

NATIONAL PAYMENTS SYSTEM (NPS) REPORT

FOURTH QUARTER 2019

1.0 SUMMARY

This report highlights developments in the national payment systems during the fourth quarter of 2019 and it includes a summary of the year's performance from the various payment system channels, initiatives on the policy and regulatory front as well as efforts to increase adoption and usage of digital financial services in the country. The performance of the payment streams during the period under review is largely presented relative to the third quarter of 2019 and also against corresponding figures recorded in 2018.

Overall, a total number of 91.2 million transactions were processed from both wholesale and retail payment streams during the quarter under review, representing an increase of 12.3 percent from the preceding quarter. Similarly, the corresponding total value of transactions increased by 31.4 percent to K11,573.3 billion during the same period. The change in the yearly figures was more pronounced, as 2019 registered a total volume of 310.4 million transactions, representing an increase of 42.7 percent from the figure recorded in 2018, whereas the total value of the transactions increased by 37.3 percent to K36,932.3 billion in 2019.

2.0 PERFORMANCE OF MAJOR PAYMENT PLATFORMS

2.1 PERFORMANCE OF MITASS

Relative to third quarter of 2019, the number of transactions processed in MITASS registered a marginal increase of 6.6 percent to 1.6 million during the period under review, largely due to an increase of 8.2 percent in electronic funds transfer (EFT) transactions. Similarly, the corresponding value of transactions increased by 36.8 percent to K10,212.9 billion, largely on account of an increase of 40.6 percent in large value interbank transactions.

A yearly review of MITASS transaction numbers exhibits the same trend as the volume and value of transactions rose by 10.7 percent and 32.0 percent to 5.9 million and K32,397.8 billion, respectively. These figures and trend underscores the criticality of the MITASS system to the financial system and the economy at large.

Table 1: Transaction Flows in Various Payment System Channels

Payment Type	JUL-SEPT 2019		OCT-DEC 2019		Percentage Change	
	Volume	Value (K'billion)	Volume	Value (K'billion)	Volume	Value
MITASS Total	1,539,076.0	7,468.1	1,640,998.0	10,212.9	6.6	36.8
Large Value	52328	6,383.7	55,745.0	8,975.6	6.5	40.6
ACH	1,486,748.0	1,084.4	1,585,253.0	1,237.3	6.6	14.1
EFTs	1,164,397	440.8	1,260,011	565.6	8.2	28.3
Cheques	322,351	643.6	325,242	671.7	0.9	4.4
RETAIL DFS	79,642,599.0	1,337.8	89,553,327.0	1,360.4	12.4	1.7
DFS at ATMs	4,398	0.2	3,661	0.2	(16.8)	20.0
Internet Banking	562,225	728.1	601,097	665.3	6.9	(8.6)
Mobile Payments	78,694,205.0	592.7	88,528,202.0	673.9	12.5	13.7
Bank-led	6,274,885.0	117.9	7,121,016	185.8	13.5	57.6
Non-bank	72,419,320.0	474.8	81,407,186	488.1	12.4	2.8
Point of Sale (POS)	381,771.0	16.8	420,367	21.0	10.1	25.0
Grand Total	81,181,675.0	8,805.9	91,194,325.0	11,564.6	12.3	31.4

2.2 TRANSACTION FLOWS IN RETAIL/DIGITAL FINANCIAL SERVICES (DFS) CHANNELS

2.2.1 Overall Performance

Retail digital financial services (DFS) in this report refers to those transactions effected via channels such as internet banking, mobile banking, Point of Sale (POS) and (non-bank) mobile payment platforms. ATM transactions are also included only where they involve funds transfers and bill payments i.e. excluding cash withdrawals.

During the period under review the total volume of retail DFS transactions recorded a rise of 12.4 percent to 89.6 million whereas the corresponding value

had a marginal increase of 1.7 percent to K1,360.4 billion. This trend shows continued customer preference for modern means of making payments as opposed to cash. The trend movement is more significant with the yearly performance as the total volume and value of transaction increased by 43.5 percent and 93.2 percent to 304.5 million and K4,534.5 billion, respectively, in 2019. This trend is expected to continue if key stakeholders such as Government and corporate institutions, and the general public continue to migrate to electronic payment platforms in effecting their payment transactions.

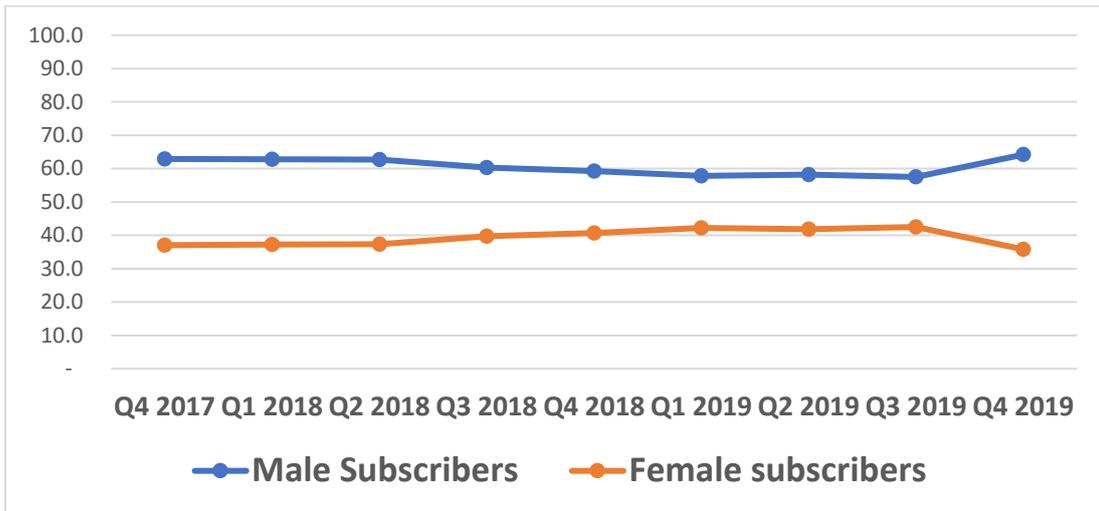
2.2.2 Performance of Non-Bank Mobile Payments

Mobile Money Subscribers

Relative to the third quarter of 2019, the subscriber base for non-bank mobile money services declined by 13.0 percent to a total of 6.2 million subscribers during the fourth quarter of 2019. This drop is attributed to the removal of dormant accounts on the mobile money platforms as was performed by the service providers during the quarter.

With respect to gender, the data shows that male subscribers continue to dominate as they constitute 64.2 percent of the total subscribers during the period of review. Correspondingly, the gender gap widened further to 28.4 percent during the period under review from 15.0 percent in the third quarter of 2019 (*Figure 1*). This trend has come about after the removal of dormant accounts from the subscriber base as referred to above, suggesting that women also had owned most of the accounts that have been affected by that exercise. Therefore, to achieve meaningful financial inclusion and reduce the gender gap, it is important to pursue deliberate efforts targeting to increase participation of women in mobile money services and other financial services in general, since women constitute more than 50 percent of the country's population.

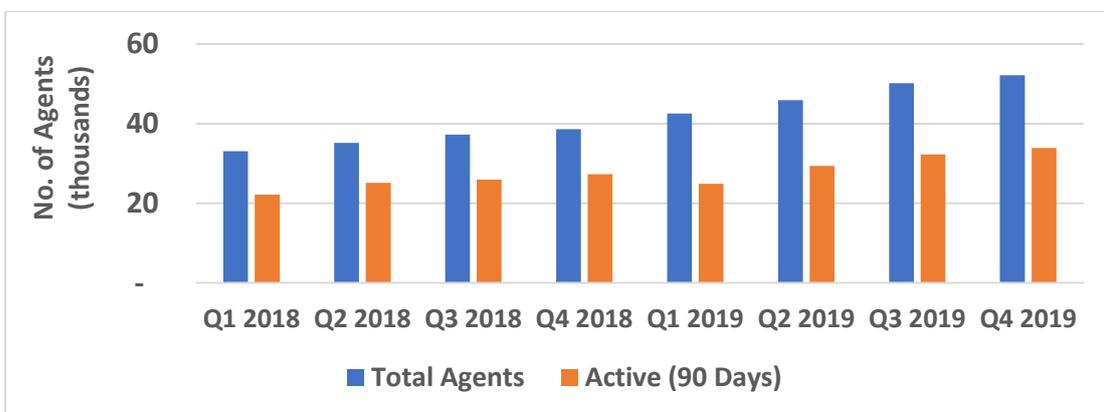
Figure 1: Distribution of Mobile Money Subscribers based on gender



Mobile Money Agents

The mobile money agent network grew by 4.0 percent to a total number of 52,200 registered agents in December 2019, thereby increasing the number of access points across in the country. Similarly, the number of active agents rose by 10.7 percent to 33,920 during the same period, representing an activity rate of 65.0 percent of the total agent network which is slightly higher than the activity rate for subscribers. There is however still much room for improvement in terms of activity at both subscriber and agent level if the country is to achieve a vibrant mobile payments ecosystem (Figure 2).

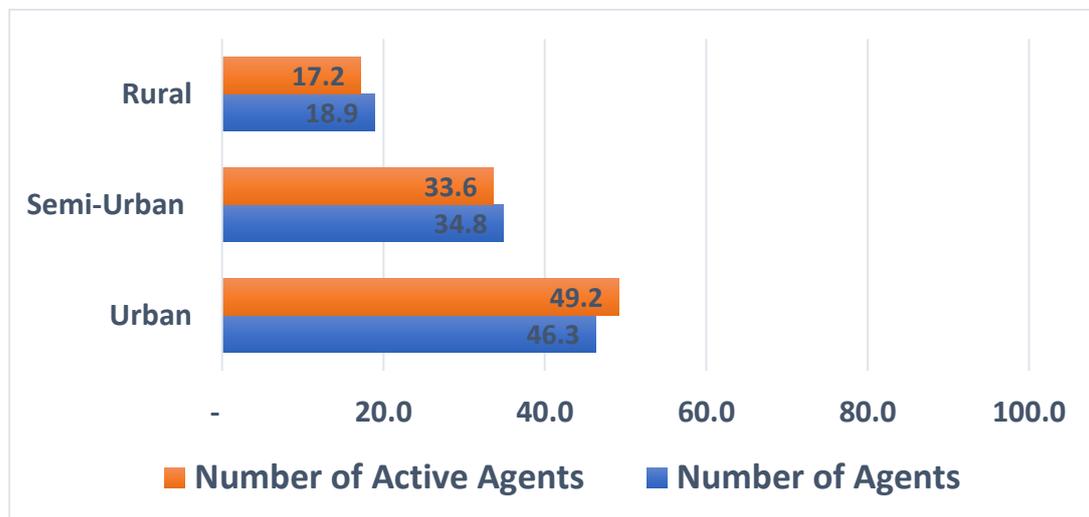
Fig. 2: Mobile Money Agents: No. of Registered Vs Active Agents



Geographical distribution of mobile money agents remains a challenge as the current figures show that 81.2 percent of total registered number of agents are located in urban and semi-urban areas with only 18.8 percent available in rural

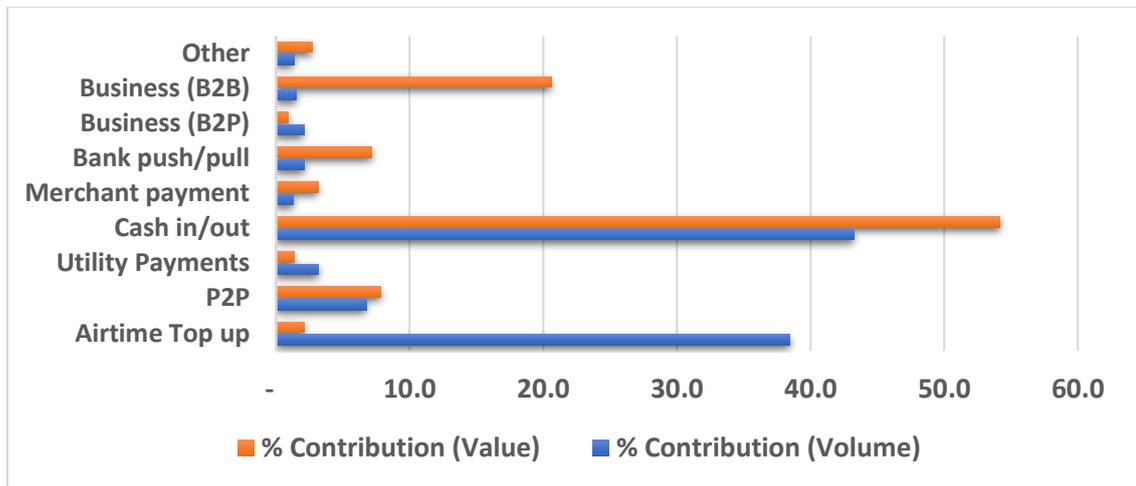
areas, a situation that contrasts with the fact that the majority of the country’s population, and which is largely unbanked, lives in rural areas (Fig.3). It is therefore not surprising that the majority of the rural based populace continue to face challenges in accessing financial services due to sparse service points.

Fig. 3: Geographical Distribution of Agents (%) - December 2019



In terms of usage, mobile money transactions are dominated by airtime purchases and cash-in/out services as shown in Figure 4. This suggests that other available types of services such as utility and merchant payments are underutilised, as they currently account for less than 5% of the total number transactions. However, it is pleasing to note that business to business transactions are picking up processing 1.5 percent of the total volume and 20.6 percent of the total value of transactions.

Figure 4: Percentage Contribution to total Volume and Value of Mobile Money Transactions

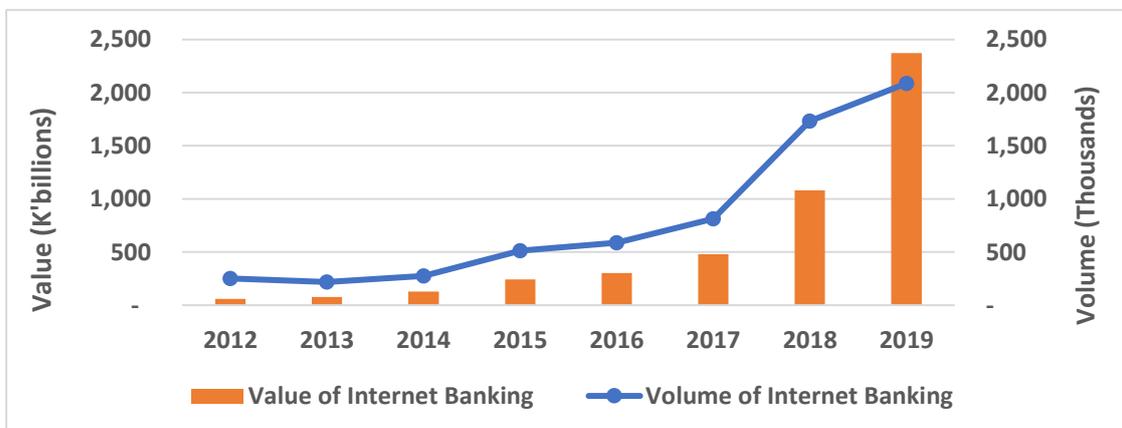


2.2.3 Performance of Bank-based Digital Payment Channels

Internet Banking Services

Relative to third quarter of 2019, the subscriber base for internet banking services grew by 5.6 percent to a total of 197,565 in December 2019. However, there was mixed performance with respect to usage as the volume rose by 6.9 percent to 601,097 transactions whilst the corresponding value of transactions declined by 8.6 percent to K665.3 billion during the same period. This outcome suggests that more low value transactions were processed using internet banking services during the period compared to the third quarter of the year. A yearly trend however shows that significant progress has been made in terms of usage of internet banking services by both retail and corporate subscribers as shown in Figure 5.

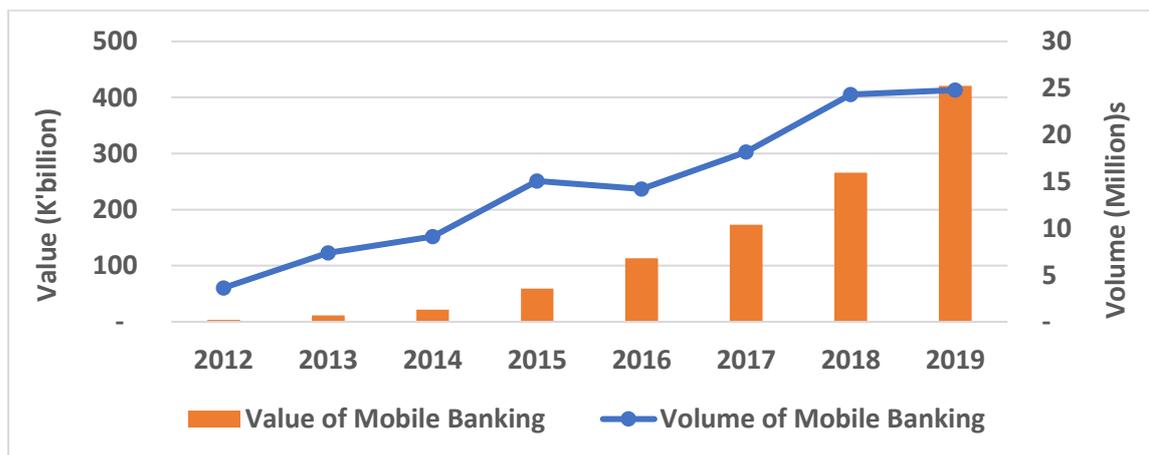
Figure 5: Yearly Trend in Usage of Internet Banking Services



Mobile Banking Services

The total number of mobile banking subscribers rose by 6.7 percent to 838,735 during the last quarter of 2019 from the figure recorded in the preceding quarter. This is reflective of the fact that mobile banking is the more widely used bank-based digital channel, if compared to internet banking. The volume and value of transactions processed through mobile banking increased by 13.5 percent and 57.6 percent to 7.1 million and K185.8 billion, respectively, during between the third and quarter. As is the case with internet banking services, an 8 year trend with respect to usage of mobile banking services shows significant progress that has been achieved and this is expected to continue owing to ongoing efforts by all stakeholders in the provision of digital payment services.

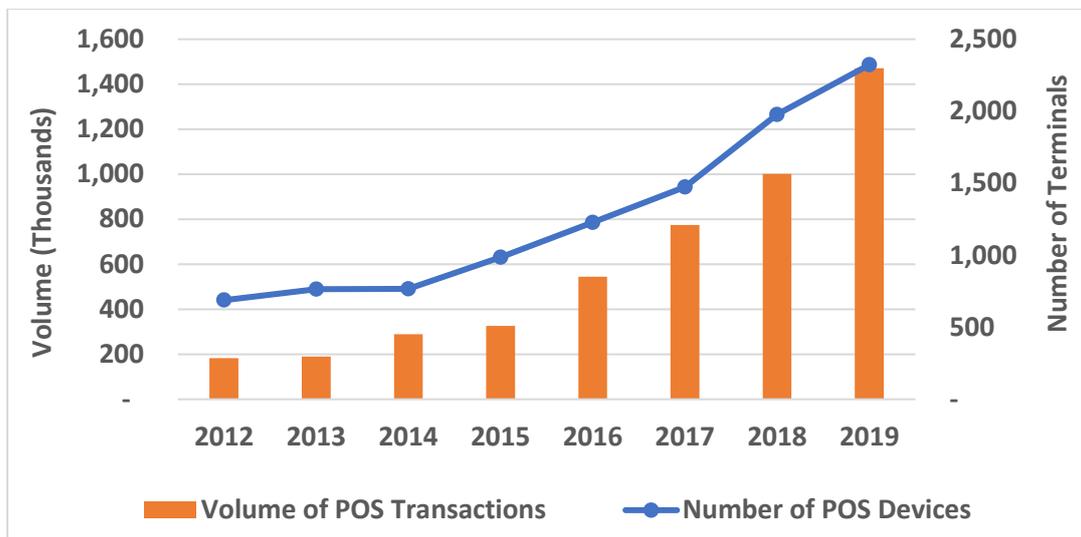
Figure 5: Yearly Trend in Usage of Mobile Banking Services



Point of Sale Services

The number of Point of Sale (POS) terminals deployed at retail outlets across the country dropped by 1.7 percent to a total of 2,322 as at end December 2019 (Figure 7). However, despite this decrease the volume and value of POS transactions rose by 10.1 percent and 25.0 percent to 420,367 and K21.0 billion, respectively, during the period under review. A look at the yearly trend also reveals that significant strides have been made in the adoption and usage of POS services in the country as both the number of POS terminals and volume of transactions have exhibited an upward trend since 2012 (Figure 7).

Fig. 7: Yearly Trend in Point of Sale Deployment and Usage



3.0 OTHER DEVELOPMENTS

Policy and Regulatory Framework

During the quarter under review, the RBM continued implementation of the E-money Regulations, which were issued under the Payment Systems Act and became effective in July 2019. Among other objectives, the E-money Regulations are meant to provide regulatory framework governing various aspects of the operations of e-money services in the country. The Regulations cover areas such as minimum technical and operational requirements, consumer protection and protection of customer funds and mandates the payment of interest on trust accounts to users. In this regard the period under review experienced the first instance of application of the policy change where interest earned in the trust accounts was distributed to subscriber accounts by the existing mobile money service providers. In addition, measures on treatment of dormant mobile money accounts were also applied where the relevant dormant funds were sequestered in designated pool accounts by the service providers.

It is hoped that the effect of these policy measures will help to enhance confidence amongst users of mobile money and hence ultimately increase adoption and usage of the services. It also represents a key achievement in the

mobile money space as it puts Malawi as one of a few countries in the region to implement a regulatory approach to the issue of treatment of interest earned in mobile money trust accounts, including funds in dormant e-accounts.

On the other hand, the RBM and the Ministry of Trade and Industry held meetings to strategize on the operationalisation of the Deployment and Usage of Electronic Payment Channels Regulation which was also issued in July 2019 under the Business Licensing Act. This Regulation seeks to mandate adoption and usage of electronic payment services such as Point of Sale (POS) and mobile money at qualifying merchant outlets with a view to increasing convenience for a section of the general public that is willing to pay for goods and services digitally. The Regulation, to be operationalized during the first quarter of 2020, is expected to increase adoption and usage of electronic payments by businesses and the general public, thereby helping to reduce reliance on cash in the course of conducting business transactions.

Stakeholder Sensitization Activities

During the period under review, the RBM held two major stakeholder engagement activities namely; a two-day Payments Conference as well as a DFS open day event, both held in Mangochi in October 2019. The purpose of both events was to create awareness, appreciate the opportunities and challenges being faced by current efforts to increase the adoption and usage of electronic payment services and consider ways to address the challenges. The feedback from stakeholders revealed that intermittent network availability is one of the major factors affecting usage of electronic payment channels in the country. Further, the two activities also formed part of a wider series of stakeholder engagement initiatives coordinated by RBM to scale up financial inclusion in the country.

4.0 CONCLUSION

The country's major payments infrastructure remained stable during the fourth quarter of 2019, thereby allowing smooth payment, clearing and settlement processes for interbank financial transactions that, among others, also facilitate the implementation of monetary policy and financial stability initiatives in the economy. The trend in both volume and value of transactions showed an upward movement from those recorded during the preceding quarter, with the usual challenges however being low activity rates for mobile money subscribers and sparse coverage of access points especially in rural areas. In addition, during the stakeholder engagement activities conducted during the quarter under review, intermittent network availability was identified as one of the major factors affecting increased usage of electronic payment channels in the country. The Reserve Bank will therefore continue to strengthen the payments system policy and regulatory environment as well as collaborate with all relevant stakeholders in the industry to design and implement measures that will mitigate the challenges being faced and promote uptake and usage of digital financial services in the country.