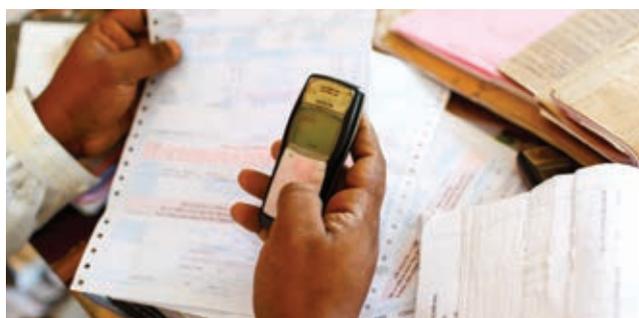




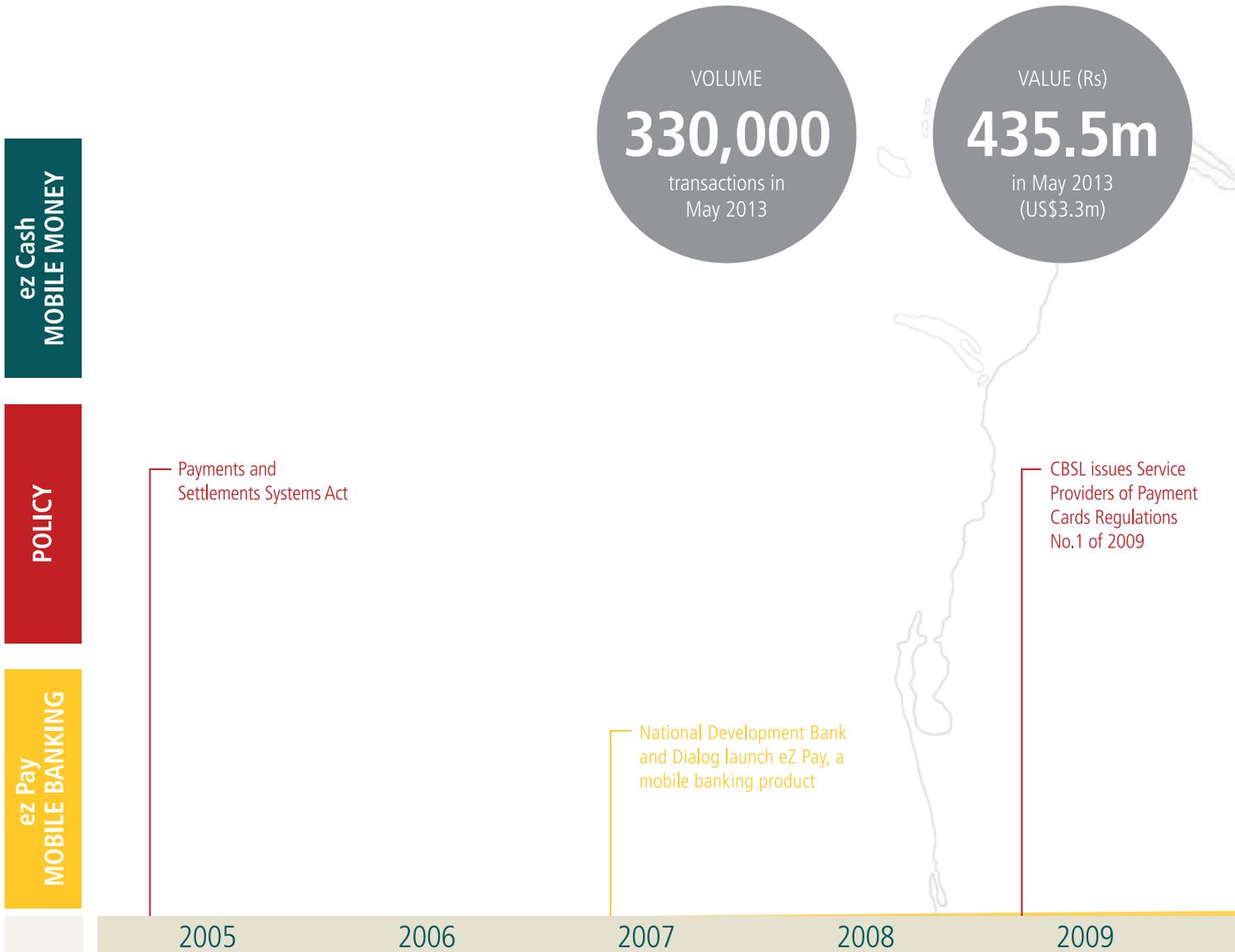
Mobile Money for the Unbanked

Enabling Mobile Money Policies in Sri Lanka The Rise of eZ Cash

Simone di Castri
July 2013



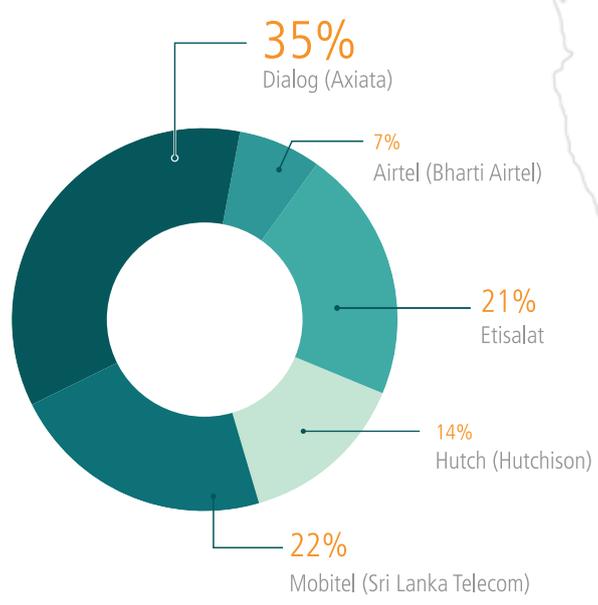
The Rise of eZ Cash



Sri Lanka at a glance



Telecom market share



Financial sector touchpoint



AVERAGE P2P TRANSFER
US\$15.5
 in May 2013

CBSL grants a licence to Dialog and agrees on proportional risk-based KYC requirements

In June 2012, Dialog launches its mobile money service, eZ Cash

In June 2013, one year after launch, Dialog reaches 1m registered eZ Cash users, 20% of which are active

1,000,000
 registered mobile money users

200,000
 active users (30 days)

15,000
 mobile banking users

CBSL issues draft Mobile Payments Guidelines No. 1 for public review

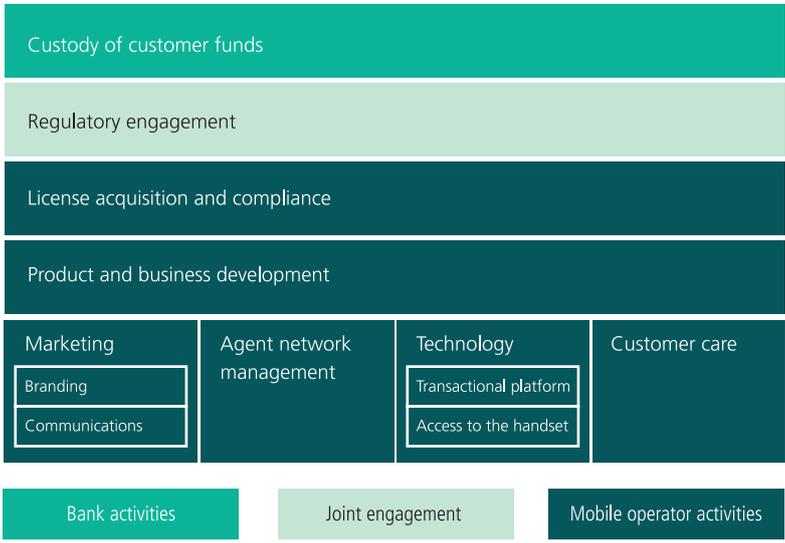
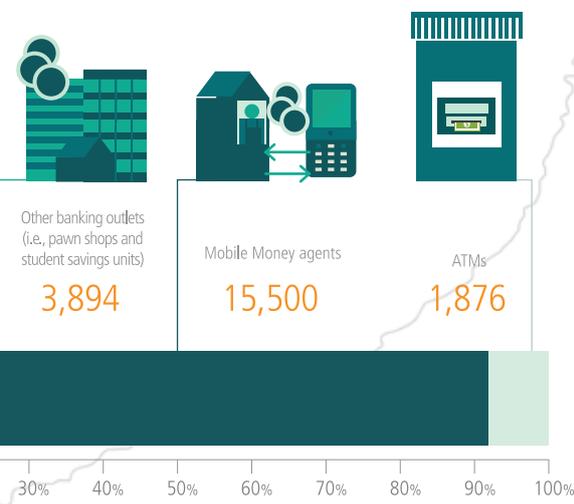
CBSL issues two distinct guidelines for regulating bank-led and telco-led models of mobile payment systems:

- Mobile Payments Guidelines No. 1 of 2011 for Bank-led Mobile Payment Services
- Mobile Payments Guidelines No. 2 of 2011 for Custodian Account Based Mobile Payment Services



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The Sri Lankan custodian bank account model



Introduction

For the Central Bank of Sri Lanka (CBSL), 2012 was the culmination of a 5-year effort to establish an enabling regulatory framework for mobile money that opened the market to both bank and non-bank providers and extended services to Sri Lanka's unbanked population. Marking this shift was the launch of eZ Cash, a new mobile money service that has signed up over 1 million customers in just one year. eZ Cash is operated by Dialog Axiata PLC (Dialog), a mobile network operator (MNO) that was awarded a licence to operate as a payment services provider following revisions to the central bank's regulations.¹

As Ajith Nivard Cabraal, Governor of the Central Bank of Sri Lanka, explains, "Achieving financial inclusion through progressive regulation and innovation has been a principal and consistent ethos of the Central Bank of Sri Lanka." The Sri Lankan case offers important lessons for both regulators and MNOs working to achieve the dual objectives of financial inclusion and economic growth.

Lessons for regulators:

- Enabling regulatory frameworks play a fundamental role in expanding the reach and improving the efficiency of the financial sector.
- Building an inclusive digital financial system requires a level playing field in which both banks and non-banks, particularly MNOs, can provide mobile money services.
- Developing mobile money requires leveraging the value-added proposition for MNOs
- Regulators are more likely to achieve their objectives if they are open-minded, test their policy approach, and cultivate a dynamic of mutual learning with private sector players.
- There is likely no need to reinvent the wheel: some of the policy and regulatory solutions to enable mobile money have already been tested successfully in a number of countries where MNOs are providing sound and secure mobile money services.

Lessons for MNOs:

- Be proactive with the regulator: engaging in transparent, constructive dialogue helps to build a more enabling regulatory environment.
- Launching several types of accounts with different KYC requirements can ease registration requirements for low-income users while satisfying the heavier transactional needs of power users.
- Use SIM registration data to support KYC whenever possible.

¹ Dialog was awarded a licence to operate as a Service Provider of Payment Cards under the Payments and Settlements Systems Act No. 28 of 2005.



1. Testing and learning

In August 2007, the CBSL authorised the National Development Bank (NDB), a licensed commercial bank, to launch a mobile banking service called eZ Pay. The regulatory framework required customers to have a bank account to sign up for the service. NDB partnered with Dialog, a major MNO in Sri Lanka with over 7.5 million GSM subscribers. eZ Pay was subsequently extended to include another bank, Seylan Bank PLC, and a microfinance institution, Lanka ORIX Leasing Company PLC. However, the service never gained traction. By March 2012, Dialog had only registered about 13,000 eZ Pay customers in Sri Lanka. Meanwhile, there were at least 50 mobile money deployments worldwide with 100,000 registered customers each, 60% of which had more than 80,000 active users.

The number of customers using eZ Pay was very low compared to the potential market. Sri Lanka has a population of 20 million people and 9.3 million GSM unique subscribers. According to an International Finance Corporation (IFC) report², Sri Lanka has high penetration of bank accounts, but low access to electronic payments like debit and credit cards due to the slow rollout of ATMs and Point of Sale (POS) devices. The IFC report attributed this in part to Sri Lanka's relatively inefficient banking sector. The report pointed out that only a small number of transactions were going through the eZ Pay system, primarily because there was minimal marketing and no clear value proposition to the consumer.

“Because the regulator only allowed a bank-led model, Dialog was not able to make the right level of investment in the product and bring it to scale. Also, requiring customers to have a bank account – and imposing burdensome know-your-customer requirements – did not encourage people to sign up.”

Fariq Cader
Senior General Manager
Dialog

2. Rethinking the business model, product features, and policy approach

While eZ Pay was struggling to take off, CBSL regulators, Dialog management, and the officers of Hatton National Bank PLC, another commercial bank, were working together to understand the barriers that were keeping the service from succeeding and to identify solutions that would harness the potential of mobile money while still safeguarding customer funds. The regulator and the provider analysed the experiences of countries where mobile money was thriving and learned how to design the business model and the product in a way that provided customers with a life-enhancing service. “In this phase it was very important to have a supportive banking partner that would help us to establish a constructive dialogue with the Central Bank, and was actually proactive in building that engagement,” points out Trinesh Fernando, General Manager, Group Legal and Regulatory, Dialog.

In 2010, the CBSL issued the draft Mobile Payments Guidelines No. 1 and solicited public feedback. In 2011, two guidelines were issued regulating two distinct mobile money products:

- an e-wallet linked to a bank account (regulated by the Mobile Payments Guidelines No. 1 of 2011); and
- an e-wallet provided by a non-bank (including an MNO) that must have equivalent funds held in a custodial account in one (or more) licensed commercial bank(s) (regulated by the Mobile Payments Guidelines No. 2 of 2011).

A licence to provide mobile money products under the custodian account model can be granted to any “Licensed Service Provider”, which is any mobile payment service provider licensed under the Service Providers of Payment Cards Regulations No. 1 of 2009. Four types of entities qualify for this licence:³

- any licensed commercial bank
- any licensed specialised bank
- any registered finance company
- any public company with unimpaired capital of at least 75 million rupees (Rs).

Dialog and other MNOs that fit the criteria qualify based on the last requirement.

In April 2012, Dialog was awarded a licence to provide mobile money services under the Payments and Settlements Systems Act No. 28 of 2005. The CBSL agreed to let Dialog register clients without requiring them to have a bank account. CBSL also established proportional risk-based KYC requirements for new customers. The evolution of CBSL’s approach created an open playing field for banks and non-bank providers, allowing MNOs to launch their own mobile money deployments with a competitive set of products.

This enabling regulatory environment also extended the benefits of sending and receiving money electronically to a broad segment of society that had previously been excluded. As the Governor of the Central Bank of Sri Lanka explains, “Over the past decade, the mobile phone

³ According to Section 5a, Service Providers of Payment Cards Regulations No. 1 of 2009

has no doubt transformed the lives of millions of Sri Lankan citizens from across all parts of the country. Now with the facility to transfer money and make payments direct from the mobile phone, a vast majority of our population would be further empowered with the power and efficacy of electronic transactions.”

eZ Cash launches and takes off

In June 2012, Dialog launched its telco-led mobile money service under the name “eZ Cash”. In the first month, over 300,000 customers signed up. One year after launch, eZ Cash has more than 1 million customers, 20% of which are active, having conducted at least one transaction in the past 30 days. As a benchmark, in June 2012 only 16 mobile money deployments globally reported to have more than 200,000 active customers.

In May 2013, 330,535 transactions were conducted through eZ Cash, exceeding Rs 435 million. Dialog is currently the only MNO licensed under the Service Providers of Payment Cards Regulations No.1 of 2009.

“The use of the mobile phone to send and receive money and engage in transactions with the broader retail and enterprise sectors of the economy has increased efficiency and expedited the time taken to conclude a business transaction, thereby giving a big boost to the national economy.”

Anusha Palpita

Director General

Telecommunications Regulatory Commission of Sri Lanka (TRCSL)

3. Regulation, features and security of eZ Cash

eZ Cash customers can transfer money, pay utility bills, and make other types of payments to merchants and institutions⁴ through a user-friendly, trilingual menu (English, Sinhala, and Tamil).

Technology standards

A USSD communication channel is used to process transactions, and each transaction is protected by a subscriber-defined PIN and 3DES authentication and transaction security protocols. Dialog is the first Licensed Electronic Payments provider in Sri Lanka to receive PCI-DSS certification.⁵

Safeguarding customer funds

In compliance with the regulatory requirements CBSL set up to safeguard customer money, e-money accounts are updated in real time, and any transaction processed by eZ Cash is backed 100% by pooled accounts held in a commercial bank. The equivalent of the e-money in circulation is held by Hatton National Bank PLC (HNB), which acts as a custodial bank for eZ Cash. According to HNB CEO, Rajendra Theagarajah, “this solution will provide the platform for financial inclusion of all Sri Lankans and is part of the overall development roadmap envisioned for the country’s electronic payments landscape. HNB is confident that this would herald the much aspired new chapter in inclusive payment solutions venturing beyond the traditional methods, and empowering people with the combined resources of the mobile telephony and banking sectors.” The interest received on custodial accounts is below market rate and is treated by Dialog as revenue.

eZ Cash is further secured through a trust instrument administered by Deutsche Bank AG. Therefore, the e-float backing customer funds in an HNB account is out of Dialog’s reach; it cannot intermediate the funds nor use them for security, collateral, or operational needs. If Dialog were to cease operations, its creditors would not have access to the pooled funds held by Deutsche Bank.

Transaction limits and KYC procedures: a proportional risk-based approach

Customers can activate eZ Cash simply by dialling a number from their mobile phone, and Dialog uses the KYC information already stored in its database from the SIM card registration to verify their identities. The SIM card registration process includes making a physical copy of the customer’s original national identity card (the photocopy is later digitised and uploaded to the internal database), which is stored with the signed contract. All Sri Lankans are required to apply for their national identity card on their sixteenth birthday and to carry it with them at all times.

The maximum amount that a new eZ Cash customer can add to their e-wallet is Rs 10,000 (US\$80). This “Classic Account” allows them to send money (up to Rs 5,000 per transaction), pay utility bills (up to Rs 10,000), and conduct other transactions such as online payments or microinsurance, microfinance loan, or subscription payments.

⁴ For example, recurring payments such as insurance premiums, charitable donations, or subscriptions and membership payments to clubs and professional bodies.

⁵ Payment Cards Industry – Data Security Standard.

If customers want to conduct transactions that exceed these limits, they can activate a “Power Account” with a top-up limit of Rs 25,000 (US\$200) and higher transaction limits. To activate a Power Account, a customer must visit a Dialog Customer Care Centre to confirm his/her identity. As of today, 5,000 customers have signed up for a Power Account and usage rates are growing at a pace comparable to registrations.

Table 1. Transaction and maximum balance limits for the different account types

	Daily limit	Maximum balance	Registration procedure	Number of accounts
Dialog Classic Account	P2P Rs 5,000 per transaction (US\$40)	Rs 10,000 (US\$80)	Self-registration by phone using personal information already stored during SIM registration	Over 1 million
	Utilities Rs 10,000 (US\$80)			
Dialog Power Account	P2P Rs 5,000 per transaction (US\$40)	Rs 25,000 (US\$200)	Registration at Dialog service point(s) with additional KYC required	Over 5,000
	Utilities Rs 25,000 (US\$200)			

Before CBSL revised its policy approach Dialog customers who wanted to subscribe to eZ Pay were required to have already accounts with banks in the eZ Pay network, so the KYC check was conducted when they originally opened their bank account.

Distribution and outsourcing of services

A registered eZ Cash subscriber can load money into his/her e-wallet at any of the 15,000+ eZ Cash Points across Sri Lanka. Cash-in can also be conducted at supermarkets or online through many of Sri Lanka’s major financial institutions. There are no restrictions preventing merchants from acting as cash-in and cash-out agents, but Dialog must perform due diligence. All new agents are trained by Dialog. The training covers information about operational issues, AML/CFT compliance, and fraud prevention. Dialog supplies the central bank with an updated list of registered agents periodically.

In accordance with international best practices, CBSL’s guidelines require Dialog to define, at a contractual level, the duties, responsibilities, and procedures to be followed by merchants acting as agents for cash-in and cash-out transactions. Dialog is obligated to monitor its distribution network, taking necessary steps to address, mitigate, or eliminate merchant-related risks.

Customer protection and assistance

CBSL’s guidelines also cover certain aspects of business conduct. For instance, the terms and conditions for a mobile money service must be provided in Sinhala, Tamil, or English, and should include information on dispute resolution and the procedures for reporting lost or stolen mobile phones and stop payments. The eZ Cash customer care centre is housed within Dialog’s main customer care centre. Over 100 call centre operators have been trained to respond to most issues regarding eZ Cash. Customers call most often to request information about the service

(4,000 calls per month), to reset their Personal Identification Number (PIN) (3,000 calls), and to ask about the details of a transaction (1,500 calls). Customers also call to report a problem with the service, such as a payment being made to the wrong account or an incomplete P2P transfer or GSM reload (through eZ Cash). If an eZ Cash customer has a problem, the customer can call, text, or email the customer care centre. The regulation requires providers to establish a customer care centre to respond to customer inquiries and complaints, and customers must be provided with a reference number and have their case resolved within three business days. Depending on the problem and type of complaint, Dialog has the authority to, for example, block the customer's e-wallet, settle the transaction through a reversal, or involve the police or Financial Intelligence Unit (FIU) in the case.

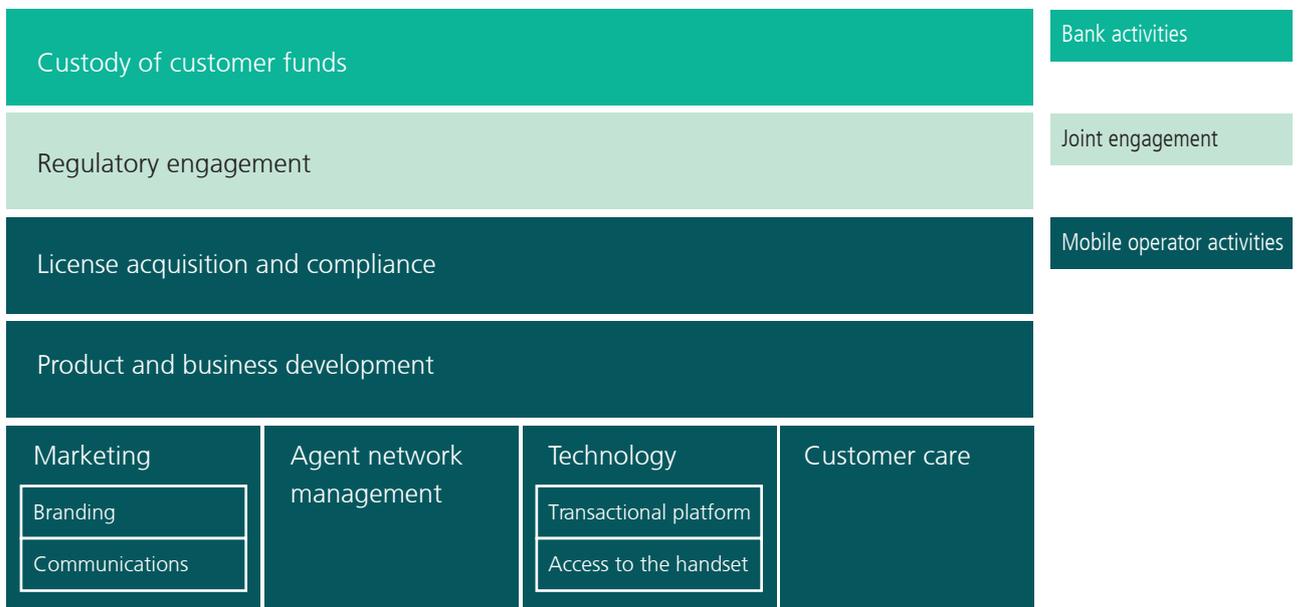
Fraud and risk prevention

According to the guidelines, the providers must also implement a robust security risk management framework to identify, assess, reduce and monitor security risks, with the aim of protecting the confidentiality of sensitive information and the accuracy, reliability, and completeness of the information that is processed, stored, or transmitted. Providers are also responsible for properly authenticating and authorising the functions performed by agents.

IT platform

The business continuity plan and disaster recovery site shall be tested and reviewed periodically. In the event of a disaster or operational failure, the disaster recovery site must be capable of taking over operations without causing any inconvenience to customers.

The Sri Lankan custodian bank account model



Enabling policies allow different business models to be adopted by the providers, and successful mobile money deployments leverage the assets and capabilities of MNOs and of banks. The Sri Lankan custodian bank account model makes the best use of MNOs in the value chain.

4. Challenges and outlook

Digital financial inclusion in Sri Lanka has tremendous growth potential. Nokia Research, in estimating the total cost of mobile ownership in 77 countries in 2009, found Sri Lanka to be one of twelve countries with the most affordable mobile services. The average mobile user in Sri Lanka spends less than US\$5 per month for a standard set of telecom services, whereas the average cost of services in the 77 countries was more than twice as much (\$10.88). LIRNEasia, a regional telecom policy think tank in Asia that has surveyed telecommunications use among the poor, found that 77% of people classified as low-income had used a phone in the previous week, and 73% of low-income households had a phone. The survey revealed that 30% of respondents were aware of these services.

Cheap devices and mobile services, awareness of services among low-income households, and a regulatory framework that creates an open and level playing field for mobile money, are all necessary conditions for the development of inclusive digital financial sectors and cash-lite economies.

What's next for Dialog? Fariq Cader, Senior General Manager at Dialog, outlines the tasks and challenges ahead: "We are speaking with new possible partners within both the telecommunications and the financial sector to identify ways to expand the mobile money ecosystem adding value to customers. Certainly bulk payments and Near Field Communication (NFC) extension for new markets such as transport are services that would benefit eZ Cash users and create efficiencies in the real economy."

The other major challenge is to build a system to channel international remittances inwards through the mobile money wallet in a cost-effective way. The Sri Lankan diaspora sends home every year US\$ 6.3 billion (equivalent to 9.7% of the country GDP) and Dialog believe is their responsibility to provide them with a convenient and safe service to contribute to the economic growth of the country.



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