Mobile Financial Services
Supervision and Oversight of Mobile Financial Services

This guideline note was developed by AFI’s Mobile Financial Services Working Group (MFSWG) to discuss appropriate supervisory responses to evolving mobile financial services.
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

An effective and coherent regulatory framework should be the foundation of mobile financial services (MFS) supervision and oversight. Adopting effective supervision and oversight procedures helps to mitigate and reduce the impact and probability of risks associated with the provision of MFS. On-site and off-site supervisory tools, such as data collection and the creation of efficient processes, enhance these procedures. This guideline note discusses the considerations that can enable an appropriate regulatory response to evolving MFS delivery models, and allows regulators to leverage effective monitoring of the market and adjust requirements based on evidence.

Traditional supervision of financial institutions involves assessing and enforcing compliance with laws, regulations and other rules intended to protect consumer funds and ensure a stable financial sector. In many cases this requires certain mechanisms to be in place, such as sufficient reserves of capital to ensure the safety and soundness of providers including, where permitted, non-bank e-money issuers.

Similarly, MFS supervision and oversight involve particular activities, carried out by competent authorities, to ensure that MFS providers function smoothly, safely and efficiently. This is often accomplished by verifying that a provider is complying with regulatory requirements. A comprehensive regulatory framework, therefore, is the cornerstone of effective supervisory procedures.

To establish a clear understanding of terms, this guideline note uses the following definitions, which are endorsed in the mobile financial services sector:

**Supervision:** The sum total of activities carried out by competent authorities to ensure that providers of mobile financial services comply with applicable regulatory requirements.

**Oversight:** The sum total of activities carried out by competent authorities to monitor and analyze the key indicators of MFS as part of the national payments system, in order to objectively assess current regulatory requirements and propose adjustments.

The purpose of this guideline note is to outline how MFS may impact the supervision and oversight of the financial services sector, taking into account the unique nature of MFS and the ways in which it has been integrated in existing regulatory processes. Policymakers and regulators may find this information useful when developing MFS supervision and oversight procedures or assessing the effectiveness of existing procedures.

MFS Supervision and Oversight

Advancements in technology and communication have significantly impacted the evolution of financial services and the ways in which they are delivered. A substantial increase in the penetration of telecommunications services, especially the widespread use of mobile phones, has been key to advancing financial inclusion. Consistent use of mobile communications is driven by a demand for product features such as simplicity, convenience, reliable technology and relatively low service costs. These features have in turn driven the popularity of mobile-based financial services among potential financial services consumers.

Figure 1: Number of live MFS deployments 2001-2013 (Source: GSMA MMU, 2013)

The supervision and oversight of mobile financial services, particularly MFS providers, is emerging as a distinct area of inquiry among a global community of policymakers and regulators that have taken bold steps to enable access and usage of MFS in their respective markets. Traditional supervisory and oversight processes are being tested by the introduction of new MFS products, distribution channels, institutions and corporate partnerships. The varying responsibilities of banking supervision, payments system and telecommunications authorities present several challenges in developing supervision and oversight procedures for MFS and assuring successful deployments.

1 Reference: Committee on Payment and Settlement Systems (CPSS) and Basel Committee on Banking Supervision (BCBS).

2 There were 60 million active MFS users and 203 million registered users as of June 2013 “State of the Industry 2013 — Mobile Financial Services for the Unbanked”, GSMA Mobile Money for the Unbanked, http://www.gsma.com/mmu
This guideline note outlines a series of principles and actions to be considered when overseeing and supervising MFS models. One of the main responsibilities of supervisors and regulators is ensuring that new MFS products comply with the corresponding regulatory framework. Developing and improving regulatory approaches to MFS will become a priority due to the rapid development and wider deployment of both bank- and non-bank MFS models.3

Policies and regulations should be designed not only to ensure the safe provision of MFS, but also to mitigate risks, where possible. The type of model deployed in any given jurisdiction will dictate the kind of oversight and supervision that is performed. Bank-based models will naturally be regulated within the context of existing prudential rules and regulations, while non-bank-based models may require additional coordination among telecommunications and payments system authorities. For example, supervision and oversight of MFS models in Kenya, Tanzania and Bangladesh have required close consultation with telecom regulators to ensure that the supervisory relationship with providers fell within the appropriate jurisdiction.

In most cases, MFS products involve banks and non-bank institutions to varying degrees, which require coordination among the various authorities responsible for oversight and supervision. This coordination can be based on a common desired market outcome (e.g. greater financial inclusion) and evidence can be gathered through regular reporting to enable regulators to promote innovation without subjecting customers or the stability of the market to undue risk.

**Guided by a Risk-Based Regulatory Framework**

Due to the dynamic nature of MFS technologies, participants, ecosystems and risks, regulators must develop timely regulatory approaches to support their supervisory frameworks. Such approaches should include an effective monitoring system, based on a clear understanding of what comprises mobile financial services, as well as the identification of criteria specific to the provision of services by various institutions, including banks and non-banks. It is important to bear in mind that regulatory requirements in both bank-led and non-bank-led MFS models should balance the objectives of financial inclusion, prudential supervision and consumer protection. Regulators should also avoid excessive and unnecessary compliance costs, which could place undue constraints on the viability of MFS models. Peru provides a good example: its recently released electronic money regulations allow for both bank-led and non-bank-led models and recognize the need for innovative alliances between various market stakeholders.4

The most practical way to reach a common understanding of desired market outcomes (such as private sector collaboration to introduce new products and services) is to develop a nationally endorsed definition of MFS that incorporates how it relates to a broader vision of increased financial inclusion. Having a clear definition of MFS and the ability to identify an MFS service is key to developing adequate regulation.3 Therefore, the regulatory framework for MFS must include an explicit and easily understood definition.

**Linking MFS to Financial Inclusion**

The Central Bank of Nigeria (CBN) and the Bank of Tanzania (BoT) have both adopted definitions of financial inclusion that underpin their respective initiatives to promote MFS. The CBN developed a national strategy in 20126 that stated MFS should be a key component of its financial inclusion initiatives. Similarly, the BoT has sought to leverage existing MFS activity in the market to create a definition that specifies a range of appropriate services to be made accessible to clients. By enabling MFS to sit within their definitions of financial inclusion, both central banks can develop supervisory and oversight procedures that will help to achieve their financial inclusion objectives.

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3 The AFI MFSWG Guideline Note, “Mobile Financial Services: Basic Terminology” defines an MFS bank-based model as an MFS business model (bank-led or non-bank-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). The definition of MFS non-bank-based models is similar to that of non-bank financial services providers. http://www.afi-global.org/library/publications/mobile-financial-services-basic-terminology-2013


5 The AFI MFSWG Guideline Note, “Mobile Financial Services: Basic Terminology” defines mobile financial services as 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. http://www.afi-global.org/library/publications/mobile-financial-services-basic-terminology-2013

The regulator should proceed from the premise that the benefits of delivering MFS may justify the risks these services pose. An enabling policy environment is often one that is proportionate to the risk posed by the respective models and operations. For example, the lower the value of a single transaction, the fewer requirements the regulators should impose. In contrast, high-value transfers should merit more stringent compliance requirements. A supervision and oversight framework helps to manage the trade-offs between risks to ensure proportionality and avoid impacting the market in a negative way. The nature of the enabling environment and the respective risk considerations will vary between markets, so supervision and oversight processes may also vary.

Permissible MFS activities will also vary by market and by type of institution or partnership (e.g. an MNO partnered with a bank). However, there is a global precedent for activities likely to fall within the regulatory framework and be subject to supervision and oversight. These activities most often relate to the following areas: remote account opening by agents for AML/CFT purposes; real-time transaction monitoring, notification and confirmation; payment instrument usage and issuance; interoperability and interconnection of service providers; safeguarding and isolation of customer funds; and customer redress and disclosure. These examples require a combination of prudential and conduct of business supervision and oversight, which will vary depending on the type of institution and their respective activities. It is difficult, therefore, to provide a prescription for how MFS should be supervised across each of these areas, particularly given the nascent stage of development of MFS and the lack of global best practices.

Regardless of the unique natures of the markets offering MFS, a supervision and oversight framework will most likely need to balance encouraging market innovations with the need to protect customers and promote the stability of the system. This trade-off must also be managed within the context of existing regulatory resources, which includes human capacity as well as system capacity. The next section provides some insights into how this might be managed.

### Key Considerations for MFS Supervision and Oversight

Supervision and oversight of mobile financial services will vary from one market to the next since the industry has yet to coalesce around internationally accepted best practices. However, some conclusions can be drawn from the emerging practices of regulators that have been proactive in monitoring the development of MFS. The following three overarching themes provide some clarity on how supervision and oversight can adapt to the emergence of MFS across the globe.

**Adding MFS to a monitoring framework previously focused on prudential rules and institutional conduct of business**

With MFS, regulators have taken a forward-looking approach on market development and have worked hard to encourage the market to extend services beyond traditional product and service networks. Regulators have typically focused on preserving market stability via clear rules and guidance on how financial institutions can intermediate funds and manage the associated investment risks. In addition to prudential regulation, regulators also consider conduct of business rules to ensure that regulated institutions have the management capacity and systems to support prudentially regulated activities. These rules focus on ensuring institutions do not overextend themselves, not only by taking unnecessary risks but also by managing risk poorly.

Taking this perspective puts a supervisor or inspector in the unique position of ensuring the market does not overextend itself in one way while encouraging it to extend itself in another direction. To cope with this, supervision and oversight frameworks must consider how information gathered through inspections and compliance data collection reveal the degree to which MFS is offered safely and effectively. Although complementary, this process is in addition to existing prudential and conduct of business frameworks.

The financial inclusion lens of MFS requires regulators to take into account not only whether MFS can operate safely in the market, but also whether

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7 Several countries have adopted flexible risk-based approaches to enable MFS services. Regulations in Russia, Colombia, Mexico, Nigeria and Pakistan all allow for various levels of accounts based on risks that can be opened either via a mobile phone or an agent network with simplified procedures that balance risk with access.

8 This includes the various types of risks that an institution may assume in offering MFS, such as market risk, operational risk (which includes both legal and reputational), liquidity risk, credit risk, solvency risk, etc.

9 Again, this includes risks such as credit risk, market risk, liquidity risk, solvency risk, operational risk (including legal and reputational), etc.
it can effectively leverage the mobile infrastructure to extend services beyond traditional channels. This requires greater collaboration within the regulatory institution, particularly between banking supervision and payment system oversight. This is because many MFS models require a form of collaboration or partnership between mobile network operators or other third party operators (acting as payment system providers) and regulated financial institutions (such as banks). Integrating MFS into supervision and oversight frameworks as part of broader financial inclusion objectives may cut across a variety of functional areas within the regulatory authority. This collaboration has been manifested in various ways, in particular through the introduction of financial inclusion “units” responsible for executing the financial inclusion strategy. Regulators in Nigeria, Mexico, the Philippines and Indonesia have all created such units. An alternative method is using internal working groups with members from across the regulatory authority. In Tanzania, Malawi and Pakistan, internal working groups (or committees) have been assembled to coordinate the various components of MFS development.

Supervision and oversight frameworks should test whether MFS is achieving stated objectives; otherwise, they may not be able to support risk-based innovations while simultaneously protecting the stability of the financial system. Such tests include ensuring the value of e-money in circulation is backed by sufficiently liquid assets, consumer complaints are dealt with quickly and fairly, and transaction monitoring identifies discrepancies and produces timely reports. All these results can be managed as the volume and value of services increase and reach scale over time.

**Integrating supervision and oversight of MFS into existing ICT systems and administrative processes**

An effective supervisory and oversight framework for MFS is one that is integrated into existing systems and processes, avoiding duplication of efforts and protecting valuable human resources. If MFS is to be integrated into supervision and oversight as a component of financial inclusion—and expand the market through innovation—regulators will need to consider how supervisors will manage and implement this process in a practical way.

Most regulators do not currently have the capacity to create a functional unit dedicated solely to supervising MFS. This is not necessary, however, as financial institutions offering MFS often already have a supervisory relationship with the regulator or can be supervised by existing supervision departments. This is not to say that supervision and oversight frameworks do not need to change, rather, that an effort should be made to identify how monitoring MFS can be integrated into existing supervision and oversight systems and processes, and complement the skills and capacity already in place.

In terms of supervision and oversight systems, most regulators already operate information communication and technology (ICT) systems that allow compliance data to be collected efficiently, reports to be produced and market activity to be monitored. Integrating MFS data into these systems is desirable given the significant investment in time and training it takes to install, operate and maintain ICT systems. Therefore, as a policy framework for MFS is refined over time, it should take into account how permissible activities will be monitored and how the associated indicators (collected through compliance returns) can be integrated into ICT systems already in use.

Accompanying the ICT system are administrative processes that guide the collection and analysis of information. Regulated institutions have clear requirements to submit regular monthly, quarterly and annual data to the regulator. The regulator in turn produces various reports based on analysis of the data, which can be published publicly, if appropriate. MFS-related data should be integrated into this process to ensure regulated institutions have the ability to include MFS compliance data in existing reporting formats and standards. Likewise, the supervisor can more easily assess and monitor market activity using a familiar process, thereby allowing MFS to be assessed in tandem with other market indicators and avoiding the risk of MFS analysis occurring in a silo, disconnected from the broader market context.

**Collecting and analyzing MFS data to measure progress toward financial inclusion goals**

The final theme, which complements the first two, is collecting and analyzing data (both demand- and

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10 For example, in the Philippines, third party non-bank e-money issuers had to establish financial institutions and be licensed as money transfer operators, which fall under the regulatory and supervisory responsibility of the Central Bank. See http://www.bsp.gov.ph/publications/media.aspx?id=2027. The Central Bank of Nigeria’s new regulations also clearly state that all bank and non-bank-led e-money operators fall under the regulatory and supervisory capacity of the Central Bank. See http://www.cenbank.org.OUT/CIRCULARS/BOD/2009/REGULATORY%20FRAMEWORK%20%20FOR%20MOBILE%20PAYMENTS%20SERVICES%20IN%20NIGERIA.PDF
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).

supply-side) to provide a more accurate understanding of service penetration and impact. Regulators already collect data from regulated institutions to ensure risk is managed appropriately. For MFS, the collection process may be similar, but the analysis may be directed more toward enabling financial inclusion and, therefore, change the nature of information that is collected. For this reason, supervisors of MFS perform a critical function within the regulatory authority’s data and measurement framework and are on the frontline of supply-side data collection.

In many markets, MFS is part of an overall financial inclusion strategy. These strategies often specify targets, performance indicators and milestones to measure the success of the strategy. Supervision and oversight of MFS play a critical role in ensuring the quality and accuracy of the data collected from regulated institutions are sufficient to measure progress against these targets. Supervisors should be part of discussions on the development of indicators and collection of data; this will build internal capacity and allow the supervision and oversight framework to effectively gauge whether regulated providers of MFS are deepening access to financial services in a safe manner.¹¹

In Nigeria and Pakistan, regulators are leveraging their existing supervisory framework to monitor the progress of financial inclusion objectives. In both markets, primary data from providers is sourced from their respective supervisors, minimizing redundancies and allowing supervisors to more effectively monitor the development of the market toward greater financial inclusion.

Not all data required to measure the safety and effectiveness of MFS can be collected from supply-side compliance returns. Significant insights can also be achieved from analyzing demand-side data, which the MFS supervisor must be familiar with. Given that the protection of customers is one reason for regulating the financial system, supervisors should have access to demand-side data for MFS, particularly when it relates to customers of regulated institutions that are offering MFS products. This access will enable a supervisor to more accurately assess whether MFS providers are meeting the demands of the market in a safe manner, and empower the regulatory authority to push the market toward greater innovations in financial inclusion.

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.

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