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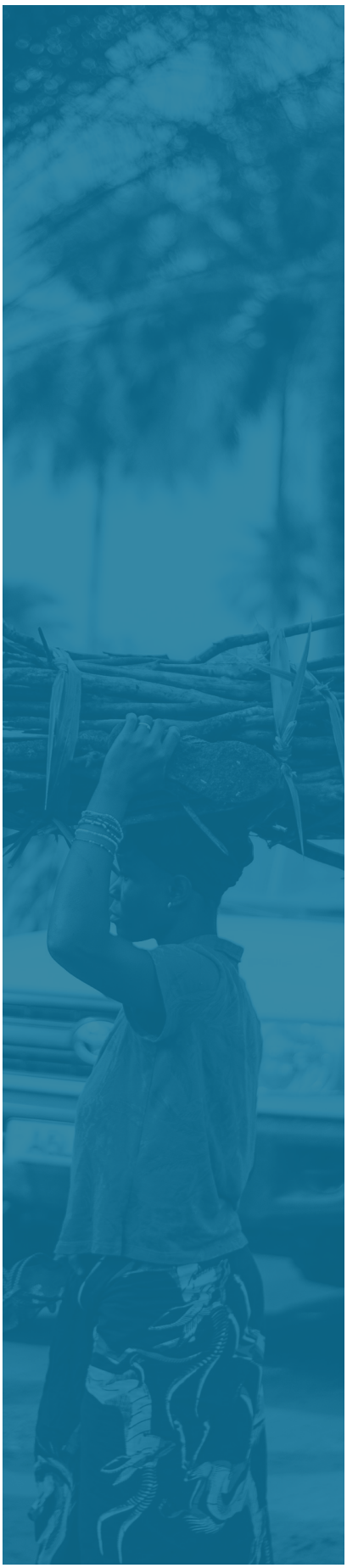

Financial Inclusion Vis-à-vis the Use of Digital Payment Platforms in Zambia

Summary

The role of financial inclusion in realising economic progression cannot be over emphasized. Over the years, digital payment platforms and in particular, mobile money, which is the focus of this analysis, have become popular in the nation and proven to be reliable in driving financial inclusion.

The National Payment Systems Directives on Electronic Money Issuance of the National Payments Systems Act of 2007 stipulates the regulations regarding consumer protection in the electronic funds transfer system. It regulates operations of E-money institutions[1] and stipulates their obligations and responsibilities in ensuring consumers are protected. From complying with Know Your Customer requirements to safeguarding consumers' information, the roles and responsibilities are clear in establishing the roles E-money institutions should play in ensuring consumer protection.

Mobile money has proved to be a driver of financial inclusion which in turn is beneficial to socio-economic development. It is a source of employment. Between 2015 and 2017, the number of active mobile money agents in Zambia is reported to have doubled, from 3,225 to 6,590. This indicated that mobile money has been increasing employment for the people of Zambia. Mobile money can also drive poverty alleviation. When more people get access to mobile money services, they will save more, invest more and generally improve their financial behaviour which in turn will drive consumption and lift people out of poverty.

By lowering costs of transactions, enabling convenience of paying bills and making purchases from a mobile phone, mobile money can increase economic activity. With costs lower, in relation to those in the traditional banking sector, people are encouraged to transact further and money is allowed to multiply.

In securing digital transactions, E-money institutions need to invest more in security. They need to be constantly upgrading existing security measures. E-money institutions also need to continue working closely with local law enforcement bodies like ZICTA and the police service to monitor any acts of fraud. E-money institutions and ZICTA should continue to spread awareness about online fraud management so that new users are not left behind.

Mobile money can also be looked at as a contributor to addressing inequality. Women and vulnerable people can be deliberately targeted to make the largest share of the mobile agent population. Recruiting more mobile agents will play a great role in ensuring that more unbanked people are financially included. More E-money institutions should be encouraged to enter the market so as to increase competition which will in turn result in quality service rendering and lastly, consumer protection and satisfaction should be a priority even as the goal is to have a completely financially inclusive society.

Going forward, as we look to moving to cashless transactions, we need to question the viability of exclusive agents. There is a need to encourage mobile network operators and banking institutions to allow an agent to transact on behalf of multiple players e.g. Airtel, MTN, Zamtel, Zanaco, etc. As we look to expanding services in the rural areas, the transaction count in rural areas generally does not make sense if an agent only serves customers from one institution.

Detailed Analysis

1. Regulatory framework governing safeguarding consumers against unfair practices of digital platforms

The Bank of Zambia is responsible for "regulating, overseeing and maintaining an efficient and safe payment system in Zambia".[2] Bank of Zambia has identified and categorized the following as the main three systems of systemic importance:

a. Zambia Interbank Payment and Settlement System (ZIPSS)
b. Electronic Funds Transfer (EFT) System
c. Cheque Image Clearing (CIC) System[3]

Electronic Funds Transfer (EFT) System encompasses the money transfer component of mobile money operations. The National Payment Systems Directives on Electronic Money Issuance of the National Payments Systems Act of 2007[4] stipulates the regulations regarding consumer protection in the electronic funds transfer system.

The main regulations are discussed below:

1. E-money institutions for example, MTN, Airtel and Zamtel are required to comply with Know your Customer requirements (KYC) and all other laws and regulations issued by relevant authorities such as ZICTA.

2.E-money institutions have to ensure that customer transactions are a smooth and efficient experience for consumers. Once initiated by a consumer, valid e-money transactions should not be repudiated by transaction authentication systems in place. Transactions should be completed in real time once initiated by a customer. There should be a clear audit trail to track all transactions, data integrity of the transactions should be maintained and protected, confidentiality of all transaction and customer detailed should be upheld, among other customer transaction requirements.

3. E- institutions are expected to have a business continuity plan and disaster recovery ability.

4. Institutions are expected to have an efficient system of addressing consumer complaints with the goal of reducing them. They should establish procedures of complaint handling, reduce complaint handling procedures into writing and make it easily accessible to consumers, maintain a detailed record of customer complaints, among others

5. Each consumer should receive a unique identification number for the sole purpose of conducting business with the e-money institution or its agent. In the case of sim replacement, outgoing transactions on e-wallet will be suspended until the consumer presents themselves physically to the agent or the E-money institution for re-verification.

6. Information regarding services offered, charges and risks involved in their usage shall be disclosed to consumers by the E-money institutions. There shall be clear communication to the consumer concerning the roles, responsibilities and rights of all parties to be involved in the transaction before the transaction transpires. E-money institutions are to ensure that all agents receive adequate training to administer consumer protection. Further, all customer data and information should be protected and confidential.

2. Benefits of mobile money to socio-economic development

A common sight on the streets of Zambia and especially in almost every street in Lusaka is mobile money booths or kiosks. Between 2015 and 2017, the number of active mobile money agents in Zambia is reported to have doubled, from 3,225 to 6,590.[5] This indicated that mobile money has been increasing employment for the people of Zambia.

Today, youths who lack academic credentials to get into formal employment not only have a chance to become players in business by becoming mobile money agents, they also now have an option to invest their earnings into self-education among other options. MTN reports that MTN mobile money alone has created over 400 000 jobs across their footprint.[6]

Mobile money can drive poverty alleviation. Ideally, the more mobile agents there are, the quicker substantial financial inclusion is realised. When more people get access to mobile money services, they will save more, invest more and generally improve their financial behaviour which in turn will drive consumption and lift people out of poverty. In Kenya for example, the Kenyan mobile money system M-PESA increased per capita consumption levels and lifted 194,000 households, or 2% of Kenyan households, out of poverty.[7] In Uganda, it was revealed that adopting mobile money services increased household per capita consumption by 69 percent [8]

Findings in Ghana showed that mobile money had contributed to the expansion of people's capabilities, many of whom are poor and from traditionally unbanked or underserved sections of the population.[9] Capabilities here are the opportunities and choices available for people to improve their conditions of living. When people are able to save because of reduction in transaction costs, when it is easy for them to receive remittances from their relatives in times of emergencies and income shocks, when they are able to get loans to finance projects, people faced with poverty can escape it. The expansion in capabilities was seen in Burkina Faso where evidence showed that using mobile money increases the propensity of disadvantaged groups such as rural, female, less educated individuals and individuals with irregular income to save for health emergencies.[10]

By lowering costs of transactions, enabled convenience of paying bills and making purchases from a mobile phone, mobile money can increase economic activity. With costs lower, in relation to those in the traditional banking sector, people are encouraged to transact further and money is allowed to multiply. A recent study in Uganda showed that mobile money had moderate positive effects on monetary aggregates, consumer price index, private-sector credit, and aggregate economic activity.[11] Reduction in costs and time increase efficiency and productivity. For example, unbanked farmers in rural areas would not have to travel miles to access a bank or a post office, they could just go to a booth near them. This allows them to save on time especially in planting seasons and to receive payments on time and allow them to spend on necessary inputs. A study in Kenya showed that mobile phone-based money transfer services significantly increased level of annual household input use by $42, household agricultural commercialization by 37% and household annual income by $22.[12]

Mobile money also could help government easily remit social cash transfers. With many agents, we could see a reduction in queues in one area of people qualified to receive social cash transfers. Students will also enjoy easy remittance receipt from their parents and guardians enhancing their learning experience.

3. Measures to secure digital payment transactions

As mobile money becomes a widespread phenomenon in Africa, concerns regarding the privacy and security of users are raised.[13] Are consumers protected enough from fraud? Is user personal information safe? What measures are platforms putting in place to ensure security? Is mobile banking safer than traditional banking?

The following are some measures that can tighten digital payment transactions security:

Firstly, E-money institutions need to invest more in security. They need to be constantly upgrading existing security measures. Fortifying digital payments by consistently upgrading the existing security measures will help to protect the digital payments.[14] It is important that E-money institutions engage third party institutions that are specialised and have core competence in digital security. This will enable smooth transactions, protection of consumer data from leaking and increase consumer confidence in the system.

E-money institutions also need to continue working closely with local law enforcement bodies like ZICTA and the police service to monitor any acts of fraud. Recently, there has been rising cases of scams concerning mobile money[15] and E-money institutions have collaborated with ZICTA, Bank of Zambia and the Police service[16] to track fraudsters and bring them to book. These kinds of collaborations should be enhanced by developing more sophisticated methods of tracking fraudsters and preventing future fraud related crimes.

E-money institutions and ZICTA should continue to spread awareness about online fraud management so that new users are not left behind. ZICTA and E-money institutions have recently increased fraud awareness.[17] Consumers should be constantly reminded to not give out personal information or expose their pin number. They need to be taught how to detect spam texts.

Since 2016 Zambia police and ZICTA have conducted inspections to ensure that pre-registered sim cards are not being sold around the country .[18] Such inspections undertaken in a consistent manner will help in reducing fraudster activities.

Recommendations

Mobile money can be looked at as a contributor to addressing inequality. Women and vulnerable people can be deliberately targeted to make the largest share of the mobile agent population. Government through the Ministry of Gender can run projects together with E-money institutions to empower women to become agents. A similar arrangement can be rolled out for vulnerable people.

In 2018, a report concluded a national average of 75 mobile money agents per 100 000 adults. It further showed that 13 predominantly rural districts, including Masaiti, Mporokoso and Kalabo, still had fewer than 20 agents per 100,000 adults. These 13 districts harboured about 1.4 million people and 93% of whom have never used mobile money. [19] This shows that there still is an enormous gap that needs to be filled in order to realise financial inclusion. Recruiting more mobile agents will play a great role in ensuring that more people receive mobile money services. E-money institutions can begin to penetrate severely unbanked rural areas and run training programmes for mobile money agent recruits. Also sensitizing people more to sign up for mobile money may see more people signing up and reduce scepticism.

Consumer protection and satisfaction should be a priority even as the goal is to have a completely financially inclusive society. Government has to constantly amend the roles of E-money institutions and run policies that will favour consumers as the environment changes with time. The better the experience for consumers, the easier it will be to attain financial inclusion.

More E-money institutions should be encouraged to enter the market so as to increase competition which will in turn result in quality service rendering. More players will also mean more people will be covered. This can be facilitated by government lowering costs and procedures involved in applying to become an E-money institution.

Going forward, as we look to moving to cashless transactions, we need to question the viability of exclusive agents. There is a need to encourage mobile network operators and banking institutions to allow an agent to transact on behalf of multiple players e.g. Airtel, MTN, Zamtel, Zanaco, etc. As we look to expanding services in the rural areas, the transaction count in rural areas generally does not make sense if an agent only serves customers from one institution.

Endnotes

1. These are also known as financial technology institutions or in the mobile money sector, mobile money service providers

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17. Zambian Business Times May 3, 2019-Airtel takes steps to stem mobile money frauds (https://zambianbusinesstimes.com/airtel-takes-steps-to-stem-mobile-money-frauds/) Accessed 23/12/19

18. ZICTA (https://www.zicta.zm/Views/NewsArticles/Selling%20and%20buying%20of%20pre-registered%20SIM%20cards%202015.htm) Accessed 23/12/19

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Editor's Note

This paper was a CUTS Submission to Parliamentary Committee on National Economy, Trade and Labour Matters. The submission was prepared and presented by Mr. Aquila Ng'onga, CUTS Research Assistant with support from CUTS Director, Ms Chenai Mukumba.

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