



**REGULATORY CHALLENGES IN THE
IMPLEMENTATION OF MPS: THE NIGERIAN
TELCO EXPERIENCE**

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Outline



- Background : the urgent need for Mobile Payment Services(MPS).
- The current regulatory framework
- Issues of concern with the current regulatory framework
- The case for telecommunication companies
- Recommendations

Background:

The Urgent Need for Mobile Payment Services



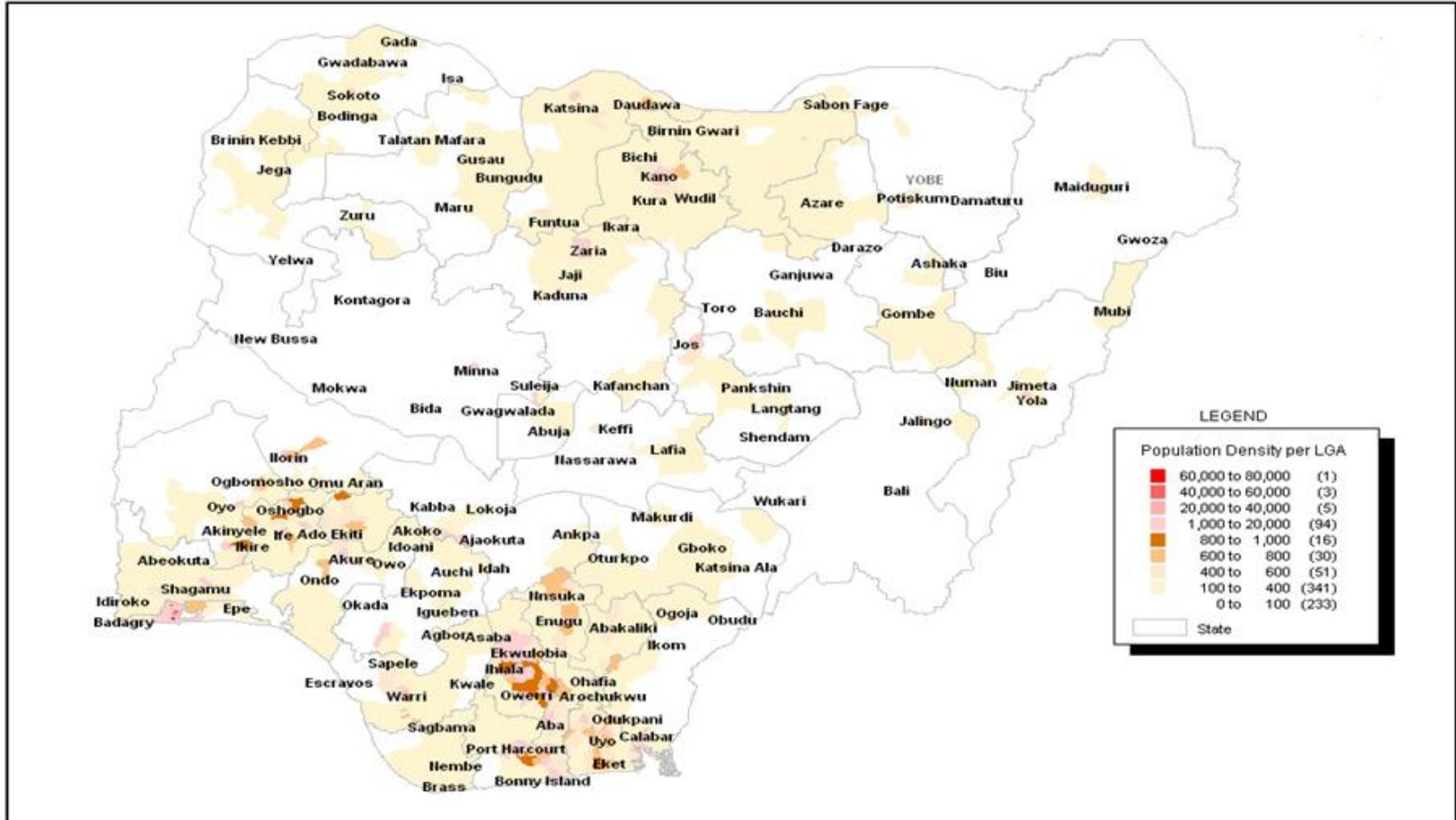
1. Demand for modern banking services is increasing but availability of bank branches remains low outside key urban economic centers. ~ 1 bank branch for every 50,000 inhabitants
2. Banks in Nigeria are focused on rich urban customers through high cost channels
3. Low income individuals do not have access to financial services resulting in a substantial unmet demand for financial services
4. Telcos have recruited over 80million users in less than 10 years compared with the banking industry that recruited only 18million account holders after several decades

In Nigeria cash is still the predominant medium of exchange, most of it in the informal sector.

Background: The Challenge of Financial Inclusion



POPULATION DENSITY PER LOCAL GOVERNMENT AREA





Current Regulatory Framework

- **Bank-Focused Model:** “where a bank delivers banking services to its customers using the mobile phone as a delivery channel. This model can only be deployed by a licensed deposit-taking financial institution. The lead initiators here are the Financial Institutions”.
- **Bank-Led Model:** “where a bank, or a consortium of banks, partnering with other organizations, jointly seek to deliver banking services by leveraging on the mobile banking system. Applicable only where there is collaboration between a licensed bank(s) and an organization duly verified by the partner bank(s). The lead initiator in this case are the Financial Institution(s) and/or its Consortium”
- **Non-bank-Led Model:** “allows a corporate organization that has been duly approved by the CBN to deliver mobile payments services to consumers. This model shall be applicable to any organization other than a licensed deposit money bank and telecommunication companies. The lead initiator here are Corporate Organisations”. (par. 2.1.3).

The CBN Framework exclude Telcos from MPS Leadership



Current Regulatory Framework

Scenarios recognised by the CBN Framework:

- **Card Account Based:** where a payment card (credit, debit and/or pre-paid) is linked to a mobile phone for initiating and concluding payment transactions,
- **Bank Account Based:** the MPS is conducted through conventional bank accounts
- **Store Value Account Based:** transactions are driven through a system-based account.

The Telco Prepaid and Voucher Distribution Models make them uniquely positioned to deliver both the Card and Store Value-Account based scenarios.



Current Regulatory Framework

Paragraph 2.1 of the Framework requires Telcos to, amongst others:

- **“...provide their telecoms network infrastructure for the use of the scheme operators”**,
- implement a secure communication path for MPS based on the technological standards stipulated in the Framework,
- make the mobile network available to scheme operators based on transparent and generally applicable criteria and “without discriminatory practices against any scheme”;
- **ensure that their subscribers are free to use any MPS of their choice**,
- not receive deposit from the public except in respect of the prepaid airtime from their subscribers; and
- not allow the use of the prepaid airtime value loaded by their subscribers for the purpose of payment or to transfer monetary value.



Issues with the CBN framework

- **Telco's as dumb pipes** - CBN has clearly limited the role of Telcos to that of a mere facilities providers .
- **Telco's as junior partners** - Telco's are required to facilitate interoperability and standardisation such that their customers are free to use any bank or MPS service provider of their choice without preferential treatment or discrimination – even where the Telco is part of an MPS consortium.
- **Framework a departure from common practice:** A marked departure from the practice in other jurisdictions, and the Framework provides no explanation on why Telcos have been excluded.
- Telcos can easily and successfully meet the specifications for the non-bank led models and the Card/Stored-value based scenarios.
- This CBN Framework does not recognise the pivotal technological or equally pivotal structural roles of the Telcos.

The Case for Telcos



- The MPS system evolved from an adaptation of the prepaid top-up system ; Telcos actually “created” MPS so they are uniquely placed to develop it.
- Extensive Telco footprint and relatively high levels of teledensity and the speedy uptake of mobile services (compared with the relative apathy and distrust of formal banking services) will ensure speedy adoption of MPS.

The horse has bolted!



The Case for Telcos

- Our extensive distribution chain means that Telcos can leverage extensive distribution network and customers can more easily register for the service & cash-out their deposits . These are services that could not be profitably provided by the formal financial services sector.
- MPS leverages mobile communications infrastructure to enable electronic linkage and service delivery. Telco's also leverage their billing and other back-end systems to facilitate the conduct of MPS transactions

There is a cost to deploying extensive infrastructure, customer acquisition and developing trade channels.

- Telco's must be part of the value chain because they play a pivotal role in the delivery of MPS
- The regulatory framework for MPS should be drawn up by the CBN and the telecommunications industry regulator, in order to address issues of concern.
- Such regulation must be supportive to the objective of financial inclusion and take the necessary steps to achieve the desired results.

GSMA Recommendations: Assurance of solvency/Protection against fraudulent creation of value & market abuse/transaction integrity and the achievement of financial inclusion.



The implementation of Mobile Payment Services can only succeed with Telco's playing an integral part in the value chain.