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Memo on the Regulatory Supervision of Mobile Phone–Based Services within WAEMU: The Case of Financial Services and Lessons for Insurance.

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Thanks to mobile phones, populations that have ordinarily been excluded from the financial system now have access to electronic fund transfers, electronic payments, microcredit and microinsurance services.

When it comes to insurance, timid growth in the service supply can be seen in the Union. This supply generally comes from partnerships between insurance companies and e-money issuers (partnerships between banks and telecommunications operators, e-money establishments).

In its mission as regulator and supervisor of e-money activities, the Central Bank of West African States (BCEAO) has set up a legal and prudential framework favourable to partnerships targeting people's financial inclusion through the supply of transformational financial services such as microinsurance.

Thus, with flexible regulations on e-money, adopted in 2006 and overhauled in May 2015, significant progress has been made within the West African Economic and Monetary Union (WAEMU), which as of the end of September 2015 has seen the roll out of 33 mobile financial services—approximately one quarter of the available supply on the African continent.

This memo highlights the stakes for second-generation financial services and the regulatory framework set up within WAEMU to oversee them. From this it draws lessons that could help promote people's access to second-generation financial services, notably microinsurance.

Second-Generation Financial Services: The Stakes

By extending the provision of financial services to non-bank actors, such as mobile network operators, the Monetary Authorities target the financial inclusion of disadvantaged populations and rural populations thanks to mobile phones, which are accessible in the most remote areas of Africa. Today, one sign of this is the mobile phone penetration rate within the Union. The professional federation of mobile operators, GSMA, estimates that nearly 80% of the 800 million people living in sub-Saharan Africa should have access to mobile phones by 2020—double the current penetration rate. In comparison, the 44.4 million lives and goods covered by insurance in Africa is paltry.

In this regard, partnerships between banking and non-banking actors could foster the development of a supply of "second-generation" financial services such as credit, savings and insurance.

The success of these partnerships is a major stake for the development of inclusive financial services for which conducive conditions must be set up. This notably involves:

- defining a legal and prudential framework conducive to the development and control of the major risks inherent in the activity;
- creating standing consultation and cooperation frameworks among concerned stakeholders: consumers, regulators, mobile network operators, financial institutions. With this in mind, BCEAO organised a consultation meeting in June 2012, bringing together all the above stakeholders with the aim of discussing the

conditions for the development of a mobile banking supply within WAEMU;

- consumer protection, notably of their funds;
- design of products and services centred on consumers' needs: appropriate pricing;
- financial education for people, notably through raising awareness of the products and services offered.

Within the Union, when it comes to the insurance service supply, there are five (5) premium payment offers:

- a few banks in partnership with MTN in Benin and Côte d'Ivoire;
- Airtel, recently taken over by Orange in Burkina Faso;
- Orange in Mali; and
- Flooz in Togo.

II. Supervision of Financial Services Backed by e-Money within WAEMU

✓ Background and Essential Provisions

In 2006, BCEAO issued Instruction No. 01/SP/2006 of 31 July 2006 on the issuing of e-money and e-money establishments, which allowed non-bank actors to issue e-money under a less strict prudential regime than that applicable to credit establishments. In doing so, it encouraged the development of mobile financial services.

This text was overhauled in May 2015, mainly with the aim of better controlling risks and increasing consumer protection and competition within the sector. In particular, the new text includes a broader definition of e-money, which makes it possible to take into account all related supports.

In this regard, the main provisions address:

- Protection of funds: the funds received in exchange for the issued e-money must be kept in one or more dedicated accounts, which are balanced daily by the issuer and the paying agents of the counterpart funds for the outstanding e-money;
- Greater protection of users: the new text sets the principle that the issuing entities assume full responsibility for the acts of their distributors vis-à-vis third parties when providing the services for which they were mandated. Finally, issuers must set up a system to receive and handle users' complaints
- Stronger security measures: issuing entities must notably set up a tested system for operational continuity, implement a risk management strategy, and prove the existence of audit trails. Henceforth, any issuance of e-money must meet the requirements of high availability and message integrity. The system must ensure data confidentiality, and guarantee the authenticity of carriers and non-repudiation of transactions;
- Greater transparency and competition: issuers of e-money must ensure that their

distributors visibly and clearly disclose their legal name, address, commercial name and fee scale. In compliance with the laws and regulations in force regarding competition, exclusivity clauses between issuers and distributors are now forbidden.

- Overhaul of the supervisory system: BCEAO may extend its verifications to distributors and other technical service providers involved in the issuance of e-money. Under these conditions, the establishments that contract out the e-money issuance system must ensure that their technical partners comply with the requirements of the Central Bank.

III. Lessons for Promoting the Development of Mobile Insurance Services

Mobile phones are a powerful tool for reaching existing and potential clients. For insurance companies, mobile phones offer an opportunity for more efficient management and populations' increased access to insurance services.

However, the nature of these remote financial services involves several actors and consequently several regulators: issuers of e-money (banks, DFSs, e-money entities), mobile network operators and insurance companies to collect premiums and pay out clients' claims via the e-wallet.

Contracting and implementing partnerships is within the private sphere, however regulators must at a minimum require that the contracting parties have:

- a formal partnership through an agreement that clearly states the roles and responsibilities of the parties consistent with core activities of each of the parties and in compliance with the regulatory provisions in force;
- a system of governance for the activity, and a system for managing the risks inherent in the activity;
- a consumer protection system; and
- reporting on the main activity indicators, addressed to each of the regulators according to their respective fields of intervention. This reporting is a basic tool for documentary supervision of the actors and supervision of the activity by the respective regulators. Use of the reporting results should allow the financial, insurance and telecommunications regulators to keep abreast of changes underway in the market.

Cooperation among the various regulators based on the results of the fulfilment of their respective responsibilities when it comes to regulation and supervision should allow for better oversight and foster the development of mobile financial services.
