

Mobile banking: Overview of Regulatory framework in emerging markets

Rasheda Sultana

Policy Brief

South Asia is one of the fastest growing regions in terms of mobile phone subscription. This technology has been transforming lives of people for better with the opportunity to get or remain connected and access to information both for personal as well as professional communication. But there are scopes of doing even more. Millions of people in South Asia rely on informal economic activity and local level networks to earn their living. Most of these populations don't have access to basic financial services/banks as access to them is costly, inconvenient and very limited. There is a clear market demand or need that can be served with the existing mobile phones and introduction of products like mobile banking or payments. Such products will not only give the unbanked population access to financial services but will also facilitate money transfer mechanism (through international/domestic remittance transfer facility). As the most promising ICT market and the largest inbound remittance receiver, this region is expected to be the hub of m-banking transactions. Gartner study (2008) predicts that the biggest share of mobile payment users will be in the Asia/Pacific region by 2012.

In this context, an increasing number of countries are adopting national policies and outlining strategies to adapt regulations to facilitate the adoption of m-banking. In that case, the question comes to policy makers or regulators- which model of m-banking to be introduced or encouraged? The options can be either bank based models or a Non-Bank/Telecommunication Company (Telco) based model. According to CGAP (Consultative group to assist the poor) there are two models of mobile banking -

- Bank-based model- a bank (or similar fully license and supervised financial institution) is the legal provider of the financial service
- Non-bank-based model – Customer has no legal relationship with a bank, and instead a nonbank entity is the financial service provider.

In addition to the above, regulators also need to address many concerns like consumer protection, anti money laundering (AML), combating finance for terrorism (CFT) etc. while attempting to increase financial services outreach through m-banking.

In Asia Pacific region the regulations are still approached with caution, as the development of m-banking is at a relatively early stage. South Asian region exhibits a rather conservative approach with bank based model in India, Pakistan and Bangladesh (Sri Lanka is the exception with non-bank based model). The most discussed or apparently successful cases of m-banking (i.e. M-PESA from Kenya and G-cash/Smart from the Philippines) reveal that non-bank based model has been more successful in addressing the demand of unbanked population. Customer growth and increasing usage of mobile payment service (the data of Kenya specially) clearly indicates that non bank lend based model with continuous monitoring measures can ensure quicker access to financial services especially to those who never had a bank account.

Recommendations:

The regulatory practices of the countries where m-banking has been successful can clearly help the regional regulators to customize their model accordingly. While drafting existing laws/regulation the convergence of banking, payments and telecommunications were not in mind of the regulators. Hence, those laws may found to be either/both over or under protective. In this case the regulators can-

1. Start with existing law/ modified version of exiting law. Later they can make changes on an 'as and when' required basis/ rapidly to keep the pace with developments.

2. Monitor the transactions regularly with a capable monitoring team
3. Conduct periodic audits to maintain balance between the benefits and the risks.

Conclusion

Advancements in mobile technology have changed our lives over the past ten years. It has the potential to even more powerfully transform the lives of the world's poorest people. The technology is no doubt the cheapest and most convenient way to provide financial services those who never had it. Our policy makers/ regulators should facilitate m-banking in a way that it can immediately connect the 40% mobile connected population of the world connected to financial services.