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Guideline Note
Mobile Financial Services: Basic Terminology

About AFI Guideline Notes

This guideline note on mobile financial services (MFS) terminology was prepared by the Alliance for Financial Inclusion (AFI) Mobile Financial Services Working Group (MFSWG). Mobile financial services policy and regulatory issues have been consistent priorities for policy work within the AFI network. AFI was established as a peer learning platform, and its members believe that knowledge sharing and peer learning can significantly contribute to creating effective policy and regulatory frameworks for mobile financial services.

MFSWG members are payment system and financial supervision experts in central banks and financial supervision authorities from 25 AFI member countries. The goal of the MFSWG is to assist financial sector policymakers and regulators in creating an enabling policy and regulatory environment that expands the reach of mobile financial services and promotes financial inclusion.

The AFI guideline notes attempt to provide additional guidance for the definition of common standards, approaches, and practices for MFS regulation and supervision within AFI member institutions. The notes are not summaries of best practices nor do they propose new principles or revisions to existing core principles. Instead, they highlight key MFS policy and regulatory issues and identify challenges to be addressed. The guideline notes do not seek to reduce or supersede the discretion of national supervisors to act in a manner consistent with their unique regulatory approach and their broader policy goals. Finally, the definitions here are intended to complement rather than replace similar MFS definitions drafted by International Standard Setting Bodies (SSBs).

The notes are based on a survey conducted with the AFI membership from all geographic regions, including an analysis of the key issues and challenges faced by regulators and supervisors of MFS. Although primary and secondary data was gathered from AFI members in all regions, the underlying survey is not intended to be considered globally representative.

AFI encourages readers to submit their comments on the guideline notes to Hayder.Al-Bagdadi@afi-global.org. These comments will be taken into consideration in subsequent versions of this guideline note.

About the working group

Recognizing the potential of mobile financial services (MFS), the Mobile Financial Services Working Group (MFSWG) was created to provide a platform within the AFI network for policymaker discussion on regulatory issues related to MFS. The working group promotes the broad use of MFS as a key solution for greater financial inclusion in emerging and developing countries. The group aims to stimulate discussion and learning amongst policymakers and the greater coordination between the many different MFS actors, such as financial and telecommunications regulators, and bank and non-bank providers.

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Acknowledgements: The Guideline Note on Mobile Financial Services Basic Terminology was written in partnership with CGAP, the Consultative Group to Assist the Poor. The AFI Mobile Financial Services Working Group would like to thank CGAP for contributing its expertise and time, which made this guideline note possible.

CGAP

General terms

1. Banking beyond branches / branchless banking

Definition:
The delivery of financial services outside conventional bank branches. Banking beyond branches uses agents or other third party intermediaries as the primary point of contact with customers and relies on technologies such as card-reading point-of-sale (POS) terminals and mobile phones to transmit transaction details.

Why is banking beyond branches important?
Its reliance on existing technology, infrastructure, and retail establishments has significant potential to lower the costs of delivery and reach financially excluded households that cannot be served profitably with conventional bank branches, especially in remote and sparsely populated areas.[1]

Further explanation
In spite of its name, banking beyond branches is not limited to bank services; it also includes an array of financial services provided by nonbanks.

Although much attention has been focused on the use of mobile phones (due to high penetration among poor populations), a wide variety of technologies can be used in banking beyond branches, including automated teller machines (ATMs), POS terminals, and near-field communications (NFC). (See 2. Mobile Financial Services)

2. Mobile financial services (MFS)

Definition:
The use of a mobile phone to access financial services and execute financial transactions. This includes both transactional and non-transactional services, such as viewing financial information on a user's mobile phone.

Further explanation
Mobile financial services include both mobile banking (m-banking) and mobile payments (m-payments).

3. Mobile banking (m-banking)

Definition:
The use of a mobile phone to access banking services and execute financial transactions. This covers both transactional and non-transactional services, such as viewing financial information on a bank customer's mobile phone.[2]

Further explanation
The term 'mobile banking' is often used to refer only to customers with bank accounts.

Mobile banking is a type of electronic banking, or e-banking, which includes a broad array of electronic banking instruments and channels like the internet, POS terminals, and ATMs.

4. Mobile money (m-money)

Definition:
A mobile-based transactional service that can be transferred electronically using mobile networks. A mobile money issuer may, depending on local law and the business model, be an MNO or a third party such as a bank.[3] Often used synonymously with 'mobile financial services'.

5. Mobile network operator (MNO) / Telco

Definition:
A company that has a government-issued license to provide telecommunications services through mobile devices.

Why are MNOs important?
Experience with high-volume, low-value transactions and large networks of airtime distributors have made MNOs critical players in banking beyond branches, mobile financial services, and the issuance of e-money.

Further explanation
An MNO is sometimes known as a mobile phone operator or wireless service provider.

Business model terms

6. Bank-based model

Definition:
A mobile financial services business model (bank-led or nonbank-led) in which (i) the customer has a contractual relationship with the bank and (ii) the bank is licensed or otherwise permitted by the regulator to provide the financial service(s).

Further explanation
In bank-based models, the bank often outsources certain activities to one or more service providers (such as an MNO) for the transmission of transaction details and sometimes the maintenance of clients' sub-accounts.[4]

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1 CGAP, 2011, "Global Standard-Setting Bodies and Financial Inclusion for the Poor: Toward Proportionate Standards and Guidance." Washington, D.C.: CGAP. (hereinafter "SSBs paper")
2 Chatain, Pierre-Laurent, Andrew Zerzan, Wameek Noor, Najah Dannaoui, and Louis de Koker, 2011, "Protecting Mobile Money against Financial Crimes: Global Policy Challenges and Solutions." Washington, D.C.: The World Bank.
3 SSBs paper.
4 SSBs paper.

7. Bank-led model

Definition:
A mobile financial services business model (bank-based or nonbank-based) in which the bank is the primary driver of the product or service, typically taking the lead in marketing, branding, and managing the customer relationship.

8. Nonbank-based model

Definition:
A mobile financial services business model (bank-led or nonbank-led) in which (i) the customer has a contractual relationship with a nonbank financial service provider and (ii) the nonbank is licensed or otherwise permitted by the regulator to provide the financial service(s).

9. Nonbank-led model

Definition:
A mobile financial services business model (bank-based or nonbank-based) in which the nonbank is the primary driver of the product or service, typically taking the lead in marketing, branding, and managing the customer relationship.

10. Third-party provider

Definition:
Agents and others acting on behalf of a mobile financial services provider, whether pursuant to a services agreement, joint venture agreement, or other contractual arrangement.

Why are third-party providers important?
Mobile financial services providers should be liable for the actions of third-party providers acting on their behalf regardless of the third parties' legal status (agent or not).

11. Payment service provider (PSP)

Definition:
An entity providing services that enable funds to be deposited into an account and withdrawn from an account; payment transactions (transfer of funds between, into, or from accounts); issuance and/or acquisition of payment instruments that enable the user to transfer funds (e.g. checks, e-money, credit cards, and debit cards); and money remittances and other services central to the transfer of money.

12. Deposit-taking

Definition:
When funds are collected from the general public by banking institutions to be maintained and repayable on demand or at an agreed time.

Why is deposit-taking important?
Deposit-taking is most commonly the domain of licensed, prudentially regulated financial institutions. Therefore, if money exchanged for e-value is considered to be deposit-taking, this would prohibit nonbanks from issuing e-money.

Further explanation
Some regulators only consider collected funds to be a deposit if they are intermediated.

E-money terms

13. Electronic money (e-money)

Definition:
A type of monetary value electronically recorded and generally understood to have the following attributes: (i) issued upon receipt of funds in an amount no lesser in value than the value of the e-money issued; (ii) stored on an electronic device (e.g. a chip, prepaid card, mobile phone, or computer system); (iii) accepted as a means of payment by parties other than the issuer; and (iv) convertible into cash.[5]

Further explanation
Regulators often consider interest payments to be a feature unique to deposits. Consequently, when e-money is considered a payment service (and not deposit-taking), the payment of interest is prohibited.

14. E-money account

Definition:
An e-money holder's account that is held with the e-money issuer. In some jurisdictions, e-money accounts may resemble conventional bank accounts, but are treated differently under the regulatory framework because they are used for different purposes (for example, as a surrogate for cash or a stored value that is used to facilitate transactional services).

Further explanation
The funds backing such amount may be pooled with the funds of other customers of the nonbank e-money issuer and held in a bank account(s) or, in some cases, in a special trust account set up for the customer.

15. E-money issuer

Definition:
The entity that initially issues e-money against receipt of funds. Some countries only permit banks to issue e-money (see 6. Bank-based model) whereas other countries permit nonbanks to issue e-money (see 15. Nonbank-based model).[6]

[5] SSBs paper.
[6] SSBs paper.

Why are e-money issuers important?
E-money issuers (particularly nonbanks) have become very important in some countries as a cost-effective way to extend services beyond the limitations of existing models and channels.

16. Float

Definition:
The total outstanding amount of e-money issued by an e-money issuer.[7] Also known as e-float.

Further explanation
Customer funds backing a float should be subject to fund safeguarding and fund isolation measures.

17. Fund isolation

Definition:
Measures aimed at isolating customer funds (i.e. funds received against equal value of e-money) from other funds that may be claimed by the issuer or the issuer's creditors.[8]

Why is fund isolation important?
Fund isolation, together with fund safeguarding, constitutes the primary means of protecting customer funds in a nonbank-based model.

18. Fund safeguarding

Definition:
Measures aimed at ensuring that funds are available to meet customer demand for cashing out electronic value. Such measures typically include: (i) restrictions on the use of such funds; (ii) requirements that such funds be placed in their entirety in bank accounts or government debt; and (iii) diversification of floats across several financial institutions.[9]

Why is fund safeguarding important?
Fund safeguarding, together with fund isolation, protects customer funds in a nonbank-based model.

Agent terms

19. Agent

Definition:
Any third party acting on behalf of a bank or other financial services provider (including an e-money issuer or distributor) to deal directly with customers. The term 'agent' is commonly used even if a principal agent relationship does not exist under the law of the country in question.

Why are agents important?
Using existing retail outlets as agents, particularly those near low-income populations, can help drive down the delivery costs of financial services for underserved populations.

Further explanation
Agents may (if permitted under local law) engage sub-agents to carry out activities on behalf of the financial services provider. A mobile financial services provider may also engage an agent network manager to help select, train, manage, and oversee agents.

20. Cash merchant

Definition:
A type of agent that only conducts cash-in/cash-out services.

Why are cash merchants important?
Cash merchants are often considered less risky (because of their limited functions) and should therefore be subject to less stringent regulations than agents who open accounts and process loans.

Further explanation
Since cash merchants do not provide services such as account opening and customer enrollment, they are more easily shared among different mobile financial services providers.

AML / CFT terms

21. Agent due diligence (Know Your Agent)

Definition:
Measures taken by a mobile financial services provider to assess potential agents and their ability to carry out agent functions related to mobile financial services.

Why is KYA important?
Because agents are often exempt from regulatory or other transaction limits in order to provide service to more customers, greater due diligence is required of agents than customers.

22. Balance and transaction limits

Definition:
Limits placed on account transactions, such as maximum balance limits, maximum transaction amounts, and transaction frequency.

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7 Tarazi, Michael and Paul Breloff, March 2011, "Regulating Banking Agents." Focus Note 68. http://www.cgap.org/gm/document-1.9.50419/FN68.pdf
8 Tarazi, Michael and Paul Breloff, July 2010, "Nonbank E-Money Issuers: Regulatory Approaches to Protecting Customer Funds." Focus Note 63. http://www.cgap.org/gm/document-1.9.45715/FN_63_Rev.pdf
9 Tarazi and Breloff, 2010.

Why are balance and transaction limits important?
Limits on accounts may help to reduce the risk of money laundering and terrorist financing and allow KYC rules under a risk-based approach to be simplified. (See 25. Risk-based approach)

Setting account limits also helps to mitigate many of the operational risks involved in providing mobile financial services.

23. Customer due diligence (CDD)

Definition:
Often used synonymously with **Know Your Customer (KYC)** measures, but generally refers more broadly to a financial institution's policies and procedures for obtaining customer information and assessing the value of the information for detecting, monitoring, and reporting suspicious activities.[10]

Further explanation
Banks conduct CDD as part of due diligence separate from anti-money laundering and combating the financing of terrorism (AML/CFT) concerns. Bank CDD measures are often more comprehensive than the KYC measures required by law.

24. Know Your Customer (KYC)

Definition:
A set of due diligence measures undertaken by a financial institution, including policies and procedures, to identify a customer and the motivations behind his or her financial activities. KYC is a key component of AML/CFT regimes.[11]

Why is KYC important?
FATF Recommendation 10 requires identification of the customer and verification of identification, but since identification is not always available to poor customers, this can be a hindrance to financial inclusion. (See 25. Risk-based approach)

Further explanation
Banks often apply additional KYC requirements beyond those required by international FATF standards.

25. Risk-based approach

Definition:
A method for complying with AML/CFT standards set forth in FATF Recommendation 1. The risk-based approach is based on the general principle that where there are higher risks, countries should require financial services providers to take enhanced measures to manage and mitigate those risks. Where risks are lower (i.e. no suspicion of money laundering or terrorist financing), simplified measures may be allowed.[12]

Why is a risk-based approach important?
A risk-based approach can often promote greater financial inclusion. A risk-based approach is appropriate for countries that want to build a more inclusive financial system that brings the financially excluded (who may present a lower risk of money laundering/terrorist financing) into the formal financial sector. It is broadly recognized that this approach requires significant domestic consultation and cross-sector dialogue.[13]

Payment terms

26. B2G

Definition:
Business-to-government payment.

Further explanation
B2G payments include taxes and fees.

27. B2P

Definition:
Business-to-person payment.

Further explanation
B2P payments include salary payments.

28. Cash-in

Definition:
The exchange of cash for electronic value (e-money).

29. Cash-out

Definition:
The exchange of electronic value (e-money) for cash.

30. Electronic funds transfer (EFT)

Definition:
Any transfer of funds initiated through an electronic terminal, telephone, computer, or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit a consumer's bank or e-money account.[14]

31. Electronic payment (e-payment)

Definition:
Any payment made with an electronic funds transfer (EFT).

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[10] Pierre-Laurent Chatain et al, 2011.
[11] Pierre-Laurent Chatain et al, 2011.
[12] FATF, Asia/Pacific Group on Money Laundering, and World Bank, 2011, "Anti-money laundering and terrorist financing measures and Financial Inclusion." Paris: FATF.
[13] FATF, Asia/Pacific Group on Money Laundering, and World Bank, 2011.
[14] U.S. Federal Reserve, 1996, Regulation E (12 CFR 205: Electronic Fund Transfers). http://www.federalreserve.gov/bankinforeg/reglisting.htm

32. G2P

Definition:
Government-to-person payment.

Further explanation
G2P payments include government benefits and salary payments.

33. Interconnectivity

Definition:
The ability to enable a technical connection between two or more schemes or business models, such as a bank or payment services provider to an international or regional payment network.

Further explanation
Interconnectivity with a payment scheme (e.g. Visa or Mastercard) requires a bank to go through a certification process.

34. Interoperability

Definition:
Payment instruments belonging to a particular scheme or business model that are used in other systems and installed by other schemes. Interoperability requires technical compatibility between systems, but can only take effect when commercial interconnectivity agreements have been concluded.[15]

35. Mobile payment

Definition:
An e-payment made with a mobile phone.

36. P2B

Definition:
Person-to-business payment.

Further explanation
P2B payments include payments for the purchase of goods and services.

37. P2G

Definition:
Person-to-government payment.

Further explanation
P2G payments include taxes and fees.

38. P2P

Definition:
Person-to-person payment.

Further explanation
P2P payments include both domestic and international remittances.

[15] World Bank retail strategy paper, forthcoming.

About AFI

The Alliance for Financial Inclusion (AFI) is a global network of central banks and other financial inclusion policymaking bodies in developing countries. AFI provides its members with the tools and resources to share, develop and implement their knowledge of financial inclusion policies. AFI connects policymakers through online and face-to-face channels, supported by grants and links to strategic partners, so that policymakers can share their insights and implement the most appropriate financial inclusion policies for their countries' individual circumstances.
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AFI is funded by the Bill & Melinda Gates Foundation and administered by GIZ (German International Cooperation)