



Mobile Money Policy and Regulatory Handbook



GSMA Mobile Money

The GSMA represents the interests of mobile operators worldwide, uniting more than 750 operators with over 350 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and internet companies, as well as organisations in adjacent industry sectors. The GSMA also produces the industry-leading MWC events held annually in Barcelona, Los Angeles and Shanghai, as well as the Mobile 360 Series of regional conferences.

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Web: www.gsma.com/mobilemoney

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

Email: mobilemoney@gsma.com

About this report

Authored by Juliet Maina, Advocacy and Regulatory Manager, Mobile Money.

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Introduction

Mobile money is helping to make the financial services industry more efficient and inclusive. This has opened access to a broad range of essential financial services for millions of unserved and underserved people. The industry is now processing a billion dollars a day and generating direct revenues of over \$2.4 billion. With 690 million registered accounts worldwide, mobile money has evolved into the leading payment platform for the digital economy in many emerging markets.

Mobile money's success is due to the fact it leverages the ubiquity of mobile phones, along with the extensive coverage of mobile network operators (MNOs) and broad retail distribution channels. It both complements and disrupts the traditional brick-and-mortar approach to banking. One of the keys to this success has been the ability of MNOs to use their large distribution networks to provide customers with easily accessible mobile money agents.

Mobile money services are a powerful tool for deepening financial access in developing markets. In fact, mobile money can significantly expand financial inclusion through lower transaction costs, improved rural access and greater customer convenience, as well as provide the infrastructure for partner institutions to offer a broad range of financial services. The vision for mobile money is to create a highly interconnected mobile financial ecosystem where transactions are digitised, providing a solution to the challenges of

cash experienced by customers and businesses across the developing world. Increasingly, mobile money is facilitating transactions from different sectors, such as retail, utilities, health, education, agriculture and transport, as well as serving as a channel for credit, insurance and savings.

Policy objectives continue to play an increasingly important role as the scope of mobile money regulation broadens. The pace of core regulatory reform slowed in 2017 as the total number of markets with enabling regulatory frameworks rose from 52 to 54. This, however, masked two important trends: the growth of new areas of digital financial services regulation and the spread of national financial inclusion policy frameworks. As regulators confront questions around data protection, regulatory sandboxes and more, the policy endgame of greater inclusion must remain at the fore.

WHAT IS A MOBILE MONEY SERVICE?

A SERVICE IS CONSIDERED A MOBILE MONEY SERVICE IF IT MEETS THE FOLLOWING CRITERIA:

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



MUST BE **AVAILABLE TO THE UNBANKED** (PEOPLE WHO DO NOT HAVE ACCESS TO A FORMAL ACCOUNT AT A FINANCIAL INSTITUTION)



MUST OFFER A NETWORK OF **PHYSICAL TRANSACTION POINTS WHICH 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 Wallet) that offer the mobile phone as just another channel to access a traditional banking product are not included.



About this Handbook

Establishing an enabling framework to unleash the full potential of mobile money services requires robust dialogue between the public and private sectors. To this end, the GSMA is committed to supporting global standard setters, governments and regulators in their efforts to introduce policies that encourage investment and foster innovation and competition to achieve public policy objectives.

In the case of mobile money, effective and appropriate policy and regulation can advance financial inclusion, integrity and stability. It can also help to reduce economic inequalities while increasing employment and economic growth.

The Mobile Money Policy and Regulatory Handbook is part of the GSMA's efforts to promote such collaboration. The Handbook assembles a range of key considerations for financial regulators and other

stakeholders in the mobile money industry under one cover. It is meant to serve as a practical guide to the issues, a window into industry perspectives, a signpost for regulatory best practice and a portal to more information, drawing on the GSMA's unique insights into the mobile sector and mobile money industry. As mobile money continues to bridge the gap in financial inclusion for many all over the world, the need for a sound understanding of the policy and regulatory issues has never been greater.



Using mobile money to build efficient and inclusive financial ecosystems

Mobile money allows digital money storage, payments and transfers. The spread of mobile money has often served as a critical step towards creating a functional financial system in countries where the financial sector is still underdeveloped. In some markets, mobile money is already reaching huge numbers of low-income and previously unbanked customers, while moving millions of low-income households from a cash-only economy into the formal financial system.

As mobile money reaches scale, other services, such as savings, credit and insurance, can be provided through the mobile money channel via partnerships with banks, insurance companies and others. 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 therefore an important step towards creating universal access to a broad range of financial services and improving the stability and integrity of the financial system.

Additionally, the innovative and effective use of mobile money provider data can support operational efficiencies and customer outreach, while also driving new and enhanced products and services for consumers and businesses using mobile money platforms. Providers have shown 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, personalising services and building trusted profiles. Some MNO-led providers may be well-positioned to combine telecommunications data with payments data, especially those that have shifted to big data analytics platforms that enable faster and real-time insights at a lower cost.¹

¹ L. Gidvani, June 8, 2018, "Opportunities to leverage mobile money data to improve access to the digital economy", GSMA Mobile for Development blog, <https://www.gsma.com/mobilefordevelopment/programme/mobile-money/opportunities-to-leverage-mobile-money-data-to-improve-access-to-the-digital-economy/>

Figure 1

The digital payments ecosystem



Source: GSMA Mobile Policy Handbook, 2018

In countries where mobile money has scaled, the benefits are already widely felt by businesses, governments and, most importantly, the millions of customers for whom the ability to conveniently and safely store money, remit funds and pay for goods and services using a mobile phone is socially and economically transformational.² Mobile money is also helping to dramatically reduce financial sector infrastructure costs, thereby facilitating the distribution of retail financial services, such as credit and insurance,

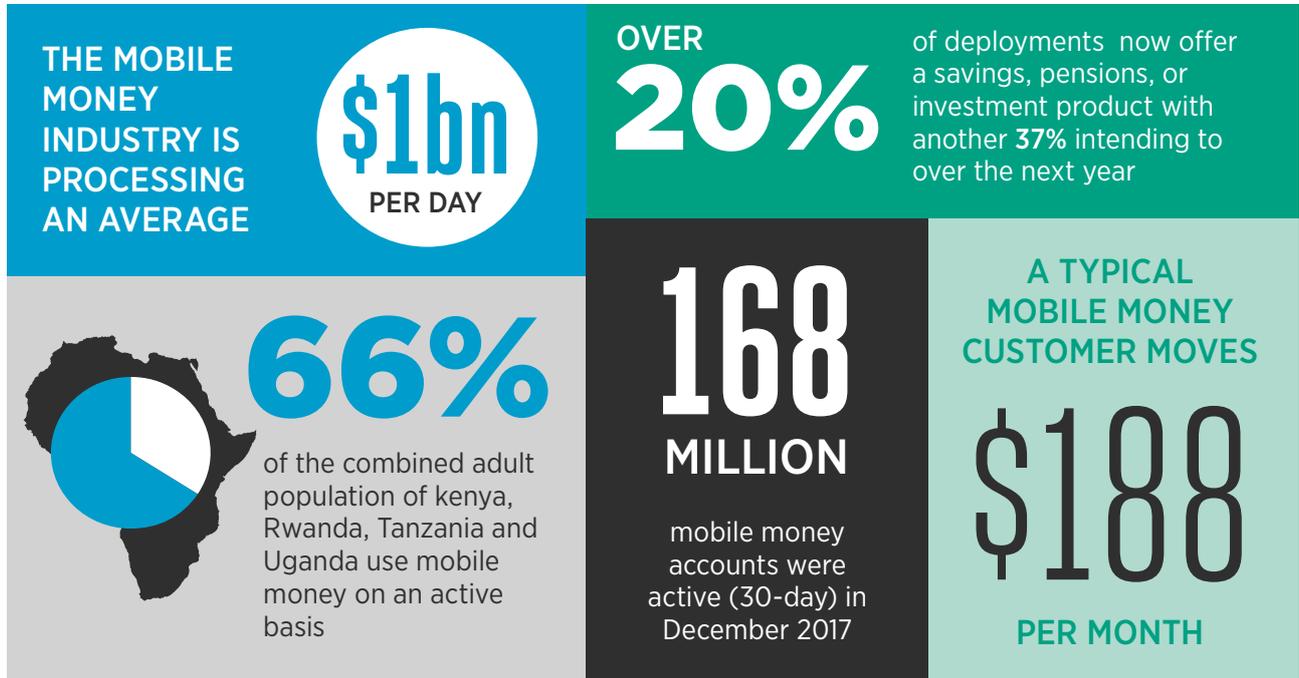
and unleashing other innovations at the service level.

Mobile money currently benefits over 690 million customers globally. Over 20 per cent of deployments now offer a savings, pensions or investment product, with another 37 per cent intending to do so in the next year. However, in many markets, regulatory barriers are preventing MNOs from effectively harnessing their assets and making the necessary investments to launch and scale mobile money services.

² See Better Than Cash Alliance, Bill & Melinda Gates Foundation and The World Bank, 2014, "Digital payments vital to economic growth," <http://betterthancash.org/news-releases/world-bank-report-digital-payments-vital-to-economic-growth/>.

Figure 2

Active accounts are growing, with the mobile money industry now processing an average of \$1bn per day



Because mobile money services are still evolving, supporting policies and enabling regulation have not kept pace with the changes. However, there is positive momentum in several markets where mobile money is operating, particularly in achieving 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.



The impact of mobile money on other areas of development

Women and mobile money

Mobile money is a key tool for women's empowerment and can contribute to reducing the financial inclusion gender gap. Data collected through our Global Adoption Survey suggests that 36 per cent of mobile money users are women. However, this figure varies significantly by deployment, from 15 per cent to nearly 50 per cent.³ New data from the 2017 World Bank Global Findex indicates that while there is a gender gap in mobile money across low- and middle-income countries, mobile money can help to reduce the gender gap in account ownership and advance women's financial inclusion. The study finds that in eight economies where 20 per cent or more of adults have a mobile money account, there is a gender gap in account ownership, but only two of them have a gender gap among those who have a mobile money account only. 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 only have a mobile money account.⁴

Barriers to women's adoption of digital financial services are rooted in a complex set of social, economic and cultural barriers and require targeted intervention by multiple stakeholders. It is important to address issues of social norms and ensure that mobile money services are accessible, affordable, relevant, safe and that users have the skills to use them.

- **Accessibility:** Ensuring that mobile and digital services are accessible for both women and men includes considering issues such as access to quality network coverage, handsets, electricity, agents and formal IDs.

Targeted interventions can include:

Addressing the gender gap in mobile phone ownership

that prevents women from accessing mobile financial services. Those who own mobile phones are more likely to be aware of mobile money, have a mobile money account and be active users of the service than those who do not own a phone.

Adopting flexible agent regulation to improve access to mobile money agents for women. Easy access to a mobile money agent is crucial for women, and uptake and continued use depends on agents being available to help them trust the service. Women usually require more interactions with agents than men before they feel comfortable using the service.

Using tiered KYC to make it easier for women to sign up for mobile money and to streamline the registration process. Women are also less likely to have the official identification documents required to open a mobile money account. In some markets, a man's signature is required for women to open a bank account and make domestic money transfers.

- **Affordability:** Cost was reported as the greatest barrier to mobile phone ownership and use in a GSMA study on women's access to and use of mobile phones in developing countries.⁵ Women are often more price sensitive because they tend to earn less and often have less control over household expenditures than men. Transaction fees can be a greater concern for

3 GSMA Mobile Money, 2017, "State of the Industry Report on Mobile Money", https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2018/05/GSMA_2017_State_of_the_Industry_Report_on_Mobile_Money_Full_Report.pdf

4 These eight economies are: Burkina Faso, Côte d'Ivoire, Gabon, Kenya, Senegal, Tanzania, Uganda and Zimbabwe. In these economies, there is a statistically significant gap between men and women in the ownership of accounts in a financial institution, and in the ownership of both an account in a financial institution and a mobile money account. However, the gender gap in ownership of solely mobile money accounts is only present in Burkina Faso and Tanzania. In Kenya, for example, men are 18 per cent more likely to have a financial institution account and 18 per cent more likely to have both types of accounts, but women are 11 per cent more likely to have a mobile money account only. Source: <https://globalfindex.worldbank.org/>

5 GSMA Connected Women, 2018, "The Mobile Gender Gap Report 2018", <https://www.gsma.com/mobilefordevelopment/connected-women/the-mobile-gender-gap-report-2018/>

women since they are also more likely to make small, more frequent transactions. In this context, mobile and mobile money taxes tend to primarily affect women and can therefore slow progress in reducing the financial inclusion gender gap.

- **Usability and skills:** It is also important to ensure that mobile money services are user friendly, that women have the skills and confidence to use them in a meaningful way, and that women are aware of these services and how they are relevant to their lives. In many countries, a higher proportion of women are illiterate than men and/or have lower levels of education. Technical literacy and confidence is a key concern for women. Women tend to be less technically and financially literate than men and tend to have less confidence in their ability to use mobile money services. Investing in digital skills and financial education initiatives can play a critical role in ensuring that women have the skills and confidence to use mobile money services.
- **Relevant policies, products and services** that meet the needs of both women and men includes ensuring women are considered in mobile money policies, products and services, and that these are developed based on an understanding of women's

wants and needs. It also includes offering products that are particularly relevant for women, such as the use of mobile money for international remittances or government payments.

- **Safety and security** is a critical concern when women are considering whether to use mobile money. This includes safety from theft, harassment and fraud. In this context, mobile money can appear as a great solution for women looking for more privacy and safety when conducting financial transactions, as it minimises the need to carry cash and the risks associated with it.

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

Based on the above, government policy interventions will have a crucial role to play in helping providers connect more women, by ensuring that mobile services are accessible, affordable, safe and relevant for women, and that women have the skills and confidence to use them.

Mobile money in humanitarian and disaster response

With humanitarian budgets stretched to their limits, mobile money transfers offer a cheaper, faster, more secure and transparent alternative to cash. As a result, the humanitarian sector is increasingly relying on bulk payment offerings to deliver humanitarian cash transfers digitally.

The shift to the digital distribution of cash has been enabled by the emergence of innovative digital financial services, in particular the unprecedented rise

of the mobile money industry. Across most developing markets, access to banking products and services, even basic bank accounts, is limited. Only five per cent of individuals in advanced economies do not have a formal financial account, but across emerging economies the average is a striking 45 per cent.⁶ The percentage is even higher for many forcibly displaced people (FDPs) who may not have the identification documents required under Know Your Customer (KYC) regulations to open an account.

⁶ McKinsey Global Institute, September 2016, "Digital Finance for All: Powering Inclusive Growth in Emerging Economies", https://www.microfinancegateway.org/sites/default/files/publication_files/mg-digital-finance-for-all-full-report-september-2016.pdf

Recommendations for policymakers on enabling mobile access for forcibly displaced persons (FDPs)⁷

In an effort to promote an enabling policy and regulatory framework, host country governments and regulators (including central banks) should consider adopting flexible and proportionate approaches to proof-of-identity requirements for forcibly displaced persons (FDPs) to access mobile services, particularly in emergency contexts. Such approaches may include:

1. Providing clear guidelines on what identification is acceptable 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 any mandatory SIM registration or Know Your Customer (KYC) requirements for opening mobile money accounts;
3. Enabling lower, 'tiered' thresholds of KYC requirements to allow FDPs to open basic mobile money accounts, particularly in emergency contexts;
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 the diverse types of FDPs when considering proof-of identity policies;
6. Exploring the use of new digital identity technologies; and
7. Promoting robust identification-validation processes while adopting consistent data protection and privacy frameworks.

Identity is verified in various ways by humanitarian agencies or host governments. Beneficiary registration and ID management is currently very fragmented across organisations and there are growing calls for minimum attributes to be collected in a standardised way. For

example, in Jordan and Rwanda, central banks revised mobile money KYC regulations to allow a UN-issued identification as acceptable KYC for use in humanitarian payments.⁸

CASE STUDY: Uganda Bidi Bidi

In Bidi Bidi, one of the world's largest refugee settlements in northern Uganda, MNOs are partnering with NGOs to use mobile money bulk payment offerings to deliver humanitarian cash transfers for the first time. They report challenges such as keeping up with fast-changing local regulations, reaching the most vulnerable camp residents who are often least likely to own a mobile device, and managing agent liquidity in a way that ensures agents have the right cash denominations to facilitate withdrawals.

At the same time, a number of steps are being taken to support successful mobile money-based humanitarian transfers to Bidi Bidi. These include significant investments from both MNOs and humanitarian organisations in (1) training and sensitisation on how to use mobile money; and (2) connectivity infrastructure, an agent network and liquidity management to ensure beneficiaries have a positive and smooth experience. The project has also benefited from strong organisational capacity, trusted relationships and the agility to make projects succeed in a difficult context.⁹

7 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", <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/09/Policy-Note-FDPs-and-Mobile-Access.pdf>

8 GSMA Disaster Response and GSMA Mobile Money, "Landscape Report: Mobile Money, Humanitarian Cash Transfers and Displaced Populations", https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/05/Mobile_Money_Humanitarian_Cash_Transfers.pdf

Mobile money and digital identity

As we continue advancing in the digital age, the ability to prove one's identity becomes ever more critical to gaining 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 services providers (FSPs), including mobile money providers, 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 for the purposes of anti-money laundering (AML) and countering the financing of terrorism (CFT) policies. KYC identification requirements for financial services (predominantly imposed by central banks and finance ministries) are often in addition to those for mandatory SIM registration, which are imposed by telecoms regulators in over 140 countries.¹⁰ Consequently, many mobile operators offering financial services products must comply with two sets of proof-of-identity requirements that may also have an impact on their customer experience processes.

The proof-of-identity requirements for both SIM registration and KYC contexts raise a concern that they may actually deny segments of the population access to basic mobile communications and mobile money services where individuals lack a form of acceptable identification. As of April 2018, the World Bank estimates¹¹ that one billion people worldwide lack official identification. Such vulnerable groups therefore face a higher risk of being digitally, socially and financially excluded, even in countries where mobile money services are available.

While mobile money services are available in 92

countries worldwide, an estimated 530 million individuals in these countries are at risk of financial exclusion due to their inability to meet identification/ KYC requirements for opening mobile money accounts in their own names.

Globally, only 50 per cent of countries mandating SIM registration¹² have a privacy and/or data protection framework in place — the same applies for 40 per cent of all African countries. While other regulations and licence conditions may provide consumers with varying degrees of protection, the absence of comprehensive frameworks may lead to consumer calls for greater transparency in how personal data is used. Additionally, transparency to consumers about how their data is used is important for maintaining high levels of trust in digital and mobile ecosystems, and maintaining trust helps encourage adoption of mobile-enabled digital identity services.

While lack of identification undoubtedly has an impact on the overall digital and financial exclusion of vulnerable groups (due to proof of identity being an access requirement, as explained above), the exact impact is difficult to quantify as it is assumed that at least a minority of individuals with no identification may rely on friends or relatives to access mobile money and other financial services, where the opportunity exists.

Nonetheless, there is evidence that 20 per cent of adults cite lack of proof of identity as a key barrier to financial inclusion and no one can dispute that millions of individuals who lack proof of identity face a higher risk of social, digital and financial exclusion where they cannot meet mandatory SIM registration and mobile money KYC requirements.

9 GSMA Disaster Response and GSMA Mobile Money, 2017, "Humanitarian Payment Digitisation: Focus on Uganda's Bidi Bidi Refugee Settlement", <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/11/Humanitarian-Payment-Digitisation.pdf>

10 GSMA Digital Identity, 2016, "Regulatory and policy trends impacting Digital Identity and the role of mobile", <https://www.gsma.com/mobilefordevelopment/programme/digital-identity/digital-identity-regulatory-trends-and-the-role-of-mobile>

11 The World Bank/ID4D, "ID4D Data: Global Identification Challenge by the Numbers", <http://id4d.worldbank.org/global-dataset>

12 GSMA Digital Identity, 2018, "Access to Mobile Services and Proof-of-Identity: Global policy trends, dependencies and risks", <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2018/02/Access-to-Mobile-Services-and-Proof-of-Identity.pdf>

Mobile money and agriculture

Farmers integrated in formal value chains benefit from value chain digitisation through improved transparency and visibility into the agricultural last mile, reduced risk of fraud and easier access to certification requirements and, therefore, to markets. Crucially, the transition from cash to mobile money payments for the procurement of crops can support the creation of an economic identity for farmers via digital records from the sale of agricultural produce, which in conjunction with other data points open up full financial inclusion (access to credit, insurance and savings accounts).¹³

To enable uptake of mobile money services in rural areas, it is important to minimise due diligence requirements while also maintaining the integrity of the financial system. Proportional KYC for farmers and simplified compliance for agents can help to overcome this systemic challenge.

KYC requirements for opening a mobile money account can be challenging, especially for the rural poor, including farmers, who are most likely to lack

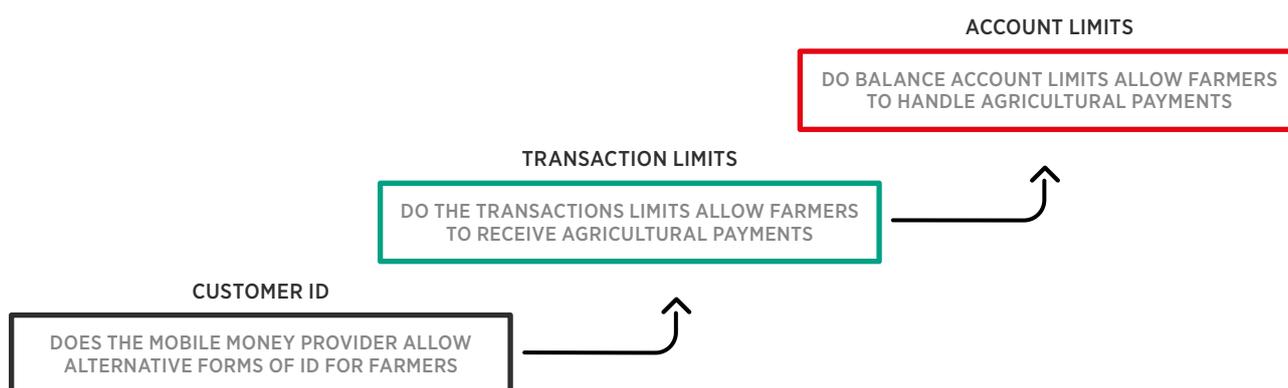
the necessary ID. To address onerous customer due diligence requirements, regulators are increasingly applying the principle of proportionality: if a product is deemed to be low risk, simplified KYC permits easier customer identification and verification.

The principle of proportionality allows alternative forms of ID to be accepted (e.g. letter from employer) and sets ad hoc transaction limits on accounts where less formal or no ID is provided. To support digitisation of the last mile, 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; and
- Suitable maximum account balance limits to allow farmers to handle agricultural payments in their account.

Figure 3

Value chain digitisation: Building blocks of proportional KYC



¹³ GSMA mAgri, 2018, "Prerequisites to digitising the agricultural last mile", <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2018/07/mAgri-Toolkit-2018-Prerequisites-to-digitising-the-agricultural-last-mile.pdf>

Understanding MNOs' interest and success in mobile money

Mobile network operators (MNOs) have been particularly successful setting up their mobile money deployments (often through subsidiaries that are fully regulated and supervised by financial authorities) and leveraging three assets that uniquely position them to deliver mobile money. While banks can also offer mobile money services — and many are doing so successfully — their high cost structures make it difficult to serve low-income customers in a sustainable manner. Mobile money is a low-margin/high-volume business, requiring a set of capabilities and mindset not all institutions are positioned to embrace.

There are a number of reasons why MNOs are particularly well suited to mobile money services:

- MNOs have a number of assets they can leverage to offer mobile money services. In addition to their experience with airtime distribution, the SIM card and data channel on customer handsets give users

and third parties an interactive interface at a very low cost.

- MNOs bring a number of skills that are both central to their core business and necessary for mobile money, including expertise in mass marketing and building and managing a broad distribution infrastructure. An important intangible asset is the brand recognition and confidence that MNOs have established among customers in many countries.
- MNOs have also used mobile money to cross-sell new services to customers they already serve (their own subscribers) and to compete for customers on other networks. However, increasingly, MNOs generate direct revenue from mobile money, and it is therefore not surprising that MNOs are now more keen to make investments in building and scaling mobile money services than banks and other non-banks.

Figure 4

Mobile operators are uniquely positioned to offer mobile money services that are affordable for the unbanked

ASSETS			INCENTIVES
			
<p>DISTRIBUTION CHANNEL</p> <p>Mobile Money users can cash in and cash out at a network of independent agents, leveraging their expertise in managing ubiquitous airtime distribution networks</p>	<p>PROPRIETORS OF A MOBILE CHANNEL</p> <p>MNO's can put mobile money applications directly onto the customers' SIM card, or use their USSD channel, to enable customers to securely send money, pay bills, save etc.</p>	<p>TRUSTED BRANDS</p> <p>The prevalence of mobile communications even in the most rural areas has meant that mobile operators possess brands that customers are familiar with and trust – a huge asset for the introduction of financial services</p>	<p>INVESTMENT INCENTIVE</p> <p>MNOs have the right incentives to invest in mobile money because of potential churn reduction and savings in air-time distribution</p>

Creating an enabling policy and regulatory environment

The overall regulatory environment for mobile money services has a strong impact on whether a provider can enter the market and sustainably provide the services, determine the best solution to become interoperable and provide a broad range of services that create value around wallets. From a regulatory perspective, the basic proposition for mobile money to succeed is to create an open and level playing field that allows non-bank mobile money providers, including MNOs, to enter the market and issue e-money (or equivalent).¹⁴ Anecdotal evidence, commercial lessons and international regulatory principles all defend opening the market to providers with different value propositions. The prudential regulations of non-bank mobile money providers

effectively mitigate the risk of mobile money customers losing the money they have stored in the system. The challenges of AML/CFT compliance can be addressed 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.¹⁵

Therefore, MNOs should be:

- Directly licensed as e-money issuers; or
- Licensed through a subsidiary set up for this business.

IN ADDITION, THE REGULATION 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 ONGOING 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 the registration of the SIM card.



14 M. Almazan, 2013, "Mobile Money Regulation in Latin America: Leveling the Playing Field in Brazil & Peru", Mobile Money Blog, <https://www.gsma.com/mobilefordevelopment/programme/mobile-money/mobile-money-regulation-in-latin-america-leveling-the-playing-field-in-brazil-peru>

15 S. di Castri, 2013, "Mobile Money: Enabling regulatory solutions," GSMA Mobile Money for the Unbanked, <http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/02/MMU-Enabling-Regulatory-Solutions-di-Castri-2013.pdf>.

These are the basic elements of an enabling regulatory approach and are consistent with the recommendations of global standard setters, such as the Bank for International Settlements (BIS) and the Financial Action Task Force (FATF), which have recommended that the regulator take a functional and proportional regulatory approach.

The policy context also plays a critical role. The establishment of bold financial inclusion policy objectives can help to mobilise political will and coordination of government agencies/regulators to enable market reforms that promote the growth of mobile money and the development of a larger ecosystem.

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

The regulatory issues covered in the following pages seek to introduce debates and key considerations that policymakers, relevant regulators, mobile money providers and other key stakeholders may consider in the provision of mobile money services.



1. Authorisation

Background

Financial regulations should allow for a diversity of payment methods and a broad scope for funds transfer and storage. To unleash the potential of mobile money and develop an efficient financial sector, regulators must create an open and level playing field that allows both banks and non-bank providers to offer these storage and payment services — particularly MNOs, which are well suited to building sustainable services and extending the reach of the formal financial sector to the unserved and underserved rapidly and soundly.

An open and level playing field where financial regulators allows both banks and non-bank (including

MNOs) mobile money providers into the market is essential for mobile money to succeed. The vast majority of the fastest growing deployments are operating in markets where the financial regulator allows both banks and MNOs to offer mobile money services. In several markets, the number of mobile money accounts opened by MNOs is higher than the number of bank accounts. The number of countries that have enabled or are enabling the development of an open and competitive market is increasing, which is allowing MNOs and other non-banks to launch their deployments either directly or through wholly owned separate legal entities.



WHAT ARE THE MOST COMMON BUSINESS MODELS OF MOBILE MONEY?



Non-bank model

- Commonly seen in Eastern, Southern and parts of Western Africa.
- MNO signs up customers to use a mobile money service that is run by the MNO, but variations exist. For example, in Uganda, MNOs do not have access to the central bank or do not hold a licence from the regulator.
- The MNO model is the most flexible and allows for the evolution of appropriate regulation in tandem with products and services.
- Many markets that implement the MNO model adopt a 'wait and see' position that allows for innovation and regulation to be introduced later. Others have introduced new regulation to accommodate the service.



Bank-led model

- A bank is the service provider. The role of the MNO is more peripheral, limited to providing communications infrastructure and/or agency services.
- This model can be seen in Nigeria, South Africa, Egypt and parts of Asia and Latin America.
- The bank model faces stringent banking and regulatory challenges, and there is strong evidence that it is less likely to scale as fast as an MNO model.
- Slower to innovate new products and services, and non-banks are disincentivised from participating fully, leading to a lack of adequate investment.



Narrow bank model

- A variant of the bank-led model.
- A new type of institution licensed under existing banking laws is created, which is more limited in terms of the services it can provide. Typically, it cannot offer credit services.
- Some elements of bank regulation to ensure management of risks associated with credit are waived, but KYC requirements generally remain.
- The narrow bank model can be seen in India, Mexico and Colombia.
- Narrow banks such as Payment Banks in India may be a solution for markets that have a conservative view of mobile money.
- This model is very new and it remains to be seen if it will deliver scale.



Centralised model

- Central banks issue e-money and manage the central processing platform, essentially becoming a market player.
- Controlled models, such as in Jordan or Sudan, feature the central banks playing a key role in the mobile money business.
- In Jordan, the central bank, for example commissioned 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 mobile money providers?
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 and not by the entity that provides them will allow regulators to consider the function and characteristics of each service. This will then improve the regulator's ability to calibrate regulations according to the risks so that customers can enjoy the services safely and conveniently.

2. Storage and safeguarding of customer funds

Background

Allowing both banks and non-banks to issue mobile money fosters financial inclusion. However, it also presents a risk to the loss of customer funds, which must be mitigated in order to boost financial integrity

and stability. Below we see the three key risks that arise from the use of mobile money, as well as approaches that can be adopted to mitigate these risks:

RISK	MITIGATING APPROACH
Liquidity – insufficient funds set aside in safe liquid investments to repay customers.	Pre-funding – require e-money issuer to set aside funds equal to 100% of outstanding e-money liabilities in licensed banks and/or other safe liquid investments
Issuer insolvency – insufficient assets to repay customers in the event of issuer’s (or trustee’s) insolvency	Fund isolation – require e-money issuer to hold funds set aside to repay customer in trust (or similar fiduciary instrument)
Bank insolvency – insufficient assets to repay customers in the event of bank’s insolvency	Deposit insurance – provide for customer funds to be covered by direct or pass-through deposit insurance (or take other measures to mitigate bank insolvency risk)

To ensure that customer funds are adequately safeguarded, mobile money providers will require guidance on how to effectively safeguard customer funds, taking into consideration the various legal instruments that will be available in different jurisdictions. Deposit insurance, for example, would not be available in most countries. Additionally, mobile money providers need to have the ability to provide mobile money funds with a similar level of protection to traditional bank deposits, but in a cost-effective manner.

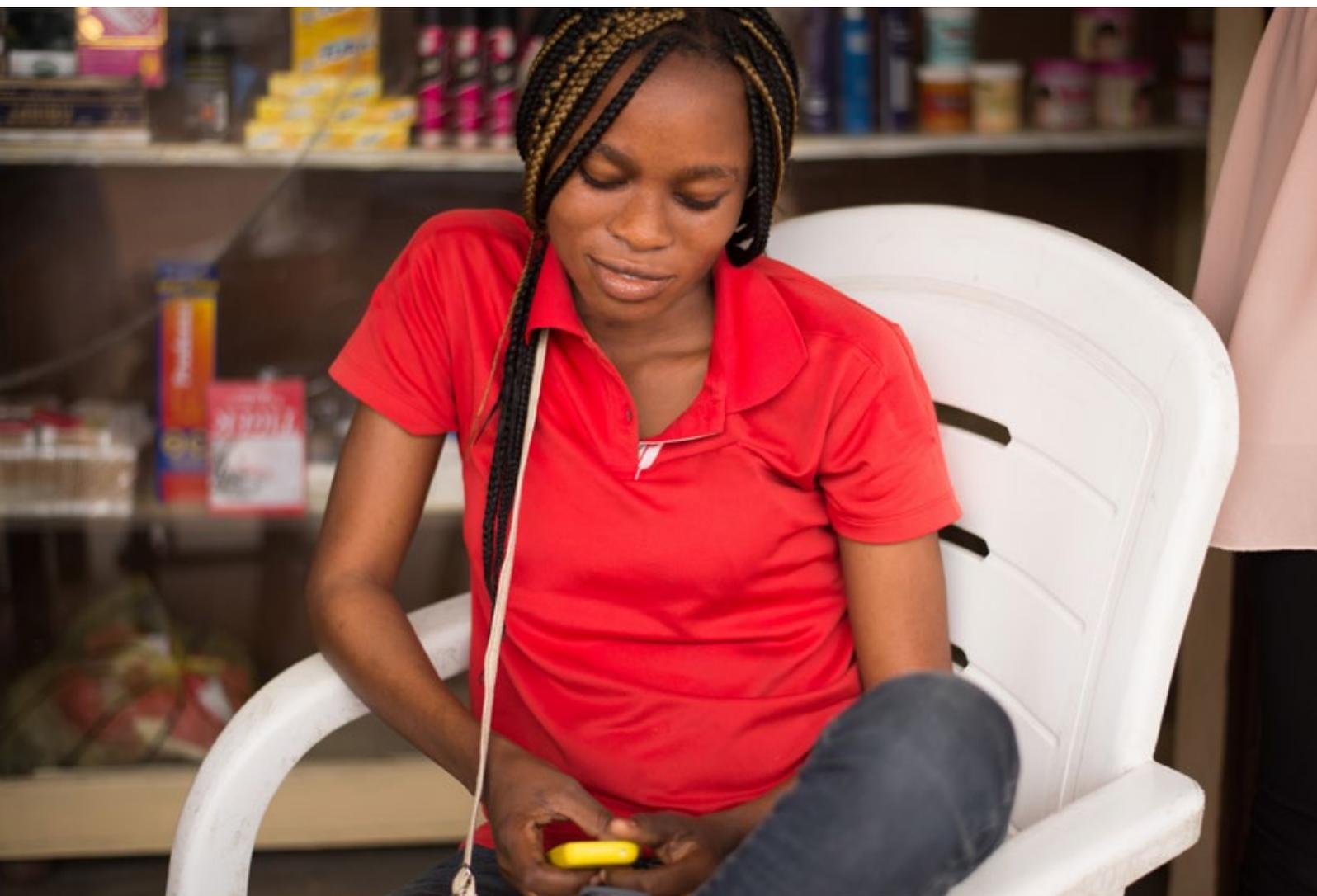
Ultimately, the best safeguarding approaches are those that achieve a high level of protection of customer funds in the least burdensome and most cost-effective manner possible. Given significant variations in available legal instruments and market infrastructure, this will vary according to the country context. Regulators should consult closely with mobile money issuers and other industry stakeholders to develop well-tailored, cost-effective safeguarding measures that do not have a negative impact on the adoption of mobile money services by low-income and unbanked customers.

Debate

1. How can mobile money providers best ensure that customer funds are adequately safeguarded?
2. How can financial regulators effectively guide mobile money providers towards ensuring customer funds are safeguarded?

Key considerations for regulators and other stakeholders

- The prohibition of intermediation of customer funds has been found to ensure the safeguarding of funds in most jurisdictions. However, that is not to say that intermediation should not be considered in markets where the regulator has taken all risks into consideration. Additionally, mobile money providers can be required to set aside funds equal to 100 per cent of outstanding mobile money liabilities in safe liquid investments, such as bank accounts¹⁶ or government treasury instruments, ring-fenced from the provider's own funds.
- While ensuring protection of funds against insolvency, regulators should adopt solutions that will be best suited for their markets.



16 This should be in highly rated financial institutions

3. Capital requirements

Background

Almost all jurisdictions require non-bank mobile money issuers to meet initial minimum capital requirements to receive a licence to operate.¹⁷ In banking regulation, a minimum capital requirement is a prudential rule with three functions:

1. *It stipulates what assets the provider must hold as a minimum requirement to insure creditors (including depositors) from 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).¹⁸*

In addition to minimum capital requirements, some jurisdictions also require issuers to meet minimum ongoing capital requirements. Ongoing capital requirements, which are typically calculated as a percentage of outstanding mobile money liabilities, are intended to ensure that a mobile money issuer's capital continues to grow along with its obligations. If the customer is not fully reimbursed in the event of a bank insolvency, the issuer will be expected to maintain sufficient capital to make up the difference.¹⁹ Despite the benefits of capital requirements, inordinately high minimum capital requirements can increase compliance costs to a level that makes the business case difficult even for larger companies to justify and deters smaller companies from entering the market.

Debate

1. How should initial capital requirements be established to strike the right balance between cost to the business and ensuring all providers have the resources to be responsible market actors?
2. How can ongoing 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 ongoing 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 the providers.
- When deciding on capital requirements, financial regulators should consider that mobile money providers are subject to further requirements that safeguard customer funds and lowers the risk profile of mobile money.
- Ultimately, 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 business and stifle innovation, reduce competition and increase costs, ultimately hindering financial inclusion.

¹⁷ Simone di Castri (2013), "Mobile Money: Enabling Regulatory Solutions", GSMA, available at <http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/02/MMU-Enabling-Regulatory-Solutions-di-Castri-2013.pdf>

¹⁸ Ibid

¹⁹ Safeguarding mobile money: How providers and regulators can ensure that customer funds are protected (2016) https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/01/2016_GSMA_Safeguarding-Mobile-Money_How-providers-and-regulators-can-ensure-that-customer-funds-are-protected.pdf

4. Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) requirements

Background

Mobile money reduces the risk of money laundering and terrorist financing since electronic transactions can be monitored and traced more easily than cash. Proportionate AML/CFT regimes and simplified risk-based customer due diligence (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 also improve transparency, whereas 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.

In addition, it is important to remember that AML/CFT regimes are not intended to prevent law-abiding people from accessing formal financial services; rather, they detect and deter criminals seeking to abuse the financial sector for money laundering or terrorist financing. Mobile money services can contribute both to financial integrity and financial inclusion if regulation is proportionate and if providers 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,²⁰ which provided support for designing AML/CFT measures that meet the goal of financial inclusion without compromising their effectiveness in combating crime. The guidance explained how to apply a risk-based approach, reinforced in the 2012 Recommendations, in a financial inclusion context.

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

²⁰ Financial Action Task Force, 2013, "FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion", http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf

Debate

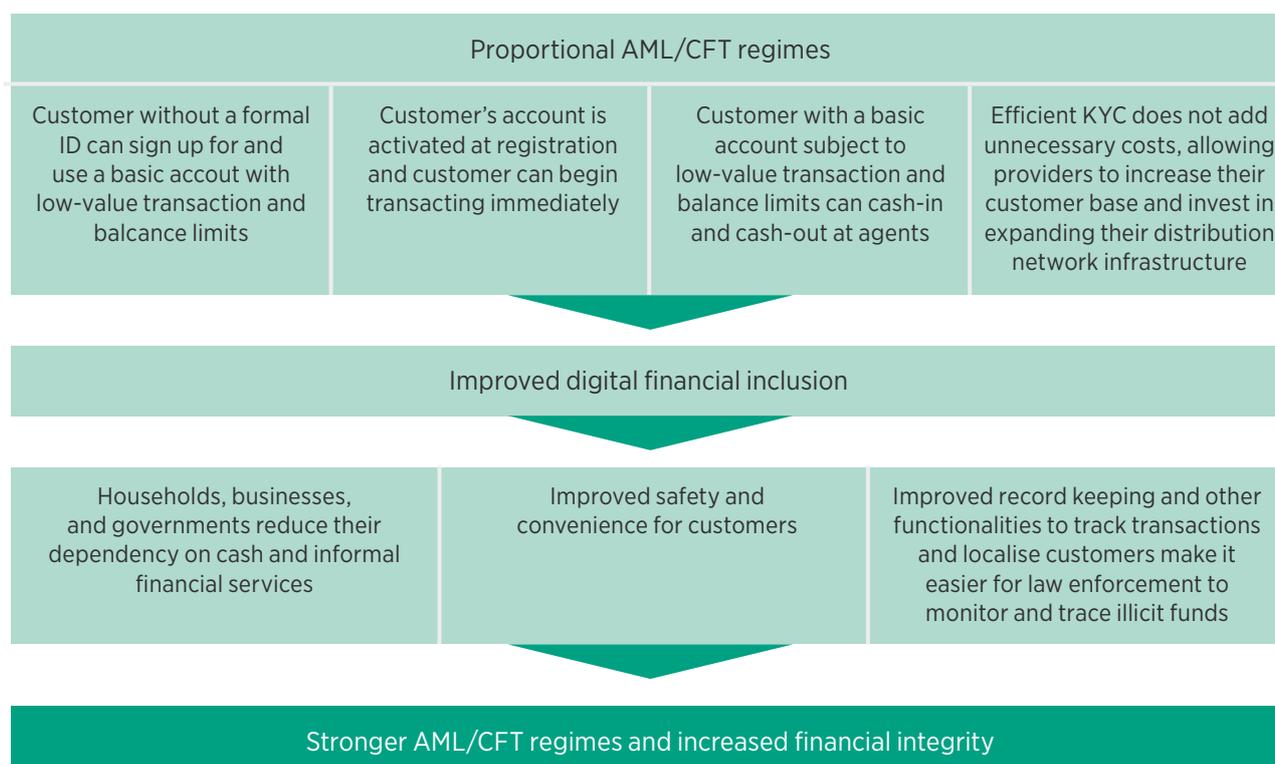
1. What guidance should financial regulators give to the industry on the application of the FATF guidance on a risk-based approach to AML/CFT?

Key considerations for regulators and other stakeholders

- Regulators should design proportional and risk-based regulation, which is critical to enabling the development of safe and sustainable mobile money services, protecting the integrity of the financial system and providing millions of people with access to convenient financial services.
- Providers 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 provide for mitigation of risk by imposing limits on the value and frequency of transactions, along with other limits on account functionality.
- A tiered approach to KYC is popular because it allows the financial regulator to distinguish between lower risk and higher risk scenarios, thereby permitting KYC procedures to be conducted in line with the specific risks posed by different types of customers and transactions, and improving financial inclusion.

Figure 5

Positive consequences of proportional AML/CFT regimes



Source: GSMA, 2015, "Proportional risk-based AML/CFT regimes for mobile money - A framework for assessing risk factors and mitigation measures"

5. Know Your Customer (KYC) requirements

Initiatives in various countries demonstrate that solutions can be found to providing access to regulated financial services to unserved and underserved people, while also complying with CDD requirements. These initiatives show that financial integrity challenges affecting financial inclusion need to be understood in a broad context that includes: (1) an understanding of ML/TF risks; (2) a financial inclusion strategy, including financial education, to expand access to regulated financial services, especially to low-income, unserved and underserved populations; (3) providing reliable proof-of-identity mechanisms to the population, including support for developing digital identity systems; and (4) support for developing digital financial services, including through the relevant technical infrastructure, to promote the use of mobile devices and other technology-based channels and innovative ways to provide access to financial services.²¹

Background

One of the main obstacles to providing appropriate regulated financial services or products to unbanked customers is their lack of reliable identity documentation and data verification. Low-income individuals or displaced persons, such as refugees, often do not possess the proper identification documentation and are therefore not able to meet traditional customer due diligence requirements. A risk-based approach allows for a certain amount of flexibility to provide 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 \$57²² — so compliance costs for agents and providers must also be reasonable for mobile money services to be viable.

In 2017, the FATF supplemented the 2013 Guidance²³ with supporting customer due diligence measures. It noted 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.”²⁴

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 of the services cannot meet the identity requirements because they lack utility bills, a formal ID, another type of acceptable photo ID (the poorest often do not have jobs that issue employee photo IDs or do not attend a school where student ID is required) or even birth records (many poor people are born at home rather than in a hospital). Customers who lack one of these IDs cannot sign up for the service unless the KYC regulation allows the service provider to accept an alternative form of identification.

Many developing countries do not have a national identification 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 countries to be mindful of fraud and abusive practices. Alternative forms of identification are

21 FATF, 2017, “FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion – With a Supplement on Customer Due Diligence”

22 GSMA Mobile Money, 2017, “State of the Industry Report on Mobile Money”, https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2018/05/GSMA_2017_State_of_the_Industry_Report_on_Mobile_Money_Full_Report.pdf

23 FATF, 2013, “FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion”, http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf

24 FATF, 2017, “FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion – With a Supplement on Customer Due Diligence”, <http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf>

often only accepted for certain types of transactions and have specified thresholds and limits.

For those unable to prove their identity to open an account, a number of alternatives may be available. Depending on the country, they could be (1) left out of the formal financial system; (2) allowed to open an account with very low transaction and balance limits without verification of identity; (3) allowed to make transactions over-the-counter (OTC) rather than through an account; or (4) allowed to make a direct deposit.

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 the ID card and send this information to bank officials, who then verify it against a database. To meet this requirement, mobile money providers would need to equip each agent with a camera-enabled phone, which could translate to a costly undertaking when multiplied by tens of thousands of mobile money agents. In addition, many agents lack the technological capability to reliably digitise these documents and network connectivity may be unreliable.

These are some of the challenges that arise, and may lead to only a small percentage of agents with the ability 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 OTC rather than through an account.

Debate

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

Key considerations for regulators and other stakeholders

- Regulation should enable providers to use an agent network for (1) registration of customers; (2) verification of identity; (3) activation of accounts; and (4) provision of 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 providers.
- In countries that lack a universal ID system, the relevant regulatory authorities should consider a tiered account opening approach that adopts a risk-based approach.

CASE STUDY: Temporary relaxation of identification requirements following a natural disaster in the Philippines

In 2013, Typhoon Haiyan, one of the world's strongest typhoons on record, devastated portions of Southeast Asia, particularly the Philippines. It wiped out infrastructure and greatly impaired the ability of government and international organisations to carry out relief operations. To support recovery operations, the Central Bank of the Philippines (BSP) provided regulatory relief packages to all banks affected by

Haiyan, which included a relaxation of identification requirements. Banks could accept written certification from clients that they had lost their IDs due to Haiyan as proof of identification. This measure was accompanied by a series of controls, including daily customer transaction thresholds and account monitoring requirements.²⁵



25 FATF, 2017, "FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion – With a Supplement on Customer Due Diligence", <http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf>

6. Agent networks and supervision

Background

Mobile money agents are a crucial asset for mobile money providers and have been key to the growth of the industry over the last decade. In December 2017, there were over 2.9 million active agents and 690 million registered customer accounts worldwide. Primarily responsible for registering customer accounts, mobile money agents continue to boost transactions and drive provider revenues year on year. Total annual values of cash-in and cash-out (CICO) transactions rose from \$39.93 billion in 2012 to \$192.93 billion in 2017, accounting for 54.6 per cent of the total value of mobile money transactions in 2017.²⁵

Additionally, providers allow agents to conduct customer due diligence for mobile money because they consider it 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 serves to enhance this relationship to reach the underserved. Issues arising from the provision of agent networks and their supervision include striking a balance between adequately spread distribution networks, ensuring the eligibility of these agents and maintaining high-quality agents through regular training and monitoring.

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

Debate

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

²⁵ GSMA Mobile Money, 2018, "Distribution 2.0: The future of mobile money agent distribution networks", <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2018/07/Distribution-2.0-The-future-of-mobile-money-agent-distribution-networks.pdf>

Key considerations for regulators and other stakeholders

- Regulation should carefully consider the agent networks to ensure continued support as product offerings evolve. This can be done through proportional and cost-effective regulation that does not impose disproportionate requirements or standards on the agent distribution networks.
- To ease the regulatory burden, regulation should require that liability for agents lies with the provider, and should set general terms for training, monitoring and reporting that pertains to agent activities. Largely, the regulator should allow the provider to set their own measures and standards for the selection of third parties.
- Rather than require authorisation, regulation should require providers 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 provider and the customer. Regulators can also require the provider 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.



7. Consumer protection

Background

The safety of mobile money relative to cash is often cited as one of the key benefits of mobile money for customers. Safeguarding customer funds held as electronically stored value and reducing opportunities for agent fraud and other harmful actions have both been analysed in previous sections. However, in addition to this, customers can be given 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 raise awareness of the steps they can take to avoid those risks. The GSMA and its members play a leading role in promoting the application of consistent risk mitigation and consumer protection practices across key areas of business. This is done through responsible consumer protection practices, which are essential to help regulators

achieve their goals around financial inclusion, stability and integrity.

Maintaining consumer trust is critical to the growth of mobile money services. Consumer concerns around data privacy and security impact trust. Mobile money providers now hold vast amounts of data, including ID, transaction history and geographical location among other data, which may also be subject to regulatory considerations. Ultimately, mobile money providers are well placed to build on the technical and compliance capabilities of the core GSM business to 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 each individual's desire for privacy with their desire to access 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 mobile money providers in the area of consumer protection?
2. In the age of data analytics, what is the best approach that regulators can take to ensure providers are leveraging opportunities in data, while still safeguarding the rights of users?

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 include 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 procedures for resolving errors or disputes.
- Responsible digital governance practices that support the safeguarding of privacy rights will require close collaboration between policymakers, various regulators and mobile money providers. As the value, volume and variety of data continues to grow, there is a major opportunity for mobile money providers 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 providers to develop better product and service offerings for their consumer base, but will also strengthen fraud detection while improving efficiencies for the providers. This will ultimately lead to cost reductions for both operators and consumers.



8. Interoperability

Background

Interoperability in the context of mobile money can mean many different things, but one of the most often cited use cases is for mobile money providers to give customers the ability to undertake money transfers between two accounts at different mobile money schemes, alongside the ability to transfer money between mobile money accounts and bank accounts.²⁶

There is no question that both customers and mobile money providers could benefit from the interoperability of mobile money services. Interoperability is a strategic priority for providers, which will enable 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 providers apply efficient and safe payment systems.

Service providers and policymakers should work together in their respective markets to understand different types of interoperability, including the benefits, costs and risks. The policymaker should act as a facilitator, helping providers to create the road map that they will be primarily responsible for designing and implementing. The policymaker can also assist providers with their evaluation to ensure that interoperability is set up at the right time and that

it creates value for both customers and providers, while identifying and mitigating any regulatory risks that arise.

Ultimately, interoperability will only contribute to greater efficiency and scale of mobile money markets if it is designed and implemented with a market-driven approach that adds value for providers, consumers and other ecosystem players. When providers are ready, they should analyse the different commercial and technical models for interoperability — and the benefits, costs and risks of each — to identify which one is best suited to their market at that particular point in time. Doing so will help to ensure customers value interoperability, that it makes commercial sense and is designed to operate safely and reliably.

Interoperability also poses different costs and regulatory risks, and thus requires providers to enter into contractual agreements that specify both joint and individual responsibilities, for example, 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 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 mobile money providers?

Key considerations for regulators and other stakeholders

- For interoperability to achieve its 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 providers) and through commercial and technical solutions that make business sense for providers.
- Questions of technical specifications, governance, commercial and operational terms, and risk management should be resolved in a manner that is suited to the specific nature of mobile money and to 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.

²⁶ D. Clark and G. Camner, 2014, "A2A Interoperability: Making Mobile Money Schemes Interoperate", https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2014/03/A2A-interoperability_Online.pdf

9. International remittances

Background

International remittances are critical to the livelihoods of hundreds of millions of people in the developing world, 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 reducing remittance costs and maximising the impact of remittances on development. Because of its reach and growing use among underserved people, mobile money is uniquely positioned to transform formal remittance markets and advance financial inclusion. Mobile money providers are at the forefront of domestic payment services in many emerging market economies and today, mobile money can be used for international transfers in 51 of the 90 countries where the service is available.²⁷

The characteristics of mobile money, such as convenience, privacy and reach, make it a particularly attractive remittance channel for women and rural households. WorldRemit data shows that mobile money is the preferred way for their customers to send money to rural areas. Therefore, mobile money can play a critical role in formalising international remittances.

While formal remittance flows to developing countries reached \$450 billion in 2017, the true size of remittances is believed to be significantly higher, with large flows going through unregulated informal channels. Leading mobile money providers and international remittance hubs have joined forces to define a set of guidelines on the provision of international remittances through mobile money. These guidelines serve to offer support in risk management and consumer protection for international remittances.²⁸

Debate

1. Should the financial regulator prescribe the partnership models through which mobile money providers and remittance companies should engage?
2. How should mobile money providers ensure that personal data is safeguarded without limiting the cross-border flows of data that are critical to the digital economy?

²⁷ GSMA Mobile Money, 2017, "Working Paper: Guidelines on International Remittances through Mobile Money", <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/09/GSMA-September-2017-Guidelines-On-International-Remittances-via-Mobile-Money-1.pdf>

²⁸ GSMA Mobile Money, 2017, "Working Paper: Guidelines on International Remittances through Mobile Money", <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/09/GSMA-September-2017-Guidelines-On-International-Remittances-via-Mobile-Money-1.pdf>

Key considerations for regulators and other stakeholders

- Regulation of international remittances should provide standardised and transparent licensing criteria, as well as fixed maximum response times to reduce uncertainty for providers. This would ultimately strengthen business planning and encourage investment.
- Regulators should permit mobile money providers to select the partnership model that best suits a particular context to achieve efficient and affordable international remittance services through mobile money.
- Regulators should facilitate market entry by non-traditional providers 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 results for consumers.
- All personal data exchanged which relates to transactions with third parties should be made through secure channels to ensure the protection and integrity of the data.



10. Interest-bearing mobile money 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 the retention of funds in digital form and, in this same way, 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. Ultimately, the amounts of interest generated on customer accounts have the potential to change the usage rates of mobile money products.

Debate

1. Should financial regulators promote the earning of interest by mobile money providers on pooled customer funds?
2. Where non-bank mobile money providers 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

- Non-bank mobile money providers should be allowed to earn interest on the funds deposited in the fiduciary accounts open with a commercial bank.
- Distribution methods would need to be decided in consultation with the various providers, 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 into the mobile money business.

11. Taxation

Background

The positive contribution of the mobile sector to the economy is well recognised. However, the tax treatment of the sector is not always aligned with best-practice principles of taxation; this may have a distorting effect on the industry's development. As governments seek to shore up public revenues, the instinct to tax mobile money has sometimes reflected confusion about the difference between the value of transactions flowing through the mobile money platform and the fees earned by the provider. GSMA research published in 2017 showed that mobile money in one country is now taxed at a higher excise duty rate than alcohol and cigarettes (both of which have negative externalities, in contrast to mobile money, which has positive externalities). This is a worrying sign for investors and those who would like to see the continued spread of low-cost financial services. Around 26 per cent of the taxes and fees paid by the mobile industry related to sector-specific taxation rather than broad-based taxation.²⁹

Affordability represents a significant barrier to the uptake of mobile services. Taxation levied on mobile money services, especially over and above standard rates, exacerbates this challenge by making digital services less attractive vis-à-vis cash. It is essential that governments collect taxes to support public finances, and this can be done effectively through broad-based taxation. Sector-specific targeting digital financial services has a distorting effect on markets and can slow the broader digitisation process. There is also strong evidence that enabling the use of mobile money for person-to-government (P2G) payments can reduce costs for governments and for workers who might otherwise lose wages to make in-person payments.

In countries where the majority of mobile money users are low-income individuals, or where these individuals are more dependent on mobile money than affluent sectors of society, taxation can be regressive.

CASE STUDY: Mobile money taxation in Uganda

On July 1, 2018, the Ugandan government introduced a one per cent tax on all mobile money transactions. Mr. Charles Abuka, the Bank of Uganda's Director of Statistics, later stated that "... the value of mobile money transactions declined by Shs 672 billion in the first two weeks of July 2018, compared to the first two weeks of June 2018, in part, following the announcement of the Excise Duty Amendment Act, 2018, introducing a tax of one per cent of the value of the transaction that would apply on mobile money transactions."³⁰

Following public outcry and pressure, the government tabled an amendment bill, Excise Duty Amendment Bill No. 2, 2018 to have the mobile money tax reduced to 0.5 per cent and limited to withdrawals. Mobile money providers have since reported a drop in the use of mobile money following the introduction of the tax. MTN further stated that mobile money supports 5,000 Savings and Credit Cooperative Societies (SACCOs) and taxing the business is a big risk. This was also supported by Bank of Uganda officials who called the new taxes discriminative and unfair, and risk restricting the growth of financial inclusion.³¹

29 These statistics were based on a study carried out on 12 countries in Sub-Saharan Africa. GSMA Intelligence and GSMA Connected Society, 2017, "Taxing mobile connectivity in Sub-Saharan Africa: A review of mobile sector taxation and its impact on digital inclusion", <https://www.gsma.com/mobilefordevelopment/programme/connected-society/taxing-mobile-connectivity-sub-saharan-africa-review-mobile-sector-taxation-impact-digital-inclusion/>

30 N. Wesonga and M. Kyeyune, 2 August 2018, "Uganda: Mobile Money Usage Drops by Shs672 Billion in Two Weeks", allAfrica, <https://allafrica.com/stories/201808020096.html>

31 The Observer, 2 August 2018, "Telecoms, Bank of Uganda want mobile money tax scrapped", <https://observer.ug/news/headlines/58334-telecoms-bank-of-uganda-want-mobile-money-tax-scrapped.html>

The right approach to taxation can play a key role in the development and diversification of product offerings in the mobile money industry, thus boosting financial inclusion. A number of principles for reforming sector specific taxation and fees should be considered by governments to align mobile taxation with that applied to other sectors and with best-practice taxation principles.

THE IMPACT OF THE PROPORTIONATE TAXATION OF MOBILE MONEY:

 <h3>INDIVIDUALS</h3> <ul style="list-style-type: none"> • Increased employment and investment • Wider access to savings, credit and insurance • Deepening financial inclusion 	 <h3>GOVERNMENT</h3> <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 	 <h3>SUBSIDIES</h3> <ul style="list-style-type: none"> • Greater access to government services for underserved areas 	 <h3>ECONOMY</h3> <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
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Debate

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

Key considerations for regulators and other stakeholders

- Best practice principles of taxation should aim to minimise the potential inefficiencies and distorting effects of taxation and take into account important practical challenges. Taxation should therefore be broad-based and account for sector 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. Ultimately, it is critical to the advancement of financial inclusion and the wider digitisation of economies that taxation does not disincentivise efficient investment or competition in the mobile money industry.

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gsma.com/mobilemoney

GSMA HEAD OFFICE

Floor 2
The Walbrook Building
25 Walbrook
London EC4N 8AF
United Kingdom
Tel: +44 (0)20 7356 0600
Fax: +44 (0)20 7356 0601