

## THE RECENT EVOLUTION OF GHANA'S FINANCIAL SYSTEM: THE "MOMO" EFFECT

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### Abstract

*This study analyses how the widely use of telephone and similar electronic gadgets has reshaped transactions and the payment system in Ghana. The not very long ago introduced mobile money system widely known in the country as MoMo, tends to have astounding effects on the banking sector that has been in existence since time immemorial. This research focuses on the impact the mobile money industry has had on the lives of the average citizen and also on communities where banks are inaccessible in relation to banking and financial inclusion in general. Data from the Bank of Ghana, World Remit, survey on social media platforms and other sources show that the mobile money sub industry of the FinTech industry has made and achieved significant performances and milestones within the past decade or so. The numbers infer that patrons tend to rely more upon the newly born mobile money system and continue to show reluctance in patronising the orthodox system of banking. We look at the changes in the amount of banking transactions as well as mobile money transactions within specific periods. From statistical data and individual opinions accumulated it is clearly a wake up call for banks. Based on data evidence the possible reasons which might have been the causes of the situation at hand are as well discussed and recommend possible solutions are arrived at.*

**Keywords:** *FinTech, Mobile Money, Financial Inclusion, Orthodox Banking, Financial Institutions*

**JEL Classification Code No:** *G14, G21, G23, G32*

### 1. Introduction

Since 1957 when Ghana gained her independence and after the establishment of the Bank of Ghana, Ghanaians have been accustomed to more or less just one institution or medium for money transaction; the banks. Years later, the invention of the mobile phone device and subsequently the birth of FinTechs have led to the introduction of the mobile money payment (MoMo) and other payment systems like e-zwich, Point of Sale (POS) devices and Ghana Instant Pay (GIP). The orthodox banks seem to have lost the pole position in the financial market with the introduction of these new technologically innovative products.

FinTechs through digital finances since the beginning of the decade have locked horns with existing and well established players in the sector and in parallel have increased the opportunities available in the system. Global investments in Fintechs have spiralled from just USD 4.05 billion in 2013 to USD 12.21 billion in 2014 (Gomber, Koch and Siering, 2017, p. 2). This escalation is noticeably due to the ease FinTechs and mobile money in particular have brought to the average Ghanaian. Previously it took hours the least, to make a transaction of as low as GHS 500 but with MoMo it is possible to make purchases and payments, such as flight tickets, medical and utility bills in the worst, minutes. All of these transactions do not involve the hustle and bustle of going to banks and joining long and frustrating queues but rather in the comfort of one's workplace, home or even while at recreational locations.

For an economy to be fully operational and functional it needs a well-functioning payment system that is capable of ensuring the safety and stability of its financial system. The quickness by which money flows in and out of the system plays a significant role in determining the speed at which a country develops or grows. (Chakravorti, 2016, p. 4) lists eight attributes or conditions that payment innovations like the MoMo system should possess in order to be successful. They are as follows: Increase benefits to end-users, Penetrate a niche market, Change end-user behavior, Provide incentives for adoption and usage, Offer profit opportunities for payment providers, forge partnerships between new and existing payment providers, Provide necessary security and adopt or Create industry standards. From the discussions presented the MoMo clearly falls within the innovative payment category.

The clear or direct effects of a quick payment system may be undermined because it is not as conspicuous as other elements within the economy, but it should be understood that economic growth and improved living standards are made evident in the unemployment rate of a country. Countries with very low unemployment rate tend to create adequate jobs which are made possible by timely and secure completions of financial transactions due to efficient payment systems available. In summary a very reliable payment system leads to economic prosperity and higher living standards. The inter-industrial linkages within an economy the payment system has made it one of the most important players if not the most important. (Bank of Ghana, 2017a, p. 1).

In Ghana money transactions between two or more economic bodies is facilitated by various institutional arrangements that make up the payment systems. Some of these institutions include but not limited to Ghana Automated Clearing House (GACH), Mobile Money, E-zwich, Direct Credit and Direct Debit and many other payment service providers. However of the afore mentioned service providers Mobile Money tends to have outdone its competitors over the last decade (Bank of Ghana, 2017a, p. 2).

## **2. Background and Terminology**

For a clear and conceptual grasp of the discussions we shall have the following key terms: FinTech, MoMo, financial inclusion and orthodox banking are described and analysed within the context of this research paper.

### **2.1. FinTech**

FinTech is a portmanteau of financial technology which literally refers to the technological advancements evident in the fast, innovative and transformative changes happening in the financial services sector. (Gomber, Koch and Siering, 2017, p.3) relate FinTech generally with the connection between internet related technologies such as cloud computing and mobile internet, and established business activities of the financial services sector. FinTechs focus mainly on business model innovations and new solutions for existing challenges in the financial sector. Financial innovations resulting from FinTech include devices like the E-Zwich, ATM, QR codes as well as our topic for the day, MoMo. These innovations have been major game changers in the financial services industry and have played a huge role in terms of financial inclusion in Ghana. Between 2010 and 2018 the number of E-Zwich cards issued have increased by more than 550%, with the total volume of transactions from E-Zwich cards increasing from 460 746 in 2010 to 7 759 354 in 2018 (Bank of Ghana, 2017b, p. 2). This in a way paints a general picture on the impact FinTech has made in the financial services industry in the country.

### **2.2. Financial Inclusion**

According to approximations by the World Bank Group, just about a third of the population within Sub-Saharan Africa of which Ghana is part has access to formal financial services, according to the World Bank Group (Ky, Rugemintwari and Sauviat, 2019a, p. 2). However the rapid growth of technology-driven financial innovation i.e FinTech is gradually changing these underwhelming statistics in the positive direction. More and more people are being included in formal, semi formal and informal banking service. The ease by which individuals from underdeveloped and remote areas access formal services is generally what is termed as financial services. Serrao, (2013) describe financial inclusion as the timely delivery of financial services to the disadvantaged and low income group at an affordable cost. It is term used to refer to the deliberate attempt to make the poor, marginalised people and those vulnerable to low economic power to engage in formal economic process through ownership and usage of formal financial service at regular interval (Aina and Oluyombo, 2014, p. 2). In Ghana particularly, Mobile Money has caused the number of people who own and participate in formal financial transactions and services to double (Bank of Ghana, 2017b, p. 4). And this is also evident in the recent reduction in the length of queues at the banks during prime banking hours of the day. Its simplicity and ease (no paperworks needed) has come in handy for senior citizens most of which are either semi literate or completely illiterate.

### ***2.3. Orthodox Banking***

Before FinTech and MoMo in particular took over the country's financial market sector the banks and insurance companies, established under government permits after rigorous paper works and various procedures, were the big sharks in the markets. Most of such banks are usually run in high rise intimidating structures which just by the look at them sometimes scares away the less privileged in the our societies. These are the banks I refer to as the orthodox banks. Hence orthodox banking is simply the process of conducting banking transactions and delivering banking and other financial service through engaging in the 'ancient' ways of banking. These old ways include the issuance of large bank account books, banking halls being the only access points, internet banking being a hoax, etc. In general, orthodox banking is the kind of banking operations and service with minimal use of FinTech.

### ***2.4. Mobile Money (MoMo)***

Mobile Money is the general term used to refer to banking or other financial transactions made using the mobile phone. These transactions are generally made via mobile wallets in the SIM cards issued by mobile service providers in the country. These bank-like services are not delivered in conjunction with the orthodox banks but rather it is between the SIM card owner and his or her telecommunication network. Mobile Money may be described as electronic cash backed by equivalent amount of the Bank of Ghana notes and coins stored using the Subscriber Identification Module (SIM) in a mobile phone as an identifier (Bank of Ghana, 2017a, p. 1). The introduction of MoMo into the country has resulted in a massive financial inclusion within almost every demographic categorisation.

#### ***2.4.1. MoMo's Gradual Dominance***

The Mobile Money service is gradually taking over the mantle from the orthodox ways. A large percentage of Ghana's rural population is unbanked mostly due to the lack of bank branches in the regions as well as the excessive bureaucratic work involved in opening bank accounts. Another reason is that the banks generally consider these remote areas to be less profitable because of insufficient businesses and large scale production firms. Hence they decide not to establish branches at those locations. So most rural settlers find solace in the simple-to-use, reliable, affordable and convenient Mobile Money service. The presence of MoMo has uplifted and caused a high influx in the level of financial inclusion among adults and young individuals alike not forgetting the less educated senior citizens who are one of the prime beneficiaries. However, the 'love' for MoMo is also apparent in the country's urban regions. Most of the urban dwellers in the country have MoMo accounts besides their already active bank accounts. This increased use of the service is hugely due to the inundation of mobile phone devices in the country, particularly in the rural areas in the last couple of years. Improvement in mobile network functionality and little capital needed in building and upgrading a Mobile Money Point-of-sale infrastructure have also served as significant rationale for the service's increased patronage. As compared to the orthodox banking method Mobile Money has proven to be faster convenient flexible and affordable (GSMA 2013, p. 3).

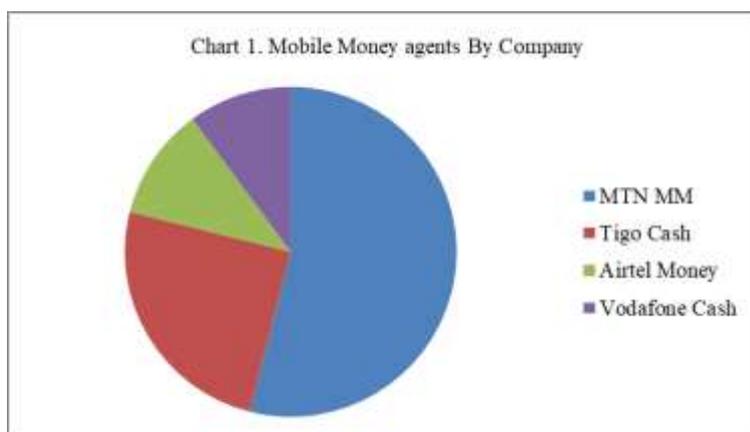
Mobile Money is a transformational service that uses ICT and non-bank retail channels to extend the delivery of financial services to clients who cannot easily be reached profitably with traditional branch-based financial services. Examples of Mobile Money services include electronic wallets used for two or multiple party transactions either between two parties or between a party or parties and the government through salary payment. Globally daily average Mobile Money transactions between parties is estimated at USD35.00 (GSMA, 2013, p. 3).

There are two main ways the Mobile Money payment service is used; either to make or receive payment between peers (P2P) or between a government and a person (G2P). In Ghana Mobile Money services are mainly required in the payment of utility bills such as television bills (DSTV), taxi and Uber fares, money transfer to friends and family, payment for the purchase of airtime and internet bundles, etc. All these generally fall under the P2P kind of service. The G2P usage method is not very often implemented since government generally prefers the traditional payment method of sending through registered bank accounts (Bank of Ghana, 2017a, p. 2).

Just like fiat money Mobile Money also possesses the store of value function of money and as such, quarterly payments of interest are made on Mobile Money floats. Compared to banks it is faster, convenient, flexible, affordable and now just like normally banks it pays interests. What more is in store for users?

### 2.4.2. MoMo Operating Companies and their Role in the Economy

There are currently four mobile network companies that are engaged in the Mobile Money Business namely; MTN (MTN mobile money), Tigo (Tigo Cash), Airtel (Airtel Money) and Vodafone (Vodafone Cash). The industry has created various jobs to Ghanaians as Mobile Money agents, service providers, merchants, retailers and aggregators. Before January 2016 the number of Mobile Money agents under these four companies was 107415. The chart below shows the contributions from the various network service companies.



From 2013 to 2016 as the number of bank customers increased steadily mobile money customers rather went exponential, growing by more than four times. As reported by the Bank of Ghana in 2016, Mobile Money volume of transactions multiplied by over seven times (737%). For a concise depiction of the figures in Chart 2 below show the number of Mobile Money customers as compared to orthodox bank customers. (The numbers 1-4 depict years December 2013- December 2016).

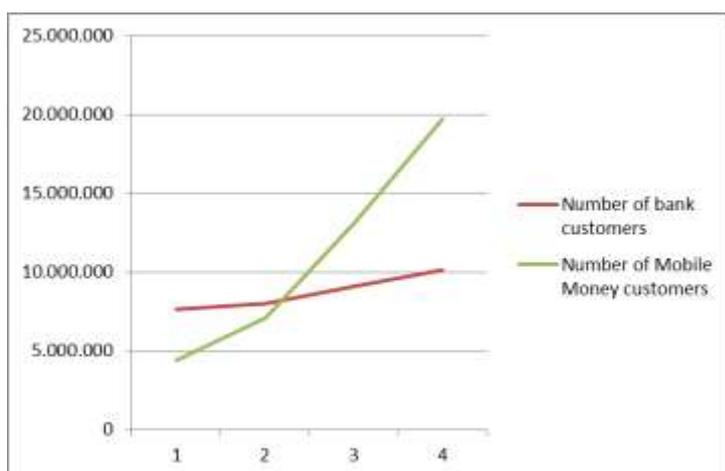


Chart 2. MoMo Customers as Compared to Bank Customers

It is clear that in less than a decade the Mobile Money industry has been able to attract much more customers than the traditional banking sector. These are due to the numerous benefits the sector has delivered to both the Ghanaian

residing in very remote communities and the urban Ghanaian, which the orthodox banks have failed somewhat drastically in the past decade.

### **3. Discussions**

Looking at developing trends it can be inferred that Mobile Money is definitely here to stay for the foreseeable future. The industry has cemented its position in the country's staple payment system in enhancing huge economic growth through the provision of hundreds of thousands of jobs, enhancement of faster, much secure and affordable medium of monetary transaction and in addition paying quarterly interests on Mobile Money accounts. Furthermore the number of banked persons in the country has spiralled and continues to improve.

Most Ghanaians have lost trust in the orthodox banks and its processes. A recent incident involving a Chief Executive Officer of one of the local banks and its customers has landed a major and possibly industry-sinking blow to the banking sector. The said bank CEO is said to have absconded with the hard earned savings and investments of customers leaving them stranded with nothing. If instant action is not taken by various stakeholders within the banking sector, the industry might not withstand the pressure exerted on it by the MoMo sector and this could cause its collapse by the next half century. Plans for the long run should also be in place.

For the banks and other financial services providers to keep up the pace with the rapid insurgence MoMo seems to be making, there is the need for major collaborations with FinTech companies and the principal MoMo service providers in the country. As well as large investments in the Research and Development departments within banks, insurance companies and other financial services providers. In short technological know-how should be incorporated into the systems within banks if any luck of catching up with MoMo is hoped for.

To see how overwhelmingly impactful MoMo has been on Ghana's financial market the table below demonstrates just that.

Indicators	2012	2013	2014	2015	2016	2017	2018	2018%grwth
Total no. of mobile subs	25,618,427	8,026,482	30,360,771	35,008,387	38,305,078	37,445,048	40,046,590	6,95
Registered mobile money accounts	3,778,374	4,393,721	7,167,542	13,120,367	19,735,098	23,947,437	32,554,346	35,94
Active mobile money accounts	345,434	991,780	2,526,588	4,868,569	8,313,283	11,119,376	13,056,978	17,43
Registered Agents (Cumulative)	8,660	17,492	26,889	79,747	136,769	194,688	396,599	103,71
Active Agents	5,900	10,404	20,722	56,270	107,415	151,745	180,664	19,06
Total volume of transactions	18,042,241	40,853,599	113,179,738	266,246,537	550,218,427	981,564,563	1,454,470,801	48,18
Total value of transactions (GHe'mil)	594,12	2,652,47	12,123,89	35,444,38	78,508,90	155,844,84	223,207,23	43,22
Balance on Float (GHe'mil)	19,59	62,82	223,33	547,96	1,257,40	2,321,07	2,633,93	13,48
<b>Indicators</b>	<b>2018 growth</b>							
Total no. of mobile subs	6,95%							
Registered mobile money accounts	35,94%							
Active mobile money accounts	17,43%							

#### 4. Suggestions and Conclusions

The alarming figures show that since 2012, the Mobile Money industry continues to grow in every aspect of the overall payment system industry from number of Mobile Money payment system accounts available to the number of agents operating to total annual transaction volumes to total balance on floats. It has outgrown the traditional banks in these areas too within a short period of time. With its beneficial attributes this service has well and truly taken the payment system in Ghana to a whole new phase.

For the traditional banks to keep operating and not run out of business within the foreseeable future important measures should be put in place. Collaborating with telecom operators in providing the Mobile Money service could be one of such measures. Bank accessibility in the rural community and reduced banking time plus cheaper bank transactional fares may help play roles in keeping banks alive. In this era of technological advancements in every aspect of life it should not come as a surprise that the Mobile Money system is surging far ahead of its competitors since it is a kind of technological application itself. Hence banks should definitely make a technological as well as human capital overhaul in order to serve consumers appropriately.

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