ARTICLE

Mobile Money Risks

EMEAI

Mobile Money is driving financial inclusion but at what price?

Mobile money provides a user with a way to store and manage money in an account linked to a mobile phone, like a bank account. Mobile money users can transact with other users in various ways like paying bills, buying airtime and transferring funds to other users.

The mobile money story is known to have started in Kenya in 2007 and have since spread globally. Mobile money products and services—based on technology that allows people to receive, store and spend money using a mobile phone—have taken off in many parts of the world, to the extent that in some regions, they have become more widely used than traditional banking.

Mobile money services are faster, less expensive and more accessible than traditional financial services, making them an ideal solution for the 1.6 billion people worldwide who have been left out of banking ecosystems. Mobile money is thus contributing to significant social and economic progress for financial inclusion. It also supports globalisation and better upward mobility for underserved communities, to the extent that individuals can easily transact across borders and send money to their loved ones in underdeveloped regions.

> *"With the pandemic spurring acceleration of the shift to digital banking and fintech providers aggressively improving and expanding into new regions, more growth is projected throughout developed and developing countries."*

Mobile money becoming mainstream

5/8

For example, in five out of eight countries in the Southern African region, roughly half of individuals[1] have subscribed to a mobile money service—many of whom do not have a bank account.

95%

Similarly, in India, the number of mobile money accounts grew by 95%[2] between 2014 and 2019.

30%

In the Middle East, fintech is growing by 30% annually[3] and projected to generate $2 billion in investment capital funding by 2022.

15%

Access to financial services is rated as one of the UN's top Sustainable Development Goals. From a business perspective, emerging fintech products and services like mobile money can account for over 15% of total revenue[5] for mobile network operators and supports financial services providers in reaching more than 1.5 billion new, untapped customers.[6]

Research is clear that improved financial inclusion and globalisation have far-reaching benefits for society and businesses alike, including reducing market volatility and boosting GDP, especially in emerging economies.

According to Global Finance[4] (February 2021):

> *"Access to financial services is a vital factor for coping with and escaping poverty… essential in improving the condition of the most marginalised,"*

[1] https://www.ictworks.org/mobile-money-southern-african-countries/#.YJreiLVKg2x

[2] https://www.bloombergquint.com/business/indias-mobile-money-accounts-rise-95-fold-in-five-years-imf

[3] https://www.finextra.com/blogposting/19789/fintech-reshapes-uaes-financial-industry

[4] https://www.gfmag.com/global-data/economic-data/worlds-most-unbanked-countries

[5] https://insights.som.yale.edu/insights/can-mobile-money-boost-financial-inclusion-in-southern-africa

[6] Ibid.

Key risks in the current mobile money landscape

However, aside from the many benefits this landscape offers, it is not without risk. And for fintech companies and traditional banks looking to launch mobile money solutions, there are numerous emerging considerations to maintain regulatory compliance and data protection. Key risks in the current mobile money landscape include:

1. REGULATORY LIMITATIONS & UNCERTAINTY

Every region has a unique set of financial regulations that may impact the way mobile money services are implemented and used. In some regions, there are no laws or standards that regulate mobile money, which is a double-edged sword for companies in the space. On the one hand, lack of regulation may make it easier to quickly launch cutting-edge products and services; however, lack of regulation also creates a "wild west" environment in which it is more difficult to understand and mitigate risk. Conversely, providers may also encounter regions with strict regulatory environments that stand as barriers to innovation. Navigating these dynamics from region to region can be highly challenging and resource-intensive for providers looking to operate globally.

2. CROSS-BORDER ENFORCEMENT

Another issue arising from the variation in mobile money regulations between jurisdictions is the impact it has on tracking and prosecuting illegal activity that takes place across borders. For example, if a criminal moves money from one country to another using a mobile money service, the provider and law enforcement will only be able to track and recover funds and pursue action against the suspect if the activities took place in countries with established laws and processes for enforcement. Without a framework for cooperation in multi-national investigations, it will be difficult for parties to coordinate any enforcement or remediation effort.

3. FRAUD & CORRUPTION

Reports[7] have emerged showing that the areas where mobile money is growing rapidly are also areas with higher rates of corruption and organised crime syndicates. The anonymity and speed mobile money services provide to users make them naturally attractive to criminals for money laundering, illicit financing, and other illegal activities. The Asian Development Bank coined the term "digital smurfing" to underscore the issue of money launderers using mobile money services to move dirty money in ways that "do not trigger financial transparency reporting requirements."[8]

4. NEW AML & KYC NEEDS

Systems and workflow requirements for Anti-Money Laundering and Know Your Customer are different in a mobile money context than they are for traditional financial services. One of the reasons mobile money is helping promote financial inclusion is that it enables consumers to use services without providing formal identification. Thus, financial institutions launching a mobile money offering will need to update their KYC and AML practices to find the right balance between protecting funds and preventing illicit activity without excluding legitimate customers or delaying the transfer of funds.

Data privacy and new developments on the criminal exploitation front are additional considerations that will impact the space in the coming year.

New challenges will continue to emerge, particularly from a regulatory perspective.

Organisations engaging in the mobile money landscape will need to ensure they have expertise in place to implement sophisticated compliance controls and investigate wrongdoing when it occurs.

[7] https://www.transparency.org/en/cpi/2018

[8] https://www.sas.com/en_us/insights/articles/risk-fraud/mobile-payments-smurfs-emerging-threats.html

Conclusion

“Advancing financial inclusion is an essential and worthy priority for financial and technology organisations. Still, these advancements will only make a meaningful impact if a strong foundation of compliance, anti-corruption and data protection are in place to protect consumers and the overall ecosystem.”

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