network Operators (MNOs) around the world to venture into offering similar products. In Africa, the dwindling revenues in the mobile telephone voice business as well as the proliferation of mobile phone handsets further enticed the operators to undertake the provision of mobile money. This Brief discusses the increasing importance of mobile money services, associated regulation of the sector and the actions needed to create an enabling environment for these services to continue growing in Africa as mechanisms for social inclusion and poverty reduction.

1 Defining mobile money (M-money)

What is mobile money? Mobile money is used to loosely refer to money stored using the Subscriber Identity Module (SIM) as an identifier as opposed to an account number in the conventional banking business. It can also be defined based on its functionality by observing that it includes all the various initiatives (long-distance remittance, micro-payments, and informal air-time) aimed at bringing financial services to the unbanked, as well as convenience for the banked, using mobile telephony technology.

The term has also various synonyms such as 'mobile wallet', 'mobile financial service' and 'mobile payment' and can be defined as a term that describes the services that support/enable electronic money transaction such as account access, money transfer, and mobile commerce over a mobile phone. The various definitions underscore the diversity of the usage of the term across the industry and in the literature (Ernst & Young, 2010).

Mobile payments is however different from mobile banking services. The latter are based on the bank's own legacy systems and offered for the bank's own customers. Mobile banking services utilize the mobile phone as a delivery channel between the conventional banking account and the final beneficiary of the financial transaction such as a merchant. It is an evolution of the bank's legacy from (i) 'traditional brick and mortar' (physical branches where most interactions are face to face), to (ii) 'click and mortar' (multichannel delivery approach involving use of physical branches and ICT/electronic commerce), and finally to (iii) 'click' (most transactions are driven by ICT/electronic commerce).

A number of scholars, business leaders, economic development experts, and opinion leaders have hypothesized that the mobile phone with its antecedent accessories such as mobile money has the potential to transform the developing world, and most especially Africa, in

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ways that the green and industrial revolutions failed. Their conviction stems from the fact that the mobile phone has been able to short-cut the infrastructural limitations that have for many years hindered the developing world's transformational agenda¹.

2 Mobile money service in Africa: A kaleidoscope of its evolution

There are two main African mobile financial service models: (1) Bank-led model with additional services to existing customers through a mobile banking application; and (2) Nonbank-led model with transformational outreach to the unbanked population.

Since the year 2000, Africa has had an annual average growth of 30% in mobile telephone usage. With an increasing mobile coverage on the continent, reported at more than 620 million mobile phone subscribers in Africa; the number is forecasted to reach 735 million by the end of 2012 (African Mobile Observatory, 2011). Under the pressure from a narrowing profit margin due to fierce competition, most MNOs plan to diversify operations and add values to existing mobile services. Mobile financial innovations have, therefore, been on a rapid increase in Africa since Celpay started a business-to-business (B2B) payment service in Zambia in 2002; and First National Bank started a bank-led similar service in South Africa in 2005, though limited to existing customers.

Given the underdeveloped financial market and limited competition between financial institutions in Africa, many small low-income African countries consider it important to try alternative financial service providers. It is against this backdrop that SAFARICOM innovated M-PESA in Kenya in 2007. The success of SAFARICOM has compelled other M-money operators to enter the Kenyan competitive landscape. Drawing on Kenyan successful experiences, many low-income African countries have followed suit and adopted MNO-led models for exten-

ding the access of the unbanked population, in particular, to payment services through mobile phones and retail agents.

The success of the MNO-led model is dependent on a large reliable network of agents and low risk management of electronic value for a cheaper but secured solution to financial exclusion in low-income African countries. By the end of 2011, there were over 50,000 active

“Mobile banking services utilize the mobile phone as a delivery channel”

Box 1 How Mobile Money Facilitated Financial Inclusion through Sound Regulation in Kenya

Kenyan citizens, especially those in remote rural areas, have limited access not only to basic economic and social infrastructure, but also to affordable financial services, such as payment facilities or savings. At the time of the M-PESA application, there were only 1.5 bank branches per 100,000 people and only one Automated Teller Machine (ATM) per 100,000 people. Most Kenyan citizens were reported to be unhappy with bank services. This explains the easy switch to mobile money. It is against this backdrop that M-PESA, a MNO-led model (one of non-bank-led models) came into being in Kenya in 2007.

Taking bank accounts as an indicator, access to formal finance in Kenya seems limited (with bank account penetration rate being still 21% in 2010). However, if mobile money accounts had been used, access to financial services in Kenya would have been more spectacular with an increase from an estimated 19 percent in 2007 to more than 40 percent in 2011. According to a survey, “usage of non-bank financial institutions more than doubled from 7.5 percent in 2006 to 17.9 percent in 2009—this could be mostly attributed to the new M-PESA service provided by SAFARICOM.”

The success of the MNO-led model in Kenya is dependent on the risk-based regulation of mobile money. Under the guidance, a large reliable network of agents has been set up, and a low risk solution to financial exclusion found for rural areas. By the end of 2011, there were over 50,000 active agents for MNOs engaged in mobile payment systems in Kenya.

“There is increasing mobile coverage on the continent and the number of users is forecasted to reach 735 million by the end of 2012”.

¹ Against this backdrop, the African Development Bank Group recently held, in collaboration with Yes Bank, India, an Indo-African Knowledge Exchange workshop on Regulation of Cross-Border Mobile Payments and Regional Financial Integration in Mumbai on March 29 - 30, 2012.

“The success of the MNO-led model is dependent on a large reliable network of agents and low risk management of electronic value”

agents for MNOs engaging mobile payment systems in Kenya alone (Nduati, 2012). When one compared M-PESA’s retail network with UEMOA financial institutions’ network, SAFARICOM is found to have far more agents. In 2009, SAFARICOM had over 12,000 retail agents for over 8.5 million customers, far more than UEMOA’ financial institutions’ branches (100 banks, 402 MFIs and 18 nonbanks with 3800 branches according to Financial Access 2010 survey (IMF, 2011).

3 Lessons on regulatory issues and creating an enabling environment for mobile payment programs

With an increasing use of retail agents and communications technology, bank-led and nonbank-led models are found to be converging not in branchless banking but a banking-beyond-branch (BBB or Triple-B) arrangement. Operating in a banking-beyond-branch environment would require a regulatory framework which presently does not exist in many African countries. Indeed, many of these countries have issued legal acts on regulation of banking and payment systems. The acts are found, however, to be insufficient in:

- Defining the conditions under which non-bank third party agents can conduct cash transactions on behalf of mobile financial service (MFS) providers, and possibly initiate account opening process (as this would be a key driver to increase outreach of a branchless banking initiative);
- Defining reduced “Know Your Customers” (KYC) requirements² to avoid burdensome procedures for low value accounts and small transactions, given the low level of money-laundering-related risk; and
- Defining e-money, protecting the funds deposited in e-money accounts and adapting

legal account features (KYC, ceilings for account balance and transactions).

However, in addition to sound regulation (including tackling organized crime and money laundering), adequate investment in hard and soft mobile infrastructure, partnerships between banks and MNOs and a sound environment are also needed (Porteous, 2006). This latter is needed to sustain domestic mobile payment and comprises the following success factors:

a) A risk-based and proportionally oriented regulation (critical success) factor that balances innovation, competition and protection of customers: Innovation not only fosters competition, but also challenges regulation. Innovations should be regulated, therefore, in proportion to the risk weights and can’t be made too risky for regulators and too complicated for consumers. To enhance market transparency, MFS providers need to disclose related risks adequately, adopt minimum quality standards for their services, and set up appropriate mechanisms to address customers’ grievances. For the unbanked population, financial education is needed to help address financial illiteracy.

b) A policy-led interoperability factor for different mobile payment products: Governments need to facilitate operational ease among different payment systems to ensure that m-wallets, ATMS, chip cards and chip card-based point-of-service (POS) terminals are interoperable. Besides, African Regional Economic Communities that are in, or moving towards, a monetary union, need to develop a regional mobile payment systems and related regulation, as the Association Européenne Payez Mobile (AEPM) developed Europe-wide standards for contactless payments in 2008.

c) A development-oriented (Critical Success) factor for mobile payments’ expansion: Governments are recommended to support “Go-

² Know Your Customer (KYC) requirements are due diligence activities/actions that financial institutions and other regulated industries must undertake to ascertain relevant information from and about their clients for the purpose of doing business with them. The term is also used to refer to the banking regulation which governs these activities. Know Your Customer processes are also employed by firms for the purpose of ensuring their proposed agents, consultants or distributors are anti-bribery or otherwise compliant. Know your customer policies are becoming increasingly important globally to prevent, for examples: identity theft, financial fraud, money laundering and terrorist financing/activities.

vernment to Person” (G2P) transfer in addition to improving regulation of financial sector. For mobile payments to realize their potential, policymakers need to improve soft and hard ICT infrastructure by enhancing investment and governance in collaboration private sectors, and launch G2P payment schemes, which will present an opportunity to provide access to financial services to unbanked beneficiaries by channeling a consistent flow of money into financial accounts.

d) A strategic partnership (critical success factor for all stakeholders: The economics of the mobile payment business model require close attention from all parties — mobile operators, banks, card issuers and technology players — if scalable solutions are to gain traction. Energizing embryonic value chains, while reassuring end users, will require greater levels of collaboration between operators themselves, as well as, with partners in different sectors and geographies.

4 Policy conclusions and recommendations

It is argued in this Brief that development partners, including the AfDB, should collaborate together and along African regional economic groupings, central banks, commercial banks (including microfinance institutions), telecom authorities, MNOs, technology firms, and MPS providers to help identify constraints to mobile payments and cross-border transfers, prioritize solutions to the identified constraints, engage in policy dialogues with regional and national institutions on institutional strengthening and capacity building programs in addition to mobilizing resources for infrastructure development.

In particular, to facilitate extension from mobile payment services to a full suite of banking services, central banks are recommended to create a complete framework for mobile banking and taking concrete steps to allow the use of agent networks by banks as another channel for increasing financial inclusion. Regulations addressing e-payments, agency gui-

delines, and money laundering have to be promulgated to the public to guide operations. These are critical to a sufficient regulatory framework that provides more clarity for mobile banking services to be offered in Africa in a manner that is conducive to further deepening the level of financial access.

Mobile payment has proved to be financially inclusive, and offers a great potential for financial integration. For mobile payments to realize their potential and contribute to financial inclusion and integration, policy makers have to choose the right model that is in line with national economic and financial sector development. However; the adoption of the right model does not guarantee the success of mobile payment programs. In addition to the appropriate model, other critical success factors such as ICT infrastructure, sensitivity of regulation to risks and proportionality, enhancing investment and governance as well as strategic partnerships also account for the performance of mobile payment development; and in facilitating financial inclusion and integration.

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