Regulating Mobile Money
4 Areas of Focus

Nairobi, 1 December 2010
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

Bank licensed, Bank managed

Bank licensed, MNO managed

MNO licensed, MNO managed

Share of Responsibility

Proven ability to expand access

E-Money
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

- **Know-Your-Customer** 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
KYC and the FATF

- International standard setter
  - Financial Action Task Force
- 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

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

Controlled by provider

Service Design

Literacy

Consumer Protection Considerations

Financial literacy

Familiarity with the “how to” of resolutions

Familiarity w/ rights as a consumer
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?
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