GSMA

Regulatory Approaches to Managing Interest on Mobile Money Trust Accounts

Impacts on mobile money, financial inclusion and sustainability in emerging markets

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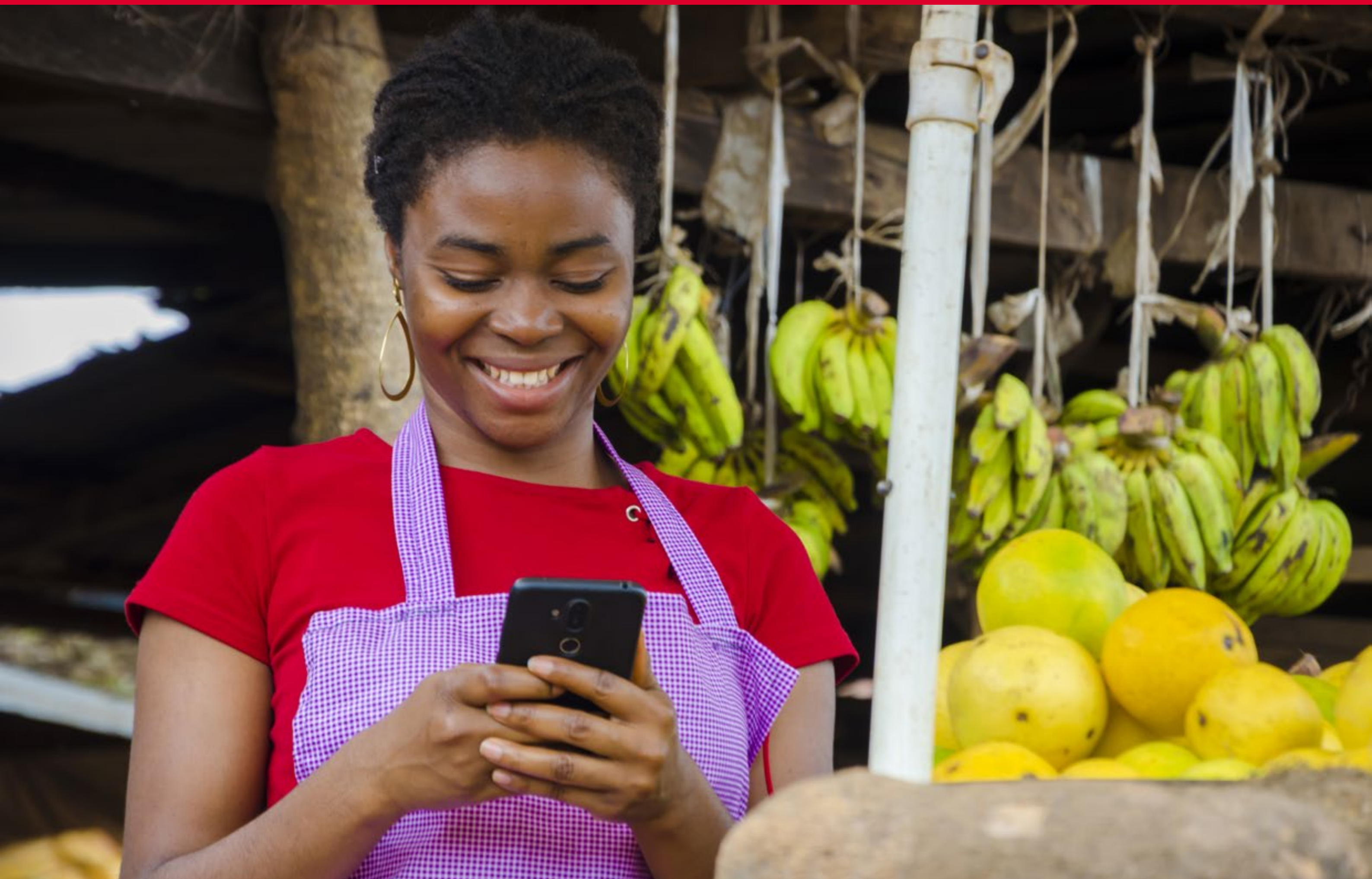


This report investigates the diverse regulatory approaches governing the management and use of interest accrued on mobile money trust accounts in 10 countries. These accounts play a pivotal role in safeguarding customer funds and ensuring the sustainability of mobile money platforms – a key driver of financial inclusion in emerging markets.

This report presents the findings of a 2024 study by the GSMA Mobile Money programme on the impact of these regulatory frameworks on the mobile money industry and their implications for financial inclusion. The report also provides actionable recommendations for regulators, mobile money providers (MMPs) and other stakeholders.

The focus countries of this study span multiple regions, including Sub-Saharan Africa, South Asia, Latin America and Middle East and North Africa (MENA). By comparing countries such as Ghana, Jordan, Kenya, Paraguay and Tanzania, the report highlights commonalities and differences in how interest accrued from mobile money float accounts is managed, distributed or reinvested. The findings underscore the delicate balance between providing strong regulatory oversight of MMPs and ensuring that accrued interest benefits either mobile money customers or the digital financial ecosystem as a whole.

The regulatory frameworks governing the interest earned from mobile money trust accounts vary widely, ranging from full prohibition of interest distribution to flexible policies that allow or even mandate MMPs to return a percentage of the accrued interest to customers.

Across all markets studied, operational challenges remain a key concern for MMPs. Regulatory compliance, particularly in environments where mobile money interest must be distributed to customers, creates an administrative burden and raises costs for providers. Moreover, in countries where accrued interest cannot be used flexibly, MMPs often struggle with reinvesting the funds effectively, which can stifle innovation and limit the benefits for consumers.

While the accrual of interest on mobile money trust accounts can offer particular benefits for low-income customers, the impact on financial inclusion is not uniform across all markets. In countries where regulations allow flexible use of interest, MMPs have been able to enhance consumer trust and drive the adoption of mobile money services. Conversely, restrictive environments limit the potential for mobile money interest to contribute meaningfully to financial inclusion.

Interviews with regulators, MMPs and other stakeholders revealed a range of perspectives on how best to use accrued interest. Some stakeholders advocate for regulations that prioritise customer benefits through direct interest payments, while others favour reinvestment in the mobile money ecosystem, including infrastructure development or reduced transaction fees.

The GSMA recommends that countries adopt regulatory frameworks that allow flexible use of accrued interest, giving MMPs the freedom to either distribute interest directly to their customers or reinvest it in a way that enhances the overall value proposition of mobile money services. This approach would support both financial inclusion and a sustainable mobile money industry without placing undue burdens on MMPs.

Regulators should ensure that interest accrued on mobile money float accounts is used in a way that provides tangible benefits to customers, whether as direct payments, lower transaction fees or improved service offerings. This would enhance consumer trust in mobile money platforms and encourage greater uptake among underserved populations.

Regulatory bodies and MMPs should work together to implement strategies tailored to the unique financial ecosystems of their respective countries. This collaboration would allow for the development of innovative solutions that balance regulatory oversight with operational flexibility, and ultimately foster a more inclusive digital financial system.

01
Introduction

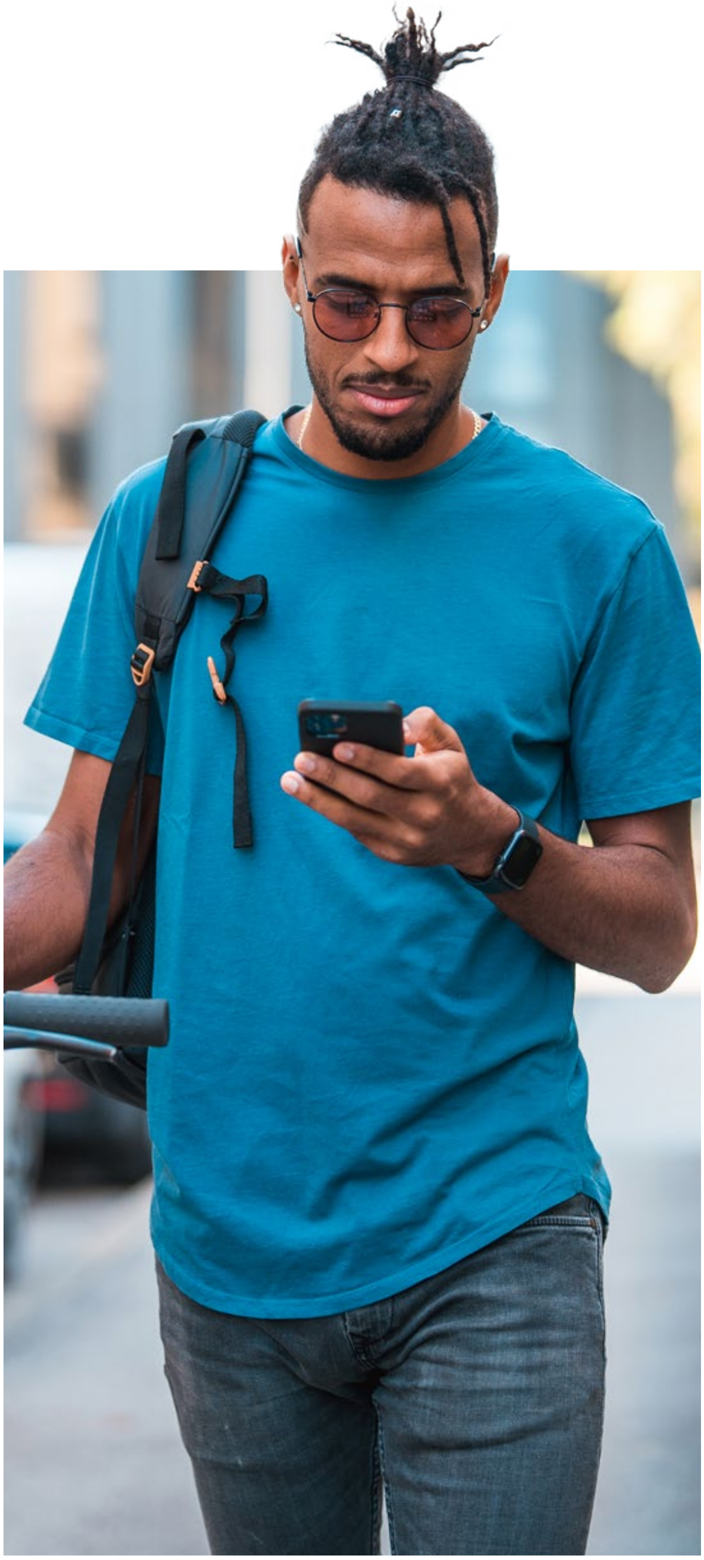
This GSMA Mobile Money study on the use of trust account interest was motivated by the global transition to digital financial services (DFS) and the pivotal role that mobile money plays in this shift.

With the burgeoning use of mobile money, understanding how regulatory frameworks affect the management of accrued interest from trust accounts becomes crucial. This is because the way in which mobile money providers (MMPs) manage this interest has a direct impact on the financial sustainability of their business, the overall attractiveness of mobile money services and, in turn, broader economic stability and financial inclusion.

One of the expected outcomes of this study was to provide stakeholders in the mobile money industry, such as financial regulators, MMPs, financial inclusion advocates and academia, with actionable insights to create more effective and inclusive financial systems. This report offers evidence-based recommendations for policy enhancements that could improve the operational realities of MMPs, generate benefits for mobile money customers and promote a healthier financial ecosystem.

This study also sought to bridge the gap between regulatory intent and market outcomes by offering a comparative analysis of various regulatory environments. By examining how different regulations affect the management of accrued interest, this report aims to contribute a deeper understanding of how accrued interest from trust accounts affects financial sustainability and the attractiveness of mobile money services, providing a foundation for more informed policymaking and industry practices.

The intended primary audiences and beneficiaries of this study are financial regulators, MMPs, financial inclusion advocates and academics interested in DFS. These stakeholders can apply the insights from this report to enhance regulatory frameworks, improve service offerings and advocate for more inclusive financial policies.



02
Methodology

The study employed a methodological framework that included interviews, regulatory reviews and secondary data analysis. This multifaceted approach ensured a robust examination of the regulatory environments across 10 selected countries and provided wide-ranging insights into the management of mobile money interest

Countries were selected based on their diverse approaches to managing mobile money interest. They represent various regions, including Sub-Saharan Africa, South Asia, Latin America and Middle East and North Africa (MENA). For ease of regulatory analysis and comparison, English- and Spanish-speaking countries were prioritised. The countries reviewed in this study are Ghana, Jordan, Kenya, Mexico, Pakistan, Paraguay, Rwanda, Tanzania, Uganda and Zambia. Stakeholders, including financial regulators and MMPs, were also selected to capture a variety of perspectives in the mobile money ecosystem and ensure a comprehensive understanding of the issues.

The criteria used to evaluate and analyse the data collected included the effectiveness of regulatory frameworks in ensuring compliance, transparency and accountability; the impact of these regulations on the operational realities of MMPs; and stakeholder perspectives on managing accrued interest. This approach allowed for a nuanced analysis of the regulatory impacts across different jurisdictions.

Due to the technical nature of financial regulations, one of the challenges encountered in data collection was accessing complete, detailed and up-to-date regulatory information and candid insights from stakeholders. This challenge was addressed by ensuring confidentiality where necessary, relying on established networks to recruit participants and cross-verifying data with multiple sources to ensure reliable and detailed insights.

Table 1

The GSMA Mobile Money Prevalence Index (MMPI) for the 10 focus countries

Source: GSMA

Low Medium High Very high

Country	Mobile money prevalence (2020)	Mobile money prevalence (2021)	Mobile money prevalence (2022)	Mobile money prevalence (2023)	Trend
Ghana	Very high	Very high	Very high	Very high	
Jordan	Low	Low	Medium	Medium	
Kenya	Very high	Very high	Very high	Very high	
Mexico	Low	Low	Low	Low	
Pakistan	Medium	Medium	Medium	Medium	
Paraguay	High	High	High	High	
Rwanda	Very high	Very high	Very high	Very high	
Tanzania	Very high	Very high	Very high	Very high	
Uganda	Very high	Very high	Very high	Very high	
Zambia	High	Very high	Very high	Very high	

03
Regulatory approaches: divergent perspectives

Most regulations across the countries studied require non-bank MMPs to set aside, in a float account (known in some countries as a "trust account"), an amount equivalent to the total mobile money issued.

These float accounts are generally held at fully prudentially regulated banks although, in some instances, the float accounts are held at the central bank.[1] These float accounts usually earn interest,[2] and do so in each of the 10 countries in this study. The primary motivation for this regulation is to safeguard mobile money customers in the event of MMP bankruptcy by isolating the funds from claims by issuer creditors.[3]

Another similar feature of mobile money regulation across the focus countries is that MMPs are not allowed to intermediate funds.[4] However, in partnership with banks, they can offer credit and other services restricted to MMPs.[5] While the requirement for using trust accounts is a common feature of MMP regulations across different markets, the regulatory landscape varies depending on how the interest earned by the float accounts is used. A 2021 technical note by the Consultative Group to Assist the Poor (CGAP) classifies regulatory approaches to interest earned on mobile money float accounts into five categories (Table 2).[6]

Table 2

Regulatory approaches to interest earned on mobile money float accounts

Source: CGAP

01 APPROACH 1	02 APPROACH 2	03 APPROACH 3	04 APPROACH 4	05 APPROACH 5
Allow, but not mandate, distribution of the float interest to customers, with no specific requirements on how to do it.	Require the float interest to benefit customers (including through internal reinvestment) without mandating distribution.	Mandate the distribution of a minimum percentage of the float interest to customers.	No specific regulatory provision about the float interest.	Prohibit the distribution of the float interest to customers and specify how MMPs must otherwise use it.

1 Ehrbeck, T. and Tarazi, M. (2011). Putting the Banking in Branchless Banking: Regulation and the Case for Interest-Bearing and Insured E-money Savings Accounts. FDIC.
2 Dias, D. and Kerse, M. (May 2021). Regulatory Approaches to the Interest Earned on E-Money Float Accounts. CGAP Technical Note.
3 Ehrbeck, T. and Tarazi, M. (2011). Putting the Banking in Branchless Banking: Regulation and the Case for Interest-Bearing and Insured E-money Savings Accounts. FDIC.
4 Dias, D. and Kerse, M. (May 2021). Regulatory Approaches to the Interest Earned on E-Money Float Accounts. CGAP Technical Note.
5 Huang, Z., Lahreche, A., Saito, M. and Wiriadinata, U. (2024). E-Money and Monetary Policy Transmission. International Monetary Fund Working Paper No. 24/69.
6 Dias, D. and Kerse, M. (May 2021). Regulatory Approaches to the Interest Earned on E-Money Float Accounts. CGAP Technical Note.

APPROACH 1

Allow but not mandate the distribution of float interest to customers

Under this approach, MMPs are afforded maximum flexibility on the use of accrued interest. Regulatory frameworks based on this model do not impose specific requirements for how or when to distribute the interest, which allows MMPs to use the funds for internal reinvestment or as rewards to customers. The advantage of this approach is that it encourages MMPs to reward customers in innovative ways, for example, by using interest earnings to subsidise lower transaction fees or offer bonuses, enhancing the attractiveness of their services. While MMP customers may not receive a direct benefit from the funds accumulating in their mobile money wallet, MMPs have the flexibility to explore the most beneficial use of accrued funds, especially since direct interest payments could be considered negligible. CGAP points to Brazil as an example of this type of regulatory approach, although they acknowledge that, to date, no MMPs in the country have chosen to distribute float interest to their customers.

APPROACH 2

Require interest to benefit customers without mandating direct distribution

Under this approach, regulators stipulate that accrued interest must be used to benefit customers, but allow MMPs to decide how. This could include reducing fees, offering customer rewards or funding customer education programmes. Tanzania, Uganda and Zambia have all taken this approach, striking a balance between flexibility and customer benefits.[7] This approach helps to ensure that MMPs remain competitive and customer-focussed without a stringent requirement to distribute interest directly as cash, which may not always align with their strategic business objectives or current market conditions.

APPROACH 3

Mandate the distribution of a specific percentage of float interest to customers

This approach is one of the most prescriptive, requiring MMPs to pay out a designated percentage of interest earned directly to customers. This regulatory model often comes with additional guidelines on how the remaining interest should be used to further benefit customers. Ghana and Rwanda are examples of countries where a high percentage of float interest must be returned to customers. In Ghana, MMPs must distribute to customers not less than 80% of the interest accrued on the pooled mobile money float, net any fees or charges related to the administration of the pooled float accounts.[8] In Rwanda, MMPs must do the same, but the intended use of the remaining 20% must also directly benefit customers in a way that is subject to prior approval by the central bank.[9] This method promotes transparency and customer engagement by directly sharing the gains from accrued interest. However, it also imposes significant compliance and administrative costs on MMPs and might hinder innovative uses of excess funds.

APPROACH 4

No specific regulatory provisions for float interest

Some regulatory frameworks do not specifically address the issue of float interest, leaving MMPs with little guidance on how to handle these funds. This often results in a default position whereby MMPs are not allowed to pay interest to customers, but no clear alternatives are provided. Mexico exemplifies this approach, with regulations clearly prohibiting MMPs[10] from paying interest to customers but not specifying how the interest should be used – a conservative stance on the financial operations of MMPs. In practice, MMPs in Mexico treat accrued interest in float accounts as income. While MMPs recognise and welcome the flexibility to use these funds internally – crucial for emerging MMPs – more established ones would like the flexibility to pass on the benefits directly to their customers. This approach can lead to ambiguity and may not capitalise on a significant resource that could be used to improve service offerings or pursue financial inclusion initiatives.

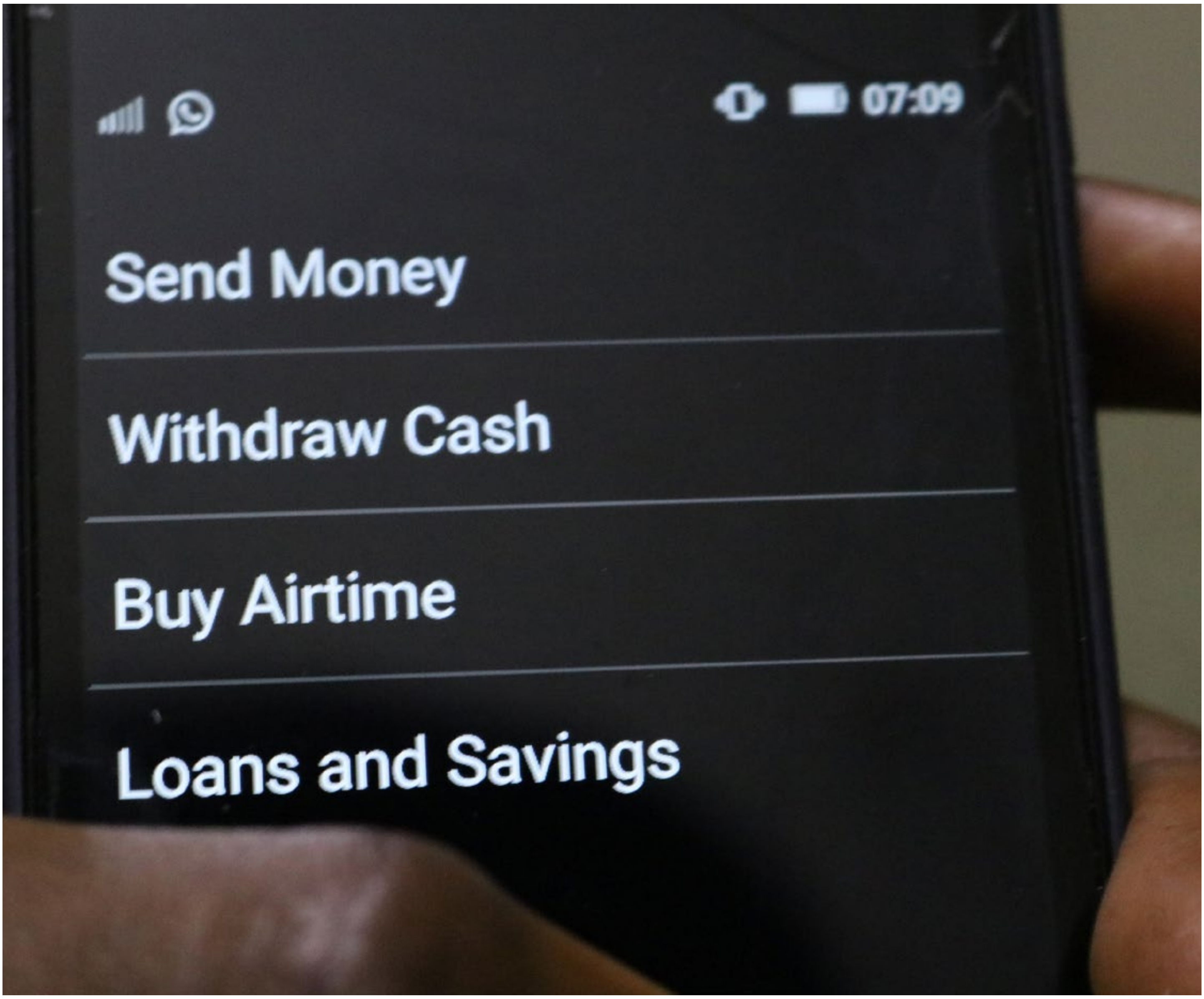
7 Dias, D. and Kerse, M. (May 2021). Regulatory Approaches to the Interest Earned on E-Money Float Accounts. CGAP Technical Note.
8 Electronic Money Issuers Guidelines. Payment Systems Act, 2019 (Act 987).
9 Article 30. Regulation governing the Electronic Money Issuers. Regulation 8 of 2016.
10 MMPs in Mexico are known as Electronic Payment Funds Institutions or IFPEs.

APPROACH 5

Prohibit the distribution of float interest to customers while specifying other uses

In some jurisdictions, MMPs cannot distribute any interest to customers. Instead, regulators specify alternative uses for these funds, such as supporting the operational costs of the mobile money system or making charitable donations. Kenya has followed this approach, directing interest to the broader mobile money ecosystem or community initiatives[11] to ensure that funds are used for socially beneficial purposes. In Paraguay, regulations clearly prohibit the payment of float interest to customers and specify that it must be used to cover the administrative costs of trust accounts.[12]

The 10 countries in this study fall within one of the regulatory approaches as defined by CGAP (see Table 2). Five of the countries allow the payment of interest to customers, some with very prescriptive directives. In the other five countries, regulation prohibits direct payment of interest to customers, with two giving clear directives on how the funds must be used and three giving no specific or clear provision for the use of these funds. Yet, it is important to note that not one of the countries in this study uses Approach 1, which allows but does not mandate the distribution of float interest to customers.



11 Dias, D. and Kerse, M. (May 2021). Regulatory Approaches to the Interest Earned on E-Money Float Accounts. CGAP Technical Note.
12 As discussed in interviews with stakeholders and regulators in Paraguay.

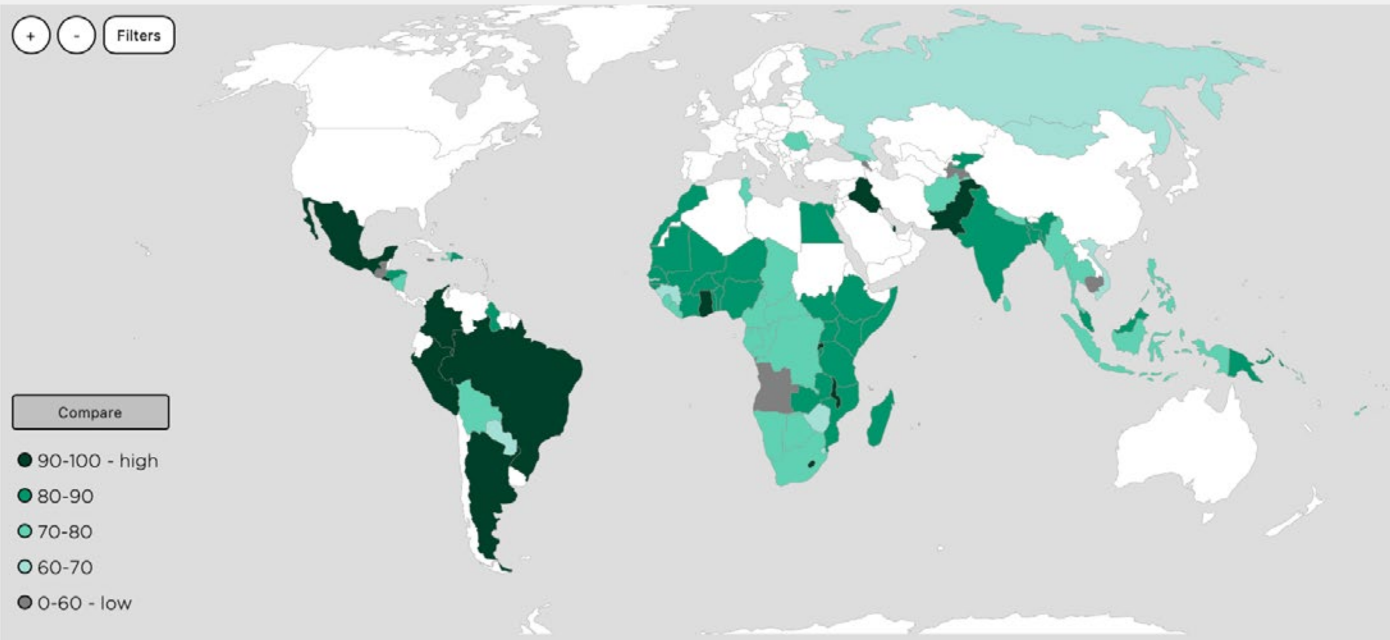
Perspectives from the GSMA Mobile Money Regulatory Index

According to the GSMA Mobile Money Regulatory Index (MMRI), a significant majority of the countries in this study place restrictions on how the interest earned on trust accounts may be used or distributed. Less than 10% of the mobile money regulatory frameworks explicitly prohibit MMPs from earning interest on mobile money trust accounts. The debate over whether to permit the earning and use of interest on mobile money trust accounts is ongoing in many countries. Most regulators prohibit non-bank entities such as MMPs from paying interest similar to bank savings accounts, as they view this activity as requiring a banking licence. Consequently, regulators typically restrict MMPs to offering basic value storage functions without allowing interest payments to customers.

Figure 1

The GSMA Mobile Money Regulatory Index

Source: GSMA Mobile Money



However, allowing MMPs to earn and use interest on these accounts could have several benefits. Interest could be used to offset customer transaction fees, distributed to low-income users as additional income or provide an incentive for customers to maintain funds in digital form. This, in turn, could enhance the liquidity of mobile money agents. For regulators, such incentives could promote the adoption and use of digital financial services and support the broader goal of increasing financial flows in the economy. The GSMA MMRI classifies a country's regulatory approach based on a score of 0 to 3, with 0 being the least enabling and 3 the most enabling (Table 3).

According to this assessment, Ghana, Jordan, Kenya, Mexico, Pakistan, Rwanda, Uganda and Zambia all have regulatory frameworks that permit MMPs to earn interest on mobile money trust accounts, but impose specific restrictions on how this interest can be used or distributed. These restrictions may include requirements to use the funds for customer benefit or prohibitions on distributing the interest directly to customers.

Tanzania is one country where MMPs are allowed to earn interest on trust accounts with no regulatory restrictions on how the interest can be used or distributed, offering the most flexibility. Paraguay, meanwhile, explicitly prohibits MMPs from earning interest on mobile money trust accounts, making the use or distribution of interest impossible under its regulatory framework.

Table 3

The GSMA Mobile Money Regulatory Index scoring criteria on interest payments

Source: GSMA Mobile Money

Score	Description
0	Use or distribution of interest is not possible because the mobile money regulatory framework explicitly prohibits MMPs from earning interest on mobile money trust accounts.
1	Mobile money regulatory framework does not explicitly address the use or distribution of interest paid on mobile money trust accounts but, in practice, MMPs have the flexibility to decide how to use or distribute the interest.
2	While MMPs may earn interest on mobile money trust accounts, the mobile money regulatory framework places certain restrictions on how the interest may be used or distributed (e.g. prohibition on distribution to customers, requirement that funds are distributed to customers, requirement that funds are used for customer benefit).
3	MMPs may earn interest on mobile money trust accounts and the mobile money regulatory framework places no restrictions on how the interest may be used or distributed.

Table 4

Regulatory landscape in the 10 focus countries

Source: GSMA

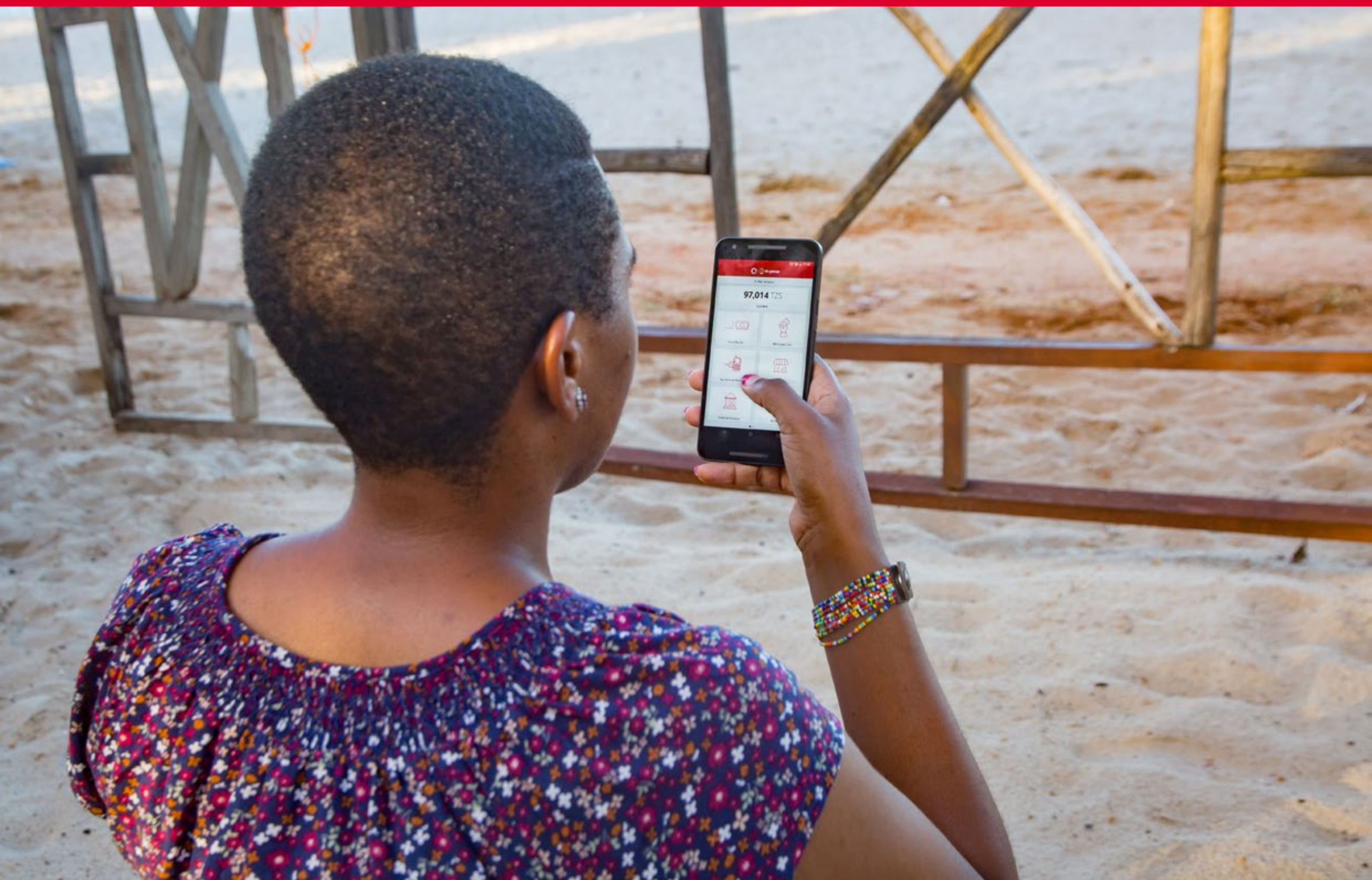
CGAP regulatory approach[13]	GSMA MMRI (0–3)[14]	Legislation	Key non-bank MMPs	Highlights
Ghana Bank of Ghana				
Approach 3: Mandate the distribution of a minimum percentage of the float interest to customers	2	Electronic Money Issuers Guidelines. Payment Systems Act, 2019 (Act 987)	MTN Mobile Money (MoMo), Vodafone Cash, AirtelTigo Money	Mobile money issuers must distribute to customers not less than 80% of the interest accrued on the pooled mobile money float, net any fees or charges related to the administration of the pooled float accounts.

13 Source: CGAP
14 Source: GSMA, 2022.

CGAP regulatory approach[13]	GSMA MMRI (0–3)[14]	Legislation	Key non-bank MMPs	Highlights
Jordan Central Bank of Jordan				
Approach 4: No specific regulatory provision about the float interest	2	Collateral Instructions for the Electronic Payment and Money Transfer Companies No. (1 /2018) Issued Based on the Provisions of Article (50/f) of the Central Bank Law No. (23) of 1971 as amended and the Provisions of Articles (14), (19/b/1) and (20/b/1) of the bylaw of Electronic payment and money transfer No. (111) of 2017	Dinarak, Zain Cash, Mahfazti, Orange Money, CliQ	The Collateral Instructions permit MMPs to transfer the interest earned on float accounts (or "escrow accounts" as they are referred to in Jordanian regulation) to their private accounts. The instructions do not specify whether the interest earned on escrow accounts should be distributed to customers or used to benefit them in a particular way.
Kenya Central Bank of Kenya (CBK)				
Approach 5: Prohibit the distribution of the float interest to customers and specify how MMPs must otherwise use it	2	National Payment System Act, 2011; National Payment System regulation, 2014; and CBK guidelines on e-money regulation	M-Pesa (Safaricom), Airtel Money (Airtel), Equitel (Equity Bank in partnership with Airtel)	Interest distribution to customers is not allowed. Regulation calls for any income generated in trust accounts to be donated to a public charitable organisation for public charitable purposes, pending prior approval by the CBK.
Mexico National Banking and Securities Commission (CNBV) and Bank of Mexico (Banxico)				
Approach 4: No specific regulatory provision about the float interest	2	Ley Fintech	Mercado pago, Clip, Klar, Ualá, Baz	MMPs (or IFPEs as they are referred to in the national regulation) are prohibited from paying interest to customers. While the mobile money regulation has no specific provision on the use of float interest, in practice, market participants are allowed to use the interest generated internally as income to cover operational costs.
Pakistan State Bank of Pakistan				
Approach 4: No specific regulatory provision about the float interest	2	Electronic Money Institutions Regulations 2019	SadaPay, Finja, CMPEEC (collaboration with JazzCash)	MMPs must not pay interest to customers nor offer anything that adds to the monetary value of mobile money. MMPs may offer discounts provided they are not linked to balances or length of time mobile money is held.
Paraguay Banco Central del Paraguay				
Approach 5: Prohibit the distribution of the float interest to customers and specify how EMIs must otherwise use it	0	Resolución No. 6, Acta Nº 18 del 13 de marzo 2014 – Reglamento de Medios de Pagos Electrónico- Modificación	Tigo Money, Billetera Personal, Bancard	MMPs cannot pay interest to customers. Interest accrued on float accounts is to be used to cover the administrative costs of the trust.

CGAP regulatory approach[13]	GSMA MMRI (0–3)[14]	Legislation	Key non-bank MMPs	Highlights
Rwanda National Bank of Rwanda				
Approach 3: Mandate the distribution of a minimum percentage of the float interest to customers	2	Payment Systems Act 2020, Regulation N° 08/2016 of 01/12/2016 Governing the Electronic Money Issuers, Chapter V, Article 30	MTN Mobile Money, Airtel Money	MMPs must distribute to customers not less than 80% of the interest accrued, net any fees or charges related to the administration of the pooled float accounts. MMPs can retain the remaining 20%, but its use must directly benefit customers in a way that is subject to approval by the central bank.
Tanzania Bank of Tanzania				
Approach 2: Require the float interest to benefit customers (including through internal reinvestment) without mandating distribution	3	Electronic Payment Systems Regulation, 2019 and the Bank of Tanzania Act	M-Pesa, Tigo Pesa, Airtel, Halotel Money	In 2014, Tigo Money obtained special permission for interest earned from trust accounts to be distributed directly to customers. It set a precedent and demonstrated how mobile money could evolve and provide additional financial benefits to users.
Uganda Bank of Uganda				
Approach 2: Require the float interest to benefit customers (including through internal reinvestment) without mandating distribution	2	Financial Institutions Act and the National Payment Systems Act, 2020	MTN Mobile Money, Airtel Money, Africell Money	MMPs can pay interest to customers in proportion to the balances held in the accounts, but they must receive prior approval from the Bank of Uganda. MMPs must provide clear information to customers about how interest will be calculated, the frequency of payments and any conditions attached.
Zambia Bank of Zambia				
Approach 2: Require the float interest to benefit customers (including through internal reinvestment) without mandating distribution	2	National Payments Act, 2007, the National Payments Systems Directives and Guidelines and Circulars from the Bank of Zambia	Zamtel Kwacha, Airtel Money, MTN Mobile Money	Pending the approval of the Bank of Zambia, MMPs may apply to use interest earned on trust accounts to pay interest to individual mobile money customers for industry-wide projects that promote effective interoperability, campaigns to promote usage, consumer education, discount or waiver of merchant fees, transaction fees or other fees payable by a customer, among others.

04
The debate over mobile money interest payments: benefits, counterarguments and global evidence



Unpacking the debate: interest on mobile money and its impact on financial systems

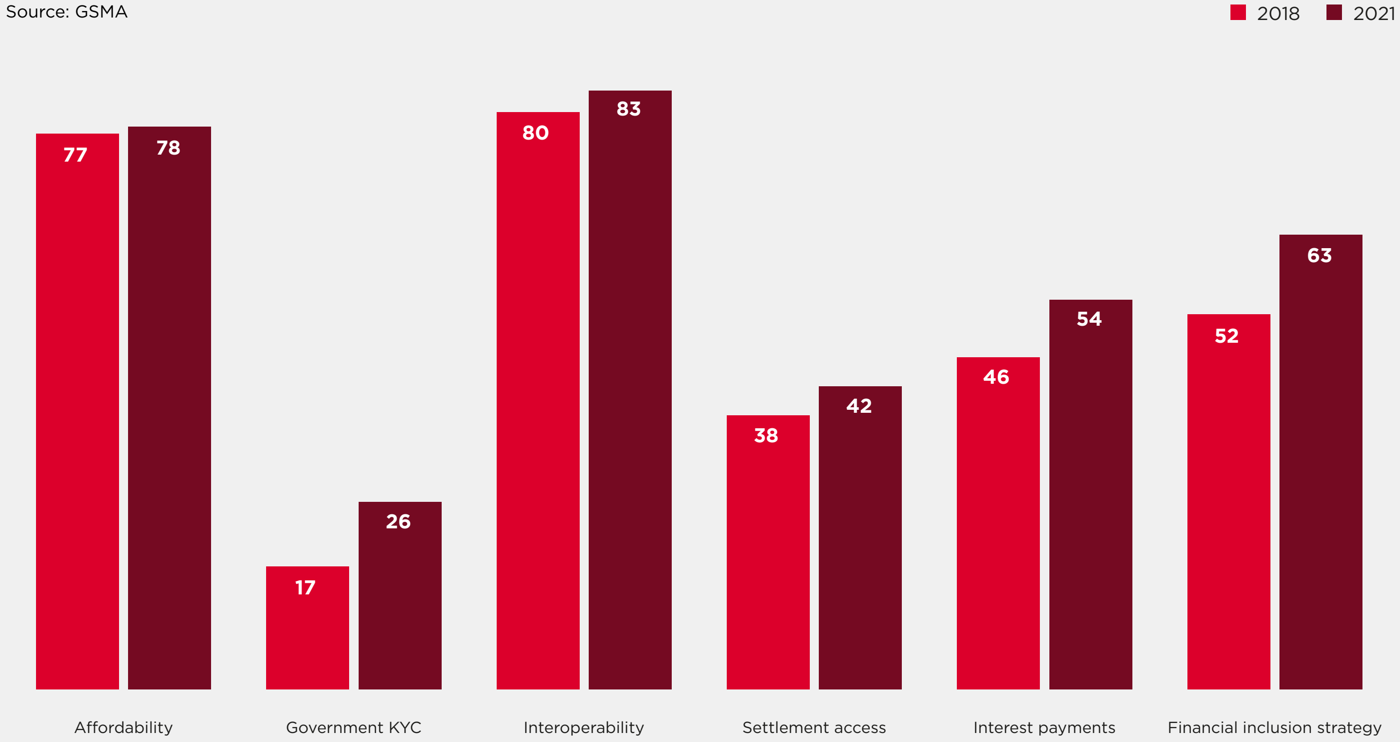
Since 2018, a growing number of countries have explicitly allowed MMPs to earn interest on mobile money trust accounts. By 2021, 39 countries permitted this with certain restrictions (e.g. mandating that the interest be used for the benefit of customers), while 15 countries imposed no limitations on how the interest could be used or distributed.

Figure 2 shows the number of regulatory frameworks that explicitly permit MMPs to earn interest on mobile money trust accounts, in addition to other regulatory indicators.[15]

Figure 2

Number of countries with a benchmark score for interest payments, 2021 Mobile Money Regulatory Index

Source: GSMA



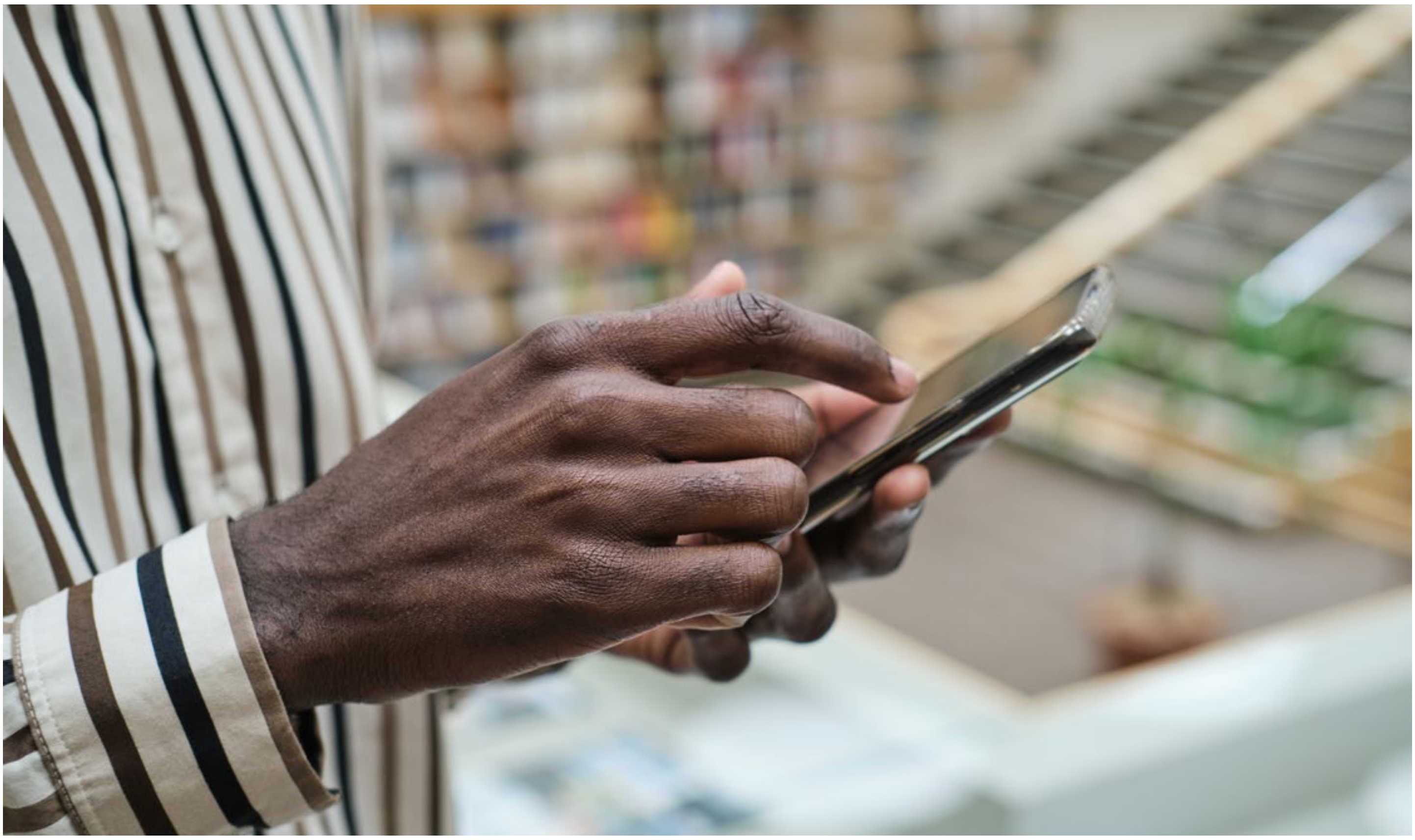
15 See the MMRI methodology for further details on how the specific thresholds were determined.

Counterarguments to allowing MMPs to pay interest to their customers include concerns that it mimics banking activities reserved for fully regulated banks, potentially introducing unfair competition, confusing customers about the nature of mobile money wallets and the negligible amount of interest accrued on individual accounts. Critics also worry that MMPs might engage in risky financial behaviours to offer higher interest rates, leading to a significant transfer of funds from the banking sector to mobile money that could destabilise the financial system.[16] However, Tsang et al.[17] challenge these concerns, arguing that they lack a robust legal or regulatory foundation. Since MMPs do not intermediate funds like banks, they are inherently less risky, challenging the need for stringent banking regulations.

As for concerns that paying interest on mobile money accounts might lead customers to confuse them with savings accounts, current regulatory checks are sufficient to mitigate such risks. Financial literacy campaigns can also enhance public understanding of the nature of mobile money, as has been demonstrated in Tanzania.

The critique that the interest accrued on small balances is negligible overlooks the collective impact when these balances are pooled over time. For many low-income individuals, the interest from pooled mobile money accounts might represent their only opportunity to earn financial returns, however modest. Concerns about MMPs recklessly chasing higher yields are mitigated by regulatory frameworks that only allow the distribution of accrued interest, which ensures the security of customer balances.[18] Research by the International Monetary Fund (IMF)[19] indicates that the growth of mobile money does not necessarily siphon funds from traditional banks; instead, it shows that the two can grow simultaneously, particularly in regions with low financial inclusion. This suggests a complementary relationship between mobile money and traditional banking, contradicting fears of massive financial shifts. Similar research by the GSMA on the impact of mobile money on financial sector development highlights the complementarity of banks and mobile money.[20]

Another point of contention is that MMPs must retain all interest earnings to be profitable. This is more relevant to minor, nascent MMPs than established mobile network operators (MNOs), which do not rely solely on these funds for their operations. However, for MMPs in Mexico, for example, new market players may need to rely on interest funds in their early years of operation. Allowing MMPs to decide whether to distribute interest, rather than mandating it, therefore provides the flexibility to balance customer benefits with business viability. This approach would enable MMPs to manage their resources effectively while potentially passing on benefits to their customers, enhancing trust and participation in the digital financial ecosystem.



16 Ehrbeck, T. and Tarazi, M. (2011). Putting the Banking in Branchless Banking: Regulation and the Case for Interest-Bearing and Insured E-money Savings Accounts. FDIC.
17 Tsang, C.Y., Malady, L. and Buckley, R.P. (2017). "Promoting Financial Inclusion by Encouraging the Payment of Interest on E-Money". UNSW Law Journal, 40(4).
18 Ehrbeck, T. and Tarazi, M. (2011). Putting the Banking in Branchless Banking: Regulation and the Case for Interest-Bearing and Insured E-money Savings Accounts. FDIC.
19 Huang, Z., Lahreche, A., Saito, M. and Wiriadinata, U. (2024). E-Money and Monetary Policy Transmission. International Monetary Fund Working Paper No. 24/69.
20 GSMA (29 March 2019). "The impact of mobile money on financial sector development". Mobile for Development Blog.

Exploring the advantages of mobile money interest payments

This study identified several benefits to the payment of mobile money interest. The literature review revealed that the direct or indirect payment of interest to mobile money customers benefits the entire digital ecosystem and the financial system in general.[21] Tsang et al. have outlined three main benefits.

First and foremost, increasing the income of mobile money customers is beneficial. It is especially significant for low-income customers who have historically been underserved by, or excluded from, traditional financial services. These customers are afforded the unique opportunity to earn a higher return on their money; since the mobile money float is pooled into one trust account, the higher total amount can qualify for higher rates of return that would otherwise be earned by individual low-value accounts.[22] Receiving interest payments also contributes to the financial literacy by demonstrating to customers, in a practical way, the value of time and money.[23]

Another benefit of paying interest to customers is that it promotes greater uptake of mobile money, given the perceived advantages. It also provides an incentive for agents to hold more stock of mobile money, which in turn facilitates more transactions and improves the liquidity of mobile money in the system.[24]

Another benefit is increased consumer trust and confidence in the financial system, which encourages mobile money customers to use the products and services of other financial institutions, such as banks, credit unions and microfinance institutions (MFIs).[25] The 2024 IMF study on the connection between e-money and monetary policy transmission confirms that the development of mobile money is accompanied by more robust monetary policy transmissions, bank deposits and credit growth, as well as more significant efficiency gains in financial intermediation. Furthermore, the study found that these effects are more pronounced in countries with low financial inclusion.[26]

In 2014, Tigo Pesa in Tanzania became the first MMP to pay interest to its mobile money customers.[27] The regulatory approach followed by Tanzanian authorities provides evidence for arguments in the literature that favour the payment of interest on mobile money floats. Authorities have found that Tigo's distribution of accumulated interest earned on mobile money floats to customers has helped build consumer trust and confidence in mobile money in general.[28]

21 Tsang, C.Y., Malady, L. and Buckley, R.P. (2017). "Promoting Financial Inclusion by Encouraging the Payment of Interest on E-Money". UNSW Law Journal, 40(4).
22 Ehrbeck, T. and Tarazi, M. (2011). Putting the Banking in Branchless Banking: Regulation and the Case for Interest-Bearing and Insured E-money Savings Accounts. FDIC.
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24 Tsang, C.Y., Malady, L. and Buckley, R.P. (2017). "Promoting Financial Inclusion by Encouraging the Payment of Interest on E-Money". UNSW Law Journal, 40(4).
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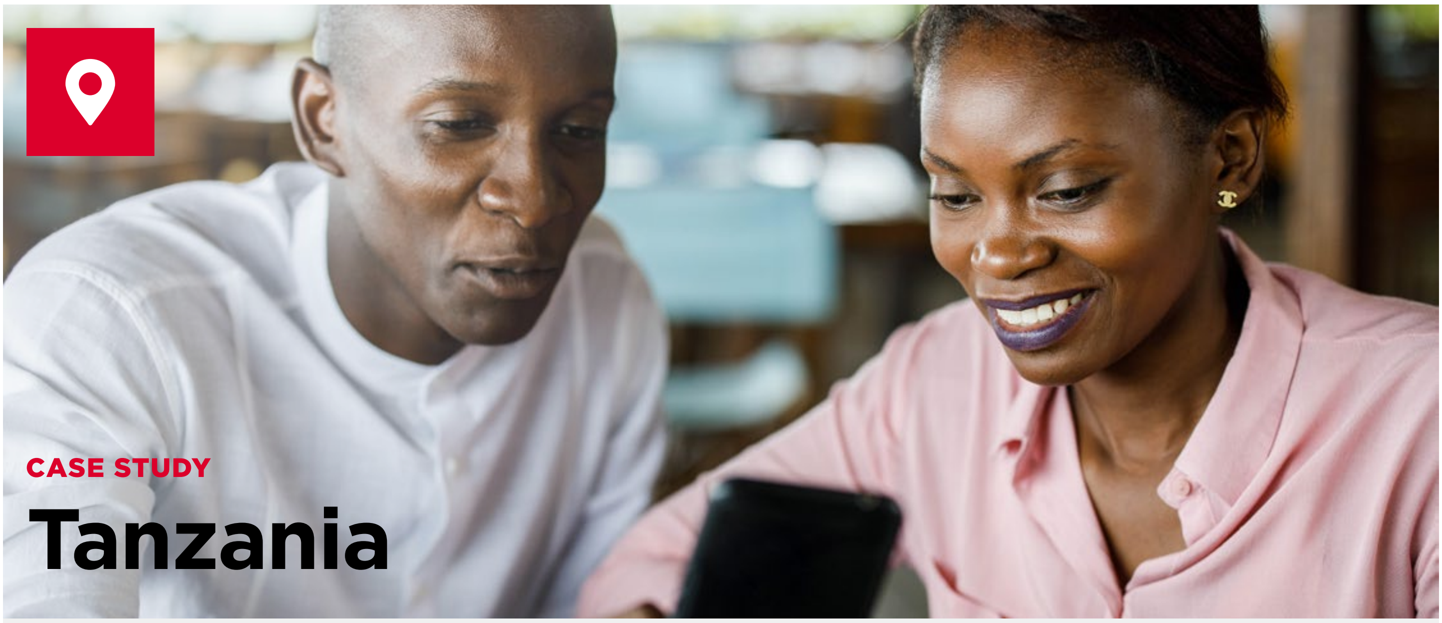


CASE STUDY

Tanzania

Tanzania has emerged as a pioneer in the mobile money industry, with a significant proportion of the population relying on mobile money services for day-to-day transactions. In 2014, Tanzania became one of the first countries to allow the distribution of interest accrued on mobile money trust accounts to customers. The regulatory framework supporting this approach is designed to enhance financial inclusion, especially for low-income individuals who have traditionally lacked access to formal financial services.

Regulatory framework

The Tanzanian regulatory framework mandates that MMPs must place customer funds in trust accounts, which accrue interest. However, unlike many other countries where the distribution of this interest is restricted or ambiguous, Tanzanian regulations allow for a portion of the accrued interest to be distributed directly to mobile money customers. The framework provides flexibility to MMPs, allowing them to determine the amount and frequency of interest distribution as long as the accrued interest benefits customers. The regulation requires prior approval from the Bank of Tanzania on the proposed use of the accrued interest. Starting in February 2014, the Bank of Tanzania welcomed proposals from MMPs on how to use these funds.

Challenges

Despite the clear benefits for the mobile money industry, challenges remain. One of the primary operational challenges for Tanzanian MMPs is managing customer expectations about the amount of interest distributed. As the interest amounts are often small for individual customers, ensuring they see value in these payments is a delicate balance. Additionally, the administrative costs associated with distributing the interest can sometimes outweigh the actual benefit to customers, particularly for smaller MMPs. There is also a need to ensure ongoing transparency in how interest is calculated and distributed. For authorities, there is a supervisory cost as they must review and approve the proposed use of the funds by each of the market players.

Operational context

Tigo Pesa, one of the leading MMPs in Tanzania, became the first to distribute interest to their customers. By 2014, Tigo Pesa had distributed more than $8 million in interest earnings to their mobile wallet customers, a move widely celebrated as a significant step for financial inclusion. The flexibility allowed by the regulatory framework enabled Tigo Pesa to implement a customer-friendly distribution model,[29] which improved trust in mobile money services and increased customer retention.

Key lessons

Tanzania's approach demonstrates that allowing the distribution of interest on mobile money can make a positive contribution to financial inclusion without undermining the stability of the financial sector. The flexibility of the regulatory framework has been vital to its success, providing room for MMPs to adopt innovative and customer-centric models. The challenge now is to continue refining the system to ensure sustainability and alignment with customer needs.

29 McKay, C. (28 June 2016). "Interest Payments on Mobile Wallets: Bank of Tanzania's Approach". CGAP Blog.

05
Regulatory approaches: a market perspective

Regulatory frameworks often dictate how interest on mobile money trust accounts is handled, with implications for operational strategies and the financial sustainability of MMPs.

For example, in Jordan, MMPs can transfer interest to private accounts without specific directives, providing financial flexibility and potential revenue streams that can support broader operational capabilities. Conversely, in Ghana, a significant proportion of accrued interest must be returned to customers, fostering a more customer-centric approach. This regulatory stipulation boosts consumer trust and satisfaction and encourages more widespread adoption of mobile money services, ultimately contributing to financial inclusion. Such regulatory differences create a diverse competitive landscape in which MMPs must adapt their strategies to local regulatory demands, affecting everything from product design to marketing and customer engagement strategies.

Operational challenges for MMPs stem largely from the regulatory conditions governing their activities. In restrictive environments like Paraguay, where interest distribution to customers is prohibited, MMPs face the challenge of finding viable alternatives to use surplus funds effectively, often leading to operational inefficiencies and reduced competitiveness with less-regulated entities. This restriction affects the value proposition of mobile money services as they cannot offer interest or indirect benefits, such as lower fees, that might attract more customers.

In contrast, environments with more liberal regulatory frameworks, such as Tanzania, allow MMPs to use interest payouts as a competitive tool to attract and retain customers. However, even in such environments, MMPs must navigate a complex balance between rewarding customers and maintaining financial stability, as overly generous interest payouts could strain financial resources or require complex management strategies to ensure sustainability and compliance.

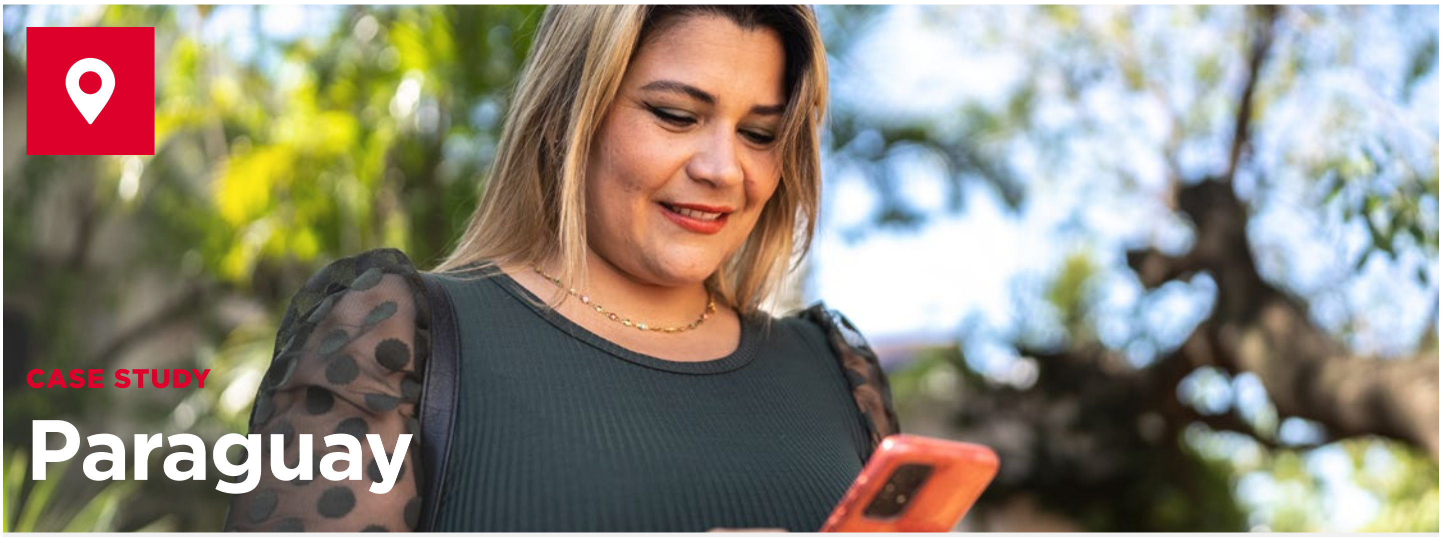
Among the potential benefits of allowing MMPs to distribute accrued interest is increased customer engagement and trust, as customers perceive direct financial benefits from using mobile money services. This can lead to greater financial inclusion, especially in regions with limited access to traditional banking. For example, in Tanzania, the distribution of interest has not only enhanced customer retention, but also integrated more of the unbanked population in the financial system.

These benefits have potential drawbacks, however, such as the risk of financial mismanagement if MMPs prioritise competitive interest rates over sound financial practices. Furthermore, stringent regulatory requirements for interest distribution can impose significant administrative and operational burdens on MMPs, potentially leading to higher costs that might be passed on to customers. These regulations can also stifle innovation by restricting how MMPs can use their funds to develop new products or enhance services.

Stakeholder engagement is crucial in shaping the regulatory landscapes that govern MMPs. In countries where there is active dialogue between regulators, MMPs and consumer groups, such as Ghana and Tanzania, policies tend to be more balanced, reflecting a comprehensive understanding of consumer needs, market realities and the operational capabilities of MMPs. This engagement helps in crafting policies that support innovation while ensuring consumer protection and market stability.

Conversely, in markets where stakeholder engagement is limited or dominated by specific interests, such as the banking sector in Mexico, regulations may be less favourable to MMPs. This can restrict their operational flexibility and capacity to innovate, which has a direct impact on the competitiveness of their financial market position. The dynamics between different market players, including competitive pressures and collaborative efforts, further influence how MMPs adapt their strategies to navigate regulatory landscapes and meet consumer expectations.

Regulations play a pivotal role in either fostering or hindering financial inclusion. Supportive regulatory environments that allow MMPs to use interest payments to benefit customers can enhance financial inclusion dramatically. This is evident in jurisdictions where MMPs are encouraged to pass on benefits to customers, leading to increased adoption of mobile money services among previously unbanked populations. These practices promote inclusion and enhance the overall financial ecosystem by introducing more participants to the economy and driving innovation and economic growth. On the other hand, restrictive regulations that limit the ability of MMPs to offer such benefits can stifle growth and innovation, leaving significant segments of the population underserved. Therefore, regulatory approaches need to be carefully calibrated to ensure they support the twin goals of market stability and financial inclusion, promoting an inclusive yet stable financial ecosystem that benefits all stakeholders.



CASE STUDY

Paraguay

Paraguay's mobile money market is relatively developed compared to other countries in Latin America. While mobile money services such as Tigo Money have achieved some market penetration, stringent regulations on the management of mobile money trust accounts have stifled innovation and limited the potential benefits of mobile money for financial inclusion.

Regulatory framework

In Paraguay, MMPs are required to hold customer funds in trust accounts at commercial banks. However, the accrued interest on these accounts cannot be distributed to customers. Instead, the interest can only cover the administrative costs of maintaining the trust accounts. The regulatory framework in Paraguay is heavily influenced by the traditional banking sector, which has lobbied against more liberal regulations that would allow MMPs greater flexibility in the use of accrued interest.

Operational context

The restrictions on interest distribution pose significant operational challenges for MMPs like Tigo Money or Personal. While Tigo Money has successfully integrated their services in Paraguay's financial ecosystem, the inability to distribute interest or use the accrued funds for innovative purposes limits their competitive edge. In interviews, MMPs expressed that the interest earned often exceeds the costs of maintaining the trust accounts, leading to inefficient use of funds.

Challenges

The primary challenge for MMPs in Paraguay is navigating the regulatory environment, which is perceived as overly restrictive. The inability to distribute interest to customers or use it for growth-oriented activities limits the attractiveness of mobile money services. This has led to slower adoption of mobile money, as customers have little incentive to maintain higher balances in their mobile wallets.

Key lessons

Paraguay's experience highlights the risks of a highly restrictive regulatory environment stifling innovation and limiting the growth potential of mobile money services. The lack of flexibility in how accrued interest can be used hampers the ability of MMPs to provide more competitive and attractive services to customers. Still, Paraguay's approach has proven to be straightforward for stakeholders, as regulators and market players understand how to oversee and comply with regulation.

06
Recommendations

In the rapidly evolving mobile money industry, regulatory frameworks play a pivotal role in shaping the operations and growth potential of MMPs. As the industry confronts challenges related to the management and distribution of accrued interest, targeted improvements to these frameworks are necessary to support the growth of the mobile money industry and foster innovations that enhance consumer benefits while also ensuring robust oversight.

Tailored regulations
Tailoring regulations to a country's economic, cultural and social context ensures that policies are relevant and practical. For example, regulations could focus on enhancing DFS in countries with high mobile money usage but low traditional banking penetration. Providing a framework that allows for variations in implementation could help MMPs innovate while still adhering to regulatory standards. This could include allowing variable interest rates based on market conditions or customer segments.

Guidelines for interest distribution
Establishing clear rules for interest distribution helps prevent misunderstandings and potential legal challenges. These guidelines specify the conditions under which interest is paid, such as account balance minimums or loyalty thresholds. Mandating MMPs to disclose how interest is calculated, accrued and paid ensures transparency. This could involve providing regular updates to customers about their accrued interest and any changes to the terms of interest payments.

Reducing compliance burdens
Simplifying reporting requirements can reduce administrative costs for MMPs. Regulators could develop standardised reporting templates focusing on key metrics relevant to interest management. Implementing a regulatory sandbox would allow MMPs to experiment with new financial products involving interest payments in a controlled and monitored environment, reducing the risk associated with compliance.

Support for technological advancements
Providing grants or tax incentives for MMPs to develop or adopt new technologies to manage accrued interest efficiently could spur technological advancement. Encouraging the development of shared platforms that multiple MMPs can use to manage interest payments could reduce costs and increase efficiency.

Incentives for customer-centric practices
Offering rewards or recognition to MMPs that excel in customer satisfaction metrics for interest payments could motivate other market players to adopt similar practices. Encouraging MMPs to implement systems for gathering and acting on customer feedback about interest payments could help refine and improve customer-centric practices.

The successful implementation of updated regulatory frameworks in the mobile money industry relies heavily on effective collaboration between regulatory bodies and MMPs. This collaboration is essential for aligning the operational strategies of MMPs with the overarching goals of financial inclusion and market stability. By engaging in stakeholder consultation, establishing educational programmes, initiating pilot programmes, facilitating technology-sharing initiatives and setting up responsive feedback mechanisms, regulators and MMPs can ensure that new regulations address current challenges and pave the way for future innovations.

Stakeholder consultations
Organising regular forums and workshops with stakeholders to discuss upcoming regulations and gather input could ensure that policies are well informed and broadly supported. Involving MMPs and consumer groups in the drafting of new regulations could also help ensure that the policies are practical and address the needs of all parties.

Educational programmes
Developing comprehensive education campaigns that explain the benefits and mechanics of interest payments could help build trust and encourage the use of mobile money services. Providing training sessions for MMPs on best practices for managing and distributing interest could ensure these processes are handled competently and ethically.

Pilot programmes
Running pilot programmes in select regions or with specific demographics could help reveal the impact of interest payments on different population segments. Collecting and analysing data from these pilots could provide insights to guide the roll-out of interest payment initiatives on a larger scale.

Technology-sharing initiatives
Encouraging partnerships between MMPs and tech companies could facilitate access to advanced systems for managing interest payments at reduced costs. Promoting open-source software for interest management could lower costs and foster innovation across the industry.

Feedback mechanisms
Implementing real-time monitoring systems could help regulators and MMPs quickly identify and address issues with interest payment processes.

07
Conclusion

There is now clear evidence from multiple countries on how regulation can effectively address the concerns and realise the potential benefits associated with the payment of interest accrued in mobile money float accounts.

The various benefits associated with the payment of mobile money interest strongly support the view that interest revenue can, and should, be used to drive uptake of mobile money to promote and sustain digital financial ecosystems. More importantly, using interest revenue for the direct benefit of low-income customers can promote financial inclusion and reap real economic benefits.[30]

It is important to note that several of the current regulatory provisions for mobile money were originally intended to protect mobile money customers.[31] In most cases, few regulatory frameworks were tested or evaluated to identify best practices. Instead, "common practices" were adopted as countries enacted regulatory provisions for a growing mobile money industry. However, sufficient time has passed, and the GSMA recommends that countries invest in evaluating the outcomes of different regulatory approaches to adjust and enhance mobile money provisions for the benefit of customers, MMPs and the digital financial ecosystem as a whole.

As countries move towards allowing MMPs to use the interest accrued in float accounts, there is no ideal approach. Regulatory frameworks are complex and any changes can have significant implications for the financial system. Regulatory frameworks will emerge based on the local context, the state of financial inclusion, the stage of the mobile money industry and other macroeconomic variables.

Allowing the use of accrued interest from float accounts and permitting MMPs to pass on all or some of the benefit to customers should be the path forward. However, different approaches can be taken, from prescriptive provisions on the amount that can be distributed (Approach 3), to allowing flexibility on MMP proposals (Approach 2), to total freedom on how to use the interest earnings (Approach 1). There is clear market evidence of each of these approaches. While they have all been effective, each has its own benefits and costs.

It is the view of the GSMA that financial authorities should adjust their regulatory frameworks to require, but not mandate, float interest to benefit customers (CGAP Approach 2 and the permissive approach outlined by Tsang et al.). The experience of Tanzania provides ample evidence that this approach can be implemented effectively and generate direct benefits for mobile money customers, while also giving MMPs room to exercise judgement about their business. While Approach 1 – to allow but not mandate the distribution of float interest to customers – is attractive because it leaves the most room for innovation and allows customers to benefit directly, the GSMA is cautious to recommend it. Years after this regulation was put in place in Brazil, for example, no direct interest payment has been made to customers. Approach 2 is therefore considered more effective as it requires prior regulatory approval. While this could increase supervisory costs for authorities, it affords sufficient oversight to ensure that mobile money customers benefit directly.

30 Tsang, C.Y., Malady, L. and Buckley, R.P. (2017). "Promoting Financial Inclusion by Encouraging the Payment of Interest on E-Money". UNSW Law Journal, 40(4).
31 Oliveros, R.M. and Pacheco, L. (28 October 2016). "Protection of Customers' Funds in Electronic Money: A Myriad of Regulatory Approaches". Financial Inclusion Watch. BBVA.

As financial authorities consider reviewing mobile money regulatory frameworks to address the use of accrued interest in float accounts, the GSMA encourages the review of other mobile money regulation that affect the growth of the industry, and that are as relevant for MMPs as interest distribution, if not more so in some markets. Requirements such as holding the full balance of mobile money accounts in trust accounts or limiting activities and business models that then require partnerships with traditional FSPs, have a significant impact on the operational and financial viability of MMPs and the attractiveness of mobile money for consumers. It is hoped that this research will prompt financial authorities around the world to consider enhancing their regulatory frameworks for mobile money.

To ensure that interest accrued on mobile money trust accounts is used effectively, close collaboration between regulatory bodies and MMPs is imperative. By adopting flexible regulatory frameworks that allow accrued interest to be reinvested for the benefit of customers, the overall value proposition of mobile money services can be enhanced. This approach not only supports financial inclusion, but also fosters a sustainable mobile money industry.

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Annex: Interviews conducted

Organisation	Stakeholder	Country
Bank of Ghana	Regulator	Ghana
Central Bank of Jordan	Regulator	Jordan
Klu	Industry	Mexico
Mercado Libre	Industry	Mexico
State Bank of Pakistan	Regulator	Pakistan
EMPE Personal	Industry	Paraguay
Superintendencia de Bancos – Paraguay	Regulator	Paraguay
Tigo Money	Industry	Paraguay
MTN Group	Industry	Regional
Tigo Pesa	Industry	Tanzania
Vodacom Group	Industry	Regional
Reserve Bank of Zimbabwe	Regulator	Zimbabwe
Airtel Africa	Industry	Regional
Equitel	Industry	Regional

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