



Special Series on COVID-19

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Mobile Money in the COVID-19 Pandemic

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In today's digitized world, social distancing does not need to imply a disruption in financial transactions. Individuals and corporations have been increasingly embracing digital financial services (DFS), including mobile money. The IMF's Financial Access Survey (FAS), which receives data on financial access and use from 189 jurisdictions, shows that the use of mobile money has grown significantly in many low- and middle-income economies. In some cases it has even surpassed traditional banking services, particularly in low- and middle-income economies where banking penetration is limited.² Recognizing the importance of mobile money in supporting remote financial service provision, particularly during the COVID-19 pandemic, several countries have adopted measures to support mobile money services. This note reviews some of these measures and their potential benefits and risks.

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MOBILE MONEY: KEY FEATURES

Mobile money, as defined by the FAS, is a pay-as-you-go digital medium of exchange and store of value facilitated by a network of mobile money agents.³ It is a financial service offered by a mobile network

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² The FAS is a unique source of supply-side annual data that tracks mobile money usage and its access points for 78 jurisdictions, more than two-thirds of the countries that have mobile money. See Espinosa-Vega et al., 2020 for more details.

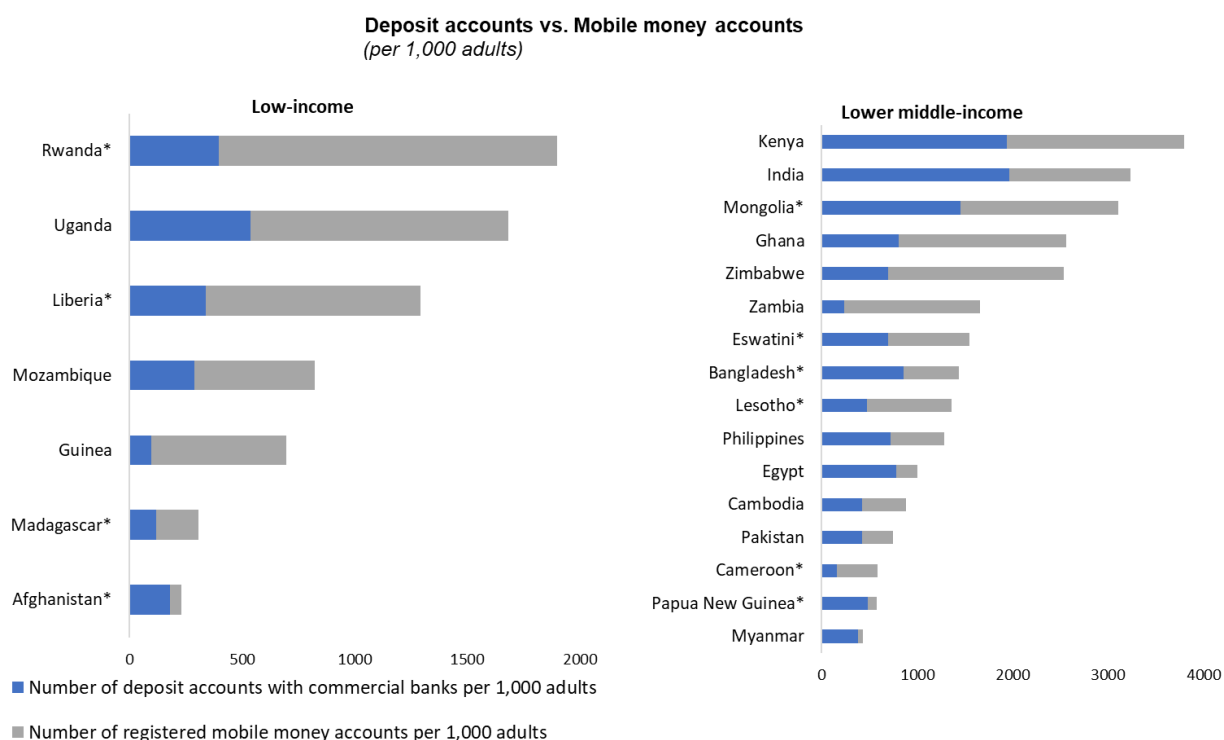
³ This note mainly focuses on domestic financial transaction usage of mobile money. Cross-border payments and capital flows management are important areas that merit dedicated discussions but beyond the scope of this note.

operator (MNO) or another entity that partners with an MNO. Unlike mobile banking which is the use of an application on a mobile device to execute banking services, a bank account is not required to use mobile money services—the only pre-requisite is a basic mobile phone.

Mobile money has several features that can support undisrupted financial transactions in the current pandemic, including:

- High levels of market penetration:** Mobile money has laid a firm footprint in many low- and middle-income countries. Africa is often considered the epicenter of mobile money, but the usage of mobile money has also grown significantly in many other parts of the world. Among low-income economies which report mobile money data to the FAS, the number of mobile money accounts is more than twice the number of commercial bank accounts per 1,000 adults on average (Figure 1, left panel). Similarly, in many lower middle-income economies, mobile money penetration is on par with that of commercial banks or even greater (Figure 1, right panel). These high levels of mobile money penetration suggest that it is a readily available payment option in many of these economies. During the current pandemic, there is an opportunity which can support greater usage to substitute away from in-person cash transactions. In fact, many governments are leveraging mobile money to provide social assistance to their citizens at this time of great need (Davidovic et al. 2020).

Figure 1: Mobile money accounts are widespread in many low-and middle-income countries, 2019 or latest

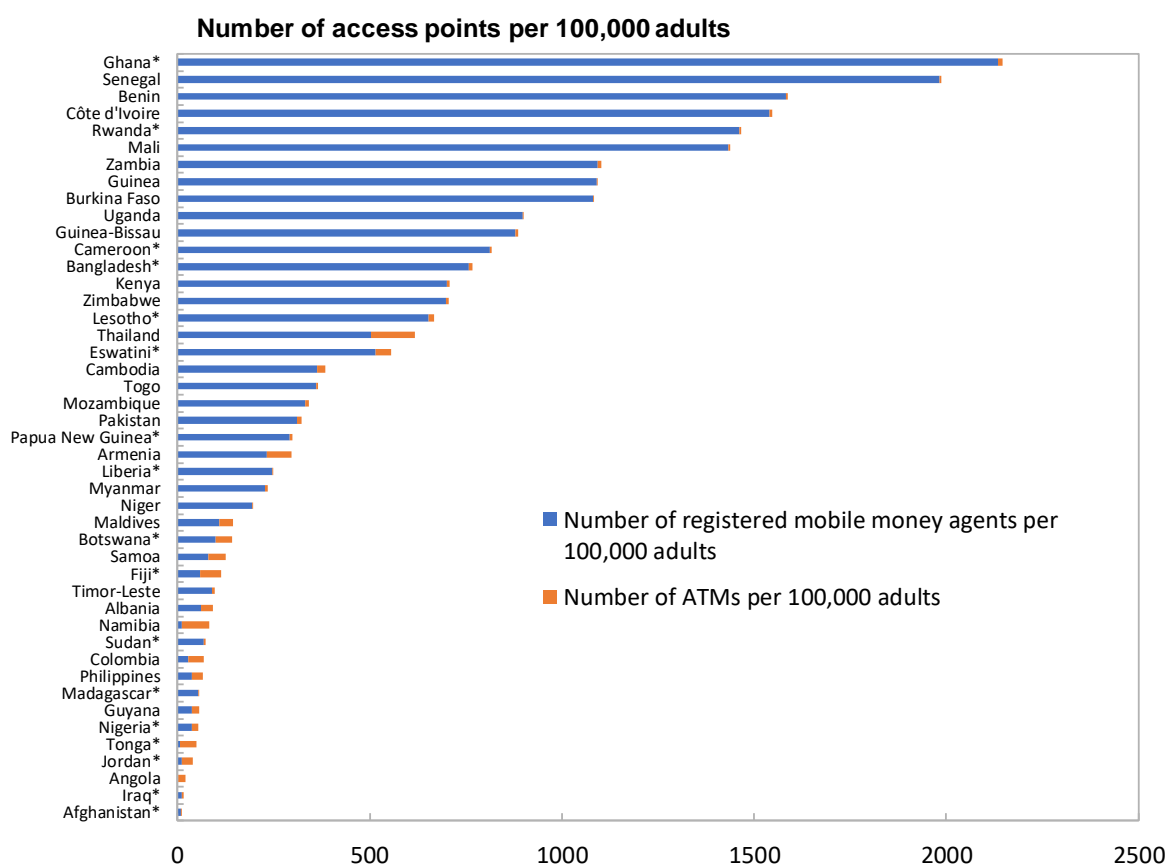


Source: Financial Access Survey and IMF staff calculations.
 Note: * indicates 2019 data are not available and 2018 data are used.

- Minimal physical contact:** Mobile money allows account holders to transfer money and engage with other financial transactions with minimal physical contact, helping mitigate the spread of the

virus.⁴ In addition, mobile money has a significantly larger number of access points compared with traditional banking services, allowing for mobile money users to limit travel time and distance when restricted movements rules are in place (Figure 2). As the only prerequisite for using mobile money services is a basic mobile phone, users can carry out financial transactions—including making peer-to-peer transfers, bill payments, in-store purchases, remittances, savings, and receiving social program benefits—across mobile money accounts through the data messaging channel. In select countries, microcredit is also offered via mobile money. Studies also suggest that, as mobile money reaches scale, new and enhanced services including credit and insurance may be offered through this channel on a larger scale (GSMA, 2018).

Figure 2: Large number of mobile money agent outlets relative to ATMs, 2019 or latest



Source: Financial Access Survey and IMF staff calculations.
 Note: * indicates 2019 data are not available and 2018 data are used.

- **High usage among the unbanked:** The majority of the 78 countries reporting mobile money data to the FAS are low- and middle-income economies.⁵ In these economies, mobile money allows the unbanked to carry out fund transfers and in some cases savings and other financial

⁴ Using mobile money involves some physical contact as cash-in/cash-out services need to be carried out through mobile money agents. However, as long as the mobile money account has sufficient balance, financial transactions such as bill payments can be conducted contactless.

⁵ Mobile and internet banking tends to be more prominent in high-income economies.

services. For example, two commercial banks in Kenya have partnered with M-PESA to offer additional financial products—M-Shwari and KCB M-PESA. M-PESA account holders can open and operate an M-Shwari/KCB M-PESA account with both savings and credit facilities entirely through the M-PESA platform.⁶ M-PESA users can move money from their M-PESA account to their M-Shwari/KCB M-PESA account and earn interest. They can also leverage their mobile money usage history as a proxy credit score and apply for loans if needed.

POLICY RESPONSES RELATED TO COVID-19

Following the outbreak of the COVID-19 pandemic, some countries have adopted measures to encourage the use of mobile money. The IMF's Statistics Department has been publishing information on such measures through a [Financial Access COVID-19 Policy Tracker](#) (IMF, 2020a), which documents policy responses related to mobile money and other DFS during the COVID-19 pandemic (see Box 1 for other DFS). Based on this information, these policy measures for mobile money can be categorized into three broad areas: (i) cuts in fees related to person-to-person (P2P) transactions; (ii) relaxation of balance and transaction limits; and (iii) easing of know your customer (KYC) requirements (Figure 3).⁷

- **P2P transaction fee cuts:** Several regulators and in some cases mobile money operators have announced emergency measures to temporarily suspend mobile money transaction fees for different kinds of transactions. In Kenya, the central bank suspended the customary 1 to 1.5 percent fee charged by mobile network operators on transfers below the equivalent of USD 10 transfers within the M-PESA⁸ platform, from March 16, 2020 until year-end. Similar emergency measures have been put in place in Liberia, with the central bank suspending all charges to users for money transfers as well as merchant transactions until the first week of July.⁹ These interim fee suspensions, on the one hand, reduce the cost of mobile money transactions for users and provide temporary relief to individuals under the current pandemic. On the other hand, P2P transactions account for 91 percent of the money circulating within the mobile money ecosystem and thus these fees are an important revenue source for mobile network operators to ensure business continuity (GSMA, 2020).
- **Increased balance and transaction limits:** In compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), regulators typically impose different transaction limits (number and value) on the type of mobile money account (GSMA, 2019a).¹⁰ To encourage social distancing, some jurisdictions have relaxed these limits temporarily. For example, Bank of Zambia has increased the per-day transaction limits for 1st tier

⁶ M-Shwari, a bank account with both savings and credit facilities that can be accessed entirely through M-PESA, the mobile money platform, was launched in late 2012 by the Commercial Bank of Africa (CBA) and Safaricom in Kenya.

⁷ These policy measures may have inherent risks as discussed in the following section.

⁸ M-PESA is a mobile money transfer service, which was launched in 2007 by Vodafone Group Plc and Safaricom, the largest mobile network operator in Kenya.

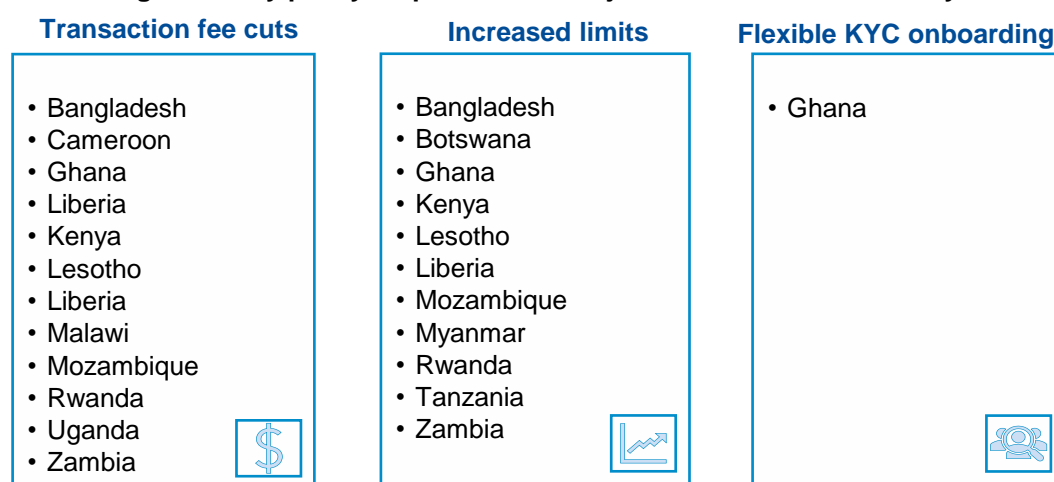
⁹ In Mozambique, transaction fees up to a daily limit of 1,000 MZN (~ USD 14) were waived effective April 10, 2020 for an initial period of three months. The central bank on July 9, 2020 approved a three-month extension for this measure.

¹⁰ Entry-level accounts tend to have lower transaction limits and less stringent due diligence requirements than top tier accounts, which have higher transaction limits but also require additional KYC documentation.

and 2nd tier individuals¹¹ as well as small-scale farmers (and non-incorporated enterprises) to ZMW 20,000 (~USD 1,100); ZMW 100,000 (~USD 5,400); and ZMW 1,000,000 (~USD 54,000) respectively.¹² In Mozambique, the limit on mobile money wallets has been doubled to MZN 50,000 (~USD 700).

- **Flexible KYC onboarding:** KYC onboarding consists of being able to identify customers as well as gather enough information to determine the risk of the customer engaging in illicit finance (GSMA, 2019b). Easing KYC requirements during the pandemic is intended to encourage individuals to make payments through mobile money services. Bank of Ghana eased KYC regulations on March 20, 2020 for an initial period of three months.¹³ Getting more users on board the mobile money ecosystem can help limit disruptions to financial transactions as well as potential exposure to the virus through less physical contact during the pandemic.¹⁴

Figure 3: Key policy responses across jurisdictions: Mobile money



Source: *Financial Access COVID-19 Policy Tracker, IMF.*

Early evidence on the possible impact of these measures is scarce. While there are reports on a rise in the number of users and payments relative to the pre-pandemic norm (The Economist, 2020), it remains to be seen until more data become available.

RISKS

The measures taken by country authorities are likely to support greater mobile money usage during the pandemic, as they make its usage less costly and/or less burdensome. However, these measures also

¹¹ Zambia has tiered KYC requirements for individual accounts. Tier 2 individual account holders require proof of address in addition to the documentation needed by Tier 1 individual account holders.

¹² The old limits for 1st tier and 2nd tier individuals as well as small-scale farmers (and non-incorporated enterprises) were ZMW 10,000 (~USD 550); ZMW 20,000 (~USD 1,080); and ZMW 250,000 (~USD 13,500) respectively.

¹³ Mobile subscribers have been permitted to use existing mobile phone registration details to be on-boarded for a minimum KYC account.

¹⁴ While it is beyond the scope of this note, these measures point to the importance of regular data reporting and data transparency for monitoring purposes.

imply certain risks to individual payment providers, users and the financial system more broadly. To minimize risks to the stability of the system, MNOs and regulators should engage in frequent dialogue and regulators should closely monitor evolving risks in the payment system. This section discusses potential risks related to profitability, operations, industry structure, regulatory arbitrage, customer protection and AML/CFT that are worth considering.¹⁵

- **Profitability:** The measures to promote mobile money are likely to reduce profitability of mobile money business segment of the payment providers. In the short-term, MNOs might be able to compensate the loss in transaction fee income with revenues from other business segments, e.g. voice or data fees. However, cross-subsidization may prove infeasible for an extended period, potentially jeopardizing the business model of MNOs. To ensure that payment providers can make necessary investments to maintain and develop their payment infrastructure, suspension of mobile money transaction fees should be temporary.
- **Operational risks:** If the announced measures lead to an expansion of mobile money payments, payment providers may face several operational risks and challenges. They need to ensure sufficient capacity to handle an increase in the volume of transactions, continue recording transactions effectively and verifying the identity of the payor and the payee. In addition, even in the absence of an expansion, reduced profitability may hinder MNOs from maintaining the resources and infrastructure needed to minimize certain operational risks, including those from cyber-attacks. Cybersecurity policies need to be sufficiently strong to ensure the integrity of the payment platform and security of payments data, especially during peak demand periods.
- **Concentration risks:** Mobile money usually builds on mobile network providers that benefit from economies of scale, resulting in an industry structure with a few large players. On the one hand, failure of a large player can lead to disruption of the payment system, especially when it is difficult for other payment providers to fill the gap. To minimize the risk of failure of systemic payment providers, more stringent regulations and higher operational standards need to be in place for such systemically important service providers. On the other hand, smaller players are likely to face greater constraints in withstanding the current shock due to reduced profitability, which may lead to greater concentration of market power.
- **Regulatory arbitrage:** Once MNOs grow large enough to become important service providers in the payment system, regulators should ensure that mobile money promoting policies do not create an unbalanced regulatory environment in favor of MNOs. The regulation of payment systems in general should be technology neutral and allow for a level playing field between traditional banks and mobile money providers.
- **Customer protection:** Expansion of mobile money requires regulators to be more vigilant to ensure that customer funds are protected. Strict enforcement of regulations requiring mobile money providers to establish trust (or escrow) accounts with commercial banks against customer funds, segregated from funds of the MNO, is essential. To mitigate the risk of an MNO failure, payment providers should continue to hold a minimum amount of capital proportional to the total size of payments they facilitate,

¹⁵ For a broader study of risks and opportunities provided by fintech in advancing financial inclusion, see IMF Departmental paper by Sahay and others (2020).

and regularly reconcile trust accounts with the e-money value and report turnover to regulators. Consumer protection could be further enhanced by taking transparency measures through requiring corporate disclosures by MNOs, introducing regulations that promote fair treatment of customers and enhancing the legal environment for proper handling of customer complaints.

- **AML/CFT:** Raising transaction limits while relaxing KYC requirements could expose jurisdictions to higher risks of not being compliant with Financial Action Task Force (FATF) standards, especially if technological or capacity constraints limit the ability of authorities to effectively monitor financial flows. While the FATF recommendation on customer due diligence (CDD) in principle allows to postpone the verification of identification information, country authorities should be mindful that a CDD simplification does not lead to an exemption.¹⁶ Mobile money providers should be asked to remedy any pandemic-related delays in customer verification within a reasonable timeframe. Any extension of higher transaction and account limits should be contingent on robust evidence that risks have remained contained.

Box 1: Policy responses to the COVID-19 pandemic: Other digital financial services

Mobile money is most prevalent in countries where there is limited penetration of traditional financial services. In several upper-middle and high-income countries where mobile money either does not exist or has limited uptake, a different type of digital financial services—mobile and internet banking—has gained greater traction. Mobile banking, as defined in the FAS, is the use of an application on a mobile device to access and execute banking services, such as check deposits, balance inquiry, and payment transfers. The distinction between mobile money and mobile banking is important. While the latter is linked to a traditional bank account, mobile money is not (IMF, 2019).

In countries where mobile and internet banking is widely adopted, regulators and central banks have also recently enacted policies to encourage the use of digital payments in the current pandemic context. Real-time data on the number of downloads of financial mobile applications from a sample of 74 countries, suggests that the spread of COVID-19 has led to an increase in the relative rates of these daily downloads (Fu and Mishra, 2020). Similar to transaction fee waivers and increased transaction limits for mobile money discussed above, several economies have put in place regulations to eliminate bank fees and/or commissions on digital transactions via mobile and internet banking. For example, in Kuwait, effective March 12, charges and commissions on point of sale (POS), ATMs, and online banking transactions have been removed for a period of three months. Similarly, in Portugal, the minimum fees for businesses on POS payments have been eliminated and the maximum limit for contactless transactions has been permanently increased from EUR 20 to EUR 50.

Analogous to easing KYC regulations for onboarding in the case for mobile money, central banks and regulators have taken steps to facilitate digital payments. In Bolivia, for instance, the use of electronic

¹⁶ [FATF Recommendation](#) 10 states that “Countries may permit financial institutions to complete the verification as soon as reasonably practicable following the establishment of the relationship, where the money laundering and terrorist financing risks are effectively managed and where this is essential not to interrupt the normal conduct of business.”

payments for the purchase of goods and services is being promoted by making an electronic signature the only requirement to carry out financial transactions or remote purchases.

Digital payments are also serving as a useful mechanism for governments to make transfers to individuals (G2P) under various social protection programs. Bank of Indonesia is supporting government programs to accelerate non-cash social aid disbursements to citizens in conjunction with payment system service providers. In addition, in Paraguay, the government is providing subsidies to independent workers and low-income population through mobile payments using electronic wallets.¹⁷

¹⁷ See Agur and others (2020) for a broader discussion on digital financial services in the pandemic context and IMF (2020b) for a discussion on the use of digital payments as a mechanism to implement cash transfers to vulnerable populations.

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