GSMA

Licensing mobile money remittance providers: Early lessons

FEBRUARY 2017

The GSMA represents the interests of mobile operators worldwide, uniting nearly 800 operators with almost 300 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and internet companies, as well as organisations in adjacent industry sectors. The GSMA also produces industry-leading events such as Mobile World Congress, Mobile World Congress Shanghai, Mobile World Congress Americas and the Mobile 360 Series of conferences.

For more information, please visit the GSMA corporate website at www.gsma.com

Follow the GSMA on Twitter: @GSMA

Mobile Money

The GSMA's Mobile Money programme works to accelerate the development of the mobile money ecosystem for the underserved.

For more information, please contact us:
Web: www.gsma.com/mobilemoney
Twitter: @gsmammu
Email: mobilemoney@gsma.com

This publication was written by Saad Farooq.

The author would like to acknowledge Nathan Naidoo and Brian Muthiora for their contributions to this publication.

THE MOBILE MONEY PROGRAMME IS SUPPORTED BY THE BILL & MELINDA GATES FOUNDATION, THE MASTERCARD FOUNDATION, AND OMIDYAR NETWORK

CONTENTS

Introduction

Mobile money is revolutionising the international remittance industry by lowering prices and expanding access to financial services. This presents significant opportunities for the 250 million[1] migrants and their families back home.

In 2015, global remittances totalled USD 581.6 billion,[2] of which $431.6 billion, or nearly 75 percent, was sent to the developing world. International remittances play a critical role in the economies of developing countries. In Liberia and Gambia, remittances represent 24.4 and 22.4 percent of GDP, respectively.[3] In some African countries, the flow of migrant remittances is larger than official development assistance.[4]

In recent years, we have seen a significant shift in the competitive landscape for providers of international remittances, as mobile money providers have expanded from domestic-only services to enabling transactions between 51 countries.[5]

What are mobile money-enabled international remittances?

Mobile money-enabled remittances are low-value, person-to-person (P2P) international transfers. They are delivered electronically to a financial account held on a mobile phone. The sending channels vary widely and can include (i) brick-and-mortar money transfer operators (MTO), such as Western Union; (ii) web-based MTOs, such as World Remit; or (iii) mobile money accounts hosted by a mobile money provider in the sending country. While the first two channels typically handle North-South remittance flows, the third channel is common for intra-regional remittance flows where there is movement of labour across borders and mobile money offers a low-cost and real-time alternative.

The use of mobile money for international remittances unlocks a range of benefits for all stakeholders.

- First, where mobile money is the sending channel, it is **typically cheaper than alternative formal remittance channels**. Data collected in August 2016 shows that the average cost of sending $200 using mobile money is 2.7 percent of the sending amount, compared to 6.0 percent when using global MTOs.[6]
- Mobile money-based international remittances **support financial inclusion** by encouraging people to use digital financial services that give them access to broader payments services and the ability to store electronic value in a safe and secure digital account.
- Mobile money is also a powerful way to digitise large flows of informal cash transfers, which in

1. The World Bank, 18 December 2015, "International Migration at All-Time High", http://www.worldbank.org/en/news/press-release/2015/12/18/international-migrants-and-remittances-continue-to-grow-as-people-search-for-better-opportunities-new-report-finds
2. The World Bank, 13 April 2016, "Remittances to Developing Countries Edge Up Slightly in 2015", http://www.worldbank.org/en/news/press-release/2016/04/13/remittances-to-developing-countries-edge-up-slightly-in-2015
3. IMF, World Bank World Development Indicators and staff estimates: 2015 data
4. European Parliament, 2014, "The Impacts of remittances on Developing Countries", http://www.europarl.europa.eu/meetdocs/2014_2019/documents/acp/dv/study/studyen.pdf
5. GSMA, 2016, "2015 State of the Industry Report: Mobile Money", http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/04/SOTIR_2015.pdf
6. GSMA, 2016, "Driving a price revolution: Mobile money in international remittances", http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/10/2016_GSMA_Driving-a-price-revolution-Mobile-money-in-international-remittances.pdf

turn **contributes to the integrity of financial markets**. In particular, it reduces the risk of money laundering and the financing of terrorism, since electronic transactions can be monitored and traced more easily than cash.

Recognising these benefits, many regulators have begun supporting mobile money providers in providing international remittance services. Mobile operators in El Salvador, Ghana, Kenya, Mozambique, Pakistan, Philippines, Rwanda, and elsewhere are now competing directly in the international remittance space. Operators are gearing up to pursue ambitious targets to open new mobile money-enabled remittance corridors,[7] including through commercial agreements to interconnect their platforms.

Despite the progress these countries have made, regulatory challenges are a significant barrier to entry and scale for mobile money providers. Licensing is the greatest challenge and requires immediate attention.

Based on an assessment of various licensing regimes, we have highlighted some of the early lessons of different regulatory approaches. This paper looks at common licensing models and their scope, application procedures for providers, challenges regulators face in assessing license applications, and the licensing requirements for remittance hubs. Our goal is to provide a starting point for multi-stakeholder cooperation and dialogue, which will be needed to open new market opportunities, reduce the cost of remittances, and achieve global public policy objectives such as the United Nations Sustainable Development Goals (SDGs).

7. A corridor is defined as a unique combination of sending country and receiving country. For example, Kenya to Tanzania and Tanzania to Kenya are two distinct corridors.

Licensing models: Indirect to full service

A license is typically required to offer international remittance services in conjunction with a mobile money service. The operator, or its mobile money licensing partner, is required to either formally lodge an application for a license or a no-objection authorisation with the regulator. The attributes of these licenses depend in part on the business model, but can vary between jurisdictions.

Our analysis[8] of licensing frameworks under different regulatory regimes in Latin America, Africa, and Asia suggests that the most common approaches are (i) a unified licensing framework for mobile money and international remittances, (ii) separate licenses for mobile money and international remittances, with the latter requiring the creation of a special purpose vehicle, (iii) licenses that are restricted to banks only. Please see Appendix A for more insights and information.

Several scenarios exist in different markets:

- In Rwanda[9] and Tanzania,[10] licensed electronic money providers are authorised to provide inward and outward international remittance services.
- In Ghana,[11] electronic money issuers are only permitted to provide inward international remittance services.
- In Liberia, international remittances are currently not included in the scope of mobile money regulations,[12] hence mobile operators must seek a separate money remittance license[13] to provide international remittance services to their customers.
- In Paraguay, electronic money regulations[14] prohibit electronic money issuers from providing international remittance services.

8. Based on reviews of the incumbent regulations and interviews with regulators.
9. Article 27 of the National Bank of Rwanda's Regulations Governing Electronic Money Issuers
10. The National Payments Systems Act (2015) of Tanzania; S34(2)(a) of The Electronic Money Regulations (2015)
11. Section 11 of the Bank of Ghana's Guidelines for E-Money Issuers
12. Central Bank of Liberia Regulations No. CBL/RSD/003/2014 (Mobile Money Regulations)
13. Regulation No CBL/SD/03/2004 – Regulations for the Licensing and Supervision of Money Remittance Entities
14. The new regulations came into effect in 2014, and Tigo (Millicom) had to close its international remittance service in Paraguay after acquiring the electronic money license.

Variations in these models are the result of several factors. For instance, different financial markets have different foreign exchange risk profiles. Liberia, for example, is a highly dollarized economy, which means that both domestic and international transactions could be subject to regulation by US financial authorities. Historical differences in how foreign exchange and electronic money regulations have emerged also play a role. When mobile money was first conceived, it was not envisaged that the service would be used for international transfers, so regulatory frameworks tended not to account for this possibility. As a matter of policy, many countries also deliberately separate the regulation of domestic payments from the regulation of foreign exchange. In Kenya, for example, mobile money is considered a domestic retail payments service regulated under the National Payment System Regulations (2014) and mobile operators can be licensed under the Money Remittance Regulations (2013) to provide international remittance services.

Compliance with two different regulatory frameworks poses not only commercial and operational challenges, but also very practical engagement challenges. Mobile operators applying for a license to conduct international transfers must often deal with a department of the financial services regulator unfamiliar with mobile money. This is not a concern in Kenya, where there is good internal communication and knowledge of mobile money, but in other countries, building new relationships and fostering knowledge amongst different officials can be time-consuming and lead to misunderstandings at the early stages of an international mobile money service.

Below, we address some of the core regulatory challenges mobile money providers have faced in their efforts to expand into international remittances.

First steps: License application procedures

When assessing international remittance license applications, regulators must ensure the service provider is capable of running the business as a going concern and effectively mitigating the risks associated with facilitating money transfers.

WHEN EVALUATING LICENSE APPLICATIONS FOR INTERNATIONAL REMITTANCE SERVICES, THE CENTRAL BANKS OF GHANA, SWAZILAND, UGANDA, AND RWANDA PRIORITISE THE FOLLOWING:	
Anti-money laundering and countering the financing of terrorism	Regulators seek to ensure the provider has adequate systems and procedures in place to spot money laundering and terrorism financing activities.
License status of the foreign partner	The foreign actors in the remittance value chain are, in most cases, not regulated locally. Regulators therefore seek to ensure these entities are regulated in their home country to at least the standard that would apply locally.
Foreign exchange settlement	Regulators seek to ensure there is actual movement of foreign exchange after netting out bilateral flows. Regulators require providers to have systems in place to record transactions. This allows regulators to audit and inspect the transactions and complete the flow of funds.
Anti-fraud measures	As the service spans multiple jurisdictions, regulators need to ensure that both senders and receivers are able to transact in a safe, reliable, and secure environment.
Cost transparency	Regulators seek to ensure costs are transparent and that customers are aware of the different elements of the transaction fee to make informed decisions about which channel to use to send money.
Security of IT systems	Regulators need to ensure IT systems are secure enough to maintain the integrity of the overall remittance system.

The time it takes to review and issue an international remittance license can have an impact on market dynamics and competition. Where license application requirements are clearly laid out, mobile operators are much more likely to deliver a complete application at the outset, and the timeframe for processing a license application is more predictable. Where this does not happen, the process can drag on.[15] In some countries, applicants are left to determine the information to include in an application. Discovering midway through the process that additional details are needed is a common cause of delays. A request for additional information also often resets the clock on when a regulator must reach a decision, making it difficult to judge at the outset how long the application process will take.

These types of delays can sap investment and undermine commercial relationships that depend on a remittance corridor opening. Delays also restrict market competition. A recent GSMA study[16] indicates that low levels of competition in some remittance corridors are contributing to high transaction costs for consumers. With this in mind, the GSMA encourages regulators to publish clear license requirements and timeframes for the review of applications.

To support clear and consistent license application requirements, the GSMA has also prepared a checklist of documents (Appendix B) generally requested by regulators in markets where mobile money providers can seek permission to offer international remittance services. This checklist is based on the application process in several countries and should be considered a starting point, to be further refined through dialogue between regulators and providers.

15. There have been instances where license application reviews have taken more than 12 months.
16. GSMA, 2016, “Driving a price revolution: Mobile money in international remittances”, http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/10/2016_GSMA_Driving-a-price-revolution-Mobile-money-in-international-remittances.pdf

The scope of licenses: A two-way street

In 2015, mobile money-enabled international remittance services were live in 51 countries. Approximately two-thirds facilitate inward-only remittances, while the remaining third offered the option to send and receive international remittances. In part, this reflects the challenge of obtaining licenses to send, which has implications for the competitiveness of intra-regional remittance corridors. According to the African Institute of Remittances,[17] the top 10 most expensive corridors in the world are intra-African, originating in South Africa and Tanzania and sending primarily to neighbouring countries.

The reduction in average prices in response to the introduction of mobile money as a sending channel has been most pronounced in intra-African remittance corridors. The average cost of sending money to and within Africa has dropped from 12 percent (2010) to 9 percent (2016).[18]

The General Principles for International Remittance Services[19] suggest that remittance services should be supported by a sound, predictable, non-discriminatory, and proportionate legal and regulatory framework in relevant jurisdictions. The reluctance of regulators in markets with capital and exchange controls to permit outward international remittances stems partly from a desire to protect against large-scale capital outflows and/or the depletion of foreign exchange reserves.

There are several ways for regulators to manage these legitimate concerns. For example, the imposition of transaction limits on outbound remittances. Where useful, regulators might also consider an incremental approach, beginning with low outbound transaction limits scheduled to rise at set intervals. GSMA research in 2015 showed that the average remittance sent using mobile money was just $82,[20] compared with an approximate average remittance value of $500 when all formal channels are considered. Such findings suggest there is an underserved market for low-value remittances, which regulators could catalyse while also protecting against capital flight.

Regulators may want to consider analysing local market dynamics to determine what proportion of mobile money remittances were previously routed through the informal sector. Rather than increasing the total outflow of capital from a country, allowing remittances to be sent via mobile money may simply digitise funds from pre-existing informal channels.

17. African Union, 24 August 2016, "High cost of remittance flow within Africa: The African Institute for Remittances (AIR) to work with key market players to lower the cost of sending money to and within Africa", http://au.int/en/pressreleases/31288/high-cost-remittance-flow-within-africa-african-institute-remittances-air-work
18. Ibid
19. General Principle 3: Legal and Regulatory Environment, General Principles for International Remittance Services (2007)
20. GSMA, 2016, "2015 State of the Industry Report: Mobile Money", http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/04/SOTIR_2015.pdf

Remittance hubs: Commercial scale, regulatory efficiency

The role of international remittance hubs is another regulatory challenge, but also a safeguard for compliance. Hubs create efficiency by aggregating transaction traffic and connecting licensed sending and receiving entities in multiple countries. Hubs also typically facilitate the clearing and settlement of balances between two or more transacting sides and perform sanctions-screening on the sending and receiving parties.

Remittance hubs require the sending entity to be duly licensed to offer outbound remittances in that entity's jurisdiction. For example, a UK-based money transfer operator or mobile money provider must be licensed by the Financial Conduct Authority, and the receiving entity must also be duly licensed to offer inbound remittances in conjunction with its mobile money service in that entity's jurisdiction, for example, in Uganda.

A hub is licensed in the country where it is incorporated. In the case of mobile money, the main international hubs are licensed in European jurisdictions, which poses challenges for some regulators. First, a regulator must ensure the foreign regulations applied to the hub are consistent with its own local regulatory standards. Second, regulators must understand the settlement process to ensure the interests of all stakeholders are protected.

Remittance hubs are generally well equipped to provide information that can support licensing decisions. The largest mobile money hubs have also implemented rigorous compliance standards and are, themselves, subject to requirements set by European regulators with significant expertise and capacity. They have also implemented industry best practices for compliance, all of which can provide a degree of assurance to regulators. With the main mobile money hubs, these requirements are often set by regulators with significant expertise and capacity.

On settlement, local consumer interests are typically protected by pre-funding—the process of pre-emptively depositing funds into the settlement account of the receiving entity. Pre-funding is common practice amongst mobile money international remittance providers and assures receiving customers that their funds will be issued, even if the sending company becomes insolvent.

Despite these safeguards, in many markets, including Kenya, regulatory approval is required before the mobile money provider can connect to another operator via the hub. Rather than requiring formal approval for each new corridor opened via an existing hub partner, regulators can opt to be notified of new corridors, on a no-objection basis.

The Bank of Zambia has taken a particularly progressive approach. Its approval of international remittance services for mobile money providers applies to all remittance partners, and the controls (anti-money laundering, sanctions list screening, settlement, etc.) employed by the mobile money provider in question are subject to rigorous examination by the regulator. As the same controls are applied to any entity connecting through the hub, this assessment does not need to be repeated, streamlining the approval process for opening additional connections via that hub.

The hub model is working in several markets in different regions, including Latin America, Africa, and Asia. It is facilitating the rapid scaling of mobile money as a competing service to traditional formal channels and has reduced the burden on regulators in the process.

The GSMA recommends that regulators allow for the regulatory approval of hub-based connections in line with the process and example outlined above. To facilitate the spread of this practice, the GSMA also encourages the development of standardised guidelines on hub vetting procedures. Operators and hubs will, of course, need to work closely with the regulators involved to ensure the guidelines are practical and effective.

Recommendations

The challenges discussed in this paper highlight the need for greater and continuing stakeholder dialogue to maximise the potential of mobile money in the international remittance sector. To recap, the GSMA recommends the following as best practice in licensing:

- Publish application requirements for mobile money providers seeking approval to facilitate international remittances (see example in Appendix B).
- Establish a clear timeframe for the review of license applications.
- In jurisdictions where electronic money regulations are being developed or revised, include international remittances in the scope of the electronic money regulations.
- Where practical, allow both inward and outward international remittance services, taking a graduated approach to outbound transaction limits, if necessary.
- Allow in-principle approval of partnerships undertaken via a vetted hub and clearly outline the process for hub vetting.

Conclusion

Mobile money has demonstrated that it can serve the needs of both international remittance senders and receivers, particularly for low-value transactions. Yet, the full potential of mobile money has not been realised, in part because of protracted approval processes, receive-only licenses, and a lack of procedural efficiency to enable mobile money remittances via hubs to scale. Solutions to all of these issues have been identified by regulators in markets where mobile money remittances are beginning to flourish. This paper reflects an initial effort to document best practice in the hope of accelerating the uptake of efficient practices.

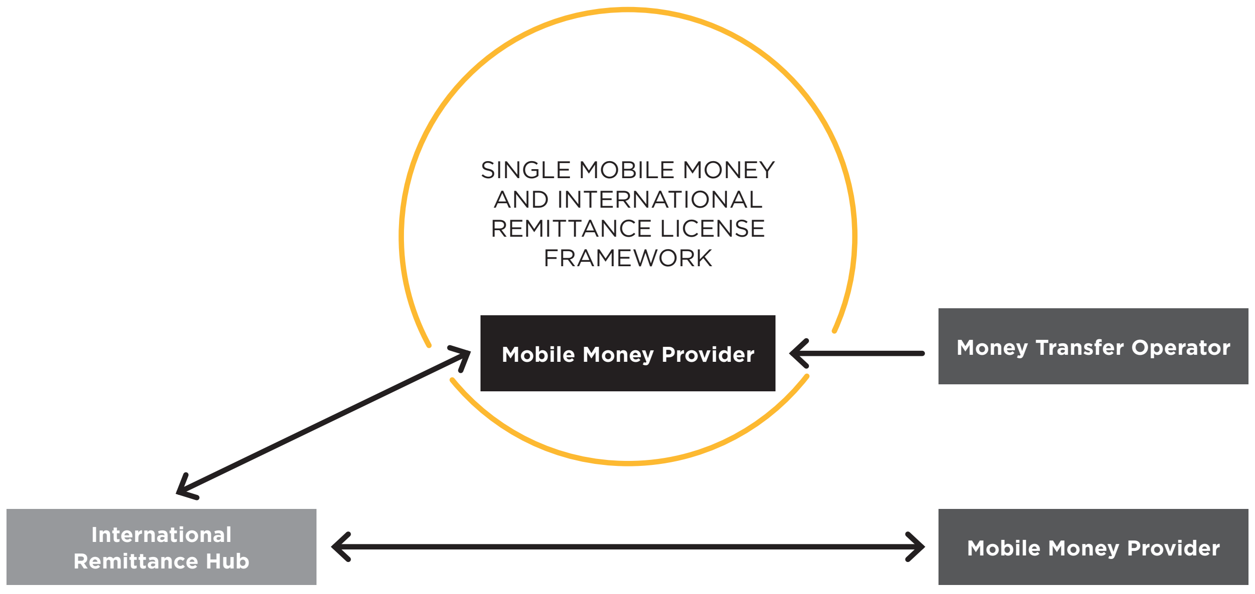
While licensing is the biggest and most common obstacle faced by mobile money providers in this space, it is not the only one. Other regulatory challenges and potential solutions will be the subject of future GSMA work. The GSMA is also partnering with other organisations to convene regulators, providers, and hubs, with a view to building mutual understanding and encouraging the adoption of best practices.

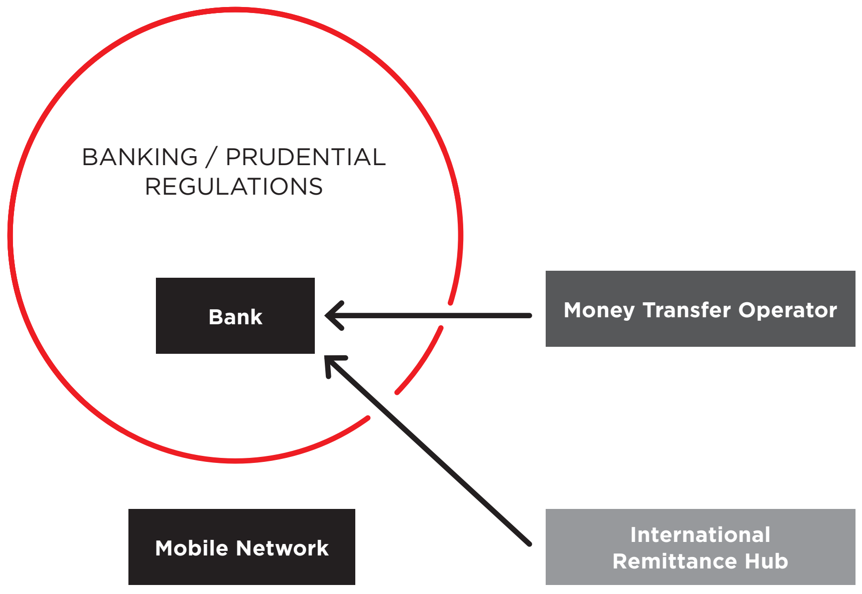
Recommended readings

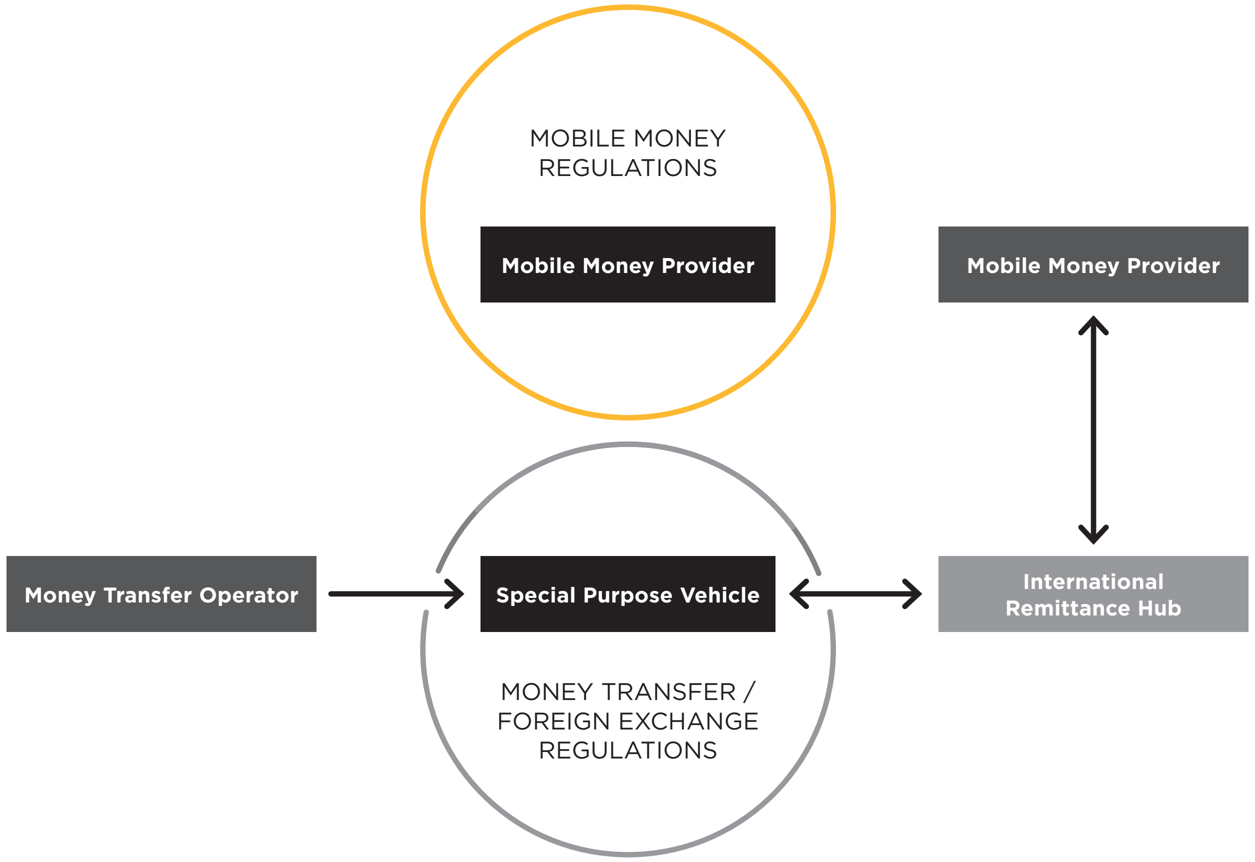
- **Driving a price revolution: Mobile money in international remittances**
- **Mobile money crosses borders: New remittance models in West Africa**

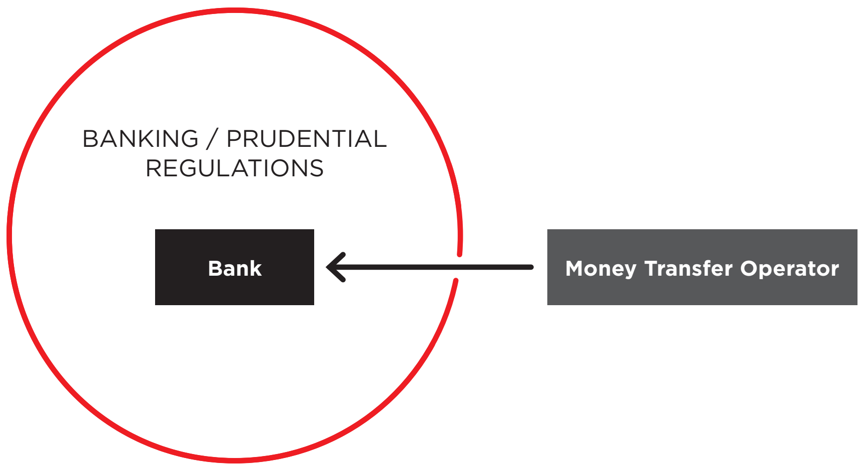
Appendix A: Common international remittance license frameworks and considerations

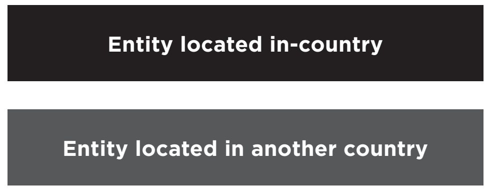
Common license frameworks		Country examples	Type of international remittance services permitted	Considerations
Single mobile money and international remittance licensing framework	Mobile money providers can be directly licensed to provide international remittance services.	• **Rwanda**: Mobile money providers holding an EMI license issued by the National Bank of Rwanda can provide international remittance services. • **Ghana**: Mobile money providers holding an EMI license issued by the Bank of Ghana can provide international remittance services.	• **Rwanda**: Inward and outward international remittances permitted. • **Ghana**: Inward international remittances permitted. Currently the laws of Ghana do not permit non-banks to provide outward international remittance services.	• Simplified licensing framework under existing EMI/PSP regulatory framework. • Greater process efficiencies as no further license is required to provide international remittance services. • Reduced timeframe for launching and scaling services. • Potential to increase competition and reduce remittance transaction costs. • Unified reporting requirements. • Improved market efficiencies.
Specialised Entity/ Special Purpose Vehicle (SPV)	Mobile money providers need to set up a separate entity, incorporated exclusively to provide e-money services.	• **Kenya**: Any entity wishing to enter the money remittance business is required to obtain a 'Money Remittance License' for that purpose. The entity may not undertake any business other than foreign exchange business.	• **Kenya**: Inward and outward international remittances permitted under a "money remittance license".	• Consolidated reporting by the central bank of all remittance flows to/from the country. • Multiple licensing frameworks—telco, mobile money, and international remittances—increase regulatory compliance costs. • Complicated compliance, as SPV and domestic mobile money business are overseen by different supervisory arms of the regulator.
Partnership with a local bank	Bank provides core international remittance services, whereas the MNO provides the distribution channel only.	• **Pakistan**: MNOs need to partner with a bank to offer mobile money and international remittance services to their customers.	• **Pakistan**: Inward international remittances permitted.	• Bank retains full control over all activities • Dialogue between regulator and entity undertaking regulated activities (mobile money provider) often mediated by third party (bank). • Regulator's existing knowledge of the system is leveraged and management of a non-bank entity is avoided. • Provider business case for investment weakened, as revenue typically. • Conflict of interest where banks have competing international remittance offerings.
Restricted to banks only	Non-bank mobile money providers cannot provide international remittance services under existing laws.	• **Jordan**: The laws of Jordan currently do not permit non-bank entities to provide international remittance services.	• **Jordan**: None.	• Service and price competition restricted. • Transaction lead times are significantly longer compared to lead times when using mobile money providers or a fintech remittance provider.


SINGLE MOBILE MONEY AND INTERNATIONAL REMITTANCE LICENSE FRAMEWORK
Mobile Money Provider
Money Transfer Operator
International Remittance Hub
Mobile Money Provider


BANKING / PRUDENTIAL REGULATIONS
Bank
Money Transfer Operator
Mobile Network
International Remittance Hub


MOBILE MONEY REGULATIONS
Mobile Money Provider
Mobile Money Provider
Money Transfer Operator
Special Purpose Vehicle
International Remittance Hub
MONEY TRANSFER / FOREIGN EXCHANGE REGULATIONS

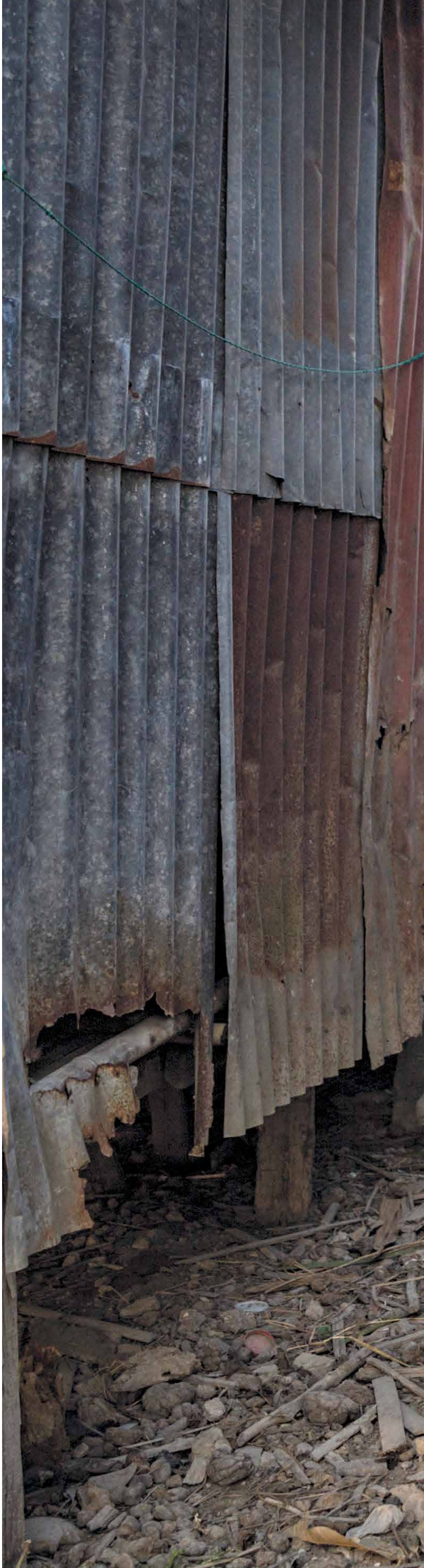

BANKING / PRUDENTIAL REGULATIONS
Bank
Money Transfer Operator


Entity located in-country
Entity located in another country

Appendix B: License application checklist

1. A completed application form (if provided by the regulator) or license application request, stamped and signed by the most senior individual in the applying entity.
2. A notarised copy of the applicant's authorisation (whether licenses or letters of no objection) to issue electronic money and provide payment services.
3. A notarised copy of the applicant's registration certificate.
4. Details of owners and beneficial owners (if any).
5. Organisational chart and roles and responsibilities of relevant staff.
6. Business plan, including business model, a list of the remittance corridors to be serviced, details of send-and-receive partners, roles of associated players in the value chain (such as hubs and agents).
7. Registration and license information for third parties, including send and receive partners and hubs.
8. Service design, including end-to-end transaction flows involving all parties.
9. Governance arrangements and internal procedures.
10. Details of "Fit and Proper" tests carried out on directors, managers, and other relevant staff.
11. Detailed risk management framework.
12. AML/CFT policies (setting out compliance with FATF Recommendations and local AML/CFT legislation or regulation).
13. Product risk (including ML/TF risks) review, setting out identified risks and mitigation measures such as transaction limits, sanctions check, etc.
14. Details of KYC, transaction monitoring, and reporting tools.
15. Most recent independent Information Systems (IS) audit on the applicant's mobile money platform.
16. Evidence of sufficient capital and/or guarantees.
17. Details of applicant company accountants, bankers, and auditors.

For the full report please visit the GSMA website at www.gsma.com



GSMA HEAD OFFICE
Floor 2
The Walbrook Building
25 Walbrook
London EC4N 8AF
United Kingdom
Tel: +44 (0)20 7356 0600
Fax: +44 (0)20 7356 0601