Session 2:

An Enabling Environment for Mobile Financial Service Business Models

afi Alliance for Financial Inclusion
Bringing smart policies to life

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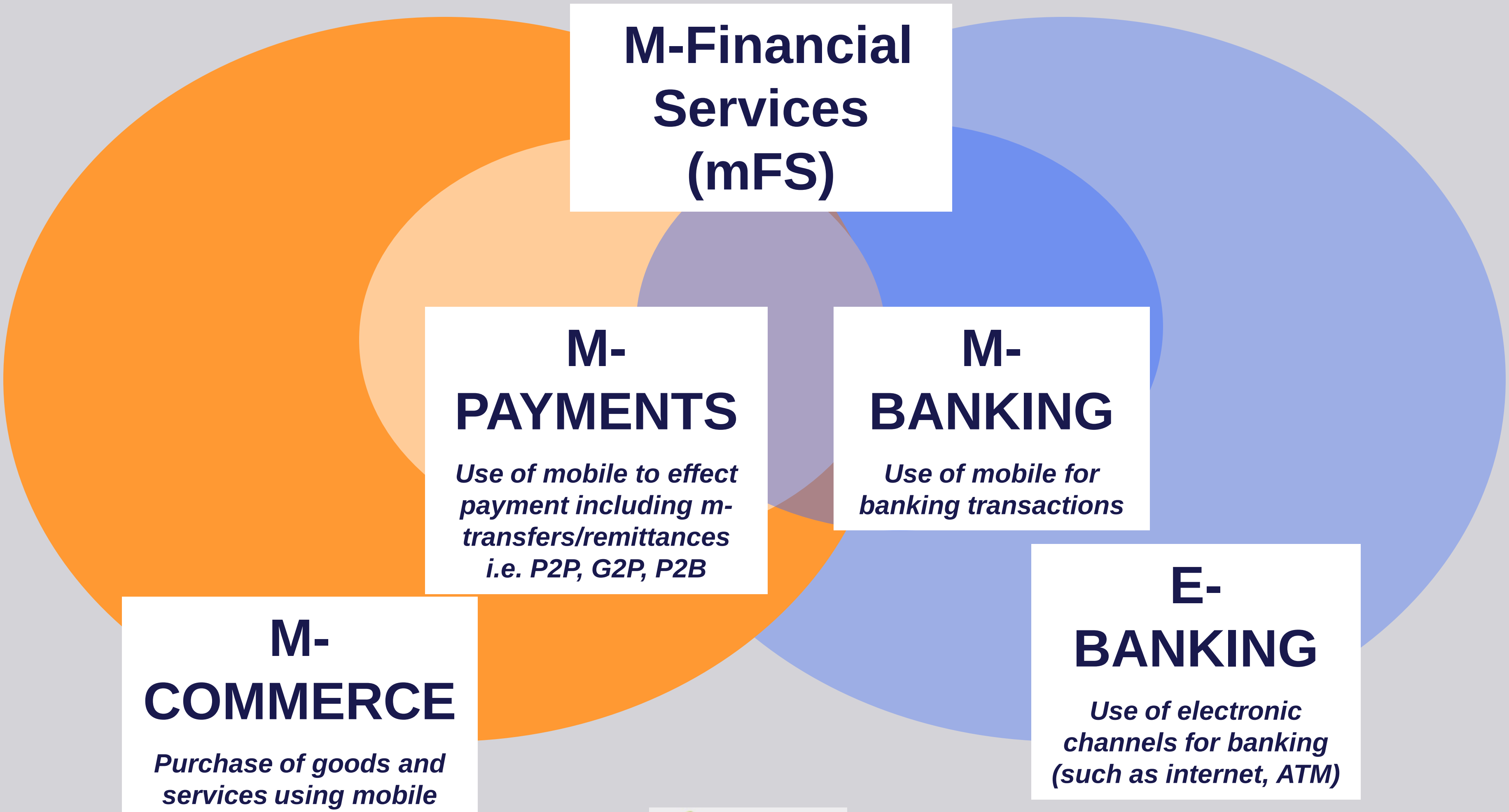
The Centre for Financial Regulation & Inclusion

Bankable Frontier Associates

Contents

Definitions



Pinning down the regulatory issues arising from mobile financial services

The mobile phone is a device which may be used as:

- **Channel** for financial services—literally as a communication bearer channel; or more generally as a distributional channel, whether in hands of end client or agent;
- **Instrument** of payment from either a new (m-wallet) or existing (bank account) source of value.
  - This is source of bank-based/non-bank based distinction of FN 43 but no longer adequate

	New instrument?	
	Yes	**No**
New channel	M-Pesa	First National Bank
Additional risk considerations	Prudential	Operational

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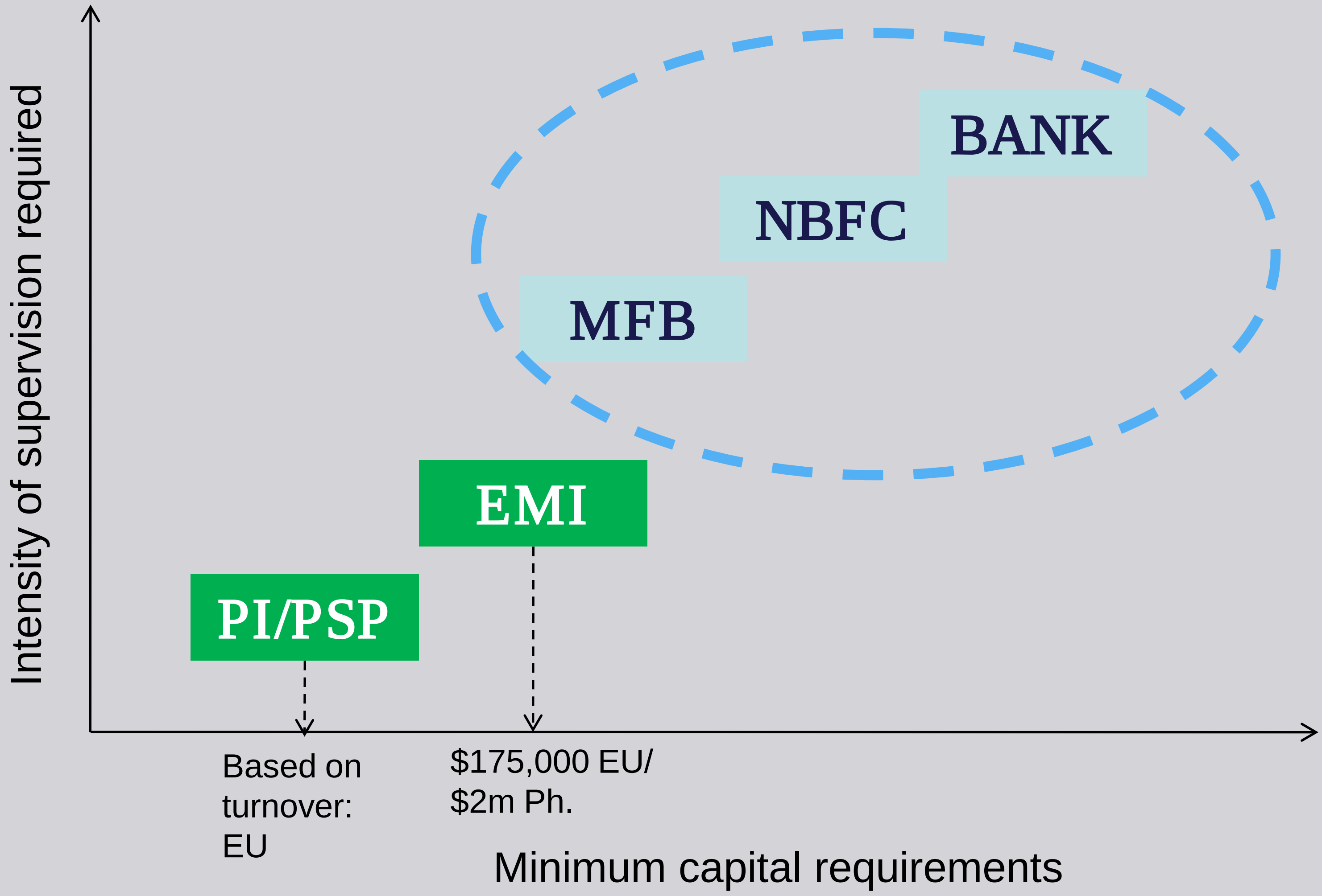
Comparing sources of funding

	Deposit	E-money	Payment
Definition	"Repayable funds" [AND Intermediated]	Value which is stored electronically; issued in exchange for currency and accepted by persons other than issuer	"Act of depositing, withdrawing or transferring funds from payer to payee, irrespective of underlying obligations"→ negative scope and examples
Source	Banks or Credit Institutions Act	Payment System Act or Specific Act; Guidance Circulars	Payment System Act
Business undertaken by	Regulated deposit taking entities only	Banks AND: Others as allowed or not prohibited	Banks AND payment institutions/PSPs
Examples	All countries	Malaysia (2003) Philippines (2009) South Africa (2009)	EU: PSD (2007) Zambia: (2007)

Payment instruments

- Definition: “Instruction to transfer funds or make payment”
- Traditionally recognized types (ECB):
  1. **Credit transfers:** instruction to debit own account, credit payee (most common in Europe: 1/3 of non-cash)
  2. **Direct debits** pre-authorized debits initiated by the beneficiary. (1/4 of non-cash in EU).
  3. **Payment cards** (debit or credit cards) used by holder to allow acquirer to charge against account at the bank (debit card) or line of credit (credit card). (<1/3 non-cash payments in EU).
  4. **Cheque** is a written order from one party (the drawer) to another (the drawee, normally a bank) (In most euro area countries cheques are practically non-existent.)
  5. **E-money:** can take various forms e.g. stored on smart card (e-purse) or network but accessed by card or other device

Comparing prudential requirements



Transformational vs additive services

- If a new channel is added for existing clients, then *additive*
- If, however, the service has the potential to reach to people who are unbanked today i.e. increase formal financial inclusion, then *transformational*
  - Few are genuinely transformational yet
- Tests include:

Who are target clients?	**?**
Is the type of service and product features appropriate for unbanked market?	√
Are the distribution channels appropriately located?	√
Does marketing appropriately target unbanked? (language, media)	√

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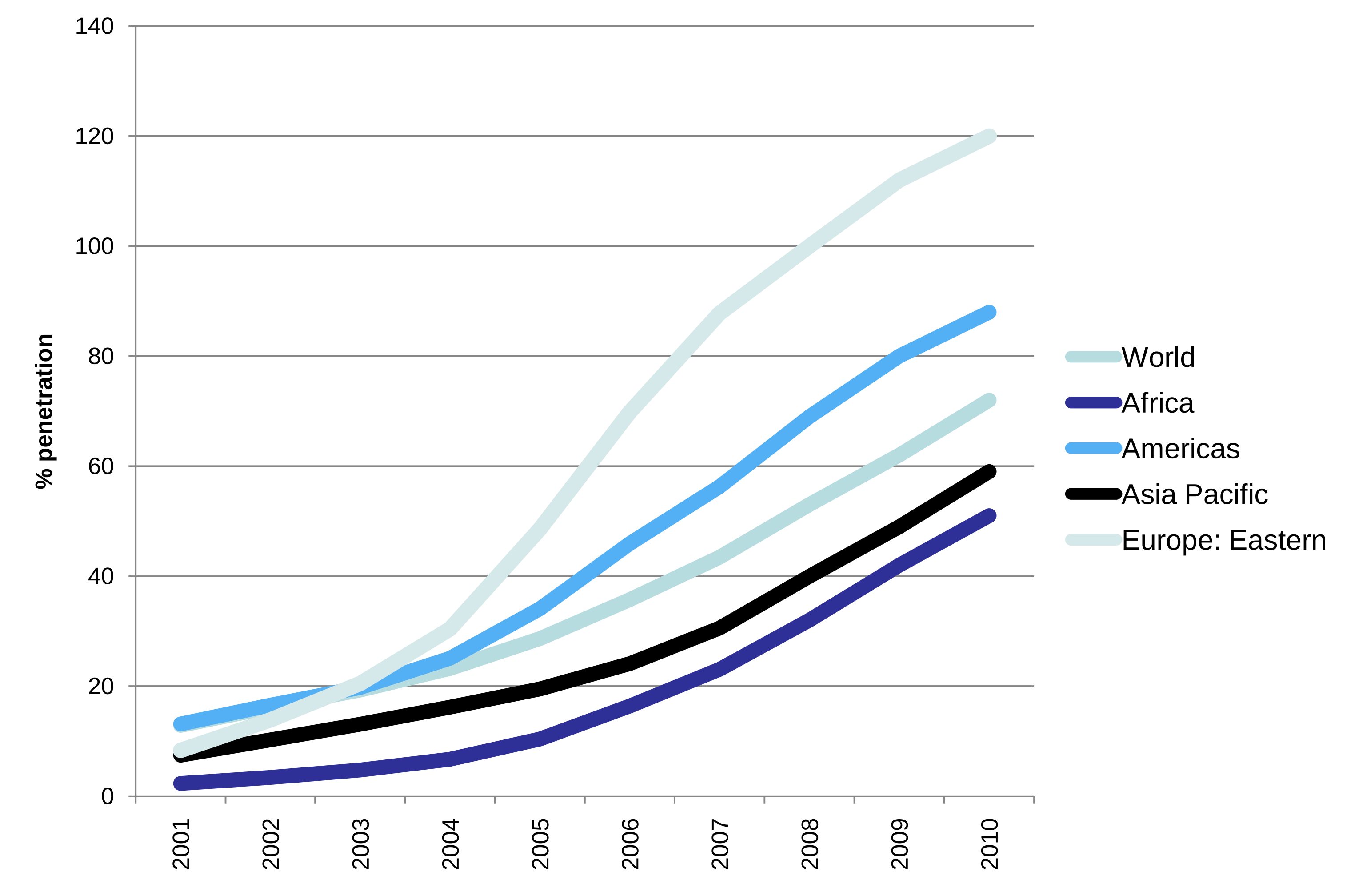
What does an enabled market trajectory look like?



Source: Wireless Intelligence

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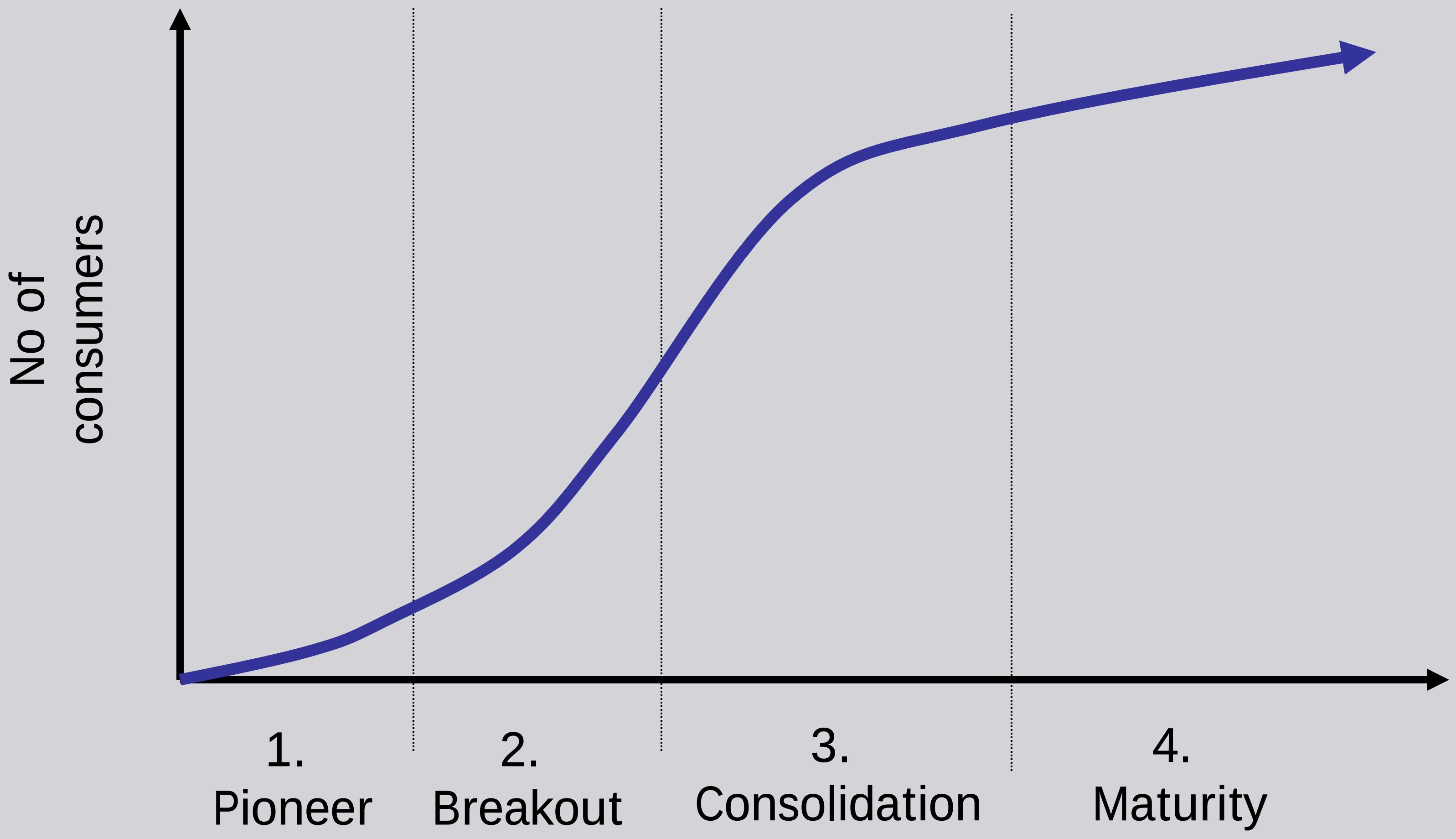
Markets tend to move through distinct development stages



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An enabling environment is….

- A policy and regulatory environment which promotes a sustainable trajectory of market development in line with national policy objectives. Ref: BFA (2006)
- Stability, efficiency (→ economic growth) and financial inclusion are common policy objectives
- Enablement must be dynamic over time as market conditions change

The policy issues change with stage of market development

	1. Pioneer	2. Breakout	3. Consolid-ation	4. Maturity
Policy issues	Sufficient entry/ piloting around promising business models by reputable providers	Operational risk Consumer protection—abuse can spread fast to new consumers	Systemic Prudential issues--failure	Industry structure stable, efficient and competitive

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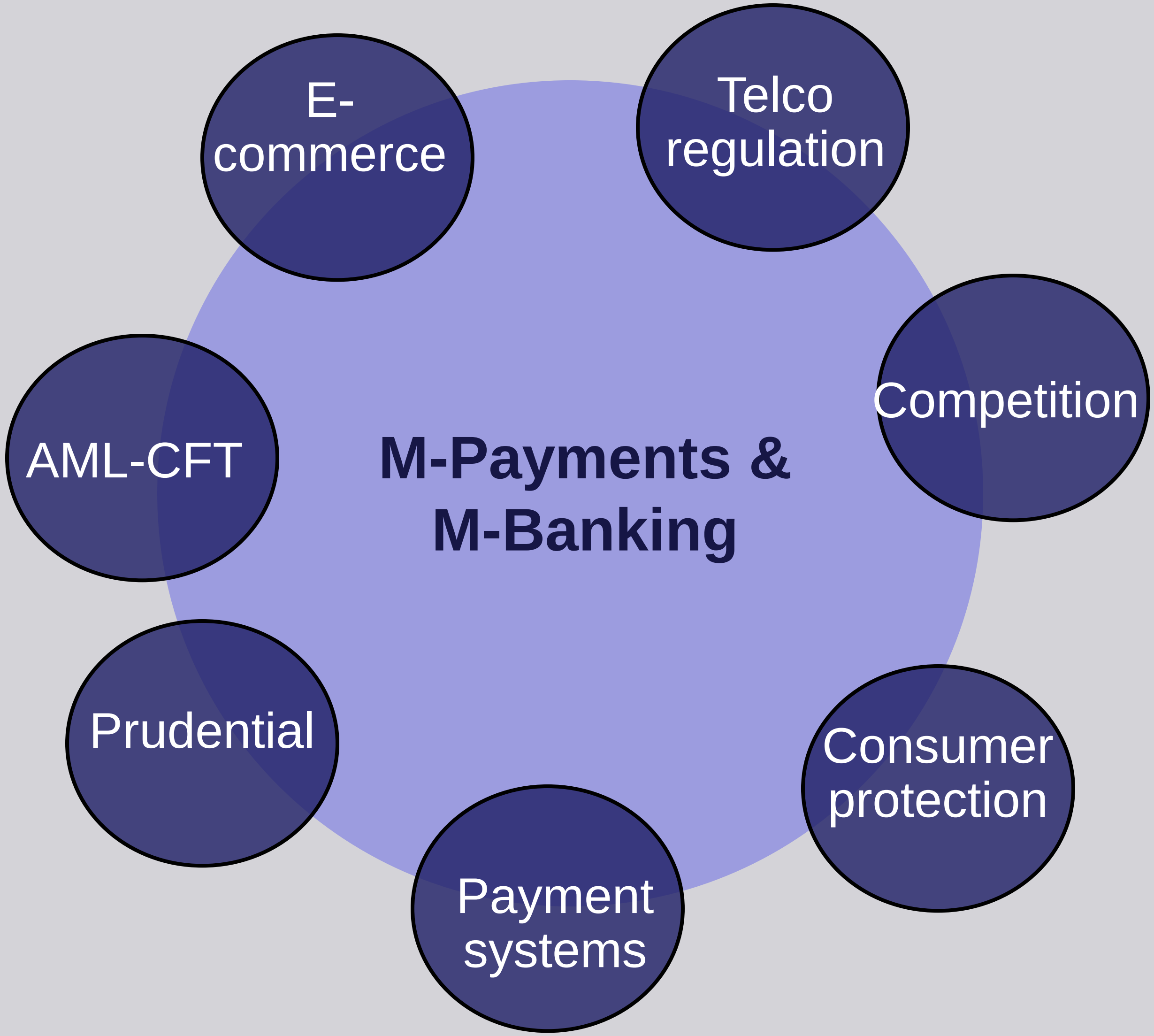
Overlapping regulatory domains create complexity



Different regulatory priorities compound this

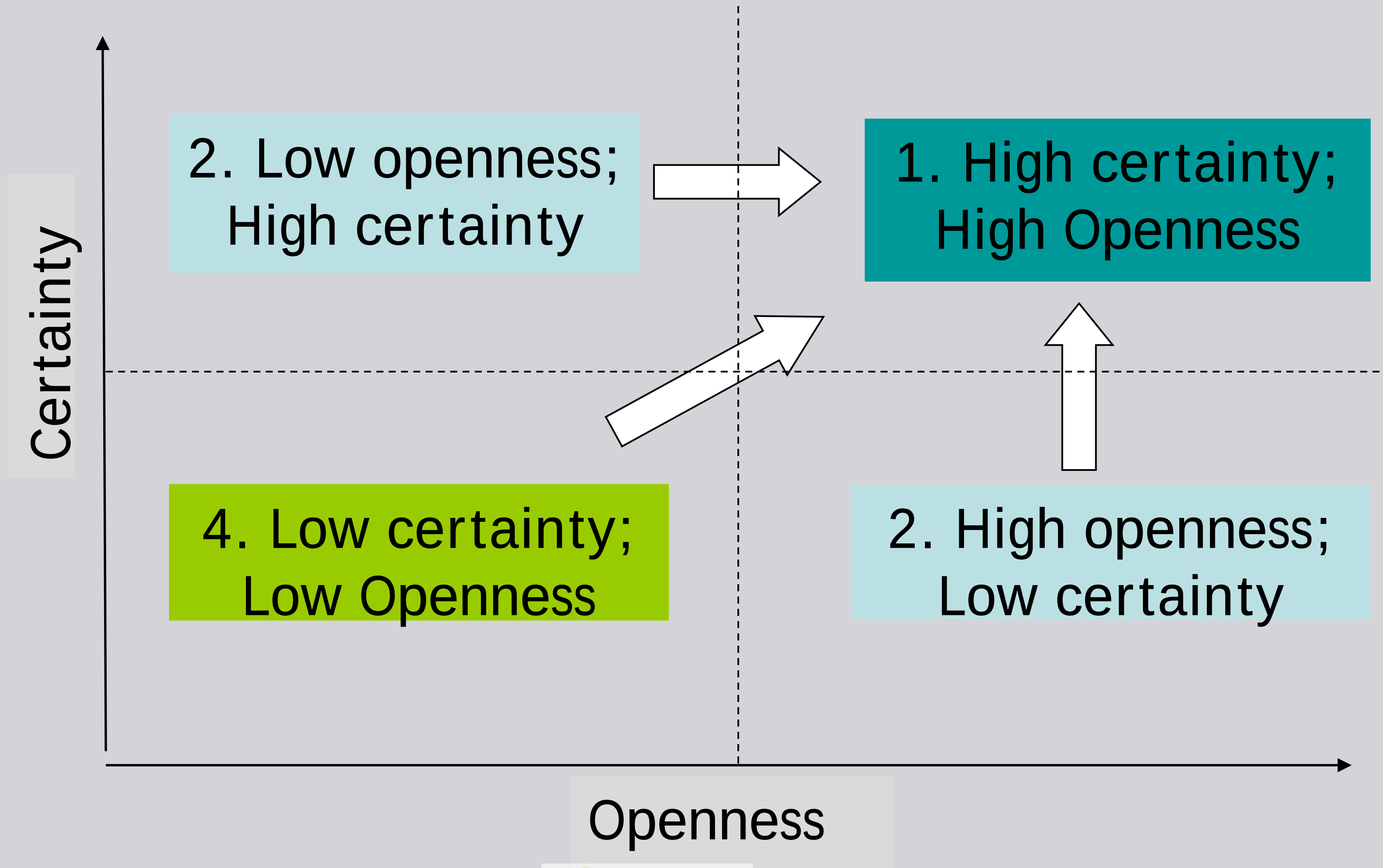
FINANCIAL REGULATORS

- Main concern is managing macro- and micro-prudential risk
- Technology has not been a traditional focus except as a possible source of operational risk
- Payment system powers may be limited (no act, or else limited in extent)
- Payment *oversight* vs bank *supervision*

TELCO REGULATORS

- Tend to be more concerned about competition as driver for investment, innovation and consumer benefits
- Have the power to force interconnection of networks
- Technology is at heart of what they do, but have the complexities of 'convergence' of communications to manage

Enablement means sufficient openness to innovation and sufficient certainty



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Principles of an enabling framework (2008)

Necessary, not sufficient, conditions for openness & certainty

Tier 1: Necessary	Openness	Certainty
1. Permit non-bank retail outlets to serve as agents and consider carefully any restrictions	■	■
2. Evolve a risk based AML-CFT process adapted to remote processes through agents	■	■

Source: CGAP/DFID Focus Note 43 (2008)

Tier 2: Additional considerations	Openness	Certainty
3. Clarify the legal boundaries between payments, e-money and bank deposits		■
4. Create a regulatory category for e-value that allows non-bank participation on defined terms	■	■
5. Create robust but simple mechanisms of consumer protection		■
6. Consider competitive landscape now	□	□

Source: CGAP/DFID Focus Note 43 (2008)

G20 Principles for Innovative Financial Inclusion
June 2010

	Principle
2	**Diversity:** Implement approaches which promote competition and provide incentives for delivery of a broad range of FS by a diversity of providers
3	**Innovation:** Promote innovation as a means to expand access and usage, including addressing infrastructure weakness
4	**Protection:** Encourage a comprehensive approach that recognizes roles of each
5	**Empowerment:** Develop financial literacy and financial capability
6	**Co-operation:** Create environment with accountability and coordination with government and direct consultation outside
7	**Knowledge:** Use data to make evidence based policy and consider an incremental "test and learn "approach
8	**Proportionality:** Build a framework which is proportionate to the risks and benefits involved

Introducing

New Celland

Context: New Celland

Macro economic profile	2007	2009
❖ GDP per capita (US$)	2,500	2,640
❖ GDP growth p.a.	3.4%	4.0%
❖ Total population	14.3m	14.7m
❖ Of which: adult population (18 yrs +)	8.9m	8.9m
❖ % population rural	50%	49%
❖ Literacy rate	70%	71%
❖ Remittance inflows/GDP % (recorded)	5%	5.5%

Policy & Regulatory Environment: New Celland

Legislation:

- Banks Act 1999 (2003a)
  - E-banking regulations
- AML Act (2003)
- Payment Systems Act (2007)
- Consumer Protection Act?

Regulators :

- Central Bank
- Telco regulator

Political sentiment:

- Backlash on fees

Questions for discussion

- At what stage of market development of mobile money is New Celland?
- Is New Celland fertile ground for transformational models?
  - Why or why not?
  - Any particular models allowed or not?

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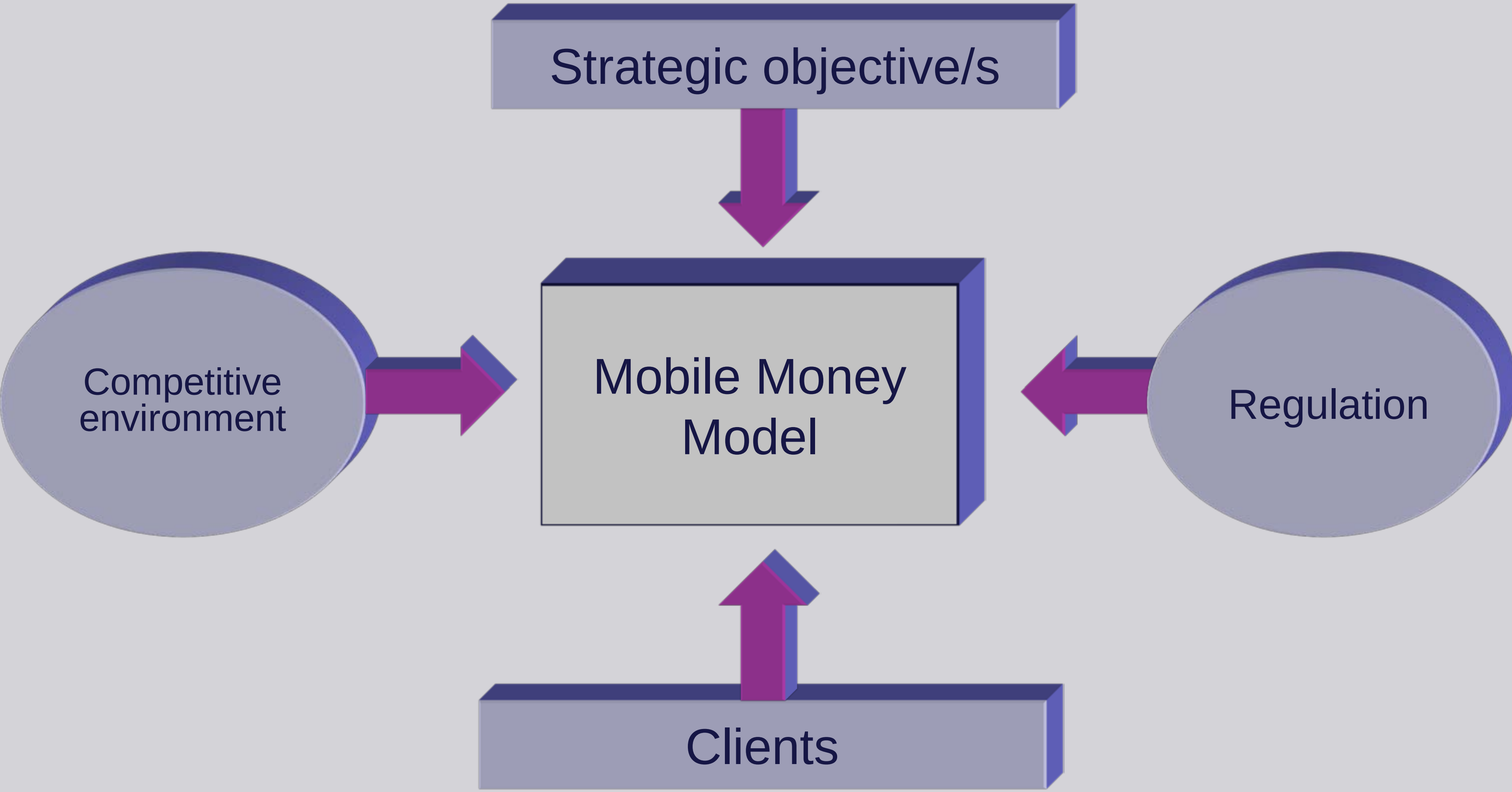
A mobile money model is shaped by:



A mobile money model has these components:

1. Brand	*Whose name is prominent to clients?*
2. Service offering	*What range of services offered?*
3. Technology	*What mobile channels & handsets used?* *Interfaces to other systems?*
4. Distribution	*How to enrol?* *How to get cash in and out?*
5. Relationships	*Which parties are involved and how?*

Introducing three models

	Name of service	Offered by	Launched in	No of clients
	First National Bank (SA)	FNB - Bank	2005	2m (09)
	Celpay (Zambia)	Celpay Holdings (3rd party)	2002	TBD
	M-Pesa (Kenya, Tz)	Safaricom , Vodacom- MNOs	2007	9m+ ('10)

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1. How is the service branded?

Existing	New	Co-brand
FNB First National Bank	M-PESA easy.fast.safe	M-KESHO M-PESA EQUITY ACCOUNT
	celpay	

2. What services are offered?

<table>
<tr><th colspan="3" rowspan="3">Informational</th><th rowspan="4">ATM card?</th><th colspan="5">Transactional</th></tr>
<tr><th colspan="2" rowspan="2">Transfer of value</th><th colspan="3">Merchant</th></tr>
<tr><th colspan="2">Remote</th><th>Local</th></tr>
<tr><th>Balance inquiry</th><th>SMS confirm-ation</th><th>SMS notification</th><th>P2P Dom-estic</th><th>Intl remittance</th><th>Airtime load</th><th>Bill pay</th><th>POS</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
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And which client segments are targeted?

- Eligibility requirements to open?

3. What technologies are in use?

3.1 How does the mobile channel fit into IT architecture?

- ❖ Dedicated mobile channel management system or outsourced?
- ❖ Integrated package or interfaces to others?

Refer: Troytyla 2007

3.2 Which handsets are supported?

- Basic, feature/enhanced, smart

3.3 Which bearer channels are used?

- SMS, USSD, GPRS, WIG

Refer: BFA 2008

4. How is the service distributed?

Enrollment		Value in/out			
		Load value		Cash out	
Physical	OTA possible?	E-Transfer	Agent	ATM	Agent

5. What relationships underly the service?

		MNO		
		One	Many	Any
Retail bank	None	M-PESA		
	One only (Banking service)	M-KESHO M-PESA EQUITY ACCOUNT		FNB First National Bank
	More than one (Payment Platform)		celpay	

Summary: Mobile Model Strategic Questions

1. Brand	*Who owns the customer?*
2. Service offering	*Who offers store of value?*
3. Technology	*Which handsets required and channels supported?*
4. Distribution	*Can one enroll OTA; and can agents be used for cash in/out?*
5. Relationships	*MNO independent?*

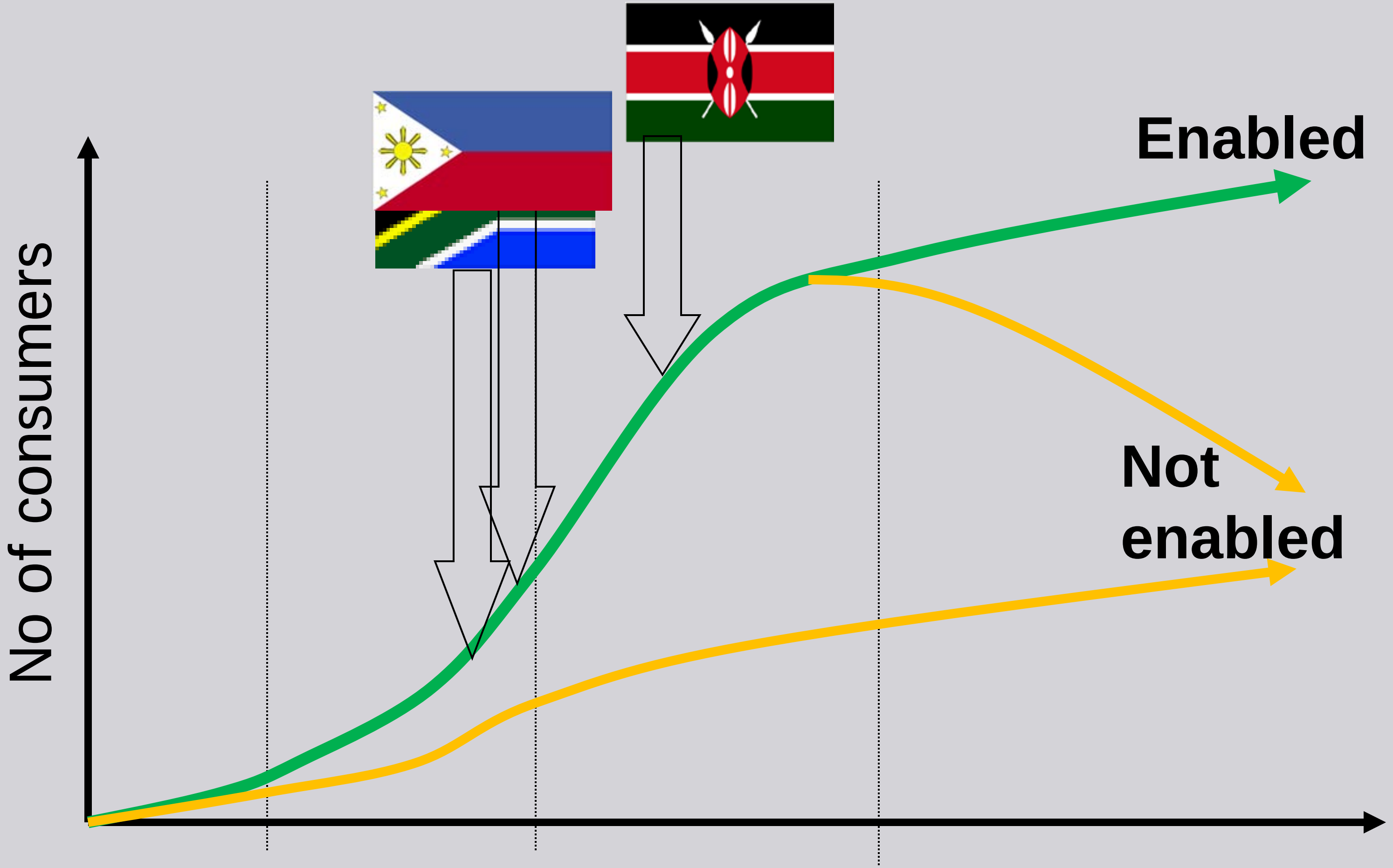
Model Clusters

	1. Bank channel	2. JV	3. M-payment platform	4. Non-bank driven
1. Brand	Bank	Joint - non-bank	Shared/NB	Non Bank
2. Functionality: Store of value with:	Bank	Bank	Multiple banks	Non Bank
3. Technology: handset required	Standard	Standard	Standard	Standard
4. Distribution: Cash access points	Bank	Bank + new agents	Bank + new agents	Agents
5. Relationships: One or any carriers?	Any	One/any	One or any	One
Examples	FNB First National Bank		celpay	M-PESA

Some recent developments in models

- 'Partnerships' between entities with large retail brands are not always stable
  - Competition for ownership of customer
  - Clash of risk cultures
- Therefore: to align incentives, MNOs have bought into banks:
  - Pakistan: MNO Telenor buys 51% of Tameer Microfinance Bank and launches EasyPaisa in 2009
  - Philippines: MNO Globe and large commercial banking group BPI jointly invest in new BanKO targeted at low end of market.
- Can banks buy/create MNOs?
  - In Spain and Netherlands, banks have created MVNOs

Which trajectory will be enabled?



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References on USB stick

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Examples of mobile payment regulations/ guidelines

Central Bank of Nigeria 2009
Reserve bank of India 2008.
State Bank of Pakistan 2008
Bank of Ghana 2008

Examples of e-money laws & guidelines

EU 2009
BSP 2009
SARB 2009.
Malaysia 2003