offer professional qualifications in trade finance-based compliance. Qualified personnel in respondent banks must surely add a further layer of comfort to regulators.

The message is clear: the efficiency of the world's regulatory framework may be enhanced without adversely affecting the quality. But little is going to happen until the principal regulators agree to these initiatives and correspondent banks around the globe may rely on centralised data in total confidence. If the rules on the treatment of respondent bank balances can be revisited, so much the better.

So, over to you, bank regulators of the world: that $1.6tn trade finance gap is not going to disappear by itself. ■

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Don't bank on it in Africa

Susie Lonie *highlights the success of African mobile network providers in offering financial services and discusses the threat posed to banks as their use grows*

For years, most African banks have ignored the mass market and focused on companies and high-value individuals, peddling services that were developed for the more structured economies of Europe and North America. As a result, around 80 per cent of sub-Saharan African adults are unbanked and live in a predominantly cash economy. There was little relevant development, and access to finance was not even an aspiration for most Africans, until the mobile network operators (MNOs) arrived. Now, everything has changed.

The first mobile money service of significance was launched just over 10 years ago. Called M-Pesa, it targeted the unbanked and was offered by Kenya's leading MNO, Safaricom. It is now heralded as an iconic "disruptive technology". It allows subscribers to have a mobile wallet attached to their phone number, which they can load with money (much like buying prepaid airtime) and also cash out at local shops acting as agents. Using basic GSM channels, users can then perform simple payment transactions on low-tech mobile phones, paying a small "per transaction" fee. M-Pesa's success, recruiting more than 2m active users in its first year, led to a stampede of MNOs in emerging markets across the globe developing their own versions of the service.

The motivation for MNOs moving from their core competency of communications into financial services was not some sinister desire to become banks "through the back door". On the contrary, the primary business driver was keeping customers on their network, so-called "churn reduction". Mobile phone users are notoriously fickle, regularly switching (churning) between MNOs to get the latest deal and reduce costs. Safaricom predicted that subscribers whose financial services were linked to their SIM card would be much less likely to churn. This proved correct and their market share grew. MNOs in other markets were first seduced by the promise of similar benefits, then threatened by the potential consequences for their businesses if their competitors offered mobile money and they did not. As a result,10 years on, there are 277 mobile money services in 92 countries across the world serving more than 500m people who have registered for accounts, most of whom previously had no access to finance. In sub-Saharan Africa alone, there are 277m mobile money accounts – more than the total number of bank accounts in the region.

> *"The main driving force was to keep customers on the network and avoid churning*

The impact on banking can be seen. On the positive side, the amount held by banks is increasing. Every mobile money service issues electronic money on a one-to-one ratio against funds held in a regular bank account by the MNO. This means that the funds that customers transact with, which would previously have been cash, are now in the banking system. In December 2016 alone, more than $22bn in mobile money transactions was processed worldwide. Much of this activity pushed new cash into the banking system. In Kenya, still the most developed mobile money country, there is evidence of slightly increasing access to banking, with the number of active accounts growing to 22 per cent in 2015. But this needs to be put in the context of mobile money, where nearly two-thirds of adults have active accounts. Even the apparent growth in banking has been driven by MNO-fronted accounts, such as M-Shwari savings, while conventional bank savings accounts have decreased over the past decade.

Some mobile money services now offer interest-bearing savings and loans, accessed by mobile phone with no need for a regular bank account, or even a conventional credit rating. Instead, access to credit is based upon mobile money and mobile phone usage. The uptake has been phenomenal, with more than 14m accounts opened and nearly $1bn disbursed in short-term loans.

What is most concerning for banks is that nearly half the users also have bank accounts but are still turning to MNOs as providing savings and loans better suited to their needs. The credit-risk profile is also better, with just 1.9 per cent of non-performing loans versus the industry average of 5.3 per cent.

In neighbouring Tanzania, banking has declined in recent years, both in terms of the proportion of the population with active accounts and the absolute number of accounts. This is being driven by a move towards mobile money usage. By 2015, only 5 per cent of the population had an active bank account, compared with more than 50 per cent actively using mobile money. In terms of savings and loans, a similar pattern to Kenya has emerged, with phone-based services attracting 5m customers and around 330,000 small loans being issued every month.

The most startling evidence of mobile money making incursions into banking comes from Kenyan retail payments. In-store purchases by mobile money have flourished and were used by nearly 1m customers every day by 2015. Meanwhile, payment by bank card has been in steady decline. According to the Kenya Central Bank, card usage has dropped from more than 31m transactions in January 2013 to fewer than 18m in January 2017.

All these new, life-changing MNO-led mobile money services have banks in the background providing the licences and local regulatory reporting, so banks are not so much disenfranchised as disengaged from direct contact with, and relevance to, their "proxy" customers. The question the financial strategists are facing is whether they should delegate the retail banking space to MNOs and simply provide the legal structure while watching their deposit base grow; or whether to engage directly with potential new customers in emerging markets. Evidence to date is that most banks have been spectacularly uninterested in engaging the unbanked, or changing their business models and their services to fit the needs of this huge potential customer base – and accessing its hefty cash holding. Few that have tackled this market have committed the resources or patience needed to succeed. Conservative by nature, most banks are disinclined to stray from tried and tested business practices, so there is an argument for them to sit on deposits and credit income, letting others, such as MNOs, do all of that messy, expensive, customer and retail agent management.

> *There is a risk of retail banks being marginalised if they do not respond to the challenge*

But there is a catch. Constantly growing consumer demand is changing the way that MNOs regard mobile money services. They are now seen as significant revenue generators in their own right; collectively, the top 10 African services earned more than $1bn in 2016. Meanwhile, intense competition is eroding their communications revenue. Many MNOs are in the process of launching their own savings, credit and retail payment products, in partnership with banks to access their licences. Some are even creating financial services divisions within their corporate structures.

The question is how long will the MNOs be content to do all the hard work and take the commercial risks, then hand over a share of their hard-earned profit to a "sleeping" partner for the sake of a licence? The balance of "revenue and autonomy" versus "cost of compliance" is certainly starting to tip for the more successful operators and MNO banking divisions are sure to emerge soon.

There is a real risk of retail banks in some markets being marginalised if they do not rise to the challenge of taking the unbanked seriously and respecting their needs by developing services tailored to informal cash flows. It is not easy, nor a quick win, but it is also not a challenge the banks can afford to ignore. ■

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