



## Enabling Effective Competition in Mobile Money Markets

*This Briefing Paper provides an overview of the state of competition in different mobile money markets and points to the secular trend of low-level of competition across jurisdictions despite different growth trajectories of mobile money markets. It goes on to discuss the policy and practice distortions to competition in different jurisdictions and possible impact of low competition on consumers, agents, regulators and other stakeholders. It concludes with possible measures to improve competition, such as competition impact assessment, periodic review of regulations, and sector neutral competition policy to address capacity concerns and implementation bottlenecks.*

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### Background

More than half a decade has passed since the advent of mobile money in emerging economies. Distinct trends have started to emerge about market dynamics and their implications. According to Groupe Speciale Mobile Association or GSMA (2014), mobile money services (MMS) are currently available in over 60 percent of the world's developing markets. Hanouch (2015) notes that a number of countries have registered more mobile money accounts in matter of years, than the bank accounts opened in decades. However, only one-third of the registered mobile money users worldwide are currently active. Moreover, in some markets, use of over the counter (OTC) services dominates even where users can register for mobile money wallets that offer more value added features and services.<sup>1</sup>

Consequently, despite being available in most developing markets, Kelly and Rhyne (2015) note that uptake, growth and market dynamics of MMS have not been uniform. Its success has been limited to the African countries, such as Kenya, Uganda, Tanzania, and the Democratic Republic of Congo.

Evans and Pirchio (2015) undertook an in-depth analysis of MMS in 22 emerging economies and found that such schemes have grown rapidly in eight; have

grown but not rapidly in three; and have largely failed to take hold in eight. Countries wherein MMS failed to grow include India, Nigeria, Indonesia, Burkina Faso, amongst others. Countries like Ghana and Pakistan are experiencing weak growth in MMS. Launched around the same time in 2007, around 1, 1.2 and 39.9 percent of mobile phone users in India, Indonesia and Kenya, respectively, are active mobile money users, highlighting the contrast.

Literature suggests that more often than not, a dominant player exists in markets, which has witnessed explosive growth in MMS, capturing majority of the market share. For instance, market is dominated in Kenya, Bangladesh and Zimbabwe by Safaricom (M-Pesa), BRAC Bank (bKash)<sup>2</sup> and Econet Wireless (EcoCash) respectively.

This is a quite intriguing as optimal competition is usually considered a sign of healthy market, which typically balances interests of all the stakeholders in the markets, including producers and consumers. Markets with limited or excess competition often benefit one class of stakeholders, at the expense of other.

Consequently, even if lack of competition in some markets might have resulted in the growth of MMS, it might have been achieved at the expense of other stakeholders in the market, such as consumers. The

objective of this Paper is to test this hypothesis, and better understand the correlation between the state of competition and different stakeholder groups in MMS markets.

## Bottlenecks to Adequate Competition

Literature on competition suggests that competition bottlenecks are usually induced by policies<sup>3</sup> or practices of market players. The necessity to incur high infrastructure and technology investments might also act as barriers to competition, and thus overall growth of the market.

Like in any other market, competition concerns could arise in MMS markets in entry and operation of market players. For instance, preferential policies or entry barriers erected by incumbents could result in creation of dominant player(s) in some countries. Absence of challengers (existing and potential) might prompt such players to abuse their dominant position, resulting in high costs or sub-optimal services for consumers.

In addition to restricting entry in the market, regulations and market practices could limit competition by imposing operational constraints on market players. In MMS market, these could include promoting exclusivity of essential market infrastructure, such as agents/business correspondents, and Unstructured Supplementary Services Data (USSD) technology and restricting interoperability<sup>4</sup> amongst different market players and services like accounts, wallets, platforms, and networks.

The following sections undertake an assessment of the possible competition distortionary policies and practices in different jurisdictions.

## Policy distortions to competition

### Entry barriers

Evans and Pirchio find that the most successful mobile money markets are led by mobile network operators (MNOs)<sup>5</sup> operating under light touch regulations and minimal restrictions. Consequently, they argue that heavy regulation, and in particular an insistence that banks play a central role in the schemes, together with burdensome know your customers (KYC) restrictions, is generally fatal to uptake of MMS.

Countries like Kenya and Zimbabwe have MNO-led model of mobile money markets,<sup>6</sup> while India and Nigeria insist on banks playing a significant role, with high KYC requirements. Consequently, MMS have exploded in the former, but not in the latter.

However, exceptions exist. In countries like Bangladesh, growth in MMS has been led by banks. This has been a conscious regulatory decision and the

role of MNOs has been limited by regulations, which also provide for moderately heavy KYC requirements.

### Agent exclusivity

Indian regulations have traditionally preferred exclusivity of customer facing agents.<sup>7</sup> The guidelines for payments banks,<sup>8</sup> which have been recently granted in-principle approval, also require establishment of 'controlling office' for a cluster of access points for control over various outlets and for customer grievance redress. The Reserve Bank of India (RBI) has clarified that controlling offices should be manned by employees of the payments bank. Business correspondents are agents and therefore BC outlets cannot be designated as controlling offices.

Kenyan regulations till recent times did not prohibit agent level exclusivity. Similar regulations in these jurisdictions might have been prompted by different reasons. Consumer protection and accountability concerns might have been the rationale for Indian regulations while encouraging investment and innovation could have been the reason in Kenya. Rhyne (2014) and Tarazi (2012) recognise that the regulators might find it difficult balancing the interests of the market players and thereby encouraging innovation and investments, with benefits accruing from greater competition and interoperability.<sup>9</sup> Despite apparently similar regulations, MMS market has developed differently in these jurisdictions.

In 2014, the Central Bank of Kenya issued the National Payment System Regulations highlighting its priorities as: the need to increase access to financial services; lower the risk of fraud; foster competition and interoperability; lowering the cost of financial services and strengthening consumer experience in using financial services.<sup>10</sup>

Regulations in countries like Bangladesh and Nigeria allow agents to represent multiple service providers. Despite this, growth in MMS market has been divergent in these countries.

### Technology/Network Exclusivity

In India, a state owned enterprise<sup>11</sup> has launched a USSD based mobile banking service that brings together all the banks and telecom service providers. In addition, the telecom regulator has directed all telecom service providers to facilitate integrated voice response, short message service and USSD based connectivity to banks.<sup>12</sup> Similar arrangements are in place in Nigeria wherein the central bank has issued an instruction to all mobile money operators to fully connect with the National Central Switch to ensure interoperability and inter-connectivity of their systems.

However, India and Nigeria are yet to see growth in MMS market. Such mandates do not seem to exist in

countries witnessing explosive growth in MMS, like Kenya.

### *Account/Platform Interoperability*

Indian regulations currently permit entities other than banks to issue only closed<sup>13</sup> and semi-closed<sup>14</sup> system payment instruments, while banks are allowed to issue open<sup>15</sup> system payment instruments as well. While semi-closed system payment instruments provide limited interoperability amongst select service providers, open system payment instruments are largely interoperable and enable cash out services at specified points. Further, RBI clarifications on payments banks provide that any prepaid payment instrument (PPI) entity cannot co-exist with payment bank in the same group. However, payment banks can issue PPIs along with payment bank accounts.

Regulations in countries like Kenya also did not traditionally mandate interoperability amongst different MNO networks. Despite similar regulations, the MMS market has grown differently in these jurisdictions.

It is clear from the aforesaid analysis that several jurisdictions have policies that distort competition or do not promote effective competition. However, no causal linkages can be established between competition regime and growth of MMS market. It would be interesting to examine linkages between such competition regimes scenarios with state of other stakeholders in the market, especially the consumers.

## *Practice distortions to competition*

### *Entry Barriers*

According to GSMA (2014), making mobile money profitable requires heavy on-going investments in operational expenditures. In the start-up phase, incumbents should expect to invest six to eight times the revenue units generated by mobile money. Consequently, the desire to recoup initial investments could induce incumbents to limit competition and raise entry barriers. Rhyne (2014) also notes that incumbents with established positions (and closed loop systems) jockey to maintain those positions.

Mas (2012) also highlighted that MNOs are both component suppliers and direct competitors to banks wanting to offer MMS, and there is a risk that MNOs transfer market power from their core market to the retail mobile payments market, in such a way as to effectively shut banks out of mobile payments. Such concerns could have led to jurisdictions like India, Bangladesh and Nigeria adopt bank-led market.

### *Agent Exclusivity*

In Kenya, market leader Safaricom had entered into agent exclusivity arrangements. In 2012, Airtel filed a complaint with the Competition Authority of Kenya

(CAK) to force Safaricom to remove such exclusive arrangements to allow access to its agent network by rival MNOs. Airtel also argued that by charging twice the amount for mobile cash transfers to Airtel customers than it charged for Safaricom-to-Safaricom transactions, Safaricom was abusing its dominant position. In its defense, Safaricom argued that forcing it to open up its agent network would be unfair because it had invested billions of shillings to develop it. Having investigated the case, the CAK ordered Safaricom to open up its M-Pesa agent network to rival mobile money firms. However, CAK did not rule on cost of transactions.

MobiCash is a shared agent network that has begun operations in Bangladesh, established by mobile network operator Grameenphone (GP) majority owned by global MNO Telenor. Participating banks have to weigh carefully the strategic dependency on GrameenPhone for access to communications (USSD, SMS) and reliance on MobiCash agents. MobiCash agents are also managed by Grameenphone, which can complicate matters for banks needing to monitor fraud or risk management. The shared agent environment also means that banks may have lower visibility to market directly to existing or new potential clients.<sup>16</sup>

### *Technology/Network Exclusivity*

Achieving dominant position could be easier in mobile money markets, when compared with other markets, on account of existence of network effects, and dominant players could limit competition by withholding access, charging a high price or offering poor quality USSD. For instance, in Zimbabwe, Econet refused to allow banks access to its USSD platform for channeling their mobile banking service. Instead, it encouraged them to use its Ecocash platform. It has since agreed to allow banks access, but on a separate USSD code from the one it uses, and at a higher charge for use of the platform.<sup>17</sup>

Literature suggests that constraining access to USSD (by withholding access, charging a high price or offering poor quality USSD) could prevent the MNO's competitors in MMS from reaching scale. This can effectively block customers from realising the potential benefits of competition, such as lower prices, increased investment in agents, improved service levels, customer choice and product innovation.<sup>18</sup>

### *Account/Platform Interoperability*

In India, the state-owned enterprise has launched several innovative products to facilitate mobile money transactions. These include RuPay, Immediate Payment Service, Aadhar Payment Bridge, and Aadhar Enabled Payment Systems. However, these products are built as silos and offer very limited interoperability between the payment instruments like card, mobile number, and Aadhar number.<sup>19</sup>

There is also no clarity on fee for availing such services. Similarly, M-Pesa in Kenya has not been traditionally interoperable with wallets or money transfer services developed by its competitors. Safaricom has resisted interoperability by citing customer protection as a reason.<sup>20</sup>

In Tanzania, four main MNOs (Airtel, Vodacom, Tigo, and Zantel) and three large banks (Bank of Tanzania, CRDB Bank, and the National Microfinance Bank), have come together to facilitate interoperability.<sup>21</sup>

While there are higher instances of MNOs abusing their dominant position, this is not to suggest that practice led distortions cannot happen in bank-led markets. In Bangladesh, despite regulations allowing for non-exclusive agents, a survey conducted by Helix in November 2014 found that most exclusive agents are with bKash. Islam (2014) also highlights lack of mobile wallet level interoperability in Bangladesh, and poor enforcement of relevant sector guidelines.

Consequently, there are ample instances of competition distortionary practices by incumbents in mobile money market. Presumably, greater instances of such practices are found in jurisdictions that have experienced high initial growth in MMS. However, the contribution of such practices to prevent further deepening of the sector is not clear.

Most practices to restrict competition cite the need to recover initial investment costs as reasons. However, to ascertain a comprehensive impact of such practices, it would be interesting to examine linkages between such competition regimes/scenarios with state of other stakeholders in the market, especially the consumers.

## Effect of Lack of Competition

Literature suggests that lack of adequate competition makes incumbents complacent and they often perform below their efficiency, resulting in high cost or low quality goods or services. The following sub-sections assess if same has happened in the MMS markets as well.

### Impact on Consumers

CGAP (2015) has identified seven principal risk areas, which digital finance consumers face at present. These include: i) Inability to transact due to network/service downtime; ii) Insufficient agent liquidity or float; iii) Complex and confusing user interface; iv) Poor customer recourse; v) Non-transparent fees and other terms; vi) Fraud that targets customers; and vii) Inadequate data privacy and protection. While many

factors contribute to such risks, sub-optimal competition would certainly be one of them.

### India (low initial growth of MMS)

Indian regulations require agents in MMS market to comply with certain disclosure requirements. Helix (2015) suggests that mandatory displays, such as information on tariff rates and grievance redressal numbers, which are vital to consumer protection, are often not present in agent outlets.<sup>22</sup>

Indian regulations for payments banks, which were recently granted in-principle approval, require payments banks to build suitable firewalls and maintain confidentiality. Further, operations of payments banks are required to be ring fenced from the promoters. However, no detailed guidelines exist on data privacy, protection of confidential information, and use of consumer spending trends. This could adversely impact consumers' interest.

### Kenya (high initial growth of MMS)

Donovan (2012) found that network power has propelled MPESA in Kenya to market dominance within one of the least competitive telecommunications markets in the world. Its scale was such that, on account of lack of alternatives, many organisations find they were expected to utilise it but there were significant costs and difficulties associated with adopting MPESA.

In May 2014, the Competition Authority of Kenya issued licenses to mobile virtual network operators (MVNO) to be hosted by Airtel Kenya. In response, Safaricom slashed transaction charges by 65 percent. As a result of increase in competition from banks, the numbers of touch points have increased, and banks have introduced a greater diversity of sophisticated offerings to the market, such as savings and credit.<sup>23</sup> However, CGAP (2015) found that more than 50 percent of mobile money users still experience downtime and are unable to complete a transaction due to insufficient agent liquidity.

### Tanzania (high initial growth of MMS)

Some lapsed users of digital finance services (those who have not used the service in more than 90 days) say poor recourse channels and resolution have driven them to transact only in cases of emergency since they do not want to risk a transaction error they cannot resolve.<sup>24</sup> Further, InterMedia (2014) suggests that while agents typically display fee charts, the amounts charged can differ from those on the chart. Customers report agents often display old fee charts and only verbally explain current fees. Display of information including tariff rates and grievance redressal numbers are vital to ensure customer protection.

*Bangladesh* (high initial growth of MMS)

Users report that the complicated interface is an important driver of the high use of OTC, deterring them from registering for a wallet that can offer them more services and fuller inclusion.<sup>25</sup>

### *Impact on agents*

*Kenya*

As indicated earlier, Safaricom was dominant market player in Kenya until 2014. In 2013, agents were facing nine downtimes per month, which prevented them from completing transactions. This number came down to two downtimes per month, after introduction of competition from banks.<sup>26</sup> Similarly, 17 percent of agents were not profitable in 2013, while the number reduced to 11 percent a year later. The operating expenses have reported a fall of around 37 percent in a year's time.

In July 2014, Safaricom removed its exclusivity clause opening up their network to rival providers. Although this has had a positive impact in terms of an added revenue source for agents, non-exclusivity forces them to manage multiple pools of liquidity simultaneously and therefore can further complicate the process of rebalancing. This is especially applicable for banks whose agents are increasingly non-exclusive (74 percent in 2014), compared to their MNO counterparts (12 percent), and carry out higher value transactions. This is especially critical in light of the fact that during 2013 and 2014, Kenyan agents ranked 'lack of resources to buy enough float' as their second biggest barrier to increasing daily transactions, bigger than armed robbery.

Further, Schiff (2015) notes that while at present, banks have a comparatively low number of transactions flowing through their systems, as activity increases they must remain cognizant of how much traffic their platforms can handle, how they communicate downtimes in advance to agents, and how they work with telecommunication companies to ensure advanced warning about mobile network downtimes. At present, only 17 percent of bank agents, compared to 85 percent of telecommunication agents, receive prior warning of downtime.

*Pakistan* (low initial growth of MMS)

Literature suggests that the high-level of competition has fractured the digital finance market between multiple players, which commonly share agents. Competition among providers means they need to compensate agents well, and also means support systems like liquidity management are quite convenient for agents.<sup>27</sup>

### *Impact on regulators*

When market forces are not able to result in optimum competition, work of regulatory agencies is expected to increase, to create suitable conditions to facilitate effective competition.

For instance, when MNOs fail to share critical infrastructure (USSD) with other mobile money operators, regulators would have to work towards creating enabling conditions for sharing of USSD. To this end, the regulators could nudge market players to enter into commercial arrangements. Alternatively, they could introduce a dispute resolution mechanism or explore other regulatory options. In this process, the coordination between banking, competition and telecommunication regulators is critical.<sup>28</sup> For instance, the Peru mobile money regulations of 2013 aim to ensure fair and equal access for electronic money providers to telecom networks and allows the regulator to intervene to set prices and other terms if market parties cannot reach agreement within 60 days.<sup>29</sup>

### *Impact on market depth*

Early lessons from the Indonesian and Tanzanian mobile money markets, which respectively became interoperable in 2013 and 2014, seem to show that greater interoperability appears to accelerate transaction growth and improve user experience. In Tanzania, the combined volumes and value of off-net P2P transfers between Airtel and Tigo spiked the month after the bilateral interoperability agreements was announced between the two operators in August 2014.<sup>30</sup>

The above assessment establishes correlation between interests of stakeholders like consumers, agents, regulators and market, and level of competition in MMS market. While movement from a restricted competition scenario to adequate competition scenario is beneficial for most stakeholders, excess competition could adversely affect their interest. Moreover, impact of increase in competition could be inter-linked amongst stakeholder groups. For instance, while interoperability is expected to increase convenience of consumers, it could increase the burden on grievance redress mechanisms and on agents to ensure availability of float. In addition, the assessment suggests that the stakeholders also suffer in jurisdictions that have not experienced high ignition of MMS.

However, a caveat is necessary here. Interests of consumers, agents and other stakeholders in the MMS market is not affected merely by levels of competition, but also by nature of regulatory supervision and oversight. A vigilant civil society, existence of

competition law and policy, approach of competition regulator, consumer interest and awareness, grievance redress and dispute resolution mechanisms in place, *et al*, also influence the interest of stakeholders in the market.

## Recent Developments

The mobile money ecosystem is changing rapidly with introduction of novel services and players in the market. Some of these are discussed in the sub-sections below.

### *Access to Application Programming Interfaces*

In 2014, Safaricom in Kenya announced that it would finally open access to its MPESA Application Programming Interface (API) in the summer of 2015. APIs allow two software programmes to communicate with each other. This presents a significant opportunity for developers to build applications that use mobile money to facilitate payments for new types of services. An open API will likely spur more innovation in products and services using MPESA as a payment platform. MTN Uganda and West Africa's Orange has also explored opening APIs as competition heats up, spurred by increased smartphone penetration and higher customer expectations for better and faster applications with more intuitive user interfaces.<sup>31</sup>

CGAP (2015) predicts that open APIs could result in cost reduction and greater efficiency in systems integration; increased mobile money usage; access to more data; gaining access to new revenue streams; customer satisfaction and loyalty; and enhancing brand value at forefront of innovation. However, the regulators will need to make requisite interventions to enable open APIs and their appropriate usage by market players.

### *Other developments*

Other developments in the MMS markets include small banks, white-label agents, unified payment interface and centralised bill payment infrastructure. In addition, new services like mobile lending are expected to expand the scope of MMS market. The scope of MMS is also set to expand with more avenues of sending and receiving funds. For instance, in India, ICICI bank has issued an internet wallet for sending money to any e-mail id, mobile number, bank account or social networking sites (like Facebook).

In light of imminent expansion of MMS market, Mulwa and Mazer (2014) have expressed concerns about ensuing price wars in mobile money market, which could create confusion as customers try to navigate a wide array of products with different features, pricing models, and standards of service.

Availability of cheap smartphones is also expected to change the face of MMS industry in near future. It is

expected that by 2020, most people in every region will have smartphones, and the mobile money industry will begin to consolidate.<sup>32</sup> Moreover, while mobile money transactions have increased, so have the instances of session drops and customer dissatisfaction. In addition, discussions on regulating net neutrality have begun in emerging economies. Consequently, it would be pertinent to assess if existing regulations are capable of handling competition concerns and market changes expected to occur in future.

India is also testing possibility of e-KYC for issuing SIM cards. In addition, consumer protection, fraud prevention and data protection regulations are being reviewed in several jurisdictions. Consequently, there is a need to investigate if regulators have the skill and capacity to keep pace with innovative services and developments, in order to address competition concerns in MMS market.

## Conclusion and Way Ahead

The analysis of MMS markets in different jurisdictions in the Paper, results to following findings:

- Optimal competition is not a pre-requisite for initial ignition of MMS.
- Competition distortionary policies and practices exist in several jurisdictions, however, their linkage with initial ignition of MMS is inconclusive.
- Competition bottlenecks can impact other stakeholders in the MMS markets like consumers, agents and regulators.
- While increase in competition is beneficial for most stakeholders in the market, excess competition might put additional burden on some stakeholders. Adequate mechanisms need to be put in place to ensure such stakeholders are able to handle such additional burden and
- Increase in innovations is expected to raise complexity in MMS markets, however, achievement of optimum competition will be the key to balance interests of different stakeholders, and achieve healthy and sustainable MMS market.

Brookings (2015) also notes that facilitating competition by allowing non-banks to provide financial services, encouraging providers to improve interoperability, and limiting agent exclusivity through regulation helps foster the emergence and adoption of innovative and affordable services. However, facilitating optimal competition would require continuous efforts from regulatory agencies as well as market players. The relevant regulatory agencies would comprise banking, telecom and competition regulators, line ministry for these regulators, consumer protection regulator/ministry, *et al*.

Competition law regimes are presently in place in most sub-Saharan African countries, including Botswana, Kenya, Malawi, Mauritius, Namibia, South Africa, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe. In addition, Mozambique's competition law became effective in July 2013, although the competition regulatory authority there is still in the process of being established to enforce it. In addition, in 2013, the regional competition regulator for the Common Market for Eastern and Southern Africa (COMESA), which is made up of 19 member states, was established to enforce the COMESA Competition Regulations across the common market.<sup>33</sup> Similar is the case with South Asia wherein countries like India and Pakistan has long established competition regimes, while countries like Bangladesh have recently put in place such regimes. Consequently, this is the right time to build necessary mechanisms/principles, to guide regulatory agencies to work towards achieving optimal competition in MMS market.

CGAP and Bankable Frontier Associates (2012) note that regulators need to craft regulations that allow technology enabled business models to emerge, while balancing access and protection for base of the pyramid consumers. Interoperability at the agent level, which would allow for two or several providers to share an agent network, is a double-edged sword: forced prematurely, it could depress the incentives to roll out a network of the size required; encouraged to evolve at the right time, it might indeed rationalise the extent of overlap and agent churn.<sup>34</sup> Bindo (2015) suggests that the two key requirements for account to account interoperability comprise: working towards long term success and guaranteeing basic customer needs.<sup>35</sup>

In addition, it has been suggested that moves to promote interoperability should harness, and not undermine, the business case for private providers to make investments of the required scale. Policy-makers could distinguish between intermediate (for example, stimulating competition) and ultimate objectives (for example, achieving universal financial inclusion) of interoperability. In addition, experts suggest that policy-makers can pursue a 'managed approach' to interoperability by establishing a sequence of milestones for achieving interoperability for clearly defined use cases.<sup>36</sup> In light of these observations, CUTS International recommends following focussed initiatives to enable effective competition in mobile money markets:

## Adoption of RIA

While designing regulatory interventions, regulators should take into account impact of the possible interventions on different stakeholders and must select

such regulatory alternative, which has the potential to result in greatest net benefit. This methodological approach of developing regulatory interventions is internationally known as 'regulatory impact assessment' (RIA). It comprises structured involvement of stakeholders to ascertain the baseline scenario, design possible regulatory interventions, estimation of costs and benefits of different alternatives on various stakeholders, comparisons of such alternatives, and selection of such alternative, which has the potential to result in greatest net benefit of the society.

RIA has been integrated in regulatory decision-making in several jurisdictions, such as UK, US and Australia. Emerging economies have started to understand its benefits and have begun to show interest. CUTS International is leading the efforts in India, to facilitate adoption of RIA. RIA, when correctly done, has proven to be effective tool in designing effective regulatory prescriptions, which balance interests of different stakeholders in the market and ensure optimal competition. It is time that the regulators and market players work together to ensure is adoption and success in MMS markets.

## Adoption of CIA

In addition, to identify and address competition related bottlenecks in mobile money markets, use of the competition impact assessment (CIA) tool might prove useful. CIA is a framework to highlight and correct latent and patent, direct and indirect policy and practice distortions to competition in different sectors, and can be easily used with the RIA tool.

## Adoption of Competition Policy

Adoption of a sector neutral competition policy is essential to address capacity and implementation bottlenecks, which different stakeholders might face in enabling effective competition in different markets. A National Competition Policy also enables co-ordination between different regulatory agencies, such as the telecom, financial and competition regulator, which is pre-requisite in mobile money markets. A competition policy also aids in checking abuse of dominant position and anti-competitive practices in the sectors.

## Periodic Evaluation

Periodic evaluation of effect of sector specific regulations is important to ensure that the regulations meet their intended objectives, do not impose unintended costs on stakeholders, undertake mid-term course correction, and promote healthy competition in the market.

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## Endnotes

- 1 McKee *et al*, *Doing digital finance right*, CGAP Focus Note No. 103, June 2015. Inactivity has reached 91 percent of users in West Africa.
- 2 Parvez *et al* (2015) observed that in Bangladesh, bKash currently dominates the mobile financial services space, accounting for more than half of the market.
- 3 For the purpose of this note, policies include legislations, regulations, guidelines, rules, etc. passed by legislative bodies, or adopted by government departments/ministries and regulators.
- 4 Interoperability is usually understood as the ability of different information technology networks, systems and tools, employed by service providers, to communicate, exchange, and use and process data.
- 5 Telecom operators providing connectivity services.
- 6 Muthiora (2015) has expressed concerns relating to uneven playing field for banks and MNOs in Kenya.
- 7 The conditions were relaxed in 2012 to provide for non-exclusive arrangements at agent level, subject to compliance with certain conditions. Puneet Chopra *et al*, *Integration and Interoperability of Financial Services*, MicroSave Research, July 2012, notes “*This (2012 relaxations) however has had little real impact as the customer interfaces of many BC network managers (BCNMs) are still non-interoperable and cannot acquire transactions for alternate banks or BCNMs. Feasible technological solutions that could enable this at scale still seem distant and would need considerable investments, so regulations need to be relaxed further to enable retail or sub-agent interoperability on ground.*”
- 8 Payments banks of India will provide deposit, payments and remittance services to low income groups, and other non-risk sharing simple financial services. They are not allowed to undertake lending activities.
- 9 Michael Tarazi *et al*, *Branchless Banking Interoperability and Agent Exclusivity*, CGAP, January 2012, notes, “*Take as an example MPESA, which presently has more than 20,000 agents throughout Kenya. Competitors have argued that Safaricom used its head start to tie up the supply of potential cash merchants, effectively exercising a monopoly and limiting competition. But how should Kenyan competition authorities evaluate this claim? Have competitors really exerted enough effort to secure their own cash merchants or are they simply wishing to capitalize on Safaricom's efforts?*” Also, Elisabeth Rhyne, *The Political Economy of Financial Inclusion Policy*, September 25, 2014, the Centre for Financial Inclusion Blog, notes, “*Incumbents with established positions (and closed loop systems) jockey to maintain those positions. First movers want to keep their advantage as long as possible, while second movers advocate for increased competition, and benefitting from the infrastructure and network effects. Regulators face the difficult challenge of identifying the public interest.*”

- 10 The Regulations required, require, “[a] contract for the provision of retail cash services entered into between a payment service provider and an agent or a cash merchant shall not be exclusive”.
- 11 National Payment Corporation of India (NPCI).
- 12 A ceiling tariff per outgoing USSD session for USSD-based mobile banking services has also been prescribed.
- 13 These are payment instruments issued by a person for facilitating the purchase of goods and services from it. These instruments do not permit cash withdrawal or redemption.
- 14 These are payment instruments, which can be used for purchase of goods and services at a group of clearly identified merchant locations/establishments, which have a specific contract with the issuer to accept the payment instruments. These instruments do not permit cash withdrawal or redemption.
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