



GSMA Mobile Money Programme

Mobile Money Policy and
Regulatory Handbook



GSMA Mobile Money

The GSMA is a global organisation unifying the mobile ecosystem to discover, develop and deliver innovation foundational to positive business environments and societal change. Our vision is to unlock the full power of connectivity so that people, industry, and society thrive. Representing mobile operators and organisations across the mobile ecosystem and adjacent industries, the GSMA delivers for its members across three broad pillars: Connectivity for Good, Industry Services and Solutions, and Outreach. This activity includes advancing policy, tackling today's biggest societal challenges, underpinning the technology and interoperability that make mobile work, and providing the world's largest platform to convene the mobile ecosystem at the MWC and M360 series of events.

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The GSMA's Mobile Money programme works to accelerate the development of the mobile money ecosystem for the underserved.

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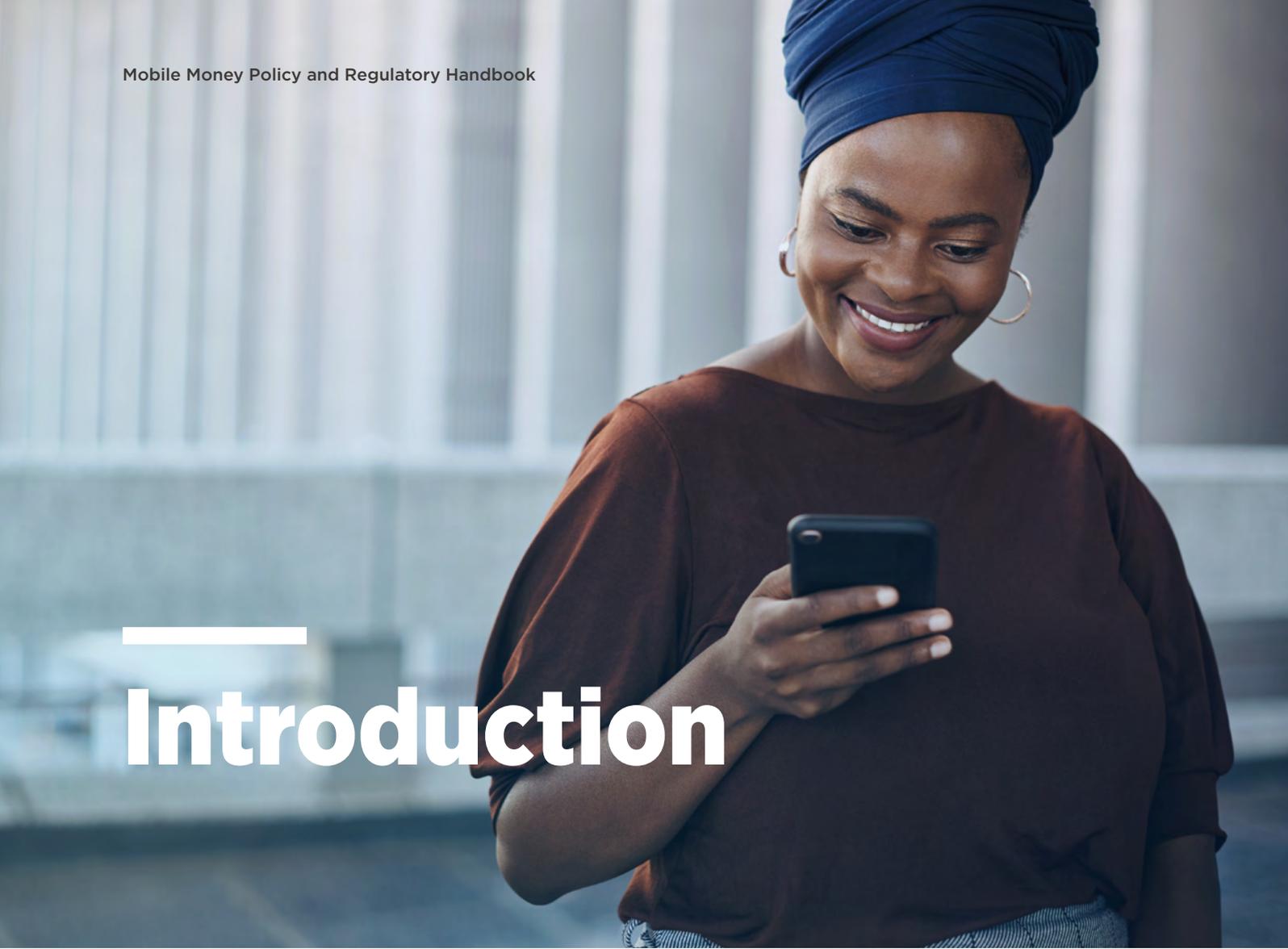
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Contents

Introduction	2
About this handbook	4
Using mobile money to build efficient and inclusive financial ecosystems	6
Mobile money and broader development	10
Creating an enabling policy and regulatory environment	21
Policy and regulatory considerations for mobile money	24
1 Authorisation	25
2 Storage and safeguarding of consumer funds	26
3 Capital requirements	28
4 Agent networks and supervision	29
5 KYC requirements	30
6 Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements	32
7 Consumer protection	34
8 Privacy and data protection	35
9 Cybersecurity	36
10 Fraud	37
11 Interest-bearing mobile money trust/escrow accounts	38
12 International remittances	39
13 Interoperability	40
14 Affordability	42
15 Mobile money and financial health	45



Introduction

Mobile money has made the financial services industry more efficient and inclusive, opening access to a range of essential financial services for millions of unserved and underserved people. The industry is now processing more than \$2 billion a day, and with more than 1.2 billion registered accounts globally, mobile money has become the leading digital payment platform in many low- and middle-income countries (LMICs).

Mobile money's success can be attributed to widespread adoption of mobile phones, growing coverage of mobile network operators (MNOs) and a broad network of retail distribution outlets. Mobile money has both complemented and disrupted traditional banking approaches. Key to its success has been easily accessible mobile money agents that operate as part of MNOs' large distribution networks.

Mobile money services are a powerful tool to deepen access to financial services in LMICs as they offer lower transaction costs, improved rural access and greater customer convenience. Mobile money can also provide the infrastructure for partner institutions to offer a

broad range of financial services. The industry's vision is to create a highly interconnected mobile financial ecosystem in which digital transactions alleviate the challenges of using cash for individuals and businesses in LMICs. Increasingly, mobile money is enabling transactions from different sectors, such as retail, utilities, health, education, agriculture and transport, and is serving as a channel for credit, insurance and savings.

As mobile money becomes embedded in the lives of consumers, trust is vital. Trust is collectively important to all mobile money stakeholders, including the private sector, governments, regulators and consumers. Many mobile money providers (MMPs) are building trust by

complying with international best practices, such as the GSMA Mobile Money Certification,¹ which brings safer, more transparent and resilient financial services to millions of consumers globally. The Certification scheme has helped to enhance the industry in a variety of ways, from improving the quality of services and customer satisfaction to encouraging trust-based partnerships, building trust with regulators and supporting the implementation of appropriate and proportional regulatory standards.

As the scope of mobile money regulation has changed, policy objectives and regulatory reforms have kept pace. Between 2019 and 2020, 13 markets² registered higher Mobile Money Regulatory Index scores while two markets saw their scores drop. The growth of new regulation for digital financial services and the spread of national financial inclusion policy frameworks have contributed to this trend. In 2021, the focus of regulation shifted to protecting vulnerable segments from the impacts of the COVID-19 pandemic. This led to several significant regulatory interventions, such as higher transaction limits and wallet balances, simplified Know Your Customer (KYC) processes and the introduction of fee waivers.

What is a mobile money service?

TO BE CONSIDERED A MOBILE MONEY SERVICE, THE FOLLOWING CRITERIA MUST BE MET:



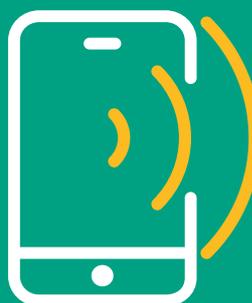
Includes transferring money and making and receiving payments using a mobile phone.



Available to the unbanked (people who do not have access to a formal account at a financial institution).



Offers a network of physical transaction points that can include agents (outside of bank branches and ATMs) that make the service widely accessible to everyone.



Mobile banking or payment services (such as Apple Pay and Google Pay) that use mobile phones as a channel to access a traditional banking product are excluded.

¹ www.gsma.com/mmc

² Angola, Cameroon, Central African Republic (CAR), Chad, Côte d'Ivoire, Egypt, Equatorial Guinea, Ethiopia, Eswatini, Gabon, Nepal, Pakistan and Republic of the Congo.

About this handbook

Establishing an enabling regulatory framework can unleash the full potential of mobile money services. Close cooperation and dialogue between public and private sectors can help to achieve this. The GSMA is committed to supporting global standard setters, governments and regulators in introducing policies that encourage investment and foster innovation and competition to achieve public policy objectives.

Effective and appropriate mobile money policy and regulation can advance financial inclusion, integrity and stability. They can also help to reduce economic inequalities while simultaneously increasing employment and economic growth.

The Mobile Money Policy and Regulatory Handbook is part of the GSMA's efforts to promote this collaboration. It assembles key considerations for financial regulators and other stakeholders in the mobile money industry in one place. Drawing on the GSMA's unique insights into the mobile sector and mobile money industry, the handbook has been designed as a practical guide that offers:

- An overview of the key issues facing the industry;
- A window into industry perspectives;
- A signpost for regulatory best practice; and
- A portal to additional information.

As mobile money continues to bridge the financial inclusion gap in LMICs, there is a need for a sound understanding of relevant policy and regulatory issues. This version of the Mobile Money Policy Handbook includes new topics such as cybersecurity, fraud, affordability, privacy and data protection and financial health.



A photograph showing a woman with long, dark braids in profile, wearing a green t-shirt, holding a smartphone. She is interacting with a vendor in a small, cluttered shop. The vendor, a woman wearing a blue top and a black baseball cap, is smiling and holding a banknote. The shop is filled with various goods, including snacks and instant noodle packets. A sign in the background reads "New instant noodle drinks."

Using mobile money to build efficient and inclusive financial ecosystems

Mobile money allows the storage, payment and transfer of digital money. The spread of mobile money has often been an important step in the creation of a functional financial system in countries where the financial sector is underdeveloped. In some markets, mobile money is already reaching large numbers of previously unbanked customers while moving millions of low-income households from a cash-only economy into the formal financial system.

In countries where mobile money has scaled, its benefits are already being felt by businesses, governments and millions of customers. Mobile money customers are now able to store money, remit funds and pay for goods and services conveniently and safely. Here, the social and economic potential of mobile money has become clear.³ Mobile money is also helping to reduce infrastructure costs for the financial sector, which has, in turn, supported the distribution of retail financial services such as credit and insurance, and other financial service innovations.

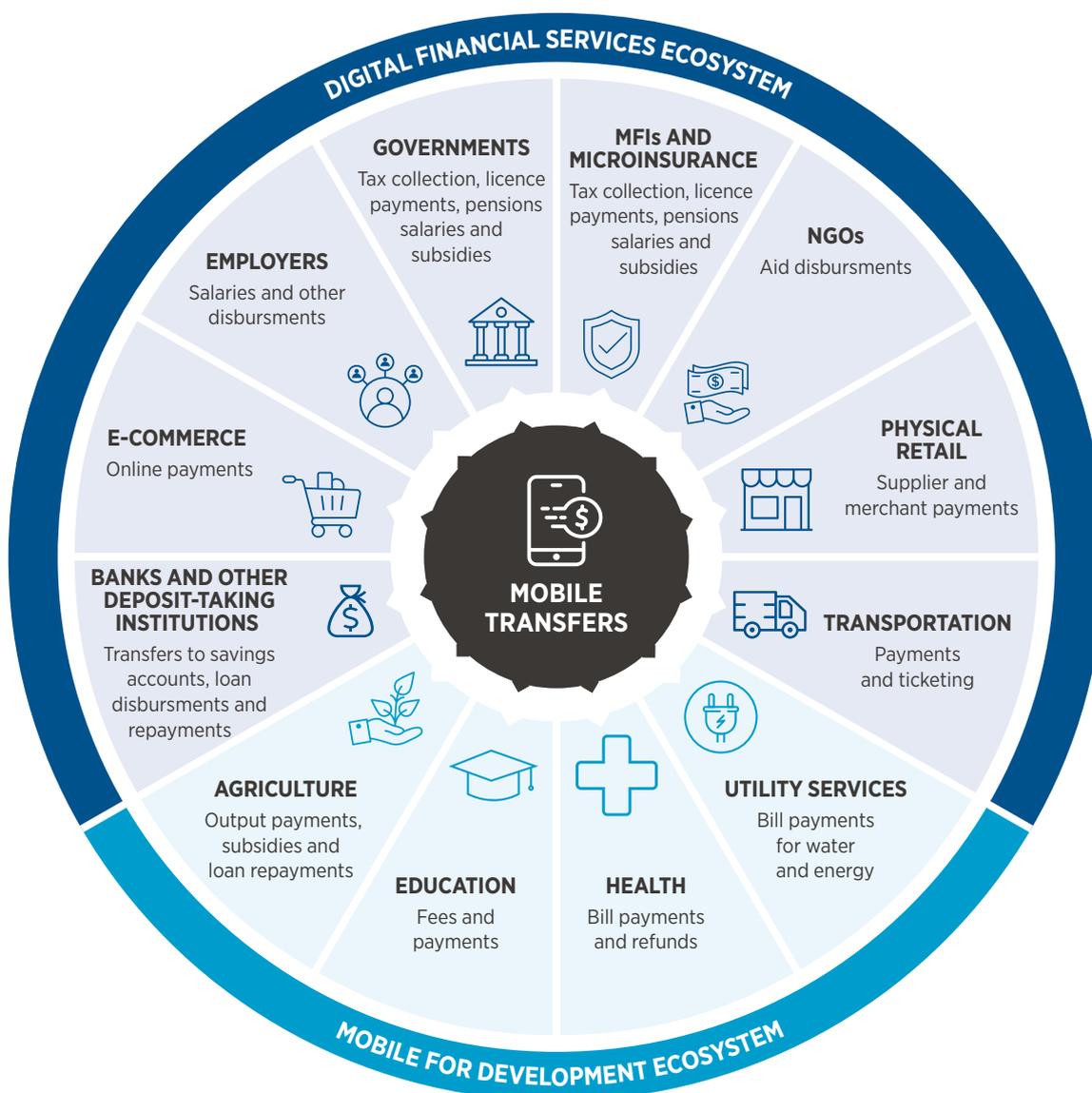
Savings, credit and insurance products can be provided via partnerships with banks and insurers while

remittances can be provided through money transfer organisations. Partnerships with other organisations that rely heavily on the receipt or disbursement of payments (such as governments, employers or the retail sector) can also help to drive digitisation in emerging markets.

Enabling digital payments and transfers is an important step towards creating universal access to a broad range of financial services and improving the stability and integrity of the financial system. MMPs have made progress in areas such as access to credit, but there is scope to improve access to financial and non-financial products and services by identifying underserved consumers and personalising services.⁴

Figure 1

The digital payments ecosystem



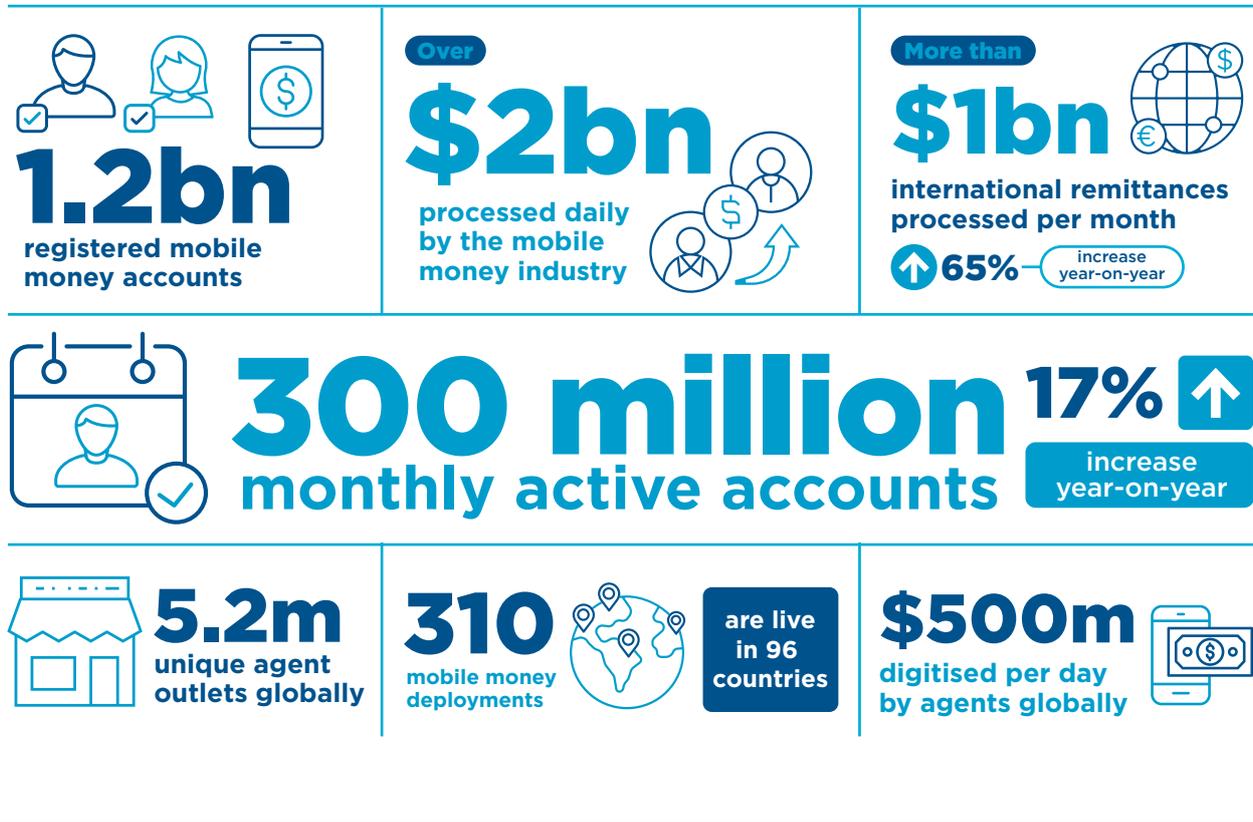
Source: GSMA Mobile Money team

3 Better Than Cash Alliance, Bill & Melinda Gates Foundation and The World Bank. (2014). Digital payments vital to economic growth.
 4 Gidvani, L. (2018). "Opportunities to leverage mobile money data to improve access to the digital economy". GSMA Mobile Money Blog.

As of 2020, there were 1.2 billion mobile money accounts globally. More than 24 per cent of deployments now offer a savings, pensions or investment product – in partnership with appropriately regulated MMPs – and another 27 per cent intend to in the next year. However, in some markets, regulatory barriers prevent MNOs from using their assets effectively and making the necessary investments to launch and scale mobile money services.

As mobile money services are still evolving, supportive policies and enabling regulation have not kept pace with the changes. However, several markets with mobile money services have been experiencing momentum, particularly with financial inclusion and boosting the social and economic impact of private sector investments. Financial regulators are now working to strike the right balance between creating an enabling environment that supports competition and innovation in the mobile money industry and safeguarding private sector investments.

MOBILE MONEY IN 2020



BOX 1

Digital credit models for MMPs

MMPs can offer digital credit services through two models (Figure 2): the partnership model and the mobile money rails model. In the first model (Group 1), MMPs can partner with a licensed lending institution.

In the second model (Group 2), MMPs can participate as the channel through which the digital savings service is offered. However, as Figure 2 shows, Group 2 can be subdivided into specific examples.

Figure 2

Digital credit business models for MMPs⁵

Classification	Group 1 Partnership model	Group 2 Mobile money rails model			
	Partnership with prudential institutions	Fintech lenders	Prudential institutions	Payday lenders	Peer-to-peer lending hubs
Business models	MMPs partner with licensed lenders, e.g. banks microfinance institutions (MFIs), savings and credit cooperatives (SACCOs), etc	Fintech lenders distribute loans directly via mobile money	Licensed institutions lend directly via mobile money	Fintech lenders distribute payroll loans via mobile money	Platforms that connect borrowers with lenders and distribute loans via mobile money
Group characteristics	<ul style="list-style-type: none"> Loans are typically tied to savings accounts Both institutions are licensed Integration happens through APIs and/or access to mobile money menu 	<ul style="list-style-type: none"> Fintech firms and/or banking institutions develop lending platforms/applications that are delivered via mobile In markets where credit is not regulated, licensing is not required, as long as these firms do not take deposits from the public The service is not integrated into the mobile money menu, but is available through USSD and apps 			

⁵ Lopez, M. (2019). *Digital credit for mobile money providers: A guide to addressing the risks associated with digital credit services*. GSMA.



Mobile money and broader development

Women and mobile money

Mobile money is a key tool for women's empowerment and can help to reduce the financial inclusion gender gap.

Data collected through the GSMA's 2020 Global Adoption Survey suggests that 40 per cent of mobile money users are women. However, this figure varies significantly by deployment, from 10 per cent to nearly 65 per cent.⁶ Mobile money services are prompting more women to open their own accounts. For example, in Côte d'Ivoire, Kenya, Mali, Malawi, Uganda and Zimbabwe, the reduction in the gender gap in overall account ownership⁷ between 2014 and 2017 can be attributed to the growth of mobile money.⁸

In many countries, the gender gap is smaller for mobile money than it is for traditional financial services. In Côte d'Ivoire, for example, men are twice as likely as women to have an account with a financial institution, yet women are just as likely as men to have a mobile money account. In mature mobile money markets, such as Senegal, Uganda and Zimbabwe, women are as likely or more likely than men to have only a mobile money account. In Senegal, as many as 59 per cent of women who are financially included only have a mobile money account.⁹

6 GSMA. (2021). State of the Industry Report on Mobile Money 2021.

7 Across both financial institution and mobile money.

8 The Global Findex Database 2017: <https://globalfindex.worldbank.org/>

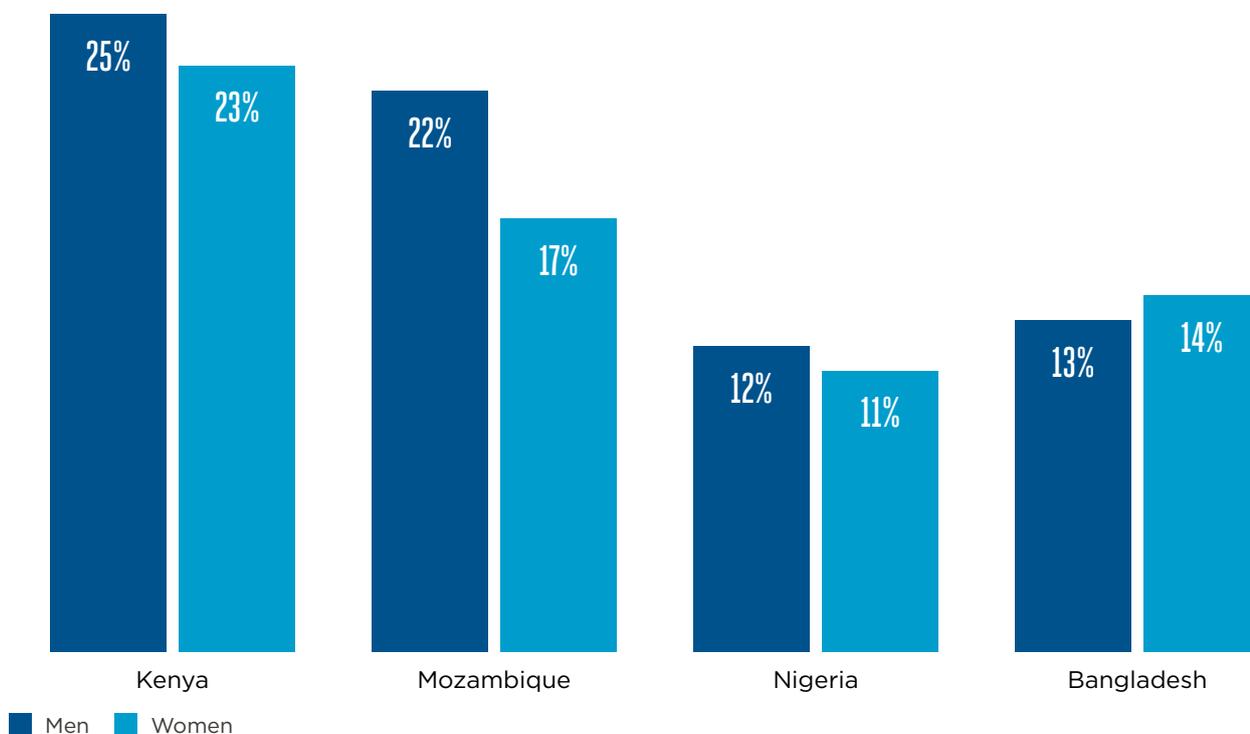
9 Delaporte, A. and Naghavi, N. (2019). "The promise of mobile money for further advancing women's financial inclusion". GSMA Mobile for Development Blog.

However, data from the GSMA *Mobile Gender Gap Report 2021*¹⁰ shows a persistent mobile money gender gap.¹¹ The COVID-19 pandemic has made bridging this gap even more urgent. As economies struggle and lockdowns continue, a mobile money account can help women manage their finances and businesses, and receive crucial COVID-related social welfare payments safely and conveniently.

The GSMA's annual Consumer Survey found that mobile money has helped women mitigate the impact of the pandemic. In six surveyed countries,¹² both male and female mobile money users pointed out that COVID-19 restrictions had driven them to try new use cases for the first time.¹³ This included using mobile money to purchase products (Figure 3), pay utility bills, manage savings and loans and receive social welfare payments. Across the surveyed countries, both male and female mobile money users adopted new use cases at similar rates.¹⁴

Figure 3

Proportion of mobile money account owners that reported purchasing products via mobile money for the first time because of COVID-19¹⁵



Source: GSMA Consumer Survey, 2020

10 GSMA. (2021). *The Mobile Gender Gap Report 2021*.

11 Excludes Algeria since the survey was not conducted there.

12 Kenya, Mozambique, Nigeria, Bangladesh, India and Pakistan.

13 These questions were only asked of mobile money account owners who had heard of COVID-19.

14 Except Pakistan. Guatemala was excluded due to sample sizes below 30.

15 Base: Mobile money account owners aged 18+ who are aware of COVID-19. Percentages indicate the proportion of respondents who answered, "Applies to me" to the question, "Thinking now about Coronavirus and your use of mobile money, for each of the following please tell me whether this applies to you or not: I started purchasing products (food, clothes, items, etc.) via mobile money because of Coronavirus." n=from 114 to 499 for women and n=from 180 to 510 for men

Barriers to women’s adoption of digital financial services are rooted in a complex set of social, economic and cultural barriers, and require targeted interventions by multiple stakeholders. This includes the mobile industry, policymakers, the development community and civil society, among others.

Interventions should focus on the social norms and key barriers preventing women from adopting and using mobile money services, as this will help ensure that mobile money services are accessible, affordable, relevant and safe, and that women have the skills to use them.

Accessibility

This involves increasing access to networks and enablers (quality network coverage, handsets, electricity, agents and formal IDs) and improving the usability of handsets, content and services. For women, the uptake and on-going use of mobile money depends on agents being available to help them register and use the service. Limited mobility can often make it difficult for women to reach agents to perform transactions. Lack of access to same-sex mobile money agents can also prevent women from using mobile money services. In many settings, women feel more comfortable discussing their finances with other women, who can be seen as more trustworthy and easier to approach. Older USSD¹⁶ or complex menu interfaces can also hamper women’s user experience and prevent them from using these services.

Affordability

This refers to the affordability of handsets, tariffs, data and service fees. Handset affordability remains the primary barrier to mobile phone ownership for men and women. The price of handsets can be prohibitively expensive, even for low-cost devices. Cost is an important consideration, but it disproportionately affects women. Women often have less financial independence than men, lower incomes and lack access to the external sources of finance that are available to their male peers. As a result, women in many countries are also more likely to have lower quality handsets, which they tend to acquire much later than male peers. Mobile money transaction fees can also be an important concern for women, as they are often more likely to make small, frequent transactions.

Usability and skills

Improving digital skills and literacy, and increasing awareness and understanding of mobile and its benefits are important. Globally, a higher proportion of women are illiterate than men or have lower levels of education. As a result, many women often lack – or believe that they lack – the digital skills and confidence needed to use a mobile. This leads to lower access to or use of fewer services and applications, including mobile money services. A lack of digital and financial literacy can be compounded by interfaces that are not user friendly, which further prevents women from using these services.

Relevant products and services

This refers to the availability of digital financial products and services that are relevant for women. Women are often less likely than men to see how a mobile phone and mobile services, including mobile money, can be useful for them and benefit their lives.

Safety and security

Mobile-related harassment, theft, fraud, security and consumer trust are also key barriers. Mobile money can offer more privacy and safety when conducting financial transactions, including less need to carry cash. However, women might feel uncomfortable becoming active mobile money customers if they experience harassment from mobile money agents or if they are victims of fraud.

16 USSD: Unstructured Supplementary Service Data. Also known as “feature codes” or “quick codes”.

Data is critical to help regulators and policymakers understand the barriers women face to accessing and using financial services. Demand-side data is an invaluable source of insights that can help inform policies and monitor the state of the gender gap.¹⁷

Research by the GSMA found that women are more likely than men to benefit from enabling mobile money regulation.¹⁸ Coupled with the barriers already mentioned, government policy interventions could play a crucial role in helping MMPs connect more women to mobile money services. This can be done by ensuring that mobile services are accessible, affordable, safe and relevant for women, and that women have the skills and confidence to use them. To achieve this, policymakers should consider the following:

- Ensure there is a focus on gender equality and reaching women at a policy level and across departments, through senior leaders championing this issue and setting specific gender equity targets.

- Understand the mobile money gender gap by improving the quality and availability of gender-disaggregated data,¹⁹ and understanding women's needs and barriers to mobile ownership and use of digital financial services.
- Focus on women's needs, circumstances and challenges in the design and implementation of mobile money-related policies and services. This includes access, affordability, safety and security, knowledge and skills and the availability of relevant content, products and services. Social norms and disparities between men and women in terms of education and income should also be considered.
- Collaborate and partner with industry, policymakers, the development community and other stakeholders to bridge the mobile money gender gap. Overcoming the complex, diverse and interrelated root causes will require targeted interventions to ensure that women are no longer left behind.



17 GSMA. (2021). The Gender Analysis and Identification Toolkit 2.0. (forthcoming)

18 Lopez, M. (2021). Policy note: Are the effects of mobile money regulation gender neutral? GSMA.

19 Gender-disaggregated data is currently limited, despite this data being critical to understanding and measuring the mobile gender gap, setting targets, tracking progress and informing strategies and policies that can help bridge this gap.

Mobile money in humanitarian and disaster response

Mobile money transfers offer a cheaper, faster, more secure and transparent alternative to cash, especially given that humanitarian budgets are stretched.

As a result, the humanitarian sector has become increasingly reliant on bulk payment offerings to deliver humanitarian cash transfers digitally. This has been accelerated by the COVID-19 pandemic. At a time when social distancing is the norm, many governments are encouraging the adoption of mobile money as a safer alternative.²⁰ For example, in Rwanda, the government temporarily banned physical cash transactions, leading to a significant increase in the number of mobile money transactions. This resulted in weekly person-to-person (P2P) transfers growing by more than 450 per cent between January and April 2020.²¹

The shift to digital cash distribution has been fuelled by the growth of the mobile money industry. Across most LMICs, access to banking products and services, even basic bank accounts, is limited. In high-income markets, 94 per cent of adults have an account while in LMICs this figure is 63 per cent, on average.²² The percentage is lower for many forcibly displaced persons (FDPs) who may not have the identification

documents (IDs) required to open an account.²³ Almost all countries that offer mobile money services are host to Persons of Concern (PoCs), as identified by the United Nations High Commissioner for Refugees (UNHCR). As a result, almost 55 million PoCs have the potential to access mobile money services if they can meet the KYC requirements of their host country.²⁴

Humanitarian agencies and host governments verify identity in various ways. Since recipient registration and ID management can be fragmented across organisations, minimum attributes must be collected in a standardised way. For example, the central banks of Jordan and Rwanda have revised their regulations to allow UN-issued ID as acceptable KYC for humanitarian payments.²⁵ In Colombia, local authorities and service providers have relaxed KYC requirements for Venezuelans residing in Colombia by recognising expired and alternative ID documents. This practice started before the onset of the COVID-19 pandemic and has continued.²⁶

BOX 2

How the World Food Programme uses mobile money for cash transfers

In 2020, the World Food Programme (WFP) transferred a record \$2.1 billion worth of cash transfers (in terms of purchasing power) to 38.4 million people in 59 countries.²⁷ This represented 37 per cent of the WFP's total assistance portfolio for the year. Around 8.9 per cent of these transfers were made

via mobile money.²⁸ The GSMA is expanding their partnership with the WFP and the Emergency Telecommunications Cluster (ETC) to scale up the use of mobile money for humanitarian assistance through WFP's cash-based transfer and beneficiary services management platform.²⁹

20 Hamilton, Z. (2020). *COVID-19 and digital humanitarian action: Trends, risks and the path forward*. GSMA.

21 Carboni, I. and Bester, H. (19 May 2020). *When Digital Payment Goes Viral: Lessons from COVID-19's Impact on Mobile Money in Rwanda*. NextBillion.

22 The Global Findex Database 2017: <https://globalfindex.worldbank.org/>

23 The GSMA and the United Nations High Commissioner for Refugees (UNHCR) carried out joint research in this area. Their findings highlighted the challenges faced by displaced populations in non-enabling regulatory environments, and details the legal and regulatory requirements of connectivity and financial services for FDPs across the globe. For more information, see: www.unhcr.org/innovation/displaced-and-disconnected/

24 Yongo, E. and Theodorou, Y. (2020). *Access to Mobile Services and Proof of Identity 2020: The Undisputed Linkages*. GSMA Digital Identity.

25 GSMA Disaster Response and GSMA Mobile Money. (2017). *Landscape Report: Mobile Money, Humanitarian Cash Transfers and Displaced Populations*.

26 Kondakhchyan, A. (2020). "COVID-19, sanctions, counterterrorist financing and CVA". CaLP Blog.

27 WFP website: www.wfp.org/cash-transfers

28 GSMA. (2021). *State of the Industry Report on Mobile Money 2021*.

29 WFP. (2020). *Press release: GSMA and UN World Food Programme accelerate the use of mobile financial services for humanitarian assistance*.

Policy recommendations to enable mobile access for FDPs³⁰

Host country governments and regulators should seek to adopt an enabling policy and regulatory framework for mobile money.

To achieve this, they should consider adopting flexible and proportionate approaches to proof-of-identity requirements for FDPs to access mobile services, particularly in emergency contexts. Such approaches may include:

- 1 Providing clear guidelines on acceptable identification for FDPs to access mobile services and ensuring that a critical mass of FDPs has access to an acceptable proof of identity.
- 2 Allowing the use of UNHCR-issued identification, where available, to satisfy mandatory SIM registration or KYC requirements to open mobile money accounts.
- 3 Enabling lower, “tiered” thresholds of KYC requirements to allow FDPs to open basic mobile money accounts, particularly in emergency settings.
- 4 Harmonising identity-related SIM registration requirements with the lowest tier of KYC requirements in countries where SIM registration is mandatory.
- 5 Establishing proportionate risk assessment processes that consider diverse types of FDPs when considering proof-of-identity policies.
- 6 Exploring the use of new digital identity technologies.
- 7 Promoting robust identification validation processes while adopting consistent data.

BOX 3

Proportionate regulation in Uganda: A gateway for refugees accessing mobile services in their own name³¹

Until August 2019, MNOs in Uganda did not recognise government-issued attestation letters as acceptable documents for KYC purposes. This meant that asylum seekers and refugees without a government-issued ID, or “refugee ID”, found it difficult to access SIM cards and mobile-enabled services in their own names. This was compounded by delays in issuing IDs. ID challenges have also created barriers for MNOs to offer both basic and value-added services (VAS) to FDPs. Recognising the regulatory barriers that refugees in Uganda were facing, the GSMA Mobile for Humanitarian Innovation programme and the UNHCR embarked on a joint advocacy effort to explore how to improve access to mobile services for refugees.

This led to the Government of Uganda adopting a proportionate regulatory policy whereby the Uganda Communications Commission issued a more enabling directive to the mobile industry. Under the new order, more than 600,000 refugees who did not have government-issued refugee IDs, but did have attestation letters issued by the Office of the Prime Minister (OPM), can legally access mobile-enabled services in their own names. The policy shift is instructive and a worthy case for replication in other markets. It has made development interventions more efficient and created a best practice policy framework that supports digital and financial inclusion strategies for the forcibly displaced, particularly refugees.

30 GSMA Digital Identity and GSMA Mobile Money. (2017). [Enabling Access to Mobile Services for the Forcibly Displaced: Policy and Regulatory Considerations for Addressing Identity - Related Challenges in Humanitarian Contexts](#).

31 Okong'o, K. (2020). [Proportionate Regulation in Uganda: A Gateway for Refugees Accessing Mobile Services in their Own Name](#). GSMA Digital Identity.

Digital identity and mobile money

As the world continues its advance into the digital age, proving one's identity becomes more critical to gain access to mobile connectivity and a range of mobile services.

To open a mobile money account, consumers need to provide proof of identity as all financial service providers (FSPs), including MMPs, must comply with KYC requirements and follow best practice. This is necessary both to ensure the commercial reliability of the financial services and to comply with financial regulators' rules on KYC, particularly anti-money laundering (AML) and countering the financing of terrorism (CFT) policy requirements.

KYC identification requirements for financial services are predominantly imposed by central banks and finance ministries. These are often in addition to the requirements for mandatory SIM registration imposed by telecoms regulators in more than 155 countries.³² Consequently, many MNOs offering financial services must comply with two sets of proof-of-identity requirements, which has an impact on the customer experience.

Where individuals lack an acceptable form of ID, there is a risk that proof-of-identity requirements for both SIM registration and KYC contexts may deny certain segments of the population access to basic mobile communications and mobile money services. As of the end of 2020, around one billion people worldwide³³ did not have an official ID. Although mobile money services are available in 96 countries worldwide, almost 530 million individuals in these countries are at risk of financial exclusion due to their inability to meet ID or KYC requirements to open mobile money accounts in their own names.

A framework for data privacy or data protection is important. However, as of 2019, only 59 per cent of countries mandating SIM registration³⁴ have a privacy or data protection framework in place. In Africa, 16 countries had no privacy or data protection framework in place; six were actively considering implementing such a framework while five had expressed their intent to introduce a data protection framework.

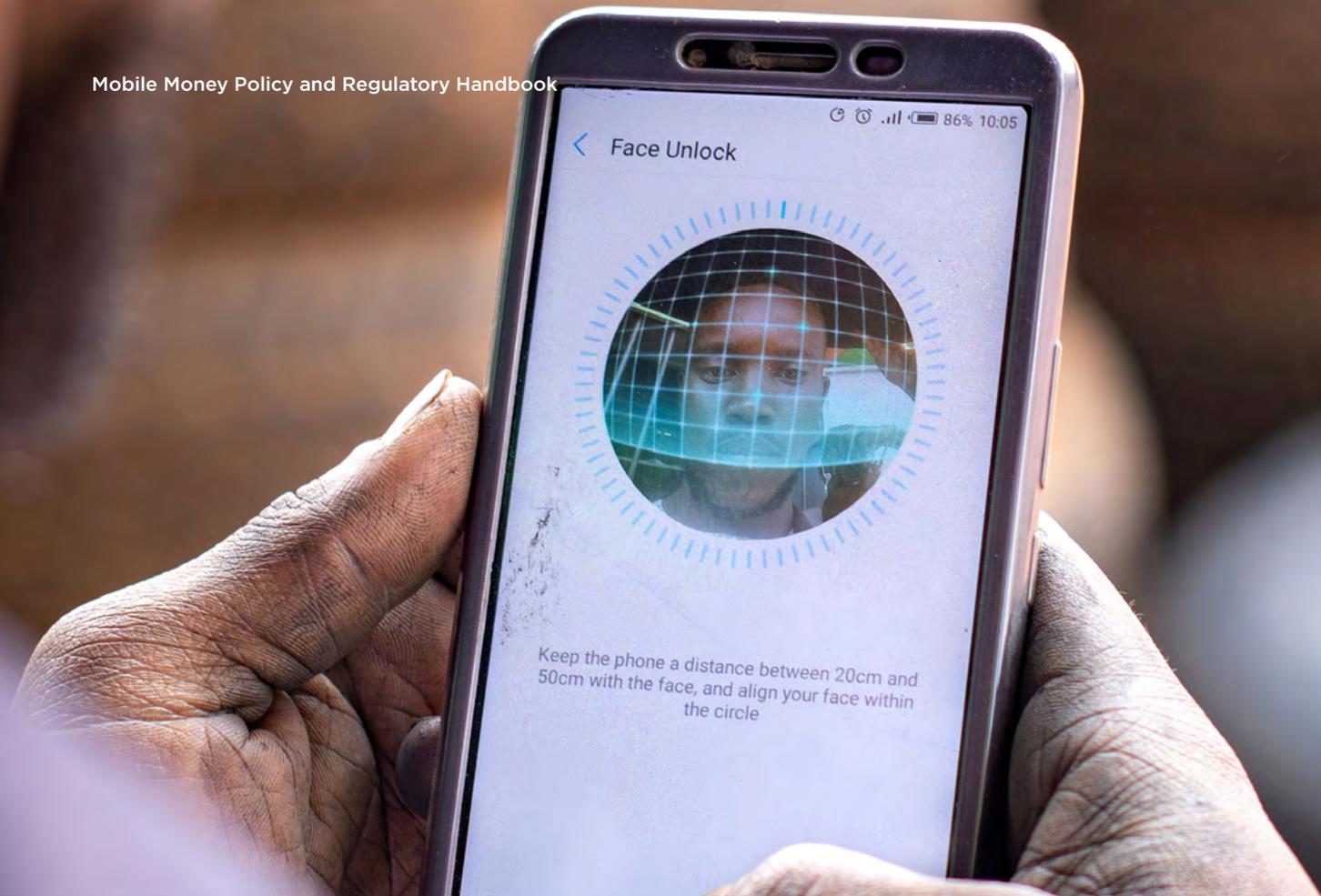
While other regulations and licence conditions may provide some consumer protection, the absence of comprehensive frameworks may prompt a need for greater transparency in how personal data is used. For consumers, transparency around how their data is used is an important way to maintain high levels of trust in digital and mobile ecosystems. This also helps to encourage the adoption of mobile-enabled digital identity services.

The lack of ID undoubtedly has an impact on the overall digital and financial exclusion of vulnerable groups. Individuals without proof of identity face a higher risk of social, digital and financial exclusion, but the exact impact is difficult to quantify. It is assumed that a minority of individuals without ID may be relying on friends or relatives to access mobile money and other financial services. In fact, there is evidence that 20 per cent of adults cite the lack of proof of identity as a key barrier to financial inclusion.

³² Yongo, E. and Theodorou, Y. (2020). *Access to Mobile Services and Proof of Identity 2020: The Undisputed Linkages*. GSMA Digital Identity.

³³ The World Bank/ID4D. (2020). *ID4D 2020 Annual Report*.

³⁴ Yongo, E. and Theodorou, Y. (2020). *Access to Mobile Services and Proof of Identity 2020: The Undisputed Linkages*. GSMA Digital Identity.

**BOX 4****Reimagining identity ecosystems in Sub-Saharan Africa with mobile³⁵**

In Benin, Ghana, Kenya and Uganda, proof-of-identity requirements can complement efforts to improve digital and financial inclusion. As more governments mandate mobile SIM registration and regulators enforce stringent KYC requirements, partnerships between policymakers, regulators and the mobile industry could introduce efficiencies and reduce the burden of regulatory compliance. Mobile technology is uniquely positioned to enable secure and inclusive digital identity, and it is important for service providers to consider this when developing ID-linked services.

Given the smooth customer on-boarding and mobile penetration levels in Africa, there is a compelling proposition for governments to partner with MNOs to boost economic growth and enhance the efficiency of service delivery. For example, to enrol residents in new digital identity schemes more inclusively, governments should consider capitalising on the growth of mobile and using the business assets of MNOs. This includes their extensive retail networks, established personal data privacy practices and experience in dealing with customers and managing their personal data.

³⁵ Okong'o, K. (2020). *Reimagining Identity Ecosystems in Sub-Saharan Africa with Mobile: The Case of Benin, Ghana, Kenya and Uganda*. GSMA Digital Identity.

Mobile money and agriculture

Farmers in formal value chains that enter the digital ecosystem can benefit from better access to formal markets, adoption of the latest agricultural practices and the empowerment that comes from clear terms of trade and transparent transactions.

The transition from cash to mobile money payments for the procurement of crops can generate a significant volume of digital financial transaction logs. These records, together with other data points, can support the creation of economic identities for farmers and offer a pathway to full financial inclusion (including access to credit, insurance and savings accounts).³⁶

To enable the uptake of mobile money services in rural areas, it is important to minimise due diligence requirements while maintaining the integrity of the financial system. Proportional KYC for farmers and simplified compliance for mobile money agents can help to overcome this systemic challenge. KYC requirements for opening a mobile money account can be challenging to meet, especially for the rural poor, such as smallholder farmers, who are most likely to lack the necessary ID. To address onerous customer due diligence (CDD) requirements, regulators are increasingly applying the principle of proportionality:

if a product is deemed low risk, simplified KYC can permit easier customer identification and verification.

The principle of proportionality allows alternative forms of ID to be accepted (e.g. a letter from an agribusiness procuring crops from a farmer) and sets ad hoc transaction limits on accounts where less formal or no ID is provided. To support the digitisation of the agricultural last mile,³⁷ proportional KYC must allow:

- Alternative forms of customer identification for farmers.
- Suitable (in-bound) individual and daily transaction value limits to allow farmers to receive agricultural payments.
- Suitable maximum account balance limits to allow farmers to handle funds in their account from agricultural payments.

BOX 5

Digitising the agricultural last mile in Ghana – MTN Mobile Money’s mAgric service

MTN Ghana’s mAgric service consists of a mobile app and USSD tool that enables an agribusiness to digitally record crop procurement from farmers and pay farmers for their produce instantly via mobile money. The app provides a solution to the inefficiencies and challenges associated with cash-based payments and paper-based systems.

Mobile money reduces farmers’ travel and waiting times for payments, makes payments more secure and offers financial stability through better money management. mAgric currently targets farmers in the cocoa value chain, Ghana’s most important cash crop and second-largest export commodity.³⁸

³⁶ Loukos, P. (2020). *GSMA AgriTech Toolkit for the Digitisation of Agriculture Value Chains*, GSMA AgriTech.

³⁷ In agricultural value chains, the “last mile” is the web of relationships and transactions between buyers of crops, such as agribusinesses, cooperatives and middlemen, and the farmers who produce and sell them.

³⁸ GSMA AgriTech. (2019). *Digitising the Agricultural Last Mile in Ghana: MTN Mobile Money’s mAgric*.

Mobile money and the Sustainable Development Goals (SDGs)

In LMICs, mobile money is paving the way to a digital economy and enabling a range of partnerships to deliver services with large-scale socio-economic impact.

Mobile money is a major driver of digital finance and pivotal to achieving the United Nations Sustainable Development Goals (SDGs), as it enables innovative solutions to some of the world’s most challenging problems. Mobile money has also demonstrated that it can unlock new paths to sustainable development and contribute to 15 of the 17 SDGs. Prominent examples include:³⁹

1 **SDG 1 (No Poverty)** – helping households to lift themselves out of poverty and become more resilient to unexpected financial shocks.

2 **SDG 2 (Zero Hunger)** – making agricultural value chains more efficient by helping smallholder farmers access financial services and increasing food security.

8 **SDG 8 (Decent Work and Economic Growth)** – increasing the productivity of micro, small and medium enterprises (MSMEs), creating employment and stimulating economic growth.

9 **SDG 9 (Industry, Innovation and Infrastructure)** – boosting access to credit for MSMEs, building a stronger payment ecosystem and paving the way to a digital economy.

10 **SDG 10 (Reduced Inequalities)** – helping migrants and their families send and receive remittances, enabling efficient delivery of humanitarian assistance and helping persons with disabilities access financial services.

For mobile money to continue achieving these and other SDGs, partnerships and cross-sector collaboration are key.



39 Lopez, M. (2019). Harnessing the Power of Mobile Money to Achieve the Sustainable Development Goals. GSMA Mobile Money.

Mobile money and MSMEs

Mobile money can help to formalise informal MSMEs by increasing their productivity and profitability, improving access to credit and enabling growth for MSMEs already operating in the formal economy.

MSMEs account for most businesses worldwide, and in LMICs the vast majority operate in the informal sector and are largely owned by vulnerable segments of the population.

According to the World Bank,⁴⁰ around 50 per cent of MSMEs in LMICs do not have a financial account. However, around 80 per cent of MSME owners have a mobile money account, with 83 per cent using their personal accounts for business needs.⁴¹ MSMEs rely heavily on cash-based transactions, which can be unproductive. Moving to digital transactions can improve productivity and profitability by reducing operational costs and making commercial transactions cheaper, more fluid and secure.

Mobile money can help informal MSMEs access financial services and overcome some of the barriers to entering the formal economy. In turn, this can boost job creation and economic growth as defined by SDG 8. Mobile money can also improve MSME operations by:⁴²

- Facilitating sales tracking and recording employee pay.
- Reducing physical interactions with tax officials and limiting opportunities for bribes or other forms of corruption.
- Allowing customers to make payments remotely, expanding their pool of customers in the process.
- Transacting with other ecosystem players, increasing their business exposure and distribution network.
- Formalising non-standard forms of employment by registering individuals as mobile money agents.

Regulators can support this effort by increasing transaction and account balances to make mobile money payments more attractive to MSMEs. Policymakers can consider a range of actions to encourage the use of digital financial services among both formal and informal MSMEs. These include:

- Introducing subsidies to encourage MSMEs to adopt digital financial services.
- Prioritising the roll out of use cases, such as transit and utility bills, which can demonstrate the utility, safety and trustworthiness of digital payments.
- Encouraging MSMEs to build a digital record by raising awareness of how mobile money data can be used for credit scoring.
- Investing in digital financial infrastructure and reducing sector-specific taxes to encourage MMPs to make greater investments in their services.
- Collaborating with the private sector to build a market-based, safe and efficient payment system.
- Developing consumer and data protection frameworks that promote innovation and build trust and confidence in adopting and using digital financial services.
- Developing a regulatory framework that supports cross-border payment solutions.

40 Klapper, L. et al. (2019). *Leveraging Digital Financial Solutions to Promote Formal Business Participation*. The World Bank.

41 Pasti, F. and Nautiyal, A. (2019). *Addressing the Financial Services Needs of MSMEs in Sub-Saharan Africa*. GSMA Mobile Money.

42 Lopez, M. (2020). "Mobile money driving formalisation and building the resilience of MSMEs". GSMA Mobile Money Blog.



Creating an enabling policy and regulatory environment

The overall regulatory environment for mobile money services can have a strong impact on MMPs as it can determine whether they can enter a market and provide services sustainably.

The regulatory environment may also determine the best solution to becoming interoperable and providing a broad range of services that make mobile wallets more valuable. The basic regulatory proposition for mobile money to succeed is creating an open and level playing field. This should allow non-bank MMPs, including MNOs, to enter the market and issue e-money (or equivalent).⁴³

Anecdotal evidence, commercial lessons and international regulatory principles all promote opening the market to MMPs with different value propositions. The proportionate regulation and oversight of non-bank MMPs can effectively mitigate the risk of mobile

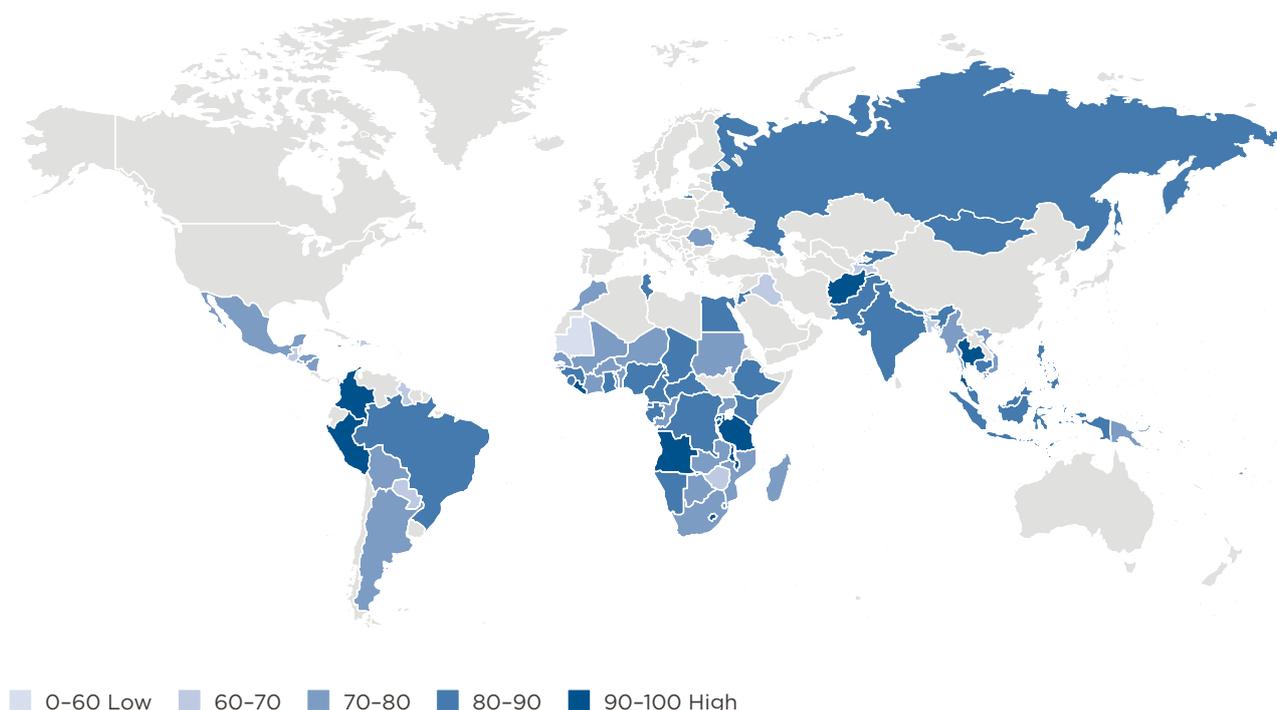
money customers losing their money stored in the system. The challenges of AML/CFT compliance can be overcome by promoting risk-based KYC procedures. There are also cost-effective regulatory solutions in place to develop and set up distribution networks and accelerate customer adoption.⁴⁴

Therefore, MNOs may be:

- Directly authorised as e-money issuers or payment service providers; or
- Authorised through a subsidiary set-up for this business.

Figure 4

The GSMA Mobile Money Regulatory Index map 2020



Source: GSMA

43 Almazan, M. (2013). "Mobile Money Regulation in Latin America: Leveling the Playing Field in Brazil & Peru". GSMA Mobile Money Blog.
 44 Di Castri, S. (2013). Mobile Money: Enabling Regulatory Solutions. GSMA Mobile Money.

The basic elements of an enabling regulatory approach should:

- Be coordinated within the cluster of regulatory authorities that have oversight of the market and the provider (e.g. telecommunications authorities, Financial Intelligence Units, competition authorities).
- Permit both banks and non-banks to use agents for customer registration and activation, and cash-in and cash-out operations.
- Impose initial and on-going capital requirements proportional to the risks of the mobile money business.
- Require proportionate AML/CFT controls, such as allowing for tiered accounts in countries that do not have a universal ID system and for remote account opening, leveraging the information provided by the customer for SIM card registration.

These elements are consistent with the recommendations of global standard setters, such as the Bank for International Settlements (BIS) and

the Financial Action Task Force (FATF). Both have recommended that regulators adopt a functional and proportional regulatory approach.

The policy context is also important. The establishment of bold financial inclusion policy objectives can help to mobilise political will and coordination among government agencies or regulators. Regulators can then enable market reforms that promote the growth of mobile money and the development of a larger ecosystem.

To build a successful and sustainable mobile money business and allow the digital financial ecosystem to flourish, reforms that enable multiple use cases are also necessary. Ultimately, this will create greater financial inclusion and economic growth.

The regulatory issues covered in the following pages seek to stimulate debate. These issues also offer key considerations that policymakers, regulators, MMPs and other key stakeholders should consider in order to provide mobile money services.

A photograph of three people in a modern office environment. A man in a blue blazer and light blue shirt is pointing at a tablet held by a woman in a black top. Another woman in a blue patterned top is looking on. The scene is brightly lit with large windows in the background.

Policy and regulatory considerations for mobile money

This section looks at the key policy and regulatory themes affecting the mobile money industry. Each theme will be analysed by highlighting:

- The background of the theme;
- The key discussion questions on the theme (debate); and
- The key considerations for policymakers and regulators.

1 Authorisation

Background

Financial regulations should allow for a range of payment methods and a broad scope for the transfer and storage of funds. To unleash the potential of mobile money and develop an efficient financial sector, regulators should create an open and level playing field. This should allow both banks and non-bank MMPs to offer storage and payment services, particularly MNOs as they are well suited to building sustainable services and rapidly extending the reach of the formal financial sector to the unserved and underserved.

An open and level playing field where financial regulators allow both banks and non-bank MMPs into the market is essential for mobile money to succeed. The vast majority of the fastest growing deployments operate in markets where the financial regulator offers an open and level playing field. In several markets, the number of MNO-led mobile money accounts is higher than the number of bank accounts. A growing number of countries have enabled or are enabling the development of an open and competitive market, which has allowed MNOs and other non-bank entities to launch their deployments either directly or through separate, wholly-owned legal entities.

What are the most common mobile money business models?

 Non-bank model	 Bank-led model	 Narrow bank (payments institutions) model	 Centralised model
<ul style="list-style-type: none"> • Commonly seen in Eastern, Southern and parts of Western Africa. • The MNO signs up customers to use a mobile money service that they run, but there are variations. • The MNO-led model is the most flexible and allows appropriate regulation to evolve in tandem with products and services. • Many markets that implement the MNO-led model typically adopt a “wait and see” regulatory position that allows for innovation first and the introduction of regulation later. Other countries have introduced new regulations to accommodate new mobile money services. 	<ul style="list-style-type: none"> • A bank is the service provider. The role of the MNO is peripheral, limited to providing either the communications infrastructure, agency services or both. • This model is common in Nigeria, South Africa, Egypt and parts of Asia and Latin America. • The bank-led model faces stringent banking and regulatory challenges, and there is strong evidence that it is less likely to scale as quickly as the MNO-led model. • MMPs in this model are often slower to innovate new products and services. With non-banks disincentivised from participating fully, this can lead to inadequate investment. 	<ul style="list-style-type: none"> • A variant of the bank-led model. • A new type of institution is created and licensed under existing banking laws to provide payments services. The new entity is limited in terms of the range of services and activities it can provide. For instance, it cannot offer credit. • Some elements of banking regulation to ensure the management of risks associated with credit are waived, but KYC requirements generally remain intact. • The narrow bank model is available in India, Nigeria and Tunisia. • Narrow banks, such as payment banks in India, may be a solution in markets where there is a conservative approach to mobile money. • This is the newest of all models and it is still unclear whether it can be scaled. 	<ul style="list-style-type: none"> • Central banks issue e-money and manage the central processing platform, essentially becoming a market player. • Centralised models, such as in Jordan or Sudan, feature the central bank playing a key role in the mobile money business. • In Jordan, the central bank commissioned the development of a central switching platform that acts as a mobile money payments switch.

Debate

- 1 How can regulators provide an environment that supports a collaborative approach between banks and non-bank MMPs?
- 2 What are the risks of regulating the function, rather than the institutions that provide these services?

Key considerations for regulators and other stakeholders

- Financial regulators should apply the principle of non-discrimination to promote fair and equitable competition across the financial sector.
- Regulating by type of service, such as payments, savings, credit and insurance, not by the entity that provides them, will allow regulators to consider the function and characteristics of each service. This will then improve their ability to calibrate regulations based on the risks and ensure that customers can use the services safely and conveniently.

2 Storage and safeguarding of consumer funds

Background

Allowing both banks and non-banks to provide mobile money can promote greater financial inclusion, but it poses a risk to customer funds. This risk must be mitigated to boost financial

integrity and stability. Three main risks arise from the use of mobile money: liquidity, issuer insolvency and bank insolvency. However, steps can be taken to mitigate each risk (Figure 5).

Figure 5

Mobile money risks and mitigating approaches

RISK	MITIGATING APPROACH
<p>Liquidity Insufficient funds set aside in safe liquid investments to repay customers</p>	<p>Pre-funding Requires e-money issuer to set aside funds equal to 100 per cent of outstanding e-money liabilities in licensed banks and/or other safe liquid investments</p>
<p>Issuer insolvency Insufficient assets to repay customers in the event of issuer (or trustee) insolvency</p>	<p>Fund isolation Requires e-money issuer to hold funds set aside to repay customer in trust (similar to fiduciary instrument)</p>
<p>Bank insolvency Insufficient assets to repay customers in the event of bank insolvency</p>	<p>Deposit insurance Provides for customer funds to be covered by direct or pass-through deposit insurance (or take other measures to mitigate bank insolvency risk)</p>

Source: GSMA (from earlier editions of Mobile Money Policy Handbook)

To ensure that customer funds are adequately safeguarded, MMPs will require guidance on how to safeguard customer funds effectively. This guidance should consider the various legal instruments available in different jurisdictions. Deposit insurance, for example, would not be available in most countries. MMPs also need to be able to protect customer funds at the same level as traditional bank deposits, albeit in a cost-effective way.

The best safeguarding approaches tend to offer customer funds a high degree of protection in the least burdensome and most cost-effective manner. Given significant variations in available legal instruments and market infrastructure, this will vary by country. Regulators should consult MMPs and other industry stakeholders to develop well-tailored and cost-effective safeguarding measures. These measures should aim to avoid a negative impact on the adoption of mobile money services by low-income and unbanked customers.

Debate

- 1 How can MMPs best ensure that customer funds are adequately safeguarded?
- 2 How can financial regulators guide MMPs effectively to ensure customer funds are safeguarded?

Key considerations for regulators and other stakeholders

- Prohibiting the intermediation of customer funds has been found to safeguard funds in most jurisdictions. However, in markets where the regulator has taken all risks into consideration, intermediation could be considered. Additionally, MMPs can be required to set aside funds that match outstanding mobile money liabilities in safe liquid investments, such as bank accounts⁴⁵ or government treasury instruments. These funds should be ring-fenced from the MMP's own funds.
- While ensuring the protection of funds against insolvency, regulators should adopt solutions that will be best suited to their respective markets.

⁴⁵ This should be in highly rated financial institutions.

3 Capital requirements

Background

Almost all jurisdictions require non-bank MMPs to meet initial minimum capital requirements to receive a licence to operate.⁴⁶ In banking regulation, a minimum capital requirement is a prudential rule with three functions:

- 1 It stipulates what assets the MMP must hold as a minimum requirement to insure their creditors (including depositors) against insolvency risk and minimise subsequent system disruptions (guarantee function).
- 2 It ensures that the institution can cover operational costs, such as the infrastructure, management information system (MIS) and start-up losses to reach a viable scale (organisational function).
- 3 It aims to set a cost that creates a barrier to market entry for new institutions that want to pursue the business initiative (selective function).⁴⁷

In addition to minimum capital requirements, some jurisdictions also require MMPs to meet minimum on-going capital requirements. These are typically calculated as a percentage of outstanding mobile money liabilities and are intended to ensure that an MMP's capital continues to grow along with their obligations. If the customer is not fully reimbursed in the event of a bank insolvency, the MMP will be expected to maintain sufficient capital to make up the difference.⁴⁸ Despite the benefits of capital requirements, exceedingly high minimum capital requirements can increase compliance costs to a level that makes the business case difficult to justify, even for larger companies. In this case, smaller companies may be deterred from entering the market.

Debate

- 1 How should initial capital requirements be established to strike the right balance between the cost to the business and ensuring all MMPs have the resources to be responsible market actors?
- 2 How can on-going capital requirements be established to meet their objectives while minimising the need for businesses to regularly recapitalise?

Key considerations for regulators and other stakeholders

- Initial and on-going capital requirements should ideally be evaluated based on the characteristics of the business, and how certain risks are mitigated through other prudential requirements and by MMPs.
- When deciding on capital requirements, financial regulators should consider that MMPs are subject to additional requirements that safeguard customer funds and lower the risk profile of mobile money.
- Where capital requirements are applied, they must be proportional to the risks posed by the business model. If excessive capital is immobilised, this can increase the cost of doing business, stifle innovation and reduce competition, ultimately hindering financial inclusion.

⁴⁶ Di Castri, S. (2013). *Mobile Money: Enabling Regulatory Solutions*. GSMA Mobile Money.

⁴⁷ Ibid.

⁴⁸ Grossman, J. (2016). *Safeguarding Mobile Money: How Providers and Regulators can Ensure that Customer Funds are Protected*. GSMA Mobile Money.

4 Agent networks and supervision

Background

Mobile money agents are an essential asset for MMPs and have been key to the growth of the industry over the last decade. As of December 2020, there were more than 4.7 million active agents. Primarily responsible for registering customer accounts, mobile money agents continue to boost transactions and drive MMP revenues. Total annual values of cash-in and cash-out (CICO) transactions rose from around \$127 billion in 2015 to more than \$330 billion in 2020, accounting for around 43 per cent of the total value of mobile money transactions in 2017.⁴⁹

MMPs allow agents to conduct CDD for mobile money. This is because it is considered a low-risk product and channel for money laundering and terrorist financing, and because deposit and transactional limits are imposed on mobile money products. Distribution networks are therefore critical to the success of mobile money, and it is imperative

that regulation aims to enhance this relationship to reach the underserved. A number of issues arise from the provision of agent networks and their supervision. This includes striking a balance between adequately spread distribution networks, ensuring the eligibility of these agents and maintaining high-quality agents through regular training and monitoring.

Most MMPs can control the quality of their mobile money agents to some extent by establishing eligibility requirements. Some of these criteria will likely be dictated by regulation, but in most markets, MMPs may need to develop their own selection criteria. Regulators often recognise that business decisions about the distribution network should be freely negotiated between the MMP and the third party. Regulatory intervention is often limited to setting baseline standards for vetting third parties.

Debate

- 1 What are the minimum standards a regulator can impose to enable responsible expansion of the agent network?
- 2 How can financial regulators ensure that third-party liability is addressed without increasing the regulatory requirements of MMPs and the agents themselves?

Key considerations for regulators and other stakeholders

- Regulation should carefully consider the agent networks to ensure they continue to receive support as product offerings evolve. This can be done through proportional and cost-effective regulation that does not impose disproportionate requirements or standards on agent distribution networks.
- To ease the regulatory burden, regulation should require that agent liability lies with the MMP, and it should set general terms for training, monitoring and reporting agent activities. Regulators should allow the MMP to set their own measures and standards when selecting third parties.
- Rather than require authorisation, regulation should require MMPs to notify the central bank of all third parties. A notification regime can provide the same protection as an authorisation regime, but at a lower cost for the regulator, the MMP and the consumer. Regulators can also require the MMP to apply certain standards to the third-party due diligence process and retain the prerogative to inspect third parties while offering training, monitoring and reporting mechanisms.

⁴⁹ Juma, J. and Wasunna, N. (2018). *Distribution 2.0: The Future of Mobile Money Agent Distribution Networks*. GSMA Mobile Money.

5 KYC requirements

Digital financial solutions can provide unserved and underserved people with access to regulated financial services while simultaneously complying with CDD requirements. These solutions have demonstrated that the financial integrity challenges associated with financial inclusion need to be understood in a broad context. This includes:

- An understanding of money laundering/terrorism financing risks.
- A financial inclusion strategy, including financial education, to expand access to regulated financial

services, especially to low-income, unserved and underserved populations.

- Providing reliable proof-of-identity mechanisms to the population, including support for the development of digital ID systems.
- Support for the development of digital financial services, including through relevant and existing technical infrastructure, to promote the use of mobile devices and other technology-based channels, and innovative ways to provide access to financial services.⁵⁰

Background

One of the main obstacles to providing appropriately regulated financial services or products to unbanked customers is the lack of reliable identity documentation and data verification. Low-income individuals or FDPs, such as refugees, often do not have the proper IDs to meet traditional CDD requirements. A risk-based approach allows some flexibility in providing access to basic regulated financial products to a larger proportion of the population. Mobile money customers generate high volumes of low-value transactions — the average peer-to-peer (P2P) transfer is \$58⁵¹ — so compliance costs for agents and MMPs must be reasonable for mobile money services to be viable.

In 2017, the FATF supplemented their 2013 Guidance⁵² with supporting CDD measures, noting that “one of the main financial integrity challenges in a financial inclusion context is the lack of reliable identity documentation and data verification for potential customers. This limitation creates an obstacle to conducting the required level of due diligence”.⁵³ The FATF revised their recommendations in 2020, providing additional guidance on the use of a risk-based approach when applying CDD measures.⁵⁴

To sign up for a mobile money account, a new customer typically visits a mobile money agent and provides proof of identity. However, in some countries, many potential users are not able to meet the identity requirements because they do not have utility bills

in their own name, a formal ID or other type of acceptable photo ID,⁵⁵ even a birth record.⁵⁶ Customers without these IDs cannot sign up for mobile money unless the KYC regulation allows the service provider to accept an alternative form of identification.

Many LMICs do not have a national ID system and use other traditional methods of identifying residents. In some cases, regulators allow alternative accredited forms of ID, ranging from a voter’s card or student card to a letter from a village chief or other community leader. The FATF Financial Inclusion Guidance cites several examples of acceptable IDs, but cautions that countries should be mindful of fraud and abusive practices that the use of these IDs could promote. Alternative forms of ID are often only accepted for certain types of transactions and have specified thresholds and limits.

For individuals unable to prove their identity to open an account, other alternatives may be available. Depending on the country, these can include being:

- Left out of the formal financial system;
- Allowed to open an account with very low transaction and balance limits without the need for ID verification.
- Allowed to make transactions over the counter (OTC) rather than through an account.
- Allowed to make a direct deposit.

50 FATF. (2017). *FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion – With a Supplement on Customer Due Diligence*.

51 GSMA Global Mobile Money Dataset. (Accessed June 2021).

52 FATF. (2013). *FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*.

53 FATF. (2017). *FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion – With a Supplement on Customer Due Diligence*.

54 FATF. (2020). *Guidance for a Risk-based Approach for Money or Value Transfer Services*.

55 The poorest often do not have jobs that issue employee photo IDs or do not attend a school where student ID is required.

56 Many of the poor are born at home rather than in a hospital.

Some countries have established onerous procedures for recording and verifying customer identity, such as requiring agents to create digital copies of photos and application forms. The KYC requirements for account opening require agents to take a photo of the applicant and their ID card. This information is then sent to bank officials who then verify it against a database. To meet this requirement, MMPs would need to equip each agent with a camera-enabled phone. This could become a costly undertaking when considering the tens of thousands of mobile money agents who would need such a phone. In addition, many agents lack

the technological capability to reliably digitise these documents, while unreliable network connectivity may further hamper the process.

These are some of the challenges that can arise and may lead to a small percentage of agents being able to register accounts in this manner. In contrast, OTC transactions only require the customer to present an ID card and hand the money to an agent. As a result, a large percentage of mobile money transactions are conducted over the counter rather than through an account.

Debate

- 1 How should the relevant regulatory authorities ensure that a lack of national IDs is not a barrier to the adoption of mobile money services?
- 2 What self-regulation mechanisms can be applied to eliminate financial exclusion due to a (lack of) identification?

Key considerations for regulators and other stakeholders

- Regulation should enable MMPs to use an agent network for: (1) customer registration; (2) identity verification; (3) account activation; and (4) cash-in and cash-out services.
- Financial regulators should ensure that CDD requirements for low-value accounts are simple enough for agents to perform CDD on behalf of MMPs.
- In countries without a national ID system, the relevant regulatory authorities should consider a tiered, risk-based approach to account opening.
- Such countries may also consider alternative forms of ID, especially those that are widely available and can be queried electronically for KYC/CDD checks.
- By providing a “test and learn” environment, regulators may support KYC innovations, such as solutions that allow remote on-boarding of customers.

BOX 6

Flexible KYC requirements as a policy response to COVID-19

In the wake of the COVID-19 pandemic, regulators in several countries relaxed KYC requirements for mobile money.⁵⁷ The goal was to drive the digitisation of payments through mobile money. To limit physical contact, regulators in Colombia, Ghana, Jordan and Pakistan authorised remote on-boarding for mobile money customers. Service providers in these countries were able to use SIM

card KYC information for mobile money registration. The Central Bank of West African States (Banque Centrale des États de l’Afrique de l’Ouest or BCEAO) allowed extended periods for KYC verification for customers that had been on-boarded remotely. This was permitted due to a lack of e-KYC infrastructure in the majority of West African Monetary Union (WAMU) states.⁵⁸

57 Chadha, S., Kipkemboi, K. and Muthiora, B. (2020). “Tracking mobile money regulatory responses to COVID-19”. GSMA Mobile Money Blog.
58 BCEAO is the Central Bank for WAMU states: Benin, Burkina Faso, Côte d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

6 Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) requirements

Background

Mobile money is well positioned to mitigate the risk of money laundering and terrorist financing as electronic transactions can be monitored and traced more easily than cash. Proportionate AML/CFT regimes and simplified risk-based CDD requirements are crucial for customer adoption of mobile money.

Mobile money services can be designed to strengthen financial integrity. By using appropriate controls to mitigate the risk of money laundering and terrorist financing, they can also improve transparency, as cash-based services are typically anonymous and difficult or impossible to trace. Mobile money reduces dependency on cash, generates data on transactions and customers that can be shared with law enforcement and helps to meet both financial integrity and financial inclusion objectives.

It is important to remember that AML/CFT regimes are not intended to prevent law-abiding people from accessing formal financial services. Rather, they are designed to detect and deter criminals seeking to abuse the financial sector for money laundering or terrorist financing (ML/TF). Mobile money services can contribute both to financial integrity and financial inclusion if regulation is proportionate and if MMPs apply proper risk mitigation measures.

However, applying an overly cautious approach to AML/CFT safeguards can have the unintended consequence of excluding legitimate businesses and consumers from the formal financial system. Acknowledging this, in 2013 the FATF published guidance on AML/CFT measures and financial inclusion.⁵⁹ This provided support for the design of AML/CFT measures that meet the goal of financial inclusion without compromising their ability to combat crime. The guidance also explained how to apply a risk-based approach, reinforced in the 2012 Recommendations,⁶⁰ in a financial inclusion context.

Proportional regulatory frameworks and industry-led mitigation measures⁶¹ have made mobile money a relatively unattractive channel for ML/TF. Nevertheless, MMPs should continue to develop and adopt best practices to prevent the abuse of mobile money services. One indicator of a strong AML/CFT regime is collaboration between the public and private sectors with a common goal of fighting financial crime. While effective AML/CFT measures must be implemented, cumbersome requirements reduce customer activation and threaten the viability of the business model and financial inclusion objectives.

Debate

- 1 What guidance should financial regulators give to the industry on applying the FATF's risk-based approach to AML/CFT?

⁵⁹ FATF. (2013). *FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*.

⁶⁰ Originally published in 2012, the Recommendations have been updated since then.

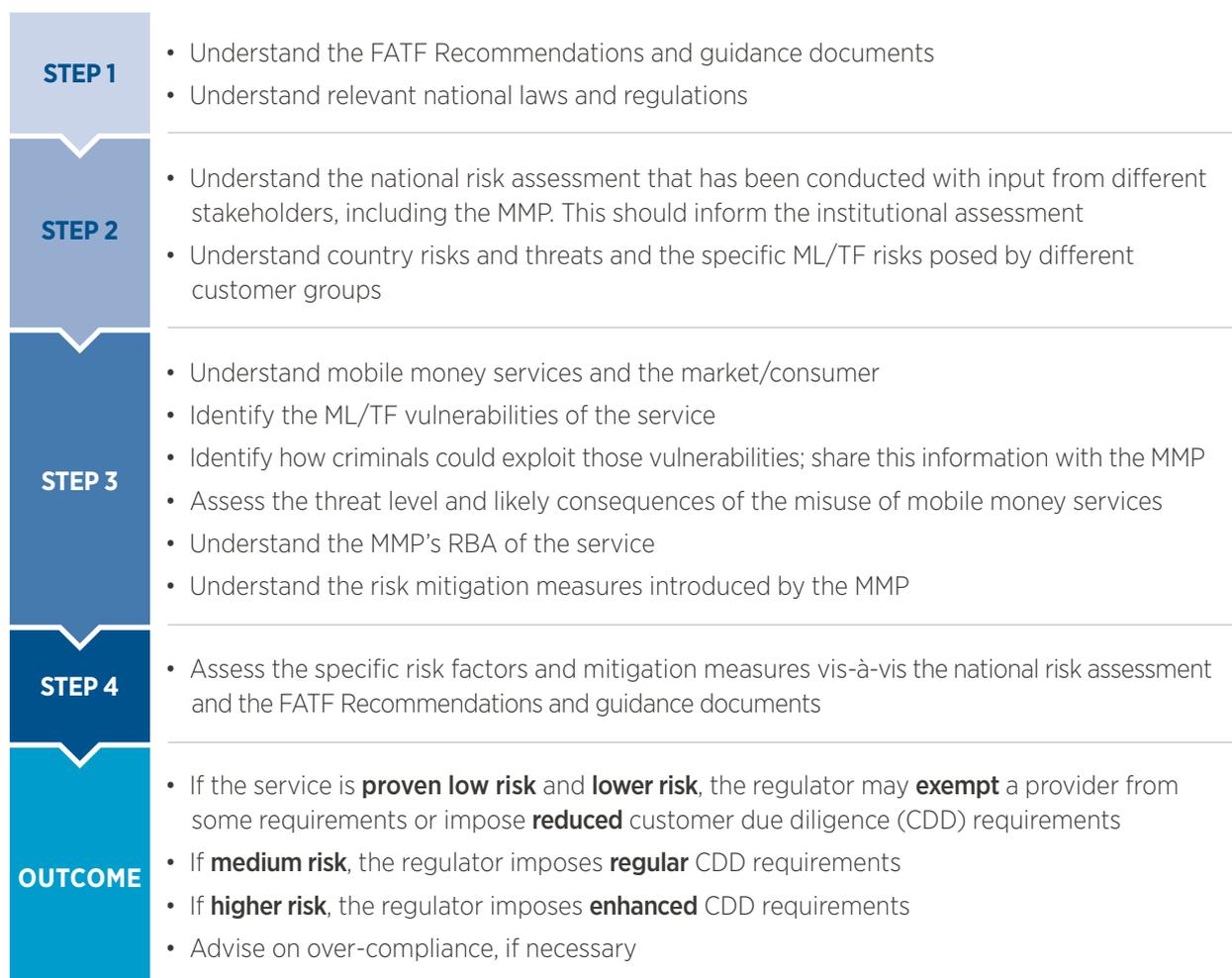
⁶¹ Principle 2 of the *GSMA Mobile Money Certification* demonstrates a strong, proactive move by the industry to fight financial crime risks.

Key considerations for regulators and other stakeholders

- Regulators should design proportional and risk-based regulation. This is critical to the development of safe and sustainable mobile money services, to protecting the integrity of the financial system and to providing billions of people with access to convenient financial services.
- MMPs should have an adequately funded and resourced AML/CFT unit commensurate with the risks.
- MMPs should screen and provide routine training for staff, agents and master agents to ensure they understand, and are prepared to carry out, their AML/CFT obligations.
- Regulation should encourage the application of proportionate, risk-based limits on transaction values while ensuring they do not hamper financial inclusion. Transaction limits may be progressively increased.
- A tiered approach to KYC is popular because it allows the financial regulator to distinguish between lower risk and higher risk scenarios. This permits KYC procedures to be conducted in line with the specific risks posed by different types of customers and transactions, and improve financial inclusion.

Figure 6

Risk-based assessment of mobile money services – a workflow for regulators⁶²



Source: Di Castri, S., et al. (2015). Proportional Risk-based AML/CFT Regimes for Mobile Money: A Framework for Assessing Risk Factors and Mitigation Measures. GSMA Mobile Money.

⁶² Di Castri, S., et al. (2015). Proportional Risk-based AML/CFT Regimes for Mobile Money: A Framework for Assessing Risk Factors and Mitigation Measures. GSMA Mobile Money.

7 Consumer protection

Background

The safety of mobile money relative to cash is often cited as one of its key benefits for customers. Previous sections have already highlighted the importance of safeguarding customer funds held as electronically stored value and reducing opportunities for agent fraud and other harmful actions. Customers can be granted even more protection through greater transparency, customer recourse processes, insurance protection and privacy and data security measures. Mobile money must strike a balance between creating innovative forms of financial access and offering an acceptable level of consumer protection. Good consumer protection practices are critical to enhance consumer trust and accelerate commercial partnerships that will enable mobile money to scale.

There is also a need to educate consumers about potential risks and the steps they can take to avoid those risks. The GSMA and its members play a leading role in advocating for consistent risk mitigation and consumer protection practices across key areas of business. They do this by implementing responsible consumer protection practices,⁶³ which

are essential to help regulators achieve their financial inclusion and financial integrity goals.

Maintaining consumer trust is critical to the growth of mobile money services. Consumer concerns around data privacy and security have an impact on trust. MMPs now hold vast amounts of data, including ID, transaction history and geographical location, which may also be subject to regulatory considerations. Ultimately, MMPs are well placed to build on the technical and compliance capabilities of their core GSM business and advance data protection in mobile money through industry initiatives.

There is therefore a need for governments and the wider ecosystem to collaborate to ensure that practical solutions enable consumers to make informed and effective choices, balancing the individual's desire for privacy with access to financial services. In such a complex environment, it is important that regulatory interventions remain proportional so as not to increase costs for the consumer or restrict access to the services they intended to protect.

Debate

- 1 How best can the relevant regulatory authorities provide guidance to MMPs on improving key aspects of consumer protection?

Key considerations for regulators and other stakeholders

- Regulation should help to enhance consumer protection through market conduct regulation that promotes transparency. For instance, requiring agents to post applicable fees, requiring price disclosure for mobile transactions, prohibiting agents from charging extra fees without clearly disclosing them to customers, requiring contracts to be simple and including all relevant fees and charges and requiring agents to disclose their status as an agent of a licensed institution.
- Regulators should also consider the costs of implementing transparency requirements for clients that ultimately conduct low-value transactions, and guard against creating overly prescriptive or complex rules, or mandating standards and protocols for technology that are expensive or impractical in low-income areas.
- Customer education and awareness is also crucial to ensure that consumers understand and have access to effective recourse and complaint mechanisms for resolving disputes.

⁶³ See Principles 6, 7 and 8 of the GSMA Mobile Money Certification.

8 Privacy and data protection

Background

As the value of data grows, so does the need to safeguard the use of data to protect consumers. Data protection also benefits MMPs as it is crucial to protecting the gains achieved in the fast-evolving mobile money industry. Furthermore, data protection is necessary to maintain market integrity and confidence in mobile money services, which will prove vital for future growth and sustainability.

The key areas of data protection affecting mobile money services include:⁶⁴

- Data processing: the legal basis for processing personal data;
- Data security: the physical and logical security of the data;
- Data localisation: the limitations of cross-border data transfer; and
- Data sharing: the sharing of data between industry players and how this affects the need for privacy and data protection frameworks.

Mobile technology continues to revolutionise the ways in which users access financial services. As a result, the mobile money industry remains committed to meeting the highest standards of responsible business practice in handling users' personal data.⁶⁵ The industry is also committed to collaborating with regulators to develop best-in-class safeguards that enable MMPs to use new technologies to benefit users. The industry is at a crossroads with data and data protection, but instead of a hindrance, this should be viewed as an opportunity to increase uptake of mobile money services.

In many countries, policymakers and regulators are developing or revising legal and regulatory frameworks for data protection, with some introducing limitations on the movement of personal data across borders (i.e. data localisation). Data localisation requires customers' personal data collected within a particular jurisdiction to be stored or processed within these boundaries. The rationale is to attract investment and offer local companies a competitive advantage while also safeguarding citizens' privacy and security.

Data localisation can be detrimental to the digital economy and to the provision of mobile money services. The need for MMPs to develop data storage facilities requires increased investment in infrastructure, which in turn can create a barrier to innovation, force smaller players out of markets and lead to higher costs for consumers. A centralised security approach can be more cost-effective as it uses a wider range of infrastructure and skills. This may also foster the capacity needed to improve security and safeguard the privacy of personal data.

Data sharing has been important to the development, evolution and success of mobile money. Individuals who could not access certain services in the past are now able to because of alternative data sources, such as mobile money history, call records and geographical location. However, if not controlled, increased data sharing may also be accompanied by a reduction in customer privacy and security. It is important for personal data to be shared responsibly or, where required, in the public interest.⁶⁶

Debate

- 1 Why is lawful data processing important for MMPs?
- 2 How does data security affect the provision of mobile money services?
- 3 How can data sharing improve financial deepening and boost customer confidence?
- 4 What is the impact of data localisation requirements on data protection and security?
- 5 In the age of data analytics, what is the best approach regulators can take to ensure MMPs are leveraging opportunities in data while still safeguarding the rights of users?

⁶⁴ Maina, J. (2019). *Data Protection in Mobile Money*. GSMA Mobile Money.

⁶⁵ Principle 8 of the *GSMA Mobile Money Certification* requires certified providers to implement high standards of data privacy and protection.

⁶⁶ GSMA Mobile Money. (2020). *The GSMA COVID-19 Privacy Guidelines*.

Key considerations for regulators and other stakeholders

- To keep up with the evolving requirements for each of these areas and meet consumer demands, MMPs will need to demonstrate flexibility and adaptability.
- Regulators may seek to maintain sovereignty over citizens' data and the ability to access this data as part of their law enforcement mandate.
- Responsible digital governance practices that safeguard of privacy rights will require close collaboration between policymakers, various regulators and MMPs. As the value, volume and variety of data grows, there is a major opportunity for MMPs to analyse personal data to develop innovative services for consumers and ensure the long-term sustainability of the industry. Appropriate data privacy frameworks will not only enable MMPs to develop better product and service offerings for their customer base, but will also strengthen fraud detection and introduce efficiencies. This will ultimately lead to cost reductions for both MMPs and consumers.

9 Cybersecurity

Background

Cybercrime threatens the growth of the digital economy by eroding trust and confidence in digital solutions. Mobile money services are delivered through a large and complex ecosystem, multiplying the risk of cyberattacks. Cybersecurity is therefore vital in driving mobile money adoption, use and innovation. For the mobile money industry, cybersecurity is defined as a collection of practices that support the secure operations and activities of MMPs and the integrity of their customers.

Risk mitigation is more than a technical problem. To overcome cybercrime in mobile money services and the accompanying threats and challenges, a holistic framework is required.⁶⁷ This framework covers three dimensions:⁶⁸

- People (the MMP's employees, third-party players and mobile money users);
- Process (legal requirements, internal and supply chain management policies, incident response plans, etc.); and
- Technology (inventory and control of hardware and software assets that support operations).

The financial cost of cybercrime to MMPs is difficult to estimate because it is unevenly distributed among countries. At the same time, data on cybercrime remains scarce because of underreporting. The global cost of cybercrime in 2018, both direct and indirect, was estimated at around \$1 trillion.⁶⁹ Direct costs are incurred as a result of the immediate impact of a cyberattack while indirect costs typically emerge with broader, more long-term impacts. Given the ever-changing digital landscape, the mobile money industry has the opportunity to expand its value proposition and the reach of its services.

Debate

- 1 What are the challenges of educating consumers on safe behaviour to build their confidence in using digital financial services?
- 2 How should digital FSPs ensure compliance with existing and applicable legal and regulatory requirements on cybersecurity?
- 3 How should MMPs seek to implement preventive and detective measures to protect their customers?

⁶⁷ GSMA. (2017). *Safety, Privacy and Security Across the Mobile Ecosystem: Key Issues and Policy Implications*.

⁶⁸ Maina, J. (2019). *Cybersecurity: A Governance Framework for Mobile Money Providers*. GSMA Mobile Money.

⁶⁹ Smith, Z.M., and Lostri, E. (2020). *The Hidden Costs of Cybercrime*. McAfee Report.

Key considerations for regulators and other stakeholders

- The risks of cyberattacks require MMPs to ensure their operations are cyber-resilient and able to safeguard consumer trust.
- A collaborative multi-stakeholder approach is key to understanding the risks of cyberattacks and developing the best security practices.

10 Fraud

Background

Mobile money has had a significant socio-economic impact in LMICs. At the same time, MMPs and customers have routinely been targeted by fraudsters intent on stealing personal data and money. The impact of fraud goes beyond financial loss. For instance, customers may experience financial loss followed by emotional stress. Fraud also risks creating liability and reputational losses for MMPs. Fraud has the potential to erode trust in mobile money services and can prompt a return to using cash. This can undo any financial inclusion gains and undermine progress on achieving the SDGs. In addition, fraud also leads to financial crime, including money laundering, terrorist financing and corruption.

Mitigating fraud risks remains one of the top priorities of MMPs as they implement various tools to counter the threats.⁷⁰ MMPs have invested in technology and implemented strong detection and authentication tools. They have also invested in training staff, raising awareness of fraud risks and mitigation measures and sought to comply with international best practices, such as the GSMA Mobile Money Certification.⁷¹ Stakeholders should work closely to effectively mitigate fraud risks and safeguard against the erosion of trust in mobile money.

Debate

- 1 How can MMPs go beyond regulation to establish an effective fraud mitigation mechanism?
- 2 Which measures should MMPs prioritise to combat identity theft, SMS scams and the threat of SIM swap fraud?

Key considerations for regulators and other stakeholders

- Regulators, MMPs and law enforcement agencies should collaborate more, specifically around information sharing, to mitigate fraud risks in the mobile money ecosystem.
- Regulators should enforce the adoption of regional and international best practices to mitigate common types of fraud that have the most profound impact.
- Fraud awareness campaigns play an important role in alerting customers to be aware of fraudsters and managing liability expectations when they seek redress and recourse.

⁷⁰ Farooq, S. (2019). *Mitigating Common Fraud Risks: Best Practices for the Mobile Money Industry*. GSMA Mobile Money.
⁷¹ GSMA Mobile Money Certification

11 Interest-bearing mobile money trust/escrow accounts

Background

The payment of interest on e-money accounts provides several benefits to customers and regulators alike. For customers, interest encourages financial literacy and teaches low-income users the time value of money. It affords many low-income users a rare opportunity to receive money based on the income they have generated. Interest-bearing mobile money accounts can also encourage customers to retain funds in digital form and, in turn, promote agent

liquidity by encouraging agents to keep money in their float. For regulators, providing an added incentive for consumers to use digital financial services encourages the flow of funds into the formal and traceable economy.

Despite mobile money being an established payment method, the question of whether to permit the payment of interest on mobile money is still under debate. Most regulators prohibit non-bank FSPs, such as mobile money services, from paying interest in the same way as bank savings accounts. This is because many regulators consider paying interest as an activity that requires a banking licence. Some

regulators have cited concerns that paying interest on mobile money or other e-money accounts may lead customers to believe that mobile money accounts are like savings accounts.⁷² As a result, many regulators typically allow MMPs to offer basic value storage functions linked to the mobile money accounts they offer, but ban interest payments to customers.

However, there are a number of reasons and benefits for MMPs to distribute float interest to customers:⁷³

- Depending on the regulation in a specific market, balances on a float account may legally belong to customers rather than the MMP.
- Distributing the float interest has the potential to change the adoption or usage rate of mobile money.
- Interest from a float account can be used to defray customer transaction costs.
- As an incentive, interest on float account balances could help low-income customers in LMICs to access interest-bearing savings accounts.

Debate

- 1 Should financial regulators permit MMPs to earn interest on pooled customer funds?
- 2 Where non-bank MMPs are permitted to earn interest on customer funds, how should the interest be distributed?
- 3 Who should be the custodians of the interest earned and who should be the beneficiaries?

Key considerations for regulators and other stakeholders

- Commercial banks holding the fiduciary accounts of a mobile money scheme should pay interest on funds held in the fiduciary account.
- Distribution methods would need to be determined in consultation with the various MMPs, regulators and other stakeholders involved. A range of potential models should be considered, including the simple deposit of interest into accounts, subsidies for transaction costs or the investment of interest income in the mobile money business.

⁷² Dias, D. and Kerse, M. (2021). *Regulatory Approaches to the Interest Earned on E-money Float Accounts*. CGAP Technical Note.

⁷³ Ibid.

12 International remittances

Background

International remittances are a unique and powerful source of private capital and external financing. International remittances are critical to the livelihoods of hundreds of millions of people in LMICs, and mobile technology is one of the most exciting forces shaping how people send and receive them today. Around the world, people are increasingly shifting to digital channels, including mobile phones.

Mobile money has therefore established itself as a critical tool for facilitating international remittances while also reducing remittance costs and maximising the impact of remittances on development. Mobile money is uniquely positioned to help countries achieve the SDG 10.C target.⁷⁴ The global average cost of transferring \$200 in international remittances between mobile money accounts is 3.53 per cent.⁷⁵ Because of its reach and growing use among underserved people, mobile money can help to transform formal remittance markets and advance financial inclusion. MMPs are at the forefront of domestic payment services in many LMICs, and today mobile money can be used for international transfers in 58 of the 96 countries where the service is available.⁷⁶

The characteristics of mobile money, such as convenience, privacy and reach, make it a particularly attractive remittance channel for women and rural households. According to WorldRemit, mobile money is the preferred way

for their customers to send money to rural areas. Therefore, mobile money can also play a critical role in formalising international remittances.

In 2020, remittance flows to LMICs reached \$540 billion – around two per cent less than in 2019.⁷⁷ The decline experienced in 2020 was smaller than the drop during the 2009 global financial crisis (4.8 per cent). It was also far lower than the fall in foreign direct investment (FDI) flows to LMICs, which (excluding flows to China) fell by more than 30 per cent in 2020. As a result, remittance flows to LMICs surpassed total FDI (\$259 billion) and overseas development assistance (\$179 billion) in 2020.⁷⁸

Despite the onset of COVID-19, mobile money-enabled remittances have seen little to no negative impact and have demonstrated resilience throughout the pandemic. In 2020, international remittances sent and received through mobile money increased by 65 per cent (or \$5 billion), reaching \$12.7 billion on an annual basis (or \$1 billion per month).⁷⁹

Although formal remittance flows to LMICs have grown, the true size of remittances is believed to be significantly higher. Larger flows are believed to be going through unregulated informal channels, and leading MMPs and international remittance hubs have joined forces to develop guidelines on the provision of international remittances through mobile money. These guidelines offer support for both risk management and consumer protection.⁸⁰

Debate

- 1 Should the financial regulator prescribe the partnership models through which MMPs and remittance companies should engage?
- 2 How could regulators ensure a level playing field by streamlining the international remittances licensing criteria for MMPs?
- 3 How should MMPs ensure that foreign exchange dealings are properly settled and accounted for?
- 4 How should MMPs ensure that personal data is safeguarded without limiting the cross-border flows of data that are critical to the digital economy?

⁷⁴ www.un.org/sustainabledevelopment/inequality/

⁷⁵ GSMA Mobile Money. (2021). *Mobile Money Cost of Sending Survey Report*. (forthcoming)

⁷⁶ GSMA Mobile Money Deployment Tracker. (Accessed June 2021).

⁷⁷ The World Bank, (2021). Press release: *Defying Predictions, Remittance Flows Remain Strong During COVID-19 Crisis*.

⁷⁸ Ibid.

⁷⁹ GSMA Mobile Money Deployment Tracker. (Accessed June 2021).

⁸⁰ GSMA Mobile Money. (2017). *Working Paper: Guidelines on International Remittances through Mobile Money*.

Key considerations for regulators and other stakeholders

- Regulation of international remittances should provide standardised and transparent licensing criteria,⁸¹ as well as fixed maximum response times to reduce uncertainty for MMPs. This would ultimately strengthen business planning and encourage investment.
- Regulators should permit MMPs to select the partnership model that best suits their context to achieve efficient and affordable international remittance services through mobile money.
- Regulators should facilitate market entry by non-traditional MMPs and allow licensed electronic money providers to both receive and send international remittances. Ultimately, establishing a more level regulatory playing field for companies interested in facilitating international remittances will increase competition, with positive outcomes for consumers.
- MMPs should ensure that foreign exchange inflows into the recipient country are channelled through the formal banking system for accurate balance of payments reporting.
- All personal data exchanged that relates to transactions with third parties should be through secure channels to protect and ensure the integrity of the data.

13 Interoperability

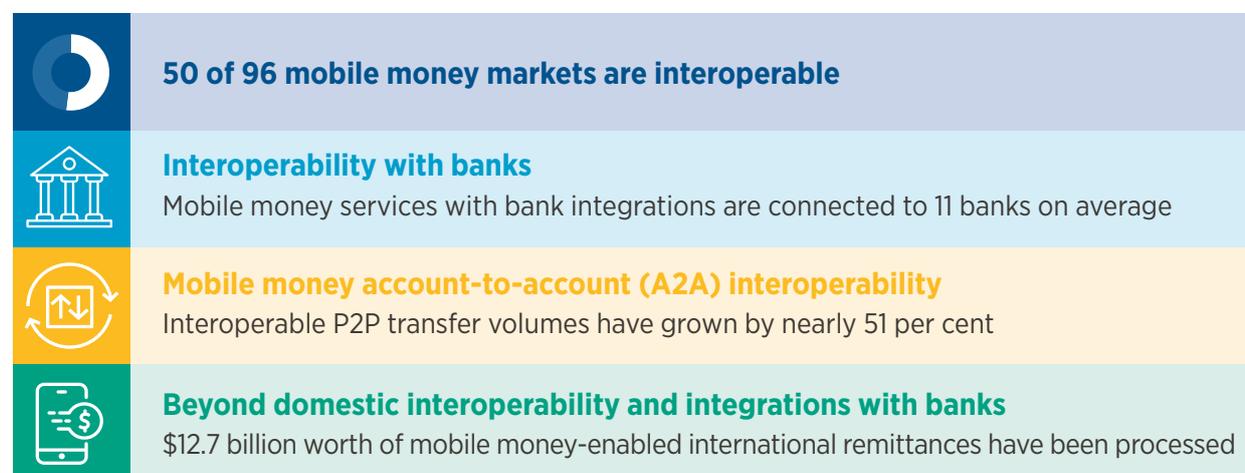
Background

Interoperability in the context of mobile money can mean many different things. One of the most common use cases is for MMPs to allow customers to transfer money between two accounts at different mobile money deployments (Figure 7). The ability to transfer money between mobile money accounts and bank accounts is also a widespread use case.

Both customers and MMPs could benefit from the interoperability of mobile money services. Interoperability is a strategic priority for MMPs as it will enable the long-term growth of mobile money while making mobile money accounts more relevant to consumers. In the financial services industry, it is the regulator’s responsibility to ensure that MMPs apply efficient and safe payment systems.

Figure 6

Snapshot of mobile money interoperability trends in 2020^{82,83}



81 Licensing mobile money remittance providers: Early lessons. GSMA.

82 Naji, L. (2020). Tracking the Journey Towards Mobile Money Interoperability: Emerging Evidence from Six Markets: Tanzania, Pakistan, Madagascar, Ghana, Jordan and Uganda. GSMA Mobile Money.

83 GSMA Mobile Money data

Service providers and policymakers should work together⁸⁴ in their respective markets to understand the benefits, costs and risks related to different types of interoperability. Policymakers should act as facilitators, helping MMPs to create the road map that they will be primarily responsible for designing and implementing. Policymakers can also assist MMPs by evaluating the right time to set up interoperability. This evaluation could be used to ensure that interoperability can create value for both customers and MMPs while also identifying and mitigating any regulatory risks that arise.

Ultimately, interoperability will only contribute to more efficient and scaled up mobile money markets if it is designed and implemented with a market-driven approach that adds value for MMPs, consumers and other ecosystem players. When MMPs are ready, they should analyse the different

commercial and technical models for interoperability – as well as the benefits, costs and risks of each – to identify which is best suited to their market at that particular time.⁸⁵ This will help to ensure that customers value interoperability, that interoperability makes commercial sense for MMPs and that it is designed to operate safely and reliably.

Interoperability also poses different costs and regulatory risks, requiring MMPs to enter contractual agreements that specify both joint and individual responsibilities. For example, demonstrating the responsibility to ensure minimum KYC requirements are met and monitored at the distribution level. The manner in which revenues are split will also need to be agreed upon, as well as the distribution policies and recourse systems available to customers.

Debate

- 1 What are the characteristics of governance models for interoperability schemes that facilitate the participation of MMPs?

Key considerations for regulators and other stakeholders

- For interoperability to achieve the desired results, policymakers should enable market-led solutions, ensuring that interoperability is implemented at the right time (when it will bring value to the customer and MMPs) and through commercial and technical solutions that make business sense for MMPs.
- Questions related to technical specifications, governance, commercial and operational terms and risk management should be resolved in a manner that is suited to the nature of mobile money and the satisfaction of all parties involved. This is easiest to achieve when it is market-led, although regulators should be consulted as solutions are developed.

⁸⁴ Clark, D. and Camner, G. (2014). *A2A Interoperability: Making Mobile Money Schemes Interoperate*. GSMA Mobile Money.

⁸⁵ Nautiyal, A. and Pors, B.J. (2020). *The Many Paths to Mobile Money Interoperability: Selecting the Right Technical Model for Your Market*. GSMA Mobile Money.

14 Affordability

Background

Although the mobile industry is one of the highest taxed in Sub-Saharan Africa, the decline in tax revenues from voice and SMS has led governments to look for alternative revenue sources, such as mobile money services. The desire to impose mobile money taxes is driven by the need to widen the tax base. However, many governments in LMICs have weak tax policy administration and capacity constraints, which have had a negative impact on mobile money users, agents and the business models of MMPs.

In recent years, mobile money taxes have been imposed in several countries across Africa. As of 2019, these included: Republic of the Congo, Côte d'Ivoire, DR Congo, Kenya, Tanzania, Uganda and Zimbabwe. These taxes can increase the cost of delivering mobile money services, adding an additional barrier to financially including the unbanked population and potentially pushing these users back to cash. This additional cost has affected the affordability of mobile money services, presenting a significant barrier to uptake, particularly among low-income customers.

BOX 8

The importance of affordable mobile money services

MMPs have long raised concerns about the impact of taxation on the costs to consumers associated with using mobile money. The COVID-19 pandemic led many governments to promote the use of digital financial services over cash. In doing so, some governments in Africa and Asia sought to allay customer concerns around the price of mobile money transactions by introducing a variety of measures. These included fee waivers and raising transaction and balance limits, both of which were designed to reduce the cost of using mobile money and increase customer uptake.⁸⁶ Some countries, such as Kenya, introduced “pricing principles” to promote an efficient and effective payment system, and to ensure that pricing policies strike a balance between short-term commercial targets and long-term sustainable growth.⁸⁷

In 2019, 23 per cent of surveyed MMPs reported that sector-specific taxes have had a negative impact on the uptake of mobile money services. A GSMA analysis found that such taxes can also reduce the growth potential of the mobile money industry, undermining MMPs’ investment capacity and deteriorating the local business environment in the process. Poorly designed tax policies can have detrimental outcomes for tax revenue and result in market distortions.⁸⁸

At the same time, inadequate mobile money taxation can prevent individuals, businesses, communities and national economies from realising the benefits of these services and can hamper progress with global development goals. Instead, policymakers should consider an alternative approach that includes:⁸⁹

- Proportionate and broad-based taxes rather than sector-specific taxes: around 26 per cent of taxes and fees paid by the mobile industry are related to mobile money.⁹⁰
- Considering sectoral and product externalities: in Tanzania, the overall consumption tax rate is 28 per cent; for the tobacco industry, this rate stands at 27 per cent.⁹¹
- Simple, understandable and easily enforceable taxation: in Uganda, multiple taxes compounded the burden on users and created confusion.⁹² Public protests, petitions to parliament and industry appeals led to a reduced and simplified tax.
- Avoiding regressive impacts on users: in Uganda, after a drop of 50 per cent, it took at least a year for peer-to-peer transaction values to recover to their pre-taxation level.⁹³

86 Chadha, S., Kipkemboi, K. and Muthiora, B. (2020). “Tracking mobile money regulatory responses to COVID-19”. GSMA Mobile Money Blog.

87 Central Bank of Kenya. (2020). Press release: “Expiry of emergency measures to facilitate mobile money transactions and the introduction of principles to guide pricing”.

88 Clifford, K. (2020). *The Causes and Consequences of Mobile Money Taxation: An Examination of Mobile Money Transaction Taxes in Sub-Saharan Africa*. GSMA Mobile Money.

89 Raithatha, R. (2021). “Exploring the GSMA’s position on mobile money taxation”. GSMA Mobile Money Blog.

90 Maina, J. (2018). *Mobile Money Policy Handbook*. GSMA Mobile Money.

91 Muthiora, B. and Raithatha, R. (2017). *Taxation and Mobile Money in Tanzania*. GSMA Mobile Money.

92 Clifford, K. (2020). *The Causes and Consequences of Mobile Money Taxation: An Examination of Mobile Money Transaction Taxes in Sub-Saharan Africa*. GSMA Mobile Money.

93 Ibid.

BOX 9

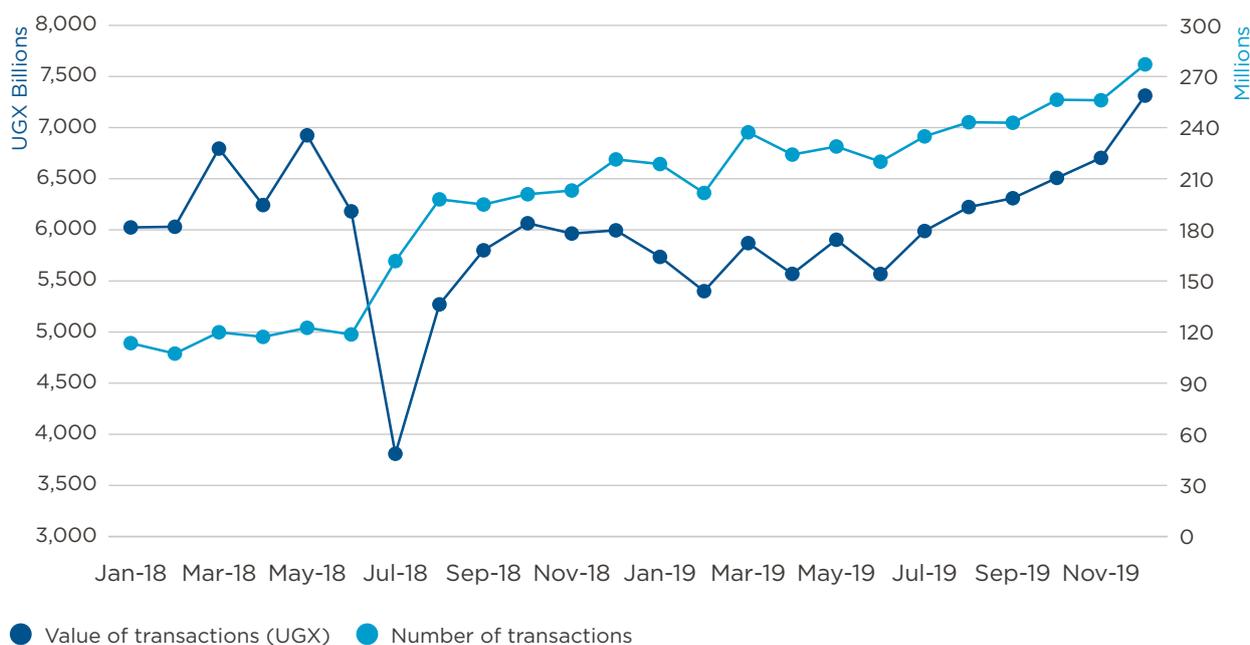
Mobile money taxation in Uganda

In July 2018, the Government of Uganda introduced a one per cent tax on the value of all mobile money transactions, including cash-ins, transfers and cash-outs. There was no precedent for a transaction tax on mobile money transfers and payments and, in response, the value of mobile money transactions declined by UGX 672 billion in the first two weeks of July 2018 compared to the first two weeks of June 2018.⁹⁴ The controversial nature of the tax led to public outcry, which led to the tax law being amended in November 2018 to apply a 0.5 per cent tax on the value of withdrawals only.

Despite this partial remedy, MMPs reported a drop in the use of mobile money following the introduction of the tax. MTN, in particular, indicated that mobile money supports 5,000 Savings and Credit Cooperative Societies (SACCOs) and that taxing mobile money transactions represented a significant risk to these businesses. The Bank of Uganda supported MMPs' concerns by labelling the new taxes "discriminative and unfair" that also risked restricting the growth of financial inclusion.⁹⁵ Only by the end of 2019 had the value of mobile money transactions recovered to their pre-July 2018 level (Figure 8).

Figure 8

Volume and value of mobile money transactions in Uganda, 2018–2019⁹⁶



Source: Bank of Uganda

94 Wesonga, N. and Kyeyune, M. (2 August 2018). "Uganda: Mobile Money Usage Drops by Shs672 Billion in Two Weeks". allAfrica.

95 The Observer (Uganda). (2 August 2018). Telecoms, Bank of Uganda want mobile money tax scrapped.

96 Clifford, K. (2020). The Causes and Consequences of Mobile Money Taxation: An Examination of Mobile Money Transaction Taxes in Sub-Saharan Africa. GSMA Mobile Money.

The impact of proportionate taxation on mobile money:			
 Individuals	 Government	 Subsidies	 Economy
<ul style="list-style-type: none"> • Increased employment and investment • Wider access to savings, credit and insurance • Deepening financial inclusion 	<ul style="list-style-type: none"> • Higher tax base and receipts due to sector revenues and employment • Lower risk of fraud and theft of public funds remitted to vulnerable groups through social payments 	<ul style="list-style-type: none"> • Greater access to government services for underserved areas 	<ul style="list-style-type: none"> • Higher per capita income due to rising productivity and employment rates • Cost and time savings for financial institutions and businesses as they digitise payments • Investment in education and healthcare, leading to higher capital development

Debate

- 1 What is the likely impact of mobile money taxation on the advancement of financial inclusion and, more broadly, on economic digitisation?
- 2 Can public revenue collection be supported more effectively by alternatives to mobile money taxation, and, if so, what are these alternatives?

Key considerations for regulators and other stakeholders

- The right approach to taxation can play a key role in developing and diversifying mobile money product offerings and boosting financial inclusion. Governments should consider aligning mobile money taxation with policies applied to other sectors and with best practice taxation principles. This may help to reform sector-specific taxation and fees.
- Best practice principles of taxation should aim to minimise the potential inefficiencies and distorting effects of taxation and consider important practical challenges. Taxation should therefore be broad-based and account for sectoral and product externalities.
- Taxation of the mobile money industry should not fall disproportionately on those with lower incomes, and should be simple and easy to understand and enforce. To advance financial inclusion and the wider digitisation of economies, it is critical that taxation does not disincentivise efficient investment or competition in the mobile money industry.

15 Mobile money and financial health

Background

Financial health and well-being have become increasingly important as financial inclusion has continued to increase. Although there is no universal definition of “financial health”, it is often understood as the “optimal” behaviours or outcomes that individuals are measured against.⁹⁷ Financial health concerns an individual’s financial circumstances. In broad terms, this includes several elements: day-to-day financial management, resilience, the ability to take advantage of financial opportunities or pursue financial goals and the feeling of being in control of and secure in one’s financial future.

Financial health as a concept may be similar between different countries and regions. However, the indicators to define financial health and behaviours to be avoided can vary. In most LMICs, an individual can be considered “financially healthy” when they can do the following:⁹⁸

- Balance their income and expenses;
- Build and maintain financial reserves;
- Manage existing debts and have access to potential resources;

- Plan and prioritise their expenditure;
- Manage and recover from financial shocks; and
- Use an effective range of financial tools.

Mobile money is normally considered an important driver of financial access and financial inclusion in LMICs. Mobile money has also fostered the need for better financial education and awareness. Each of these components, either on their own or together, have the potential to improve users’ financial health. This suggests that the goal of financial access is more important than financial inclusion on its own given that the ultimate targets are financial health and well-being.⁹⁹

Although not a new concept, the idea of financial health may be more relevant to MMPs’ aims than initially thought. Mobile money helps to include users in the formal financial services system, but more needs to be done for them to truly benefit from formal financial services. Many MMPs have expressed an interest in using their mobile money services as a platform for additional financial services and other products. This demonstrates a desire to think about financial access in a more holistic manner than simply providing a payments system.

Debate

- 1 Where would financial health fit into a theory of change in a financial inclusion strategy?
- 2 How can MMPs seek to ensure that access to financial services improves people’s overall financial well-being?

Key considerations for regulators and other stakeholders

- Policymakers should ensure that the financial health perspective is embedded in all financial inclusion efforts, rather than it being an afterthought once financial access has been achieved.
- Financial health could be prioritised as an alternative or intermediate outcome on the path to economic advancement and poverty reduction. Policymakers and regulators in LMICs should consider how mobile money services in their countries can be used to improve the financial health of users.

⁹⁷ Sourourian, M. (2019). “What’s Financial Health Got to Do with It?” CGAP Blog.

⁹⁸ Rotman Parker, S. and Kelly, S. (2017). “Measuring Financial Health: Not as Easy as It Looks”. CGAP Blog.

⁹⁹ Ibid.

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