

## **Bwalya K E Ng'andu: Accelerating growth and adoption in mobile payments**

Speech by Dr Bwalya K E Ng'andu, Deputy Governor (Operations) of the Bank of Zambia, at the 3rd Celpay Mobile Banking Conference, hosted by Celpay Zambia Limited, Lusaka, 26 October 2011.

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***The Chief Executive Officer, Celpay International BV;***

***Managing Director, Celpay Zambia Ltd, Mr. Miyanda Mulambo;***

***The Conference Chairperson, Mr. Maxwell Banda;***

***Chief Executive Officers of Commercial Banks and Financial Institutions;***

***Representatives of International Organizations;***

***Representatives of Zambian business associations;***

***Distinguished participants;***

***Members of the Press;***

***Ladies and Gentlemen.***

***Chairperson***, it is my honour and privilege to speak at this, the 3rd Mobile Banking Conference being hosted by Celpay Zambia Limited under the theme "Accelerating Growth and Adoption in Mobile Payments". The theme of this conference is particularly appropriate as it fits in very well with one major policy objective of the Financial Sector Development Plan; which is to increase access to financial services for the majority of the Zambian people. This conference, I believe, will provide a unique opportunity for participants to share ideas and experiences on innovations and trends taking place in the use of the mobile telephone technology as a convenient, safe and cost effective payment system. It should also offer the platform from which to address the challenges that such innovations can present in order to minimize potential disruption to the operations of the financial system that can arise from our failure to appreciate the possible impact of these challenges. I therefore wish to thank, from the outset, Celpay for organising this timely conference and to welcome most warmly our foreign participants who I'm sure will bring a rare insight to this conference with their own experiences.

It is widely acknowledged that expanding access to financial services for Zambia's unbanked population remains one of the biggest challenges confronting the financial sector in this country. Findings from the last FinScope Zambia Survey which was conducted in 2009 showed that 62.7% of Zambian adults still remained financially excluded compared to 66.3% reported in 2005. This slight increase in access to financial services, however, fails to match the significant increase in the number of banking and non-banking institutions which over the same period increased from 14 to the current 19 banks and to over 90 in the case of the non-bank sector. The mismatch in growth between the supply side and the demand tells us a story that the physical increase in the number of the traditional financial service providers does not necessarily translate into a corresponding increase in access to financial services among the population. I believe it is this mismatch that calls for the need to examine the role that the non traditional platforms, such the mobile phones, can play in enhancing greater access to financial services.

***Chairman***, the 2009 Finscope Survey highlighted a number of barriers to financial inclusion, which were broadly categorized into

- The physical access or proximity to financial institutions
- Affordability of financial products

- Appropriateness of financial products
- Regulation barriers such as know your customer requirements

**Chairman**, we know, for instance, that the apparent high cost of providing banking services to a population that is largely subsistence and therefore financially challenged excludes many from accessing financial services. Brick and mortar establishments are expensive to set up and even when they are set up, distance to the nearest branch for many, particularly for those in the rural areas becomes a problem. The findings relating to the cost of providing financial services contained again of the Finscope™ Zambia Survey (2005) goes some way in underscoring the nature of the problem. The survey found that about 32% of the banked reported that it costs them between K5,000–K10,000 to get to their bank while about 26% spend between K11,000–K25,000. At these cost levels it is not difficult to see why certain segments of our population do not actively seek financial services.

The mobile payment system does therefore address some of these challenges and consequently can be an important platform for expanding the delivery of financial services. In some respects it complements conventional financial services or products. In other respects it makes up for the weakness of the conventional financial service providers. With mobile payments, the cost of travel to a financial service provider is reduced to pressing a button, the risks associated with carrying cash are managed by simply securing a pin number. Since the mobile telephone industry has seen tremendous growth in its coverage, mobile payments seems to be the inevitable retail payment method that reaches out to large segments of the population a way that the conventional ones do not.

**Chairperson**, notwithstanding these advantages, mobile payment platforms are not without challenges. At the centre of these challenges is the need to protect the consumer or user of mobile payment platforms. Undoubtedly, the number of people with access to mobile payment services in Zambia has significantly increased since the early days of Celpay. However, for us at the Bank of Zambia, as regulators we have taken note of how growth has been accompanied by a change in the character of mobile payments. The line between a mobile payment product and a conventional banking product has now become a fine line. For this reason developing appropriate regulations that protect the consumer against fraud and such risks anti-competitive practices, is a critical and necessary response to the innovations brought about by the mobile telephone technology. But it is important to understand that by its nature technological innovation can achieve an overnight quantum leap by the sheer ingenuity of one person. Where this happens, there is a danger that the development of appropriate regulation can lag behind technological advancement. But regulators cannot halt the advancement of technology just so that they are ready to regulate. In this situation, our challenge is to ensure that we keep pace with technology so that we are able to offer the required protection to all who access financial services using the new and unconventional payments systems.

On our part, the Bank of Zambia shall focus its attention on the development of a robust regulatory framework that will address the key “hot button” issues of;

1. Prudential requirements; particularly those that relate to liquidity management and capital for infrastructure,
2. Consumer protection; with emphasis on disclosure of charges and confidentiality of customer information, and
3. Unfair trading practices particularly those related to monopolistic tendencies such as development of platform that are not compatible or not interoperable with platforms of other service providers.

To strike a balance between a robust regulatory framework and the need for the framework not to hinder innovation and allow business to flourish, our efforts in establishing a robust

framework will therefore be anchored on five key or internationally accepted best practice principles. These are:

1. The need to identify the types of mobile payment platforms to be permitted;
2. The need for an efficient mobile payments infrastructure such as settlements systems;
3. The need to design rules to regulate the information communication technology platform which is itself rapidly evolving;
4. Consumer protection; and finally
5. The need for compliance monitoring.

Another issue that should be considered in connection with the development of the mobile payment system is that of inter-operability. The ability of systems to work together makes further innovation possible, provides convenience for customers, allows for sharing of infrastructure and therefore greater use of facilities. We are therefore looking to you to ensure that your retail payment systems allow cross network acceptance of payments. Ultimately, we should work towards developing a single switching platform through which all payment systems are connected to each other for maximum efficiency.

**Chairperson**, as you deliberate at this conference, I expect that you will challenge yourselves to the issues that I have outlined above. Accelerated growth and adoption of mobile payments are possible but we must in the process adequately address issues of cost of mobile payments, security of payments, ease of use of technological platforms and design of compatible and interoperable platforms.

The Bank of Zambia looks forward to receiving the recommendations and outcomes of this conference.

***I thank you and wish you fruitful deliberations.***