Emmanuel Tumusiime-Mutebile: Mobile money and the economy

Opening remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the workshop on "The Economics of Mobile Money", Kampala, 12 February 2015.

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Representatives of the Private Sector Stakeholders,
Academicians, Policy Analysts and Practitioners,
Ladies and Gentlemen.

Good morning.

I would like to begin by welcoming everyone to this conference on the economics of mobile money and to welcome especially all those who have made the effort to come here from abroad to share with us your experience and expertise. I am sure that it will prove to be a very interesting and fruitful conference, and will prove valuable to you whatever your field of work. I would also like to thank the International Growth Centre and the United Nations Capital Development Fund for joining with the Bank of Uganda to organize the conference. I would also like to thank everyone who has prepared presentations for the conference. Although the issues which we will debate at this conference clearly have global relevance, holding it here in East Africa is particularly apt, because this region has been at the forefront of the mobile money revolution over the last six years.

The rapid growth of mobile money in East Africa is a phenomenon which has few precedents in the history of finance and banking and which has implications which are likely to prove profound, for the financial sector, for business, for the general public and for public policy. Trying to understand what these implications might be provides the motivation for this conference, which brings together academics, practitioners from industry and policy makers. In the four sessions which will follow we will hear and discuss both the results of academic research and the views of industry professionals.

Mobile banking has already had a major impact on broadening access to basic financial services in East Africa. The benefits in terms of financial inclusion will themselves have important economic consequences, for business and household welfare. But I think that we are probably still only at the beginning of the transformation which mobile banking will create in our economy and society. In the rest of these remarks I will highlight what I think are some of the key issues which we need to study and debate if we are to better understand the changes which mobile money will bring about and their implications.

The first and probably most complex issue I want to highlight is the impact that mobile banking will eventually have on traditional banking. For more than a century, finance has been dominated by a traditional banking model in which customers hold deposit accounts in banks and receive a range of services from their bank. Mobile banking is already peeling away some of these services from banks, notably payment services. How many more types of financial ervice will migrate from traditional banks to mobile banking, or to some form of internet banking, in the future? And as commercial banks lose their traditional dominance in the markets for these services, will traditional banking remain commercially viable? For example, will people eventually hold the money they require for transactions purposes entirely in the form of electronic money, rendering cash and non interest bearing demand deposits in banks largely redundant? Will banks, as a consequence, be forced to adopt radically different business models focusing only on financial services which cannot easily be delivered electronically?

Secondly, such transformations in the way in which financial services are delivered matter profoundly for public policy, not least because traditional banks play a central role in the way in which monetary policy is implemented by central banks and are the focus of financial regulation. I will make a few remarks about both monetary policy and financial regulation.

The current business model of mobile banking in East Africa implies a substitution of cash for bank deposits, and hence a larger money multiplier, because all virtual money sold to customers has to be backed up by deposits in the partner bank of the mobile money provider. Mobile money may also affect the velocity of circulation of money: in principle one might expect velocity to rise if mobile money makes retail payments transactions easier for customers.

However, if more radical mobile banking business models are eventually developed in which mobile money becomes a substitute for demand deposits in banks, the ability of central banks to control interest rates could be undermined. This is because central banks control short term interest rates by varying the liquidity available for commercial banks to meet their reserve requirements. But if mobile money eventually leads to a diminution of the role which commercial banks play in the financial system, the interest rate transmission mechanism, which relies on movements in short term inter-bank rates being transmitted along the yield curve to all other interest rates in the economy, will be weakened, which in turn will weaken the transmission mechanism of monetary policy. Central banks will, therefore, need to develop alternative tools for influencing interest rates in the economy.

Financial regulation has focused on commercial banks largely for two reasons; they are the financial institutions in which are held the bulk of the financial savings of ordinary people and they play a central role in the economy's payments system. For both these reasons, commercial banks are much more important to the stability of the financial system and the delivery of essential financial services to the economy than any other type of financial institution. As I have already noted, mobile banking is already providing a partial substitute for the retail payments services of banks and could eventually challenge the dominance of banks in the provision of other types of services, including deposits. If so, prudential regulation which is focused on ensuring the soundness of the banking system may no longer be sufficient to protect the safety of customers' savings or the systemic stability of the financial system and the preservation of its critical functions.

Finally I want to stress the vital importance of carrying out high quality research on these issues. This is the only way we will improve our understanding of what is a very complex and rapidly changing phenomenon. I am pleased, therefore, that we will end this conference with a discussion on the directions of a future research agenda.

I wish everyone a very productive conference.

Thank you for listening.