

# 10 Ways to Accelerate Mobile Money

## USAID-Citi Mobile Money Accelerator Alliance

### Executive Summary

Mobile money can transform the lives of 1.8 billion people who have access to a mobile phone but not a bank. It can connect the last mile to basic financial services. Yet despite the over 100 mobile money deployments around the world, only a handful have reached economies of scale. We have learned from these deployments that the private sector cannot do it alone. Neither can governments, nor the donor community. Mobile money deployments require the coordinated action of all ecosystem participants to achieve scale. The most successful mobile money markets sound like a polished symphony orchestra, where the various industry and government participants show up at the same time with the same sheet of music and play in harmony. But that is not today's reality. Instead, participants appear at different times and places with their own music and tempo.

These ten accelerators represent a call for coordinated action. They encapsulate a set of lessons that both the U.S. Agency for International Development (USAID) and Citi have learned by engaging governments, banks, companies, mobile network operators, and practitioners. These accelerators also draw on research conducted by CGAP, GSMA, and the Gates Foundation. We hope that they accelerate the conversation toward a set of best practices.<sup>1</sup>

- Accelerator 1:** Ensure Mobile Money Transfers Are Safe and Transparent
- Accelerator 2:** Establish an Inter-agency Government Process to Coordinate Mobile Money Decisions
- Accelerator 3:** Leverage Mobile Money for Government and Donor Payments and Collections
- Accelerator 4:** Get Food and Household Product Retailers to Accept Mobile Money
- Accelerator 5:** Promote Open-Architecture Policies and Interoperability Within and Across Ecosystems
- Accelerator 6:** Allow Mobile Money Transfers to Move Seamlessly Across Borders and Mobile Networks
- Accelerator 7:** Pilot Programs to Test Innovative Approaches, Create Impact Analysis, and Develop Replicable Opportunities for Scale
- Accelerator 8:** Protect People through Client Education and Consumer Protection Measures
- Accelerator 9:** Facilitate the Ability of People to Put Cash In and Take Cash Out of Their Mobile Wallets
- Accelerator 10:** Tackle the Identity Issue for the Unbanked

<sup>1</sup> USAID and Citi would like to express our appreciation to those who contributed to our thinking and to this document, in particular CGAP and the IFC .

## Introduction

Mobile money can transform the lives of 1.8 billion people who have access to a mobile phone but not a bank. It can connect the last mile to basic financial services. Yet despite the over 100 mobile money deployments around the world, only a handful have reached economies of scale. We have learned from these deployments that the private sector cannot do it alone. Neither can governments, nor the donor community. Mobile money deployments require the coordinated action of all ecosystem participants to achieve scale. The most successful mobile money markets sound like a polished symphony orchestra, where the various industry and government participants show up at the same time with the same sheet of music and play in harmony. But that is not today's reality. Instead, participants appear at different times and places with their own music and tempo.

These ten accelerators represent a call for coordinated action. In order to transition game-changing payment streams from cash to mobile money, the enabling environment must be in place – consumers must understand the product, agents must be available, and the requisite regulations need to be in place. To ensure that mobile payments stay in the system to advance financial inclusion, mobile money agents, merchant acceptance points, retail participants, and participating billing and payment entities must be established. This requires intensive coordination and collaboration between many actors across sectors.

USAID and Citi have come together to form a global alliance to accelerate the adoption of mobile money to reach the last mile with basic financial services. We both believe that mobile money is critical to financial inclusion and economic development. We believe that it has the potential to improve livelihoods, reduce corruption, empower entrepreneurs, and unlock the private sector. And we believe that we can help coordinate efforts across sectors by engaging governments, regulators, and industry and other key participants to enhance the understanding of what is and what is not working. Our focus here on mobile money should be viewed within the context of USAID's and Citi's overarching support for broad-based efforts to electrify cash.

As mobile money is still an industry in its infancy, we submit these accelerators with great humility. They constitute a set of lessons that USAID and Citi have learned by engaging governments, companies, mobile network operators, and practitioners. These accelerators also draw on research conducted by CGAP, GSMA, and the Gates Foundation. We hope that they accelerate the conversation toward a set of best practices.

## Accelerator 1: Ensure Mobile Money Transfers Are Safe and Transparent

Government entities and regulatory authorities should work to ensure mobile money regulations strike the appropriate balance between innovation and safety and security. The policy choices should reflect the G20 principles and a "test-and-learn" approach whereby regulators closely monitor new market entrants, assessing initial risks, and adopt proportionate risk mitigation rules based on experience.

As regulators monitor and evaluate the potential risks, they should consider the relative importance of the following regulations:

- Financial Sector Regulation and Supervision: Proportional licensing schemes and e-money licensing, market integrity (fraud and crime control), financial systemic risk (concentration risk mitigation), and consumer protection standards.
- Telecom Sector Regulation and Supervision: Existence of universal service policies, coverage rate requirements, and identification requirements for prepaid services.
- Mobile Money Regulation and Supervision: Banking agent regulation, MNO role as a banking agent, non-bank agent deployment, permitted agent activities, non-bank mobile or electronic licensing, treatment of stored value, anti-money laundering, combating the financing of terrorism (AML/CFT) regulation and oversight, proportional transaction limits, proportional Know Your Customer (KYC) requirements, international mobile money transfer regulation, and interoperability.

Moreover, standard-setting bodies (SSBs) should similarly incorporate principles associated with new innovative business models, like mobile money, into their standards. These principles should reflect the significant and thoughtful work already done by the Global Partnership for Financial

Inclusion (GPII) and align with G20 principles. While there will inevitably be different models adopted in different countries, there is room for a common framework of principles in the regulatory area to ensure that national regulations align with international standards.

There is significant progress in SSB standards and guidelines in the area of applying appropriate risk-based proportionate guidelines and requirements to anti-money laundering, combating the financing of terrorism, and maintaining customer due diligence procedures. The Financial Action Task Force (FATF) guidance aimed at this issue is important for priority financial inclusion countries. Moving forward, protecting consumers against mobile money agent fraud and developing customer reimbursement procedures will be critical to maintaining network confidence.

#### **Accelerator 2: Establish an Inter-agency Government Process to Coordinate Mobile Money Decisions**

Mobile money ecosystems include a number of stakeholders within governments. Central banks, ministries of finance, ministries of telecommunication, financial inclusion entities, public utilities, pensions, bank and telecom regulators, and benefits and social security-related entities all have varying roles to play in a successful mobile money ecosystem. However, many governments are still siloed in their approach to the various components of success. In many cases, coordination is sub-optimal, as no one government entity owns the entire process. This coordination is critical to striking the right regulatory balance and identifying how governments can accelerate the adoption of mobile money. Moreover, without this coordination, the private sector will not have the confidence to build and invest, nor be able to do so within an accelerated time horizon.

Governments should have an inter-agency committee process with a chairperson to ensure policy coordination between government institutions internally and with the private sector externally.

#### **Accelerator 3: Leverage Mobile Money for Government and Donor Payments and Collections**

The demand for domestic remittances and P2P transfers will not scale mobile money platforms in all countries. Governments and donor organizations, however, can increase uptake and use of mobile money by paying salaries, social benefits, conditional cash transfers, and pensions through this channel. Large donor organizations can similarly adopt the use of mobile money in their disbursements. In both cases, doing so will improve transparency, reduce costs and leakage, and dramatically accelerate the ecosystem forward along the network effect curve toward a tipping point. These payments can also promote financial inclusion if they land in accounts that: 1) enable recipients to store funds and use them for other transactions within the general purpose payments infrastructure; and 2) are accessible to customers in terms of cost and proximity.



The mobile phone also has the ability to transform conditional cash transfer (CCT) programs by taking the paper out of the conditionality process. This can make the delivery of CCTs faster, more cost-effective, and economically efficient. Take, for example, a vaccination-conditioned CCT, where a doctor enters a pin thereby verifying the treatment and authorizing the transfer. This would eliminate paper and reduce bureaucracy and delays. CCTs require a transparent process, targeting and monitoring operations, MIS, and transparency, none of which is achievable in a paper-and-cash world. With a financial electronic back-end bolted to a mobile phone, all of this is possible.

Once an individual receives their salary or a CCT into their mobile wallet, it is critical that they pay bills and purchase goods with mobile money. Without a strong collection component to the ecosystem, the individual will simply have to “cash out”. Cashing out is not only inefficient but also costly. Therefore, developing “spend-cases” or uses of mobile money for the unbanked is as important as the injection of cash into their mobile wallets. Moreover, it is more efficient and effective for urban and rural unbanked populations to pay fees using their mobile phones than it is for them to travel a number of miles and wait in long lines to make small payments.

Government-owned electricity and water utility companies have the potential to adopt mobile collections as an anchor “use-of-funds” for loaded wallets. In addition, steps can be taken to enable mobile collections of small fees and duties commonly paid by the financially excluded. In cases where there is a government housing entity that collects housing payments, these can also be considered for mobile collections.

#### **Accelerator 4: Get Food and Household Product Retailers to Accept Mobile Money**

The financially excluded should be able to use mobile money to purchase food and household goods from local retail stores. This helps make day-to-day payment benefits clear and provides more uses of mobile money. However, for individuals to be able to pay using a mobile wallet, shop owners must have a mobile wallet themselves.



Mobile network operators can help convince a critical mass of retail outlets to adopt mobile money. In particular, as agent networks expand to include large local retail chains, stores become not just “cash-in cash-out” locations but locations where the financially excluded can make food and household good purchases. It is more difficult, however, to convince small retailers in rural areas to adopt mobile wallets, and resistance to greater transparency is not uncommon. The fastest way to get a mom-and-pop retailer to embrace a mobile wallet is for direct store delivery companies (like Coca-Cola, Procter & Gamble, SABMiller, or Danone) to embrace mobile money collections. In

this case, fast moving consumer goods (FMCG) companies can encourage the enrollment in mobile money services by incentivizing adoption or eventually making it mandatory. This is in the interest of FMCG companies because they rely on troublesome cash collections; the process of replacing cash collections with mobile money transactions has many benefits for FMCG companies, including safety, cost, efficiency, anti-fraud and working-capital liquidity management.

Not only will these solutions create efficiencies for the supply chain of FMCG companies, but they will exponentially increase the number of retail locations that have a mobile wallet and that are able to accept a mobile payment from the unbanked citizen.

#### **Accelerator 5: Promote Open-Architecture Policies and Interoperability Within and Across Ecosystems**

Governments and industry players understand the importance of eventual interoperability, which increases the number of potential users, makes mobile money more efficient and effective, and “democratizes” the ecosystem. However, at the early stage of ecosystem development, governments might not want to discourage investment or disadvantage leadership by any one mobile network operator or bank.

The implementation of this vision should evolve as the mobile money market matures. As the mobile money market becomes more competitive over time and new operators enter the ecosystem, it will be increasingly important to discuss, regulate, and incentivize the creation of the infrastructure backbone necessary to facilitate interoperability. Regulators can encourage the appropriate development of and investment in centralized payment clearing and settlement infrastructure to support a functional and open mobile money ecosystem.

#### **Accelerator 6: Allow Mobile Money Transfers to Move Seamlessly Across Borders and Mobile Networks**

Governments have an interest in using mobile money to facilitate the cross-border flow of remittances and reduce cash transfers. While estimates vary widely, it’s safe to say that billions of dollars move around the world every year through informal value-transfer systems. These flows are outside of the banking system and outside of the view of regulators and anti-narcotics, counterterrorism, and law enforcement agencies. The cost of moving money across borders is also extremely high and there is significant leakage.

With a coordinated mobile money regulatory framework, governments can encourage international transfers. Migrant workers should be able to transfer money across borders to their families back home using their mobile wallets, just as they would send money to a rural area from the city. This not only unlocks critical cross-border payments but brings them into view, reinforcing transparency and control by CFT, AML, and other law enforcement authorities.

#### **Accelerator 7: Support Pilot Programs to Test Innovative Approaches, Create Impact Analysis, and Develop Replicable Opportunities for Scale**

The use of mobile money in development programming is still relatively new. There is not yet a clear sense of what works, what doesn’t, and why. Governments, NGOs, and donors can help fund pilot projects that integrate the use of mobile money across sector programs.

In agriculture, for example, MNOs and service providers have already learned from pilot projects that farmers who use mobile money find it easier to pay input suppliers and are less likely to need to borrow to buy inputs at the beginning of the crop cycle. This lowers their costs and gives them greater flexibility in terms of who they sell to, as they are not forced to sell to the buyer who loaned them money in the first place. Still, we don’t know nearly enough about the impact of providing financial products like indexed micro-insurance or savings via mobile phones. Pilots can test these programs and show what is commercially viable and what is not, and create a feedback loop to inform future programming. In healthcare, pilots can help us understand the benefits of mobile money for patients who pay healthcare providers via mobile. Pilots can also help healthcare providers test rewards for patient treatment compliance and healthy behavior.

There are countless examples of potential pilot projects that would help document the impact of mobile money across development programs and thereby create a case for scaling successful



solutions. Governments, NGOs, and donors all have a role to play in the pilot cycle. Donors can provide financial support to NGOs implementing programs that integrate mobile money. And once programs demonstrate impact, donors and governments can provide funding to scale the program.

#### **Accelerator 8: Protect People through Client Education and Consumer Protection Measures**

The unbanked often lack basic financial education and an understanding of the consumer protections they are afforded. One surprising example is the tendency to cash out quickly as opposed to hold and save money on a mobile wallet. One reason for this is the lack of comfort in cash-out networks whether due to poor proximity, reliability, or security. However, government benefit recipients sometimes misguidedly believe that their social payments will stop if they don't spend it all. Of course, the financial education process should go beyond stored value, payments, and collections to include education on a broader array of financial services, from insurance to credit and savings capabilities.

Governments and NGOs have the potential to combine efforts so that system rollouts include education not just on how mobile wallets works but on why mobile money makes sense for them from economic, financial, social, and lifestyle perspectives. These broad-based financial literacy efforts can include the promotion of best practices in consumer protection (e.g. use of hotlines, ombudsman, etc.).

#### **Accelerator 9: Facilitate the Ability of People to Put Cash In and Take Cash Out of Their Mobile Wallets**

Sustaining and scaling agent networks continues to prove difficult. This is true for a number of reasons. It is difficult for agents to manage liquidity. In urban centers, most transactions are deposits. As a result, agents are high on cash reserves but low on e-float. In rural areas, the opposite is true – most transactions are withdrawals so agents are high on e-float and low on cash. It is, of course, up to the agent to manage their liquidity – to rebalance cash for e-float and vice versa. This process requires agents to physically transport large sums of cash to the nearest bank or to a super-agent to rebalance the two. Each trip costs time and money, and has risk-reward consequences.



Upfront capital and liquidity management are not the only challenges posed by mobile money. Mobile money as a product is much more complicated to sell than airtime. Selling airtime is quick and simple for the user to understand. By contrast, a mobile money agent will likely have to answer a number of user questions – they may even need to complete a transaction on behalf of the user to demonstrate how it is done. This means that MNOs must invest in agent training up front. Moreover, because higher commissions can mean higher transaction fees for the user, there are often tradeoffs between agent profits and financial inclusion objectives.

These and other challenges have led mobile network operators to try a number of different models ranging from dedicated agents to highly diffused models involving top-up agents, post offices, and rural banks. Long-term success should ultimately incorporate the following: proper agent incentives/commissions, training and supervision, liquidity, density, and security/trust. Unfortunately, we continue to see examples of failures across each of these areas which slow or inhibit adoption.

Governments should consider using their own infrastructure (e.g. post offices) to support agent networks, and coordinate disbursements with mobile payment operators to ensure against large liquidity squeezes on the system.

#### **Accelerator 10: Tackle the Identity Issue for the Unbanked**

If unbanked individuals lack appropriate forms of identification, which is not uncommon, they may struggle to participate in mobile money opportunities. This is prompting many governments to rethink the identity process and use creative solutions that employ biometrics, for example, or that use group gatherings, where the identified identify the unidentified.

When identity is re-established with the unbanked and connected to a mobile money initiative, the likelihood of credit extension is increased. As is the case in Indonesia, a national identity process can be linked to a credit bureau process that accelerates credit extension to the financially excluded.

Financial regulators often use account-tiering (i.e. limited identification for limited use accounts with limited value/transactional thresholds) and other risk-adjusted procedures to allow the financially excluded to participate in mobile money opportunities. As a poor identity process can end up placing constraints on the pace of mobile money adoption, this issue must be addressed early on in the development of an ecosystem.

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