

The Regulation of Mobile Money in Emerging Markets

State of Play

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Table of Contents

Introduction..... 3

Part 1: Regulators’ Role to Encourage the Use of Simplified KYC 4

 Background 4

 AML/CFT Measures and the Remittance of Funds from Australia to the Pacific..... 5

 Australia’s Review of its AML/CFT Regime 5

 Regulators to Promote Safe and Affordable Remittance Channels..... 6

Part 2: Understanding and Building Consumer Demand for Mobile Money 7

 Background 7

 Importance of Consumer Demand for Mobile Money 7

 The Changing Nature of Financial Regulators in Response to Financial Inclusion Focus 7

 Understanding Consumer Demand..... 8

 Focusing Beyond Developing the Financial Architecture to Ensure End-User Needs are Met 8

 Focusing on Local Context and Customer Value Proposition..... 8

 A Regulator’s Role in Building Consumer Demand 8

 The Importance of Partnerships for Building Consumer Demand 9

 Risks Arising from Partnerships in Mobile Money and Regulatory Responses..... 10

 Collaboration Risk 10

 Consumer Protection Issues..... 11

Conclusion 12

Appendix 1: Bibliography 13

Appendix 2: Resources on Consumer Demand Related Literature 16

Introduction

1. The regulation of mobile money is currently the focus of considerable discussion and debate among development partners, policy “think-tanks”, industry researchers and academics. Financial regulatory frameworks for mobile money are evolving at a fast pace in emerging markets (fast for the world of financial regulation). This is in response to industry players competing to either hold onto or claim new turf in the mobile money space and the payments space more generally.

2. Regular announcements are now being made citing latest moves by individual countries toward establishing enabling regulatory environments for mobile money.¹ Internationally accepted standards for the regulation of mobile money are also emerging; notably, the Alliance for Financial Inclusion (AFI) is very proactive in this area, publishing guidance papers outlining common approaches for the oversight and supervision of mobile money and mobile financial services more broadly.² The increased international focus on financial inclusion is also contributing to driving the fast pace in regulatory developments; policy makers are looking beyond their traditional policy objectives of promoting safe and efficient financial systems and have added to their plate a focus on promoting financial inclusion efforts.³ In late 2013 Alfred Hannig (Executive Director of AFI) noted that this phenomenon is mostly being seen in emerging countries and is progressing to the extent that these emerging countries are ‘reshaping the approach of central banking’.⁴

3. Our international research project, *The Regulation of Mobile Money*, is tracking and contributing to these developments.⁵ One of our end-products will be a Regulatory Handbook.

¹ See for example Alliance for Financial Inclusion’s Senior Policy Advisor, John Owens, comments on Tanzania’s approach to the regulation of mobile money - <http://www.afi-global.org/blog/2014/02/24/highlights-mobile-financial-services-landscape-tanzania-and-lessons-regulators>. See also GSMA’s article published in December 2013 on the regulatory development for mobile money in Brazil and Peru - this provides a good overview of the benefits of levelling the playing field for non-banks through regulation: Mireya Almazan, *Mobile Money for the Unbanked* (December 19 2013) <<http://www.gsma.com/mobilefordevelopment/mobile-money-regulation-in-latin-america-leveling-the-playing-field-in-brazil-peru>>. For a recap on what is meant by an “enabling” regulatory environment, see: Eva Gutierrez and Sandeep Singh, *What Regulatory Frameworks are More Conducive to Mobile Banking? Empirical Evidence from Findex Data* (October 1, 2013); World Bank Policy Research Working Paper No 6652 <http://ssrn.com/abstract=2338858>.

² See Alliance for Financial Inclusion, *Mobile Financial Services: Supervision and Oversight of Financial Services* (2014) <http://www.afi-global.org/sites/default/files/publications/mfswg_guidelinenote12_oversight_and_supervision_of_mfs_2.pdf>

³ Financial inclusion efforts are being aligned, and pursued in tandem, with efforts directed towards financial stability, integrity and consumer protection because they are seen as complementary and because financial inclusion is considered an important means for alleviating poverty and promoting a country’s broader economic development. The focus on financial inclusion is seen in many international forums: G20 Summits, the G20’s Global Partnership for Financial Inclusion (GPMI), the Global Policy Forum (GPF) of AFI, the Better Than Cash Alliance (BTCA), the Financial Action Task Force (FATF), and the Bank for International Settlements’ Basel Committee on Financial Inclusion.

⁴ Alfred Hannig, *Developing Countries Focused on Financial Inclusion are Reshaping Central Banking* (25 November 2013) <<http://www.afi-global.org/blog/2013/11/25/developing-countries-focused-financial-inclusion-are-reshaping-central-banking>>.

⁵ This research is supported by the Centre for International Finance and Regulation (CIFR) (project no. E226), UNCDF, Standard Chartered Bank and the University of New South Wales (UNSW). CIFR is a Centre of Excellence for research and education in the financial sector which is funded by the Commonwealth and NSW Governments and supported by other consortium members (see <www.cifr.edu.au>). Our research project is examining in detail several fundamental legal and regulatory issues; we are not attempting to examine the full range of regulatory topics pertaining to mobile money as this will inevitably duplicate the work of others in this field. The key legal and regulatory issues upon which we are focusing are: Interpreting the Financial Action Task Force’s AML/CFT measures for mobile money in emerging markets; A financial regulator’s role in understanding and building consumer demand for mobile money; Protection of customers’ funds, including, the application of trust law to mobile money; and Agents - legal and regulatory considerations.

The Handbook will identify and provide detail on high level principles on which general international agreement is emerging. Regulators will be able to use the Handbook to benchmark and assess their approach to designing oversight and supervisory frameworks for mobile money, tailored for their local jurisdiction.

4. It is important, however, that the refinement and implementation of the regulatory frameworks does not become the sole focus of financial regulators. Financial regulators, with the goals of financial inclusion in mind, also need to take responsibility to ensure end-users are provided with safe, affordable and useable payment options. This article highlights two areas which we believe warrant further focus from financial regulators: (i) encouraging the use of simplified KYC (Know Your Customer) procedures for implementing Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) measures for payment methods supporting financial inclusion; and (ii) working to understand and build consumer demand for mobile money so as to encourage the building of sustainable mobile money ecosystems with the purpose of improving financial inclusion.

Part 1: Regulators' Role to Encourage the Use of Simplified KYC

Background

5. The Financial Action Taskforce (FATF) is encouraging and promoting the use of simplified KYC when implementing international standards for AML/CFT (also referred to as a risk-based approach or proportional regulation). This primarily means allowing for more flexible forms of identification and more flexible procedures for gathering this identification, reflecting the challenges some citizens have, especially the unbanked, in producing formal identification documentation.

6. A common occurrence is the regulator in a developing country allowing for simplified KYC but international banks based in these jurisdictions then needing to abide by their home country standards which may not be as flexible. The central banks in the developing country then need to work with these international banks quite closely to encourage a KYC framework which is conducive to the developing country's pressing need of financial inclusion.

7. Our international research project is promoting FATF's encouragement to use proportional regulation in this area. We are doing this through creating greater awareness of FATF's risk-based approach to implementing AML/CFT measures. As a first step, we presented on this issue at an Asian Development Bank – Consultative Group to Assist the Poor (ADB-CGAP) Seminar on Branchless Banking in the Pacific in November 2013. We also recently reviewed Malawi's approach in this area as part of our broader country study there and we plan to review approaches being taken in Papua New Guinea and Indonesia when we conduct country studies in those two countries later in 2014 and in 2015, respectively. We are also producing a working paper aimed at making proportional regulation a more accessible concept for regulators.

AML/CFT Measures and the Remittance of Funds from Australia to the Pacific

8. We have also been focusing on the current situation in Australia and the Pacific where Australia's major banks have been closing the accounts of money transfer operators (MTOs) which facilitate relatively affordable remittance transfers for people living in Australia sending money home to their relatives living in Asia and the Pacific.⁶ Through these actions, Australia's major banks are harming financial inclusion in the Asia and Pacific regions. In recent years, in the Pacific region, the MTOs have reduced remittance costs substantially as a result of both financial liberalisation in Pacific Island states and increased transparency on the cost of alternative remittance channels. The entry of MTOs into the market has been a distinct benefit for the low-income groups living in remote regions of the Pacific who rely on remittance funds from family in Australia and New Zealand.⁷

9. The banks have been closing the accounts due to concerns over the MTOs not having adequate AML controls in place. MTOs consider the risk to be well-managed as they have invested substantially in compliance for AML/CTF purposes. The World Bank has supported the stance of MTOs on this issue.⁸ The improved risk management and compliance culture of the remittance industry in Australia has not, however, led to a reduced perception of risk.

Australia's Review of its AML/CFT Regime

10. We have made a submission to Australia's Attorney General's Department for its "Review of the AML/CTF regime" in Australia. We consider this review, which is underway now and is timed to coincide with Australia's FATF evaluation in 2014, may not adequately consider this problem faced by MTOs in Australia and the Pacific region. The Attorney General's *Guiding Principles and Issues Paper*, which guided submissions to the Review, did not mention the issue of considering financial inclusion goals along with those of financial integrity and stability.

11. This issue has implications for Australia's national security. Australia has a strong interest in ensuring the stability of the Pacific region and remittances are a substantial source of income for many of these island nations. For Samoa and Tonga, the two most remittance-dependent Pacific island countries, total remittances are estimated to make up around a quarter of their GDP.⁹ The recent actions of Australian banks, with respect to MTOs, have the potential to destabilise lives and bring hardship to many Pacific Islanders who are reliant on funds being remitted from Australia. An alternative, cost-effective corridor needs to be found for remittances.

⁶ Banks stop cheap money transfers to the Pacific <http://www.abc.net.au/news/2013-12-11/an-banks-close-off-cheap-money-transfer-options-to-the-pacific/5151066>

⁷ "Remittance chase good for the pocket" <http://www.savalinews.com/2011/10/27/remittance-chase-good-for-the-pocket/>

⁸ Banks stop cheap money transfers to the Pacific <http://www.abc.net.au/news/2013-12-11/an-banks-close-off-cheap-money-transfer-options-to-the-pacific/5151066>

⁹ "Calls for Australia to use G20 presidency to cut remittance costs" <http://www.abc.net.au/news/2013-12-18/an-remittances-call/5165928>. See also UN report estimating remittances as a percentage of GDP (http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards_SustainingMDGProgress_Ch4.pdf)

12. While the major banks can be used for the direct remittance of funds, the cost of this direct remittance service is prohibitive for many people.¹⁰ The immediate result of the closure of MTOs accounts with banks will be that funds initially do not get transferred at all – causing considerable hardship. The recipients of these funds are often people without regular incomes who rely on the remittance funds, from family members living in Australia, to support their everyday living expenses. The longer term implication is that the funds will be remitted through informal channels; the very channels which international organisations, such as the FATF, are trying to discourage because of the inability to adequately track and monitor these informal channels and the increased exposure to money laundering and terrorist financing risks that their use entails.

13. Australian banks with a presence in the Pacific have also been expanding their financial services networks in the region using new payment technologies and branchless banking (for example, ANZ goMoney and Westpac In-store banking). While these new payments products and services are a welcome development for financial inclusion, they may also reflect a competition issue, or a conflict of interest on the banks' part, which may be influencing the decision to close the MTOs' accounts used to facilitate remittance transfers through the Pacific region. Banks should not be able to use their market positions in Australia to indirectly influence the payment channels available in the Pacific.

Regulators to Promote Safe and Affordable Remittance Channels

14. Regulators, such as the Australian Prudential Regulatory Authority (APRA), have an international obligation to encourage institutions they regulate to adopt a risk-based approach to implementing AML/CTF measures so as to promote financial inclusion.¹¹ The closing of MTOs' accounts represents the imposition of an unnecessary regulatory burden on MTOs which compromises financial inclusion. Australian regulators should work with the banking sector to identify and address the banks' concerns surrounding MTOs' anti-money laundering controls. In doing so, Australian regulators (including the RBA, APRA and AUSTRAC) will be acknowledging the importance of remittance networks for financial inclusion (mobile money is often used for remittance purposes). The success of Australia's remittance industry and other new payment methods facilitating funds transfers, such as mobile money, will continue to play an increasingly important role for Australia and its relationship with the Pacific Islands and Asia.

15. Regulations or policy approaches which result in banks withdrawing financial services for certain segments of the population due to a concern about risk may simply shift the risk elsewhere. Those excluded from formal financial services will not simply walk away from using

¹⁰ See <http://www.sendmoneypacific.org/> for a comparison rates for sending money to the Pacific region.

¹¹ *The Financial Action Task Force (FATF) Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion (2011)* (prepared in response to the G20 Principles for Innovative Financial Inclusion issued in 2010, and in conjunction with the World Bank and the Asia-Pacific Group on Money Laundering) supports countries and institutions in designing AML/CTF measures to comply with the *FATF Recommendations* (international standards on combatting money laundering and the financing of terrorism) and incorporates the idea of the dual goals of financial inclusion and financial integrity. This guidance note was updated in February 2013 to incorporate the updated *FATF Recommendations*, which were revised in 2012 to emphasise the use of a Risk-Based Approach (RBA) as the underlying principle for all AML/CTF systems.

financial services – they will instead use informal financial services; and the associated risks, will shift and become less transparent, more difficult to assess, and larger.

16. The RBA, along with the industry’s peak payments body, the Australian Payments Clearing Association (APCA), are currently forging ahead with efforts to open up Australia’s payments systems to allow for greater innovation and efficiency. In this context, the inconsistency with condoning the use of burdensome regulation (which may negatively impact on financial inclusion) versus the desire for greater innovation and efficiency will need to be addressed.

Part 2: Understanding and Building Consumer Demand for Mobile Money¹²

Background

Importance of Consumer Demand for Mobile Money

17. While mobile money has seen great success in many countries, particularly Kenya and the Philippines, mobile money roll-outs in developing countries have often been plagued by low uptake and inactive users. This situation may have occurred due to a focus on broadening accessibility (i.e. through developing agent networks and mass sign-ups of end-users) without understanding the real needs of end-users. As a consequence, development partners are now encouraging greater focus on the demand side, i.e. understanding the needs of end-users. To develop successful mobile money ecosystems and digital financial services (DFS) ecosystems more broadly, it is now recognised there is a need to go beyond ensuring these products are simply available, accessible and affordable. There is a need to ensure they have an effect, and are being used and will become sustainable.¹³

The Changing Nature of Financial Regulators in Response to Financial Inclusion Focus

18. Financial regulators can work with industry players to understand and build consumer demand. This role for regulators is consistent with the general trend for regulators to now extend themselves beyond traditional oversight roles of encouraging the safety and stability of financial systems to also focus on actively directing efforts towards increasing financial inclusion.

19. Regulators who understand consumer demand can better appreciate which market developments need to be encouraged or facilitated through policy and regulatory changes. In building consumer demand, regulators can facilitate the building of sustainable mobile money ecosystems and move closer to the goal of providing financial access for all.

¹² This section draws on research and text which was also used in our country study report on Malawi, authored also by Jonathan Greenacre, Research Fellow, UNSW.

¹³ A note on terminology in this section: Digital Financial Services (DFS) or Mobile Financial Services (MFS) are terms which are being increasingly used in place of more specific terms such as mobile money. In this section, DFS is used to refer to a range of financial services accessible via digital remote access as opposed to traditional financial services accessed through physically visiting a bank branch. Mobile money is included in the definition of DFS.

Understanding Consumer Demand

Focusing Beyond Developing the Financial Architecture to Ensure End-User Needs are Met

20. Problems arise when payment providers assume the position of ‘build it and they will come’ and regulators respond only to the immediate problem of how to regulate new types of entities rolling out new payments products and services.¹⁴ By focusing on the need to understand and promote consumer demand, regulators will assist in avoiding those problems.

Focusing on Local Context and Customer Value Proposition

21. Regulators can assess a mobile money product’s potential for promoting financial inclusion by considering how well the initiative focuses on local context and the customer value proposition. Emphasising these two aspects in mobile money initiatives will ensure players and products are being encouraged to deliver mobile money solutions which are useful and relevant for the under-banked and un-banked. There has been considerable research undertaken on these issues. Appendix 2 provides details on research in this area specifically related to mobile money and digital financial services more broadly.

22. Customer demand surveys are also useful but care should be taken in interpreting the results of demand studies. For example, survey results depend heavily on the precise questions asked, and a study may be done at a single point in time but what is needed is an understanding of the longer run perspective – what the customer may need next week, in a month’s time or in a year’s time. Customer perceptions are also important - on their existing access to financial services (formal and informal) and what they may consider valuable in a new service or product.¹⁵

A Regulator’s Role in Building Consumer Demand

23. Regulators can encourage the development of successful and sustainable DFS ecosystems by encouraging, and being a part of, efforts to build consumer demand. Examples of what these efforts might entail are listed below. We provide further detail on the last point in this list, which relates to partnerships. Further details on the other points can be found in the references noted in the respective footnotes for each point:

- Being an enabling regulator;¹⁶

¹⁴ Graham Wright (head of Microsave) recently commented on this point in his reflections on the Mor Committee report – Wright notes the report offers a “sophisticated vision of the financial architecture” and a road map for providing financial access to all, however he questioned whether due consideration was given to the demand side noting that “the report seems to imply that low income people’s demand for formal financial services was a given”. See Graham Wright, *The Mor Committee Report – the Demand Side Conundrum* (February 2014) <<http://blog.microsave.net/the-mor-committee-report-the-demand-side-conundrum/>>.

¹⁵ Debbie Watkins, *Context and Culture: Designing Relevant Financial Services* (13 August 2013) <<http://www.cgap.org/blog/context-and-culture-designing-relevant-financial-services>>.

¹⁶ For a brief description of an enabling regulatory environment for mobile money, see Gutierrez and Singh, above n 1. These authors cite David Porteous, ‘The Enabling Environment for Mobile Banking in Africa-report Commissioned by Department for

- Encouraging the movement of cash payments to be done electronically using mobile money or DFS, particularly government payments (such as G2P and person-to-government (P2G));¹⁷
- Facilitating financial literacy efforts which focus on incorporating end-users needs;¹⁸
- Developing open/interoperable/interconnected systems;¹⁹ and
- Acknowledging the importance of partnerships by allowing or enabling traditional and non-traditional players to partner and leverage on the ‘sum is greater than the parts’.

The Importance of Partnerships for Building Consumer Demand

24. The importance of partnerships in the mobile money space is an area receiving increasing focus from development partners and policy “think-tanks” such as CGAP and AFI.

25. Partnerships between non-banks and banks within the mobile money space are beneficial on a number of fronts. Partnerships can assist in addressing regulatory concerns; the pool of funds held by a non-bank may be reduced as end-users transfer funds into prudentially regulated deposit accounts at a bank as a result of that bank operating in partnership with the mobile money provider. Partnerships can also allow for deeper product offerings; beyond bill payments and remittance activities to providing customers with a greater range of services, including savings, credit and insurance.²⁰

26. The potential for deeper product offerings, as opposed to the benefits of partnerships from the perspective of addressing regulatory concerns, is what is driving a number of the partnerships now being established in the mobile money space. These deeper product offerings are expected to contribute to the sustainability of mobile money products. These expectations and trends are seen in the increasing number of references to Mobile Financial Services (MFS) or Digital

International Development’, *Department for International Development* (2006); and David Porteous, ‘Mobilizing Money through Enabling Regulation’, *Innovations* Vol. 4 (2009) No. 1 75-90.

¹⁷ BTCA, *Homepage* (2014) <<http://betterthancash.org/>>.

¹⁸ See Ignacio Mas, ‘Digitizing the Kaleidoscope of Informal Financial Practices’ (2013) <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2359942>; Also see Tilman Ehrbeck, *Avoid Blaming the Victim in the Financial Literacy Debate* (19 December 2013) <http://www.huffingtonpost.com/tilman-ehrbeck/the-financial-literacy-debate_b_4459311.html>.

¹⁹ Interoperability issues are currently under consideration by many regulators in emerging markets. The Philippines, for example, are currently focused on determining the best path towards interoperability. Bangko Sentral Ng Pilipinas (BSP), which is the Philippines’ central bank, has preferred industry involvement and for BSP to not have to mandate arrangements. For mobile money, BSP has highlighted concerns around efficiency, competition, affordability and financial inclusion as being important for interoperability. BSP is now working with the industry to develop how this interoperability will come into effect (For more details see: USAID, *Building Consensus Towards Enabling an Efficient and Inclusive National Payments System in the Philippines: A Significant Step* (April 24 2013) <<http://www.simmphil.org/misc/building-consensus-towards-enabling-an-efficient-and-inclusive-national-payments-system-in-the-philippines-a-significant-first-step>>. In Africa, references to the pending launch of the East Africa Payments System (EAPS) are expected to have implications for interoperability in payment systems in this region: *East Africa’s Top Economies Launch Cross-border Payment System*, Reuters (11 December 2013) <<http://www.reuters.com/article/2013/12/11/us-eastafrika-trade-idUSBRE9BA0GF20131211>>.

²⁰ The recent announcement by Econet (in Zimbabwe) illustrates how partnerships enable such “deeper product offerings”. EcoCash mobile money customers now have access to both savings and loans: EcoCashSave and EcoCashLoans (customers must first establish a savings history in order to qualify for a loan). Steward Bank provides the savings and loans facilities. Steward Bank was acquired by Econet Wireless in early 2013 reportedly for the purpose of driving the adoption of Econet’s mobile money service, EcoCash. (<http://www.techzim.co.zw/2014/04/ecocashloans-now-available-ecocashsave-customers-zero-interest/>). Also see GSMA’s article by Phil Levin, *Promising Starts in Mobile Microinsurance*, February 2014) <www.gsma.com/mobilefordevelopment/wp-content/uploads/2014/02/Promising-Starts-in-Mobile-Microinsurance.pdf>

Financial Services (DFS), as opposed to simply mobile money, which implies a more basic product offering.

27. While partnerships do appear promising in terms of contributing towards the sustainability of MFS and DFS, they are also presenting a number of challenges as stakeholders work out required commitments and expected return from the partnerships. These challenges are not explored in this article but are noted here to emphasise that partnerships are not straightforward “win-wins” for MFS and DFS ecosystems. For example, GSMA has emphasised that Government to People payments (G2P) may look attractive for providers and those making payments however this business is challenging and “requires fully committed partnerships”.²¹ CGAP has also recently released four case studies (from Haiti, the Philippines, Kenya and Uganda) examining the challenges in establishing mobile money based G2P payment systems.²²

28. Challenges aside, partnerships appear to be the path forward for developing MFS and DFS ecosystems and moving closer towards the goal of using mobile money systems to build financial inclusion. For this reason, regulators may need to assess and approve partnerships which regulated entities wish to enter. Regulators may need an increased focus on the risks arising from such partnerships, as discussed in the following section.

Risks Arising from Partnerships in Mobile Money and Regulatory Responses

29. Partnerships between non-banks and banks give rise to potential risks which regulators will need to assess when considering whether to grant approval of partnerships. This report focuses on two areas of risk for regulators to include in their risk assessments of partnerships:

- Collaboration risk; and
- Consumer protection issues which arise as a result of a greater range of product offerings being available via a mobile phone.

Collaboration Risk

30. Partnerships between MNOs and banks/MFIs can be structured in a number of ways. The two entities can enter into a legal partnership, but are highly unlikely to want to do so because, at law, partners are liable for each other’s obligations and for this reason we would recommend against ‘partnerships’ adopting the structure of legal partnerships.

31. The more likely structure to be adopted is some form of joint venture. Joint ventures can be incorporated which means a new corporate legal entity is created in which the MNO and bank or MFI would each hold shares; or they can be unincorporated which means the two entities do business together but no new legal entity is created, i.e. the unincorporated joint venture is simply two entities working together. There can be tax or other advantages to either form of joint venture.

²¹ Mireya Almazan, *G2P Payments and Mobile Money: Opportunity or Red Herring?* (September 30 2013) <<http://www.gsma.com/mobilefordevelopment/g2p-payments-mobile-money-opportunity-or-red-herring>>.

²² Jamie Zimmerman and Kristy Bohling, *E-Payments in Low-Income Settings: Cutting-Edge or High Risk?* (12 March 2014) <<http://www.cgap.org/blog/e-payments-low-income-settings-cutting-edge-or-high-risk>>.

32. An incorporated joint venture will only have whatever assets the shareholders inject into it, which may cause a concern for regulators, as it probably will not be a substantial organisation in financial terms. For this reason, regulators may prefer an unincorporated joint venture or may ask that the shareholders give guarantees of the liability of an incorporated joint venture.

Consumer Protection Issues

33. Consumer protection issues which arise as a result of a greater range of product offerings being available via a mobile phone will also need assessment by the regulator. This assessment is necessary prior to these issues becoming a problem for the end-users; the very people which promoters of financial inclusion are encouraging to use formal financial services so as to improve their standard of living.

34. By providing loans to customers of the MNO-bank/MFI partnerships, the partnership needs to be wary of excessive interest rate charges or poor credit risk assessments which may lead to client indebtedness and potential loan defaults.²³ The challenges involved in managing loan portfolios comprised of largely unsecured microfinance credit have been well documented.²⁴ Regulators responsible for the mobile money issuer will need to ensure the risks associated with mobile money customers having access to loans are adequately assessed and well-managed.

35. Some regulators may find themselves in uncharted territory if, for example, the microfinance industry has been largely unregulated or regulated in a different way to traditional financial institutions involved in taking deposits and extending loans.

36. Regulators are, however, being proactive in deepening their skills and knowledge in these areas. Of note is the recent China-Peru knowledge exchange for the regulation and supervision of non-bank non-deposit taking institutions. Peru's regulator (Superintendencia de Banca, Seguros y AFP (SBS)) is addressing the challenges of microfinance lending from a number of angles including requiring the regulated entity to comply with stricter provisioning and write-off policies; and strengthening consumer protection frameworks which involve both regulatory requirements for supervised entities and increased information and financial disclosure.²⁵

²³ See a discussion of high interest rates in banking from Charles A Bruch, 'Taking the Pay Out of Payday Loans: Putting an End to the Usurious and Unconscionable Interest Rates Charged by Payday Lenders', *University of Cincinnati Law Review*, 69 (2001) 1257.

²⁴ The Smart Campaign and its Smart Microfinance and the Client Protection Principles provide a framework for addressing the challenges involved in microfinance (<http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>).

²⁵ Representatives from the People's Bank of China and the Legislative Office under the State Council of China visited Peru and the United States. This detail was sourced from AFI's website and is part one of a two part series on the knowledge exchange; part two will be issued shortly documenting the United States visit. (<http://www.afi-global.org/news/2014/4/01/china-peru-knowledge-exchange-non-bank-non-deposit-taking-fi-regulation-and>)

Conclusion

37. Internationally accepted standards for the regulation of mobile money are now emerging as a result of a strong focus from development partners, policy “think-tanks” and regional groupings of central banks. It is important, however, that the refinement and implementation of the regulatory frameworks does not become the sole focus of financial regulators. Financial regulators, with the goals of financial inclusion in mind, also need to take responsibility to ensure end-users are provided with safe, affordable and useable payment options.

38. This article has highlighted two areas in which we believe financial regulators should be focusing increased efforts in relation to mobile money and other payment methods which facilitate financial inclusion:

- encouraging the use of simplified KYC procedures for implementing AML/CFT measures; and
- working to understand and build consumer demand for mobile money so as to encourage the building of sustainable mobile money ecosystems.

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Appendix 2: Resources on Consumer Demand Related Literature

MicroSave has written extensively and presented on the importance of the customer value proposition and keeping the clients' need at centre focus when designing new products.

Davis, Ben and John Owens, *POS vs. Mobile Phone as a Channel for M-Banking* (MicroSave Briefing Note #66, February 2009) <www.microsave.org>.

Manoj Sharma, DFS for the Under-Banked (MicroSave Presentation, 2013)

<http://www.microsave.net/files/pdf/MicroSave_DFS_for_the_Under_Banked.pdf?utm_source=MicroSave+Clients+and+Partners&utm_campaign=d559f24ebc-MicroSave_Website_Launch_FINAL4_15_2013&utm_medium=email&utm_term=0_3fa38a71d6-d559f24ebc-63197533>

CGAP also has a number of articles focusing on understanding the consumer value proposition. Two recent examples are:

Deyners, Lesley, *How Do Smallholder Farmers Access Information* (31 January 2014)
<<http://www.cgap.org/blog/how-do-smallholder-farmers-access-information>>.

Watkins, Debbie, *Context and Culture: Designing Relevant Financial Services* (13 August 2013)
<<http://www.cgap.org/blog/context-and-culture-designing-relevant-financial-services>>.

Ignacio Mas, Senior Research Fellow, Said Business School, University of Oxford, has looked at the issue of why moving consumers from informal financial mechanisms to formal financial mechanisms, such as DFS, is not as straightforward as it may seem.

Mas, Ignacio, *Digitizing the Kaleidoscope of Informal Financial Practices* (2013).

Ishita Gosh from the Institute for Money, Technology and Financial Inclusion has written on the need to understand low-income consumer demand – see blog below where Eko realised early on the need for financial literacy programs and a need to understand how consumers do or do not save.

Ishita Gosh, *Remittances vs Savings on the Mobile Money Platform (Part 2)* (Institute for Money, Technology and Financial Inclusion, July 23 2013)
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