

THIRD QUARTER 2020 NPS REPORT

1.0 SUMMARY

The report highlights key developments in the national payments system during the third quarter of 2020, with particular focus on transactions that have been processed through both large value and retail payment channels.

A total volume of 132.2 million transactions were processed in all payment streams during the third quarter of 2020, representing an increase of 30.0 percent from the second quarter of 2020. The corresponding total value of transactions also increased by 20.7 percent to K16.1 trillion during the same period. The trend largely reflects increased economic activities during the period.

2.0 PERFORMANCE OF VARIOUS PAYMENT PLATFORMS

2.1 Transaction Flows in Various Payment Channels

During the period under review, there was an improvement in the transaction flows recorded in various payment channels as detailed in Table 1 below.

Table 1: Transaction Flows in Various Payment Channels

Payment Type	APR-JUNE		JULY-SEPT		Percentage Change	
	Volume	Value (K'billion)	Volume	Value (K'billion)	Volume	Value
MITASS¹ Total	1,385,202	11,852.2	1,867,323	14,153.3	34.8	19.4
Large Value	52,860	10,621.0	65,722	12,903.5	24.3	21.5
ACH ²	1,332,342	1,231.2	1,801,601	1,249.8	35.2	1.5
EFTs ³	1,065,142	585.9	1,526,526	659.2	43.3	12.5
Cheques	267,200	645.3	275,075	590.6	2.9	(8.5)
RETAIL DFS	100,288,042	1,496.0	130,357,175	1,954.7	30.0	30.7
ATM Transactions	4,031	0.2	4,001	0.2	(0.7)	-
Internet Banking	591,217	779.6	696,797	1,075.9	17.9	38.0
Mobile Payments	99,239,052	701.5	129,149,965	862.4	30.1	22.9
Bank-led	7,661,874	153.3	7,724,260	167.4	0.8	9.2
Non-bank	91,577,178	548.2	121,425,705	695.0	32.6	26.8
Point of Sale	453,742	14.7	506,412	16.2	11.6	10.2
Grand Total	101,673,244	13,348.2	132,224,498	16,108.0	30.0	20.7

¹ MITASS stands for the Malawi Interbank Transfer and Settlement System and is the country's large value payment system

² ACH stands for the Automated Clearing House

³ EFT stands for Electronic Fund Transfers/Credit Transfers

2.2.1 TRANSACTION FLOWS IN LARGE VALUE PAYMENT SYSTEM

Relative to the previous quarter, the volume of transactions processed in MITASS rose by 34.8 percent to a total of 1.9 million in the third quarter, 2020. Similarly, the corresponding value of MITASS transactions increased by 19.4 percent to K14.2 trillion during the same period. The increase in the volume of transactions was largely on account of EFTs and large value transactions which rose by 43.3 percent and 24.3 percent, respectively, perhaps owing to increased demand for the services during the period. Similarly, large value transactions contributed to the increase in value as they rose by 21.5 percent in the third quarter of 2020.

2.2.2 TRANSACTION FLOWS IN RETAIL/DIGITAL FINANCIAL SERVICES (DFS) CHANNELS

a) Overall Performance

There was a significant improvement in the overall performance of retail DFS transactions during the third quarter of 2020 as compared to the preceding quarter. The volume and value of DFS transactions rose by 30.0 percent and 30.7 percent to 130.4 million and K2.0 trillion, respectively, during the period under review. This outturn shows increased usage of DFS channels during the period under review perhaps owing to their convenience and safety as opposed to cash and other paper based payment instruments.

Relative to the corresponding period in 2019, DFS performance shows much higher improvement as the volume and value of transactions processed during the period under review rose by 63.7 percent and 46.1 percent, respectively. This buttresses the fact that there is a growing appetite for DFS channels by most customers when making payments owing to their convenience and speed at which transactions are settled. Stakeholders are therefore encouraged to continue

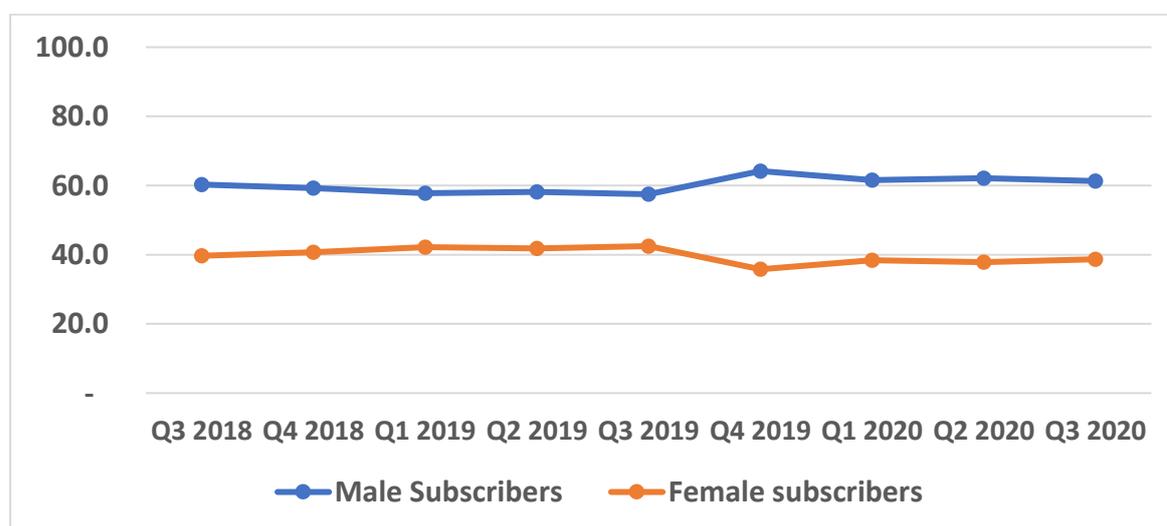
with their efforts of improving the digital payments landscape in order to drive increased adoption and usage of electronic payments in the country.

b) Non-Bank Mobile Payments

Subscriber Base

The total subscriber base for non-bank mobile money services grew by 7.5 percent to 7.7 million by end of third quarter of 2020. The gender disparity, however, continues to be skewed in favour of male subscribers who constitute 62.1 percent of the total subscribers base, see Figure 1 below.

Figure 1: Proportion of Mobile Money Subscribers based on gender



Source: Reserve Bank of Malawi database

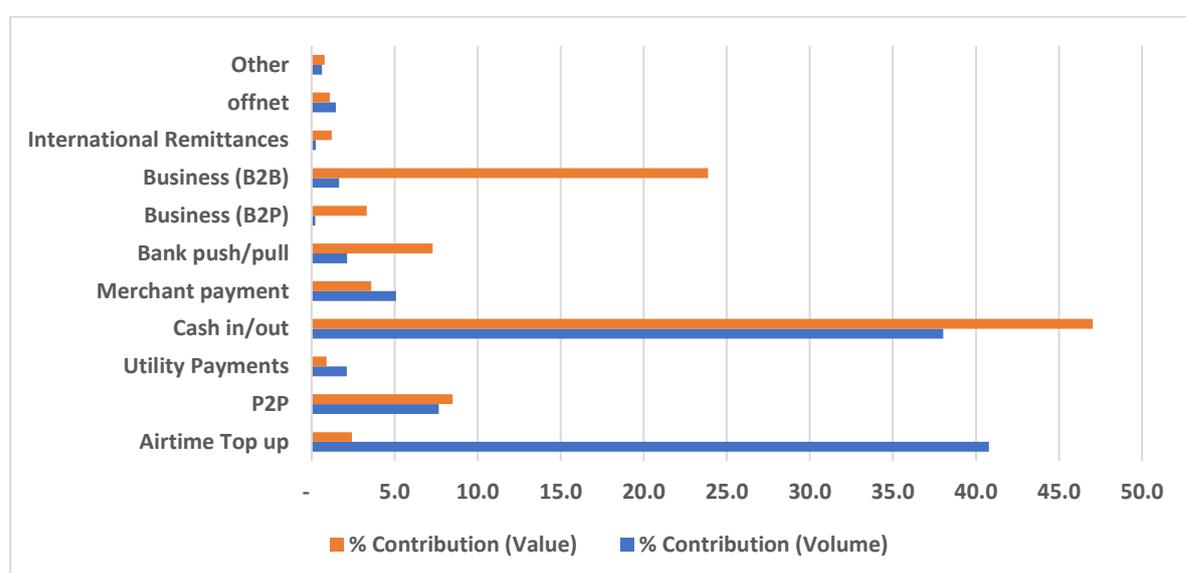
Activity Rate

The 90-day activity rate for subscribers increased to 62.1 percent in September 2020 from 57.5 percent in June 2020. This is a positive development and service providers are encouraged to continue with their marketing strategies to ensure more customers actively use the mobile money services in the country. The increase in activity rate is expected to spur growth of the mobile money ecosystem and therefore contribute to financial inclusion which is one of the government priorities towards improving the economic status of the rural based population.

Nature of Transactions

Apart from cash in/cash out transactions, a review of data for period reveals that mobile money platforms are mostly dominated by Business to Business (B2B) and airtime top-ups in terms of value and volume of transactions, respectively (*Figure 3*). Other transactions types that have made significant contributions to the total include Person to Person (P2P) transfers, bank push/pull and merchant payments.

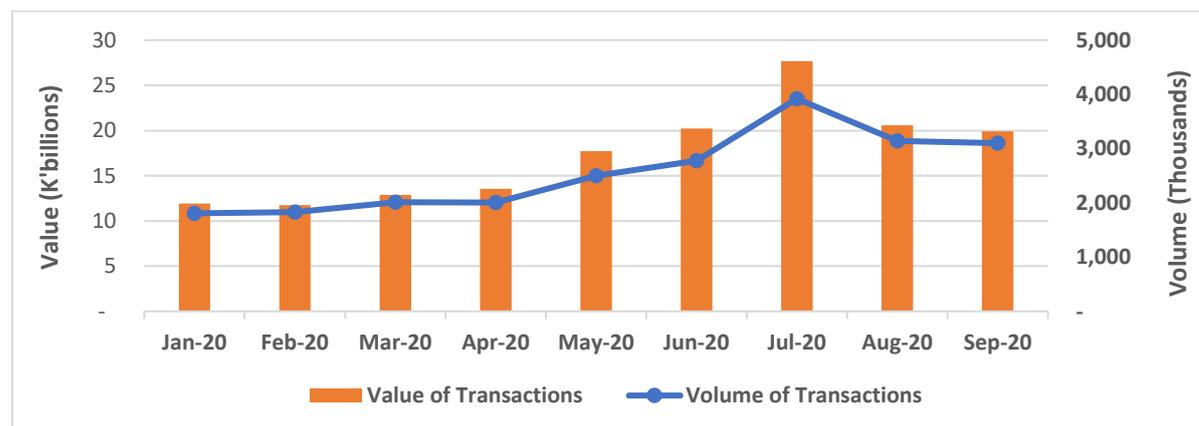
Figure 3: Percentage Contribution Based on Transaction Type



Source: Reserve Bank of Malawi database

An analysis of the individual transaction types however reveals a steady upward movement of P2P transactions since January 2020 with its peak registered during the month of July in 2020 as the value rose by 36.8 percent to K27.7 billion (*Figure 4*). Overall, the volume and value of P2P transactions increased by 39.6 percent and 32.4 percent to 3.1 million and K19.9 billion in September 2020. This outturn partly reflects customer's preference for mobile money services in the wake of the covid-19 pandemic and the associated measures implemented by service providers such as removal and/or reduction of user fees during the same period.

Figure 4: Monthly Trend in Mobile Money P2P Transactions



Source: Reserve Bank of Malawi database

Mobile Money Agents

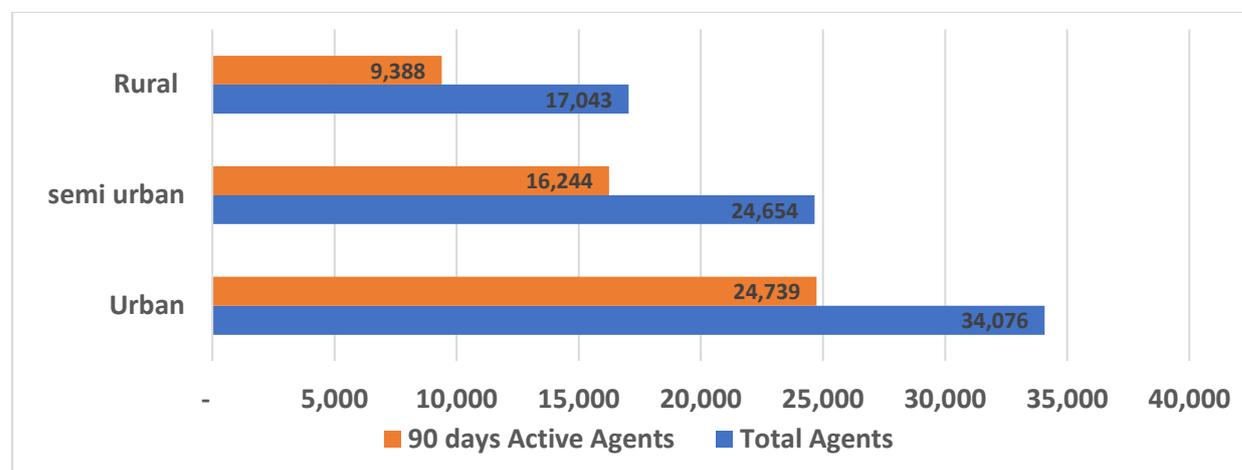
Mobile money agents remain a critical stakeholder in the delivery of mobile money services in the country as they interface directly with the customers. Building a robust agent network is therefore essential for effective delivery of mobile money services. During the period under review, the number of registered mobile money agents rose by 9.7 percent to a total of 75,773 perhaps as a result of continued agent recruitment drive by the service providers. This is a good development as it increases the number of access points for financial transactions. Similarly, there was an increase in activity rates for mobile money agents to 66.5 percent from 61.0 percent recorded during the second quarter of 2020. Service providers are thus encouraged to continue employing deliberate measures to address challenges being faced by agents and incentivise them to remain active.

Geographical Distribution of Services

Geographical distribution of agents remains a challenge as the majority are located in urban and semi-urban areas. For instance, out of the total number of agents, 77.5 percent (58,730 agents) are located in urban and semi-urban areas with the remaining 22.5 percent (17,043 agents) located in rural areas (*Figure 2*). Further to this, only 55.1 percent of agents based in rural areas were active over a 90-day period compared to 68.7 percent of those based in urban and semi-

urban areas. Service providers should therefore implement deliberate interventions targeting rural areas in order to increase both the footprint of agents as well as giving them incentives to remain active.

Figure 2: Geographical Distribution of Mobile Money Agents



Source: Reserve Bank of Malawi database

c) Bank-based Digital Payment Channels

Internet Banking Services

There was a rebound in the performance of internet banking subscribers following a decline during the preceding quarter. The total number of subscribers for rose by 8.5 percent to 221,844. Similarly, usage of internet banking services increased during the period as the volume and value of transactions rose by 17.9 percent and 38.0 percent to 696,797 and K1.1 trillion during the third quarter of 2020. Significant movements are seen when compared a similar period in 2019 as the volume and value of transactions shows to have increased by 23.9 percent and 47.8 percent, respectively. This trend is expected to continue owing to measures put in place to encourage increased uptake and usage of digital financial services in the country.

Mobile Banking Services

Relative to the second quarter of 2020, the number of mobile banking subscribers recorded a marginal increase of 2.8 percent to 982,709 during the third quarter of 2020. A similarly modest performance was registered in terms

of usage, as the volume of mobile banking transactions rose by 0.8 percent to 7.7 million while the corresponding value of transactions recorded a more noticeable improvement with an increase of 9.2 percent over the preceding quarter to K167.4 billion during the period under review. However, relative to a similar period in 2019, significant progress was noted in terms of usage as reflected by increases of 23.1 percent and 42.0 percent in the volume and values of transactions, respectively.

Point of Sale (POS) Services

The total number of point of sale terminals deployed across the country rose by 5.9 percent to 2,837 during the third quarter of 2020. Similarly, there was an improvement in usage as both the volume and value of POS transactions rose by 11.6 percent and 10.2 percent to 506,412 and K16.2 billion, respectively. This shows that there is a steady albeit slower progress in terms of usage of POS services and that stakeholders must do more to increase both deployment and usage of these services.

2.3.4 Transactions Processed via the National Switch

Interoperability of retail transactions in the country is facilitated by the National Switch Platform. Currently, the switch facilitates clearing of automated teller machines (ATMs), Point of sale (POS) and mobile money transactions. Since inception in 2014, there has been an upward trend in both volumes and values of transactions processed through the switch. As shown in Table 2 below, the performance of the Switch in terms of transactions processed from the three payment streams during the quarter under review.

Table 2: Transaction Flows through National Switch Platform

Payment Type	APR-JUN 2020		JULY-SEPT 2020		Percentage Change	
	Volume	Value (K'billion)	Volume	Value (K'billion)	Volume	Value
ATM Transactions	683,072	23.5	765,647	27.5	1.2	17.0
Point of Sale	215,737	6.3	226,484	6.7	5.0	6.3
Mobile Money	1,229,871	6.2	1,766,893	8.7	43.7	40.3
Grand Total	2,128,680	36.0	2,759,024	42.9	29.6	19.2

Interoperable ATM Transactions

During the period under review, the volume of ATM transactions processed through the National Switch rose by 1.2 percent to 765,647 while the value of transactions registered a significant increase of 17.0 percent to K27.5 billion. In terms of proportion, these transactions represents 12.0 percent and 10.8 percent of the total volume (5.7 million) and value (K217.3 billion) of all ATM transactions, respectively. At this level, it shows that most customers still prefer to use ATM terminals of their domiciled bank when transacting as opposed to ATMs of other banks.

Interoperable POS Transactions

Relative to the second quarter, the volume and value of POS transactions processed via the Switch increased by 5.0 percent and 6.3 percent to 226,484 and K6.7 billion, respectively. Proportionally, these figures represents 44.7 percent and 41.4 percent of the total volume and value of POS transactions processed during the quarter, which was recorded at 506,412 and K16.2 billion, respectively. Compared to the proportion of the interbank ATM transactions above, POS terminals appear to be more widely shared than ATMs in terms of use amongst different banks' customers.

Interoperable Mobile Money Services

Mobile money transactions processed via the Switch continued register significant increases as the volume rose by 43.7 percent to 1.8 million whereas the value increased by 40.3 percent to K8.7 billion during the period under review. This signifies that most customers appreciate the convenience and efficiency brought about by the interoperability of the two mobile money providers through the Switch.

However, these cross-platform transactions are still very low as a proportion of the aggregate mobile payments transactions as the volume and value represented

1.5 percent and 1.3 percent, respectively, of the total mobile money volume (121.4 million) and value (K695.0 billion) of transactions processed during the period under review. It is expected that more transactions will continue to be pushed across the two platforms as the service providers intensify their awareness and marketing activities so that users can take advantage and utilise the convenience afforded by the facility.

4.0 CONCLUSION

During the period under review, the national payments system recorded impressive performance in the overall transactions processed from the various payment streams. Almost all channels registered positive movements in both the volume and value of transactions, perhaps as a result of agricultural trading season and resultant effect of the Covid-19 pandemic which might have forced some customers to use digital channels for making payments.

The industry however continues to experience low activity rates for mobile money subscribers and agents, and low awareness and sparse availability of access points in remote areas as some of the challenges which affect increased adoption and usage of electronic payment products and services in the country. Stakeholders in the payments industry are therefore encouraged to continue to design and implement measures that will lead to increased growth of the digital financial services in the country.