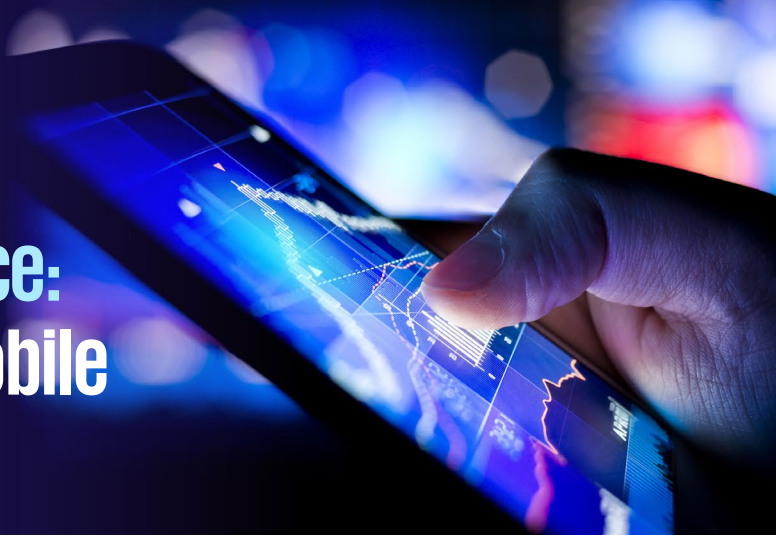




Innovation and Compliance: Navigating Balance for Mobile Money Operators



Mobile money operators have emerged as major financial services providers in the sub-Saharan African nations. As the impact of the pandemic eased, mobile money services grew faster than during pre-COVID times. Eastern Africa has exhibited the highest concentration of active mobile money users compared to other African regions. Tanzania has witnessed a remarkable surge in mobile money usage.

According to data from the Tanzania Communications Regulatory Authority (TCRA) for the quarter ending March 2024, mobile money service subscriptions in the country have reached 53 million, marking a twofold increase from 25 million subscriptions recorded in 2019. The market is largely dominated by three major players: M-Pesa, Tigo Pesa, and Airtel Money, collectively commanding 89% of the market share. M-PESA leads with the highest market share, capturing 38% of the market.

Mobile money penetration

Tanzania's financial services registry highlights the significant penetration of mobile money compared to other forms of financial services. With 8,011 agents, mobile money boasts the highest penetration, surpassing the 6,581 bank agents. Other financial services provider statistics from the registry include 2,093 bank merchants (POS), 1,183 ATMs, and 554

mobile money merchants, all of whom contribute to the industry's inclusion initiatives. The primary distinction between merchants and agents is that merchants are typically businesses or entities that accept card/mobile money payments from customers for goods or services they provide, whereas agents act as intermediaries for financial institutions to provide financial services to customers.

Innovation in the mobile money ecosystem

Mobile money operators have been instrumental in extending financial services to unbanked and underbanked populations in Africa. Through innovative mobile platforms, these operators facilitate seamless and convenient access to financial services, including payments, transfers, savings, and microloans. Such innovations exemplified below, have played a pivotal role in bridging the gap between traditional banking services and the unbanked population:

- **Savings:** Mobile money has become a key savings tool, particularly in Sub-Saharan Africa. For example, Airtel and Letshego Bank Tanzania partnered with financial technology company Jumo in 2018 to introduce the first fee-free, interest-bearing mobile money savings account called Timiza Akiba. Later in 2021, Tigo Pesa in partnership with the Bank of Africa, launched Tigo Pesa's Kibubu savings account in Tanzania, which saw rapid uptake by hundreds of thousands of users within a year of launch.
- **Digital payments:** Mobile money has fostered digital payments for goods and services. For example, in 2018 Mastercard partnered with Vodacom and Banc ABC to introduce the first online card in Tanzania, the M-Pesa virtual card, enabling millions of M-PESA users to make digital payments globally. Afterwards in 2019, Airtel Tanzania in partnership with Mastercard also launched a virtual card that enables customers to pay for services, goods, and digital content through any online merchants globally that accept payments from Mastercard. Later in 2023 Tigo Tanzania, Selcom and Mastercard Inc. also launched the Tigo Mastercard virtual service via the Selcom's card-as-a-service (CaaS) platform, enabling convenient online payments globally.



– **Microloans:** Mobile money platforms also offer innovative lending schemes for subscribers. Recently, Tigo Tanzania announced partnership with CRDB Bank Plc to expand access to funds for customers through the revamped loan marketplace service “NivushePlus”. Under this partnership, eligible customers can access loans up to TZS 2,000,000, tailored to their requirements and eligibility. Airtel Money and I&M Bank Tanzania launched a digital lending service – Kamilisha, an overdraft mobile money service that enables customers to complete their transactions seamlessly without sufficient funds in their Airtel Money wallets. Vodacom as well in partnership with FINCA Microfinance Bank launched songesha, a unique service which is designed to help customers complete M-Pesa transactions even with insufficient balance.

Continuous innovation is essential for mobile money operators to stay competitive in a rapidly evolving market. By staying at the forefront of technological advancements, mobile money operators can attract new customers, retain existing ones, and expand their market reach.

Regulatory landscape for mobile money operators

In the mobile money ecosystem, most markets are in growth-to-mature stages. Amidst the rapid pace of innovation, there is a question on whether there is balance when it comes to innovation and regulatory compliance. Despite the transformative prospects of innovation, mobile money operators are tasked with navigating a regulatory environment characterized by compliance obligations. We have seen central banks continue to prioritise the safety and stability of financial systems and consumer. In Tanzania, the regulatory landscape for MMOs is governed primarily by the Bank of Tanzania (BoT). Here are some areas where we see demonstrated regulatory efforts and improvement opportunities:

– **KYC regulations:** Tanzania has implemented robust regulations such as the Anti-Money Laundering Act and the Personal Data Protection Act to ensure that MMOs establish sufficient measures for customer identification and verification. However, there have been concerns raised regarding the requirement of national IDs as the only proof of identity to access mobile money services, have these restrictions considered challenges related to widespread roll-out of the national/government-issued IDs? Because this may lead to the exclusion of certain population groups. Again, we cannot ignore the efforts being made to overcome these challenges. For instance, the Tanzanian government recently announced that a new digital ID system will soon be available to all Tanzanians. Helping to address some gaps related to KYC.

– **International money transfers:** Mobile money has become the most cost-effective method for international money transfers, with an average cost of about 4.1 percent sending remittances compared to banks with 12 percent, reports the World Bank. These transfers not only sustain families’ livelihoods but also facilitate international trade. In Tanzania, we have the Foreign Exchange Act, that guides on dealing with foreign exchange including outward remittances. Although numerous options for sending money to Africa from abroad exist, Sub-Saharan Africa remains the costliest developing region to which remittances are sent. According to the world bank report on migration and development brief 39, Tanzania is the costliest African source country from which to send remittances to another country in the region. Foreign exchange controls pose significant challenges to mobile money driven international money transfers. Governments should consider harmonizing regional regulations for tiered KYC, monitor payment system constraints, and international trade barriers to boost international transfers.





– **Licensing:** In Tanzania, mobile money has largely been telco-led. Meanwhile, partnerships between MMOs and emerging fintech firms are on the rise. In December 2020, BoT issued the Circular whose purpose was to make it explicit that issuance of electronic money licences is restricted to licensed MNOs in Tanzania. This restriction was made with a view to strengthen effective oversight of electronic money operators and safeguard the stability of the financial sector. However, there is room for improvement to support the evolving fintech models and avoid complications arising from existing regulations and product approval delays. AzamPesa has made history being a SIM/telecom independent electronic money transfer service that allows users to send, receive and make digital payments through mobile phones. AzamPesa’s success opens new opportunities for traditional mobile money operators/ banks to innovate and regulators to evolve.

Achieving harmony between innovation and compliance is imperative for the sustainable growth and success of MMOs. While innovation drives business growth and customer satisfaction, compliance ensures regulatory adherence, risk mitigation, and trustworthiness in the eyes of stakeholders.

In just over 15 years, the mobile money industry has transitioned from a niche market offering to a mainstream financial service, positively impacting the lives of many individuals. However, while mobile money enjoys widespread popularity, some countries have experienced failures with these business models. Rollouts of services like M-PESA in India, Romania, and Albania were discontinued due to low market uptake. Innovation and compliance are two crucial aspects for MMOs, both essential for driving sustainable growth and fostering trust in the digital financial ecosystem. By embracing innovation alongside a commitment to compliance, MMOs can unlock new opportunities for financial inclusion, ensure regulatory adherence and enhance resilience in an increasingly complex regulatory landscape.

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