GSMA Mobile Money Transfer

Regulatory Impact on Business Model Choice

Table of Contents

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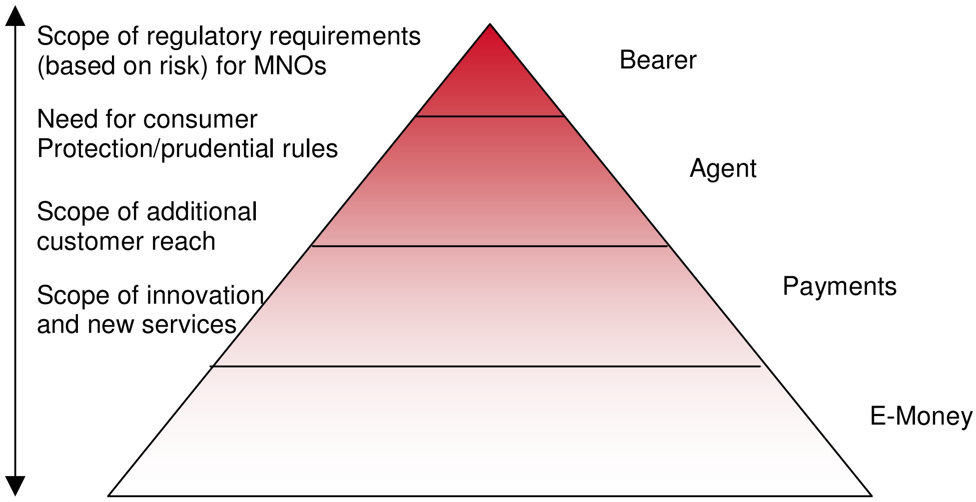
1 An Overview of the Business Models

Depending on the regulatory regime in the given country and the amount of regulatory burden the mobile operator is willing to take on, there are three groups of business models to choose from. The grouping of business models in this chapter is based on the amount of the regulatory burden for the mobile operator.

The business model where the mobile operator acts as a bearer is the group of business models with the lowest level of regulatory compliance for mobile operators. The second group of business models, where mobile operators become agents of remittance providers and financial institutions, is faced with a medium level of regulatory burden. Those business models where the mobile operator becomes a financial institution impose a high regulatory burden on the mobile operator.



2 Mobile Operator as Bearer – No/Low Regulatory Burden

In this group of business models the mobile operator is not involved in the provision of the actual financial services. The mobile operator only supports the bearer channel or normal consumer voice/data usage. The mobile banking application is built away from the mobile operator and does not require the mobile operator for provisioning or support. An example of this would be a JAVA application built by a vendor, where the download of the application is dependent on the network supporting GPRS but not necessarily facilitated by the mobile operator.

In some cases the mobile operator is required to complete some of the application development due to the bearer channel supported. An example of this would be where the vendor/bank makes use of the mobile operator's hosted USSD2 gateway or IVR platform in the provisioning of the service.

A typical bearer business model is a mobile operator enabling its customers to execute a credit card payment with their mobile phone with near field technology.

SIM application provisioning by the mobile operator also falls under the group of business models where the mobile operator is a bearer. When providing a SIM application the mobile operator needs to integrate into a financial institution for the processing of transactions, but from regulatory perspective the actual financial transaction is still undertaken by the financial institution. Hence the mobile operator remains outside the realm of financial regulation.

An example of fairly high levels of integration and network involvement is where the network operator facilitates the implementation of a mobile banking platform or hub[1]. The mobile payment solution in this case is offered in a hosted environment to the banks in market. This solution requires integration into the banks, customer data repositories, financial switches, auditing and certification. However, the financial transaction itself and regulatory compliance still remain with the financial institution.

Partnerships, joint ventures and cooperation with banks also fall under the bearer model as long as the financial transaction including signing-on of customers and the cash-in/out of the financial transaction is undertaken by the financial institution itself and not by the mobile operator.

In all the above business models the regulatory responsibility for compliance with financial regulation remains ultimately with the financial institution. The regulatory burden for mobile operators from a financial perspective remains low or non-existent.

Generally, mobile operators have no difficulties from regulatory perspective to choose this business model.

3 Mobile Operator in Cooperation with a Financial Institution – Medium Regulatory Burden

Most of the business models above are in some way a cooperation with financial institutions. The intention to cooperate with financial institutions from regulatory perspective is to avoid the issues of regulatory compliance for the mobile operator. However, there are some cases where cooperation with financial institutions trigger regulatory compliance issues for mobile operators. These business models have been classified in this group.

Examples of business models with medium regulatory burden are mobile operators operating as agents of financial institutions or of remittance providers. The actual financial transaction and therefore the regulatory compliance is still undertaken by the financial institution. However, the MMT service may be offered in retail stores of mobile operators. The mobile operator can be present at the customer interface either through signing customers on to the MMT service or through providing cash in/out of remittances.

Being an agent of a remittance provider or financial institution is only possible if the agency rules are favourable to non-financial institutions such as mobile operators to become agents. If the rules do not allow mobile operators or other retail stores to become agents, then this business model may not be an option. Being an agent means also that the mobile operator can accept and disburse cash for remittances and that AML/CFT rules have to be followed (on behalf of a bank or remittance provider).

Business models in this group can be attractive for mobile operators, because the major part of regulatory compliance still remains with financial institutions. The regulatory compliance from financial perspective is restricted to the situation of the mobile operator operating at the customer interface in the retail store.

[1] Reference to GSMA MMT project

Another challenge for mobile operators is that the majority of current regulation was designed for traditional financial institutions. One of the characteristics of a MMT service offered by a mobile operator is that the service is a ‘mobile experience’ in line with characteristics of mobile services in general. In some cases, compliance with AML/CFT rules can make a user-friendly mobile experience impossible. An example would be the AML/CFT requirement that customers have to identify themselves in a face-to-face meeting in a bank branch with an official paper proof of address.

Compared to the bearer business model, mobile operators who want to cooperate with financial institutions whilst being present at the customer interface (cash in/out) are more dependent on the regulatory environment of their respective country. If the agency rules prevent them to handle cash and undertake the customer due diligence procedures for AML/CFT prevention, then they may not be able to choose these business models. (link to agency chapter in level 1 report)

4 Mobile Operators as Financial Institutions – High Regulatory Burden

Business models where mobile operators substitute financial institutions in the value chain by becoming themselves a financial institution can also in some cases be an attractive business model for mobile operators. This is the highest level of mobile operator involvement in MMT, where the mobile operator owns the entire value chain. This option is resource and technology heavy and will take time to implement. It also increases the regulatory burden to a high level.

The highest regulatory burden for business models in this group is imposed on the mobile operators deciding to become a bank themselves. In this case mobile operators apply for a banking licence, which allows them to undertake a full range of banking activities. A banking licence allows the mobile operator to offer its customers bank accounts, which can be used for any sort of mobile banking offered by the mobile operator itself instead of by the bank cooperating with the mobile operator (i.e. in the bearer channel business model).

A lighter version of regulation allowing mobile operators to store customer’s monetary value intended for third party payments on an electronic device is e-money regulation. E-money regulation is not available in every country. In countries where e-money regulation does not exist, generally full banking rules apply to the potential e-money institution instead. However, where e-money regulation does exist the level of prudential regulation is lower compared to banking regulation. The compliance rules still include capital requirements, restrictions on use of funds, structural separation within the business between financial and mobile services, additional reporting requirements as well as full compliance with AML/CFT rules. The e-money licence allows mobile operators to store monetary value on the electronic device, i.e. the mobile operator is responsible for the money float and execution of payments of its customers.

The lowest level of regulatory burden within this category for the mobile operator to become a financial institution in some countries is to become a payment services provider. The amount of regulatory compliance is based on the assumption that the risks for a payment institution are lower than for an e-money institution. The reason for this lower risk assessment is that the mobile operator is actually not holding prepaid monies of its customers, but it is only executing payments. This reduces the risk threshold.

5 Mobile Operator Checklist for Business Model Choice

Regulatory Situation	Relevant Regulation	Business Model	Comments
Banks are the only entities who process any sort of payments	None	Bearer	The bearer business model is possible without major regulatory compliance problems for mobile operators
Mobile operators are allowed to be agents	AML/CFT	Bearer, agent	Mobile retail stores can be used to accept/disburse cash
Mobile operators can do payments and e-money	AML/CFT E-Money and payment rules	Bearer, agent, payment service providers, e-money	Mobile retail stores can be used to accept/disburse cash, store cash to make payments to third parties
Mobile operators can get a banking license	Fully fledged banking license requirements	Bank	Mobile operators can offer whole range of services: savings, loans, payments, deposit taking

The above checklist gives an overview of which business models are a given option for the individual mobile operator depending on the regulatory situation in the country of interest.