Regulating Mobile Money

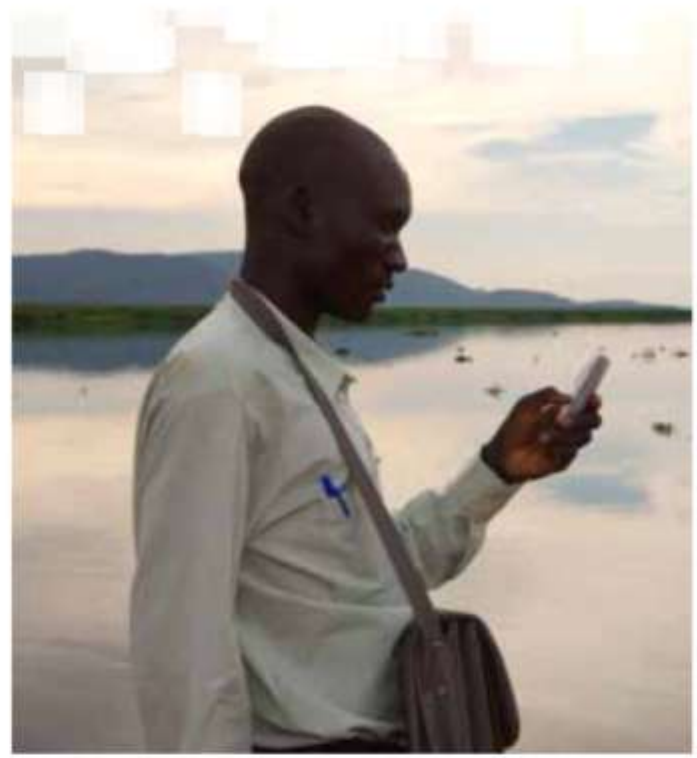
4 Areas of Focus

Nairobi, 1 December 2010

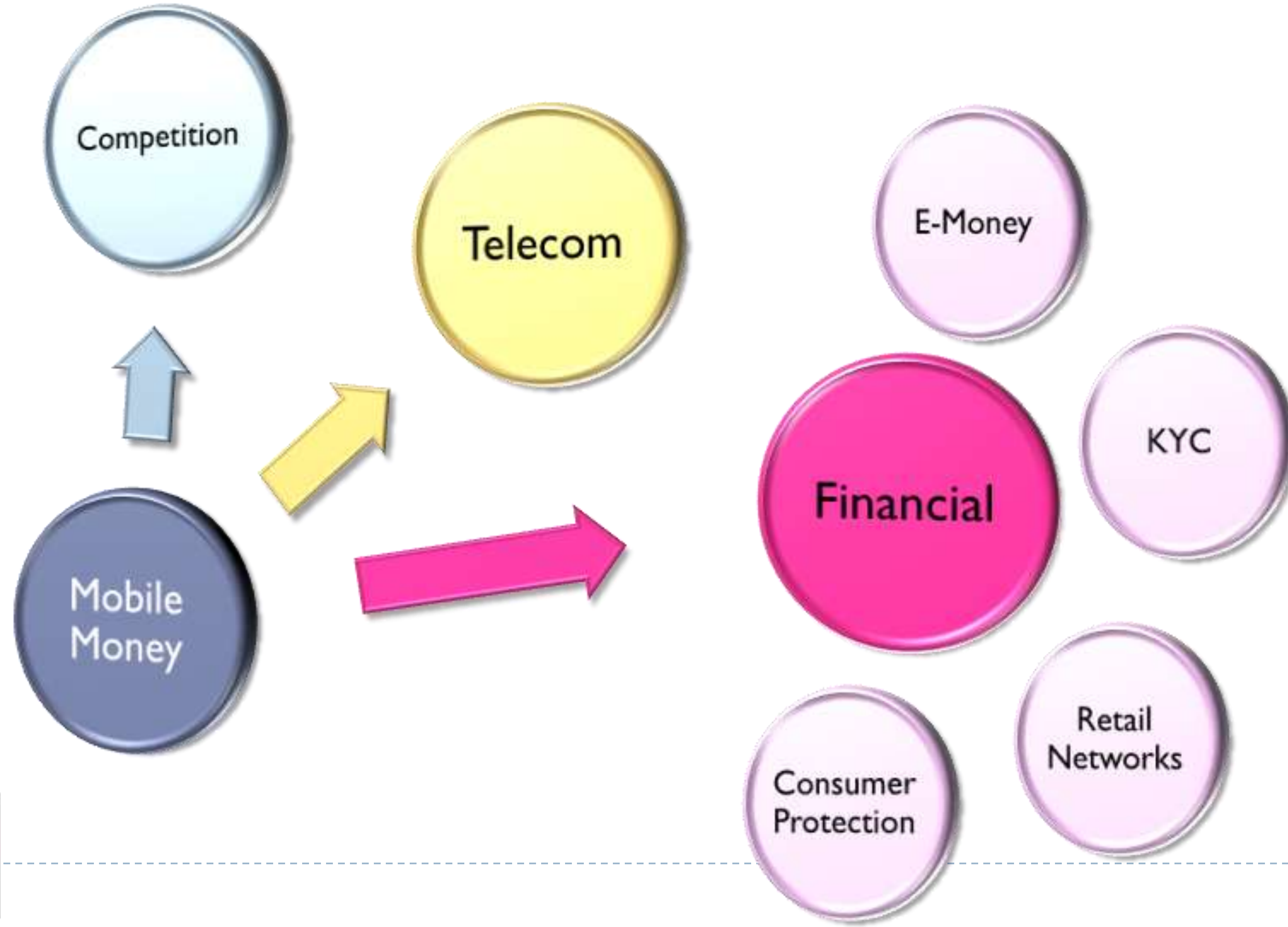
Mobile Money for the Unbanked

Overview

- Mapping out Mobile Money regulations
- The four focus areas
  - E-money
  - KYC
  - Retail Networks
  - Consumer Protection
- Conclusions



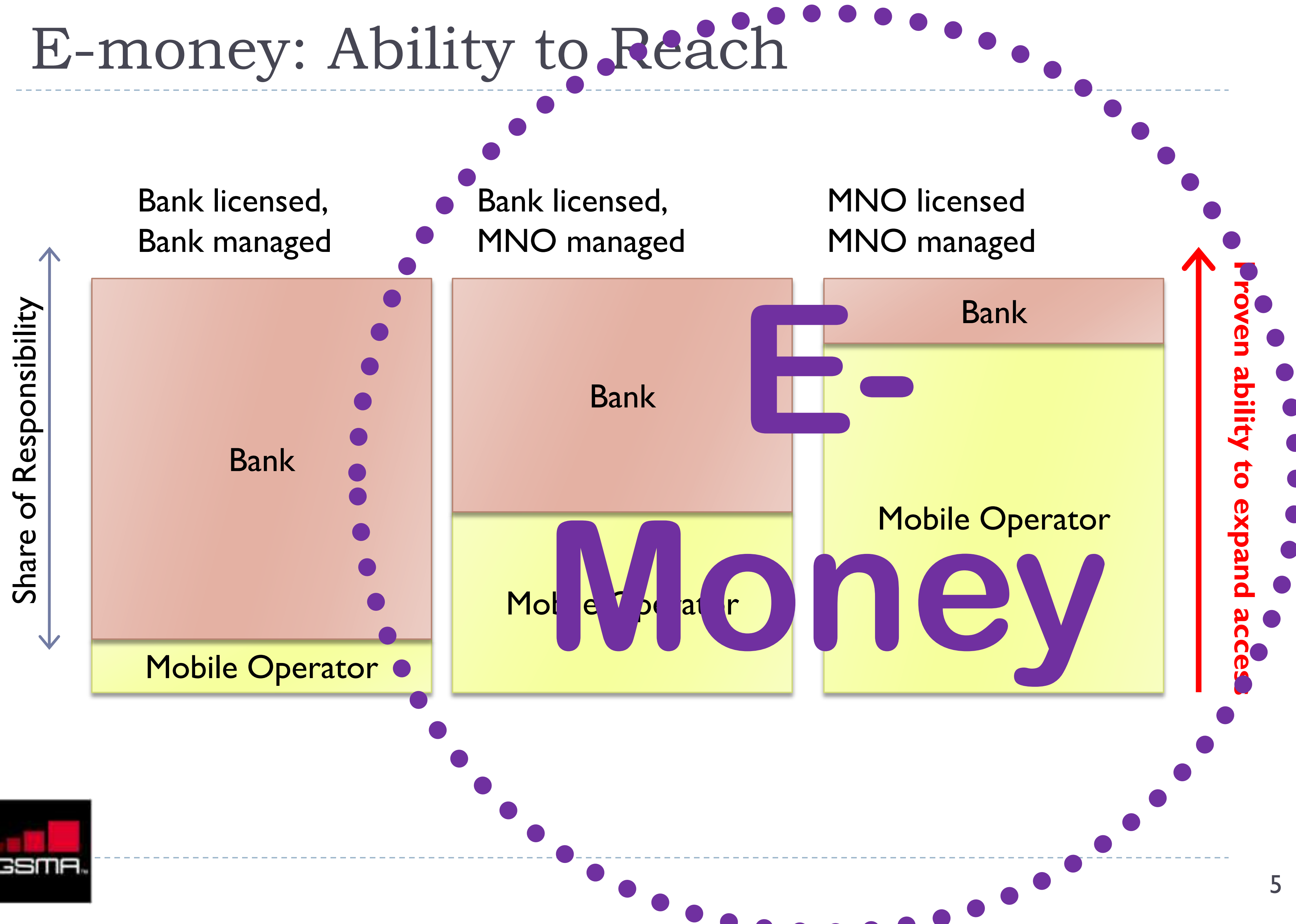
Mapping the regulatory scene



4 Focus Areas

- E-money
  - Licensing
  - Prudential oversight
- KYC
  - "Know Your Customer"
  - Market Integrity / Anti-Money Laundering
- Retail Networks
  - Customer facing
  - Retail merchants
- Consumer protection
  - Pricing, resolutions, transparency

E-money: Ability to Reach



Defining E-money

- Gift cards, gift certificates, pre-paid cards
- **Electronic form of cash** – different than airtime
- 1:1 relationship e-money to cash stored
  - Different than bank account, banks make loans & invest

E-money Risk Profile

- Proper design = low risk financial service
- Protecting the customer
  - Fund use limitations
  - Fund "isolation" to keep creditors away*
- Protecting the Financing System
  - Account limits: concentration risk mitigation
  - Spread of pooled account to multiple banks
- Protecting Market Integrity
  - Concentration risk controls = crime controls
  - …To be discussed next

*See M. Tarazi paper on *Non-bank E-money Issuers: Regulatory Approaches to Protecting Customer Funds*

E-money Summary

- Same as cash but electronic
- Virtually all mobile money businesses use e-money
- Cost-effective in financial inclusion
- Can be designed to be very low-risk

- Creating the enabling environment:
  1. Engage industry
  2. Create clear regulatory framework
  3. Direct licensing/supervision of provider

KYC: What and Why

- **K**now-**Y**our-**C**ustomer procedures
  - Anti-Money Laundering /Combating Financing of Terrorism (AML/CFT) component
  - Usually require identification documents

- ***Identification*** is easy
- But ***verification*** can be difficult for poor
  - ID cards
  - Address proof
  - Employment records

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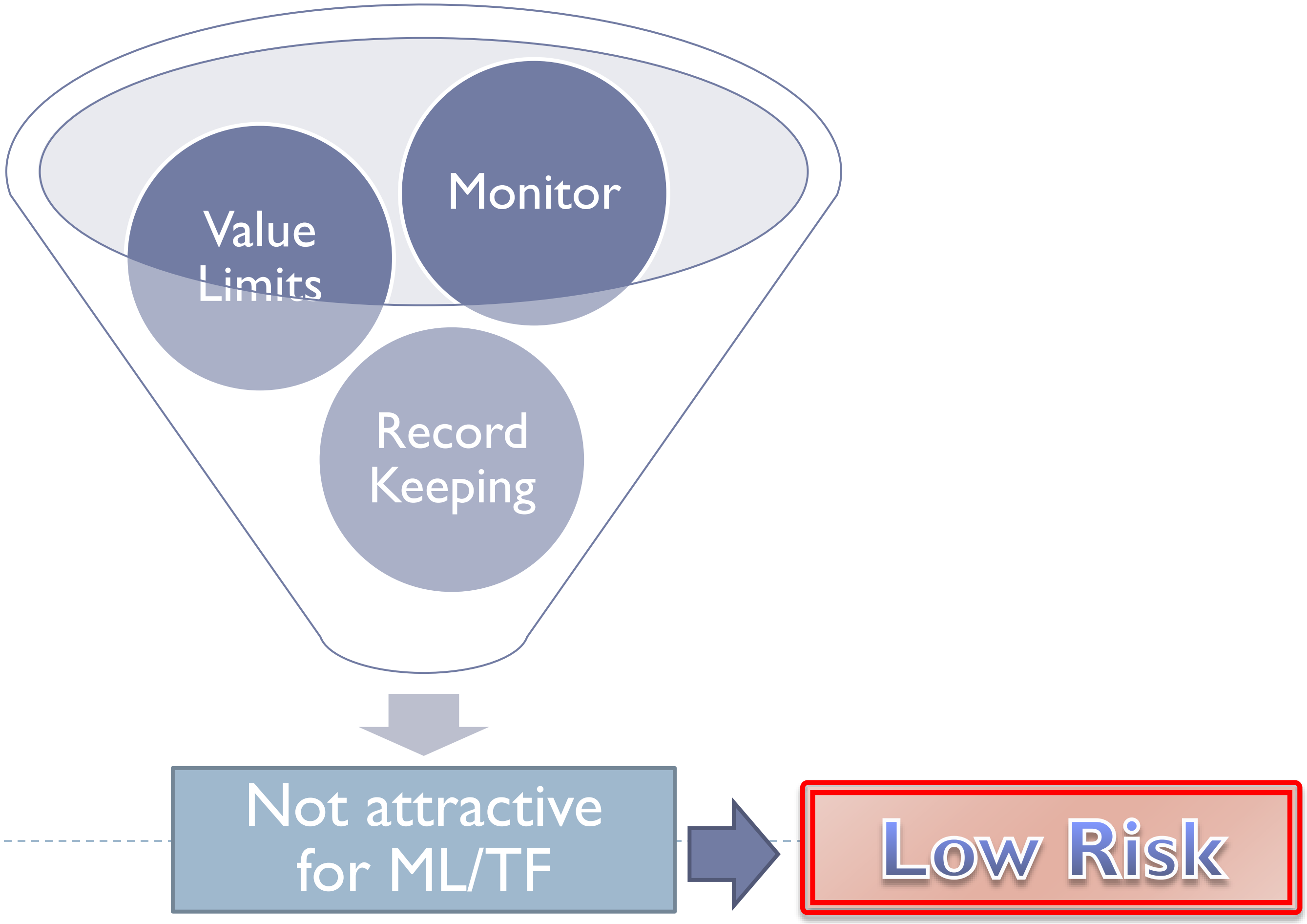
KYC and the FATF

- International standard setter
  - **F**inancial **A**ction **T**ask **F**orce
- Countries are assessed for their compliance with the standards
  - FATF
  - World Bank and IMF
  - Regional bodies
- Standards are ***risk-based***

KYC: Risk-based approach

- The lower the risk, the lower the controls
- Mobile money: Risk assessment



Source:
World Bank 2008, 2010

KYC: Proportionality

- Risk-based approach means proportionality
- Country context is important
  - ID cards available?

- Examples of low-risk controls, FATF-ok'd

☑ Alternative IDs permitted in Philippines

☑ Address verification exempted in South Africa

☑ No verification of ID in EU!

KYC Summary

- KYC is required part of any financial service
- Poor have a difficult time providing ID docs
- Risk-based approach allows proportionality

- Use other means to lower risk
  - Monitoring
  - Limits
  - Records

- Reduce KYC burden, increase financial inclusion

Retail networks

- Reaching the poor
  - Low cost
  - Geographic accessibility
- Piggy-back on mobile infrastructure
- Regulatory hurdle: "agent" regulation
- Mobile phone agent ≠ banking agent

Retail networks: Mobile vs Bank agent

Mobile "Agent"

- Really a **retail merchant**
- Usually no training or due diligence
- Corner shop, self-owned
- Contract with MNO
- INDEPENDENT

Banking Agent

- Represents bank
- Cash in till is not agent's
- Bank is liable, does due diligence
- Bank trains, pays
- DEPENDENT

Retail networks: how to safely make the network big and inclusive

- Contract is key for regulator:
  - terms of contract: who does what
  - conditions to become retailer – level of due diligence
  - Are these two proportional?

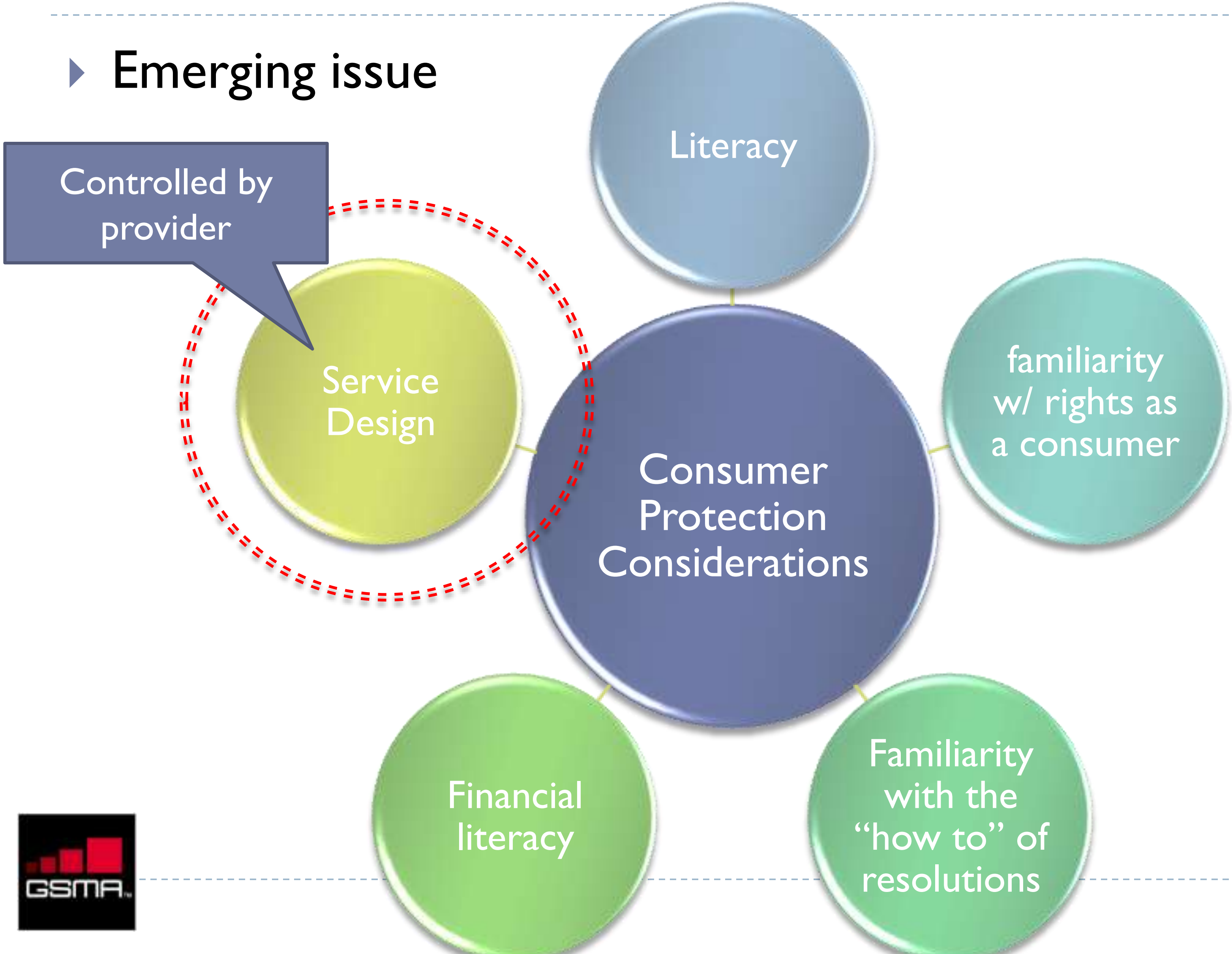
- "Can retailers realistically carry out assigned functions?"
  - Keep responsibilities basic
  - Trade against own account
- "Does MNO have ability to monitor/deter retailer?"
  - Monitoring system in place
  - Deterrence processes

Retail networks Summary

- Retail network is core reason why mobile has great potential for financial inclusion
- "agent" in mobile sense is different
- Look at balance between:
  - Retailer responsibilities in contract
  - MNO systems to monitor/deter retailers

Consumer Protection

- Emerging issue



Consumer Protection: mobile money

- Principles-based regulation: optimal for technology
  - Thinking outside the box
  - E.g. Electronic versus paper receipts

- Price transparency
  - Rights transparency?
- Questions/Complaints/Resolutions
- If retailer isn't an "agent", how to contact provider?
  - Customer hotline
  - Customer support centre?

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Consumer Protection

- Relevant to any financial service among the poor
- Principles based regulation keeps up with technology
- Varies on context – literacy, service offered, etc.

- Transparency
- Way to reach provider

- Solutions are there, how to tailor around this channel?

Conclusions

- E-money, KYC, retail networks and consumer protection
  - Controls often overlap with each other or with existing business practices

- Proportionality
  - Risks are generally low – design of systems is key
  - Direct relationship between cost and financial inclusion
  - Solutions must be tailored to conditions of the poor

- Customer needs direct link to provider (Hotline)
- Provider needs direct link to regulator (MNO licensing)

Thank you for your attention