

# Mobile Financial Services: Putting Telecoms at the Forefront of the Digital Revolution

Whitepaper

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# The Evolution of the Telecoms Industry

The paradigm shift within the telecoms industry has increased in velocity of the last few years. It started with the evolution from fixed to mobile; but it was the mass adoption of the smartphone combined with high speed internet that brought about a revolution in the sector and opened the gateway for digitalisation on a global scale. Overnight, consumers and corporates had the power to pay, monitor and track in the palm of their hands. According to recent analysis<sup>(1)</sup>, as of January 2019 there were almost 4.4 billion active mobile internet users, equivalent to 57% of the global population.

The rapid adoption of mobile digitalisation has proved to be the biggest disruptive catalyst within the payments domain. Today, almost all telco's provide a mobile wallet, which provides the full spectrum of financial services – including domestic and international remittances and payments, merchant services, bill payment, money transfer and account/portfolio management.

Telco's have realised that the winners will be those that can create an immersive, instream user experience. This requires the right partnerships with legacy financial service providers, social media influencers and fintech's. These partnerships will provide augmented content, channels and services that, when combined, will create a 360 degree experience.

Whilst the telco's focus on the seamless user experience, an intrinsic consideration must also be on the control of the financial transactions. This is a key financial, regulatory and risk consideration. This whitepaper will focus on how the Intelligent back-office will allow telco's to benefit from large scale operational efficiencies, enhanced customer service, and flexible scalability up to a global level in order to support their digital business models.

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1 We are Social, DataReportal, Hootsuite, 2019

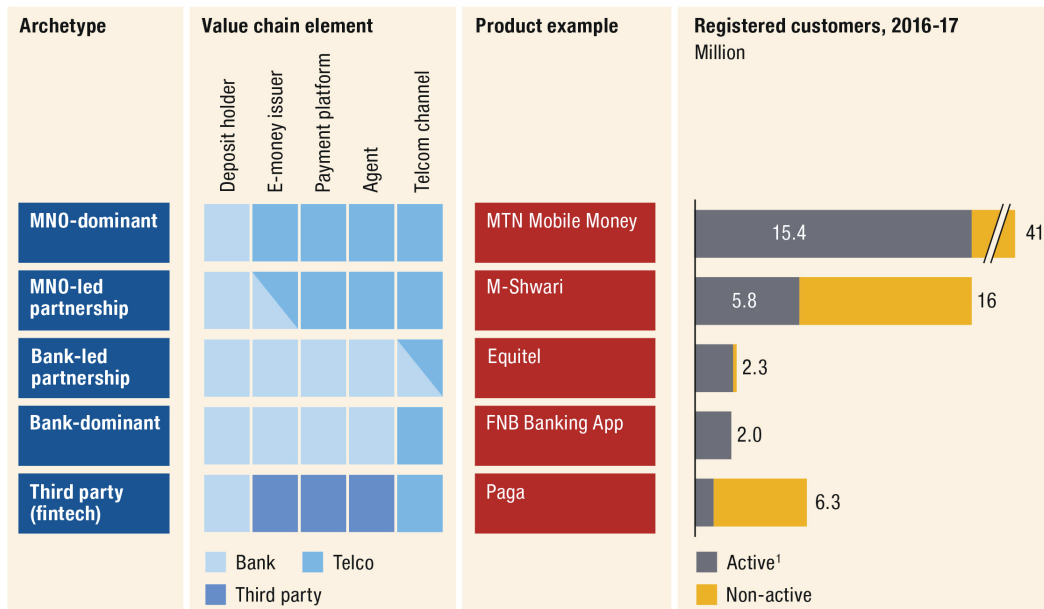
# Mobile Financial Services: Telecoms are Leading the Way

Telecoms providers are at the forefront of the revolution in mobile financial services, offering services directly or in partnership with traditional financial institutions. The revolution has expanded digital service offerings to the underbanked in developing markets. Smartphone ownership is on its way to being ubiquitous, even in the emerging markets of Africa, South America, South Asia and South East Asia. A significant opportunity has arisen for telecoms providers to meet the needs of the aspiring young yet unbanked by offering innovative and seamless financial solutions.

Mobile financial services include, but are not restricted to:

- ▶ Prepaid mobile top-up
- ▶ Utility bill payment
- ▶ Remittance – domestic and international
- ▶ Merchant payment
- ▶ Wallet
- ▶ Salary payment

## Mobile money providers fall into one of five archetypes



Source: Mobile financial services in Africa: McKinsey & Company

# Operational Excellence: The Key to Survival and Growth

Telecoms providers now offer an array of financial and non-financial services. To do so, they must interact with multiple homogeneous and heterogeneous systems, either in the form of a financial transaction or, alternatively, by routing a transaction, which again involves a financial component - i.e. commission. These interactions are highly complex and managing this activity on a manual basis is almost impossible.

A powerful back-office operational solution is a must for both survival and growth in the competitive financial services space. Firms require a solution that can identify breaks in transactions originating from various source systems, and also one which is able to generate correction entries proactively. A solution which offers strong MIS reporting and liquidity management capabilities can assist the mobile network operator (MNO) immensely, too.

Benjamin Ensor, Vice President, Research Director, Forbes, mentions in his research<sup>(2)</sup> that *innovation will finally come to the back-office*. After a decade of focus on customer experience, overhauling back-office processes will become fashionable again. Margin pressure in core businesses such as lending, investment management, motor insurance, and in various areas of corporate banking will spark budget cuts at many financial firms in 2019. As budget cuts start to bite, senior executives will tire of innovation with no ROI. As the returns on digital customer experience plateau, firms will shift their focus to reducing the cost of serving customers through greater operational efficiency. In 2019, financial firms will focus on digitising operations that boost productivity and improve customer outcome. However, the pressing need for too-often-postponed back-end transformation will continue to create tension.

## A complex and multi-faceted digital ecosystem



Source: GSMA Mobile Policy Handbook 2018

2 <https://www.forbes.com/sites/forrester/2018/12/10/financial-services-firms-shift-their-focus-to-operational-efficiency/#50e06aee6d6b>

# What the GSMA Thinks About Best Practices

**The GSMA states in its Mobile Money Policy and Regulatory Handbook:** The traditional means of sending international transfers through the banking system is only cost-effective for large-value transactions. Completing transactions also typically takes around two days. This does not cater to the needs of low income people, who tend to regularly send low-value remittances to recipients who are often deeply reliant on these transactions as a source of income.

An international remittance transaction sent in the form of mobile money can be divided into three main layers, regardless of whether or not an international remittance hub is involved: communications, netting and reconciliation, and settlement. To ensure fast and effective reconciliation and settlement, while minimising the risks associated with these processes, mobile money providers have adopted the following best practices:

**Near real-time communications:** Reconciling accounts is an information exchange process in which the parties track the amount of money sent and received and what each party owes to the other. Where feasible, this communication process is conducted in real time or near real time, which ensures a good user experience.

**Frequency of settlement:** Having an open position implies a counterparty risk. For this reason, many mobile money providers and their counterparties agree in advance on the frequency of account settlement. Best practice also includes presetting thresholds to trigger the settlement mechanisms when value, international FX rates, or other variables, reach a certain level.

**Working with hubs:** When a mobile money provider has integrated with an international remittance hub, all parties connected to the hub sign a multilateral settlement agreement. In these cases, the hub performs a net settlement at a defined frequency against all connected providers.

**Adapting practices to local context:** Central banks in different markets have adopted different monetary policies and regulatory frameworks, depending on their economic context and historical background. These can introduce different requirements into the settlement process, whether in the frequency or in the rate at which the foreign exchange operation is liquidated. For example, while some countries allow capital to flow relatively freely across borders, others impose strict rules to enable the maintenance of a fixed exchange rate. Other countries have a dollarised economy.

Example of good practice: GSMA mentions Millicom in their handbook and we agree!

Millicom has a group-wide cash management policy by which every transaction with third parties – **either international or domestic** – **must be reconciled on a daily basis**. This reduces counterparty risk across the whole group and simplifies risk assessment and compliance processes. It also simplifies the settlement process that is later performed in accordance with the individual terms agreed with partners.<sup>(3)</sup>

# Finance Operations: Reconciliation Challenges

Telecoms companies should look for a powerful and comprehensive platform that can offer end-to-end transaction lifecycle monitoring and which provides data loading, matching, exception management, and calculation of fees. Any platform chosen must also give sufficient flexibility to allow the back-office to deal with the complexity and disruption brought about by new technological innovations.

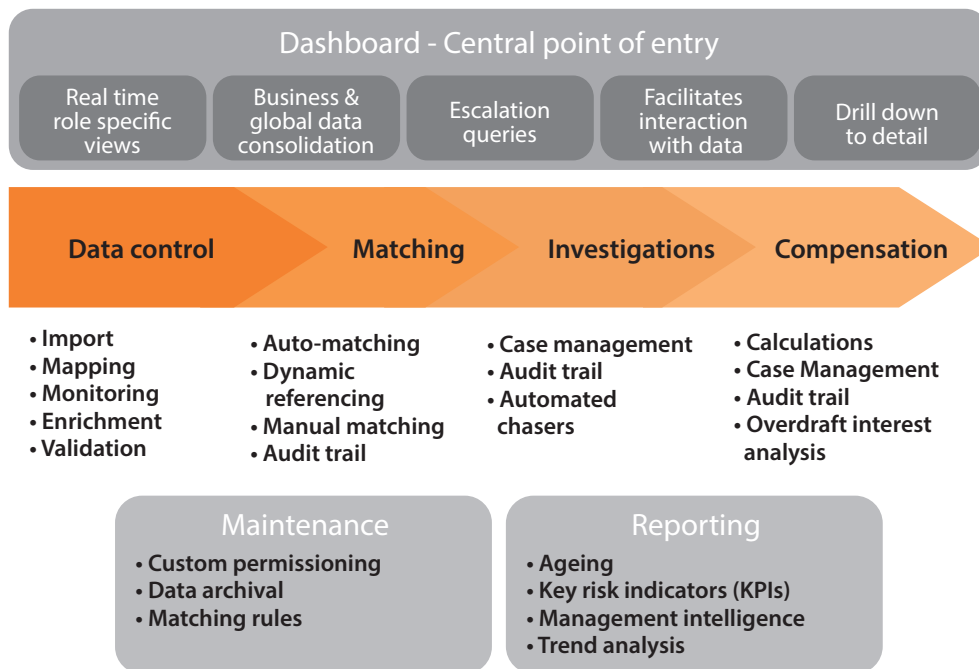
A platform should be able to handle both financial and non-financial transaction reconciliations. On the financial side, transactions include those arising from channels such as company stores, kiosks, mobile applications, web portals etc. The non-financial aspect mainly covers service requests and inventory.

## Cash/Statement Reconciliation

The cashbook and accounting structure at a telecoms provider is quite complex in most cases. Multiple internal general ledger accounts are maintained for settlement with the various entities involved in the payment ecosystem and tracking. Mirror accounts are also maintained to ensure that settlement with another party is not hampered due to insufficient fund balance, and no penalty occurs.

A telecoms company has to ensure the availability of sufficient balance in each account. They also need provisions to fund the account in case of insufficient balance. The system will identify the transactions responsible for the difference in balances. In addition, the system will create adjustment entries to rectify the differences.

## Functionality Considerations



## Digital Payments/Mobile Money Reconciliation

Telecoms companies provide various types of services like prepaid recharge, utility bill payment, remittance, and online shopping through various channels:

- ▶ Prepaid recharge
- ▶ Post-paid bill payment
- ▶ Utility bill payment
- ▶ Salary payment
- ▶ Remittances – international and domestic
- ▶ Cash withdrawal
- ▶ Wallet

These services can be accessed either by completing a payment via internet banking, credit/debit card, or wallet.

Telecom companies tie up with banks and issue cards to their wallet holders, so that consumers can withdraw money from their wallet accounts and use the cards at closed loop merchant outlets and at banks' ATMs.

Telecom companies collaborate with small-scale industries, opening wallet accounts for their employees and transferring employees' salaries to these wallet accounts. An effective back-office operation system is required to reconcile and settle transactions on time.

Telecoms companies work with remittance service providers to provide domestic and international remittances. Remittance data recorded in a telecoms company's internal system will be matched with data held by the remittance service provider and, on this basis, settlement will take place. If the fund transfer is not successful, the transaction amount will be credited to the wallet account.

# The Intelligent Back-Office: Benefits

Capturing and comparing data manually is prone to error, which undermines the whole purpose of data matching and means tasks must be repeated. Where a discrepancy occurs, a company must find both the source of the erroneous data and the incorrect record itself. If the issue lies with the system of another firm, then it is necessary to contact the other party manually, which is time-consuming and requires tracking with multiple follow-ups.

A sophisticated reconciliation system is beneficial in a number of ways as it:

- ▶ Captures data from various sources automatically
- ▶ Saves time as reading data, matching and performing post reconciliation activities takes much less time
- ▶ Removes dependency on users, as most of the activities are performed automatically without human intervention
- ▶ Improves the percentage of data matching and identifies the transactions which should match but have not done so due to data issues, promoting faster and more effective settlement
- ▶ Acts proactively in relation to unsettled transactions, helping decrease dispute numbers. Where a dispute arises, it provides faster resolution by analysing the data available in the system
- ▶ Assists in identifying accounts which needs funding in order to avoid interest and penalties
- ▶ Provides detailed management information and reports, which assists upper management take strategic decisions

## MIS Reports

- ▶ GL account statement with justification of account balance
- ▶ Per channel – transaction count and amount
- ▶ Per channel – successful and unsuccessful transactions count and amount on a daily, weekly, monthly and quarterly basis
- ▶ Per channel and service – matched and unmatched transaction details
- ▶ Per channel and mode of payment – matched and unmatched transaction count and amount
- ▶ Commission details – per channel and service
- ▶ Weekly service request count, with status
- ▶ Per team – service requests assigned and status of service requests, on a weekly basis

## About SmartStream

SmartStream provides Transaction Lifecycle Management (TLM®) solutions and Managed Services to dramatically transform the middle and back-office operations of financial institutions. Over 1,500 clients, including more than 70 of the World's top 100 banks, 8 of the top 10 asset managers, and 8 of the top 10 custodians rely on SmartStream's solutions.

SmartStream delivers greater efficiency, automation and control to critical post trade operations including: Reference Data Operations, Trade Process Management, Confirmations and

Reconciliation Management, Corporate Actions Processing, Fees and Expense Management, Collateral Management, Cash & Liquidity Management and Compliance Solutions. Used independently or as a suite of solutions and services, clients gain a lower cost-per-transaction whilst reducing operational risk, aiding compliance and improving customer service levels.

For more information about SmartStream visit:  
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