Global framework to speed up spread of mobile

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28 Nov 2016

The imminent release of a global framework on digital financial services is expected to accelerate the adoption of mobile money transfer and payments in emerging markets.

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The International Telecommunications Union focus group on digital financial services was established two years ago to find ways to help local policy makers improve financial inclusion. It will hold its final meeting in December to share its findings after consultation with more than 60 public and private organisations, including banks, mobile network operators and policy makers from more than 30 countries. The recommendations are expected to be released in January.

Scalable, far-reaching services

With 2-billion people still unbanked globally, mobile devices present one of the most affordable and simple ways to broaden financial inclusion. Although mobile money penetration rates are still low, there are a number of successful services run by mobile network operators. The poster child is Kenya's M-Pesa platform, which is now being adopted on other continents.

"M-Pesa blossomed in Kenya because banks were unfair to common people – 80% were unbanked, with no access to debit or credit cards and ATMs," says Gaurav Bhandari, an associate of law firm DV Kapila & Co.

"People are now able to send money from one phone to another via SMS. It's transformed lives in Kenya."

MTN Money has also done well in many markets outside SA, especially in Uganda and Ghana. In the six months to June, MTN's Mobile Money increased subscribers 5% to 36.5-million.

Providing a framework to standardise and unify digital financial services across borders will ensure not only that competing products are interoperable, but that digital financial services are scalable and far-reaching, says the focus group. By providing a common set of standards, the new framework avoids overregulation while encouraging the broader reach of digital financial services, it says.

A recent McKinsey report expects the use of digital finance to increase the GDPs of all emerging economies 6% (3.7-trillion) by 2025. This is equivalent to an economy the size of Germany and could create up to 95-million jobs.

Challenges to adoption

Focus group chairman Sacha Polverini says telecommunications and financial services regulators, governments and central banks need to work together to identify the policy and regulatory issues preventing digital financial services from developing organically and reaching the poor.

Countries throughout the developing world, however, are finding that there are challenges in getting merchants to accept digital payments. Enabling acceptance by merchants is increasingly seen as a key element. It will help achieve digital liquidity by enabling poor consumers to spend a meaningful amount of their income into digital wallets, eliminating or reducing the need to incur cash-out costs, says Polverini.

Among the concerns raised during meetings with stakeholders are user-friendly interfaces. Not everyone can read or write, so the interface should be more graphic and intuitive. Security protocols and data protection are an issue because users are wary about cellphone transactions. "They do not always trust the security of the Wi-Fi and mobile network transmitting data," says Polverini.

Longer-lasting cellphone batteries will be key because, with the increasing number of users going mobile, the importance of a reliable and efficient energy supply increases.

International Telecommunications Union secretary-general Houlin Zhao says regulation must nurture the development of a strong and healthy digital finance sector. Given the complexity of the regulatory environment, it can often be a challenge for telecoms and financial services regulatory bodies in many emerging markets to collaborate in developing national guidelines.

"The focus group has sought to identify a clear framework that regulators around the world can use. I believe also that the work being done will contribute significantly towards reducing global poverty."