

Bank of Uganda pushes for law to

By Edward Kayiwa

Statistics from the Bank of Uganda (BOU) indicate that the percentage of the adult population with access to formal financial services has more than doubled since 2006.

The exponential growth, according to BOU, is attributed to formal non-banking services, dominated by mobile money, which has unlocked the opportunity for people, especially in unbanked areas, to save money on mobile phones.

The service has also partly built the financial services industry into a more efficient and inclusive one, opening a broad range of financial services for millions of Ugandans.

Although it started as a customer retention tool for telecom operators in 2009, mobile money has now deepened financial inclusion through lower transaction costs, improved rural access and greater customer convenience.

It has also become a platform for telecom



Mobile money shops at Nakawa in Kampala. Mobile money facilitates transactions from different sectors

operators and formal financial institutions, such as banks and microfinance entities, to offer a broad range of financial services.

Transactions

BOU estimates indicate that in 2017, more than sh63 trillion was transacted through mobile money, making it the single most

used tool for financial transaction in the country.

Increasingly, mobile money is facilitating transactions from sectors such as retail, utilities, health and education, among others.

According to experts, enabling digital payments and transfers is, therefore, an important step towards creating universal access to

a broad range of financial services and improving the stability and integrity of the financial system.

Mobile money, they (experts) said, is also helping reduce financial sector infrastructure costs, thereby facilitating the distribution of retail financial services and unleashing other innovations. Therefore, it is for its

prominent status that the BOU drafted a National Payments Policy, which has since birthed a Bill to enable efficient regulation of all digital payments platforms in the country. However, Uganda's legal framework currently regulates payment systems undertaken by financial institutions and does not regulate

non-financial institutions providing payment systems in the financial sector.

According to BOU, this is the anomaly that the regulator seeks to bridge within the law by clearly defining the roles and responsibilities of various stakeholders in the country's financial services sector.

New law

In a recent interview, the BOU executive director for supervision, Tumubwine Twinemanzi, said although currently awaiting completion of the legislative process, the banking regulator was hopeful of having an Act by June 2019.

Twinemanzi said once passed, the new law will also reinforce security of digital payments systems and foster consumer protection as well.

"Under the new law, there is going to be a definition and separation of roles so that telecoms which want to continue operating in mobile money register subsidiaries that separately deal in mobile money for easier supervision and regulation," he explained.

He added that the national payments law is expected to facilitate the complete



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transition from paper payments to electronic transactions within the next five years.

Reducing paper

In 2017, the former director for supervision, Justine Bagyenda, said BOU was working on a strategic plan spanning 2017-2022 to reduce the use of paper notes and cheques.

In December 2017, Cabinet approved the National Payments Policy, which was subsequently used to draft the National Payments Bill 2018, now awaiting Cabinet and parliamentary approval to become law.

According to Twinemanzi, a national payment system is one of the principal components of a country, which is essential for the effective implementation of the monetary policy.

He said the system, which is an essential part of the financial infrastructure, clearly defines institutions, instruments, procedures and technology used to facilitate the circulation of money within the country and abroad. As a prerequisite for licensing a new digital payments platform,



Mobile money has simplified cash transactions between different persons countrywide

Twinemanzi said the law will check for national and global incompatibility such that money is handled by financial institutions using escrow accounts.

He said digital payments will eliminate the cost of managing paper notes,

lower opportunity cost for consumers withdrawing money and boost competitiveness between digital merchants.

"After the consultative phase, we shall licence payment service providers, operators of payment

systems, as well as payment instruments within the law," he said.

Over time, BOU deputy governor Louis Kasekende has said a multitude of concerns have been registered over mobile money's safety and efficiency,

BANK OF UGANDA ESTIMATES INDICATE THAT IN 2017, MORE THAN SH63 TRILLION WAS TRANSACTED THROUGH MOBILE MONEY

hence the need to regulate the fast-growing sector. According to Kasekende, some of the concerns raised include fraud, system failures, consumer protection issues, among others.

Mobile money took Uganda by storm in 2009, when MTN Uganda, borrowing from Kenya's Safaricom's Mpesa, launched the service to allow people send and receive money using mobile phones.

Commercial banks later scrambled for a share on the platform that has become one of the main channels of transferring and receiving

money countrywide.

It is estimated that sh63 trillion was wired through the mobile money platform in 2017, dominated by mainly MTN Uganda and Airtel Uganda.

In 2013, BOU issued mobile money guidelines, which stipulate the approval process for the mobile money services.

Although they address interoperability, system standards, competition, supervision and safeguards to protect customers, the regulator now seeks to control the sector more efficiently under the law.

Recently, MTN launched a digital payment platform called Momo card that allows mobile money users to make international digital payments through Mastercard.

MTN Mobile Money general manager Elsa Mussolini said while launching Momo card that it will allow mobile money users to access digital financial services globally.

She added that digital payments are essential because they eliminate the cost of managing paper notes and lowers opportunity cost for consumers withdrawing money.

10
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of
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