

Mobile Money and Financial Inclusion

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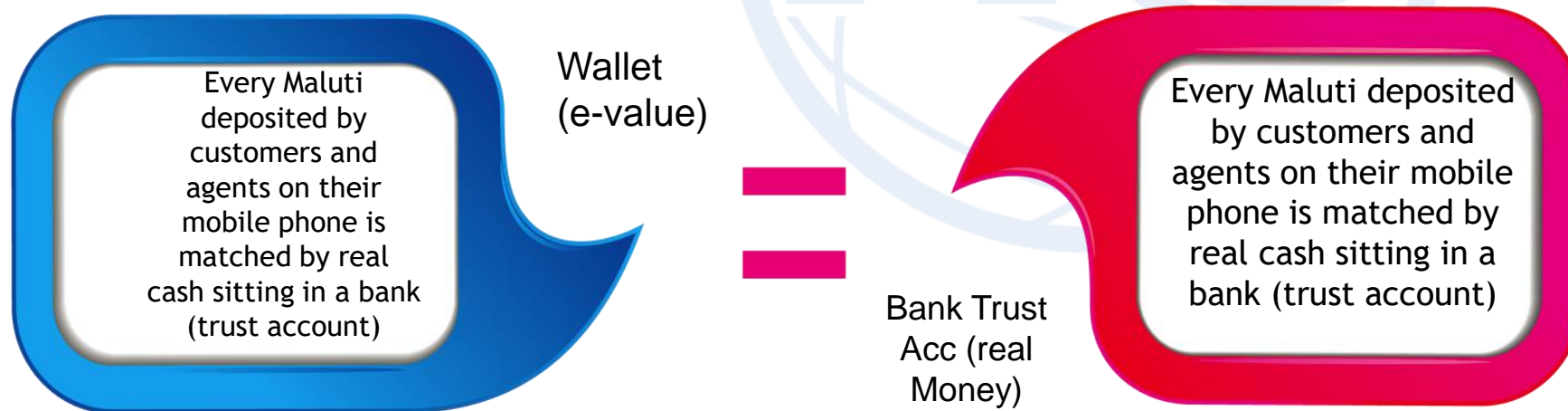
PRESENTATION OUTLINE

- **The Econet Mobile Financial Services defined**
- **The Critical Links**
- **Market – Mobile Money Services and Remittance**
- **Opportunity – SA Corridor**
- **The Regulated Environment & Stakeholders**
- **Evolution post Regulation & Performance**
- **Challenges & Risks**
- **Way Forward**

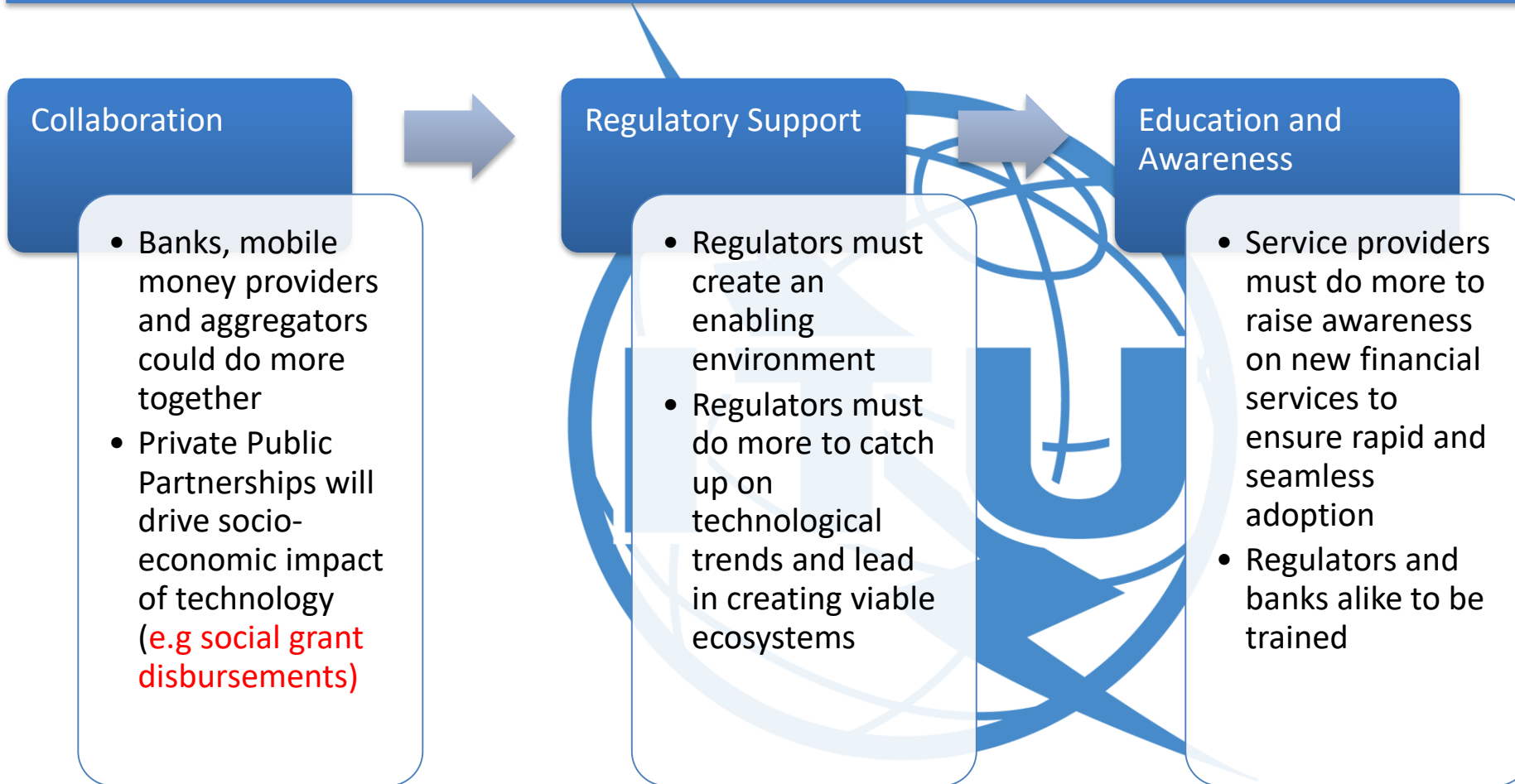


THE ECONET MOBILE FINANCIAL SERVICES

- EcoCash itself is not a bank but allows customers access to cash using mobile handsets to send and receive cash, pay for goods and services and to make cash outs at the Eco-cash Registered Agents country wide.
- Transactions for eco-cash are made against money held with the banking partners who hold the money in trust for the MNO's
- Customers must have cash in their wallets for them to transact and the Agents need to have e-wallet float for them to service the customer cash outs.
- The service allows registered customers to transfer money from their bank account to their e-wallet
- EcoCash agents and subscribers can swipe their bank cards (debit or credit) in order to get virtual money in their wallets
- The service allows customers to receive cash value from international service providers on their handsets
- International Remittance Service providers must have e-value in the local partner banks for their customer transactions to be effected (**Note some partner aggregators and Banks work on pre-funding while others refund against disbursements made**)



THE CRITICAL LINKS



MARKET FOR MOBILE FINANCIAL SERVICES



- 87.1% aged between 25-54 years old, with only 5% younger than 25 years old – **prime of productive years**, suggesting that migration motivated by quest for better livelihoods
- Traditionally **male dominated**, with recent upsurges in female migrants into SA
- Over **60% in the mining industry** – that has been declining over the years, due to price fluctuations in mineral prices, increased competition, industry disruptions, mechanisation and fluctuating demand
- Over 70% of remitters married, with spouse and kids back home
- Considerable reduction in net worth of remittances, due to **high cost** of remittances channels (over **80% informal** – self transportation of funds over 55%, 32% with friends and family)
- Small size (Average of M10,078 per annum – **75% of house hold incomes** for surveyed house holds)
- More **frequent remittances** (over 75% at least once a month)
- Over **93% of remittances spent on basics** food/ groceries

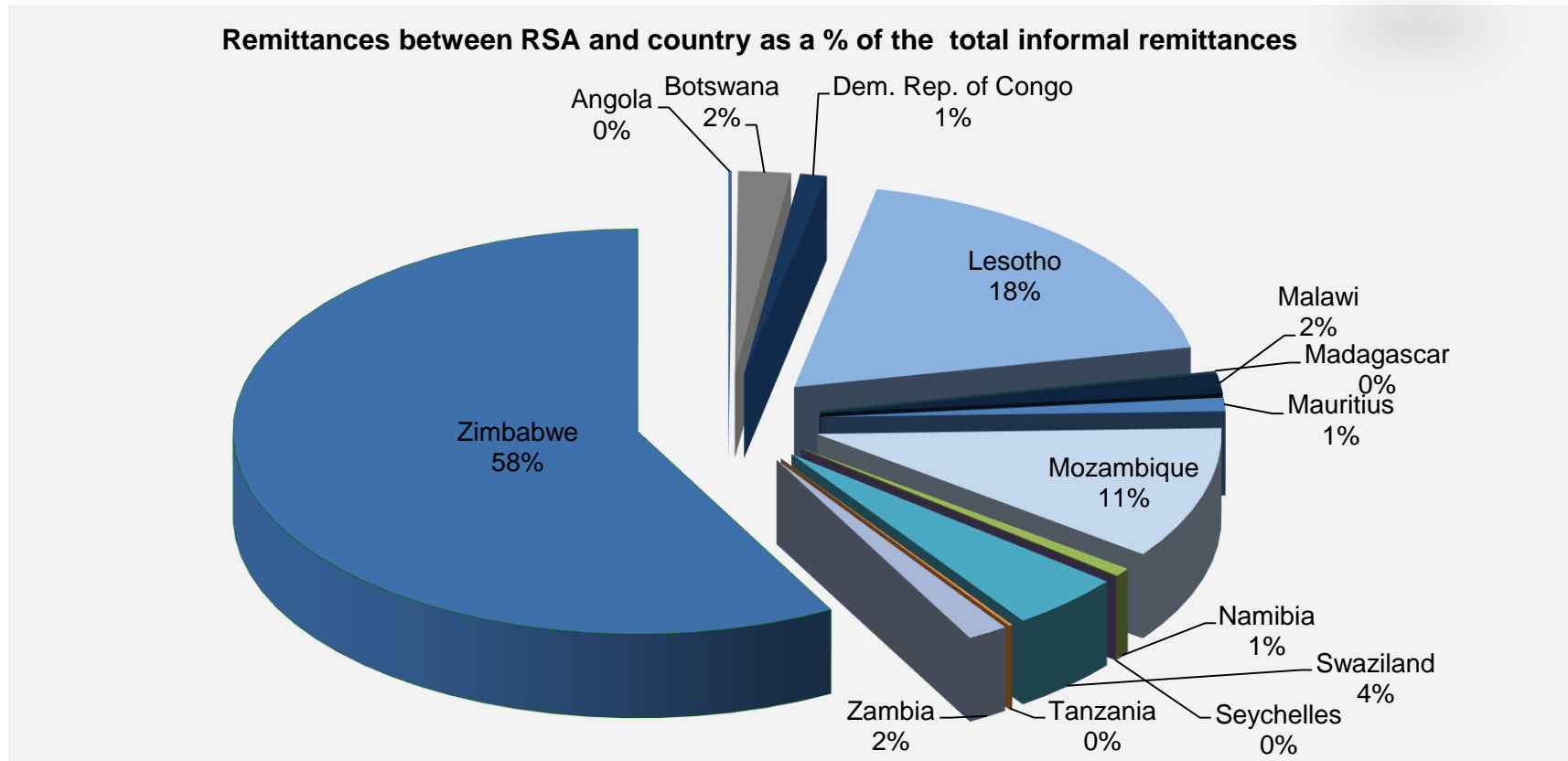
MARKET FOR MOBILE FINANCIAL SERVICES (cont.)

Lesotho Migrant Remittances Landscape

- Population (estimate 2015) 1,894,194
- Basotho Migrants Mine Workers (estimate) declined 100,000 (1990) to 27,000 (2013)
- Growing number – Female migrants largely domestic
- Current estimate total migrants = 30% of total population
- Migrants by sectors (Informal sector = 9%; Commercial = 5%; Self Employed = 6%; Professional skilled = 5%; Skilled Manual = 5%)
- Authorities suggest an estimate between 400,000 to 500,000 migrants in 2015

Outcome declining remittances from formal migrants to increased informal and domestic migrant remittances with minimal or no access to the formal financial services

OPPORTUNITY SA CORRIDOR



Lesotho is only second to the SA/ Zimbabwe corridor by value, from fewer senders

The Regulated Environment & Stakeholders

Regulatory environment & Stakeholders

Regulators

- Lesotho Communications Authority – Telecoms Services
- Central Bank of Lesotho – Financial Institutions (including payment systems issuers of electronic payments (**Mobile Money Providers are defined as Issuers of E-Payments**))
- Reserve Bank of South Africa
- Financial Intelligence Centre
- US Federal Regulator responsible for Administrative Rules – Global Money Transfers

Stakeholders

- Partner Banks (Local – Standard Lesotho Bank & International - Mercantile Bank)
- Remittance Agents (e.g. Flash, Pep Stores, MoneyGram, WorldRemit) & Receiving Agents (Eco-cash Agents)
- Technology Partners (system /platform providers, software technology partners for remittance agents).

Should the SADC Remittance partners get on board The Southern African Development. Community (SADC) Integrated Regional. Electronic *Settlement* System (*SIRESS*) will be an additional Stakeholder



Evolution Post Regulation & Performance

- 2012 – Person to Person applications, Bulk payment, Merchant payments
- 2014 – International Cross border (inbound remittances- UK & US)
- 2016 – Increase Corridors (+3 Netherlands, Hong Kong, UAE)
- 2017 – SA Cross border (inbound only)

Notes:

- Year on year growth despite limited number of open corridors and services.
- Only 5 out of 51 originating destinations for remittances were approved by CBL.
- All International Remittances are in-bound only
- SA Remittances launched 22/12 & therefore not included in analysis

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Transaction values

2013 -	National (only)= 2,279,998.89
2014 -	National (only)= 73,122,370.99
2015 -	National = 424,138,486.05 International = 88,546.00 Totals (2015) = 424,227,032.05
2016 -	National = 952,715,896.96 International = 1,512,768.00 Totals (2016) = 954,228,664.96
2017 -	National = 2,608,307,464.02 International = 3,378,903.00 Totals (2017) = 2,611,686,367.02

CHALLENGES & RISKS

KYC violations due to inadequate documentation

The Regulations allow for Full and Partial KYC in accordance with the transaction limits authorized. Partial KYC requires passport number, Proof of Residence & Phone Number. **Note: Proof of residence for most unbanked customers can only be provided through verification by the local chiefs as customers do not have any form of utility bill (water, electricity/street addresses)**

Money Laundering Risk

Existing EcoCash limits are set to curb money laundering. Ecocash system is configured in such a way that transactions above limits are not allowed to go through. However, instances of Pyramid schemes using multiple sims can circumvent the system as the limits attach to a SIM.

Agent Liquidity and Management of Agent Float

Agents must have sufficient e-wallet float against which to make disbursements. Agents are often cash strapped and not able to fully service demands for cash out by beneficiaries. Mobile Money not widely accepted as a settlement form country-wide as such vendors are not very open to accept e-value for payment of goods and services.

Diverse Regulatory Requirements

Partner Banks/Financial Institutions (Mercantile Bank, World Remit, Standard Lesotho Bank) are subject to their country specific regulatory requirements.(e.g Reserve Bank SA, Financial Intelligence Act , Central Bank Ls, Payment Systems Regulations, There is no harmonized regulatory framework for Mobile Money Institutions.

Different Funding Models

Some partners use a pre-funding model in terms of which any remittances to ultimate beneficiaries are made against cash value equivalent held with local banks. Others maintain that their Regulatory Agencies cannot authorise pre-funding models resulting in the cash strapped MNO's having to pre-fund the co-payments in country to be settled against payments made to beneficiaries

Disparate capabilities Remitting Agents vis Receiving Agents

Remittance Partner Technology is often advanced i.e captures identity at point of registration together with the Identity & Residence details, while Receiving agents do not have the Technology for same. Reliance is largely on the controls on the Eco-cash platform for registration of subscribers. Note: Lesotho does not have Mandatory SIM Registration

Trust in the Mobile Money services & Safe and Secure Legal Framework for Customers

The current legal framework is paper based with no legal safeguards not evidence rules for electronic transactions and legal protections in the cyberspace; Note – some of the reasons given for refusal of opening up all available remittance channels is the Regulatory Trust on the Mobile Money Operations.

Despite the growing number and value of transactions to achieve financial inclusion of the unbanked customers, the operational risk may need proactive and cohesive measures for safety and security of customers

RECOMMENDATIONS

- Fragmented Regulatory Frameworks and Regulatory Agencies

Solution = Develop Standards for adoption

- Power Parity differentials between remitting and receiving partners

Solution = Develop Templates for base texts for adoption allowing deviations where applicable

- No Regional Standard & References

Solution = Regional Harmonization of Regulatory Principles and Standards – **This also needs to address financing arrangements for operations)**

- Customer Protection Measures & Legal Frameworks

Solution = Adoption of laws that foster trust and protect consumer rights