
ITU Arab Regional Workshop on

"Digital Financial Inclusion": Policies And Regulation (Khartoum - Sudan, 24-25 August 2016)



**"Digital Financial Inclusion":
Policies And Regulation
(Khartoum - Sudan, 24-25 August 2016)**

**SESSION 2: MOBILE MONEY AND DIGITAL
FINANCIAL SERVICES: CHALLENGES AND
OPPORTUNITY.**

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* Agenda.

1. *Background and Basic definitions.*
2. *Mobile Money Ecosystem: Types and Models.*
3. *State of Mobile Money Industry.*
4. *Partnerships.*
5. *Benefits.*
6. *Partners.*
7. *Revenues.*
8. *MM Investment and Profitability.*
9. *Effect of Regulation on Money Generation.*
10. *Conflicting Interests.*
11. *Interoperability.*

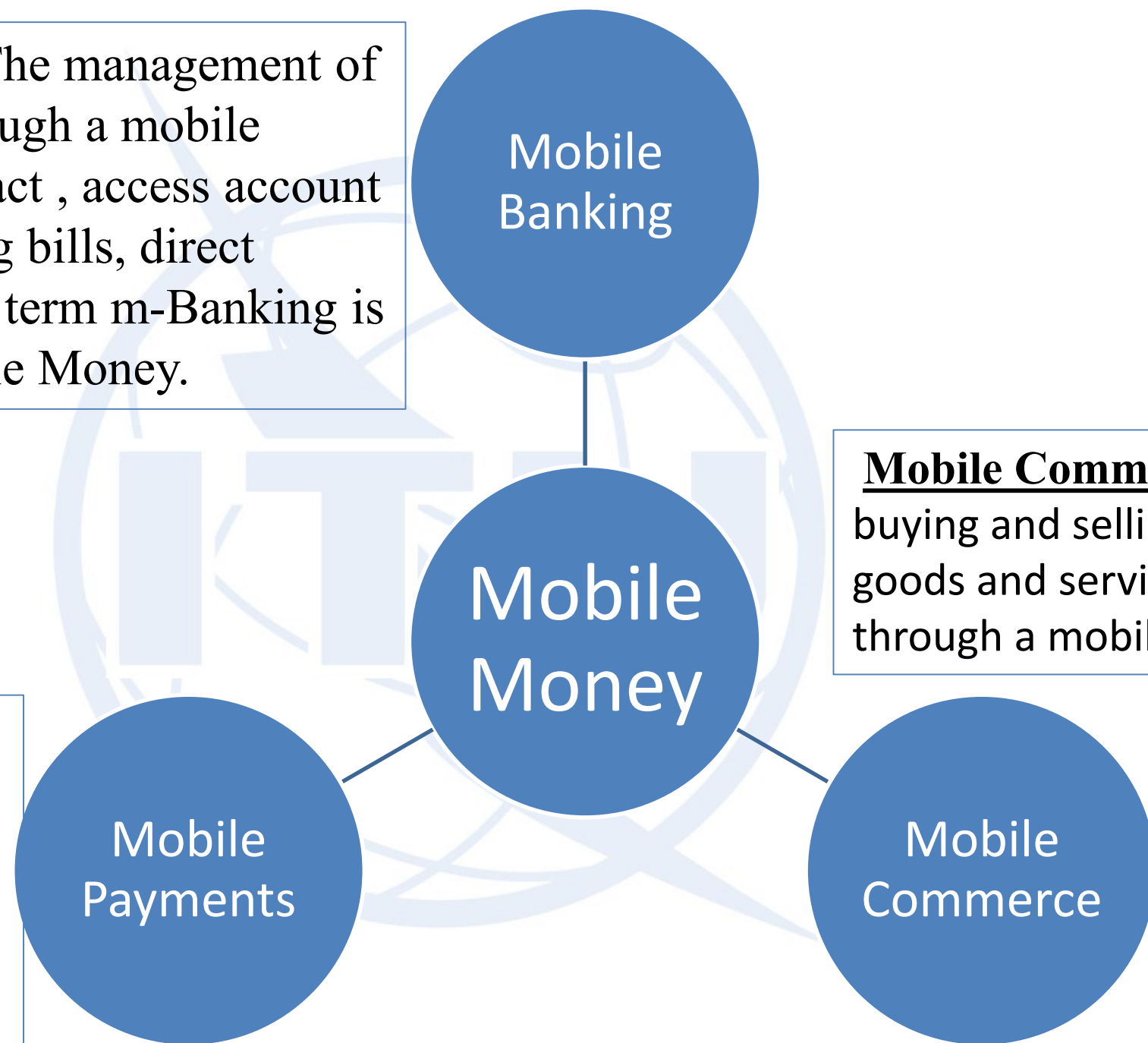
* Mobile Money: Terminology.

- The term mobile money is used in many different contexts.
- From the Literature, mobile money is used as an umbrella term, which defines an ecosystem, that includes various financial activities transacted via a mobile device.
- The ecosystem, as shown in Figure 1, consists of, Mobile Banking, Mobile Payments and Mobile Commerce.

* Mobile Money Ecosystem

Mobile Banking: The management of a bank account through a mobile connection to transact , access account information, paying bills, direct transfer ... etc. The term m-Banking is used to mean Mobile Money.

Mobile Payments: refers to payment services operated under financial regulation and performed from or via a mobile device.



Mobile Commerce: The buying and selling of goods and services through a mobile device.

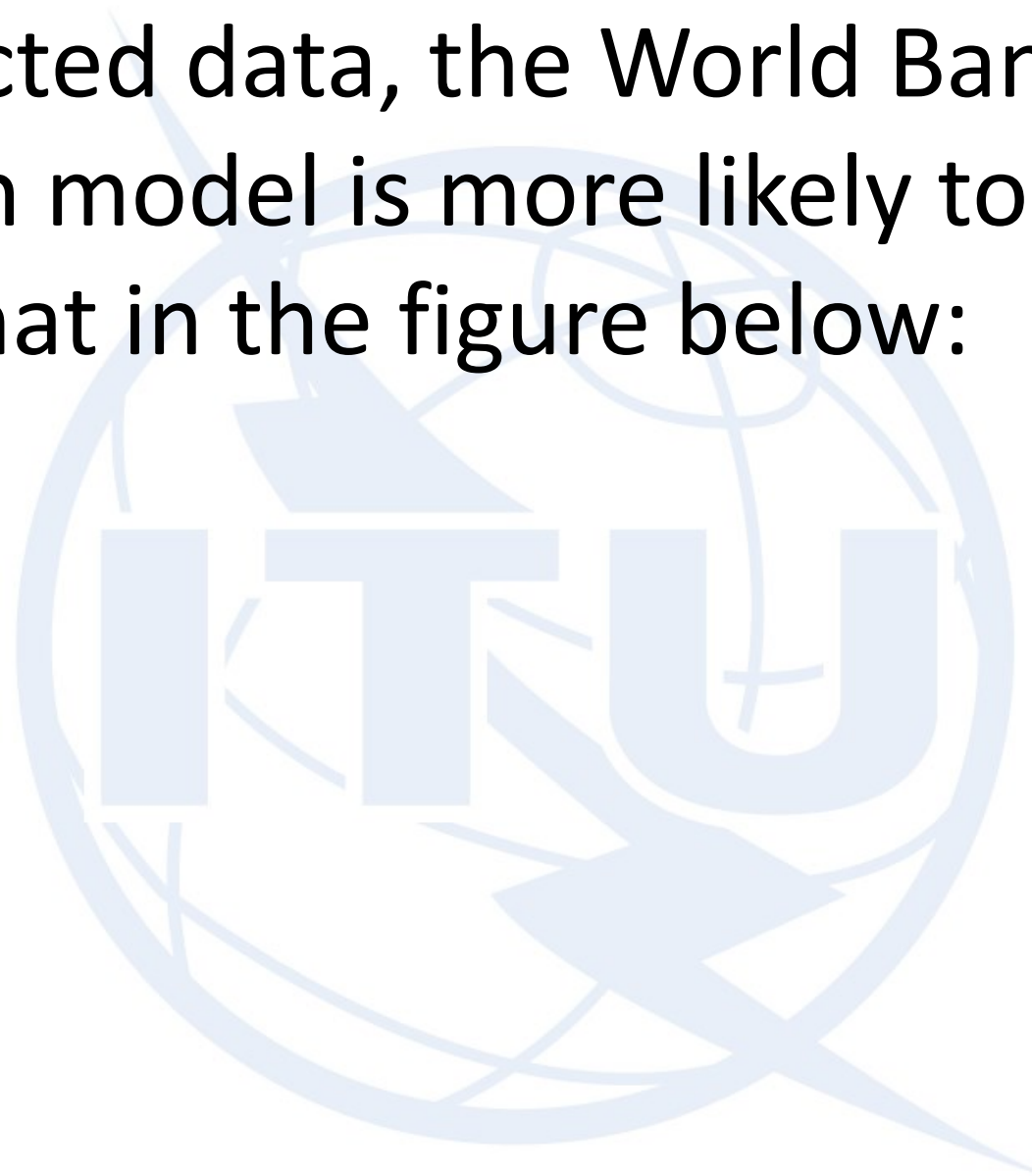
Figure 1: Mobile Money Ecosystem

* Which Business Model to adopt?

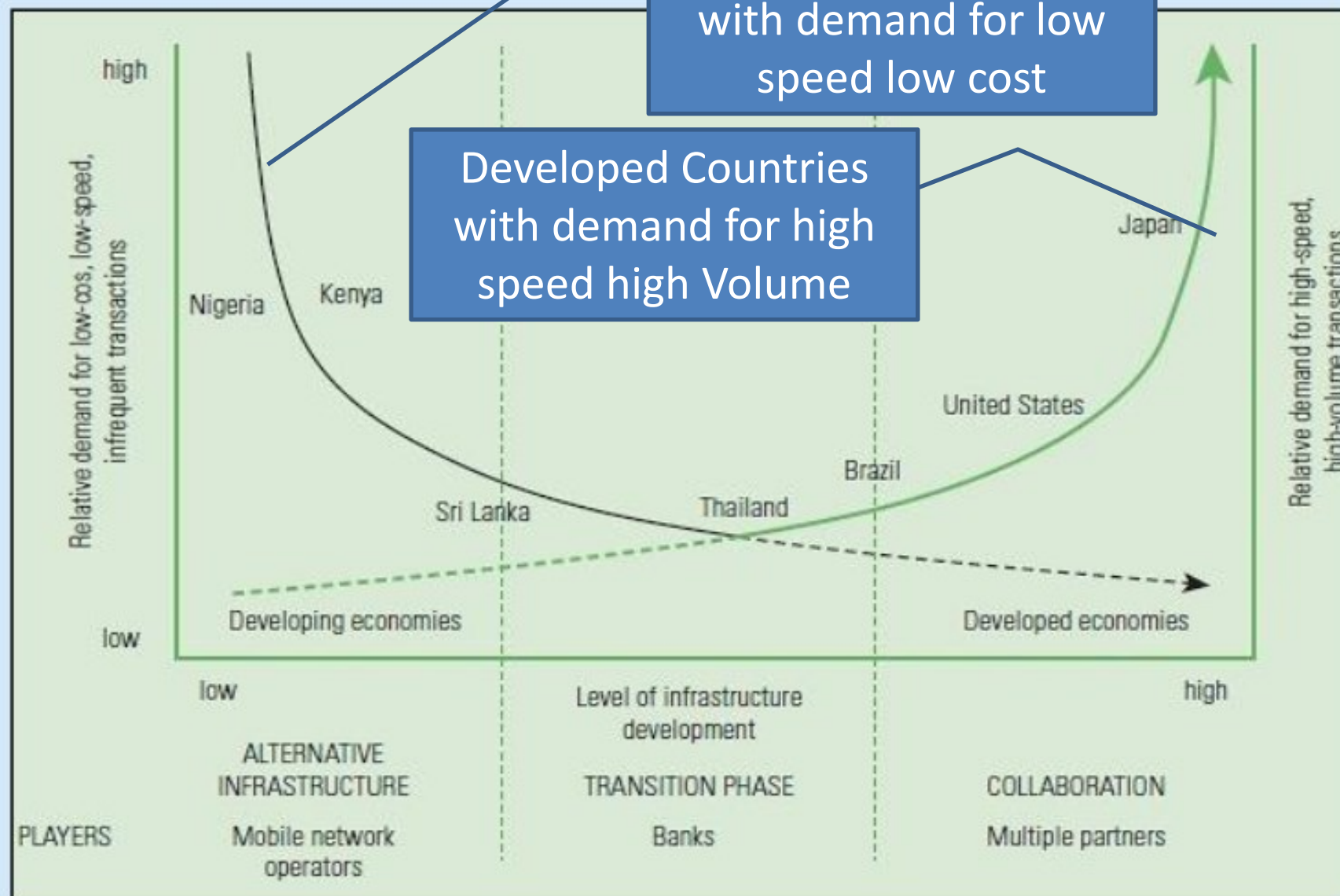
- Three main business models have emerged, depending on regulatory regime, culture, and population size:
 1. Bank centric
 2. Mobile operator-led (MNO-centric model) or non-bank-based
 3. Partnership or through a THIRD PARTY.

* Empirical Findings

- From collected data, the World Bank showed where each model is more likely to occur and depicted that in the figure below:



Mobile Money Demand Curve



Source: World Bank: Maximizing Mobile. Report on Information and Communications for 2012.

<http://www.worldbank.org/ict/ic4d2012>.

Black curve: MM demand for developing countries with demand migrating from low speed, low cost to high speed, high volume (Red) and increasing competition from banks and financial institutions.



In 2015, The State of the Mobile Money Industry showed:²

Mobile money is now available in

93

COUNTRIES

271

SERVICES



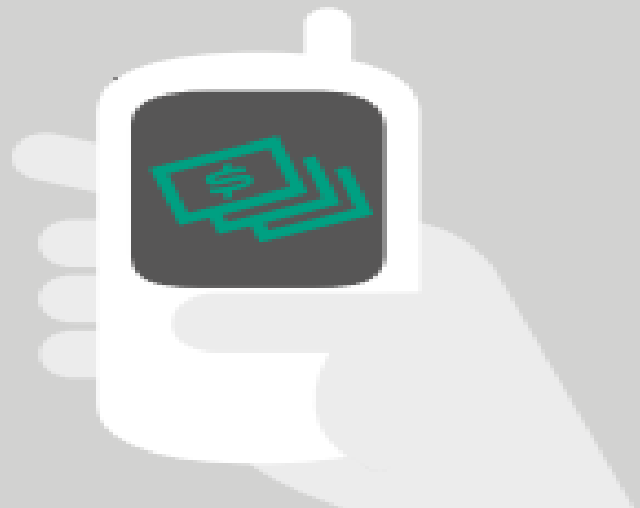
In 2015

51 OF 93 COUNTRIES

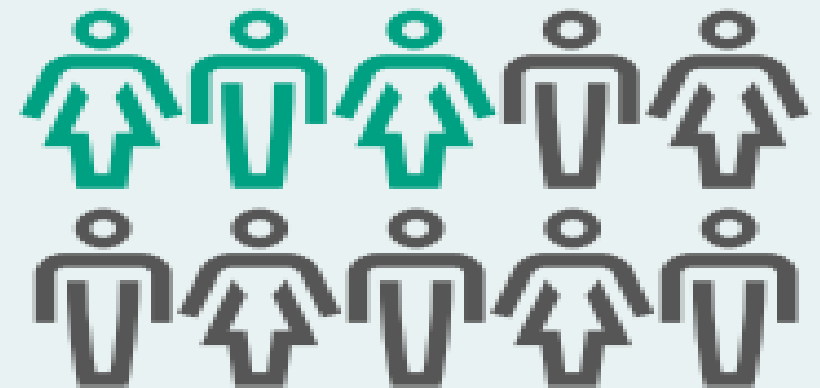
have an enabling regulatory framework.

Mobile money providers are processing an average of

33 MILLION
TRANSACTIONS A DAY



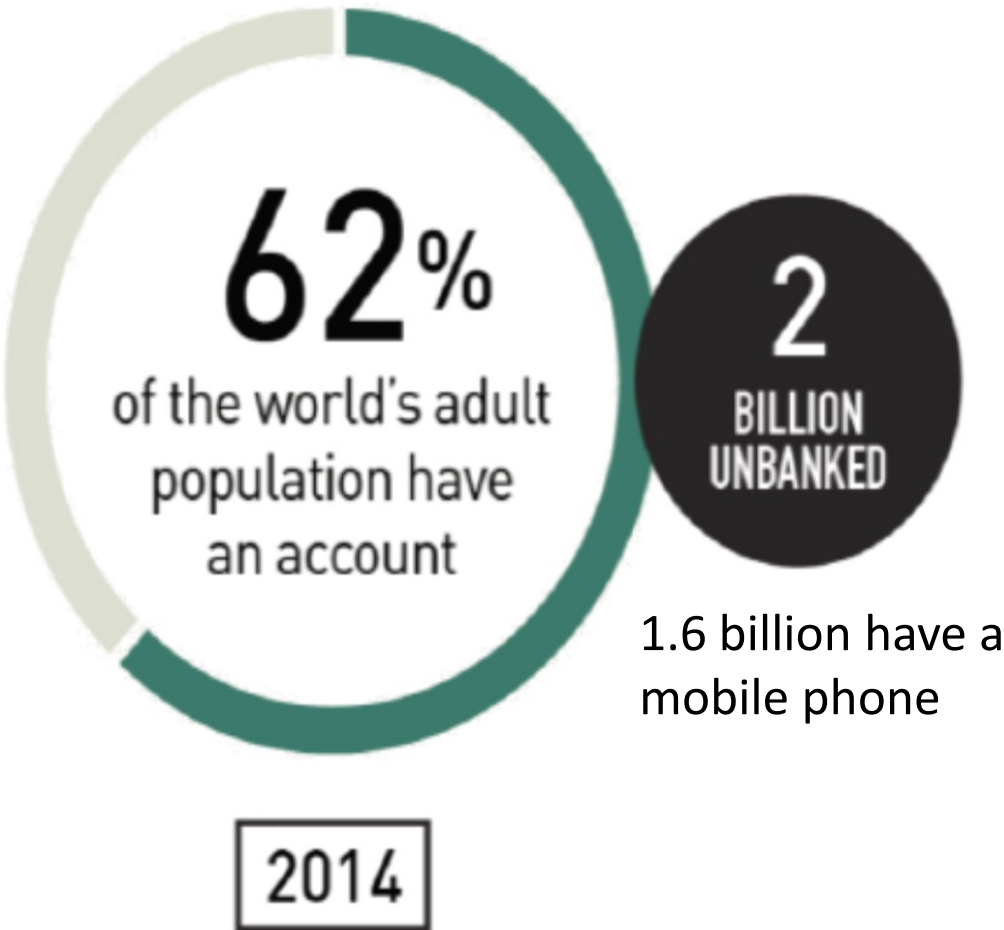
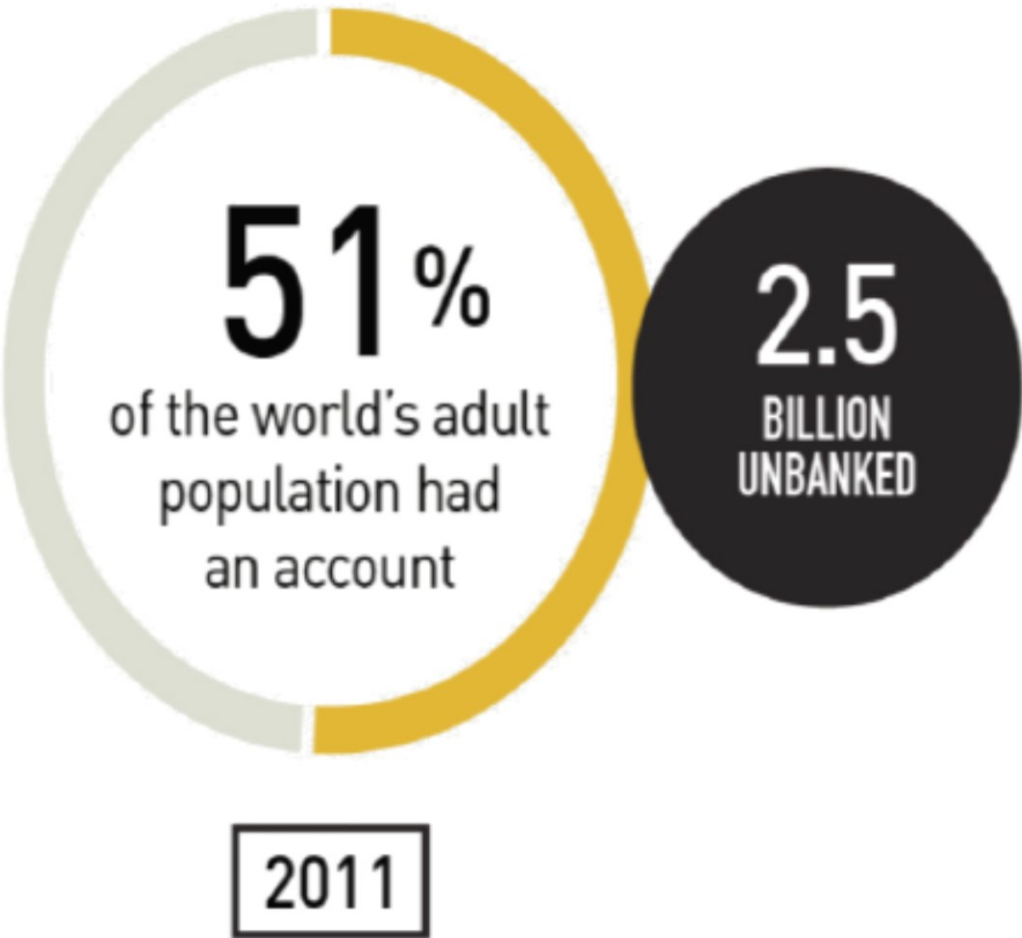
Registered accounts grew by



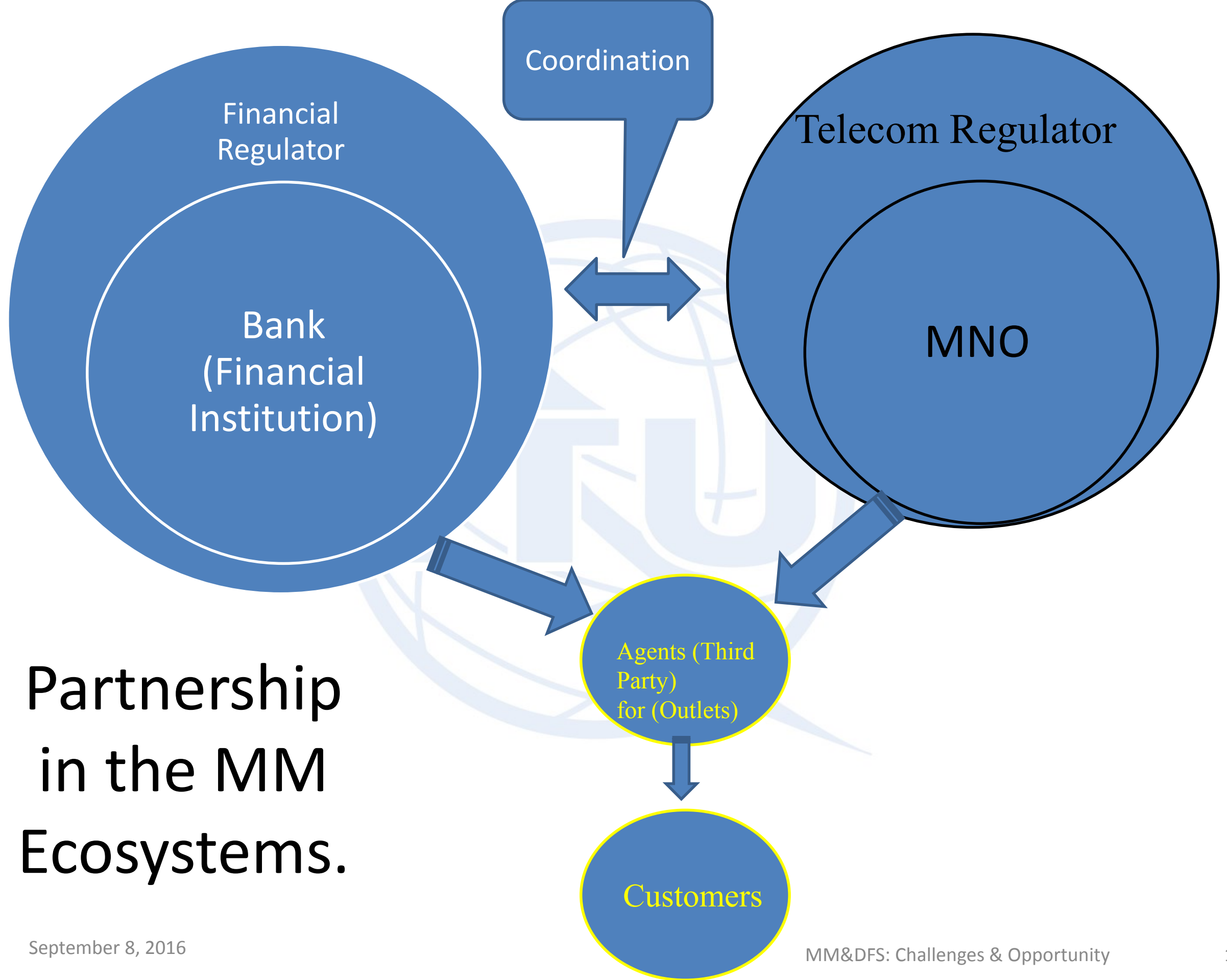
+31% TO A TOTAL OF 411M
IN DECEMBER 2015

Digital Financial Services and Financial Inclusion

More adults have an account (with a financial institution or mobile money service) now than three years ago.



Source: FINDEX 2014



Partnership in the MM Ecosystems.

- The main partners in the Ecosystem of MM are:
 - the Bank (Financial institutions),
 - The Telecom Operator (MNOs providing Communication channels), and the
 - Two Regulators: the Financial Regulator (FR) and the Telecom Regulator (TR) together with
 - A third part, the Agent Network Managers (ANM), who have the reach to the customers through managing a group of agents distributed geographically covering all Populated areas.

- One challenge that is seen from the diagram, we can see clearly that there is a need for some kind of coordination between the two regulators.
- A second issue is related to the Agents Network Managers (ANM) who are, currently, serving, with MNOs (as Distributors) and some of the FRs consider to regulate their activities.
- Already some of the TR are regulating the activities of the ANMs.

- **Both MNOs and Banks are looking for:**
 - ❑ High volume of transactions with low margin.
 - ❑ As side effects:
 - ❑ MNOs are looking for increasing average revenue per customer and reducing customer churn
 - ❑ Banks are expecting to expand their customer base to include lower segments of the populations (Financial Inclusion)

- Both sides **REGULATORS** are looking for:
 - ☐ Mitigating any risk associated with the service.
 - ☐ Protecting the customers.
 - ☐ Promoting financial inclusion.

- Revenue is generated primarily from transaction fees (customer fees), and commissions paid by companies that use the channel to sell services or distribute payments (Business Fees).
- Revenues generated by mobile money [2] grew by 40.3% Compound Annual growth (CAGR) in the year leading up to June 2015.

- For MNOs, MM is representing a significant part of their revenue as compared to 2014.
- In 2015, more than 70% of MNO-led mobile money services reported earning more than 1% of total revenues from mobile money, compared to 50% the previous year.

- It is estimated that more than 25% of the MNO-led MM deployments reported earning more than 10% of total revenues.
- MM is growing in becoming more significant in terms of revenue more than VAS (Value Added services) which contribute between 2%-5% (sometime up to 8%) of the total revenue of an MNO.

- Most (Almost 76.5%) of MNOs still derive most of their revenues from customer fees.
- However, a diversion in the source of revenue is needed to make business fees as the major source of revenues (Fees paid as a result of providing a service to a business such as Bill Payment).

- Agents' share is coming from commissions which continue to represent the biggest cost category in the arrangement.
- In 2015, the top 10 mobile money (MM) providers (ranked by 90-day active accounts) paid out on average 54.4% of revenues as agent commissions [2].

* MM Investment and Profitability.

- In a study carried out by the GSMA [5] it was estimated that MNOs should expect to invest six to eight times the revenue units generated by mobile money in the start-up phase.
- During the early stages, the indirect revenue remain the driving motive for MNOs to continue investing in this activity until it reaches a mature stage.
- Modest positive margins can be expected, only when approximately 15% of an MNO's GSM base become active mobile money customers.

- Healthy Profit margin (more than 20%), making MM compete with the GSM business main revenue, can be expected in a mature, ecosystem-based deployment.

* Effect of Regulation on Revenue Generation.

- The Regulation of float income, or revenue earned on outstanding e-money liabilities, can affect the overall business case for mobile money [6].
- Restrictions on how revenues from float can be utilised can impact the overall profitability.
- Partner (Bank or MNO) (Bank or MNO) that drives the payment service business must be given sufficient control to maximize its benefit.

- Regulation or Partnership arrangement should allow the Payment Service Provider (PSP) (Bank or MNO) to generate revenue from customer account balances.
- Regulators can look at this in a similar manner to Bank deposits and make the arrangement to mitigate any risk as a result of this.
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- Duplicate implementation of MFS by Banks and MNOs should be avoided to compete against each other, especially that if the MNO provide the communication channels.
- A close control over the Agents Network Managers (ANM) is needed to allow the Banks to utilize the agent channel to deliver banking services to clients.

- On one hand, in order for MNOs to generate business revenue, they may need to control much of the MFS channel.
- On the other hand, banks tend to make communication channel available on multiple mobile networks, which can undermine the MNOs' ability to generate core revenues.
- Moreover, bank-led MM implementations will typically charge the MNOs commissions for airtime sales.
- Therefore, MNOs may have significantly less to gain from a bank or PSP-led MFS implementation.

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