The Foreign Policy Centre
Progressive Thinking for a Global Age

Foreign & Commonwealth Office

SUMMARY REPORT - RECOMMENDATIONS

THE AFRICAN GROWTH REVOLUTION? MOBILE PAYMENTS IN A GLOBAL AGE

ROUNDTABLE DISCUSSION FORUM
In March 2011, the Foreign and Commonwealth Office (FCO) and the Foreign Policy Centre (FPC - a London based international affairs think tank) hosted a central London roundtable discussion forum. The event explored the challenges of expanding mobile payments services across Africa.

ROUNDTABLE PARTICIPANTS
The roundtable discussion brought together approximately 50 participants from business and enterprise across the banking and telecommunications sector in the UK and Africa, representatives from UK and African governments (including agencies and regulators) as well as other key stakeholders. Organisations represented included: Airtel Africa, Bank of Uganda, Barclays Plc, Citi, Dahabshiil Financial Services, Department for International Development (DfID) -UK, Embassy of Ethiopia (London), GSM Association (GSMA), Financial Services Authority (FSA) - UK, Flawless Money, Foreign and Commonwealth Office (FCO), Foreign Policy Centre (FPC), High Commission of Kenya, London, Ministry of Communications - Ghana, Ministry of Information, Post and Telecommunications - Somalia, Ministry of Post, Telephones and Telecommunications - Democratic Republic of Congo (DRC), MTN Nigeria, National Communications Authority of Ghana, PwC, Rwanda Utilities Regulatory Agency (RURA), SMT Television Network, This is Africa (FT Ltd) Vodacom, South Africa, Vodafone, UK Trade and Investment (UKTI), United Bank for Africa (UBA) Europe Ltd and US State Department.

BACKGROUND
According to the African Development Bank (AfDB), 2.7 billion people living in the developing world have little if any access to formal financial services. Over one billion of these unbanked populations live in Africa and this figure is set to reach 1.7 billion by 2012.

In 2007, Kenya ushered in the launched of M-PESA; a mobile payment service developed by Vodafone and its affiliate Safaricom. This service has already secured nine million customers, representing 40% of the Kenyan adult population. In the case of MTN Group, the group has secured 141.6 million mobile phone subscriptions, gaining 60% of market share in Nigeria. In spite of all this, there remains a lack of recognition about how highly mobile network providers are regarded and trusted by members of the general public compared to formal banking institutions (due to the numerous banking crises in the past) across Africa. In a relatively short space of time mobile network providers have developed a vast and rapidly growing number of subscribers leading to the effective and speedy deployment of mobile payment services. This has significantly exceeded the scale and scope of penetration by formal banking institutions.

OBJECTIVE - DISCUSSION POINTS
The event focused on TWO core issues:

1. Can the success of mobile payment services sweeping across African economies such as Kenya with M-PESA or WIZZIT in South Africa be scaled up and replicated in other countries across the continent?

2. What are the challenges to developing a robust and independent regulatory environment which promotes accessibility for mobile money service-users while promoting a competitive investment environment to attract both domestic and foreign mobile payment providers?

The discussion forum established concrete recommendations to achieving these core objectives which participants agreed should be translated into more tangible outcomes. The recommendations and key points have been briefly summarised below.

KEY POINTS AND RECOMMENDATIONS

<u>Replicating and scaling up mobile payment services</u>

The discussion forum identified three critical issues:

- Regulators need to recognise that mobile payments services provide a safe, reliable and efficient instrument for cash collection and payments offering an important link to close the gulf between the formal and informal sectors of economies across Africa. They need to explore how best this can be harnessed to deliver long term sustainable growth.

- Mobile payment service providers should be regarded as a critical part of the financial inclusion value chain and not be excluded or considered as secondary partners during the development of mobile money policy frameworks.

- Mobile communications provide new, inexpensive and more efficient technology to achieve improvements in regulatory oversight. For example, with respect to *'know your customer (KYC) requirements'* and customer identification, pre-paid SIM card registration and the business intelligence held by mobile network operators on customers' communications and spending habits provide a more robust ID audit trail compared to traditional ID paper documentation, etc.

- **HOW TO MAINTAIN THE MOMENTUM**

- Remittance companies channel a significant amount of financial capital from global diaspora communities to Africa. In 2010, the World Bank estimates that remittance flows represented US$21.5 billion. This is set to increase to US$24 billion by 2012. In light of this fact, regulators, financial institutions and other key stakeholders should do more to work with remittance companies to help expand the scale and scope of mobile payment services.

- There is a growing network of grocery agents and kiosk outlets providing facilities for mobile payment customers to make deposits and withdrawals. This network faces huge operational challenges in setting aside a sufficient cash float to meet the paying-in and paying-out demands of potential clients. In the early stages of trading, when the agents are trying to expand a mobile payments client base, there is a huge temptation to invest any spare cash into retail commodities. The latter can be traded easily and returns on investments are immediate and high. This leaves little spare capacity for fledging mobile payment services. International donors should explore affordable ways to provide loans to network agents enabling them to maintain a mobile money float exclusively for mobile payment transactions.

- Mobile network providers need to accelerate the swift and effective deployment of mobile payment services to hard-to-reach communities by exploring the diverse range of appropriate technical solutions relevant to particular markets (e.g. adapting mobile hand-sets).

ECONOMIC TRANSFORMATION

- Regulators and financial institutions need to recognise that mobile payment services offer an invaluable channel to introduce mobile money users to a broad array of formal financial services such as bill, salary or pension payments and savings, credit, pensions and insurance instruments.

How to create an enabling and robust regulatory environment

KEY FEATURES OF AN IDEAL REGULATORY MODEL

- A regulatory model's core focus needs to promote expanding financial inclusion to the vast majority of non-urban and unbanked communities across Africa.

- An effective regulatory model should set clear targets and milestones to define what success in achieving financial inclusion might be For example, in India regulators have emphasised the centrality of social inclusion. Thus, by the end of 2012, each village community of over 2000 inhabitants must have at least one family member with access to a mobile payment system.

- Relatively small amounts of money are being remitted through each mobile money transaction and the volumes of these individual transactions are high. Currently, the full weight and complexity of banking regulation is neither: proportionate, pragmatic nor applicable for the size and simplicity of these mobile payment transactions. A more effective regulatory framework should be developed that while being robust provides versatility, flexibility and is commensurate with (and specific to) these emerging forms of mobile payment services. As the payment system develops, regulation can be re-shaped and re-targeted.

- Effective regulation should focus on actual branchless banking services as opposed to regulating network agents or mobile network providers. Thus, if a mobile payments service provider offers a means by which money can be moved in and out of a savings account, it is not necessary to subject the mobile payments service provider to the same level of regulation that is applied to a savings organisation.

- Regulatory models need to adopt an evidence-based approach which is informed by actual (not perceived) risk. This should help develop appropriate and proportionate oversight over money transfers which are specific to the nature of mobile payment systems within the markets in which they operate.

- Telecommunications providers need to do more to inform their non-technical audiences (including regulators and financial institutions) about how mobile money systems actually work. Dispelling misconceptions and myths about the nuts and bolts of how mobile payment systems operate might go some way to supporting the development of appropriate regulation.

THE ROLE OF PARTNERSHIP IN DEVELOPING AN ENABLING REGULATORY ENVIRONMENT

- Create an independent advisory body which should convene impartial discussion events, workshops etc. to promote greater dialogue and exchange between key stakeholders to improve understanding about the risks and regulating mobile cash services. Discussion topics could include: the reliability and security of mobile money technology, safeguarding customer funds, the quality of and robust training as well as financial integrity and transparency of the growing network of agents/distributors, how new mobile money technology works and how it might be employed to improve regulation.

- International partners (eg. UK Government) could help African economies develop a core regulatory framework that could be applied across Africa. This could potentially support the creation of a single market for mobile payments services. The advantage of a common regulatory framework (as opposed to a plethora of different national regulatory policies) means that core norms and standards can be applied across Africa. Such a framework would allow investors to develop one common service that would be adapted for variations in currency, languages, etc. This single market could provide an important platform for effectively overseeing cross-border transactions. These core norms and standards would need to make provision for individual consumer rights within national borders however.

NEXT STEPS

- Developing national discussion forums across Africa – The Ministry of Communications in Ghana has already expressed a keen interest to convene a roundtable discussion to explore some of the challenges and opportunities specific to the Ghanaian economy. There might be other African governments keen to host roundtable discussion events with key stakeholders in order to advance some of the outlined recommendations.

- A monitoring and evaluation publication – developing a scorecard summary report to evaluate national progress on scaling up and replicating mobile payment services as well as effectively regulating the sector.