

FIRST QUARTER 2019 NPS REPORT

1.0 SUMMARY

This report presents developments in the national payments systems during the first quarter of 2019 and largely focuses on transaction flows. During this quarter, the payments infrastructure remained stable and no major disruptions were experienced by both service providers and users.

Overall, a total number of 64.5 million transactions were processed during the period under review in all the formal payment channels, both large-value and retail, representing a marginal decrease of 2.3 percent from the fourth quarter of 2018. Similarly, the corresponding total value of transactions declined by 5.7 percent to a total of K6, 842.6 billion. This outcome is attributed to seasonal factors normally experienced during the first quarter of a year and the trend is expected to reverse during the second quarter due to the onset of the agricultural produce trading season.

In addition to the statistical trends, the report also presents a brief on initiatives to improve the payments systems policy and regulatory framework as well as activities aimed at increasing adoption and usage of electronic payments in the country that the Reserve Bank is pursuing in collaboration with other stakeholders.

2.0 PERFORMANCE OF MAJOR PAYMENT PLATFORMS

2.1 MITASS PERFORMANCE

The Malawi Interbank Transfer and Settlement System (MITASS), which is the country's only settlement system for financial and securities transactions, recorded reduced performance during the period under review as both the volume and value of transactions processed declined by 11.9 percent and 6.0 percent to 1.3 million and K6, 070.9 billion, respectively. Among the various payment streams feeding into the settlement system, EFT transactions experienced the largest decrease in volume (12.6 percent) whilst most value was dropped in cheque transaction, at 14.5 percent. The decline in MITASS

transactions during the quarter is also a reflection of seasonal factors as pointed out above.

Table 1: Transaction Flows in Various Payment System Channels

Payment Type	OCT-DEC 2018		JAN-MAR 2019		Percentage Change	
	Volume	Value (K'billion)	Volume	Value (K'billion)	Volume	Value
MITASS Total	1,490,390.0	6,458.4	1,312,651.0	6,070.9	(11.9)	(6.0)
Large Value	47,296	5,439.6	46,023	5,183.3	(2.7)	(4.7)
ACH	1,443,094.0	1,018.8	1,266,628.0	887.6	(12.2)	(12.9)
EFTs	1,092,777	342.3	954,707	309.4	(12.6)	(9.6)
Cheques	350,317	676.5	311,921	578.2	(11.0)	(14.5)
RETAIL DFS	64,463,957.0	795.4	63,156,225.0	771.7	(2.0)	(3.0)
ATM DFS Transactions	31,559	1.6	48,048	3.5	52.2	118.8
Internet Banking	508,644	379.0	441,397	380.2	(13.2)	0.3
Mobile Payments	63,642,026.0	402.2	62,361,917.0	374.9	(2.0)	(6.8)
Bank-led	6,475,915	72.1	5,149,181	54.4	(20.5)	(24.5)
Non-bank	57,166,111	330.1	57,212,736	320.5	0.1	(2.9)
Point of Sale (POS)	281,728	12.6	304,863	13.1	8.2	4.0
Grand Total	65,954,347.0	7,253.8	64,468,876.0	6,842.6	(2.3)	(5.7)

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

2.2.1 Overall Performance

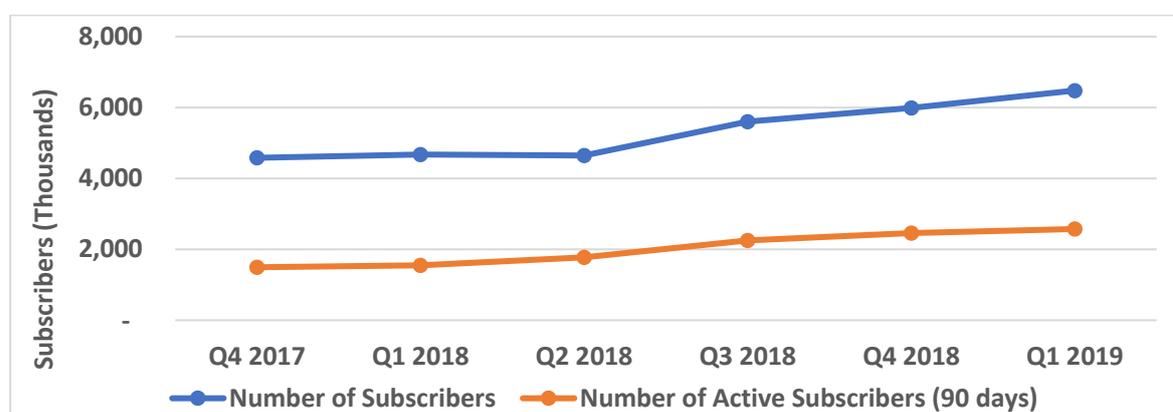
In contrast to previous quarters, transaction flows in retail DFS channels experienced a reduction in both the total volume and value processed, as they declined by 2.0 percent and 3.0 percent to 63.2 million and K771.7 billion, respectively. However, when these figures are compared to a similar period in 2018, the total volume and value of retail DFS transactions showed significant upward movement as they rose by 60.0 percent and 86.8 percent, respectively. This trend suggests that in general the public is steadily embracing electronic methods of effecting payments, with the slight drop in numbers during the quarter under review attributable to seasonal fluctuations. In addition, one of the major mobile banking platforms had experienced intermittent service during one of the months and the downtimes affected the aggregates under this particular line at the end of the period.

2.2.2 Performance of Non-Bank Mobile Payments

Subscribers

The total number of registered subscribers for MNO-led mobile payments increased by 8.2 percent to 6.5 million during the quarter under review, which is encouraging in terms of the drive to increase usage of DFS. However, despite the increase in subscriber base, activity rates continue to be low as only 39.7 percent of the total mobile money subscribers used the service during the quarter (Figure 1), dropping from 41.1 percent recorded during the fourth quarter of 2018. The drop in the activity could also be attributed to seasonal factors.

Fig. 1: Number of Subscribers vs Activity rates (90 days)



Mobile Money Agents

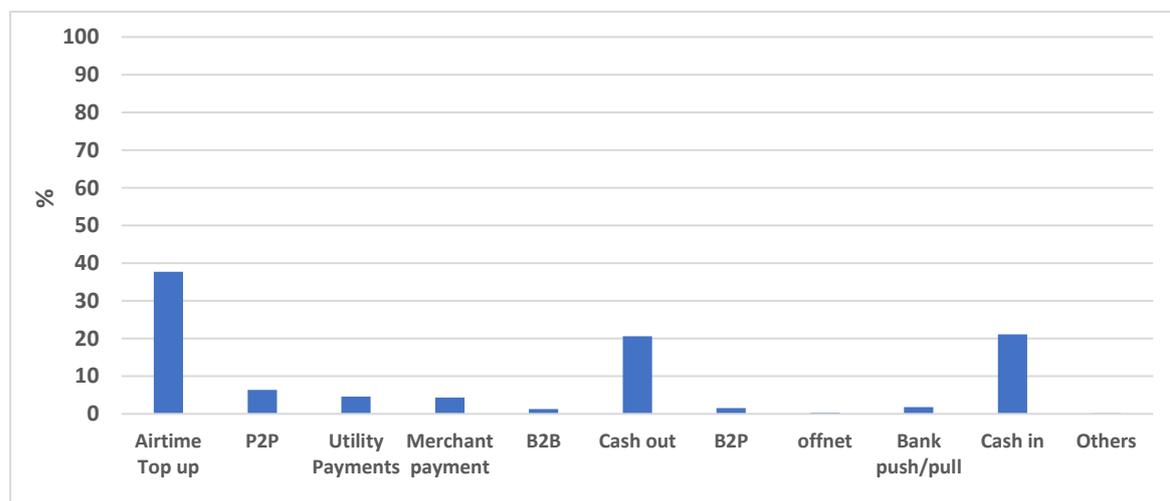
The number of registered mobile money agents rose by 10.1 percent to a total of 43,406 in March 2019. This trend is encouraging as it increases access points for financial services delivery across the country. Out of the total number of agents, 59.3 percent of the agents were recorded as active during the first quarter of 2019 compared to 71.2 percent in the last quarter of 2018. This drop can also be attributed to the lean period and also the fact that some small-scale agents, especially in the rural areas, tend to temporarily divert their focus away to the fields given the crop planting season.

In terms of distribution, 74.1 percent of mobile money agents are located in urban and semi-urban areas with only 25.9 percent in rural areas. This partly reflects the challenges to access to financial products and services faced in all rural areas across the country. To their credit, service providers are making commendable efforts to increase their footprint in the rural areas through various means in order to address the challenge.

Usage of Mobile Money Services - Transaction Types

With regard to usage, airtime top up and cash in/out transactions continue to dominate on the mobile money platform, suggesting that the majority of the customers have not fully embraced this service for day to day transactions for payment of goods and services, for instance at merchant shops and for utility bills (Fig. 2). Individuals and businesses are therefore encouraged to use mobile money for person to person fund transfers, utility bill payments, and purchases of goods and services as this is a safe and convenient means of making payments than using cash.

Fig. 2: Contribution to total volume of mobile money transactions by type



2.2.3 Performance of Bank-based Digital Payment Channels

Internet Banking Services

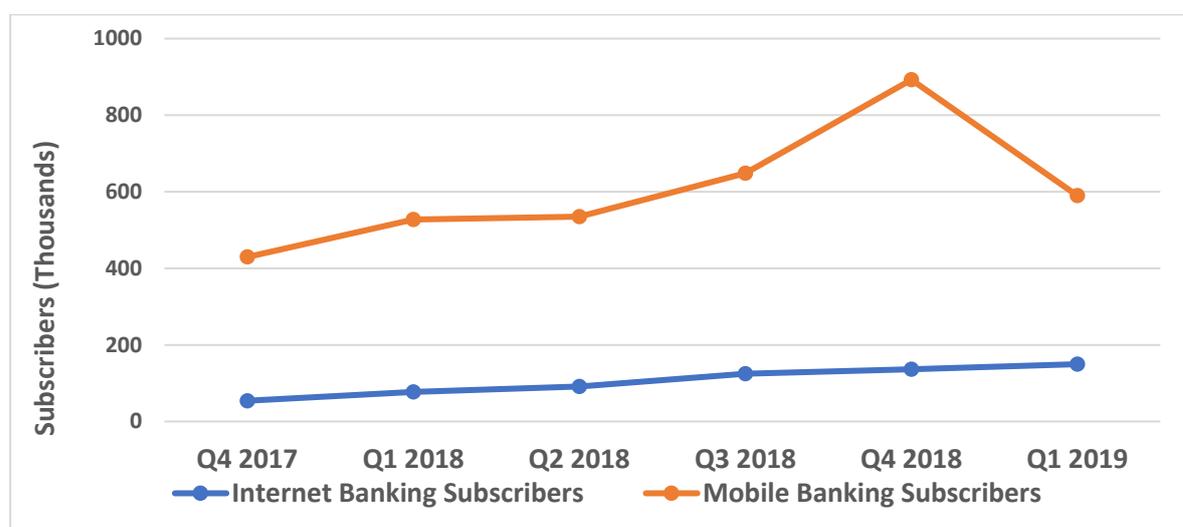
The number of customers subscribing to internet banking services rose by 9.8 percent to a total of 149,709 during the first quarter of 2019. However, despite

the significant increase in subscriber base, the volume of internet banking transactions declined by 13.2 percent to 441,397 whereas the corresponding value of transactions increased albeit marginally by 0.3 percent to K380.2 billion during the quarter under review.

Mobile Banking Services

The subscriber base for mobile banking increased by 7.0 percent to 745,835 during the first quarter of 2019 from the figure recorded in December 2018. However, despite the increase in subscription, both volume and value of mobile banking transactions declined by 20.5 percent and 24.5 percent to 5.1 million and K54.4 billion, respectively. As observed with other payment streams above, this drop also reflects the slowdown in economic activity usually experienced during the agricultural planting season.

Fig. 3: Internet Banking vs Mobile Banking Subscribers

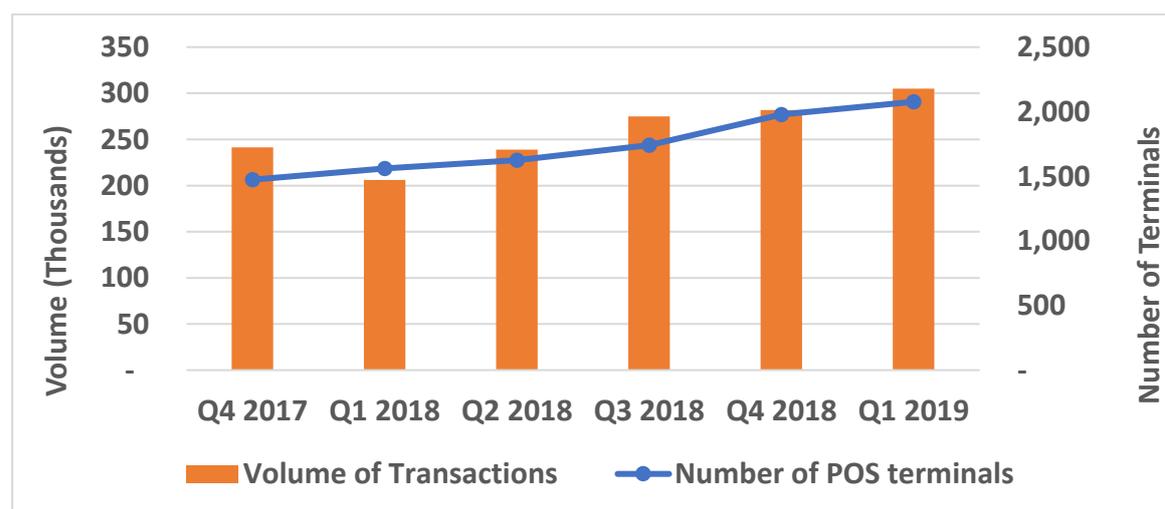


Point of Sale Services

Deployment of Point of Sale (POS) terminals across the country continued to increase as the number of terminals rose by 5.0 percent to a total of 2,077 as at end March 2019. In terms of usage, a similar trend was registered as both the volume and value of POS transactions rose by 8.2 percent and 4.2 percent to 304,863 and K13.1 billion, respectively during the same period. This outturn

reflects notable efforts by service providers as they are increasing deployment of their POS terminals and recruiting more merchant outlets as their clients. This trend will hopefully continue owing to promotional campaigns by RBM and stakeholders aimed at increasing adoption and usage of electronic based payment channels.

Fig. 4: Trends in Point of Sale Deployment and Usage



3.0 OTHER DEVELOPMENTS

Policy and Regulatory Framework

During the period under review, the RBM and Ministry of Justice held a meeting to review two draft Regulations namely; E-money Regulations, and Deployment and Usage of Electronic Payment Channels Regulations that were submitted to the Ministry for gazetting processes. Once gazetted, the Regulations are expected to strengthen payments system legal framework and provide clarity on the operations of electronic based payment systems. The regulations are also expected to increase deployment of payment channels by service providers, and their usage by the general public.

Public Sensitisation Activities

The Reserve Bank in collaboration with Ministry of Industry and Trade held workshops on COMESA Regional Electronic Payment and Settlement System

(REPPS) which targeted commercial banks and traders/ the business community under Malawi Confederation of Chambers of Commerce and Industry (MCCCI) during the quarter under review. The workshops were aimed at sensitizing the business community on the existence of REPSS to facilitate cross-border payments of goods and services within the COMESA region, and sought to collect views from the private sector on how Malawi can improve the system's utilization. The workshops were part of the programme aimed at creating awareness of the existing payment channels for both domestic and cross border transactions.

4.0 CONCLUSION

During the first quarter of 2019, all major payments infrastructure and systems remained stable and therefore enabled uninterrupted and safe processing of payment, clearing and settlement transactions. Most of the payment channels exhibited reduced transaction flows during the period due to reduced economic activities associated with the agricultural planting season. The trend is therefore expected to reverse in the second quarter as it will be the inception of the produce trading season.

Low activity rates for mobile money subscribers, low awareness and sparse availability of payment systems access points remain the challenges affecting increased usage of electronic payment products and services in the country. The Reserve Bank will therefore continue to collaborate with all relevant stakeholders to design and implement measures aimed at increasing deployment and usage of electronic payment products and services and hence help in achieving financial inclusion in the country.