

## Evolution of Mobile Banking Regulations

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### Abstract<sup>1</sup>

*Legislation takes place slowly and incrementally, much like evolution. Ideas in one field get transferred to others. New innovations create new mutations and new fusions take place with apparently dissimilar partners creating a need for other adaptations. Such a fusion is now occurring between the banking industry and the telecommunication industry, creating a concept called mobile banking, which would enable transaction cost reduction and increase in outreach to enable poor unbanked people to access micro financial services. This fusion is necessitating a change in the regulatory institutional environment to accommodate and adapt to this fusion. This paper studies the evolution of the mobile banking regulations in five zones (Kenya, South Africa, Philippines, India and European Union) in different stages of economic development and offers possible reasons for such differing evolutions. The reasons are couched in terms of loss aversion of regulators of developed economies and the spread of regulations internationally, by imitation, to nurture an enabling environment to permit innovation to succeed. Future research directions are also indicated.*

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### Microfinance boosted by Mobile Banking

Evolution takes place slowly and incrementally. Ideas in one field get transferred to others. Unmet needs lead to new inventions and innovations and these create new economic relationships. New mutations and new fusions take place with apparently dissimilar partners creating a need for other institutional adaptations. Such a fusion is now occurring between the banking industry and the telecommunication industry, creating a concept called mobile banking. This sector is being constrained by the slower development of regulatory framework owing to conservatism and loss aversion.

One such unmet need was the inability of banking services to poor people, which led, first to the development of microfinance (Yunus 2003; Armendariz and Morduch 2005). Microfinance is the provision of financial services (savings, credit, payment mechanisms) to poor people. This microfinance sector has been growing at 30% per annum over the last few decades and has become a possible source of hope to drive out poverty, combined with many other governmental and NGO actions. However, the sector has touched less than 200 million people, (at best 1 billion people considering a family size of five). There are probably 4 billion unbanked<sup>2</sup> people in the world and

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<sup>2</sup> The unbanked are people without formal bank accounts who operate in a cash economy; they are limited in their ability to take out loans, maintain savings, or make remote payments, and these constraints can inhibit their economic opportunities Mas I (2008) Realizing the Potential of Branchless Banking: Challenges Ahead. In: Focus Note 50. Consultancy Group to Assist the Poor (CGAP), Washington, D.C..