

Mobile Money for the Unbanked

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Industry's recommended regulatory practices: Philippine E-Money Circular

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Background

In 2009, the GSMA Mobile Money for the Unbanked (MMU) Programme has been established to make mobile money services extensively available to those that have been previously unbanked. Furthermore, mobile money services should be considered mainstream for mobile operators and extend the reach and reduce the costs for formal financial services.

In this context the MMU working group has been established to work on industry-level to achieve the objectives of the MMU Programme. The MMU working group comprises mobile operators, financial institutions, technology providers, service providers and a wide range of experts in the field of mobile money. Views expressed in this position paper represent the collective view of the working group members as listed in the annex.

The MMU working group regularly proposes 'industry's recommended regulatory practices' to feature 'good examples' of regulation which already exist in the market.

Purpose of 'industry's recommended regulatory practices'

The purpose of this initiative is to highlight industry regulatory solutions which appear to be relevant and helpful to facilitate the development of MMU. With this discussion we hope to promote the dialogue about good regulatory practice from an industry perspective. Regulators can use this as positive feed-back about existing regulations, which are seen to be designed in such a way that they satisfy the needs of regulators and industry. Over time we hope to collect a range of examples, which constitute 'regulatory best practice' from an MMU perspective. This can become a resource for both regulators and industry discussing similar regulatory tools in different markets.

Philippine E-Money Circular

On 26 February 2009, the Philippines Central Bank (BSP) issued an 'e-money' circular that opens e-money issuance to non-banks. Such e-money regulation enables non-banks to offer electronic money solutions. In the context of MMU, this is enabling regulation for mobile money solutions. Offering e-money is one possible mobile money service amongst a range of possible services.

Other countries which have adopted similar regulations include the European Union and its 27 Member States, Zambia, some West African countries and Malaysia.

Principles of process

Before the E-Money Circular was adopted, the BSP allowed for several years of close **dialogue and mutual learning** between BSP and mobile operators. The mobile operators were allowed to experiment and to develop their business model within existing regulation (money transfer and AML/CFT regulation) under close supervision of the BSP. Prior to the E-money Circular, non-bank institutions engaged in mobile money transfers were being regulated by the BSP as money transfer agents and by the Anti-Money Laundering Council as covered institutions. This has led to the fertile regulatory environment, where **market players are closely supervised without initial regulation specific for e-money**. Once the learning and innovation in the market had been implemented and satisfied the needs of regulators and mobile operators, regulation was created to provide **legal certainty** to the status quo and to open the **level playing field** to new entrants.

Principles of the Philippine E-Money Circular

a) Openness and legal certainty
BSP has developed a regulatory solution in close dialogue with the Philippine mobile operators in a regulatory environment, which was open enough to allow innovation. Once the regulatory requirements had been developed, BSP created legal certainty which formalised the rules in a formal regulatory framework. The result is a combination of openness and legal certainty that allows the regulator to follow closely new developments without preventing innovation. In such a regulatory framework, the industry has incentive to innovate and to invest. The consumers are both protected and benefit from innovation and competition.

b) Regulation of services as opposed to regulation of market players
E-money issuance in the Philippines is open to banks and non-banks who want to *offer e-money under the same rules*. However, non-banks are required to be registered first with the BSP as money transfer agents before they could engage with the e-money business. These rules are proportionate to the risks of the actual type of service. The advantage of this approach is that mobile money services can be offered by anybody who complies with regulation which mitigates the risk of the actual service. This allows non-banks to enter the market if they are able to comply with appropriate regulation.

c) Regulatory principle: non-bank regulation to offer e-money
The Circular defines e-money and distinguishes it from deposit-taking. E-money is a monetary value electronically stored in convenient payment instruments that consumers can use to buy or pay for goods and services, to transfer or remit funds, and/or withdraw funds. E-money

instruments include cash cards, e-wallets accessible via mobile phones or other access device, stored value cards, and other similar products.

There is a clear delineation from deposit-taking: e-money issuers shall not engage in the extension of credit; the e-money issuer has to have sufficient liquid assets equal to the amount of outstanding e-money issued: bank deposits have to be separately maintained for liquidity purposes, government securities and other liquid assets have to be set aside for liquidity.

d) Regulatory principle: proportionality to risk

The Circular prescribes minimum requirements for all e-money issuers to ensure that the risks inherent in e-money business are mitigated and that the e-money issuers adhere to prescribed levels of safety, security and soundness. Examples: obligation to maintain accurate and complete records of e-money transactions, e-money shall only be redeemed at face value; monthly load limits; compliance requirements with AML laws, rules and regulations.

There needs to be consistency between various regulatory obligations with regard to risk. The AML rules have to be consistent with the risks of e-money issuers.

Further considerations

MMU services are still evolving and will continue to do so. In order to promote innovation that is beneficial to consumers, it is important that financial regulators remain open and flexible towards new developments in the area of mobile money. Mobile operators reciprocate by informing regulators on innovation and new technological developments. This will greatly aid the evolution of mobile money services for the unbanked.

Annex: Members of the MMU cross-industry group supporting this position paper

Affinity Mobile
Airtel
Celpay
CIP, Brazil
Citiglobal
Clickatell
Dialog
Du
Ekgaon Technologies
Eko
First National Bank
Fundamo
Genesis-Analytics
Globe
Icenimobile
Macalla
Kineto
mChek
Mi-Pay
Mondato
Monitise Group
MTN Mobile Money Holdings
Orange Group
Orascom Group
PlaNet Finance Advisory Services
Qtel
Royal Bank of Scotland
Setcom
Smart
Sybase
Turkcell
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Independent advisors to the MMU working group:

Bankable Frontier
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