



# **The Impact of COVID-19 Regulatory Measures on Mobile Money Services**



## Mobile Money

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Web: [www.gsma.com/mobilemoney](http://www.gsma.com/mobilemoney)

Twitter: [@GSMAMobileMoney](https://twitter.com/GSMAMobileMoney)

Email: [mobilemoney@gsma.com](mailto:mobilemoney@gsma.com)

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**Authors:**

**Kennedy Kipkemboi**, Mobile Money Regulatory Specialist;

**Brian Muthiora**, Mobile Money Regulatory Director;

**Saad Farooq**, Senior Advocacy Manager

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# Introduction:

The COVID-19 pandemic has affected almost every sector globally, significantly reducing consumer demand for products and services. The number of corporate layoffs and bankruptcies continued to rise throughout 2020 and subsequently, the financial system suffered significant distress. Governments worldwide have allocated more than \$13 trillion to counter the devastating economic impacts and stabilise economies and restart growth.

The results of financial stress testing during the pandemic have alerted financial services providers to maintain a healthy current ratio (current assets to current liabilities) and ensure sufficient access to liquidity. This will help avert a potential crisis that could trigger a chain of events, increasing systemic risks. In these circumstances, financial service providers in developing and emerging markets alike are taking radical steps to increase corporate economic resiliency by maintaining higher levels of liquidity and optimising corporate debts.

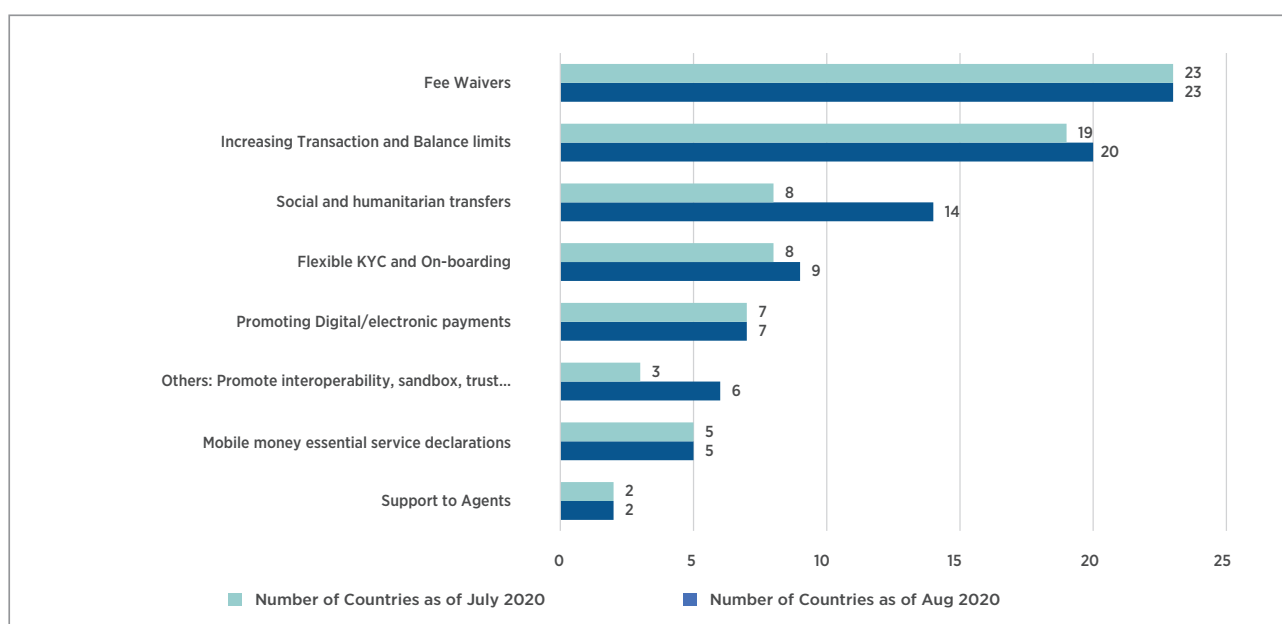
In many emerging markets, the pandemic driven national lockdowns have necessitated the increased use of digital/mobile money (financial) services to sustain livelihoods. This has led to an increase in the number of new mobile money account registrations and an increase in the values transacted. The unexpected influx in usage has resulted in an increasing operating costs of managing these platforms and capital expenditures incurred in increasing capacity.

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While mobile money providers have largely facilitated this in line with the national financial inclusion objectives, regulators have also played a key role in promoting the use of digital financial services by promptly approving transaction and balance limit increases and the adoption of simpler onboarding requirements in some markets.

The vast majority of regulatory interventions in the mobile money space introduced to mitigate the impacts of the COVID-19 pandemic had positive outcomes. However, fee waivers or elimination of fees had adverse implications on mobile money provider revenues, more so where such measures persisted. For example, **in Pakistan, Jazz Cash reported a 27.4 per cent YoY decline in revenues, attributed to the removal of fees on money transfers.**<sup>1</sup>

**Figure 1: Mobile Money Policy Measures by number of countries**



In contrast, countries that ended fee waivers promptly witnessed overall growth in revenues. For example, MTN Group reported an increase of 24.5 per cent in its mobile money revenue in its Southern and East Africa and Ghana (SEAGHA) markets, including Rwanda, Zambia, and Uganda, none of which had prolonged fee waivers.<sup>2</sup> Similarly, Airtel Africa noted in its financial results for the nine months ended 31 December 2020 that mobile money revenue grew by 47 per cent in constant currency, mainly from growth in Zambia, Tanzania, Uganda and Malawi.<sup>3</sup>

<sup>1</sup> Pro Pakistani Article on Jazz Cash

<sup>2</sup> MTN Annual Final Results 2020

<sup>3</sup> Airtel Results for the Nine-Month Period Ended 31 December 2020

# Case Studies

According to the GSMA State of the Industry Report on Mobile Money 2021, there was overall growth in mobile money in 2020. The financial statements of a number of mobile operators released in May 2021 disclose that in the financial year 2020-2021, mobile money transaction volumes and value expanded even though the mobile money revenues declined in some cases. As shown in Figure 1, different countries had different approaches to implementing COVID-19 regulatory measures, depending on their country's specific circumstances.

## GHANA

Ghana reported its first COVID-19 case on 12 March 2020. Soon after that, the Bank of Ghana announced<sup>4</sup> a range of measures to address the impacts of COVID-19. These included the following:

- i. Fee waivers: valid from March – June 2020
- ii. Flexible KYC and onboarding: permanent
- iii. Increased transaction and balance limits: permanent

The adverse impacts of the fee waivers were felt early. For example, soon after the Ghana Interbank Payment and Settlement Systems Limited (GhIPSS) announced fee waivers for services it was rendering, including Mobile money Interoperability, it quickly turned around and announced that it was unable to continue waiving fees owing to the unsustainability of such waivers. Consequently, GhIPSS was able to sustain growth in the value of transactions after the reinstatement of the fees. And results showed: despite the reinstatement of fees, by the end of 2020, Mobile Money Interoperability transactions had recorded a phenomenal gross 651 per cent year-on-year (2019-2020) growth in value transacted and 365 per cent growth in volume, far outperforming growth in any other GhIPSS platform segment.<sup>5</sup>

4 Statement on the COVID-19 Pandemic

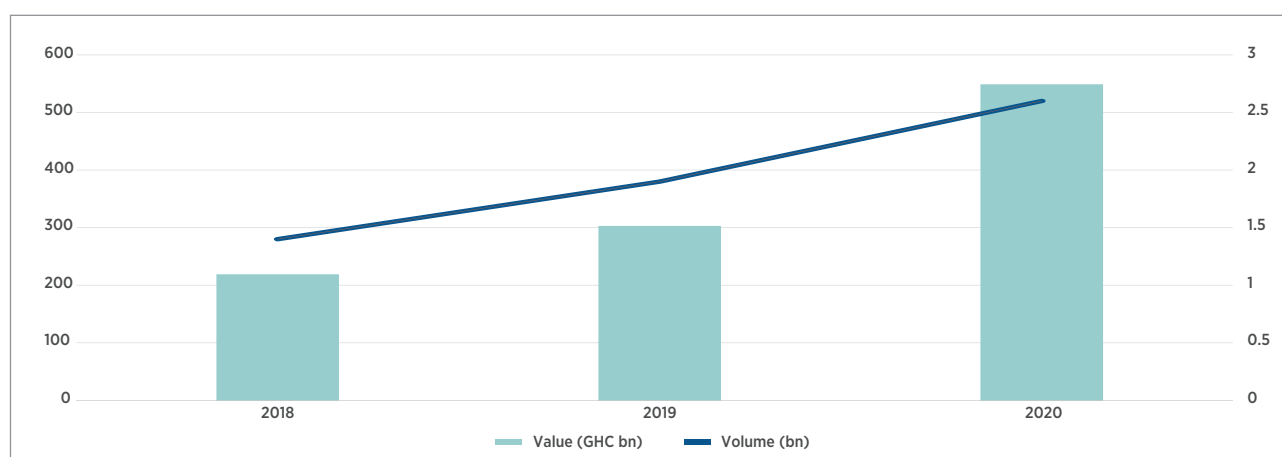
5 <https://ghipss.net/index.php/publications?download=13:2021-ghipss-annual-media-engagement>

**Figure 2: Breakdown of Mobile Money Interoperability (MMI) Transactions**

		2019 (Million)	2020 (Million)	% DIFF
Wallet to Wallet	Value Volume	<u>GHC 618.64</u> 9.19	<u>GHC 5,026.09</u> 42.89	<u>712</u> 367
Wallet to Bank	Value Volume	<u>GHC 162.36</u> 0.25	<u>GHC 838.48</u> 1.04	<u>416</u> 309
Wallet to e-zwich	Value Volume	<u>GHC 0.69</u> 0.006	<u>GHC 2.24</u> 0.012	<u>226</u> 110
Account to Wallet	Value Volume	<u>GHC 552.51</u> 1.60	<u>GHC 2,609.22</u> 5.83	<u>372</u> 265
e-zwich to Wallet	Value Volume	<u>GHC 143.27</u> 0.33	<u>GHC 290.73</u> 0.64	<u>103</u> 95

Source: GhIPSS

The cumulative impact of the response measures also had positive outcomes for Mobile Money Providers, whose revenues registered improved growth in the year ending March 2021. For example, MTN Ghana reported that mobile money business revenue in Ghana grew by 32.2 per cent in 2020 compared to 28 per cent the previous year, while mobile money subscriber growth was 16.3 per cent, or 1.5 million net additional subscribers<sup>6</sup>. Transaction volumes increased 36.8 per cent Year-on-year while value increased a phenomenal 81 per cent, suggesting that the increase in transaction limits was an essential catalyst for this growth.<sup>7</sup>

**Figure 3: Mobile Money Transactions**

Source: MTN Ghana 2020 Annual Report

Industry-wide, the Bank of Ghana reported an increase of 126 per cent in the value of mobile money transactions and an increase of 19.5 per cent in active mobile money accounts between February 2020 and February 2021.<sup>8</sup> This growth was notwithstanding the lifting of fee waivers that were in place between March and June 2020.

6 MTN Ghana 2020 Annual Report

7 Ibid.

8. Bank of Ghana Summary of Economic & Financial Data

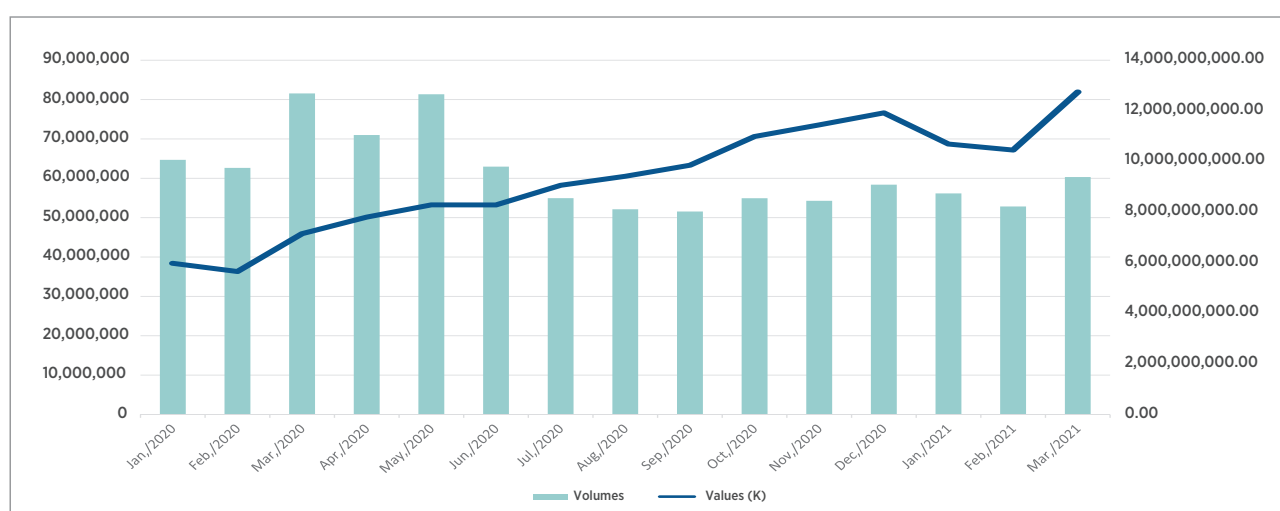
## ZAMBIA

Zambia reported its first cases of COVID-19 on 18 March 2020. Subsequently, the Bank of Zambia announced<sup>9</sup> several intervention measures and reliefs, including:

- i. Encouraging the use of digital financial services (including mobile money);
- ii. Increasing transaction and wallet limits for individuals, small scale farmers and enterprise as well as removing limits for agents and corporates;
- iii. Waiving charges for person-to-person e-money (including mobile money) transaction values of up to K150 (USD 8.5) by all electronic money issuers. This relief measure was reviewed and lifted in April 2020.
- iv. Urging commercial banks to remove transfer fees on the bank account to e-Money wallet for an initial period of 3 months and to reduce the Merchant discount rate (MDR)

Despite the reinstatement of fees in April 2020, there was significant growth of mobile money transaction values in Zambia in the financial year ending March 2021, driven mainly by the higher transaction limits approved during the pandemic.

**Figure 4: Mobile Payments**



Source: Bank of Zambia Payments Statistics

<sup>9</sup> Measures in Response to the Deteriorating Macroeconomic Environment and the Coronavirus

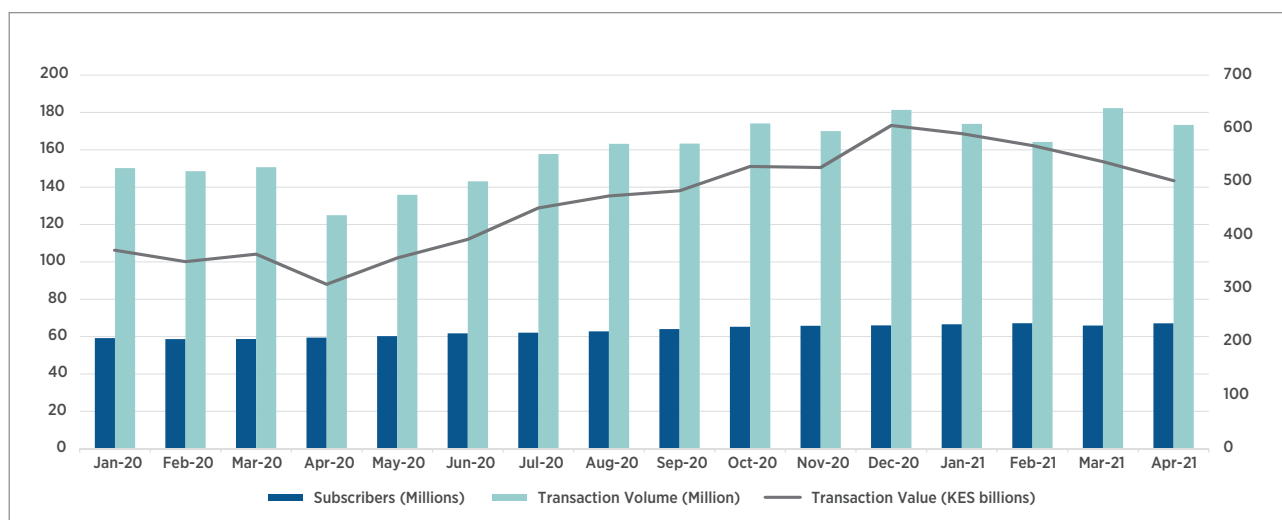
## KENYA

Kenya recorded its first case of COVID-19 on 12 March 2020. The Central Bank of Kenya on 16 March 2020 announced<sup>10</sup> a raft of emergency response and relief measures to facilitate mobile money transactions and mitigate the impact of the pandemic in the face of an imminent lockdown. These measures included the following:

- i. Waiver of charges for mobile money transactions up to KES.1,000 (USD 10) (reviewed and extended in June 2020, and remained in force until December 2020)
- ii. Transaction limits for mobile money increased to KES.150,000 (USD 1,500)
- iii. The daily limit for mobile money transactions increased to KES.300,000 (USD 3,000)
- iv. The mobile money wallet limit increased to KES.300,000 (USD 3,000)
- v. Elimination of the monthly total limit for mobile money transactions
- vi. The current tariff for mobile money transactions for KES.70,000 (USD 700) will apply for transactions up to KES.150,000 (USD 1,500).
- vii. Elimination of charges for transfers between mobile money wallets and bank accounts

Save for the fee waivers that remained in force for an extended period and the elimination of charges for transfers between mobile money wallets and bank accounts, which was revised to eliminate charges for transactions between bank accounts to wallets only; all other measures were permanently enforced. These emergency and relief measures had multiple outcomes: on the positive side, there was increased subscriber growth driven by the encouragement to use digital financial services in place of cash during the lockdown; increase in transaction value driven by increased transaction limits; increase in transaction volume; and growth in international money transfer.

**Figure 5: Mobile Money Transaction Value and Volume**



Source: Central Bank of Kenya

<sup>10</sup> Central Bank of Kenya Emergency Measures to Facilitate Mobile Money Transactions



Enterprise payments used by both the SME sector and large enterprises also registered phenomenal growth, driven by the push digital means of payment and the increased transaction limits that allowed for greater spending and new use cases for higher ticket payments.

However, on the negative side, mobile money provider revenues were depressed because of the prolonged fee waivers. While the fee waiver applied to low-value transactions (under KES 1,000/USD 10), giving rise to exponential growth in transactions falling within that band, this resulted in transaction fee arbitrage where transactions greater than the fee waiver limit would be split to avoid paying fees. For example, KES 3,000 would be split into three transactions, denying the mobile money provider necessary fees.

The elimination of charges between mobile money accounts and bank accounts led to increased transaction volumes from wallets to bank accounts. However, the unintended consequence was the loss of revenue on such transfers and the avoidance of agent withdrawal transactions, which incur charges. As a consequence of the loss of revenue on transactions, mobile money providers registered depressed growth in revenue in the year ending 31 March 2021. For example, Safaricom PLC reported that “M-PESA revenue declined 2.1 per cent YoY with a decline of 14.5 per cent YoY in 1H FY21 and recorded significant recovery in 2H FY21 growing 10.1 per cent YoY attributed to the lapse of free fees in Q4”.<sup>11</sup>

Nevertheless, despite a re-introduction of transaction fees on transactions under KES 1,000/USD10, average daily activity increased steadily. For instance, in February, the increase was 4 per cent greater than December (when the fee waivers were still in place) and 6.5 per cent higher than January.<sup>12</sup>

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11 Safaricom PLC press commentary on financial results for the FY ended March 2021

12 Daily Nation News Article

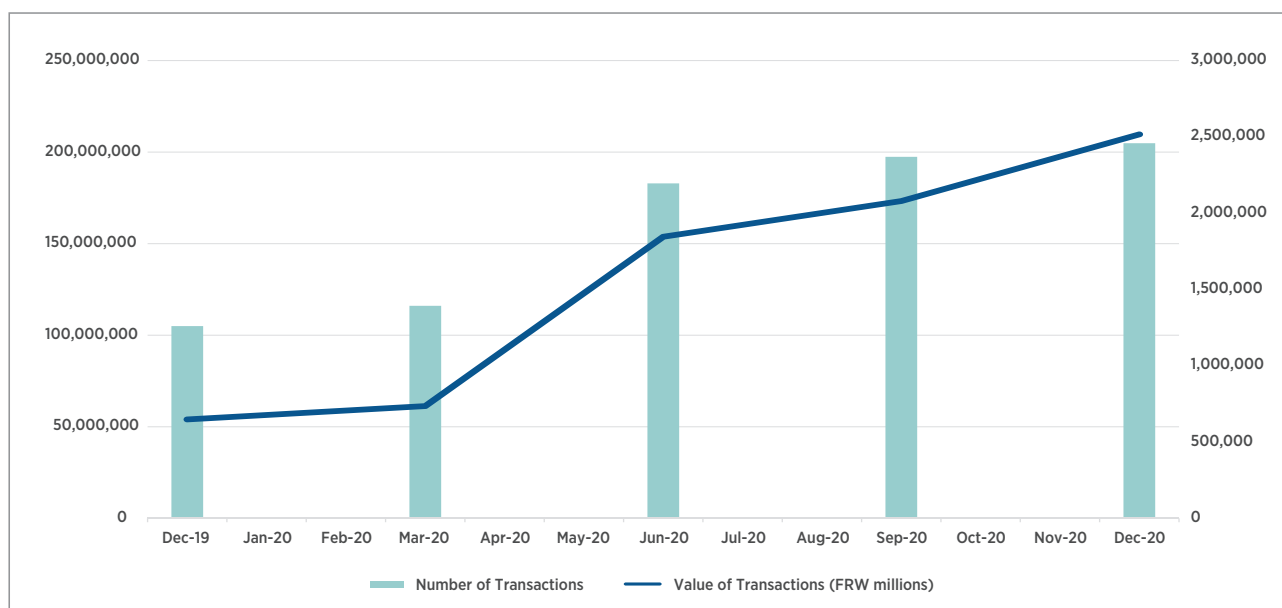
## RWANDA

Rwanda registered its first COVID-19 case on 14 March 2020. On 19 March, the National Bank of Rwanda announced measures to mitigate the economic impact of the pandemic. These included:

- i. Encouragement to use digital channels and contactless mobile payments.
- ii. Fee waivers between banks accounts and mobile money wallets (Pull and Push services), mobile money transfers and merchant payments.
- iii. Increase in mobile money transaction limits. The National Bank of Rwanda then lifted the

The fee waivers lapsed on 22 June after three months and following consultation with industry stakeholders. As with other countries, the transaction limits became permanent, thereby encouraging greater use of mobile money, especially by the SME sector. After the reinstatement of mobile money fees and lifting some of the COVID-19 restrictions, a notable growth in transitions was observed.

**Figure 6: Mobile Financial Services**



Source: National Bank of Rwanda<sup>13</sup>

According to a recent research paper, during and after the COVID-19 onset, there was a surge in usage of mobile money services, notably to send and receive money as well as for bill payments and making purchases<sup>14</sup>.

<sup>13</sup> National Bank of Rwanda Mobile Payments Statistics

<sup>14</sup> Rwanda Mobile Money Report: Exploring the Use of Mobile Money Services among Tea SACCOs in Rwanda | Challenges and Opportunities

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# Conclusion

Regulators in many markets have realised that the long-term trade-off between fee waivers and the commercial viability of financial service providers poses significant threats to sustainable financial inclusion.

A prolonged decline in revenue creates liquidity risks, often leading to insolvency. Also, providers in such situations may be unable to offer safe and reliable services as the risks of financial crime and fraud become too expensive to manage, providing a haven for fraudsters and criminals.

Moreover, a decline in revenue for a service provider also leads to a decrease in taxable income and, therefore, directly impacts the income and revenue sources of the state.

Therefore, as we have seen from the case studies above, fee waivers present a complex problem that is threatening financial inclusion and business sustainability and the income of the state from taxable sources.

The COVID-19 pandemic has taught us that regulators need to act with agility during a crisis. While these case studies may suggest that consumers are relatively insensitive to price increases, more research is required to determine any price elasticity of demand for mobile money services in the affected markets.

Dialogue between the regulators and service providers is critical to ensure that the consequences of any regulatory action are carefully considered, even as the providers make concessions in standing in solidarity with their customers in difficult times.



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#### 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