



Mobile Financial Services Working Group (MFSWG)

Mobile Financial Services Regulatory Reporting

This guideline note was developed by AFI's Mobile Financial Services Working Group (MFSWG) to discuss effective methods for adapting supervisory frameworks for financial services delivered via mobile phones.

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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 among policymakers and promote greater coordination between the many different MFS actors, such as financial and telecommunications regulators and bank and non-bank providers.

Context

Mobile banking and mobile payments have filled an important space in the financial services landscape, especially in transforming and driving financial inclusion. Financial services delivered via mobile phones can help to reach the large percentage of the world's population that has access to these devices but which remains unserved by formal financial services providers. To fulfill the potential of these new and dynamic products and business models, however, financial authorities must adapt their supervisory frameworks.

As traditional brick and mortar banking shifts toward banking beyond branches,¹ mobile financial services (MFS), and other innovative emerging channels, many traditional supervision schemes become impractical and, in some cases, even pointless. In particular, when seemingly intangible financial transactions are carried out through electronic channels, it becomes critically important to collect timely, relevant, and accurate data.

Reporting requirements must be clear and focus on the information needed to assess whether service providers are sound, risk management protocols are effective, and consumer protection policies are adequate. This information will help supervisors ensure that services are provided under secure, reliable, and transparent conditions. However, regulators should be careful to avoid excessively burdensome and overlapping requirements, which may stifle innovation and limit market competition.

This document draws on common regulatory practices within the AFI Mobile Financial Services Working Group (MFSWG) to determine the most effective ways to supervise mobile financial services. The goal is to identify the minimum data and information that suppliers require from financial authorities to satisfactorily assess whether they comply with consumer protection and market stability objectives.

Purpose and critical issues

MFS risks are primarily operational and raise new, but manageable, supervisory concerns. These risks apply to banks launching a new MFS business line as well as to newly licensed payment providers.

Bank supervisors can adapt much of their existing prudential supervision tools and expertise to mitigate and monitor these risks effectively. Monitoring operational risks may be less familiar to payments systems regulators, who can borrow from the bank supervisor's toolkit to go deeper and improve how they oversee payment systems providers.

Reporting requirements for MFS begin with application and authorization. After a provider has been authorized, regular reporting requirements (which are aligned with the regulatory framework) allow supervisors to ensure the compliance and health of individual providers, and to broadly oversee the safety and efficiency of the system. First, however, the specific purposes for this gathered information and how it will be used must be clearly identified.

Application and reporting requirements allow the supervisor to verify that regulatory requirements are met and that the following objectives are achieved:

- to assess potential risk build-up for individual providers, as well as for the system as a whole;
- to ensure that a provider's financial condition can adequately support its MFS activities and that it complies with prudential requirements (such as minimum capital), if applicable;
- to promote stable and transparent market operations by enhancing public disclosure of information;
- to ensure there are adequate risk management processes to identify, assess, control, and monitor potential sources of risk arising from MFS provision, such as operational, liquidity, and money laundering risks;
- to verify that the rights and interests of financial consumers are protected, product information and costs are transparent, and that customer claims and redress mechanisms are reported; and
- to assess the outreach of MFS so that the impact of these services on financial inclusion can be evaluated. Access and usage dimensions should be considered.

¹ New channels that are different from branches are primarily referred to as 'branchless banking', although they complement branches and do not replace them, argue C. Alexandre, I. Mas, and D. Radcliffe (2009) in "Regulating New Banking Models that can Bring Financial Services to All". They therefore suggest the term 'banking beyond branches'.

These objectives must help financial authorities to carry out the licensing or registration process of potential MFS providers and to monitor MFS development within each country's regulatory framework.

Application and licensing requirements build the foundation for reporting requirements. Through this process, applicants submit both financial and non-financial information about the proposed operations, including, but not limited to:

- business plans and intended services;
- operating models and key outsourcing alliances or agreements;
- financial and general business information about major shareholders and officials, as required;
- financial and general business information about major providers or outsourcers; and
- a financial feasibility study.

The required information should allow supervisors to assess whether the provider is fit and proper and if the MFS project is viable and ready for deployment. If the information submitted to fulfill entry requirements changes, the new information should be provided to the supervisor. After authorization is given, the company must inform the regulator about any significant change or modification to its business or operating model.

Minimum data and information requirements: definitions of variables and key data sets

Once MFS providers are licensed and incorporated into the regulated market, minimum data and information usually includes qualitative and quantitative requirements. Qualitative requirements should be provided on an occasional basis, while quantitative requirements should be sent to regulators on a regular, periodic basis. Overall, the timing of reporting and requirements for MFS should be in proportion to the regulator's capacity to review reports. MFS reporting should be aligned with existing reporting systems and requirements to maximize efficiency for both regulators and providers. In a recent survey of the MFSWG, the majority of regulators (57%) indicated that they require monthly reporting, with the

minority requiring daily or weekly reporting as part of their oversight procedures for MFS activities.²

Periodic reports should encourage standardization of data requirements, as well as convergence across the diverse models adopted for MFS provision. Reporting requirements for non-banks may be expansive, given they are newly supervised and do not already meet the same requirements as banks. MFS bring risks that are unfamiliar, but they are not inherently more risky. With this in mind, regulators may ask for more up front regulatory reporting in the initial stages after a provider is licensed. Regular interaction also allows the regulator and provider to develop a common understanding.

Based on collective experience, the group has identified data and information requirements in four key areas that should be captured in MFS regulatory reporting:

- risk management frameworks and resulting data for risks pertaining to operations, liquidity, money laundering, and terrorist financing;
- consumer protection;
- public disclosure of information; and
- outreach and financial inclusion.

Risk management

Data reporting requirements for risk management may apply differently to banks and non-banks, depending on the business model in question and the functions that are being performed.

Operational risk

Qualitative information

- policies, procedures, and tools for managing risk;
- significant changes to company operations, indicating the main activities undertaken to mitigate the associated operational risks;
- overview of the business continuity management plan and the main scenarios tested;
- overview of the information security management plan; and
- major risks covered by insurance or another equivalent means.

² MFSWG, "Policy Approaches for Mobile Financial Services: Working Group Survey Analysis", May 2011.

Quantitative information

- major operational risk losses reported in number and amount, as well as by type of event (i.e. Basel II categories: Internal or External Fraud, Clients, Products & Business Practice, Damage to Physical Assets, Business Disruption & System Failures, Execution, Delivery & Process Management); and
- major business continuity disruptions (i.e. number and duration of business interruption events caused by information system failures or other reasons).

Liquidity risk

Qualitative information

- liquidity contingency plan in case of sudden demand for cash-outs, as well as information about related agreements with liquidity suppliers.

Quantitative information

- information about deposits or e-money balances by region or geographic jurisdiction if needed, according to country circumstances.

Anti-Money Laundering and Counter Financing of Terrorism Risks (AML/CFT)

Qualitative information

- overview of AML/CFT programs, including description of the main policies and strategies, as well as the main risk mitigation tools;
- specific risk analysis for products and/or channel, including product design characteristics that mitigate risks (such as simplified measures for low-risk products);
- records of electronic money operations, by owner; and
- evaluation procedures for unusual operations and reporting of suspicious operations.

Quantitative information

- reports of suspicious operations, if any, in a simplified way; and
- statistics of unusual operations to appropriate regulators, aggregated by product, channel, and geographical region.

Consumer protection

Qualitative information

- overview of the process for disseminating information to consumers: rates, fees, and expenses through all available channels (branches, agents, website, etc.); and
- overview of the customer service system.

Quantitative information

- number and amount of unacknowledged operations reported by clients (per channel and type of operation);
- number of clients that reported claims other than unacknowledged operations;
- percentage of claims resolved in favor of the consumer; and
- resolution status and date of claims made by clients.

Public disclosure of information

- overview of mission, purpose, and general business and risk management practices;
- audited financial statements;
- capital base; and
- additional capital requirement for operational risk, if applicable.

Outreach and financial inclusion

Access

- number, geographical distribution, and type of business of retail agents; and
- number and geographical distribution of cash merchants.

Use

- number of customers: registered and active customers;
- number of active accounts (bank-based), if applicable;
- number of dormant accounts (bank-based), if applicable;
- number of e-wallets, if applicable;
- number of new accounts in a given period of time, if applicable;
- number of e-wallets opened in a given period of time, if applicable;

- number of operations per type,* per channel;
 - operation amount per type,* per channel in a given period of time; and
 - outstanding balance per account/e-wallet.
- * Consider the following for type of operation, when applicable:
- i) local transfers (in/out) and international transfers (in/out); and
 - ii) payments from: person-to-business (P2B), business-to-person (B2P), government-to-person (G2P), and person-to-government (P2G).

Measurement and assumptions

Mobile financial services vary greatly in terms of their business models and degree of regulation, among other things. This document assumes that MFS are supervised and the regulator has the power to demand data reporting. It also takes diverse business models into account when identifying the relevant data that need to be gathered.

Considering that MFS, with a few exceptions, are still in initial stages of development, gathering reliable information is a challenge. The data and general information will come from the supply side – that is, from the service providers. From the regulator’s perspective, this should be sufficient to monitor operations and the soundness of the provider. However, this information may be insufficient to measure the impact on financial inclusion. For example, if the purpose is to measure whether services are adequate for the needs of the population, particularly the poor, additional demand-side data may need to be gathered. Because collecting this type of information is costly, the decision to undertake surveys or similar activities should be based on a cost-benefit analysis.

The information identified in this report is general and aimed at serving the regulator’s main objectives. However, each country should decide what its priorities are based on its particular risks, legal environment, and stage of MFS development.

About AFI Mobile Financial Services Working Group Guideline Notes

The AFI Mobile Financial Services Working Group guideline notes are based on the experience of group members and attempt to provide guidance on 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 definitions here are intended to complement rather than replace similar MFS definitions drafted by International Standard Setting Bodies (SSBs).

About AFI

The Alliance for Financial Inclusion (AFI) is a global network of financial inclusion policymaking bodies, including central banks, in developing countries. AFI provides its members with the tools and resources to share, develop and implement their knowledge of financial inclusion policies. We connect 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.

Learn more: www.afi-global.org

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