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Legal challenges impede successful implementation of mobile money services in SA and Zim - study

Financial services are difficult to access for many poor people, especially foreigners, refugees and people living in remote areas and rural areas. They lack documentation such as pay slips, proof of residence and identity documents required by banks to open an account, a University of Cape Town (UCT) study has found.

In addition, banks tend to avoid remote and underdeveloped areas.

In his PhD thesis, titled *A comparative analysis of the regulations governing mobile money services in South Africa and Zimbabwe and their impact on sustainable financial inclusion of the poor and vulnerable people,* Dr Luck Mavhuru also notes that high banking fees prevent poor people from using banks.

"Some of them use informal channels of sending money such as sending money through bus drivers. They use cash as a primary transaction mechanism. Cash comes with risks, particularly given that South Africa has a high crime rate and limited access to credit. Informal credit from loan sharks, stokvels and between families and friends provide more credit to poor communities than the formal credit market run by banks," he says.

Mavhuru's study examined the legal challenges that have impeded the successful implementation of mobile money services (MMS) provided by mobile network operators (MNO) in South Africa and Zimbabwe and explored the consequences of these obstacles in the fight against financial exclusion. Mavhuru is head tutor and assessor for UCT commercial and contract law course offered by Getsmarter.

"Traditional informal methods such as storing cash under the mattress or borrowing from a relative are popular with poor people. The fight against poverty cannot be won if such vulnerable groups are excluded from the financial system. It is because mobile money services can be used to overcome these challenges that I chose this topic," he says.

Using a comparative study, Mavhuru found that South Africa and Zimbabwe have similar financial regulations that limit the participation of MNOs in banking sectors. The MMS fortunes of these two countries were quite different, however. MNOs in South Africa were permitted to offer mobile money services, but within the existing regulatory framework. As a result of this approach, it was difficult for MNOs to deliver MMS, limiting their ability to reduce financial exclusion.

As for Zimbabwe, government directives and exemptions led to the relaxation of financial regulations, which resulted in a successful mobile money sector and a significant increase in financial inclusion.

"An ordinary mobile phone and proof of identification are all that is required to open a mobile money account and the charges are very low. Considering its speed, efficiency, and relative affordability, it is a convenient mode of transacting. The introduction of mobile money services has led to a significant increase in access to formal financial services among the poor and vulnerable in countries such as Kenya. In South Africa, I would like to see such a success as well," says Mavhuru.

Mavhuru says in most countries in Africa and Asia, mobile network operators are now major players in the provision of banking services and these countries have witnessed a significant reduction in financial exclusion among the poor and vulnerable communities like in Kenya and Zimbabwe. "Based on my analysis of South African financial regulations, including the Banks Act, Financial Intelligent Centre Act (FICA), and anti-money laundering laws, I have concluded that such laws prevent nonbanks from participating in financial services in order to ensure financial integrity."

As a result, mobile network operators are required to partner with banks in order to offer banking services. Because of the difficulties these partnerships caused for mobile network operators, MTN and Vodacom stopped providing such services in 2015, which they have recently relaunched. Mobile money services in Zimbabwe, however, show that easing financial regulations is crucial to the success of the industry. The relaxing of financial regulations by the Zimbabwean government has contributed to the success of mobile money services and a significant increase in access to financial services despite the country's economic challenges.

"I believe if the law permits mobile network operators to provide banking services on their own without the need to partner with banking institutions, mobile money services provided by mobile network operators will increase the number of people who have access to financial services because mobile money services are cheaper, faster and more accessible to anyone with a mobile phone, regardless of whether the phone is smart or not. Since lack of access to financial services is one of many causes of poverty, this will help in the fight against poverty," he concludes.

Luck Mavhuru Photo: Supplied

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