Mobile Money regulation: is more regulation better?

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

19 January 2016
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

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

Market Penetration of Mobile Money in Top 50 Markets
- Enabling regulatory approach
- Non-enabling regulatory approach

90 day active subscribers as a % of the adult population
Mobile Money for the Unbanked
Mobile money profitability: A digital ecosystem to drive healthy margins

MIREYA ALMAZÁN AND NICOLAS VONTHRON
NOVEMBER 2014
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

<table>
<thead>
<tr>
<th>1</th>
<th>Start-up / Early Stage (1-2 years)</th>
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</table>
| Description | - Customer acquisition phase  
- Provider focused on generating market awareness  
- Priority is basic foundations of MM |
| 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 |

<table>
<thead>
<tr>
<th>2</th>
<th>High-growth, remittance-based (4-5 years)</th>
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</table>
| Description | - At least 15% of GSM base active MM users (30-day)  
- Network effects visible  
- One predominant use-case (e.g., P2P, bill pay) |
| Profitability metrics | - Highest cost category: agent commissions  
- Revenue primarily from P2P and cash-out  
- MM revenue approx 5% of total MNO revenue  
- Modest, positive net margins |

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<thead>
<tr>
<th>3</th>
<th>Mature, ecosystem-based (&gt;5 years)</th>
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</table>
| Description | - At least 30% of GSM base active MM users (30-day)  
- High growth of bill payment and bulk payment transactions |
| Profitability metrics | - 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.

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

### Key Non-Transaction Costs of a Mobile Money Deployment

<table>
<thead>
<tr>
<th><strong>Commercial Costs</strong></th>
<th><strong>Operating Costs</strong></th>
<th><strong>Network &amp; IT</strong></th>
<th><strong>Other</strong></th>
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<tbody>
<tr>
<td>Customer acquisition costs (AC)</td>
<td>Agent commissions, trade, KYC (excl. ATL and BTL)</td>
<td>Platform</td>
<td>Other CAPEX required to set-up or improve the business</td>
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<tr>
<td>Agent and merchant AC</td>
<td>Internal or external workforce to on-board agents and merchants</td>
<td>Platform</td>
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<tr>
<td>Shop and agent management costs</td>
<td>Internal or external workforce to manage agents + direct distribution costs (when not commissions)</td>
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<tr>
<td>Marketing</td>
<td>ATL and BTL campaigns to promote service</td>
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<tr>
<td>Personnel</td>
<td>Dedicated mobile money staff, excl. field marketing staff</td>
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<tr>
<td>Technology</td>
<td>Platform maintenance and operating costs, energy, connectivity, license fees</td>
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<tr>
<td>Fraud and settlement</td>
<td>Fraud, settlement, revenue assurance</td>
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<tr>
<td>General and administrative</td>
<td>Procurement and supply chain, finance, management, real estate</td>
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<tr>
<td>Customer care</td>
<td>Call centre, processing and back office</td>
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<td></td>
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<tr>
<td>Shops and offices</td>
<td>Platform acquisition and evolution, set-up with aggregator</td>
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Conceptual model: Path to profitability

Incoming value
- Cash-in
- Disbursements
- A2A (bank-to-wallet / cross-net)
- International remittances

Circulating value
- P2P (on-net)
- Payments (C2B, B2B)
- International remittances
- A2A (wallet-to-bank/ cross-net)

Outgoing value
- Cash-out
- Airtime purchases
- Bill payments
- Vouchers

Mobile money scheme

Shifting form costly cash-in networks

Increasing mobile money transactions.

Expanding range of outgoing transactions
Product mix by value & volume

GLOBAL PRODUCT MIX BY VOLUME

GLOBAL PRODUCT MIX BY VALUE

(DECEMBER 2014)
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.
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.

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
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.