

Regulatory Framework for Mobile Financial Services

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- As far as the offering of mobile financial services is concerned, the question must be answered whether the execution of mobile financial services is so close to banking activity (and the provider in fact act in a bank-like manner) that compliance with banking law is a matter of public interest.

Two different settings can be distinguished:

(1)

- If a mobile operator charges customers through their phone bill in the process of collecting a payment for a provider of goods or services, the mobile operator acts as a mere intermediary
- However, the key function of the mobile operator is to make the financial transaction between the provider of goods or services and the customer possible without being directly involved in the deposit-taking business

Two different settings can be distinguished:

(2)

- If the mobile operator creates prepaid accounts to facilitate the execution of payments, the activity typically implies a certain deposit-taking function
- The use of prepaid accounts as such does not necessarily constitute a banking business; however, a grey area begins as soon as high amounts are deposited on such an account for longer periods or if it is used for investment purposes.

- In particular in the developing world, mobile-money schemes have developed outside the regulated banking sector, which is only unproblematic as long as mobile-money schemes limit the balances they raise and do not pay interest when these balances are used like savings accounts.
- Problems might occur in the case of irregularities, such as financial fraud, or bankruptcy of the mobile financial services provider.
- The establishment and institutionalisation of co-operation and information sharing between the telecommunications regulator, supervising the provision of value-added services by a mobile operator, and the banking regulator, supervising the deposit-taking business of a provider, will be essential for effective supervision of mobile financial services providers in the near future.

- The legal framework of mobile financial services should encompass an inter-related regulatory approach which recognises the distinctive features of telecommunications and financial services requirements
- For instance, the consumer identification process in mobile financial services should be more formal than for buying a Subscriber Identity Module card (SIM card) but less rigorous than for opening a bank account

Regulatory Framework-India

- First set of guidelines were prescribed way back in October, 2008 by RBI
- Reserve Bank consciously opted for a bank-led model
- To make mobile for banking in financial inclusion viable it has to be provided as a package along with other products and services

Steps taken by RBI in mobile banking

- The modified mobile banking guidelines permit banks to facilitate funds transfer both for personal remittances and purchase of goods and services without any ceiling
- In respect of small value transactions fund transfers up to Rs 5,000/- can be effected through the mobile phone without the need for end-to-end encryption
- Remittance from a bank account for cash pay out to the beneficiary not having a bank account at an ATM/BC outlet has been facilitated up to Rs 10,000/- per transaction subject to a monthly cap of Rs 25,000/- per beneficiary with the remitting bank obtaining only the full name and address of the beneficiary

Steps taken by RBI in mobile banking

- Cash pay in facility has been permitted up to Rs 5,000/- per transaction subject to a monthly cap of Rs 25,000/- per remitter for transfer of funds to a bank account. Remitter has to provide only minimum details (name and address)
- Permitted "for profit" companies to be appointed as Business Correspondents, which would enable a healthy fusion of the expertise of banks and the communications and agency network of non-banks, specially the MSPs
- E-money or the prepaid payment instruments, whether in the e-wallets, m-wallets, prepaid cards or paper coupons, have been brought under regulation for the first time with the enactment of the Payment and Settlement Systems Act, 2007
- Allowed issue of prepaid instruments up to Rs.10,000 for exclusive use for purchase of travel tickets without the need for KYC

Steps taken by RBI in mobile banking

Guidelines for issuance of semi-closed PPIs

- PPIs up to Rs10,000 by accepting minimum details of the customer, amount outstanding at any point of time and total value of reloads in month not to exceed Rs10,000, can be issued only in electronic form;
- PPIs from Rs10,001 to Rs50,000 by accepting any 'officially valid document' defined under rule 2(d) of the Prevention of Money Laundering Act, non-reloadable in nature, can be issued only in an electronic form;
- PPIs up to Rs50,000/- with full KYC, can be reloadable.

To enhance the utility of PPIs, the facility of funds transfer from a PPI to another PPI issued by same entity and/or to any bank account, was enabled for all categories of PPIs.

Steps taken by RBI in mobile banking

- Permitted banks to enable cross border bank account to bank account remittance through the medium of mobile subject to clearance from the local regulator.
- At the beneficiary end, RBI has enabled loading of funds received from overseas under the Money Transfer Service Scheme (MTSS) scheme on to a prepaid payment instrument issued by a bank, which could include a mobile wallet, to the recipient of the funds.

Mobile Banking Status in India

- There has been a surge in the customers registered for mobile banking.
- The mobile payments in 2012-13 have reached 53.30 million in volume terms and Rs 59.90 billion in value terms.
- The growth rate in 2012-13 has been 108% in volume and 229% in value terms.
- The overall share of mobile payments in the payment system, however, is minuscule.
- Given the huge potential of mobile banking to be game changer, Reserve Bank of India has constituted a Technical Committee on Mobile Banking.
- The Committee will examine the challenges faced by banks in increasing the usage of mobile banking including the usage of USSD (Unstructured Supplementary Service Data) channel.
- The Committee will examine various options including the feasibility of using encrypted SMS based applications for funds transfer that can run on any type of handset for expansion of mobile banking in the country.