Knowledge
Exchange Insights

Alliance for
Financial Inclusion
Bringing smart policies to life

Mobile Financial Services: The Bank of Tanzania learns from the Bangko Sentral ng Pilipinas

Situation:

In December 2009, there were an estimated 15 million mobile phones in Tanzania, with 45% of the population having access to a mobile phone. This growth in phone penetration spurred mobile network operators (MNOs) to launch mobile financial services to serve this rapidly growing customer base. At the end of 2009, more than 2.5 million Tanzanians had become mobile payment (m-payment) customers.

Mobile money services in Tanzania developed in a regulatory environment without a National Payment Systems Act and existing guidelines for electronic payment schemes did not provide adequate guidance on mobile financial services. When MNOs first approached the Bank of Tanzania (BOT) with proposals for providing m-payment services, the BOT advised them to partner with commercial banks to deliver these services. The role of the partner commercial bank would be to house a trust account in which MNOs would deposit m-payment funds. In this arrangement, the commercial bank (an entity traditionally under the jurisdiction of the central bank) would seek a "letter of no objection" from the BOT that would allow the m-payment service to operate. A company would then be appointed to oversee the account and the BOT would reserve the right to audit or check the trust account.

At the same time MNOs were becoming increasingly interested in expanding their range of services beyond simple payments, commercial banks were reacting uneasily to this expanded role for the MNO, and their loose partnerships with MNOs became tenuous.

The BOT, on the other hand, was convinced the mobile phone had the potential to bring financial services to the poor and expand outreach to the remotest parts of the country. The Bank was willing to promote financial services outside the traditional banking sector, including m-payment and m-banking schemes, and identified MNOs as a partner in this endeavor. The first step was to bring these new and emerging financial service providers into the regulatory fold.

Learning goals:

The BOT wanted to adopt a regulatory framework for mobile financial services that would both strengthen and institutionalize the role of MNOs and serve as a road map for implementing and managing new technologies in the financial sector.

To do this, the BOT looked to a banking institution with experience regulating mobile financial services. The Bangko Sentral ng Pilipinas (BSP) in the Philippines was one of the early movers in issuing regulatory guidelines for the issuance of electronic money, a critical aspect of enabling mobile financial services, and the staff of BOT's Department of Oversight and Policy from the Directorate of the National Payment System (NPS) was interested in visiting the bank to learn from their experiences.

The BOT expected that the learning from the visit would provide an important input for the revision of existing guidelines for electronic payment schemes and upcoming regulations on mobile payments, a part of the Bank's "Project on Developing an Effective Regulatory Framework for Branchless Banking". To focus the knowledge exchange visit and maximize their experience, the staff identified several specific learning needs. BOT's biggest priority was to gather information and lessons that would assist them in amending and enhancing its existing oversight policy on mobile financial services to incorporate new MNOs, and adding agents as a critical part of the mobile financial services framework. Other areas for learning and capacity building included:

- identifying steps for creating an enabling environment for mobile payments, while minimizing risk;
- understanding the policy and regulations that have enabled e-money issuers;
- understanding the role and oversight of MNOs offering mobile payments;
- the role and oversight of agents;

These insights were prepared based on information from the BOT's knowledge exchange proposal, grantee report, and phone interviews with the Department of Oversight and Policy, Directorate of the National Payment System (NPS), Bank of Tanzania (BOT), after BOT's visit to the Philippines in April 2010.

- complying with Know Your Customer (KYC) and other anti-money laundering provisions;
- observing regulatory systems at work that promote accessibility and protect mobile consumers; and
- reviewing the impact of mobile financial services on monetary policies.

With this comprehensive set of learning objectives in place, the AFI and BOT approached the BSP about a knowledge exchange.

Exchange:

In April 2010, a team from the Directorate of the National Payment System (NPS) travelled to the Philippines, and was hosted by the Inclusive Finance Advocacy Staff (IFAS) at the Bangko Sentral ng Pilipinas (BSP). While there, the BOT delegation learned firsthand from the Core Information Technology Supervisory Group (CITSG) how the BSP enables and supervises both bank and non-bank electronic money issuers. Globe Exchange (GXI) and Smart Communications shared their industry experience as mobile money service providers of GCASH and Smart Money products, respectively. Through meetings with the staff of the Microenterprise Access to Banking Services (MABS) program of the Rural Bankers Association of the Philippines (RBAP), the delegation was privy to an innovative partnership between the rural banks and GCASH in which the regulator was a key part of the program's success. A trip to the BanKo Savings Bank (a collaboration between BPI Bank and Globe Telecom), which disburses loans and accepts repayments through the use of GCASH, rounded off the visit.

Insights:

The knowledge exchange visit provided the BOT with the opportunity to reflect on their experiences, draw comparisons and contrasts with the BSP and the Philippines, and extract insights for Tanzania. This combination of learning, reflection, and action has been one input into the direction of regulation and supervision of the country's mobile financial services.

Assessing existing assets: Firsthand exposure to the BSP's regulatory journey prompted the BOT to reflect on existing opportunities and challenges in its own country. The BSP pioneered the provision of mobile money services by issuing guidelines (Circular 649) that allowed both banks and non-banks to issue e-money. Faced with a similar starting point, and with no explicit payment system laws in place, the BOT delegation was inspired by the BSP's persistence and the use of circulars to push mobile payment services forward. The circulars provide the basis for a regulatory framework that injects certainty into the system and helps to boost the confidence of mobile payment operators and other stakeholders.

Technology and change: Meetings with the BSP's CITSG demonstrated the benefits of building a specialized team with the critical technical capacity to regulate and oversee mobile payments. This, together with rapidly changing technology, highlighted capacity building for specialists at BOT as a priority for enabling secure mobile financial services.

New technology — and the products associated with it — can also be new and unfamiliar to potential customers. To address this challenge, the BOT intends to work closely with payment service providers on public awareness programs that help build user confidence. This is a slightly different approach than the BSP, which left marketing and public relations to the provider.

A "flexible yet rational" approach: The visit to the BSP highlighted the benefits of regulatory flexibility on many fronts to adopt new financial services technology and enable mobile payments. For example, when the BSP wanted to use e-money to reach the unbanked, it was flexible enough to allow non-banks to be licensed as e-money issuers. The bank has continued to evolve its regulations in dialogue with the industry, and has supported partnerships that expand outreach to rural clients, such as one between the Rural Bankers Association of the Philippines (RBAP) and e-wallet provider, GlobalXChange.

The BOT recognized that flexibility helps to introduce technological innovations that expand outreach, and that it is beneficial to take a "flexible yet rational" approach to developing an effective regulatory framework for payment systems. An appropriately flexible regulatory approach enables new and untraditional players to enter the payment services field, and it accommodates different models of mobile financial service providers and products. This flexibility does not mean a lack of clarity or certainty, however. The BOT delegation recommended that the Bank clearly define the players and the electronic banking and payment models that would be permitted.

Issuing electronic money: Through interaction with CITSG, the BOT delegation discovered the BSP's role in fostering the development of an efficient retail payments and fund transfer mechanism that is convenient for users in the Philippines. A critical part of this conducive environment is permitting the development of the quasi-financial sector by enabling non-banks to issue electronic money to offer payments. In the Philippines, MNOs Globe and Smart Communications are licensed as electronic money issuers. More specifically, BOT was exposed to the essential details of the BSP regulation such as: the definition of electronic money, different categories for entities licensed as electronic money issuers (EMI), procedures for license approval, periodic reporting requirements, responsibility for compliance with anti-money-laundering laws, and limits and redress mechanisms for consumers. Given strong MNO interest in Tanzania to offer mobile payments, the BOT reflected on permitting MNOs to form subsidiaries which can be licensed as e-money issuers themselves.

The supervision of agents: Prior to the visit to Manila, the BOT identified a crucial part of its regulatory framework: retail agents. The BOT lacked the authority to oversee the retail agents that MNOs contracted to provide the cash-in and out function for their mobile financial services because the use of agents had always fallen under the jurisdiction of the Tanzania Communication Regulatory Authority (TCRA). With the introduction of mobile payments, however, the BOT was faced with questions about the new role of retail agents in delivering mobile payments and other mobile financial services, and was unsure of both the jurisdiction and its capacity to regulate and supervise them. The visit helped to assuage these concerns. There is now a new openness and flexibility at the Bank to oversee, at least in some capacity, the use of retail agents in mobile financial services schemes.

An addition to the Bank of Tanzania Act that placed mobile payments under the jurisdiction of the central bank now gives the BOT the authority to regulate agents for mobile payments. The BOT was encouraged by BSP's experience in the Philippines and believes it can take on the additional responsibility of overseeing new players. However, the Bank will be careful to put a mechanism in place that limits the burden of this new role on its primary functions.

Coordination between regulators: The visit to the BSP made it abundantly clear that financial services regulators and the communications industry regulator have to cooperate. Over the years, the BSP has managed to work effectively with the National Telecommunications Commission of the Philippines (NTC). Supervising and examining MNOs is a new and unfamiliar role for the BOT, but a Memorandum of Understanding (MOU) between the Bank and the Tanzania Communications Regulatory Authority (TCRA) has now been drafted that outlines areas of potential collaboration. The MOU, which came into effect during the second quarter of 2010, allows the TCRA to support the BOT in overseeing MNOs.

Upholding AML/CFT standards: An important lesson from the knowledge exchange was that compliance with international anti-money laundering (AML) requirements (as laid out by the Financial Action Task Force (FATF)) was necessary for fostering an environment in which mobile payments thrive. Ensuring compliance with AML standards has been an area of concern for the BOT; it has had an Anti Money Laundering Act and a Financial Intelligence Unit since 2006, but the Unit's capacity to assess compliance in this new area is still weak. The BOT delegation observed that the BSP had adopted rigorous and robust standards for compliance, as all e-money issuers were required to comply with the Philippines Anti-Money Laundering Act (AMLA). Technology has also helped the BSP to simplify compliance oversight and assessment.

A bigger picture: The BOT also took away important lessons about the BSP's strategic approach to financial inclusion and the role of mobile financial services in reaching this goal. The BSP has championed and coordinated efforts across the bank through its Inclusive Finance Advocacy Staff (IFAS). The BOT has recognized that, in order to bring more people into the financial system, various financial inclusion initiatives at the national level need to be coordinated, and that central banks and other policymakers need to incorporate financial inclusion into their strategic frameworks.

Next steps:

Since their knowledge exchange visit to the Philippines, the BOT has been laying the groundwork for the growth of mobile financial services across the country. Reflections on the observations and lessons of the knowledge exchange have provided one input that continues to inform the development of an effective regulatory framework for mobile payments. To guide this process, the BOT endeavored to undertake the following initiatives:

- review existing guidelines for implementing electronic payment schemes;
- develop mobile payment guidelines;
- issue regulations for the industry using existing laws; and
- issue circulars as needed.

The Mobile Payments Regulations were drafted in the first quarter of 2010 with guidelines for Electronic Payment Schemes also being reviewed to accommodate the knowledge and experiences gained. The BOT is continuing its regulatory journey as it submits the draft regulations for peer review by the AFI Mobile Financial Services Working group. The BOT will also pursue further industry consultation in Tanzania.

More......

About Knowledge Exchange Insights

These are compelling first-hand accounts from AFI members that successfully used an AFI knowledge exchange grant to seek the policymaking experience of other members in the AFI network. Dozens of AFI members have used these knowledge exchange visits to benefit from the power of peer-to-peer learning and to gain key policy insights abroad that can be tailored for application in their home countries.

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 though 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

Continued......

Following the finalization of the guidelines and regulations, the BOT intends to publish and distribute these guidelines and regulations to both trigger public interest and encourage banks, Telcos, and other financial institutions to engage with the Bank and seek more information about mobile payments. The new Mobile Payments Regulations and amended guidelines for the Electronic Payments Schemes were expected to be operational by 30 September 2011.

Alliance for Financial Inclusion

AFI, 399 Interchange Building, 24th floor, Sukhumvit Road, Klongtoey – Nua, Wattana, Bangkok 10110, Thailand

t +66 (0)2 401 9370 **f** +66 (0)2 402 1122 **e** info@afi-global.org www.afi-global.org

AFI is funded by the Bill & Melinda Gates Foundation and administered by the GIZ (German International Cooperation).