Competition and Regulation of Mobile Money Platforms in Africa

Kenya and Uganda

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Contents

Background: Competition issues in Digital Financial Services

- Digital platforms have rapidly extended financial services to populations, particularly the unbanked.
- However…
  - They exhibit network effects, where the value of the service increases with each additional user, leading to the market tipping in favour of a small number of players.
  - Incumbent providers with first-mover advantages can rise to dominance.
  - Dominant FSPs often have the incentive & ability to act anti-competitively – *It doesn't mean that they do*
- Moreover…
  - Platforms with critical mass gather rich data sets on user behavior, enhancing service offerings, enabling them to leverage their dominance from one market segment to another e.g dominance in Voice & data to Payments to Savings & Credit.
  - Economies of scale and scope fuel positive feedback loops, strengthening incumbents' market positions.

Background: Competition issues in Digital Financial Services

- Additionally…
  - The multi-sided nature of these platforms require providers to experience simultaneous growth of connected user groups to achieve critical mass e.g. subscriber and agents/ merchants etc.
  - High barriers to entry including licensing, costs of investment
  - Gate keeper positions e.g. access to USSD, Data, agents, interconnection
- Possible harm includes:
  - Less innovation
  - Lower quality of products and services
  - Less choice
  - Higher prices
  - Ultimately reduced progress for financial inclusion

Objectives & Methodology

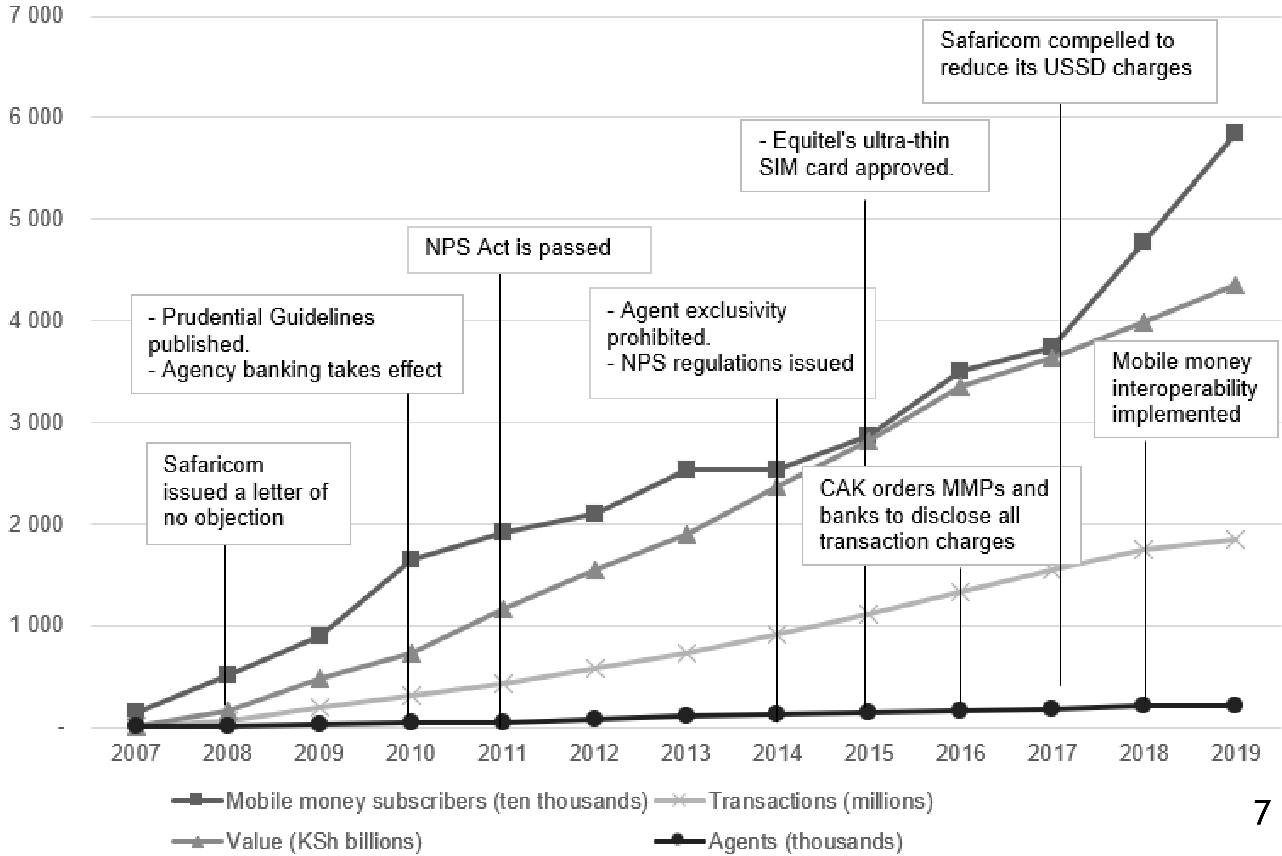
- The analysis considers competition issues in mobile money in:
  - Kenya with one provider having over 60% market share
  - Uganda with two providers having over 80% market share
- Methodology was mixed:
  - Analysis of trends, events & regulatory changes in the MM market
  - Analysis of money transfer rates between 2007 and 2019
  - Supplemented with 32 interviews with key stakeholders in Uganda & Kenya including with the leading providers and regulators
- The presentation uses cases studies of Kenya & Uganda to reflect on:
  - Firm strategies in mobile money markets
  - The value of dynamic entry of new providers and/or innovative products & services
  - The role of regulatory intervention and collaboration in promoting competition to increase financial inclusion.

Market Overview

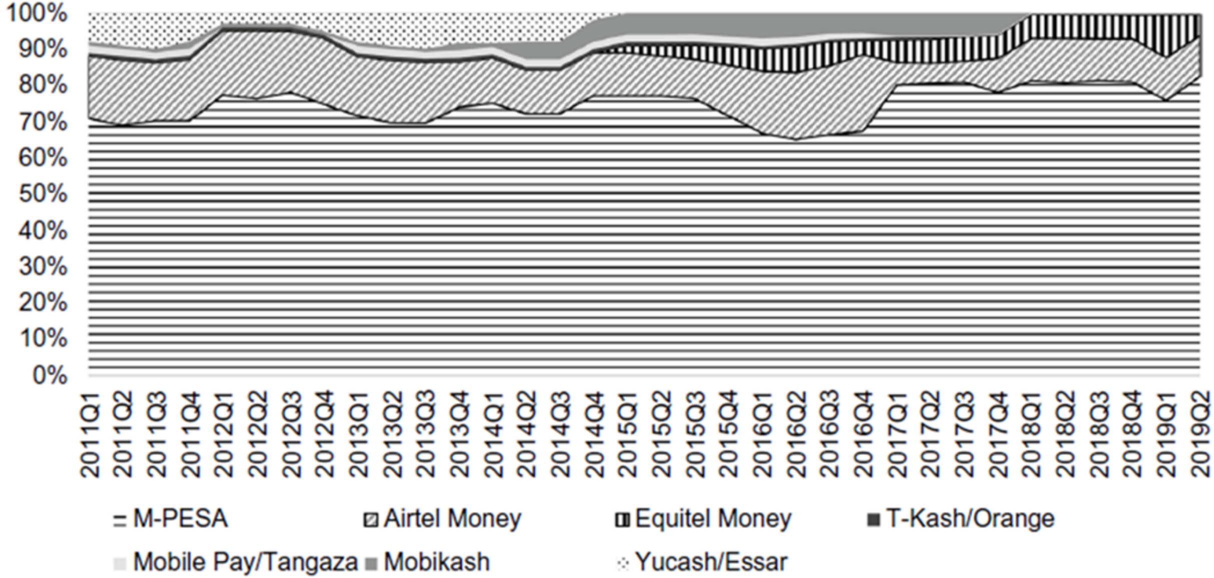
	Kenya	Uganda
Market share/Key players	Safaricom M-PESA (60%)	MTN & Airtel (over 80%)
Regulators	CBK, CAK, Communications Authority	BOU, UCC, MTIC
Active Accounts (millions)	38	30
Mobile money penetration	115%	106%
Average no. of transactions	6	22
Average value of transactions (US$)	162	210
Average no. of subscribers per agent	118	40
No. of deposit accounts (millions)	94	18

Data as of December 2023 where available

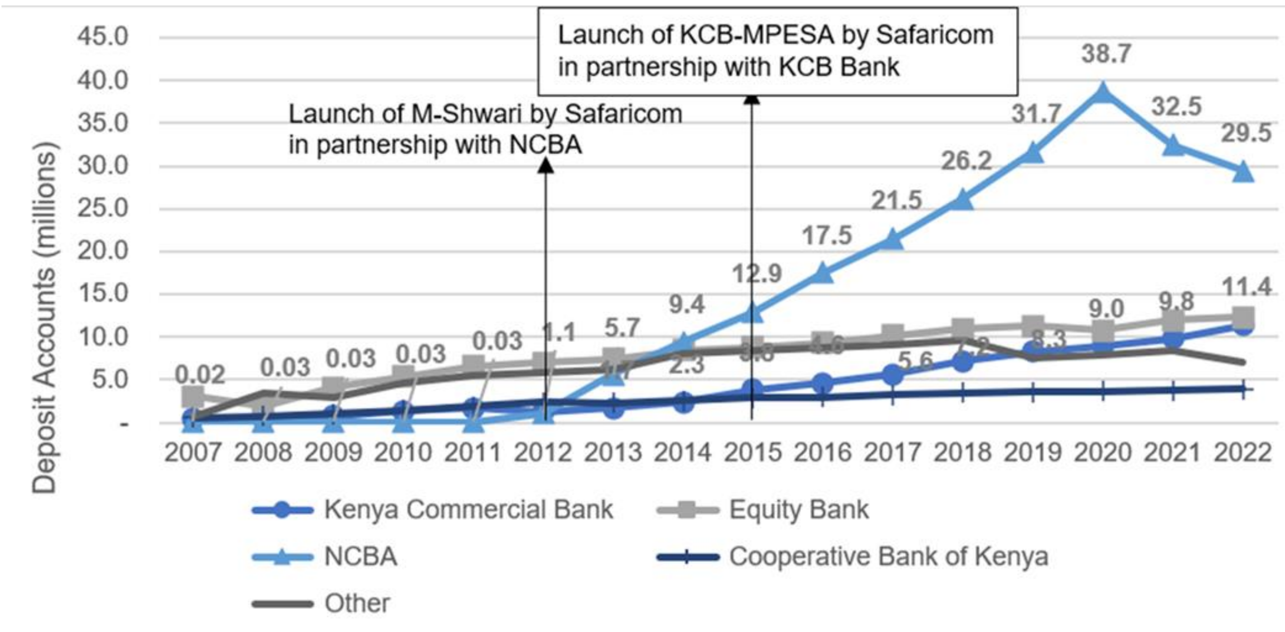
Kenya: Timeline of key events



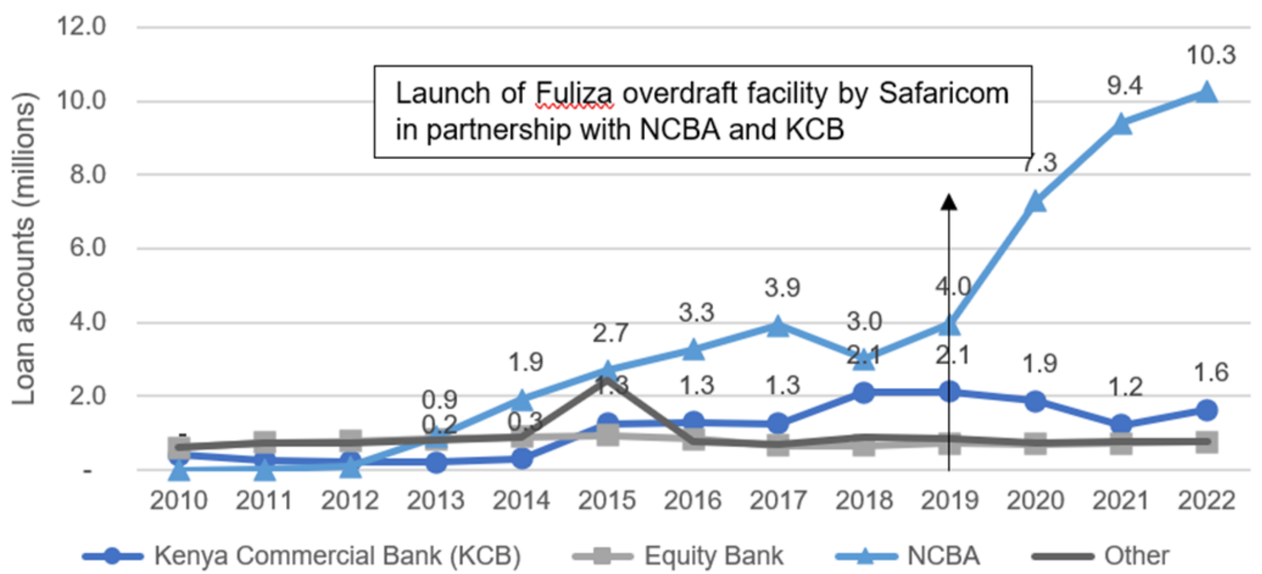
Kenya: Market share of MMT



Kenya: Formal Financial Inclusion- Deposit Accounts



Kenya: Formal Financial Inclusion- Loan Accounts



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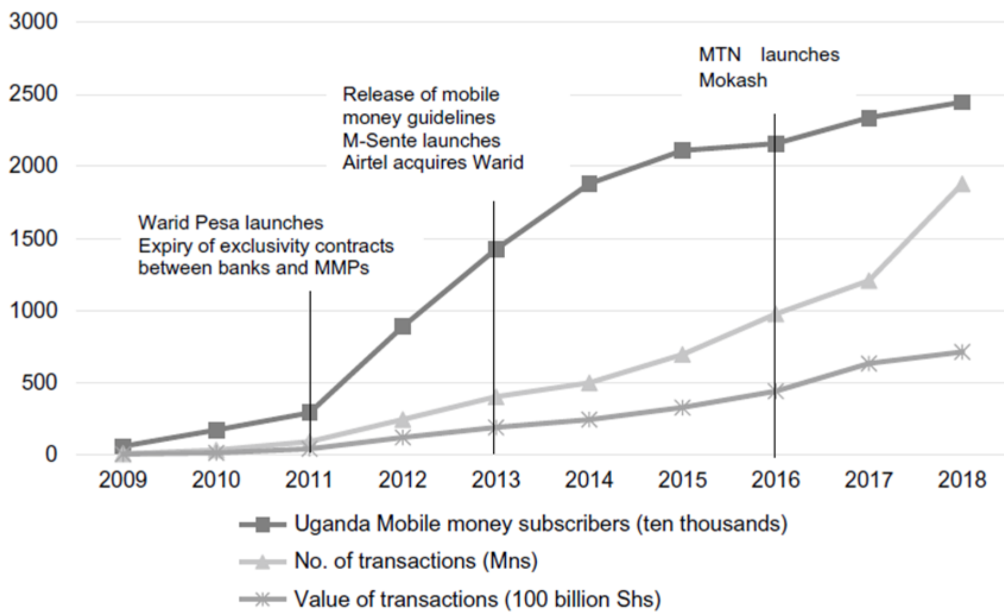
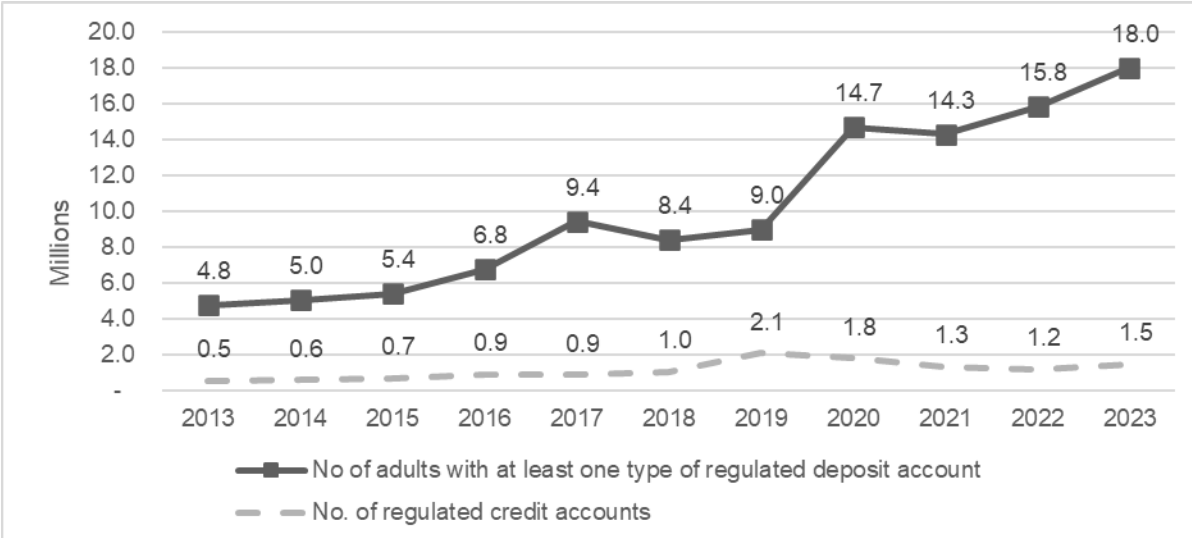
Uganda: Timeline of key events



Uganda: Formal Financial Inclusion

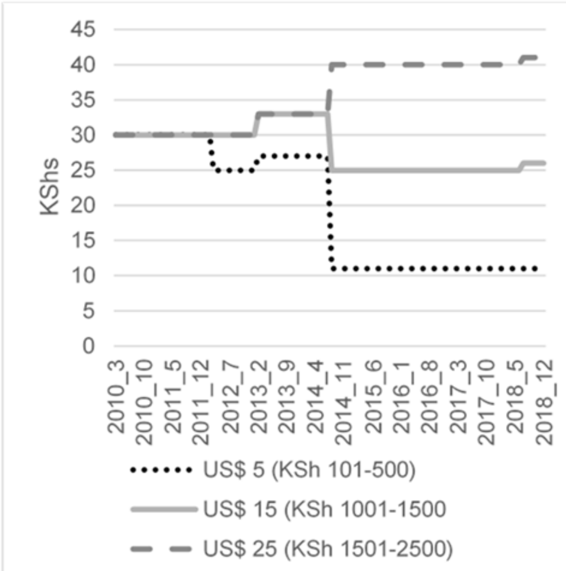


- Mokash was introduced in 2016 contributed to the increase in number of adults with a regulated deposit accounts from 5.4 million in 2015 to over 9 million in 2017.
- Airtel's Wewole in partnership with Jumo only provided loans
- The growth in 2020 was likely due Covid-19 restrictions and the need to receive money electronically

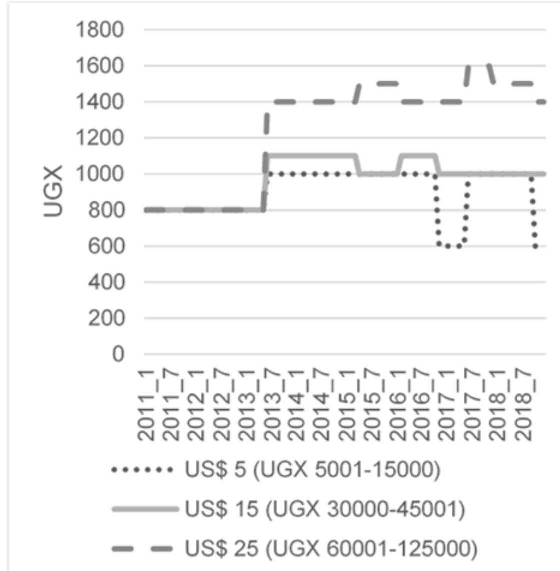
Conduct & Market Outcomes

Transfer charges (on-net), for the values equivalent to US$ amounts

Safaricom, Kenya



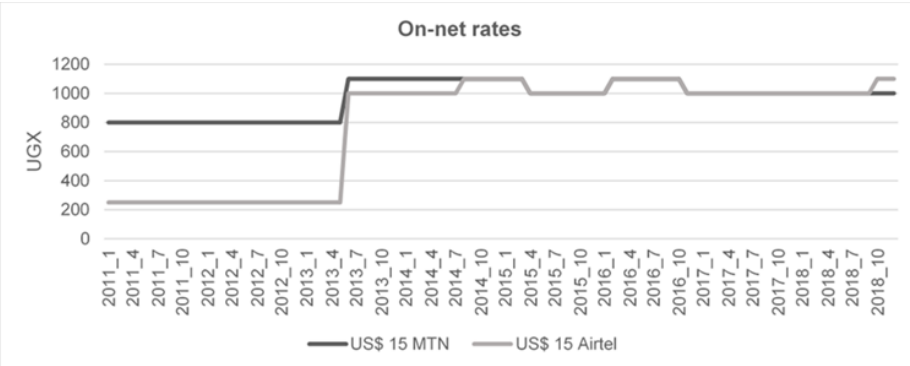
MTN, Uganda

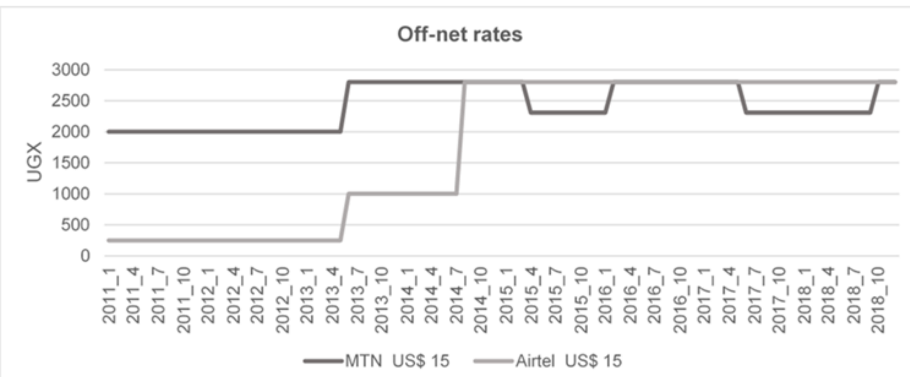


- 2014, Kenya, reduction in price coincided with removal of agent exclusivity & anticipated entry of Equitel
- 2013, Uganda, increase in price coincided with loss of competitor when Airtel acquired Warid

Conduct & Market Outcomes

MM rates after Airtel/Warid Merger





- Warid's exit was followed by increases in Airtel Uganda's pricing to match MTN's higher pricing
- Airtel Ug appears to be implementing parallel pricing

Conduct & Market Outcomes

Platform power and dominant firm conduct

- Agent exclusivity
  - Ban in Kenya from CAK followed by NPS Regulations that ban exclusivity
  - In Uganda, exclusivity banned by Mobile Money Guidelines but there are signs that the behaviour persisted : MTN and EzeeMoney Case.
- Interconnection
  - In Kenya, prior to April 2018, off-net transfer rates were effectively around two and half times those of transfer to another M-Pesa subscriber from around 2010 to 2013.
  - The differential increased dramatically in 2014 for smaller value transfers when the on-net rates were reduced following the removal of agent exclusivity, followed by a downward adjustment in off-net rates in 2015
  - In Uganda, off-net rates remained around two to three times on-net rates from 2013 to 2018, and more for higher value transfers.
- Access to USSD
  - Access is necessary to provide consumers with services from transfers, mobile banking to merchant payments but access to USSD is owned by MMPs
  - CAK found Safaricom to be charging anywhere from KSh1 to KSh10 per USSD session. Negotiated to bring this down to uniform KSh 1
  - A UCC study found that in 2017 MTN charged UGX35 per 20-second session (equivalent to UGX315 per 180 second session or around US$0.09) & Airtel UGX110 for a 60-second session (or UGX330 for a 180-second session)

Conclusions

Importance of effective rivalry

- In Kenya the main rival to Safaricom in mobile money services from 2015, especially as they have evolved to financial services, has been Equity Bank, which rapidly displaced Airtel as the second largest provider of mobile money transfer, especially in terms of mobile commerce.
- The competitive rivalry posed by Equity Bank in Kenya impacted on Safaricom's pricing and on dynamic competition in the form of new and improved services.
- Following removal of agent exclusivity, the growth in rivals' agent networks came from Equitel
- Equity already had more agents for its branchless banking than Airtel in 2014, even before launching its own mobile money and by 2019 it had 20% of agents
- The main source of rivalry to Safaricom's dominant position therefore changed over time from the second-placed mobile telecommunications company to inter-platform rivalry from Equity Bank as it leveraged-off its branchless banking offering into mobile money

Conclusions

Importance of regulation

- The CAK was instrumental in ending Safaricom's agent exclusivity following complaints, laying the way for implementation of the National Payment Systems regulations that banned agent exclusivity.
- The CAK also reduced USSD charges, while central bank regulation ensured interconnection and the ending of off-net/on-net differentials, benefitting consumers and rivals, including adjacent platforms in banking
- In Uganda the mandate to maintain fair competition has been left to sector regulators. Had there been a competition authority, the merger between Airtel and Warid that resulted in higher concentration, apparent coordination and higher prices may well have been prohibited
- In Uganda a study by the Uganda Communications Commission into USSD identified issues with the levels of charges but did not lead to changes being made.
- Interoperability was implemented in 2017 with encouragement from the Bank of Uganda, although the model used allowed for interchange fees and consumer surcharges which resulted in the maintenance of higher off-net rates

Key Takeaways

Left to their own devices, dominant DFS providers can abuse their dominance

Regulatory interventions are necessary for pro-competitive outcomes

Collaboration across the different sector regulators is necessary for effective regulatory intervention

Entry from new players and dynamic rivalry is critical for competitive outcomes

Market monitoring, collection of data and analysis is an essential tool

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