Emmanuel Tumusiime-Mutebile: Regulatory challenges in the use of ICTs to promote financial inclusion

Remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the Digital Impact Awards Africa, Kampala, 21 August 2014.

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Management and Staff of Cyberplc and HiPipo (U) Ltd.

Invited Guests in your respective capacities

Ladies and Gentlemen

It gives me great pleasure to address you today on the topic of ***"Regulatory Challenges in the use of ICTs to promote Financial Inclusion"***. At the outset, let me express my gratitude to Cyberplc and Hipipo (U) Limited for organizing the ***Digital Impact Awards*** event.

The African Development Bank defines financial inclusion as the "provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their Micro-enterprises". Beginning in 2006, three FinScope surveys have been undertaken in Uganda to establish the extent of financial inclusion in the country. The latest survey, conducted in 2013, found that:

The percentage of the adult population with access to formal financial institutions has risen from 28 percent in 2009 to 54 percent in 2013. This large increase in access to the formal financial sector was almost entirely attributable to the spread of mobile banking.

Mobile banking has had a transformative effect on access to financial services since it was first introduced in Uganda in 2009. There are now 17.6 million registered subscribers to the six mobile money providers in Uganda. These customers are served by 64,000 mobile money agents.

To date, however, the scope of financial services available through mobile banking has been rather limited, in most cases to basic payment services, such as transferring money from one customer to another or paying bills. Customers can also use mobile banking to save money, as an alternative to holding cash. Money held in the form of electronic funds on a mobile phone has analogies with a demand deposit in a bank; it is non interest bearing but accessible on demand. However, there are undoubtedly opportunities for product innovation within mobile banking, in particular to extend the type of services available beyond basic payments to include savings products and possibly even loans.

In discussing the regulatory challenges which arise from growth of mobile banking, it is useful to begin by clarifying why financial services require regulation. The main rationale for financial regulation is prudential and involves two objectives. First, financial regulation aims to protect the systemic stability of the banking system; that is to prevent financial crises. Second, financial regulation aims to protect depositors, especially small depositors, whose deposits could be put in jeopardy by reckless or fraudulent management. These objectives underlie the provisions in the Financial Institutions Act, 2004 and the regulations issued by the BOU under that Act, as well as the provision of deposit insurance.

The regulatory stance which the Bank of Uganda adopts towards mobile banking and other innovations in the financial services sector must be guided by these prudential objectives. Our basic approach is to encourage innovation in the provision of financial services provided, and in particular to avoid stifling innovation through unnecessary regulation, provided that such innovation does not pose any conflict with the two key objectives of prudential regulation.

How relevant is mobile banking to the prudential objectives which motivate financial regulation? In terms the systemic stability of the financial system, mobile banking does not currently have the potential to pose any significant threat. This is because the magnitude of mobile money is still very small in relation to the entire banking system in Uganda. As of June 2014, there was a total of Shs 171 billion held on the mobile money accounts of customers of the six mobile money operators in Uganda, but that is only 1.4 percent of the total deposits in the banking system. Mobile money transactions constitute less than a tenth of all the financial transactions which take place in the financial system. If one or more of the mobile money operators were to close its operations, it would be a nuisance for its customers, but it would hardly constitute a financial crisis.

A more serious concern is the protection of customers' money. As I noted earlier, electronic money held on a mobile phone has similar characteristics to a demand deposit. Although the basic transaction services offered by mobile money operators are relatively risk free, in principle the electronic money held on mobile phones could be at risk unless there are safeguards. The approach which the BOU has adopted, and which is similar to that of other financial sector regulators in the region, such as the Central Bank of Kenya, is to require mobile money operators to collaborate with a commercial bank and to hold in an escrow account in their partner bank sufficient funds to cover all of the electronic money which they have sold to their customers. As such, mobile money operators cannot themselves intermediate the funds they have mobilized from their customers; they must instead transfer these funds to a commercial bank which is subject to all the normal prudential regulations applicable to deposit taking institutions. Hence even if a mobile money operator were to collapse, the electronic money held by its customers could be reimbursed from the escrow account in the partner commercial bank.

As mobile banking develops, we are likely to see a much wider diversity of financial products made available through customers' mobile phones. Many of these products will involve intermediation of funds rather than simply payment services. The principle which the BOU will maintain is that only financial institutions which are licensed under the Financial Institutions Act, 2004 can take deposits and intermediate these funds. These principles are enshrined in the mobile money guidelines which were issued by the BOU in October 2013. If we maintain this principle we can allow the mobile money industry to develop and innovate in order to extend the range of services it can offer customers without putting at risk the funds of its customers.

To conclude, I wish to congratulate all the recipients of the Digital Impact Awards today, and wish you success in commercializing your innovations. We particularly look forward to innovations that will promote financial inclusion, as well as the efficiency and safety of financial transactions. I once again, thank Cyberplc and Hipipo (U) Limited for making the arrangements for these awards.

Thank you for listening to me.