The Evolution of Bank of Ghana Policies on the Ghanaian Payment System

Cashless payments and digital banking are not new subjects in the banking discourse. Over the past two decades, the Ghanaian payments industry has undergone significant transformation on account of the adoption of digital technology. With the onset of the COVID-19 pandemic, a sense of urgency has been injected into Ghana's payment ecosystem digitalisation effort and necessitated a rethinking of the approach to Digital Financial Services (DFS). Recent events in the wake of the pandemic have brought to the fore the critical role of Digital Financial Services in promoting financial inclusion, business continuity and sustainability, particularly medium and small scale enterprises (MSSEs) and global trade. The urgent implementation of drastic but necessary COVID-19 pandemic containment measures by the Government of Ghana hampered to some extent economic and social activities. However, digital payments mitigated the economic consequences of the measures by facilitating economic activity during the lockdown.

Digital technology is providing broad-based access to financial services which is unprecedented in the annals of the Ghanaian banking industry. The 2017 Global Findex Report highlighted the notable contribution of mobile money to an increase in Ghana's financial inclusion from 41% in 2014 to 58% in 2017 – a time when total mobile money accounts was 11.1 million.

Mobile money accounts had since recorded phenomenal growth with total accounts of 18.4 million as at end-October 2021. This development is quite reassuring and presents an opportunity for accelerating financial inclusion as the right foundation that has already been laid.

Ghana's payment system digitalisation agenda has been guided at all times by a well thought-out strategy developed by the Bank of Ghana in collaboration with stakeholders. From 1998 to date, a total of three sequential payment system strategy documents have directed the sector's digitalization programme; with the current one scheduled to run its full course by the end of 2024. Besides the portfolio of solid interbank payment systems implemented over the course of these strategies, the regulatory environment has also evolved and provided a strong legal basis for the dynamism in the ecosystem.

The Payment Systems Act, 2003 (Act 662) provided the legal foundation for digitalisation of interbank payment ecosystem which started with the implementation of the Real Time Gross Settlements system (RTGS) called the Ghana Interbank Settlement (GIS) system. The system has, since the early 2000s, improved interbank liquidity management, enhanced the efficiency and speed of settlement of interbank payment obligations, and reduced credit and settlement risks. The law also made it possible for the introduction of a variety of retail electronic payment systems including electronic cheque clearing, direct debit and direct credit payments on the automated clearing

House (ACH) platform, and instant payments, thereby diffusing the benefits of digitalisation to bank customers. Notable improvement to payments was a drastic reduction in clearing cycles across all retail interbank payment streams. Cheque clearing cycle reduced from a maximum of eight (8) working days to a maximum of two (2) working days with options for same-day clearing nationwide.

Widespread use of mobile phones across the country opened a new and important chapter in payment system development in Ghana. The success of mobile telephony in expanding access to financial services in Kenya encouraged Ghana to adopt a similar system. As a consequence, the Branchless Banking Guideline was introduced in 2008 to provide regulatory support for banks to utilise mobile phone network to provide financial services in partnership with telecommunication companies. However, banks were required to own and invest in the product, with telecommunication partners only acting as agents, hence the bank-led model of mobile money. In 2009, MTN launched the first mobile money service in partnership with universal banks, followed by Airtel Money in 2010 and Tigo Cash in 2012. In 2019, Airtel Money and Tigo Cash merged under the new name AirtelTigo.

Four years after the first mobile money was introduced, activity levels were far below expectations and less exciting compared with the buoyant activities experienced by Kenya and Tanzania in the early stages. An impact assessment of the Branchless Banking Guidelines 2008 indicated considerable disincentives in the bank-led model, leading to underinvestment in the ecosystem. Extensive consultation with stakeholders, which commenced in 2012, led to the issuance of the Electronic Money Issuers Guidelines (EMIG) and Agent Guidelines (AG) in 2015, permitting a non-bank entity (telecommunication company) to establish a subsidiary to be licensed by Bank of Ghana to issue electronic money. The signal of policy change in the regulatory environment following the publication of the 2015 guidelines stimulated massive investments in the ecosystem by telecommunication companies and resulted in impressive growth in mobile money accounts and total volume of transactions from 3.78 million and 18.0 million in 2012 to 7.17 million and 113.18 million in 2014 respectively.

A comprehensive and coherent framework to promote issuance of electronic money by non-bank entities, EMIG and AG, introduced a number of measures to ramp up the use of mobile money. These measures which bolstered adoption of mobile money include a three-tiered Know Your Customer (KYC) requirements and Customer Due Diligence(CDD), agent non-exclusivity, permission for non-bank entities to be licensed as Electronic Money Issuers (EMIs), use of agents to deliver mobile money services, merchant account KYC and CDD requirements; reporting, oversight and supervision requirements. Mobile money transactions recorded a significant increase following the publication of EMIG and AG, with 106.7% and 116.6% increase in volume and value respectively year on year by end-December 2016.

A Fintech industry emerged in 2017 to serve the diverse needs of the vibrant mobile money ecosystem and enabled digital delivery of various financial services including payments, savings, credit and investments in partnership with banks, specialized deposit-taking institutions and EMIs. The enormous prospects of these strategic alliances for Bank of Ghana's financial inclusion and cash-lite agenda called for a new regulatory regime to bring FinTechs into regulatory scope. The Payment Systems and Services Act, 2019 (Act 987) is therefore a comprehensive response to the quest for an enabling regulatory environment that permits the participation of diverse service providers including banks, SDIs, EMIs and FinTechs.

Act 987 is anchored on proportionate regulation and risk-based supervision, thereby creating a conducive environment for inclusive participation of FinTechs of various sizes and expertise. A corresponding Licensing Application Pack (Notice Number BG/GOV/SEC/2020/07) provides for a tiered licence structure in line with the tenets of proportionate regulation. By this approach, a wide variety of digital innovations are made available without risking the stability of the financial ecosystem.

Act 987 has fostered meaningful collaboration among banks and FinTechs in the delivery of digital financial products and services. The complementarity of their respective strengths is providing unprecedented access to financial services that is beneficial to different segments of the market. Banks, specialized deposit-taking institutions and FinTechs have taken advantage of the enabling regulatory environment and are using digital channels to on-board and deliver products and services to customers. Also, through partnerships; micro savings, micro loans, and micro investment products of banks and specialized deposit-taking institutions are being accessed through the platform of mobile money operators. This is a typical case of market place banking and lays the foundation for digital banking in Ghana.

Payment systems development in Ghana has always been user-centric with a strong commitment to financial inclusion. The tiered KYC customer accounts framework for mobile wallets is in recognition of the financial inclusion needs of the unbanked and underserved and ensures that no one is excluded on account of economic and or social standing. Also, a vibrant agent network and remote on-boarding of customers ensure minimum or no disruption to the routine activities of individuals and businesses in accessing financial services, and in accordance with the busy lifestyles of customers. In like manner, the regulation has made it possible for links to financial services to be available on social media platforms subject to the implementation of appropriate approved security measures.

The DFS space is complex and evolving. The speed at which transactions are executed makes mistakes costly. To instil consumer confidence in the ecosystem, it is vital that consumer support systems are implemented to align with the consumer life cycle, beginning with on-boarding, through active usage to the exit stage. The Consumer Recourse Mechanism Directive issued by the Bank of Ghana provides the needed assistance for Banks, SDIs and FinTechs to implement systems that ensure fair treatment of consumers, and effective and timely redress of consumer complaints.

As online transactions grow, criminals have found it expedient to migrate their activities to the cyber space. In spite of the robust audit trail of digital payments, risks of money laundering, terrorism financing, and illegal trade in customer data are real. Building an ecosystem of high integrity is essential to growing the acceptance of digital payments and scaling up financial inclusion. To engender confidence in the DFS, Bank of Ghana has mandated service providers, in line with its Cyber Security Directive and Guidelines for Anti-Money Laundering/Combating the Financing of Terrorism, to implement measures to protect systems from cyber-attacks, money laundering and terrorism financing. Also, service providers are required to comply with relevant provisions of the Data Protection Act, 2012 (Act 843) to prevent breach of customer data and privacy.

A major observation made during the COVID-19 pandemic was the extremely low participation of micro, small and medium scale enterprises (MSMEs) in the digital economy. Although merchant wallet transactions increased during the lockdown, a large number of customers still had to cash out from mobile money wallets in order to pay for goods and services. This was due to the onerous merchant account on-boarding requirements, which excluded most of the MSSEs. In effect, MSSEs could not accept digital payments. To diffuse and entrench digital payments culture in the Ghanaian society, MSSEs, which constitute about 90% of businesses in Ghana, have to be on-boarded to accept digital payments to enable customers pay and spend digitally.

The Bank of Ghana has therefore implemented a three (3) tier merchant account on-boarding scheme to enable businesses of various sizes to accept digital payments. Similarly, the Ghana Interbank Payment and Settlement System (GhIPSS) in collaboration with industry stakeholders have deployed a universal QR Code called the GhQR code to promote an affordable alternative to Point of Sale (POS) devices and encourage MSMEs to accept digital payments. Also, a consumer-friendly interchange fee has been implemented to allow users of mobile money make interoperable merchant payments at points of sale using GhQR code without transaction fees.

To consolidate the gains and further grow digital payments, Bank of Ghana in May 2020 established the FinTech and Innovation Office to drive the cash-lite, e-payments and digitalisation agenda of the Bank. The FinTech and Innovation Office is responsible for the licensing and regulation of dedicated electronic money issuers (DEMIS/mobile money operators), payment service providers (PSPs), closed loop payment products, payment support solutions and other emerging forms of payments delivered by non-bank entities.

The Bank has since published a number of policy documents to promote digital payments including inward remittance guidelines, domestic processing of payment card transactions executed with payment cards issued in Ghana, and crowd funding policies. An active digital payments space has been established with a total number of forty (40) entities granted approval to provide payment services as at December 31, 2021, distributed as follows: five (5) dedicated electronic money issuers, twenty-eight (28) enhanced payment service providers, four (4) medium payment service providers, two (2) standard payment service providers and one (1) payment and financial technology service provider.

Maintaining as well as growing a dynamic payments environment calls for continuous innovation. Bank of Ghana therefore launched a Regulatory and Innovation Sandbox in November 2019 to encourage innovations in the payments ecosystem while monitoring emerging technologies for appropriate regulatory response. So far, innovations that seek to mainstream blockchain technology for trust kiosk that supports payments, funds transfer and conversion of cash into electronic money are being tested. Other solutions addressing the challenges of high inward remittance fees are in the offing.

To a certain extent, the developments in digital payments have been confined to payment infrastructures and corresponding regulatory framework. However, it is important that the Ghana Cedi, which is the statutory means of payment, adapts to increasing demand for digital payments. The public declaration of Bank of Ghana to explore a Central Bank Digital Currency (CBDC) at the 91st

Monetary Policy Committee Press Conference held in November 2019 was in response to this trend. Since then, work on the eCedi, a digital version of the Ghanaian currency, has intensified with Bank of Ghana partnering Giesecke & Devrient (G+D) to implement a pilot.

For approximately twenty (20) years, Ghana's payment ecosystem has been transformed from a largely manual environment with serious inefficiencies to a network of interoperable digital payment streams supporting efficient, fast, convenient and round the clock funds transfer. The gains to financial inclusion and digital banking arising from the change has been phenomenal. Going forward, Bank of Ghana will continue to retool the regulatory environment for relevance, adopt appropriate supervisory technology to promote compliance of service providers and engender user trust. With these developments, the basis has been laid for prosecuting the cash-lite agenda and the formalisation of the Ghanaian economy through DFS.