

Policy Implications of Introducing Mobile Money (mMoney) for the BOP

POLICY BRIEF

The concept of mobile money (mMoney) refers to a stored value or a prepaid payment mechanism via the mobile phone. While it is a way of diversifying for the mobile operators, for financial institutions it is a means of reaching the unbanked. At first glance, it perhaps appears as a regulatory nightmare – how must the banking and telecommunication regulators collaborate? The real challenge however, is striking the right balance to avoid over-regulating that may hinder innovation.

KEY RECOMMENDATIONS

Regulatory Environment

Create a conducive environment to foster partnerships between the telecommunications and financial service providers. For the sake of innovation however, it is vital that the regulators refrain to some extent from stringent policy enforcement.

Access to Infrastructure

Access to basic telecommunication services is a prerequisite for the delivery of mMoney services. Therefore, accessibility of mobile money across heterogeneous network operators and interoperability of the service is required.

User Identity & Protection

Provide ease-of-access when obtaining an identity document – a mandatory yet scarce article among the BOP. This would also be important in cases of redress. The assurance of secure transactions is another key policy consideration from a user perspective.

Standardisations

To expand mMoney services standardisation to some degree may be in order. These must to be introduced with caution and with interoperability requirements in mind.

IMPLICATIONS OF mMONEY

- Bottom of the Pyramid (BOP): The ability of storing, transferring and using mobile airtime as cash provides a sense of assurance. The assurance of it being less likely to lose or unnecessarily spend as is often the case when in cash form. It also provides a convenient alternative for transferring money; a service often used especially by the BOP who migrate looking for better employment opportunities.
- Banks: In addition to reaching the unbanked, unlike other processes such as investments that often differ based on the economic state, remittances are relatively stable. Associated with overseas labour forces in the developing world, a common misconception is that remittances are mostly in the form of international money transfers. However, the bulk of the transmittals to rural areas in the Philippines, were in fact from local

sources. This is seemingly true for the BOP, who are most likely to migrate to urban regions within the same country hoping for a better income.

- Network Operators: mMoney provides an avenue for mobile operators to diversify and add to the present sources of revenue. It can also potentially provide new customers and keep the churn rates down.

CASE STUDY: PHILIPPINES

At present there are two mMoney platforms in the Philippines – SMART Money (can be used as a debit card via ATM, credit card terminals or the mobile phone) and GCash (functions as an electronic money [eMoney] transfer facility and turns the mobile phone in to an electronic wallet). Consumers may purchase goods and services, pay utility bills, buy airtime credit etc. However, the demand for such services continues to be

predominantly from the higher income groups. The primary challenge lies in expanding the use of mMoney among the BOP.

There are three identifiable challenges that BOP has to overcome in order to use mMoney services:

1. *Mental access*: The awareness and trust in mMoney services
2. *Material access*: Access to a mobile phone and service support structures
3. *Skill access*: The capability to carry out mMoney transactions

In the Philippines, although about a quarter of the BOP was aware of such services, 4% of them did not use the service due to trust and reliability issues. The lack of customer protection is a prime concern among those who are not convinced about using mMoney. The total cost of the transaction is another major deciding factor when presented with multiple choices of remitting cash, for the BOP in particular. Although the mMoney services are among the cheapest options (refer Figure 1), other more expensive methods are often favoured due familiarity and transparency of the fees.

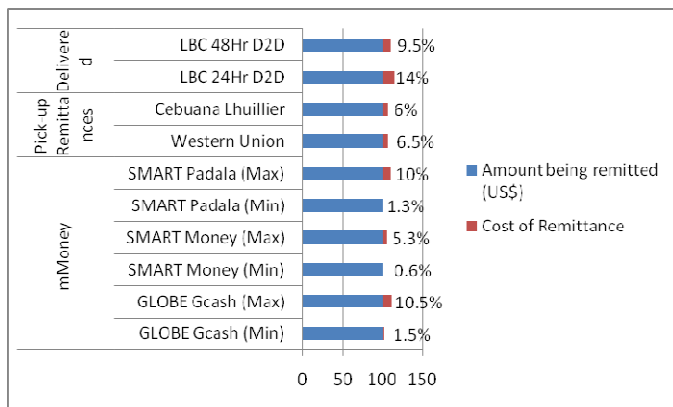


FIGURE 1: FEES FOR SENDING DOMESTIC REMITTANCE OF USD 100

MBANKING MODELS

There are various models of mobile banking based on how the financial institutions are partnered with the telecommunication operators. These models range from carriers or banks going solo to open federation models which offer the most flexibility. The multiple paradigms indicate the degree of innovation occurring within the delivery of m-banking solutions. This also implies that different regulatory arrangements *may* be required based on the type of partnerships between the

telecommunication providers and their financial counterparts. Especially in instances where there is eMoney issuance by a non-bank entity, i.e. the telecommunication provider, will have to work with the banking regulators on financial regulations that were previously not within their purview (as was the case with GCash).

The feasibility of implementing mMoney on the other hand can depend on factors such as ubiquity of mobile usage among the BOP, the percentage of the populace that have transactional bank accounts and the accessibility to these accounts. The viability is further enhanced if the economy has a significant income from migrant workers.

IS THERE A SIGNIFICANT ROLE FOR THE REGULATORS?

While having explicit and unambiguous policies and standards can make the implementation straightforward, having too much of it, especially at inception is prone to hinder innovation. Interoperability for instance, is one aspect that can help expand reach and usage among the population, including the BOP. Although standards and policies may seem the obvious requirement for such an interconnected, cross-functional system to work, it comes with a trade-off on innovation.

With increasing partnerships between telecommunications and financial institutions, banking and telecommunication regulators should also perhaps increase its collaboration to delineate their roles. In essence, the idea is for the mMoney playing field to be regulated but not necessarily the players; so as to extend the target user base from businesses to consumers and even to the BOP.

CONCLUSION

In order for user buy-in (mental access), especially within BOP, it is vital that trust of the operator and trust in the service is assured. This suggests additional responsibility in areas of security and fraud management that both the telecommunication and financial institutions involved must address. The mMoney service providers also have to play a pivotal role in educating potential users of the service – managing change is often the most difficult aspect to deal with.

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