The Foreign Policy Centre

Progressive Thinking for a Global Age

Foreign & Commonwealth Office

SUMMARY REPORT

THE FINANCIAL REVOLUTION IN AFRICA: MOBILE PAYMENTS SERVICES IN A NEW GLOBAL AGE

'… increasing access to financial services is fundamental to promoting equitable and sustainable economic growth across Africa.'
Gilbert Mbesherubysa, African Development Bank

'Financial inclusion should be regarded as a fundamental human right.'
Michael Joseph, Vodafone

The Foreign Policy Centre (FPC) in partnership with the UK Foreign and Commonwealth Office (FCO) and in association with the City of London Corporation and 'This is Africa', (the FT's bi-monthly magazine), hosted a one day London conference focused on how best to regulate and expand the provision of mobile payment services across Africa and beyond.

The conference brought together experts and specialists from across the mobile payment service sector including: mobile network operators, mobile payment providers, technology companies, banks, card payment services, money transfer agencies, financial inclusion organisations, independent consultants, financial regulators, trade associations, law firms, embassies and high commissions, national and international development agencies, parliamentarians, academics, multilateral agencies, global foundations, civil society organisations and the media. The event aimed to develop and promote an evidence-based understanding of the risks and challenges associated with supervising mobile payment services and promoting their expansion.

This report distils the main ideas and experiences shared through a series of main plenary sessions and a range of working group discussions at the London conference. The report comprises of two central elements. The first provides guidelines and principles that could support the development of a framework outlining how effective regulation might be shaped. The second suggests potential implementation features which could explore how effective regulation might be implemented, scaled up and replicated.

RECOMMENDATIONS FOR UK GOVERNMENT ACTION

The London conference identified a number of areas in which the UK Government might work with its national government partner and key private and public sector stakeholders to improve the distribution of financial services across Africa and beyond:

1. Identifying ways in which UK trade and investment strategies and priorities might champion improving the distribution of financial services.
2. Supporting more research to build a rigorous body of data and evidence illustrating the economic development impacts of improving the distribution of financial services.
3. Promoting greater partnerships between national financial regulators in order to enable an incremental and pragmatic approach to developing effective regulatory guidelines, informed by real experience.
4. Exploring how government policy interventions might support the scale up of mobile money services through incentivising greater cashless financial activity in order to promote the transition from cash to electronic money (in economies where this was a national financial inclusion priority).

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THIS IS Africa A GLOBAL PERSPECTIVE

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REGULATORY GUIDANCE AND FEATURES ON IMPROVING REGULATORY IMPLEMENTATION

'In regulating mobile payment services we need evidence-based policy making not, policy-based evidence making!'
Dominic Peachey, Flawless Money

'Regulators might consider a 'test and learn' approach to developing appropriate regulation'.
Christine Hougaard

LICENSING MOBILE PAYMENT SERVICE PROVIDERS

Three key factors were considered as important in enabling organisations to provider mobile payment services:

1. **Business objectives –** Relate to the enterprise's core purpose and could range from: providing mobile banking services, facilitating retail payments or promoting and delivering financial inclusion, to offering money transfer services etc…

   a. Regulatory principle **-** Irrespective of the business objective offering low cost, convenient, local and trusted payment services enabling ordinary citizens to convert cash to electronic money is critical. Governments, policymakers and regulators could facilitate this process by clearly defining what their financial inclusion priorities are, and indicating targets and deadlines for achieving desired outcomes. Such an approach might help shape commercial objectives for businesses operating in this space.

2. The **nature of the service provider** might range from mobile network operators to mobile payment service providers or from a bank to a start-up financial institution, or perhaps partnerships between different types of service operators.

   b. Implementation feature **-** Existing rules for the provision of financial services could be adapted to enable licences to be issued to independent payment and electronic money operators beyond well-recognised brands (in mobile network provision and banking). This could promote a competitive mix of service operators and would allow the distribution of mobile money services to be provided through trusted third parties. There could however be challenges associated with this independent operator model which might include an insufficient financial capital base, lack of brand recognition etc. all of which require mitigation.

3. Understanding **the risks associated with money payment services** span a wide spectrum of concerns including: technological failure, a lack of the service's commercial viability (particularly in the short term), inadequate investment levels, financial crime, poor operational management in the service and insufficient liquidity levels available to agents to fulfil cash-in and cash-out customer requirements.

   c. Regulatory principle - Notwithstanding the fact that these challenges (above) are not exclusive to mobile money services (and could also apply to payment services in general), taking an evidence based approach (opposed to assumption) to tackling risks provided an appropriate and effective regulatory response mechanism.

d. Regulatory principle - Exploring how to shape regulatory priorities in order to mitigate, supervise and regulate risk without compromising the importance of focusing on financial inclusion as a priority in reforming the provision and distribution of financial services for all.

e. Implementation feature – Creating discussion fora and networks of exchange to provide the opportunity to engage with national financial regulators and other key stakeholders across the sector. The aim of which would help share knowledge and experience (particularly learning from low income economies and high growth markets which have led the way in developing these payment services) to develop fresh ideas and innovative solutions to delivering mobile payment services. The Alliance for Financial Inclusion (AFI) is a good example of such a network of policymakers from developing regions of the world working in partnership to develop policies which help increase access to relevant financial services for unserved and underserved communities.

IMPROVING THE DISTRIBUTION OF FINANCIAL SERVICES

'To improve the distribution of financial services we need to identify cash as the enemy and create the right incentives to convert cash into electronic money permanently'.
Gregory Ubigen, Monitise

'The real pressing priority is that mobile money services need to be interoperable with existing payment systems not between themselves'.
Susie Lonie, Co-founder M-Pesa

There were a number of issues identified as being critical to improving access to financial services:

a. Regulatory principle – Identify the most appropriate incentives to **encourage the conversion from cash** to electronic money.

b. Implementation feature - Building a trusted, well resourced, knowledgeable (in the right financial service products for customer demands) and adaptable **agent distribution network** (particularly in rural areas).

c. Implementation feature - **Achieving scale** may require governments to employ mobile money services as a means to remit payments (salaries, pensions etc.) this could introduce the vast transaction volumes needed to increase the financial viability and success of mobile payment schemes. In a high growth economy such as Nigeria, the remittance market represents a vast opportunity to develop the scale needed for mobile money services to succeed.

d. Implementation feature - **Achieving scope** requires an ability to adapt new services to a diverse customer base in particular contexts (eg. rural communities) paying particular attention to improving financial literacy. Product development can be shaped by learning about the service requirements/demands of customers in specific market contexts and responding accordingly, opposed to imposing approaches from other market settings which may have little relevance in new markets.

e. Implementation feature - Employing mobile payment services to deliver **a broader range of financial services** such as insurance, savings vehicles, credit facilities etc.

f. Regulatory principle **- Developing standards and compliance rules** for the use of electronic money needs to ensure existing standards are sufficiently flexible for adaptation in specific market contexts. To achieve this, regulators issuing guidance on how to implement payment and electronic money standards would be helpful.

g. Regulatory principle - **Should there be a push on interoperability at this early stage of the sector's development?** There are concerns that in the absence of service to service interoperability, mobile payment service provision may only be limited to person-to-person transactions, bill payments facilities and airtime top-up functions. In addition, the existence of lots of parallel payment systems (leading agents, merchants and retails outlets to employ multiple points of sales or work across multiple systems) will drive consumers towards cash as mobile money may be regarded as inherently complicated to navigate. Therefore, regulators might be required to establish standards for inter-operability that prioritise broad based access.

On the other hand however, **there are concerns about a premature push on interoperability**. Achieving efficient use and low price services for customers across various service operators (regardless of who their mobile money account might be held with) need not be traded off at the expense of ensuring business investment does not lose its competitive advantage or profitability. Therefore, interoperability needs to be a longer term objective not a short term priority. In the short term, customers benefit from being able to change mobile money providers as registration is free, there are no barriers to entry and remitting funds to those on the same scheme and others is relatively straightforward. The reality is that there is little consumer demand for service to service interoperability at this early stage of the sector's development. To do so would introduce additional costs that the nascent sector is currently unable to bear. The idea of service to service interoperability could therefore lead to a lack of competition where the investment by a single service provider in an agent distribution network is exploited by other service providers who have not invested. All of which reduces any incentive to invest in developing the agent network, without which mobile payment services cease to survive.

**COMBATTING MONEY LAUNDERING
AND TACKLING THE FINANCING OF TERRORISM**

'Mobile payment providers need help to apply flexibility in meeting regulatory standards. This demands a fresh (and ambitious) approach in order to accelerate financial inclusion.'
Claire Alexandre, formerly at the Bill and Melinda Gates Foundation

Mobile payment services are seen to constitute part of the broader payment service market. Therefore, concerns in tackling the threat of financial crime should apply to payment services in general, not mobile payment services in particular. By way of illustration, the risks associated with one-off payment transactions compared to repeat transactions were similar for mobile money services as they would be for other payment services. Moreover, effective and appropriate controls pursued by regulators could achieve financial inclusion without compromising safeguards to promoting financial protection and integrity. The three main areas of discussion were examined.

1. The **risks associated with mobile payment services** principally focused on the speediness of real-time transactions coupled with the limited range of formal ID available to poor consumers.

2. The **risk mitigation mechanisms** automatically provided by mobile payment services included the **traceability** of transactions (unlikely in the case of cash) encouraging a shift from informal to the formal sector activities. In addition, these audit trails enhanced the effectiveness of financial crime controls, while providing service users who have, little if any formal ID, a recognisable (and tangible) payment footprint.

3. There were a number of **practical and concrete steps** to achieving financial inclusion which worked to reinforce financial integrity.

   a) <u>Regulator principle</u> Regulators might find adopting a **risk based approach which focuses on services and products** more effective than focusing supervision on institutions and customers which may lead to unintended consequences. For example, low value transactions and account balances may require less oversight, however this does not necessarily follow that poor customer are necessarily low risk.

   b) <u>Implementation feature</u> **Tiered customer identification requirements (Know Your Customer - KYC)** could be implemented for account openings, where transaction thresholds and account balances are used to determine the level of identification required and ultimately act to mitigate associated risk.

   c) <u>Implementation feature</u> Anti-money laundering (AML) and combatting financial terrorism (CFT) measures should be **appropriate and proportionate** to the transaction size. This acts to enhance financial protection but does not exclude low value transactions or consumers who would otherwise hold modest account balances. In addition, effective and proportionate controls which **adopt tiered or graduated risk assessments**, should also apply to the types of transaction account offered by service providers. Such an approach will ensure investment and innovation is not crowded out but that effective provision of services is expanded to meet demand.

d) Implementation feature By **promoting low cost financial inclusion initiatives**, new customers actually **develop an identify profile** through their transaction activities and account usage. This can be easily monitored. Biometric and/or centralised identification solutions require high implementation costs, and access to information from multiple data sources may have complex implications for data protection and privacy legislation. In light of this fact, mobile money agents should be allowed to open transactional accounts for low value transactions and account balances.

e) Implementation feature **In order to support the implementation of international standards locally, t**he Financial Action Task Force (FATF), an inter-governmental body responsible for developing and promoting policies on AML and CFT, could work more closely with financial regulators to provide **guidelines on implementation** standards. This might prove very useful for regulators who are often more cautious and conservative when applying unfamiliar international standards.

f) Implementation feature The mobile payments service sector might consider developing a more proactive national approach to informing regulators on AML/CFT issues by supporting **scenario planning** and helping to **develop good practice** models which can be shared across the sector.