FUNNY MONEY

A prominent 'fintech' player appears to be flaunting regulations aimed at providing the consumer protection seen as essential foundations for the success of the emerging mobile money sector.

By Frontier Staff

IN LESS than a year, OK Dollar's bright yellow billboards have become a feature of the Yangon streetscape, visible from flyovers and high rises, at street level and in traffic jams.

The company, a subsidiary of Internet Wallet, is winning many customers to its service, which enables them to deposit, withdraw, send and receive money using an online account. They can also use the wallet to pay for a range of goods and services.

OK Dollar is one of the new breed of "fintech" companies taking advantage of rapidly growing mobile phone and internet use to offer financial services. And OK Dollar appears to be leading the pack. According to business manager Ma Zin Mar Nu, the service has attracted about 100,000 users since it launched in June 2016.

There are two reasons for OK Dollar's success. The first is convenience. OK Dollar is easy to use, but also has a wide network of partners with which users can pay for everything from phone top-up cards and bus tickets to wedding and holiday packages. The company has developed a platform that encourages its customers to not only bank with OK Dollar, but also use it regularly for purchases.

The other factor is that it's cheap; money transfers, known as remittances, are free.

There's only one problem. OK Dollar doesn't have what's known as a Mobile Financial Services licence – a licence for non-bank financial institutions to perform tasks such as accept deposits and transfer money using a mobile platform.

Instead, it appears to be operating in a grey area with little regulation. In an industry that is yet to find its feet, that has many concerned – and confused as to why the regulator, the Central Bank of Myanmar, is not taking a tougher line.

Which licence?

Central Bank rules divide mobile-based financial services into two categories: mobile banking and mobile financial services.

This reflects earlier differences over whether mobile financial services should be bank-led – that is, offered by or in conjunction with a traditional bank – or operator-led. Under the previous

OK DOLLAR, a subsidiary of Internet Wallet, emerged from a short-lived prepaid card system named iPay. Photo: Theint Mon Soe (aka J)

government, Myanmar initially opted for the first model, promulgating the Mobile Banking Directive in December 2013. It requires companies to partner with a licensed bank to offer financial services, and users need to open a bank account.

However, after the Financial Institutions Law was enacted in January 2016, the Central Bank issued a Regulation on Mobile Financial Services. The March 30, 2016, regulation was issued "to create an enabling regulatory environment for efficient and safe mobile financial services in Myanmar", said the Central Bank. It allows mobile network operators and non-bank financial institutions to apply for a mobile financial service licence, but also sets stringent rules on their operations to protect customers and the integrity of the financial services sector.

Central Bank Deputy Governor U Set Aung said some foreign and domestic fintech service companies are working with banks and operate under the licence of the respective bank. This group includes TrueMoney, Myanmar Mobile Money, myKyat, Ongo and 663.

Only two operators have so far received an MFS licence. Wave Money – a joint venture among Telenor, First Myanmar Investment and Yoma Bank – was the first, in October 2016, and M-Pitesan – a partnership between Ooredoo and Co-operative Bank – was approved on July 26.

Although the regulation says a decision on applications should be made within 90 days, in practice the Central Bank is taking much longer to process them; Wave Money waited at least seven months, while the M-Pitesan application was processed in about four months.

The rise of OK Dollar

Despite its relative success – in the mobile financial services industry, only Wave Money has the same prominence in the market – OK Dollar's origins remain something of a mystery.

It was born out of a payment system known as iPay that was launched about five years ago. Despite its name, it was relatively low-tech – prepaid cards that could be used to make payments, such as for bus travel – and never really took off.

OK Dollar's owners keep a low profile and rarely speak to the media. The Directorate of Investment and Company Administration lists the company's directors as Mr Deepak Kumar, also known as U Maung Maung Oo, and Mr Vinod Kumar, known as U Tun Tun Win. Their portfolio includes such companies as Consumer Goods Myanmar, Crown Beverage Cans, Kispa Nadi Express, Delicious Food, and Malikha Automobile. Consumer Goods Myanmar employs more than 5,500 people, says its website, and distributes brands including Super Coffeemix, Designer Water and One Tea.

Earlier this year, OK Dollar's managers agreed to be interviewed by *Frontier* about the business.

General manager Ma Aye Aye Sint said OK Dollar's parent company was licensed by the Central Bank to offer microfinance services. Internet Wallet received the MFI licence "a couple of years ago", she said. It waited and prepared its IT infrastructure to offer mobile payment services, before launching last year.

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>
> **Consultant Daw Pwint Phyu Htun**

She said that any money kept in an OK Dollar account was deposited at a licensed bank, such as CB, KBZ or AYA. OK Dollar users earn no interest on these deposits.

Aye Aye Sint insisted that the company was following "all rules and regulations", including what are known as "know your customer" rules. The rules are designed to combat money laundering and other illegal activities, and require users to disclose personal information when they open an account.

She also claimed that OK Dollar does not offer remittance services because it does not have the appropriate licence from the Central Bank. It applied for a mobile

OK DOLLAR advertising has become a constant presence on Yangon's streets. Photo: Nyein Su Wai Kyaw Soe

THE FINE PRINT

Should OK Dollar be granted a licence, it will have to make some significant changes to the terms and conditions of service currently available only in English on its website.

The terms and conditions relieve OK Dollar of many of the responsibilities that the mobile financial services regulation imposes on licensed operations.

For example, OK Dollar reserves the right to discontinue its service, terminate accounts and retain the balance "if there are discrepancies or inaccuracies in any information or documentation provided to them". Deposits must also be used within 185 days or "may be forfeited at our discretion". Similarly, it "reserve[s] the right to suspend or discontinue the OK Dollar services at any time, for any reason or no reason". However, under the MFS regulation, providers "shall, upon request by a MFS account holder, redeem, at any time and at par value, the money held in the MFS account".

OK Dollar distances itself from the actions of its merchants and agents. The terms and conditions stipulate that users "assume any loss or liability" resulting from a reload or attempted reload, or withdrawal or attempted withdrawal. It also states that it is "not responsible for any acts or omissions of any third party including merchants, advance merchants, agents or any financial institutions" that use OK Dollar services.

But under section 9(a)(3) of the MFS regulation, a provider "is legally responsible for the actions of its agent to the extent that they relate to the conducting of MFS transactions and matters connected therewith". Section 20, meanwhile, states that a provider "shall be responsible for monitoring and supervising the activities of their agents".

The terms and conditions also exempt OK Dollar from liability for "any breach of privacy or unauthorized access to their customers personal information, transactions or any other customer information". The MFS regulation states that each provider "and its agents and intermediaries if any, shall ensure privacy and confidentiality of customer information and data".

The service also appears to breach transaction limits. Under the MFS, individual account holders can deposit up to K1 million and transfer up to K200,000 a day and K5 million a month.

However, OK Dollar allows individual customers to transfer up to K500,000 in a single transaction, and K1 million over three transactions.

The mobile financial services regulation also requires all customer deposits to be held at an approved commercial bank. Any interest derived from these deposits "shall be declared to the Central Bank on an annual basis and be utilised for the benefit of customers as approved by the Central Bank".

financial services licence in 2016, she said, but has not yet received approval.

Immediately after the interview, *Frontier* opened an OK Dollar account, deposited K80,000 and transferred it to another person with an OK Dollar account. They then withdrew the K80,000.

When making this transfer with OK Dollar, *Frontier* was not asked to register a SIM card, or provide a national ID card or driver's licence, as required under the Mobile Financial Services regulation for transfers above K50,000 in a single day.

If OK Dollar is enabling users to remit money without the necessary licence, it could constitute a serious breach of the Financial Institutions Law. The penalties for operating a non-bank financial institution without a licence include a prison term of two to five years, and a fine of up to K500 million.

Seeking answers

On the question of licensing, the terms and conditions on the OK Dollar website are confusing. They state that the services operates "under the certificate of authorization issued by" the Central Bank of Myanmar and Myanmar Micro Finance Institute.

They then state: "OK Dollar services are governed by: (a) the payment and settlement systems act, and regulations made thereunder, (b) issuance and operation of pre-paid payment in Myanmar (CBM) directions, ("CBM guidelines"), MMFI and other regulatory institute directions, and (c) instructions issued by the CBM & MMFI from time to time in respect of the foregoing."

Aside from the lack of clarity in the language, Myanmar does not have a Payment and Settlement Systems Act (a law of that name was enacted in India in 2007).

On May 18, *Frontier* approached the regulatory authorities for clarification on OK Dollar's licence. An official at the Central Bank said responses had been drafted to *Frontier's* questions, but the deputy governor's office had not given approval for them to be released.

Before he was replaced as deputy governor of the Central Bank last month, U Set Aung told Frontier on the sidelines of an event at the Thilawa Special Economic Zone that OK Dollar had applied for a licence before the Financial Institutions Law was enacted in January 2016. "I would say they [OK Dollar] are working to re-apply for a mobile financial services licence – that's what I know," he said.

He did not respond to multiple requests for further comment or clarification.

The Financial Regulatory Department within the Ministry of Finance and

Planning was more forthcoming. Three weeks after we sent our questions, acting director general U Myint Oo responded that Internet Wallet had an MFI licence and in October 2014 was granted approval to use a mobile payment system with its clients. As of May this year, it had 524 MFI clients, ministry figures showed.

The licence cannot be used to transact with OK Dollar customers who are not clients of its MFI, however.

"The Microfinance Supervisory Committee allows Internet Wallet to lend money, collect loan repayments and accept deposits using its mobile application [OK Dollar] – nothing else," Myint Oo said.

"Internet Wallet has been informed that if OK Dollar wants to carry out mobile financial services, it must apply to the Central Bank of Myanmar in accordance with the rules and regulations. It is known that it has applied for a Mobile Financial Services licence," he said.

But Myint Oo also seemed uncomfortable with *Frontier's* interest in OK Dollar. On one of the many times when we asked about when we could expect responses to our questions, he suggested that *Frontier* may be pushing an agenda. "Why are you only investigating OK Dollar?" he asked. "Who are you connected to?"

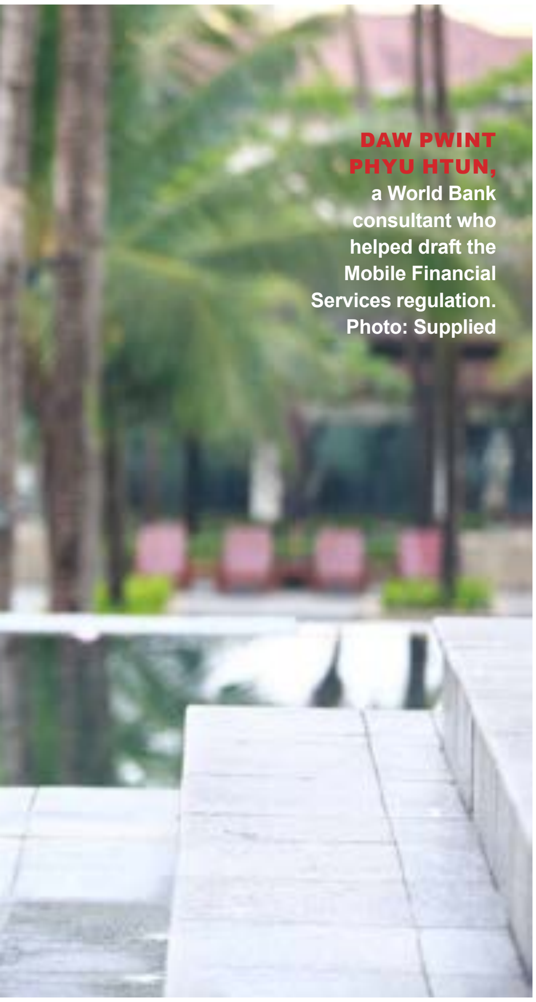
Myint Oo's suspicions are not necessarily misplaced. There are individuals, organisations and companies deeply unhappy that the Central Bank seems to be letting OK Dollar play by a different set of rules.

'This industry is my baby'

Daw Pwint Phyu Htun's love affair with telecommunications began in fifth grade, when her Ayeyarwady Region village got its first phone. She vividly recalls the many times when she and her sisters put on their best clothes to go to the switchboard and call their grandparents.

After the national uprising in 1988, Pwint Phyu Htun followed her mother to a refugee camp in Thailand and eventually resettled in Seattle, on the west coast of the United States. She had a job selling long-distance phone plans in a mall. On her breaks she was allowed to use the phone for free, and the homesick 18-year-old would call her relatives on the other side of the world. Inspired by the power of telecommunications, she studied to become an engineer and worked in the US telecoms industry developing new products.

When Pwint Phyu Htun made an unexpected visit to Myanmar in 2011, she was shocked by the cost of phones and the internet – SIM cards were selling for nearly US$1,000 each. The next year she began lobbying the Ministry of Communications to upgrade services in rural areas, which she believed were likely to be ignored by private companies when they rolled out infrastructure and services. Recognising that rural areas needed more than cheap calls, she also began lobbying the President's Office to introduce mobile financial services. She became a consultant to the World Bank and eventually helped draft the MFS regulation enacted in March 2016.



DAW PWINT PHYU HTUN, a World Bank consultant who helped draft the Mobile Financial Services regulation. Photo: Supplied

"This industry is very much like my baby. I want all of the companies in the sector to succeed. I want the entire industry to grow and serve the urban and rural population," she told *Frontier*.

Pwint Phyu Htun sees OK Dollar as a threat to everything she hopes mobile money can achieve in Myanmar. She describes it as a mobile-based hundi service – a reference to the informal, unregulated money transfer networks that have operated throughout Asia for centuries.

"When I saw the OK Dollar terms and conditions I was so shocked. They directly contradict almost every line in the CBM regulations – I know, because I drafted the MFS regulation," she said.

"Consumer protection is a very important part of mobile financial services and I don't see any consumer protection in the way that OK Dollar is providing services, starting with the fact that there is no Myanmar language equivalent of the terms and conditions when the customer is signing up, so he or she might not realise what they are even signing up for.

"I understand that the Central Bank is aware of the terms and conditions of OK Dollar which directly contradict the Central Bank's regulations. I am not sure why OK Dollar is allowed to keep offering unauthorised mobile financial services."

She says consumer awareness and trust are essential for the success of mobile financial services. One bad operator could set the industry back years, or cripple it completely.

"We're entrusting these MFS providers with the money of the poorest populations and they are responsible for it. For me, this is not a game of get rich quick."

Pwint Phyu Htun has a natural ally in Wave Money, which has an interest in both minimising competition and ensuring rival operators don't damage the market. Wave Money's chief executive, Mr Brad Jones, declined to discuss OK Dollar specifically, but told *Frontier* it was "of great concern" if companies were apparently operating without licences.

"When mobile money is at such an early stage in Myanmar, it is critical that all service providers comply with regulations and international best practice so that the industry can grow in a safe and compliant way," he said.

"Our customer base is largely unbanked, with low trust in financial institutions. Our services need to apply the highest standard compliance."

Mr Rene Meza, the chief executive of Ooredoo Myanmar, said the MFS regulation set high standards for operators, particularly on consumer protection.

"We welcome that level of scrutiny," he said. "At the same time, it's crucial that all providers offering mobile financial services are held to the same standards.

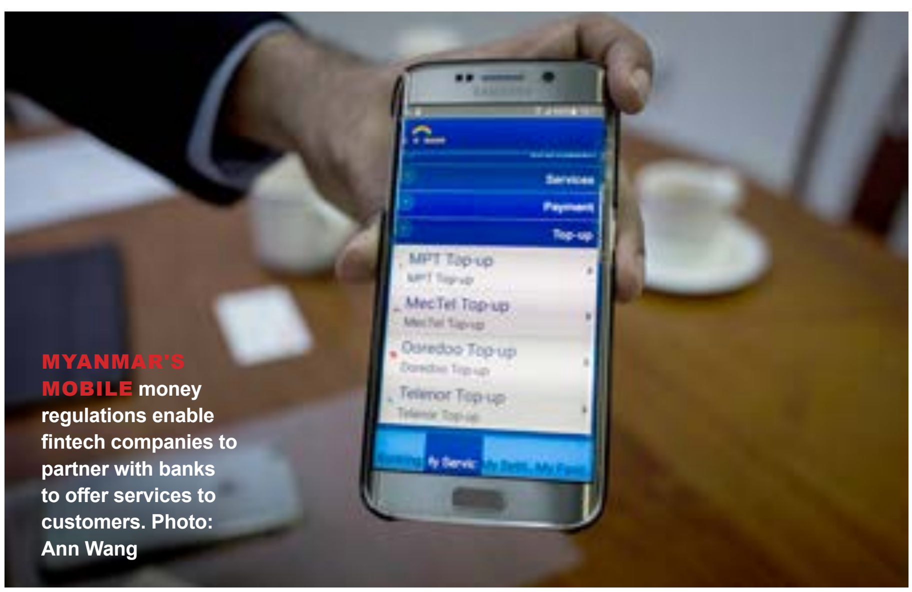
> **"[THERE ARE] SO MANY LEGACY ISSUES, SO MANY NEW ISSUES [FOR THE CENTRAL BANK], WITH VERY FEW PEOPLE TO DO IT.**
>
> **Mr Edwin Vanderbruggen, partner at legal advisory firm VDB Loi**

A level playing field is essential and this new industry in Myanmar cannot afford a possible loss of trust in the market if any operator is not upholding the same high standards."

"A properly regulated mobile money sector in Myanmar will empower the people of Myanmar and will be a key contributor to sustainable economic growth in the country."

An issue of trust

Mobile financial services have the potential to transform economic activity in Myanmar. Although only 10 percent of the population is thought to have a bank account, there are about 50 million active SIMs, of which almost 80 percent have a smartphone and more than half are using data.



MYANMAR'S MOBILE money regulations enable fintech companies to partner with banks to offer services to customers. Photo: Ann Wang

A PANEL at a mobile money summit held earlier this year in Yangon. Photo: Theint Mon Soe (aka J)

It's no surprise that the sector has attracted its share of attention from potential investors, particularly since the MFS regulation was promulgated.

But relatively few people are using the available services. At the Mobile Money and Agent Banking Summit in Yangon in February, Mr Jacques Voogt from Ooredoo Myanmar presented research findings on methods used to transfer money.

Out of 1,000 people, just 20 – or two percent – used mobile banking. A similar proportion was using mobile money. Another 180 people, or 18 percent, transferred money through friends, and 60, or six percent, transferred money through the highway bus network. Banks remained the most widely used method, at 940 of the 1,000 people surveyed.

A major hurdle for mobile money operators is users' lack of familiarity. Although most people use smartphones, they have acquired them relatively recently. Daw Win, 61, from Yangon, who bought her first smartphone a year ago, said, "I don't believe this little phone can be used to transfer money. ... I don't dare to use it [for that] until now."

Jones of Wave Money said such attitudes were natural given that mobile money was a new concept in Myanmar. "Like any new concept it takes time for the market to understand and use the product," he said.

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>
> Brad Jones, CEO of Wave Money

"We have invested heavily in educating customers about the benefits of mobile money, particularly on how fast and convenient it is."

Another big obstacle for mobile money uptake is trust. Voogt's presentation showed that just two percent of those surveyed trust mobile money and mobile banking, while 91 percent trust banks to remit money.

For some, this indicates a need to adopt a cautious approach, particularly in regulating players in the market. A bad experience for customers could deter them from mobile banking completely, and discourage others from even trying it – thus hindering the development of the banking and finance sector.

Avoiding a monopoly

Others, though, see OK Dollar as less a problem than a symptom of the real issue: the Central Bank's regulation of the mobile financial services sector and, in particular, the bank's reluctance to grant licences at all.

Frontier understands that many companies have sought an MFS licence since the March 2016 directive was enacted, but have been told not to bother because only applications from mobile phone operators were being considered.

"Powerful players could use their leverage" to get a licence, said one source, who asked not to be named due to the sensitivity of the issue. "Small players were just kept busy and were finally denied a licence."

Mr Edwin Vanderbruggen, a partner at legal advisory firm VDB Loi, said that the MFS regulation was "created specifically with the telcos in mind", but in the absence of a clear policy from the Central

Bank it was difficult to know who else would be considered for licences. For example, the Central Bank might distinguish between Myanmar and foreign companies applying for licences, he said.

"Maybe there simply is no policy yet," he added. "I think it is fair to say that the financial regulators, with their limited resources, struggle to cover the full width and breadth of their regulatory purview ... [There are] so many legacy issues, so many new issues, with very few people to do it. It's like pilots having to rebuild a rather old plane in mid-flight."

The inability to get an MFS licence, though, has meant that those keen to enter the sector have instead been forced to partner with one of the domestic banks instead – generally a less attractive proposition than going it alone.

Sources said the management of the Central Bank was essentially strong-armed into enacting the MFS directive by international donors and that it never supported the concept of mobile banking that did not involve a licensed bank.

Mr Tim Scheffmann, the former chief executive of MyPay, said competition and innovation would be important for ensuring uptake of mobile financial services.

"The mobile money market in Myanmar is still at an early stage and more competition at this point of time would definitely help to provide a better service to Myanmar's people," he said.

However, Pwint Phyu Htun argues that as the industry develops it's better to start with experienced, low-risk companies – and mobile operators fit the bill perfectly.

"[They] are experienced at setting up agent network. Mobile operators have a huge distribution network of 100,000 airtime sellers, small neighbourhood shops and big stores from around the country. These can be transformed to become human ATMs on every street corner offering cash-in/cash-out service to people of Myanmar," she said.

One issue on which there seems to be agreement is the need for interoperability: the ability for users to send money between mobile financial services operators. If different platforms are unable to talk to each other, the usefulness of what they're offering is limited. Imagine, for example, if your Ooredoo phone was unable to call a Telenor user, or you couldn't transfer money from an account at KBZ Bank to one at CB Bank.

Scheffmann said it was essential for the development of the sector that the regulator enables interoperability between the different providers.

"Once you open up the market to interoperability, transactions increase," Pwint Phyu Htun said. "In Myanmar, many people don't understand that interoperability brings huge value. Openness is what's going to get a lot more adoption.

"MFS can be a nation-building effort," she said. "All of a sudden you're going to be connecting the people in Tanintharyi, northern Shan, Rakhine – anywhere in the country ... Telecoms and financial services are really a glue that brings all the people together." F