DIGITAL FINANCIAL SERVICES
A CASE OF MALAWI

By
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Malawi Communication Regulatory Authority
Presentation Outline

■ Introduction
  - Definition of concepts
  - Why Digital Financial Services

■ Infrastructure supporting DFS in Malawi

■ Overview of Malawi’s ICT and Banking sector

■ Malawi DFS indicators and trends

■ Legal and Regulatory Frameworks
  - National payment systems Act
  - E-transaction and cyber security Act
  - Other regulatory instruments

■ Regulatory and policy coordination

■ Challenges
Introduction

- Digital Financial Services (DFS) include a broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance.
  - Digital channels refers to the internet, mobile phones, ATMs, POS terminals etc.
  - DFS concept includes mobile financial services (MFS).

- MFS is the use of a mobile phone to access financial services and execute financial transactions.
  - Includes both transactional services and non-transactional services
  - MFS include M-Banking, M-payments, M-money.

- M-Money is a mobile based service facilitating electronic transfers and other transactional and non transactional services using mobile networks

- M-Banking is the use of a mobile phone to access banking services and execute financial transactions.
  - Often used to refer only to customers with bank accounts.
Why Digital Financial Services?

- Reach larger audience of customers untapped by the existing banking infrastructure
- Increases financial inclusion
- Increase efficiency of delivery
- Improve quality of service
- Revenue growth
  - Reaching new market segments
  - Offering new products and services enabled by technology
- Cost reduction to companies and customers
  - Operational cost by reducing branch costs
  - Reducing transactional costs
### Infrastructure Supporting DFS in Malawi

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>Description</th>
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</table>
| **The Automated Transfer System (ATS)** | • An inter-bank funds transfer, clearing and settlement system including for direct debits and credit transfers  
• settlement of transactions from the National Switch |
| **Bank-based services**  | • Services in which a customer has a contractual r/ship with the bank.  
• Bank is licensed to provide mobile financial services  
• mobile banking, internet banking, ATMs, POS and web-based card payment services |
| **The National Switch**  | • Launched in 2015  
• a shared switch platform that connects all commercial banks and MNOs  
• To facilitate clearing of retail payment transactions |
| **Non-bank based services** | • Services in which a customer has a contractual r/ship with a non-bank service provider  
• The non-bank is either licensed or otherwise permitted by the regulator to provide mobile financial services  
• TNM Mpamba, Airtel Money, Zoona |
# Overview of Malawi ICT and Banking Sector

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Year Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>2017 (estimate)</td>
</tr>
<tr>
<td>Mobile phone subscribers</td>
<td>2016</td>
</tr>
<tr>
<td>Internet subscribers</td>
<td>2016</td>
</tr>
<tr>
<td>Mobile money subscribers</td>
<td>2017</td>
</tr>
<tr>
<td>Number of Mobile phone operators</td>
<td>2017</td>
</tr>
<tr>
<td>Number of Banks</td>
<td>2017</td>
</tr>
<tr>
<td>Number of bank accounts</td>
<td>June 2018</td>
</tr>
<tr>
<td>Number of mobile money agents</td>
<td>June 2018</td>
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</table>

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Year Collected</th>
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<tbody>
<tr>
<td>Population</td>
<td>17,373,185</td>
</tr>
<tr>
<td>Mobile phone subscribers</td>
<td>7,178,384</td>
</tr>
<tr>
<td>Internet subscribers</td>
<td>3,294,000</td>
</tr>
<tr>
<td>Mobile money subscribers</td>
<td>4,600,000 (90 days)</td>
</tr>
<tr>
<td></td>
<td>1,800,000 (30 days)</td>
</tr>
<tr>
<td>Number of Mobile phone operators</td>
<td>4 (2 offer MM service)</td>
</tr>
<tr>
<td>Number of Banks</td>
<td>9 (7 offer MB services)</td>
</tr>
<tr>
<td>Number of bank accounts</td>
<td>2,100,000</td>
</tr>
<tr>
<td>Number of mobile money agents</td>
<td>25,822</td>
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## DFS Indicators

<table>
<thead>
<tr>
<th>Service</th>
<th>Volume</th>
<th>Value (K’ m)</th>
<th>Average Amount (K)/Transaction</th>
<th>No. of: sub/ Terminals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile Banking</td>
<td>18,163,266</td>
<td>172,982.1</td>
<td>9,524</td>
<td>538,500</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>813,446 (363,000-2015)</td>
<td>481,012.1</td>
<td>591,326</td>
<td>54,206</td>
</tr>
<tr>
<td>Mobile Money (MNOs)</td>
<td>133,495,994</td>
<td>531,204.5</td>
<td>3,979</td>
<td>1,494,884</td>
</tr>
<tr>
<td>ATMs (funds transfer and bill payments only)</td>
<td>6,936</td>
<td>311,709,964</td>
<td>44,941</td>
<td>466* (373 in 2012)</td>
</tr>
<tr>
<td>Point of Sale (POS)</td>
<td>774,490</td>
<td>34,786.5</td>
<td>44,915</td>
<td>1,474* (688 in 2012)</td>
</tr>
</tbody>
</table>

*December 2017*
DFS Volume Trend

Transaction Volumes

Volumes (millions)

2012 2013 2014 2015 2016 2017

- 20  40  60  80  100  120  140

Internet Banking
Bank-led Mobile Banking
Non-bank led Mobile Payments

DFS Volume Trend

Transaction Volumes

Volumes (millions)

2012 2013 2014 2015 2016 2017

- 20  40  60  80  100  120  140

Internet Banking
Bank-led Mobile Banking
Non-bank led Mobile Payments
DFS Subscribers Trend

Number of Subscribers

- Internet Banking
- Bank-led Mobile Banking
- Non-bank led Mobile Payments
Legal and Regulatory Frameworks

- Before 2012, all electronic financial services were mainly provided by the commercial banks;

- The regulatory mandate over payment systems was based on the central bank’s Act of 1989 before enactment of the National Payments Act in 2016;

- Mobile money services came into existence in 2011 as a tool for social cash transfer;

- The emergence of mobile money has been instrumental in the development of the regulatory framework around digital financial services and payments system;
Legal and Regulatory Frameworks

- In 2011, RBM developed and issued Guidelines for mobile payment system to provide a regulatory framework for provision of mobile money services
  - Deriving its mandate from the RBM Act 1989
  - Guidelines only applies to non-banking mobile payments

- Innovations on payment services also enhanced the need for a law to govern payment systems

- To address the gap RBM drafted a payment systems law which was passed by parliament in July 2016.

- MACRA also drafted an Electronic Transactions and Cybersecurity Act which was also passed by parliament in 2016
  - To ensure protection of users and enhance security and safety when using digital platforms
National Payments Systems Act, 2016

Objectives

■ To provide for a legal framework for the operation, regulation, supervision and monitoring of payment systems and instruments, especially electronic systems;

■ To designate RBM as the regulatory authority;

■ To promote the soundness, integrity, safety and efficiency and reliability of the payment systems or instruments, including security and standards;

■ To provide for minimum standards for protection of users;

■ To determine the respective rights and obligations of system operators, participants and their customers
National Payment Systems Act 2016

Scope

■ All retail systems for the processing of low-value financial transactions, including mobile phone-based and other digital financial services

■ All systems for clearing and settlement of both retail and large value transactions

■ All types of physical and electronic payment instruments, including cheques, payment cards and electronic funds transfers.
E-Transactions and Cybersecurity Act 2016

■ The objective is to set up a responsive information and communication technology legal and regulatory framework that shall facilitate;
  - *Competition*;
  - *Development of information and communication technology and*;
  - *The participation of Malawi in the information age and economy in particular*;
  ■ To ensure that ICT users are protected from undesirable impacts of ICTs including the spread of pornographic material, cyber-crime and digital fraud

■ To put in place mechanisms that’s safeguard ICT users from fraud, breach of privacy, misuse of information, and immoral behaviour brought by the use of ICTs

■ To provide a responsive and efficient regulatory environment, promote economic subsectors, asset accumulation and tax activities that arise from the use of ICT
Other Regulatory Instruments

<table>
<thead>
<tr>
<th>Interoperability Directive</th>
<th>Communications Act, 2016</th>
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<tr>
<td>• Issued in September 2017:</td>
<td>• To facilitate the deployment and use of communications services</td>
</tr>
<tr>
<td>• To facilitate and enforce interoperability of retail payments services; ATMs, POS, internet banking and MNO-led mobile payments</td>
<td>• To encourage the adoption of new services and technologies within the communications sector</td>
</tr>
<tr>
<td>• To make it mandatory for service providers to put in place infrastructure that supports interoperability</td>
<td>• To ensure consumer protection</td>
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<td>• To develop and publish technical standards for regulated communications services</td>
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Regulatory and Policy coordination

**Institutions**

- **RBM**
  - Licensing on DFS providers
  - Monitoring and enforcement
  - Customer protection

- **Government**
  - MoF - provides policy goals of promoting financial sector development and financial inclusion
  - MoJ oversees all legislative processes in Govt

- **Financial Intelligence Authority**
  - Administers the legal framework for combating financial crimes, KYC

- **MACRA**
  - Monitoring of quality of service
  - Consumer protection
Challenges

- Joint jurisdiction - coordination challenges
- Lack of regulations
- Low competition in the DFS sector
- Consumer protection issues - dispute resolution and redress mechanisms
- Poor infrastructure affects availability and consumer trust in the services
- Financial illiteracy/High illiteracy levels
THANK YOU FOR LISTENING

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