Mobile Money regulation: is more regulation better?

ITU Regional Economic and Financial Forum of Telecommunications/ICT for Africa

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Definition of mobile money

Mobile Money

- The use of information and communication technologies (ICTs) and non-bank retail channels to **extend the delivery of financial services to clients who would not be reached** profitably with traditional branch-based financial services. E.g.: e-wallets to make P2P transfers or payments, to receive salary or a transfers from the government
  - Customers can sign up for the service **without an existing bank account**
  - Customers get money into and out of the service by going to a **network of transactional agents outside of bank branches**
  - Customers initiate transactions using an **interface that is available on basic mobile handsets**

Mobile Banking

- Mobile banking is **essentially banking services delivered through a mobile phone**. The principles of banking, the products remain the same as does the provider of the service (the bank); however the channel for delivery is different.

Setting financial services standards: global Standard Setting Bodies (SSBs)

- Committee on Payments and Market Infrastructure (CPMI) formerly the Committee on Payments and Settlement Systems (CPSS)
- Basel Committee on Banking Supervision
- Financial Action Task Force (FATF)
- International Association of Deposit Insurers

Proportionate, functional regulation

- BIS framework of Regulatory Principles for International Remittances & The Committee on Payment and Settlement Systems (CPSS) suggest:
  - ✓ Regulating solely by type of entity may decrease the effectiveness of the regulation and create distortions in the markets
  - ✓ Any regulation intervention should aim a level playing field between equivalent services rather than between different providers
  - ✓ Rejects any type of discrimination between different types of providers that provide equivalent services, i.e., based on "the nature of the provider's other lines of business" (principle n. 3) – to promote competition across the financial sector on a fair and equitable basis
- Regulation should be FUNCTIONAL: designed by type of service or by category of products (not discriminatory) PROPORTIONATE: calibrated according to the risks that each service poses

FATF 2012: the risk-based approach

- The new framework balances between financial integrity and financial inclusion by recognising that **financial exclusion is a money laundering/terrorist financing (ML/TF) risk** and that **mitigating the risks of financial exclusion is vital to achieving an effective AML/CFT system.**

- FATF asks countries to base the design of AML/CFT regimes on the assessment of the specific risks related to different industries, products, delivery channels, and all country characteristics taken into consideration

Financial sector policy & regulatory frameworks

Policy Maker

- Sets policy, e.g.
  - National Financial inclusion policies
  - ‘Cash lite’ or Cashless policies

regulator

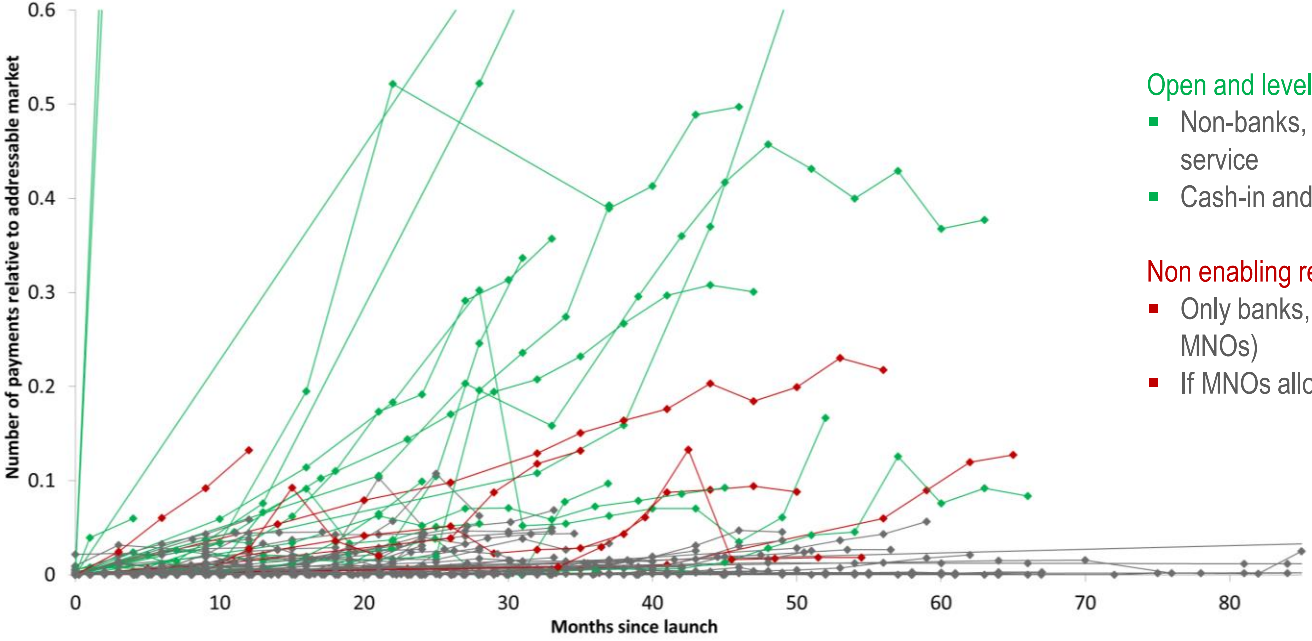
- Implements policies
  - Establishes regulatory framework (E-money regulations)

NPS

- Oversees the National Payments Systems incl. MM
- Has overall regulatory oversight and supervision mandate

Enabling regulation influences growth

GROWTH OF INDIVIDUAL MOBILE MONEY SERVICES SINCE LAUNCH (JUNE 2014). SOURCE: GSMA (2015)



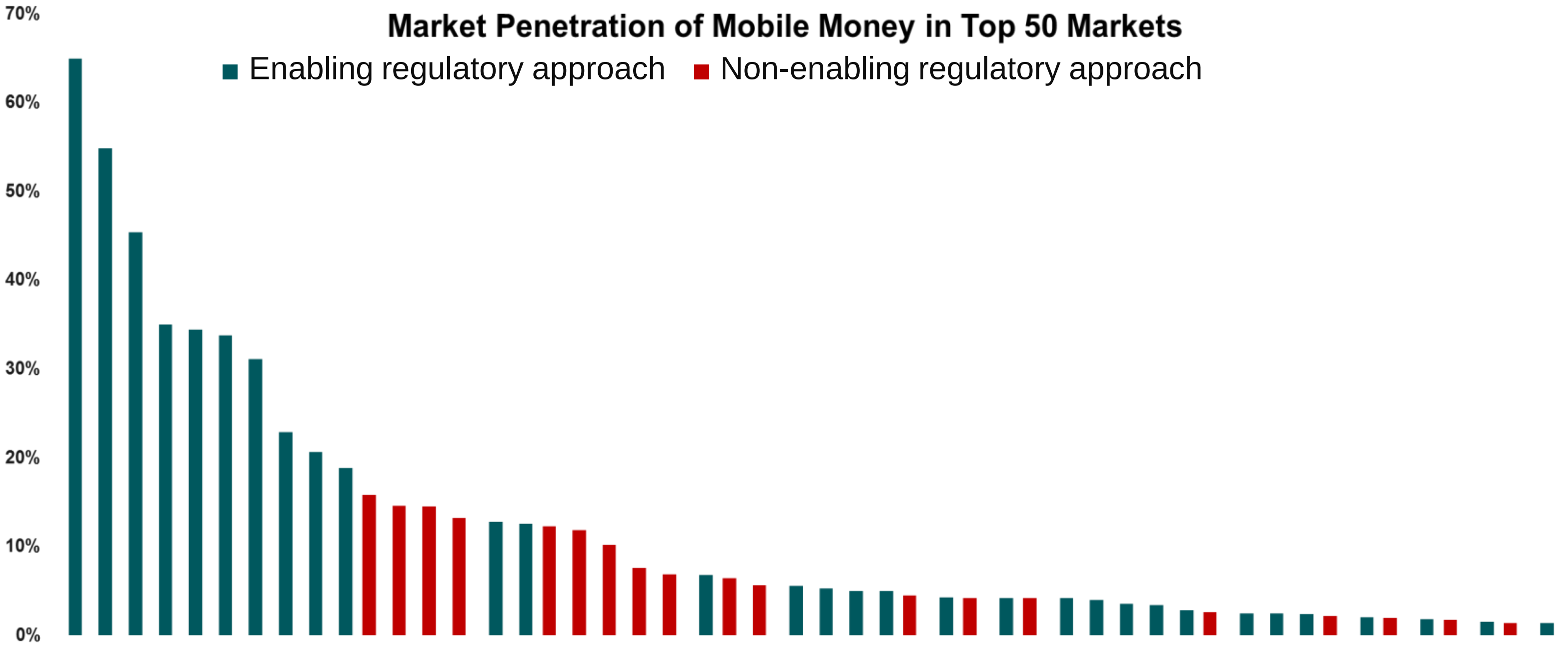
Open and level playing field

- Non-banks, including MNOs, can provide the service
- Cash-in and cash-out at agents is allowed

Non enabling regulation

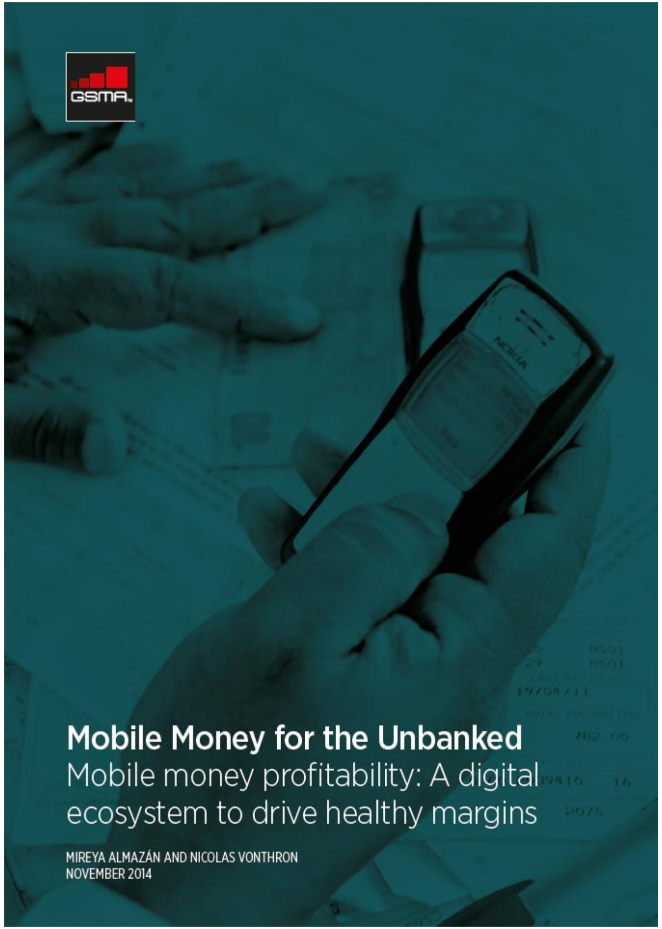
- Only banks, MFIs, or third parties allowed (no MNOs)
- If MNOs allowed, CICO network not allowed

Enabling regulation drives penetration



90 day active subscribers as a % of the adult population

GSMA Mobile Money



How can mobile money drive financial inclusion in a viable and sustainable way?

Context

- Mobile money revenue generated through transaction charges
- Mobile money is an OPEX, not a CAPEX business (e.g., agent commissions for cash-in and out consume 40-80% of mobile money revenue)
- Most of the 250+ deployments to date suffer from underinvestment in OPEX
- Mobile money negatively impacts EBITDA in the short-term and mobile money can face internal KPI conflicts

Scope & assumptions

- Mobile money is managed through a dedicated business unit within an MNO or, in some cases, as a separate entity (subsidiary) altogether
- Indirect benefits of mobile money, such as churn reduction, can be significant, but are not directly reflected in the P&L
- Income generated from the float does not contribute to profitability of business
- Mobile money is first and foremost a transactions-driven platform; analysis excludes potential revenue from other FS products

Three scenarios defined for analysis

	1 Start-up / Early Stage (1-2 years)	2 High-growth, remittance-based (4-5 years)	3 Mature, ecosystem-based (>5 years)
Description	• Customer acquisition phase • Provider focused on generating market awareness • Priority is basic foundations of MM	• At least 15% of GSM base active MM users (30-day) • Network effects visible • One predominant use-case (e.g., P2P, bill pay)	• At least 30% of GSM base active MM users (30-day) • High growth of bill payment and bulk payment transactions
Profitability metrics	• Highest cost categories agent commissions for registration, agent on-boarding, and marketing • Very little MM revenue at this point (>0.5% of total MNO revenue) • Negative net margins	• Highest cost category agent commissions • Revenue primarily from P2P and cash-out • MM revenue approx 5% of total MNO revenue • Modest, positive net margins	• Agent commissions compressed • Revenue sources more diversified, less from cash-out • MM revenue >15% of total MNO revenue • Healthy net margins

Global study found with high OPEX investment, a mature-ecosystem based MM deployment could be profitable.

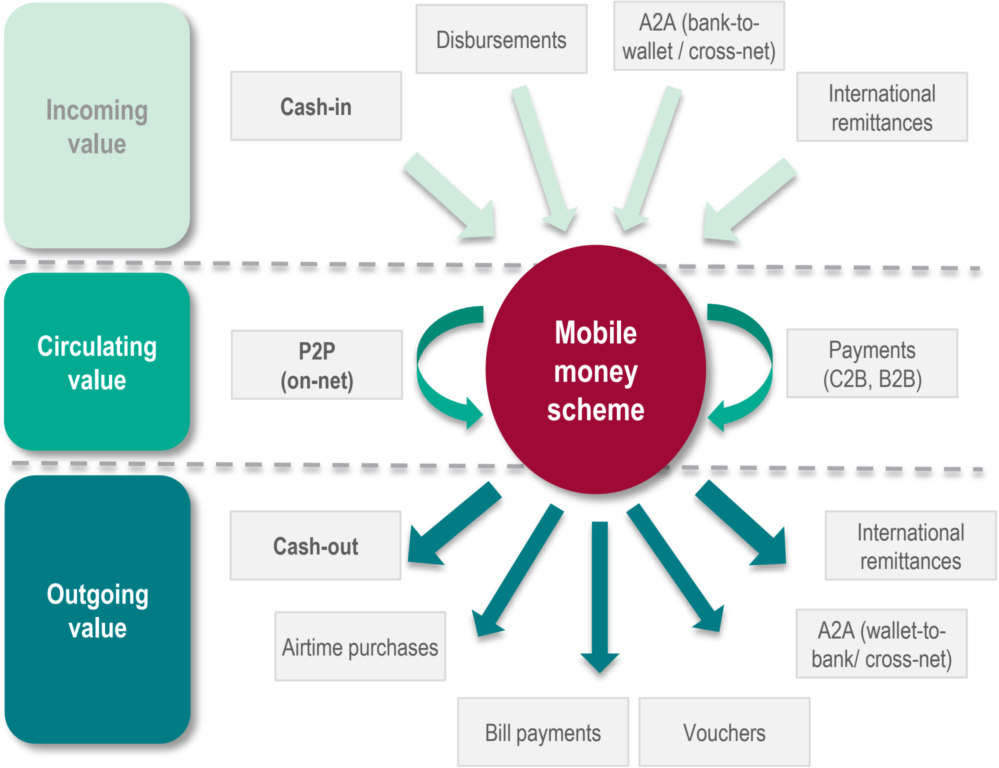
	Start-up / Early Stage (1-2 years)	High-growth remittance-based (4-5 years)	Mature, ecosystem-based (>5 years)
Revenue			
Total revenue (% of MNO revenue)	0.2%	5%	15%
Average transaction revenue (% of value)	1.7%	3.4%	3.3%
Transaction margins	31%	55%	65%
Direct costs*	719%	74%	60%
incl. Agent commissions (% of total MM revenue)	*369%*	*54%*	*36%*
Indirect costs**	107%	24%	20%
EBITDA margin	-726%	2%	20%
Capex ratio (% of total MM revenue)	$1-3M USD*	8%	3%
Cash flow margin	NA	-6%	17%

Commercial expenses are crucial to scale

KEY NON-TRANSACTION COSTS OF A MOBILE MONEY DEPLOYMENT

OPEX	COMMERCIAL COSTS	Customer acquisition costs (AC)	• Agent commissions, trade, KYC (excl. ATL and BTL)
		Agent and merchant AC	• Internal or external workforce to on-board agents and merchants
		Shop and agent management costs	• Internal or external workforce to manage agents + direct distribution costs (when not commissions)
		Marketing	• ATL and BTL campaigns to promote service
	OPERATING COSTS	Personnel	• Dedicated mobile money staff, excl. field marketing staff
		Technology	• Platform maintenance and operating costs, energy, connectivity, license fees
		Fraud and settlement	• Fraud, settlement, revenue assurance
		General and administrative	• Procurement and supply chain, finance, management, real estate
		Customer care	• Call centre, processing and back office
CAPEX	NETWORK & IT	Platform	• Platform acquisition and evolution, set-up with aggregator
	OTHER	Shops and offices	• Other CAPEX required to set-up or improve the business

Conceptual model: Path to profitability

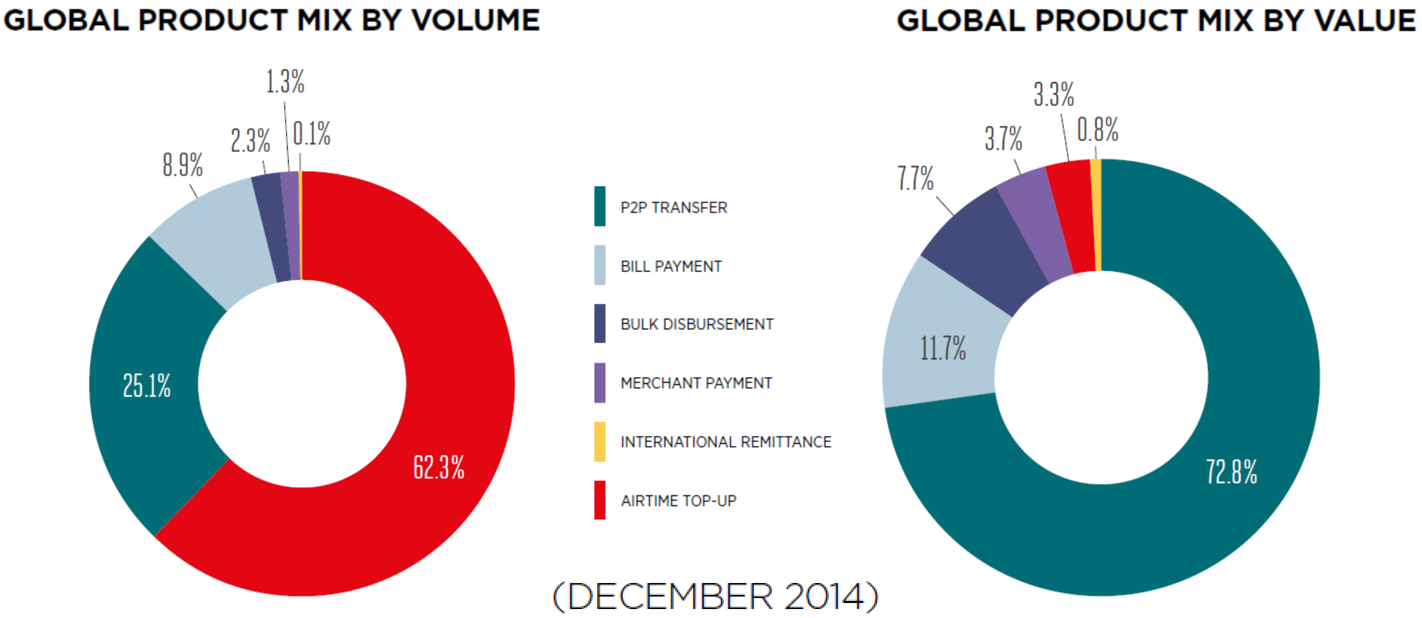


Shifting form costly cash-in networks

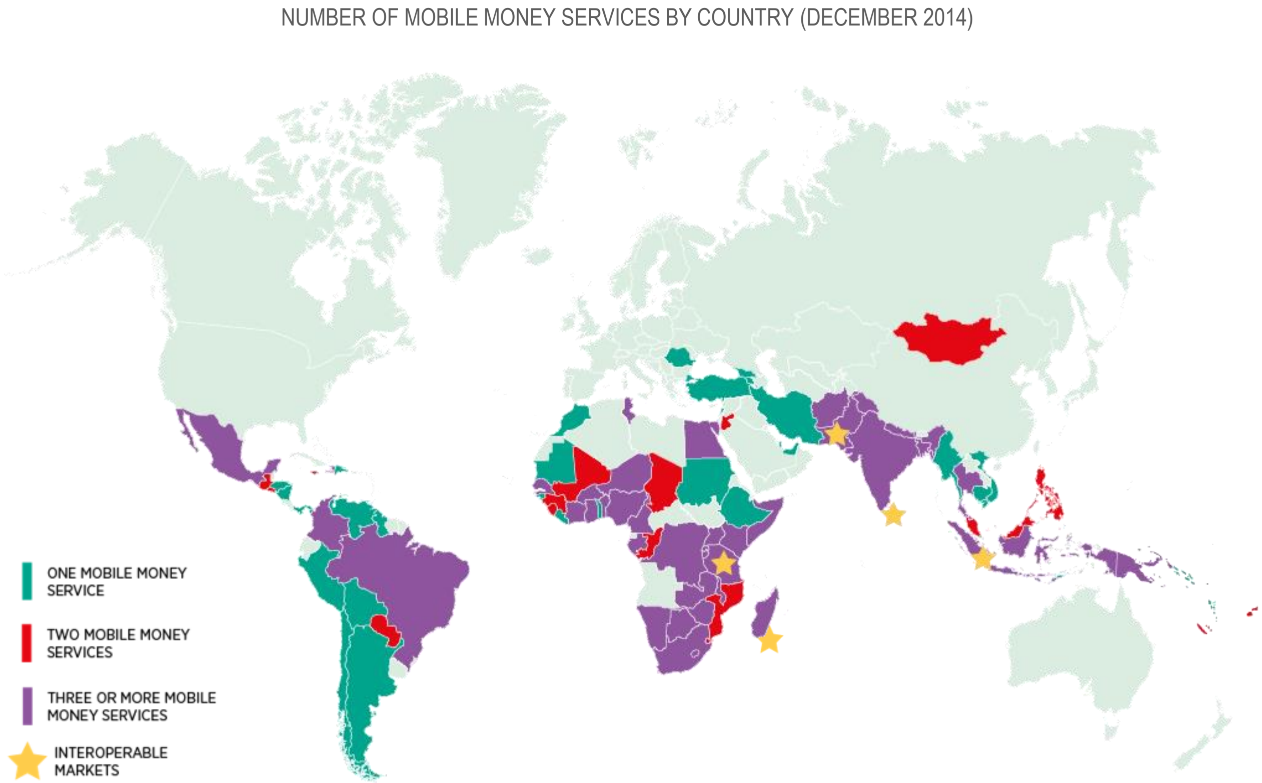
Increasing mobile money transactions.

Expanding range of outgoing transactions

Product mix by value & volume



More deployments means more competition



- **56** markets have **2 or more** live services.
- **38** markets have **3 or more** live services.
- By end 2015, there were at least 5 **interoperable markets**: Pakistan, Sri Lanka, Tanzania, Indonesia and Madagascar

GSMA Mobile Money

Key takeaways

- **OPEX investment is critical: In the start-up phase**, mobile operators should expect to invest 6-8 times the revenue units generated by mobile money.
- **Reaching profitability is not guaranteed.** Moving across these stages is dependent on targeted opex to support scale and driving digital transactions over a long-term horizon to a mature ecosystem based deployment.
- **Lean cost structures are critical for business viability & sustainability of mobile money:** non-banks as e-money issuers, risk-based regulation.

For the full analysis please see: *Almazan, Mireya and Nicolas Vonthron. (2014) ' Mobile money profitability: A digital ecosystem to drive healthy margins.' GSMA Mobile Money.*

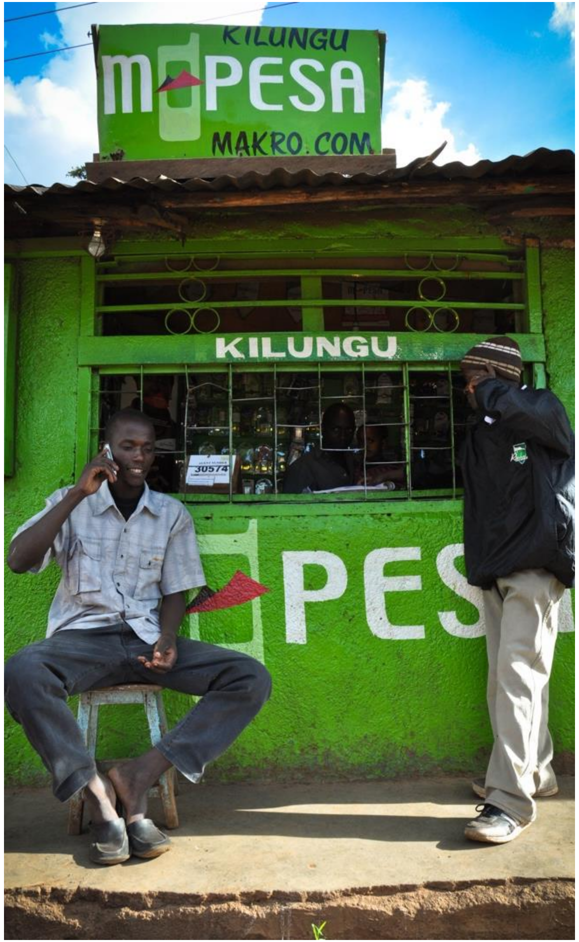
What role can telecommunications regulators play?

- **Provide broad policy guidance on telecommunications**. Mobile money is not a telecommunications policy area *per se* but certain broad policy areas are cross-cutting (e.g. privacy, consumer protection, etc.)
- **Support the building of a broader ecosystem** that leverages Mobile Money to offer socio-economic benefits
- **Support harmonization in KYC** requirements for mobile money and SIM registration
- **Encourage discourse on USSD channel access** rather than unilateral price ceiling mandates
- **Contribute to the development of technology and security standards**
- **Support a competitive Mobile Money market** which in turn drives down transaction charges

Mobile Money

In conclusion

- **Enabling regulation has a direct correlation with mobile money success** and helps achieve national financial inclusion/’cash lite’ targets
- **There is a path to profitable mobile money deployments** – but it is not easy, and the returns are modest
- **Financial inclusion goals will be met when digital financial services bring real value to consumers** at a commercial market price that they are willing and able to pay
- **Financial sector policymakers and regulators have the best interests of consumers** and already adhere to existing guidance and best practice from competent standard setting bodies
- **Regulatory intervention on mobile money pricing can decrease investment** and threatens to reverse financial inclusion gains
- **Policy and regulation for mobile money should focus on promoting efficiency and competition in the market** to provide services and to bring down prices. The industry needs **BETTER not MORE regulation**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