



Regulatory Spotlight

Central Bank of Somalia Mobile Money Regulations (2019)

Mobile Money Regulations 2019

In 2018, I published the outcome of my review into the risks and benefits of the Electronic Mobile Money Transfer (E-MMT) system in Somalia. My review highlighted how, in the absence of a credible regulatory framework, E-MMT providers were becoming systemically important and the attendant material risks to Somalia's economy and financial system. The second part of my publication set out the potential regulatory approaches that needed to be considered as part of an overall package of reforms to help mitigate these risks and safeguard the safety of the country's financial system¹.

The E-MMT system continues to be a critical financial service infrastructure on which many millions of Somalis rely on a daily basis. This is why it remains an important policy objective to make sure these critical services are within an appropriate regulatory perimeter and subject to credible supervisory controls.

Sometime after my initial publication, the World Bank's Somalia Economic Update (2018) broadly came to a similar conclusion. There is now a wider recognition of the importance and risks of this sector to the overall stability of Somalia's financial system.

As a consequence, mobile money regulatory reform is now formally included in the International Monetary Fund's Staff Monitored Programme IV (SMP IV) Structural Benchmarks² for Somalia. SMP IV, which runs until July 2020, outlines the reform commitments that Somali policymakers must complete on the path to debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. The Central Bank of Somalia's Mobile Money Regulations 2019 (CBS MMR 2019) is the first phase of this key SMP IV benchmark regulatory reform, which would need to be followed by full regulatory implementation by the end of February 2020.

This publication summarises the regulatory implications for firms that are currently providing, or planning to provide, electronic mobile money service, and the required CBS organisational readiness work to make this happen. The publication looks at the key elements of the MMR 2019 and the significant improvement in control, capabilities and risk management that mobile money service providers need to demonstrate to comply with the new regulations.

Context



¹<https://www.aabrief.com/post/somalia-s-mobile-money-transfer-system-risks-and-opportunities> & <https://www.aabrief.com/post/part-2-too-catastrophic-to-fail>
²<https://www.imf.org/en/Publications/CR/Issues/2019/11/15/Somalia-First-Review-Under-the-Staff-Monitored-Program-Press-Release-and-Staff-Report-488183>

Electronic Mobile Money in Somalia

“Il Soo Tuur”

Key facts

01

Almost all of the day-to-day economic activities in Somalia are transacted through the E-MMT system, making providers systemically important.

02

The E-MMT system can only be used for the USD currency. The Somali Shilin is considered worthless and not used at all.

03

There is no interoperability between the different operators. In essence, a consumer can only transfer funds to another within the same operator's mobile network, hence the systemic and single point of failure risks.

At a glance:



\$32.4 billion

This is the estimated annual value of the mobile money transactions in Somalia

\$2.7 billion

The estimated monthly value of mobile money transactions in Somalia

650%

The estimated annual mobile money transactions value as a percentage of Somalia's estimated nominal GDP for 2019

87%

This is the percentage of mobile penetration in urban areas

155 million

The estimated monthly mobile money transactions



Central Bank of Somalia Mobile Money Regulations 2019

Impact Analysis

1: Licensing Conditions

[Shuruudaha Shati Bixinta]

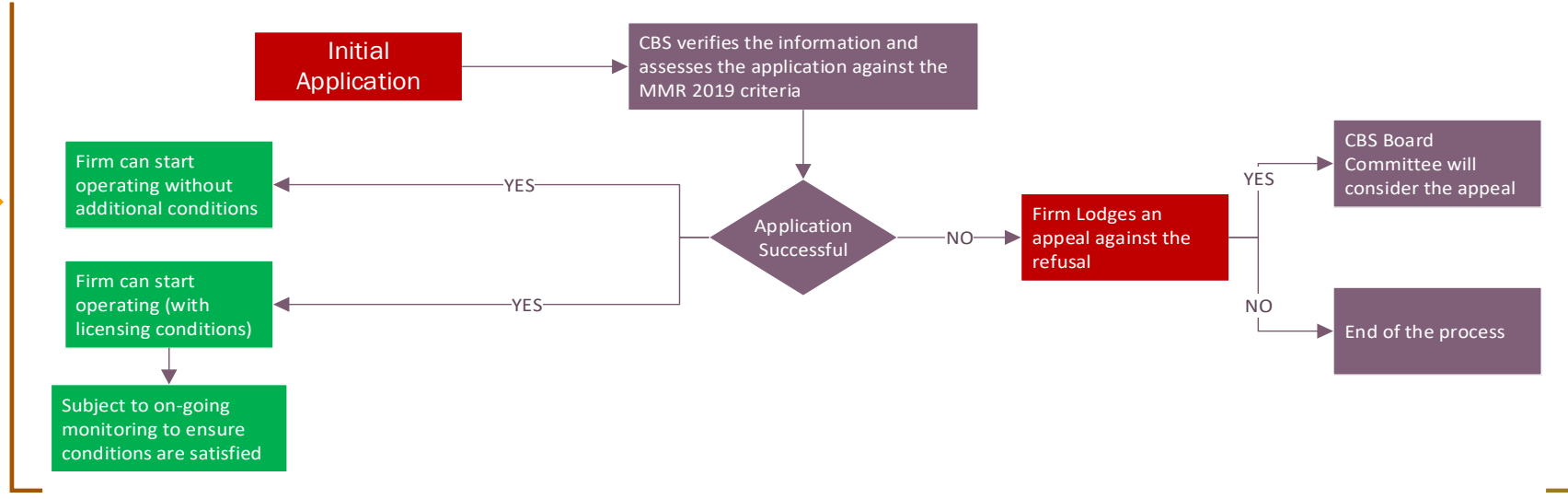
A summary of the licensing conditions and the documentations required at the licensing phase

Application Criteria

The licensing procedures for firms that wish to provide mobile money transfer services



Initial Licensing Application



Part II of the CBS Mobile Money Regulations 2019 (MMR 2019) outlines the key requirements for setting up a mobile service provider:

(A) Initial Application

- Oath of Declaration
- Application and Licensing Fees of USD 30,000
- Requirement for oath of declaration to be signed by senior responsible officer (eg. Chief Executive Officer, Managing Director of the firm)

(B) License Renewal:

Firms must re-submit the application documentations in "A" and pay USD 10,000, as well USD 500 per mobile money outlet/agent.

(C) Appeal Process

Firms may appeal against refusal to grant licenses. Appeals must be lodged with the CBS within thirty days. A committee of CBS Board of Directors, not involved in the initial decision, will hear the appeal and make a decision within sixty days.



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|---|--|--|
| 1: Company documentations | 7: Interoperability functions – nationally and internationally | 13: Board charter for managing consumer funds |
| 2: National Communication Authority license | 8: Cross-firm mobile money functionalities and procedures | 14: Three-year mobile money service provider business plans |
| 3: Disaster recovery and business continuity plans | 9: Cross-firm mobile money functionalities and settlement procedures | 15: Board charter which sets out the operations of the Board of the firm |
| 4: Minimum capital of USD 2 million | 10: Mobile money technology test report | |
| 5: Mobile money services policies and procedures | 11: Mobile money fees schedule and charges policies | |
| 6: Systems for safeguarding consumer funds, prompt execution of transactions/payment claims; reconciliation of mobile money funds in circulation; proper accounting and record keeping; controls to prevent unauthorized issuance of mobile money | 12: Detailed regulatory gap analysis and two-year mitigation plans | |

2: Governance Framework

["Qaab Dhismeedka Maamulka Shirkada"]

A summary of the governance framework requirements on business conduct, governance arrangements and policies and procedures

Adequacy and Transparent Governance Arrangements



1: Board of Directors	2: Fit & Proper	3: Accountability Structures	4: Policies & Procedures	5: Internal Controls	6: AML and CFT Controls
Board Constitution and Diversity	Compliance with fit and proper criteria for shareholders, directors, senior officers and agents	Management and accountability structures for responsibilities and decision-making	Policies and procedures for the efficient operation of the mobile money service	Setting up adequate, proportionate internal control frameworks on risk management, accounting and mobile money processes	Systems and controls against money laundering and terrorist financing; staff screening procedures and compliance management processes and controls

3: Solvency, Prudential, Conduct & Operational Risks

["Isku Filnaashaha & Maaraynta Khataraha Shirkada"]

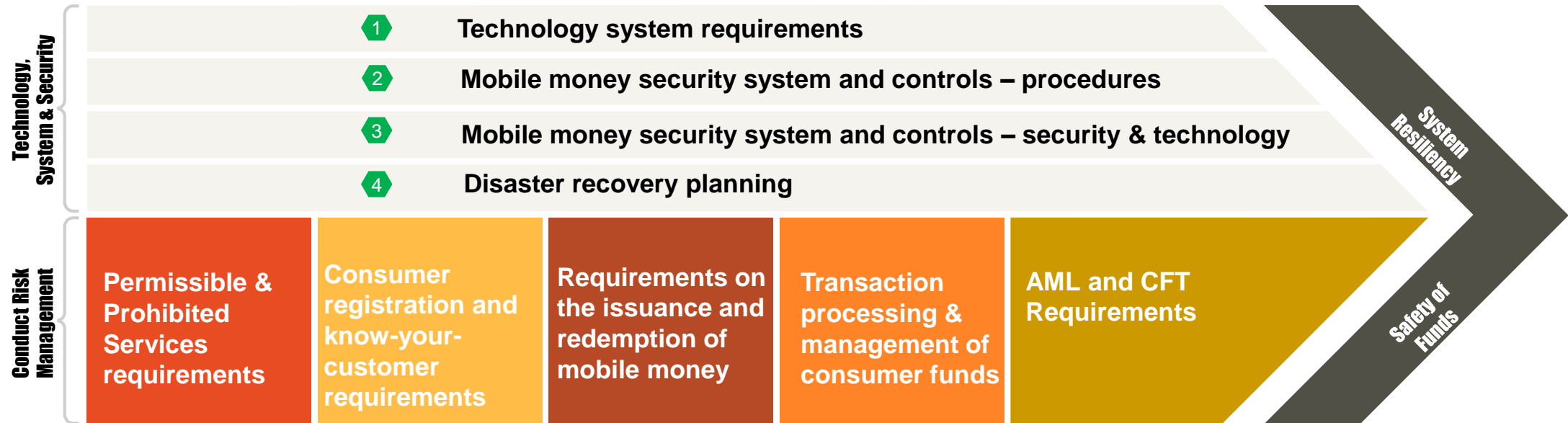
A summary of the key requirements on capital, liquidity risk management and profitability

Internal Controls, Capital and Liquidity Requirements

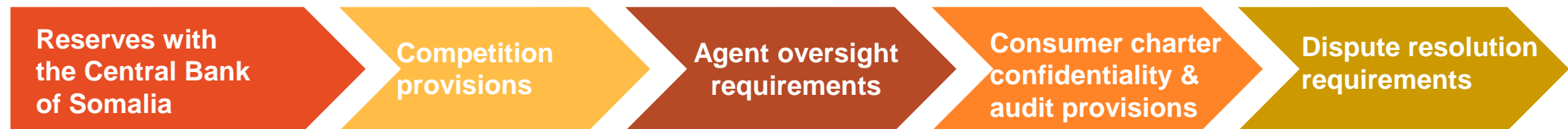


1: Capital	2: Liquidity Management	3: Profitability	4: Risk Management	5: Internal Controls
Minimum USD 2 million capital; mobile service providers also subject to on-going capital requirements as determined by the CBS	Requirement for the funds held to be held in bank accounts that is equivalent to mobile money in issuance; cash at outlets; reporting requirements for liquidity deficiency	Requirement for service providers to maintain a solvency position and reduce business risks	Requirements for the identification, assessment, management and mitigation of the following risks (non-exhaustive): (1) capital management (2) liquidity (3) operational, (4) settlement, (5) information, communication and technology (6) compliance and reputational (7) money-laundering and terrorist financing	Setting up adequate, proportionate internal control frameworks on risk management, accounting and mobile money processes

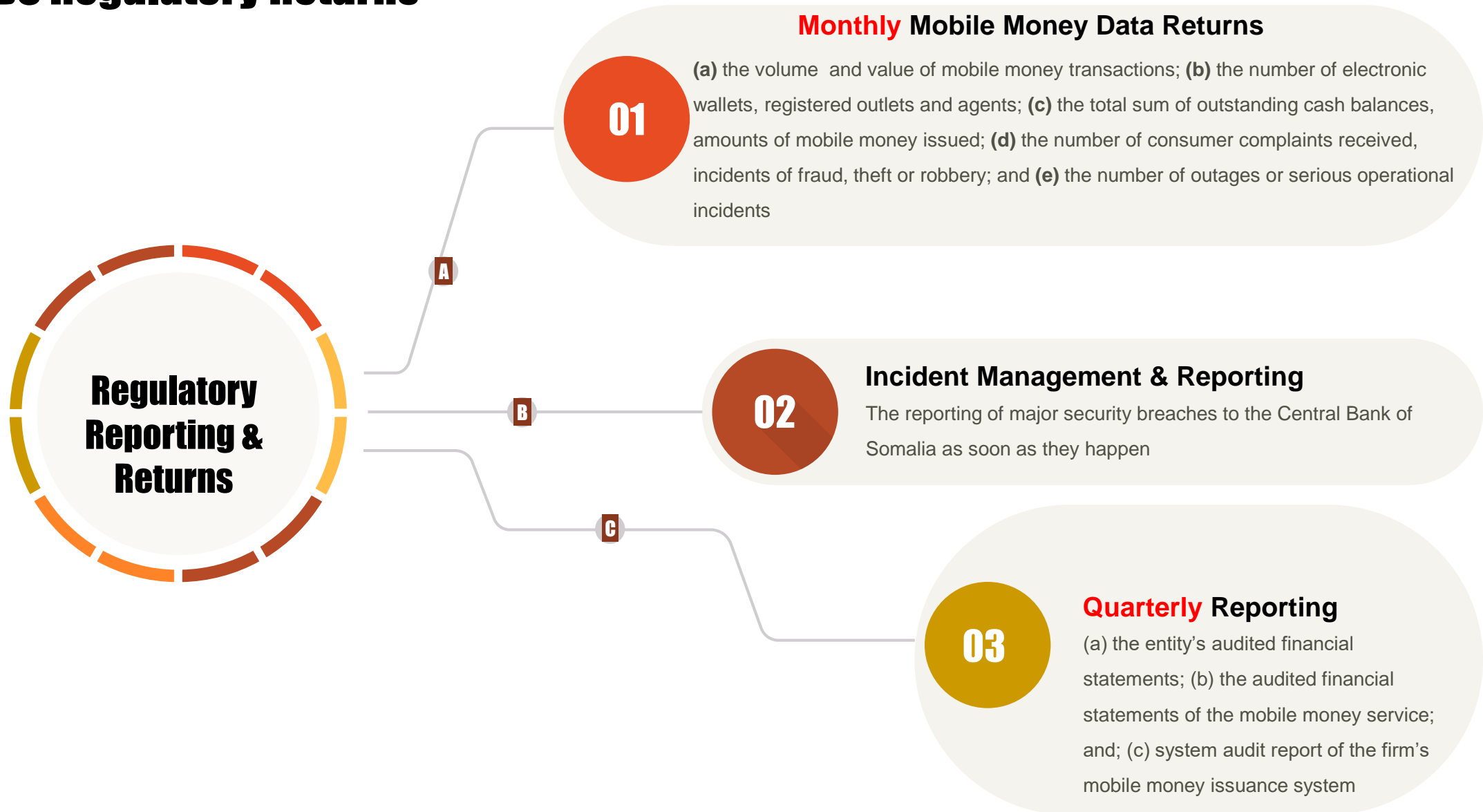
Systems and Controls



Consumer Protection & Market Competition

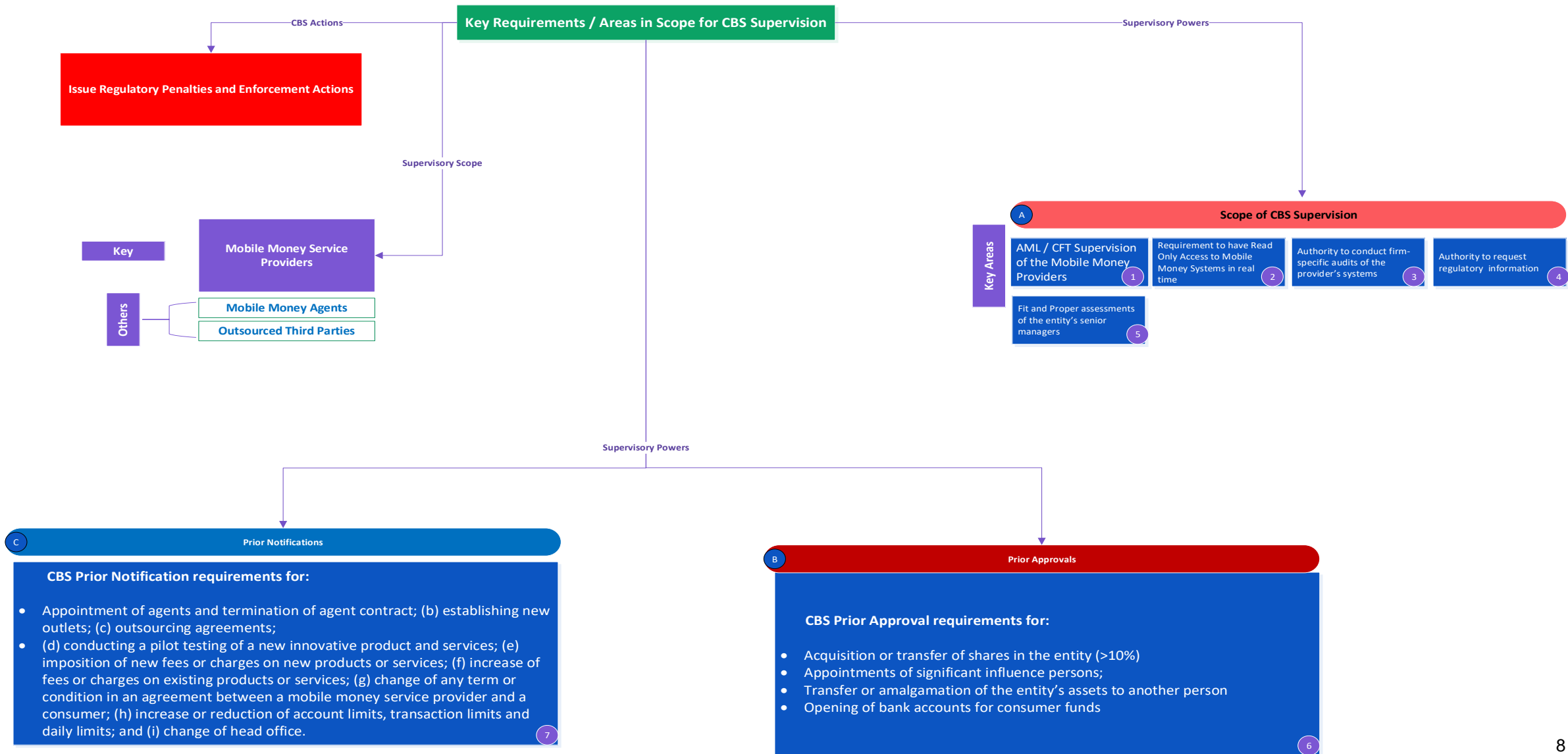


CBS Regulatory Returns



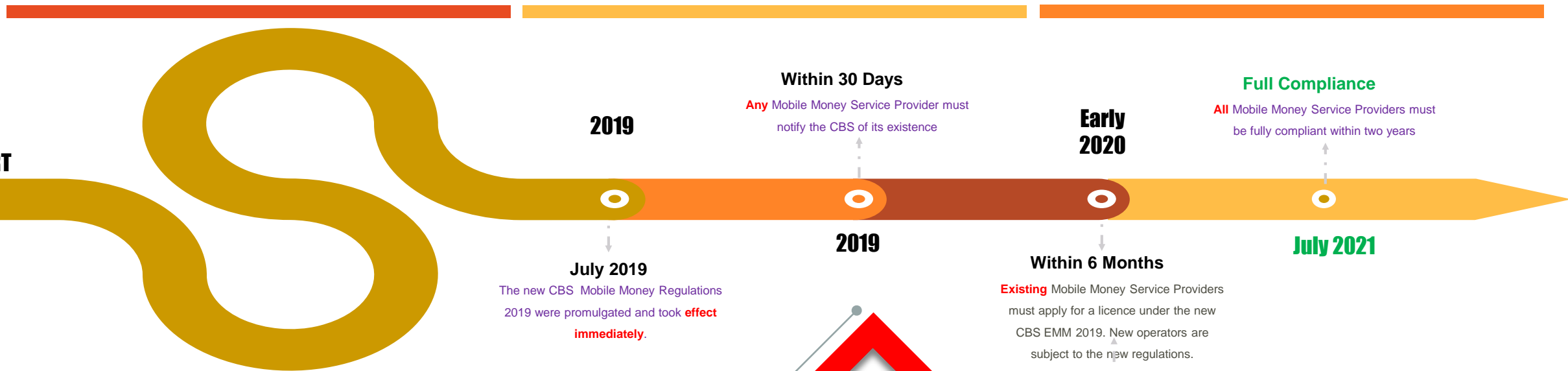
CBS MMR 2019 Supervision

Central Bank of Somalia Supervisory Approach



Implementation Timelines & CBS Organisational Readiness

START



Part VIII - 62

CBS Organisational Readiness

The new MMR 2019 represents a step change in regulatory approach and aims to support a comprehensive regulatory assessment of the mobile money providers. The regulations also provide the CBS with formal powers to collect, assess and analyse regulatory data to ensure the risks firms face and pose to Somalia's financial system are understood and mitigated appropriately.

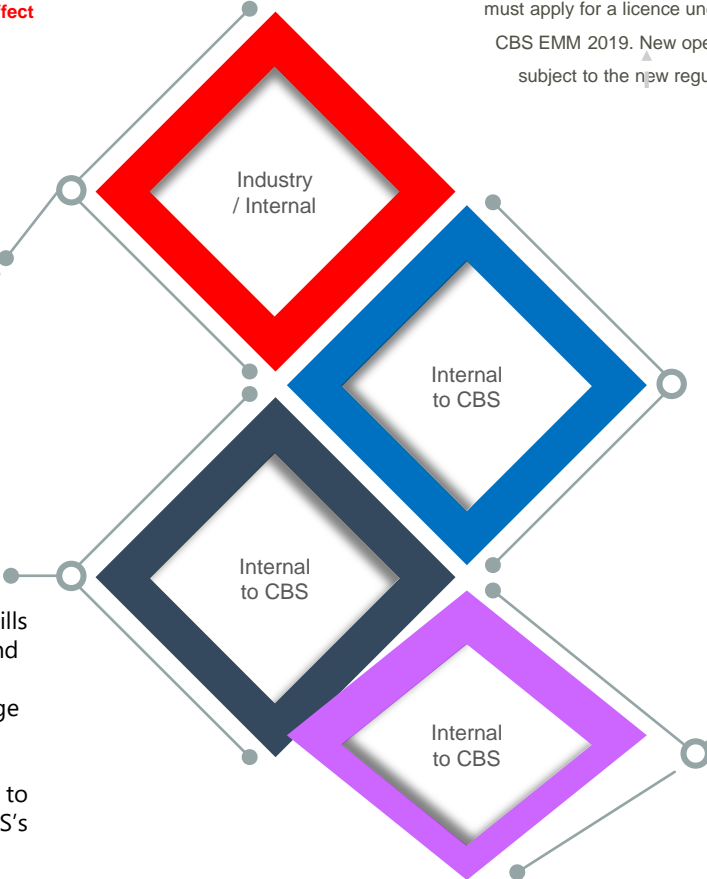
All of this means the CBS's current supervisory activities and strategies would need to be substantially enhanced and developed. The Bank would need to have the right capabilities in order to enforce these regulations effectively, build regulatory credibility and deliver the right supervisory outcomes.

01 Supervisory Operating Model

The publication and implementation of the CBS's Approach to Regulating Mobile Money Providers in line with the MMR 2019. This includes Guidelines for Firms; Supervisory Manual for CBS examiners; Internal Supervisory Controls; Policies and Procedures; Board Oversight Requirements; Market Communication Protocols; and Risk Assessment Strategy.

02 People

A critical success factor is for the CBS to have supervisors with the right level of skills and experience, as well as the integrity and strong gravitas to have challenging supervisory relationships with a wide range of stakeholders, including financial firms, institutions of the government, the wider market and others. This is critical in order to deliver the right outcomes in line with CBS's regulatory objective.



Systems and Controls

The development and implementation of the reporting infrastructure and data management and security system procedures which are required to support CBS regulatory reporting.

Management and Governance

key supervisory decisions should be subject to senior management challenge and review to ensure that they are reasonable, fair and proportionate. This means the CBS would need to develop internal governance and decision-making structures, as well as escalation procedures to safeguard the integrity of the CBS's supervisory oversight.

03

02

Six Key Implementation Challenges



CBS Approach to Regulation

Without a clear approach to regulation (**also translated into Somali**) it will be very difficult for firms to understand the compliance criteria and thresholds against which they will be assessed. As the rules include principles as well as explicit requirements, the compliance criteria must be clearly set out.

Supervisory Assessments

Another key challenge is whether the CBS is able to put together the necessary systems and controls to ensure the implementation is effective. A great deal of organisational readiness work would need to be completed before the supervisory approach can be implemented.

Industry Consultation

There needs to be detailed consultation with the mobile money service industry on the implementation approach; risks and challenges to overall implementation timelines. It is important to reflect carefully on industry concerns early on to ensure the regulations achieve the intended outcomes, are well-understood and applied consistently.

Data Confidentiality and Information Security

The data and information that firms must provide under the regulations are extremely market sensitive and very confidential. The CBS could need to put in place credible information security and confidentiality standards and controls to keep the regulatory information safe and confidential.

Interoperability Requirements

The ability for consumers to send money to each other across different firms is extremely important and a key mitigant of the systemic and single point of failure risks. However, there are inherent difficulties in legislating for this in the absence of a national payment system through which inter-firm clearing could take place. This is likely to be another significant hurdle.

Enforcement Actions Appeals Process

The regulations give the CBS considerable regulatory powers to impose enforcement actions on individuals (as part of the fit and proper assessment) and on firms. Given the implications CBS regulatory sanctions would have on the reputation of individuals and firms, it is important to outline a credible regulatory appeals process which is seen to be fair and transparent.

BUSINESS STRATEGY & RISK MANAGEMENT BRIEFS



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Abdi is Chartered Banker and a Senior Fellow of the Chartered Banker Institute in the UK. Abdi has 20 years of experience in financial services, working at leading global banking institutions and writes about financial services risks and regulation. Abdi's articles on Somalia focus on key themes across the economy, finance and regulatory risk.

Other relevant publications at aabrief.com

Currency Reform in Somalia

A comprehensive policy options paper which details the approach for reforming Somalia's Shilin.

Regulating Electronic Mobile Money Transfer (EMMT) – Part 1

An approach paper which sets out the risks and opportunities of E-MMT systems.

Regulating Electronic Mobile Money Transfer (EMMT) – Part 2

An outline of a regulatory approach for mitigating the material systemic risks posed by E-MMT systems.