



COMPETITION IN MOBILE DIGITAL FINANCIAL SERVICES

Contents



Mobile digital financial services model

Competition in digital MFS

Introduction



- Mobile money is proved to be key for financial inclusion with the help of successful deployments in developing countries, especially in Africa.
- There are different models adopted in m-money deployments so far, the most commonly seen are bank-led where only banks are allowed to hold customer deposits or issue m-money; and operator-led where this permission is extended to mobile operators as well.
- It's believed that operator-led model in the unbanked communities is necessary to achieve the required technological & infrastructural backing critical to the m-money business success but requires a careful balancing of potentials risks by the right regulatory framework.
- Study of systems deployments show that, the best practices of the regulatory implementations to address these risks are;
 - *Conditions for granting e-money license to Telco:* Introduce eligibility requirements for e-money issuers to ensure credibility, customer protection, financial strength, etc.
 - *Protection of consumer funds:* Mandate minimum reserve of 100% of the e-money issued
 - *KYC, AML policies & limits:* Allow tiered KYC requirements based on risk associated
 - *Responsibilities of distribution agents:* Hold operators legally liable for agent actions
 - *Competition :* Ensure competition/ interoperability when the service gains traction

BANKED VS. UNBANKED COUNTRIES



M-money is an opportunity for developed markets to fill the financial services gap by replacing the need for access to traditional banking

Sophisticated - High Payment card usage

- Developed banking infrastructure
- Most financial transactions happen "cashless"
- Credit/debit cards are a "commodity"
- High smart-device penetration
- Banked population above 75%

M-money inspiration

Replace cash, debit & credit & loyalty cards and keys

Developed - Growing Payment card usage

- Most people in urban areas have bank accounts, ATMs frequent in cities
- Some use of credit cards but cash still frequently used
- Most people with mobile phones, growing smart-device penetration
- Banked population between 40-75%

M-money inspiration

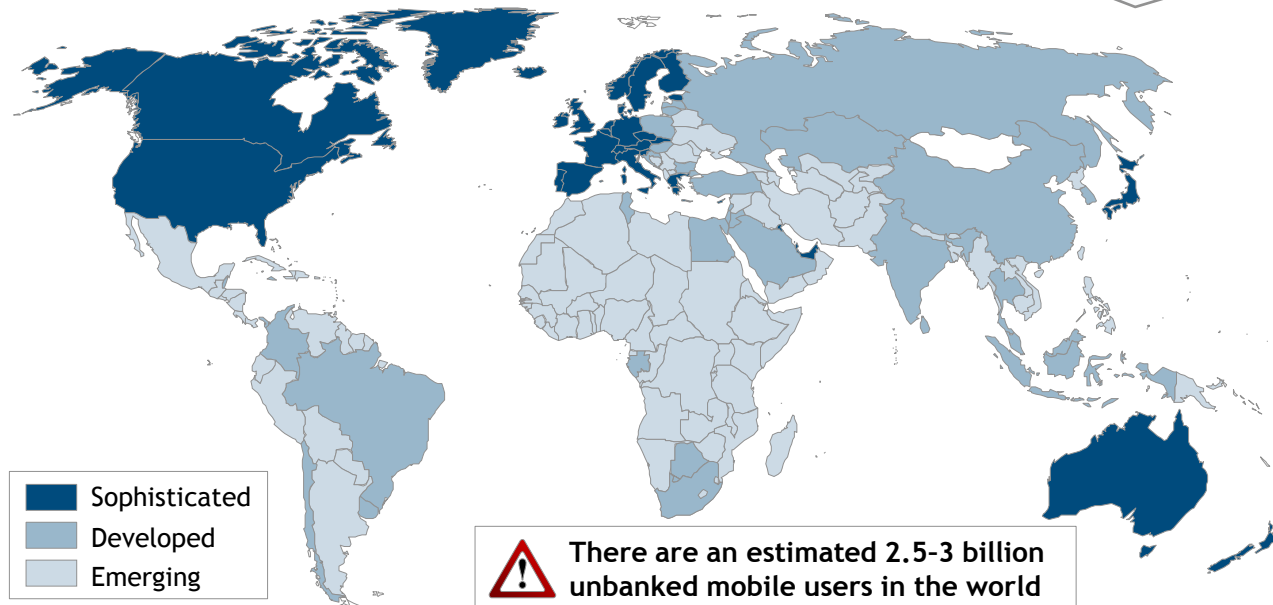
"Drive electronic payments"

Emerging - Growing bank penetration

- Growing bank account penetration on medium income segments
- Rare or no usage of credit cards & low PoS penetration
- Cost/barriers of opening or maintaining bank account decreasing
- Most transactions "cash-based", even in business world
- Banked population < 40%

M-money inspiration

Replace the need for a bank account



There are an estimated 2.5-3 billion unbanked mobile users in the world

Source: World Bank, Financial Access Initiative, Delta Partners Analysis

The role of intermediary is conducted by banks, telco operators and other financial institutions...

M-money - Role of Intermediary

Initiator of transaction



Customer



Intermediary



a

Bank led m-money model

- Bank issues e-money
- Bank is responsible for settlement and monitoring
- Bank leverages mobile's coverage to extend reach



b

Operator led m-money model

- Telco issues e-money
- Telco is responsible for settlement and monitoring
- Telco liaises with the bank for management of funds

PayPal[®] Other financial institutions (Other models)

c

- Use mobile phone as convenient alternative to cards/coupons etc.

Counterparty



Customer



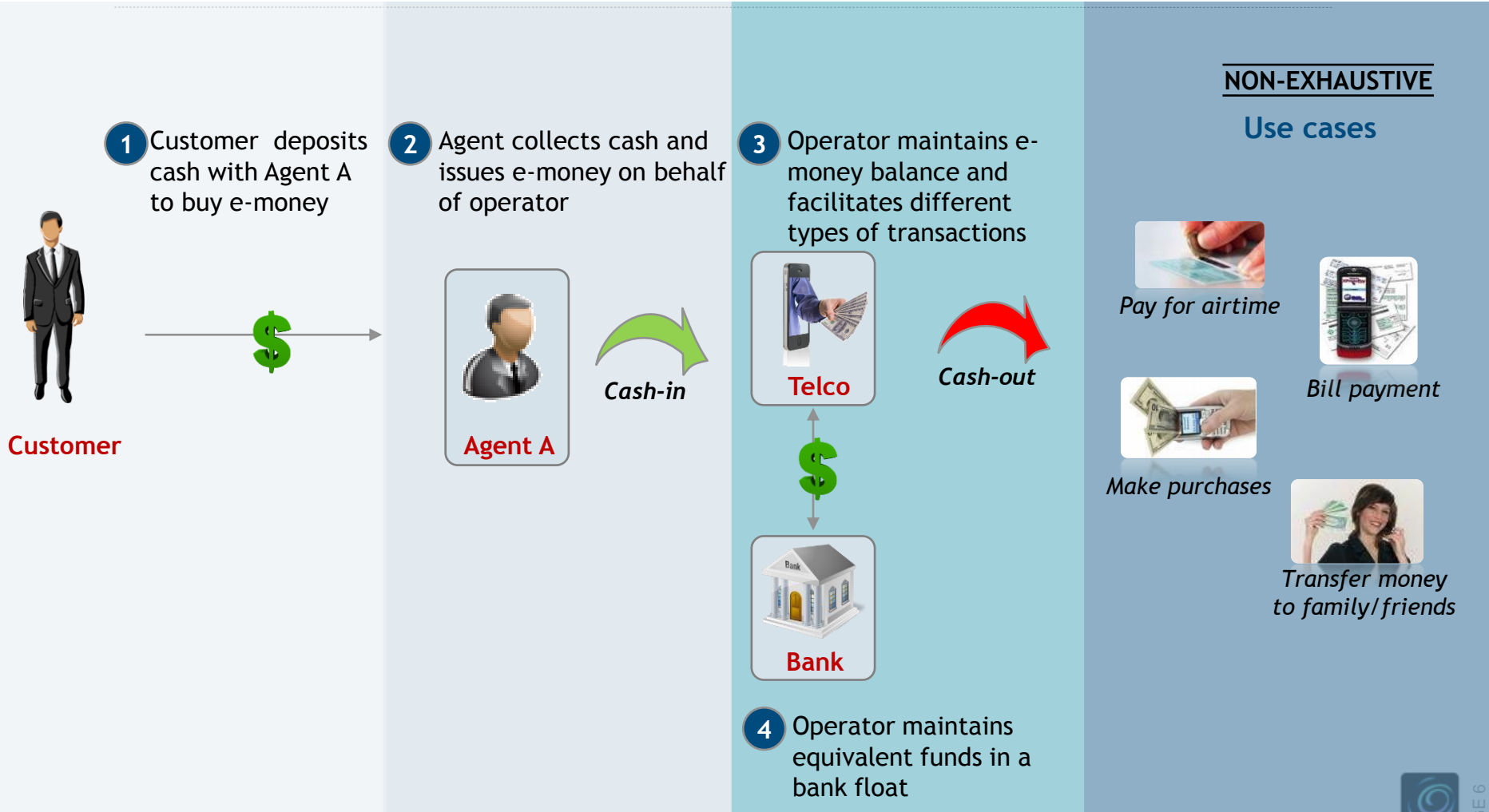
Business



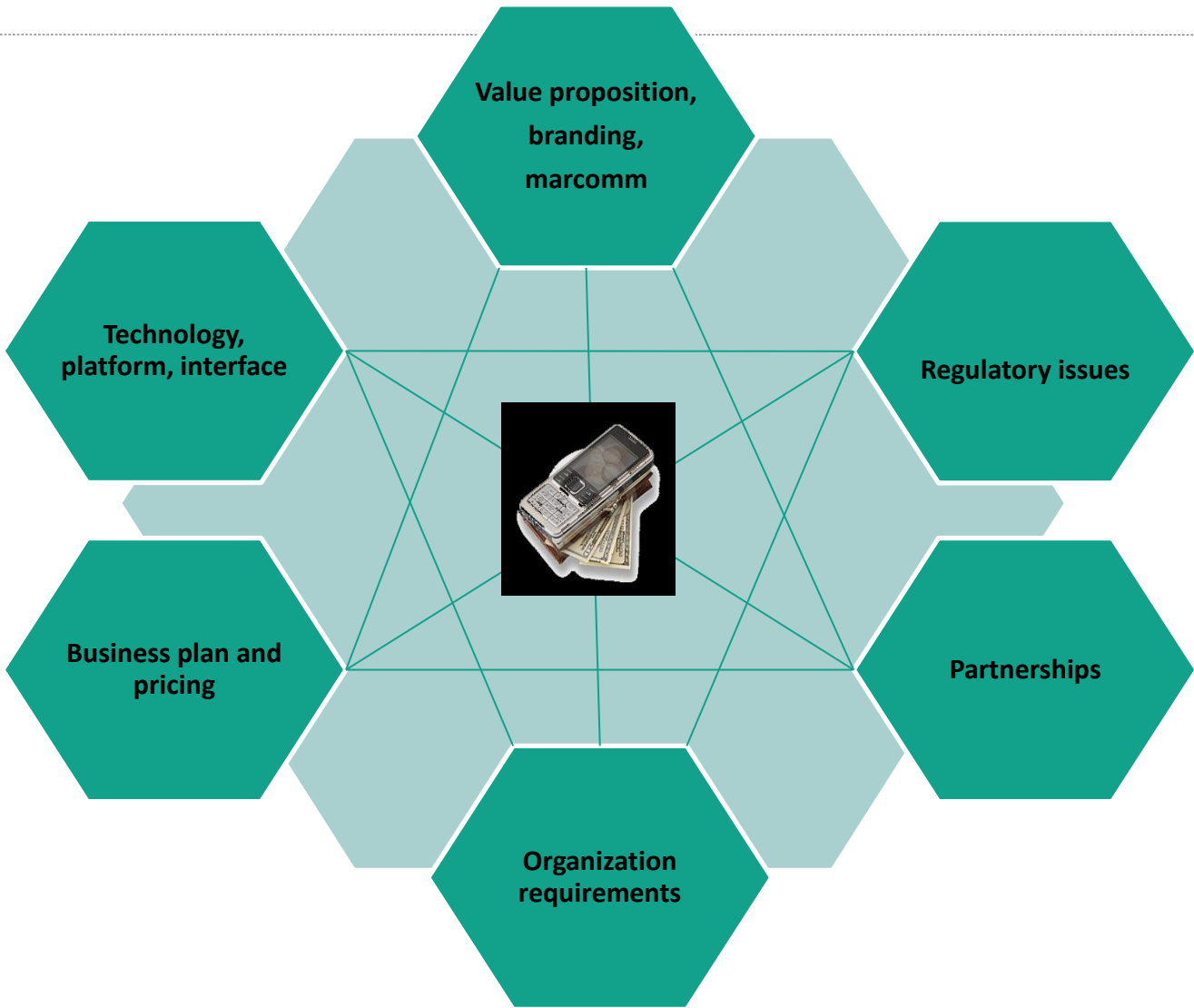
Government

OPERATIONAL/SYSTEM SETUP

m-money system



Setting up a successful m-money platform and its related ecosystem requires the fulfillment of several complex and co-dependent steps



Contents



Mobile digital financial services model

Competition in digital MFS

Key Competition Issues for MFS:



Key Competition Issues for MFS:

- a. Access to the channel for delivery MFS
- b. Transparency of MFS products
- c. Interoperability
- d. Data sharing in MFS
- e. MFS regulatory authorities and competition

Access and use of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers” should be implemented.

In the MFS market, effective competition can improve financial inclusion in a number of ways:

☐ *Price*: Effective competition among providers drives them to operate more efficiently and price their products competitively to attract consumers. This can lead to lower costs passed on to consumers and businesses, which can make financial services more affordable to low-income, underserved populations.

☐ *Quality of products*: Effective competition incentivizes providers to ensure that the products they provide are high quality to retain consumers, helping adopters of products remain active users—all the more pertinent given high dormancy rates experienced by some providers of MFS.

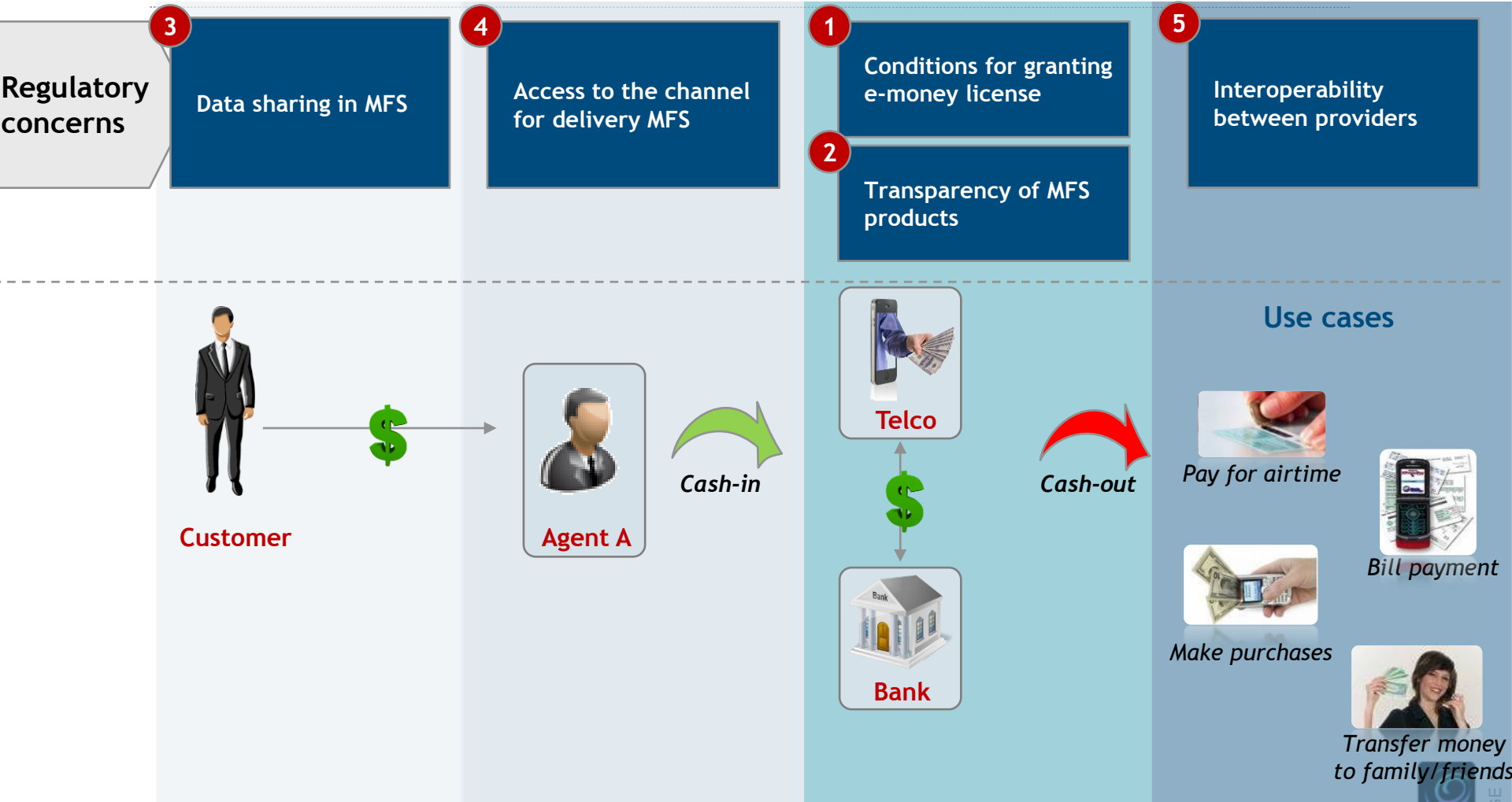
☐ *Variety and diversity of products*: Effective competition also incentivizes providers to introduce new and innovative MFS products and services, which promote increased uptake and use of financial services among the poor.

☐ *Service*: Where consumers have increased options for products and services, service quality will be promoted as firms compete on service for fear of consumers switching providers. In MFS markets, service can impact product quality in multiple ways, including the quality of the financial product, but also the quality of the telecommunications channels and agent networks through which these services may be accessed.



In the competition, there are a number of areas that need to be addressed

competition concerns across different aspects of m-money system



1- Key challenges regarding channel access for delivering MFS



- ❑ There is an inherent conflict of interest where the provider of a MFS channel competes with other MFS providers' products and services delivered via the same channel. This does not preclude the channel provider from this dual role, but does raise important competition considerations that need to be effectively managed by the relevant authorities.
- ❑ The pricing of channel access may result in providers being unable to access the relevant market(s), resulting in less effective competition. This includes “zero-rating” of channel costs (removing all charges for use of the communication channel) for partners that compete directly with other providers accessing the same channel to provide a competing service.
- ❑ Notwithstanding the above, policy makers should take an incremental approach to any actions related to channel access. The first step should be a formal inquiry into the cost of channel access across sectors to determine the effects on competition.

2- Key competition messages regarding transparency in MFS

☐ Price transparency is an important element of a competitive market because it both encourages firms to compete on quality and price, and lowers search barriers for consumers, facilitating their ability to exert competitive pressure on competing products.

☐ Transparency practices in MFS are currently wholly inadequate across payments, credit, and other product lines. There is an urgent need for standards and policy action to impose better and standardized practices on MFS providers.

☐ As more sophisticated and complex products such as credit, savings, insurance, and securities are delivered via mobile money, these deficiencies in price transparency will only become more important.

3- Key competition messages regarding interoperability in MFS

- ❑ Interoperability may promote effective competition through reducing network effects.
- ❑ Removing agent exclusivity may be an important enabling factor to interoperability, as well as a less politically sensitive way for a competition authority to act to encourage interoperability without forcing it upon providers.
- ❑ There may be “natural monopoly” aspects of large-scale MFS payments networks that should be evaluated when determining policies in areas such as interconnection rates.
- ❑ The emergence of new actors such as banks and MVNOs may complicate discussions on interoperability further by introducing new industries and actors to the debate.

4- Key competition messages regarding data in MFS

- ❑ Data generated by MFS accounts and transactions can be an important tool for providing new financial products and services to previously underserved consumers.
- ❑ A lack of information and data sharing, in particular credit information, can lead to barriers to entry, barriers to switching, and reduced innovation in MFS. This will result in less effective competition and, both directly and indirectly, reduced scope for financial inclusion.
- ❑ Improved standards for permitted and nonpermitted use of consumers' transactional data in mobile and MFS should be a priority for competition, financial, and telecommunications authorities, who will likely need to coordinate in setting new standards for how data in the MFS space is owned, accessed, and shared.

5- Key competition messages regarding MFS regulatory authorities and competition

- Existing regulatory arrangements in the telecommunications and financial services industries may not adequately cover all MFS providers and product lines, and may lead to regulatory arbitrage or advantages conferred to certain providers based on the type of provider they are, rather than the services they provide.
- Competition authorities can support and complement telecommunications and financial sector authorities, and should formalize coordination agreements.
- Competition authorities have a market-wide jurisdiction and so may be able to enforce certain competition-relevant policies in MFS more broadly and thoroughly across provider types, ensuring effective competition in MFS markets.



THANK YOU

