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An Expository Overview of the Financial Integrity Risk Associated with the Relaxation of Financial Regulation to Promote Financial Innovation Through Mobile Money Services in Zimbabwe

Howard Chitimira[1], Luck Mavhuru[2]

Abstract: The rationale for financial regulation is to promote and maintain financial integrity in the financial sector of any country. In this regard, it is important to note that the need for access to formal financial services such as credit, insurance and banking is being addressed by financial technology (fintech), particularly mobile money services (MMS) in Zimbabwe. However, the relevant laws in Zimbabwe do not expressly provide for fintech innovation. Moreover, the Zimbabwean policy makers have grappled with the constant and rapid growth of fintech. The Zimbabwean policy makers have struggled to strike a balance between maintaining financial integrity and creating an environment that promotes financial innovation. Thus, the Zimbabwean policy-makers have a tricky responsibility of safeguarding the stability of the financial sector while simultaneously promoting financial innovation and new financial services and products. Given this background, this article investigate the challenges associated with the relaxation of financial laws to promote financial innovation such as MMS in Zimbabwe.

Keywords: Financial regulation; mobile money services; financial integrity; financial innovation; financial sector

[1] Research Professor and Professor of Securities and Financial Markets Law, Faculty of Law, North West University, South Africa, Address: Private Bag X2046, Mmabatho, 2735, South Africa, Corresponding author: Howard.Chitimira@nwu.ac.za. This article was supported in part by the National Research Foundation of South Africa (NRF), Grant Number 141933. In this regard, the authors wish to thank the NRF for its valuable support.

[2] Postdoctoral Research Fellow, Faculty of Law, North-West University, South Africa, Address: Private Bag X2046, Mmabatho, 2735, South Africa, E-mail: mavhuruluck40@gmail.com.

1. Introductory Remarks

The fourth industrial revolution (4IR) has introduced new technological innovations such as artificial intelligence (AI) and financial technology (fintech) globally. The emergence of such innovations has enabled regulatory bodies and other enforcement authorities in many countries to enhance financial integrity in the global financial markets and financial institutions. Mobile money is one of the innovative digital financial services that is rapidly growing and massively influencing the regulation of the global financial markets and financial institutions. It is submitted that this rapid expansion of digital financial services could have indirectly contributed to global financial instability which culminated in the 2007-2009 global financial crisis (Dunne & Kasekende, 2018, pp. 428-448). In this regard, it is important to note that the need for access to formal financial services such as credit, insurance and banking is now addressed by the use of fintech services, particularly mobile money services (MMS) in Zimbabwe. However, the relevant laws in Zimbabwe do not expressly provide for fintech innovation. Moreover, the Zimbabwean policy makers have grappled with the constant and rapid growth of the use of fintech services in the formal and informal financial sector. This, inter alia, follows the fact that the relevant laws were not consistently enforced to promote financial integrity in the financial sector and unregulated financial markets (Andenas & H-Y Chiu, 2014, pp. 4). The Zimbabwean policy makers have also struggled to strike a balance between maintaining financial integrity and creating an environment that promotes financial innovation (Porteous, 2006, pp. 1). Thus, the Zimbabwean policy-makers have a tricky responsibility of safeguarding the stability of the financial sector while simultaneously promoting financial innovation and new financial services and products. This is mainly done to reduce systematic risks and protect financial consumers from such risks (Delimatsis, 2007, pp. 7). Given this background, this article investigate the challenges associated with the relaxation of financial laws to promote financial innovation such as MMS in Zimbabwe.

2. The Rationale for Financial Regulation to Promote Financial Integrity

The financial sector plays a pivotal and integral role in the socio-economic development of the society of any country (Ramakrishnan, 2013; Prochniak & Wasiak, 2017, pp. 295–337). Accordingly, adequate financial regulation is key to the development of viable financial sectors in all countries. In this regard, it is important to note that financial regulation refers to, inter alia, any government and/or policy makers' intervention in the financial sector through the enactment of relevant rules, regulations and/or laws as well as the establishment of institutional measures for the enforcement, monitoring and supervision of compliance with such rules, regulations and/or laws among all the relevant persons (Wood & Clement, 2015, pp. 114). The Organization of Economic Cooperation and Development (OECD) provides that financial regulation is an instrument by which the state, through its agencies and the legislature, compels an entity or individual to comply with specific requirements of the relevant rules, regulations and/or laws (OECD Report, 2010, pp. 10). In financial services, regulations include prudential rules such as those influencing the conditions of access to financial markets, basic financial services and financial products (Jefferis, 2007, pp. 6-31). The rationale behind financial services regulation is mainly to prevent non-compliance with the relevant rules, regulations and/or laws and to curb systemic risks and financial crime. Robust financial services regulation discourages the emergence of entities with poor reputation and/or without financial capacity to conduct their duties and functions effectively. Financial rregulation protects customers against exploitation from unscrupulous financial institutions and helps to maintain the robustness and integrity of the financial markets and financial institutions in the financial sector globally (Andenas & H-Y Chiu, 2014, pp. 4). Furthermore, financial regulation promotes financial stability in the financial sector. Poorly regulated financial institutions and financial markets have the potential to harm financial consumers, damage the economy and undermine financial stability in the financial sector.

Financial integrity refers to the soundness of a financial system in relation to the combating of systemic risks and all related threats to the financial markets and financial institutions in any country (Cenfri Guidance Note, 2018, pp. 2-20). Notably, the Financial Action Task Force (FATF) has developed a number of standards and/or recommendations to promote the effective implementation of the regulatory and operational measures to promote financial integrity in the global financial markets and financial institutions (Gelb, 2016, pp. 1-20). In this regard, the know your customer (KYC) and the risk-based approach to financial regulation are crucial to the promotion of financial integrity in the financial institutions and financial markets. Transparency is also key to the promotion of financial integrity in the financial institutions and financial markets. Effective financial regulation as well as the consistent enforcement of the relevant financial sector laws and anti-money laundering (AML) regulations will give rise to financial integrity and financial stability.

3. The Rationale and Meaning of Financial Innovation

There is no universally accepted definition of the term financial innovation. Various definitions and dimensions of what constitutes financial innovation have been proffered by various scholars to date. Joanna Blach defines financial innovation as bringing new ideas, solutions and instruments as a means of improving performance among the relevant persons in the financial sector (Blach, 2011, pp. 16). Tufano argues that financial innovation is an act of creating and popularising new financial instruments as well as financial technology (Tufano, 2003, pp. 307-335). On the other hand, Merton submits that financial innovation refers to the introduction of a new product to a market or the production of an existing one in a new manner. This includes the introduction of relevant changes to the financial instruments, financial institutions, practices and financial markets (Merton, 1995, pp. 461–481). Some economists classify financial innovation into two categories, namely product innovation such as new financial instruments and process innovation such as new way of delivering financial products (Muthinja & Chipeta, 2018, pp. 1-11). The OECD provides that financial innovation should be categorised into product, process, marketing and business organisation innovation (OECD Report, 2010, pp. 15). The new developments in these four categories are treated as innovations if they are perceived as new for the entity implementing them although they might be already known and/or applied in other entities or organisations. This suggest that a financial innovation does not necessarily have to be completely novel or new for it to be regarded as an innovation. While there appears to be different definitions of financial innovation, all definitions demonstrate that financial innovation occurs when new ideas, solutions and instruments are implemented in order to change the conditions and services of a business entity and/or relevant affected person.

Innovations play a pivotal role in economic development in any modern economy (Manyika, et al, 2016, pp.1-107). Successful and important financial innovation will reduce costs and risks associated with the provision financial services and financial products (Beyani & Kasonde, 2009, pp. 283-293). However, financial regulation should be carefully utilised in the financial sector to promote financial innovation without exposing the financial institutions, financial markets and the economy to financial crime and systemic risks. Accordingly, financial innovation should ensure that effective risk management systems are adopted and there is adequate development of appropriate regulatory responses to all challenges associated with systemic risks and financial crimes in the financial sector. In this regard, a key lesson learned from the global financial crisis (GFC) is that risk management systems should keep pace with financial innovations.

Relevant factors should be carefully considered before any financial innovation is adopted and utilised in the financial sector. Most financial innovations are introduced when market participants are constantly searching for new ways to make profit (Ramachandran, 2013, pp. 2-21). Profit making is key for business persons, companies and other juristic persons to grow their businesses. Therefore, business persons are constantly seeking new and improved products, processes and organisational structures that will reduce the cost of production, provide better satisfaction of customers' demand and greater profits. High, variable and unpredictable inflation, interest rates and exchange rates have a negative impact on profit maximisation for many individuals and financial institutions (Jepkorir, 2011, pp. 1-36). Good financial innovations should offer protection against changes in the financial environment, especially changes in the exchange rate and interest rates.

Moreover, advancement in technology has also contributed significantly to the development and utilisation of new financial innovations in the financial sector. Significant technological improvements have enabled individuals and juristic persons to obtain relevant data on their financial products and financial services and assess the risks associated with such products and services (Akdere & Benli, 2018, pp. 717–748). Technological advancements and the advent of social media have also stimulated financial innovation by lowering the cost of providing new financial services and financial products in the financial sector (Jepkorir, 2011, pp. 1-36). Financial regulation is also crucial for the promotion of financial innovation in the financial sector in any country. Ironically, some financial innovations are developed by unscrupulous persons to bypass financial regulations, rules and/or laws, especially those that affect their business profits (Tufano, 2003, pp. 332). Thus, some financial institutions resort to financial innovations in order to avoid strict regulations that affects their profitability (Baicu, 2011, pp. 31-40).

It is important to note that financial innovation is also fundamentally market driven. Financial innovation has been a critical part of the economic landscape for many countries globally over the past centuries (Delimatsis, 2007, pp. 7). Financial markets and financial institutions are constantly producing new financial products and financial services owing to key financial innovations that are developed and utilised in the financial sector in many countries, including Zimbabwe (Dunne & Kasekende, 2018, pp. 428-448). Good financial innovations should ensure that financial services and financial products are cheaper and accessible to all financial consumers (Ramachandran, 2013, pp. 2-21). Financial innovations should be consumer-friendly and flexibly enforced in the financial sector (Lumpkin, 2009, pp. 1-31). To date, financial innovation has generally promoted financial inclusion of financial consumers who were previously forced to remain outside the formal financial system. The M-Pesa mobile money service in Kenya is one of the financial innovations that have increased financial consumer access to financial services and financial products. It is submitted that the introduction of M-Pesa MMS in Kenya in 2009 successfully displaced most informal methods of money transfer and the country experienced a phenomenal increase in the use of financial products and financial services in the formal sector. In this regard, it should be noted that financial innovations and technological advancements provide a competitive edge to financial institutions and companies in relation to their financial services and financial products (Muthinja & Chipeta, 2018, pp. 1-11).

4. The Interrelationship Between Financial Regulation and Financial Innovation

Financial innovation is sometimes problematic and disruptive. Consequently, some regulators are too cautious and/or prohibit some financial innovations which they regard as counterproductive. The price of systemic disruption is so high in any economy (Porteous, 2016, pp. 5-19). Financial institutions and companies are now constantly experiencing disruptive financial innovation due new technological advancements that are introduced in the financial sector from time to time. Disruptive financial innovations may give rise to unexpected changes that can affect public investor confidence, economic stability and economic growth of any country (Porteous, 2016, pp. 5-19). Disruptive financial innovation could also affect public investor confidence in the affected financial institutions and financial markets. This will eventually make the financial sector vulnerable to shocks, systemic risks (Isik & Hassan, 2003, pp. 291-320). This process may ultimately lead to severe liquidity challenges that will cause viable businesses to be forced to shut down and/or to wound up.

A typical example of potential disruptive financial innovations is cryptocurrency. Cryptocurrency directly affects monetary policies in the case of currency competition from private digital money such as bitcoin, which is issued outside the formal banking sector. Even if a full-fledged alternative currency does not develop and the current monetary system prevails, the option of privately issued digital money such as cryptocurrency may diminish the room to manoeuvre for monetary policy purposes in any country. Failure to adequately regulate financial innovations such as cryptocurrency will definitely affect not only the monetary policy but economic growth as well in any country (Andenas & H-Y Chiu, 2014, pp. 22). In this regard, financial innovations that are adopted to elude financial regulations, rules and/or financial laws are regarded as disruptive and illegal (Baicu 2011, pp. 31-40). Financial regulations, rules and/or laws should be carefully enforced to protect financial customers from financial crimes and illicit profiteering activities of some financial institutions and business persons (Delimatsis & Herge 2011, pp. 344). Financial regulation should be carefully utilised to ensure that good financial innovations are adopted without negatively affecting unsophisticated financial consumers and investors that use financial services and financial products in the financial sector (Lumpkin, 2009, pp. 1-31). Therefore, robust financial regulations, rules and/or laws are crucial for the combating of systemic risks and financial crimes to promote financial stability, market integrity and the soundness of the financial sector in all countries, especially emerging economies such as Zimbabwe.

Some financial innovations were criticised and blamed for contributing to the 2007-2009 global financial crisis (Wyman, 2012, pp. 5-81). This created some doubts in the mind of some people regarding the rationale and value of financial innovation in general. This follows the fact that financial innovations that were introduced during the global financial crisis were easily abused by some unscrupulous persons to violate and bypass the financial regulations, rules and/or laws that governed the banking sector because they were too laxed. Therefore, many countries were encouraged to enact robust financial regulations and laws to avoid financial instability and the recurrence of the global financial crisis (Lumpkin, 2009, pp. 1-31).

5. The Rationale and Meaning of MMS

MMS refers to the use of mobile phones to provide banking services with little or no involvement of formal banks (African, Caribbean and Pacific (ACP) Group of States & International Organization for Migration (IOM) Report, 2014, pp. 5-19). The International Monetary Fund (IMF) provides that MMS are financial services offered to clients by a mobile network operator or another entity that partners with mobile network operators, independent of the traditional banking system. Thus, MMS do not require a bank account instead only basic mobile phones are required. It is submitted that mobile money is the convergence of telecommunications and banking (Maune, Nyakwawa & Magara, 2022, pp 333). Notably, mobile money is usually not part of the formal mobile banking system. It is not an extension of one's bank account or banking applications or other Internet-based gadgets. In other words, mobile money is a form of payment that does not require the opening of a bank account (Madise, 2019, pp 149-200). It is one of the most popular financial innovations in the 21st century. MMS are being deployed rapidly across emerging markets as a key tool to promote financial inclusion (Lal & Sachdev, 2015, pp. 3-44). It is important to note that MMS could be categorised by the roles that are played by banks and mobile network operators. Thus, there are bank-led (bank-centric) MMS and mobile network operator-led (operator-led) MMS. Under bank-centric model, the mobile phone works as an extension of the bank account and in many ways, it bears similarities to mobile banking offered by banks (Madise, 2019, pp 149-200; Lal & Sachdev, 2015, pp. 3-44). Under bank-centric MMS, banks take the lead in marketing, branding and providing customer services (Merritt, 2011, pp. 143-160). On the other hand, under mobile network operator-led MMS, mobile network operators are responsible for providing mobile technology that facilitates mobile money transactions (Kersop and Du Toit, 2015, pp.1637-1664). Moreover, under mobile network operator-led MMS, mobile network providers take the lead in marketing, branding and managing customer relationships (Adaba & Ayoung, 2017, pp. 668-686). Under mobile network operator-led MMS, clients do not have contractual relationships with mobile network operators. Examples of bank-led MMS in South Africa include WIZZIT and Mobile Telecommunications Network (MTN) mobile money. The mobile network operator model restricts and/or potentially eliminates the involvement of banks and other financial institutions in the delivery, clearance and payment transactions of mobile money. Customers exchange cash for the electronic value that is stored in virtual accounts on servers owned and operated by mobile network operators (Bara, 2013, pp. 345-354).

Mobile network providers are significantly more successful in designing and deploying mobile money systems than traditional banks and/or even non-bank financial service providers (Pénicaud & Katakam, 2013, pp. 2-59). In Kenya, the most prominent mobile network operator-led MMS is the M-Pesa which allows Safaricom (mobile network operator) to provide the customer interface, process transactions and provide accounts (Kernan, 2018, pp. 1109-1151). There is a need for adequate partnership and collaboration between mobile network operators and banks or financial institutions to enhance mobile money transactions and financial inclusion in developing countries such as Zimbabwe. This approach capitalises on each company, financial institution or organisation's respective strengths in terms of providing customer services, innovation and an environment of sound regulatory compliance (Merritt, 2011, pp.143-160). Regulatory rules, laws and/or regulations have given rise to some collaboration between mobile network operators and licenced banks or financial institutions to provide MMS in emerging economies such as Kenya and Zimbabwe.

The MMS rely on Unstructured Supplementary Service Data (USSD), which is a Global System for Mobile Communications (GSM) protocol used to send text messages. Standardised characters such as *141*100# are used to compose USSD messages. Using USSD codes are accessible through any handset and they do not require an Internet connection (Hoffman, 2006, pp. 1-10). MMS provide an easy way for the poor, unbanked and low-income earners to deposit, withdraw, transfer money and pay bills using mobile phones (Chitimira & Torerai, 2021, pp. 2-23). MMS are relatively cheap, convenient and faster than banks. Account holders can also use their phones to purchase and sell goods and services at merchant shops using MMS. MMS are also used to pay for public transportation, hospital fees, insurance services and supermarket goods (Chitimira & Torerai, 2021, pp. 2-23).

MMS provide enormous benefits to the poor and unbanked people in Zimbabwe. MMS use has also proved to be an important tool for alleviating socio-economic challenges for the poor and unbanked people in Zimbabwe. MMS promotes the financial inclusions and/or the entry into the formal financial sector for the poor and unbanked people in Zimbabwe (Chitimira & Torerai, 2023, pp. 241-258). The adoption and use of mobile money has led to a significant shift from cash-based economies to modern bookkeeping systems in Zimbabwe, Kenya and other developing countries (Mavhuru, 2022, pp. 19-166). There is increasing evidence that MMS empowers the poor, low-income earners and other vulnerable persons to access basic services such as financial services, financial products, healthcare, education, utilities and social welfare. MMS may also reduce the cost of providing financial services and financial products on the part of the mobile network operators (Manyika *et al*, 2016, pp. pp.1-107). Furthermore, mobile money reduces the risks associated with cash transactions.

6. The Adoption and Use of MMS in Zimbabwe

About three categories of mobile money are provided in Zimbabwe. Firstly, the bank-led MMS is utilised where commercial banks, building societies and merchant banks offer mobile money as a complementary service to their customers. Some of the bank-led MMS in Zimbabwe include Touch which is offered by the Commercial Bank of Zimbabwe (CBZ), E-Wallet which is offered by the ZB Bank, Blue which is offered by Stanbic and Textacash which is offered by the Central African Building Society (CABS) (Mavhuru, 2022, pp. 19-166). These bank-led MMS are only available to formal bank clients that have back accounts. Mobile network providers are the major players in mobile money sector in Zimbabwe. All the three mobile network providers in Zimbabwe namely, Econet Wireless Zimbabwe Limited (Econet), Telecel and NetOne provide MMS. Ecocash is Econet's mobile money service while Telecel offers Telecash and NetOne offers OneMoney (Chitimira & Torerai, 2021, pp. 3-23). The Postal & Telecommunications Regulatory Authority of Zimbabwe (POTRAZ) reported that 7.6 million mobile phone users were subscribed to MMS in 2020 (POTRAZ, 2020, pp. 4-22). The POTRAZ argues further states that Ecocash MMS is the most popular with 5.5 million subscribers (POTRAZ, 2020, pp. 4-22). It is also argued that mobile money is an innovative financial product that has managed to provide financial inclusion to put millions of the poor, unbanked and low-income earners in Zimbabwe into financial inclusion in a considerably shorter period of time than banks (Chitimira & Torerai, 2021, pp. 2-23).

In Zimbabwe, mobile money has been a success partly because of liquidity challenges that have affected the country’s financial sector in the past three decades. This has forced most of the adult population to adopt and use MMS in Zimbabwe (Chitokwindo, *et al,* 2014, pp. 415-422). Zimbabwe has also made a number of legislative changes to pave way for MMS as discussed below.

7. The Relaxation of Financial Regulation to Promote MMS in Zimbabwe

Zimbabwe adopted MMS when it did not have specific regulations and/or laws to deal with such financial services. Consequently, several statutes such as the Reserve Bank of Zimbabwe Act 5 of 1999 [Chapter 22:15] as amended ("RBZ Act", see ss 4-64), the Banking Act 9 of 1999 [Chapter 24:20] as amended ("Banking Act", see ss 4-65 & ss 73-81), the National Payment Systems Act 21 of 2001 [Chapter 24:23] as amended ("Payment Systems Act", see ss 3-26), and ad hoc Statutory Instruments (SI) were used to indirectly regulate the provision of MMS by mobile network operators in Zimbabwe as outlined in the following sub-headings.

7.1. The Relaxation of Financial Regulation Under the Banking Act

The Banking Act regulates all banks and banking-related activities in Zimbabwe. Section 5 of the Banking Act stipulates that no person shall conduct banking business in Zimbabwe unless the person is a registered bank (s 5 of the Banking Act). The Banking Act defines the "business of banking" as receiving deposits that can be withdrawn or repaid on demand or after a fixed period or after a notice and/or the employment of those deposits, in whole or in part, by lending or any other means for the account and at the risk of the person accepting such deposits (s 2 of the Banking Act). Furthermore, section 7 of the Banking Act provides a list of banking activities that are exclusively conducted by registered banks in Zimbabwe. These activities include receiving deposits, extending credit, providing money transmission services, buying and selling instruments, buying and selling of shares, money broking, issuing and administering means of payment and financial leasing (s 7 of the Banking Act). It is important to note that MMS are not expressly provided under section 7 of the Banking Act. This means that mobile network providers are not statutorily empowered to provide banking services because they are not registered banks. However, the Reserve Bank of Zimbabwe (RBZ) has employed circulars and some guidelines to promote MMS and empower mobile network providers to partner with registered banks to provide MMS to all persons in Zimbabwe. In 2020, the Ministry of Finance issued the Banking (Money Transmission, Mobile Banking and Mobile Money Interoperability) Regulations, 2020 (Statutory Instrument 2020) in a bid to empower mobile network providers to provide MMS in Zimbabwe. This was also done to circumvent the possible challenges associated with the rigid application of the provisions of the Banking Act to mobile network operators that provide MMS in Zimbabwe.

7.2. The Relaxation of Financial Regulation Under the National Payment Systems Act

Payment and clearing systems are regulated and supervised by the Payment Systems Act in Zimbabwe. This Act empowers financial institutions to participate in the Zimbabwean payment system (s 3 of the Payment Systems Act). The Payment Systems Act defines financial institutions as banking entities that are registered as such and/or any other institution conducting banking activities as stipulated under the Banking Act (s 2 of the Payment Systems Act). The Payment Systems Act does not expressly empower non-banking institutions such as mobile network operators to engage in the payment and clearing of funds or financial transactions in Zimbabwe. This means that the Payment Systems Act does not empower mobile network operators to actively participate in the national payment system to provide MMS to the poor, low-income earners and all those that do not have access to formal financial services and financial products that are offered by banks and other financial institutions. However, to pave way for non-bank institutions to participate in the national payment system, the RBZ relaxed this regulation by issuing directives and circulars which empowered mobile network operators to indirectly participate in the national payment system by providing MMS to people in Zimbabwe (RBZ, 2016, pp. 1-13). The aforesaid directives enable non-bank institutions to apply to the RBZ for them to be recognised as payment services providers. Thus, non-bank institutions such as mobile network operators are required to partner with deposit-taking financial institutions such as banks to enable them to provide payment services such as MMS in Zimbabwe. Accordingly, Econet partnered with TN bank while Telecel and Netone partnered with ZimSwitch to launch and provide their MMS to all people in Zimbabwe (Mavhuru, 2022, pp. 19-166).

7.3. The Relaxation of Financial Regulation Under the RBZ Act

The RBZ Act enumerate various functions of the RBZ and its management (s 6 read with ss 7-30 of the RBZ Act). The RBZ is obliged to regulate the issue of banknotes and coins (ss 40-46 read with ss 6-7 of the RBZ Act). It also provide for matters connected with banking, currencies, monetary policy and coinage (ss 40-46 read with ss 6-7 of the RBZ Act). The RBZ is responsible for the supervision of banking institutions and the authorisation and provision of information to foreign regulatory authorities (s 6 read with ss 7; 40-46 of the RBZ Act). The RBZ Act does not expressly provide for the adoption and use of MMS in Zimbabwe. Thus, mobile network operators are not statutorily empowered to provide MMS under the RBZ Act. Nonetheless, the Minister of Finance has introduced different statutory instruments from time to time in a bid to enable mobile network operators to provide MMS without violating the provisions of the RBZ Act.

7.4. The Relaxation of Financial Regulation Under the Anti-Money Laundering Laws

Anti-money laundering (AML) and counter financing of terrorism (CFT) provisions are utilised for financial regulation to curb financial crimes in many countries, including Zimbabwe. Developing countries such as Zimbabwe are obliged to adopt and implement AML and CFT laws and regulations in accordance with international standards that are provided by international organisations such as the Financial Action Task Force (FATF). These laws and regulations have somewhat slowed down the rate of financial innovation through the rigid application of Know Your Customer (KYC) requirements in Zimbabwe. The KYC requirements obliges financial institutions such as banks to have a detailed background of their financial customers. The AML/CFT laws and regulations require financial customers to provide documents such as payslips, proof of identity, proof employment or source of income and proof of residence. It should be noted that most people, especially the poor and low-income earners do not have all these documents and do not comply with these rigid KYC requirements. Financial innovations that cater for the poor and low-income earners are likely to fail because the intended beneficiaries do not have the relevant documents to comply with KYC requirements in Zimbabwe.

In Zimbabwe, the Bank Use Promotion and Suppression of Money Laundering Act 2 of 2004 [Chapter 24:24] as amended ("Suppression of Money Laundering Act", see ss 3-41) and the Money Laundering and Proceeds of Crime Act 4 of 2013 [Chapter 9:24] as amended ("MLPC Act", see ss 3-109). Financial services providers such as banks are required to perform KYC and customer due diligence (CDD) assessments on all their clients. Therefore, financial institutions and non-bank institutions are required to identify and verify their client's identities when opening accounts or establishing business relationships with them under the MLPC Act (s 15 of the MLPC Act). The Suppression of Money Laundering Act also requires financial institutions to establish their customers' names, addresses and occupation (ss 24-25 of the Suppression of Money Laundering Act). This suggests that mobile network providers are also required to comply with KYC and CDD requirements when providing MMS to their clients since they fall under the Suppression of Money Laundering Act and the MLPC Act (Barugahara, 2021, pp. 261-270). Nonetheless, compliance with these KYC and CDD requirements remains very burdensome and/or impossible for most of the poor and low-income earners. As a result, these requirements are a huge barrier to the financial inclusion of the poor and low-income earners in Zimbabwe. In this regard, the RBZ relaxed the KYC and CDD for MMS providers to enhance their accessibility to all persons in Zimbabwe (Bara, 2013, pp. 345-354). Accordingly, mobile network operators are now only required to verify identity cards or passport sized photos of their clients for the purposes of opening mobile money accounts.

8. Possible Challenges of Relaxing Financial Regulations on Financial Integrity

Since MMS are generally perceived as presenting unique risks compared to traditional financial services, regulatory bodies worldwide are concerned about the possible financial integrity risks they pose to financial institutions and financial markets (Kersop & Du Toit, 2016, pp. 1637-1664). This is due to the fact that MMS increase transaction velocity and they are more susceptible to manipulation by money launderers and other offenders. Notably, mobile network providers work closely with retail outlets and agents as well as third-party billing processors to provide MMS in Zimbabwe. However, it is submitted that mobile money companies do not sometimes consistently comply with AML/CFT requirements in Zimbabwe. This could be caused by the fact that mobile network providers and their retail outlets and/or agents are not be fully trained or familiar with AML and CFT provisions and requirements.

MMS were successfully adopted in Zimbabwe which led to an increase in financial inclusion. However, advent and use of MMS has also introduced some new challenges and financial integrity risks to the Zimbabwean financial institutions and financial markets. The relaxation of financial regulation, particularly KYC and CDD requirements, created new financial integrity risks and opened opportunities for rampart financial crimes such as money laundering. For instance, a forensic audit conducted by the RBZ found that mobile money providers were not adhering to KYC and CDD requirements (RBZ, 2021, pp. 5-50). Fictitious and unverified identification particulars were used to open mobile money accounts (RBZ, 2021, pp. 5-50; RBZ, 2016, pp. 1-13). Moreover, mobile money providers created illegal platforms for overdrafts, fraudulent and fictitious credits that were not backed by balances in the mobile money trust accounts (RBZ, 2021, pp. 5-50; RBZ, 2016, pp. 1-13). Furthermore, account freeze orders were illegally delayed and circumvented by employees of mobile money providers (RBZ, 2021, pp. 5-50; RBZ, 2016, pp. 1-13). Additionally, mobile money agents were charging unapproved commissions of up to 40% on cash withdrawals (RBZ, 2021, pp. 5-50; RBZ, 2016, pp. 1-13). Cash-out and cash-in services offered by mobile money providers were illegally linked to foreign exchange fraud and money laundering (RBZ, 2021, pp. 5-50; RBZ, 2016, pp. 1-13). The RBZ reported that there was rampant abuse of agent, super-agent and bulk payment wallets for the purposes of trading on the foreign exchange parallel market (RBZ, 2021, pp. 5-50; RBZ, 2016, pp. 1-13). Consequently, this status quo exacerbated hyper-inflation, cash shortages, financial instability and poor integrity in the financial markets and financial institutions in Zimbabwe. Therefore, the RBZ restricted mobile money users to one mobile money account and a US$50 transfer per day on mobile money transactions in a bid to restore financial integrity and bring stability to the financial sector. Additionally, some financial activities of mobile money agents were suspended.

While the aforesaid stringent measures could be logical and justifiable, they could, on the one hand, stifle financial innovation among mobile network operators and hinder financial inclusion for many unbanked, poor and low-income earners in Zimbabwe. Furthermore, the statutory relaxation of the Banking Act, the Payment Systems Act, the RBZ Act and other relevant Acts opened some financial regulatory gaps that were exploited by money launderers and other offenders to cause financial instability and poor integrity in the Zimbabwean financial sector and financial markets.

9. Concluding Remarks

As discussed above, the adoption and utilisation of financial innovation is crucial to the promotion financial integrity and financial stability in the Zimbabwean financial sector and financial markets. It was also noted that financial innovation could be very disruptive if it is not properly regulated and enforced. In addition, the relevant laws in Zimbabwe do not expressly provide for fintech innovation. Moreover, the Zimbabwean policy makers have grappled with the constant and rapid growth of fintech. Thus, although MMS are more reliable, cheaper and more accessible, the Zimbabwean laws do not have adequate provisions to deal with possible disruptions, financial instability, financial risks and poor integrity challenges that are caused by fintech innovations such as MMS. Given these flaws and challenges, the Zimbabwean policy makers should carefully enact policies and laws that strike a balance between maintaining financial integrity and creating an environment that promotes financial innovation. Thus, the Zimbabwean policy makers should take relevant measures and full responsibility to safeguard and promote the integrity and stability of the financial sector while simultaneously promoting financial innovation and the adoption of new financial services and financial products in Zimbabwe. Adequate statutory provisions should be enacted to discourage mobile network operators from engaging in financial crime activities such as money laundering, fuelling cash shortages, fraud, market manipulation and insider trading. The government, policy makers and other relevant stakeholders should carefully consider and investigate the challenges associated with the relaxation of financial laws to promote financial innovation such as MMS in Zimbabwe. This should be done to combat profiteering of mobile network operators, undue political interference and corruption so as to effectively promote financial inclusion and protect financial consumers without stifling bona fide financial innovations in the Zimbabwean financial sector. Moreover, policy makers should adopt and enact an adequate and specific statute that deals with the adoption and use of MMS, fintech and other financial innovations by mobile network operators to curb financial crime so as to promote financial stability and financial integrity in the Zimbabwean financial sector. It is also imperative for the Zimbabwean policy makers to avoid adopting too rigid and stringent financial regulatory laws and regulations that has the potential of stifling financial innovation and exacerbating financial exclusion of the poor, unbanked and low-income earners.

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