Mobile money: taking on the big banks

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Africa has enormous potential for growth in the telecommunications industry especially since there is only about 47% penetration currently.[1] One of the fastest growing areas in the telecoms industry is mobile money. This service enables mobile phone users to send and receive money anywhere by facilitating transactions through their mobile phones. This is important particularly in Africa, where infrastructure is poor and the majority of people do not have bank accounts. In Kenya for example, only about 23% of the population had bank accounts in 2009.[2] However, in March 2012, a reported 93% of Kenyans had mobile phones of which 73% make use of mobile money services, 23% of them at least once a day.[3] In Uganda, between 2011 and 2012, mobile money subscribers tripled from 2.9 million to 8.9 million, far surpassing the number of bank account holders at 4.9 million.[4] In fact, according to the 2013 GSMA report nine countries including Kenya, Uganda, Tanzania, Cameroon, Madagascar, Gabon, the Democratic Republic of Congo, Zambia and Zimbabwe had more mobile money subscribers than bank account holders by the end of 2013.[5]

This makes mobile money services and the telecommunications industry one of the biggest rivals to commercial banks and the financial sector. Moreover, mobile companies can now offer loans and insurance services. Kenya's Safaricom has also introduced M-Shwari and Linda Jamii that provide loans and health insurance, respectively.[6]

The introduction of mobile money has been beneficial for competition. It has provided banks and other financial institutions with viable competition and presents customers with a cheaper alternative to banks. It is also accessible to a wider network than banks. All these benefits serve the public in terms of accessibility, price and choice. However, most of these telecoms companies have established positions of significant market power which raises a concern in terms of potential abuse of dominance. This suggests that competition authorities and regulators should monitor the sector.

Network externalities

There have been a number of documented effects of network externalities on competition especially in the mobile money industry. Katz and Shapiro define externalities as "products for which the utility that a user derives from consumption of the good increases with the number of other agents consuming the good".[7] Joining a network with more consumers, in this case the dominant firm, increases the consumers' utility and benefits of using the particular telecom service. This increases the incentive for more consumers to join the dominant network rather than that of a rival and, while it is possible for fierce competition to ensue in the form of introductory pricing or price wars, these often result in efficiency losses.[8] The wider network of customers makes it extremely difficult for other telecom companies to compete, let alone banks that do not have as wide an access to consumers as the telecom company. At the same time, network externalities often reduce incentives for the dominant firm to offer better deals or to innovate knowing that they already have a large consumer base that is difficult to penetrate.

In network industries and telecoms in particular, dominant incumbents have a track record of competition law violations. Telkom in South Africa has been accused of excessive pricing and exclusionary conduct against downstream rivals.[9] Safaricom, with 70% of the market share in Kenya, has also been accused of abuse of dominance (exclusionary practices) by Airtel, the firm's rival.[10] The alleged contraventions include charging unregistered users of Safaricom's M-Pesa hefty fees and threatening M-Pesa agents who offer rival products.

Similarly, Zimbabwe's Econet Wireless has refused banks access to EcoCash, their mobile money service. In retaliation, several banks refused to allow Econet Wireless access to their own mobile banking platform, ZimSwitch. In January this year, Econet eventually allowed banks access to EcoCash using Unstructured Supplementary Service Data (USSD). However, Econet charges subscribers 30 cents for use of the USSD while other transactions such as the purchase of airtime only cost 5 cents. Furthermore, other telecoms companies do not charge for the use of the USSD function.[11] Econet with over 70% market share may be using restrictive practices to not only foreclose other telecom companies but competing banks as well. These practices may ultimately affect consumers.

Effect of inter-country transfers and concentration

Due to the multinational nature of most telecom companies in Africa, it is possible for money transactions to take place internationally and therefore it is also important to think about competitive dynamics in a regional sense. Cross-country transfers offer consumers, especially immigrants who often have little access to formal methods of money transfer, an alternative and cheaper means to transfer money. Table 1 shows some of the telecom networks and the countries with which cross-border transactions can take place.

There has been a rising trend in mergers and bi-lateral agreements in the industry as well as a rapid consolidation of firms across different countries, leaving a handful of firms with strong market shares and possible market power. For example, in December 2013 Orange East Africa bought up 21.4% of Telkom Kenya making its ownership in the compa-

Table 1: Mobile money applications in Africa and cross-border money transfers[12]		
Application	**Countries covered in Africa**	**Cross-border transfers**
Airtel Money	Uganda, Kenya, Tanzania and 14 others	All 17 countries using HomeSend hub
M-PESA (Vodafone)	Kenya, Tanzania and South Africa	Kenya and Uganda. Kenyan customers can receive but not send money to the UK
MTN Mobile Money	Uganda, Ghana, Cameroon, Ivory Coast, Rwanda and Benin.	Rwanda, Cote d'Ivoire, Benin, Cameroon and Ghana
Orange Money	Uganda, Kenya, Mali, Senegal, Cote d'Ivoire and 8 others	Between Mali, Senegal and Cote d'Ivoire
Tigo Tanzania	Rwanda and Tanzania	Rwanda and Tanzania

ny 70%. Orange is a French multinational company with a presence in a number of countries all over the world. Liquid Telecom, a subsidiary of Econet Wireless, with a presence in 13 African countries, acquired 80% of Kenya Data Networks (KDN).[13] In February 2014, Tigo Tanzania, the country's third largest Telecom company launched a cross-border service that allows dual currency mobile money transfers between Tanzania and Rwanda.[14] While in many cases these mergers and agreements help to facilitate cross-border transfers of money between different countries, they may also serve to dampen competition between firms across borders which would help to discipline the market behaviour of dominant incumbents.

With regards to inter-country regulation, of these transactions regional competition authorities such as the COMESA Competition Commission can assist in the evaluation of transaction and practices that can have effects in more than one country. However, COMESA for instance, is only made up of 19 countries and therefore may not be of benefit to many countries. Furthermore different competition authorities may choose to adopt different approaches to mergers, bi-lateral agreements, and restrictive practices in so far as they have an effect on their own jurisdictions, which may lead to inconsistency between jurisdictions in dealing with practices that may take place in one market but have far-reaching effects in another.

Cross-country regulatory issues

There is also ambiguity about the appropriate domestic jurisdiction in which competition concerns should be addressed, both within countries and between them. Traditionally, telecoms fall under the regulatory jurisdiction of a communications board or regulator. The ambit of these regulatory authorities is typically related to communications, postal/ couriers and broadcasting, including radio. However, mobile money is provided by telecommunication companies but deals with the transfer of money. Matters relating to money, its transfer, loans and insurance would typically fall under the central bank or other related regulatory institutions.

In South Africa for example, financial services are regulated by the South African Reserve Bank (SARB), Financial Services Board (FSB) and National Credit Regulator (NCR) while in Kenya they would fall under the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA). In South Africa, telecom companies that provide mobile money services would be considered banks. Therefore, these companies have chosen to partner with banks to provide these services such as the partnership between Vodacom and Nedbank to provide Vodacom M-Pesa. In Kenya where there is limited regulation in this regard, Safaricom has categorically stated that it is not a bank and can therefore not fall under the jurisdiction of the CBK or be held to the same expectations as traditional banks.[15] This means that they do not have to acquiesce to regulations such as the reserve requirement that central banks expect banks to maintain in order to carry out their business. However, an environment where mobile money providers are completely unregulated from a prudential perspective is obviously also undesirable. In this case regulation is required that serves an intermediary role between the two industries.

Effect of strong lobby groups

Lastly, competition can be affected by the influence of strong lobby groups in the banking space. Recognising the (socially beneficial) competitive threat that telecoms companies provide, banks could influence policy makers and regulators to put in place restrictive regulations. In Zimbabwe recently, the Bankers Association of Zimbabwe approached the Reserve Bank of Zimbabwe as well as the legislature concerning an increase of regulation for telecom companies. The lobbying resulted in the imposition of a 5% tax on the fees charged to effect mobile money transactions.[16]

South Africa's regulation has also been one of the barriers to the growth of mobile money in the country.[17] In 2013, while M-Pesa had 17.1 million users in Kenya and 5 million in Tanzania, in South Africa there were only 1.2 million users and an even smaller number were using the service regularly.[18] Furthermore, central banks seem to prefer having banks operating mobile money rather than telecoms companies, and this

increases their motivation to maintain strict regulation.[19] Banks are preferred because they have a better understanding of regulations and manage funds better. For this reason as well as the risk involved, regulators in some countries have prohibited non-banks from providing mobile money services.[20] This is despite evidence showing that the most successful mobile money services belonged to non-bank companies and that it is possible for non-banks to provide mobile services rapidly and securely. All of this negatively affects competition in the industry.

Conclusions

Mobile money is clearly good for competition in the banking space. Any concerns arising in the mobile money industry come down to the lack of a formal regulatory framework specific to the industry. There is a need for clear regulation that harmonises the overlap between competition law and regulation. Regulators, particularly those in developing economies serve the function of developing guidelines and monitoring the activities of dominant companies. However, increasingly regulators will need to realign their roles to regulate *for* competition. In this way competition law and economic regulation are entwined. In as much as mobile banking is contributing to development, in order for the above challenges to be overcome, legislation that overtly accounts for competition principles needs to be in place. Other regulatory concerns to be considered include financial regulation, privacy and data protection, consumer protection, and e-commerce regulation.

Regulation should not stifle innovation, but should still be clear and sufficiently comprehensive to protect consumers. As far as possible regulation should cover competition concerns such that competition continues to be stimulated by the growth in mobile money services. It should not be used as a way of further sustaining or increasing network effects and barriers to entry. Regional economic communities can aid in harmonising these policies at a regional level.

Notes

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