

FIRST QUARTER 2021 NPS REPORT

1.0 SUMMARY

This report provides a brief on key developments in the national payments system during the first quarter of 2021, with a particular focus on transactions processed in both large value and retail payment streams.

1.1 Overall Performance

The overall volume of transactions processed in all payment streams declined to 145.7 million during the first quarter of 2021 from 151.3 million in the fourth quarter of 2020, representing a 3.7 percent decrease. Similarly, the corresponding total value of transactions decreased to K13.8 trillion in the first quarter of 2021 from K17.7 trillion during the fourth quarter of 2020. This trend reflects the reduced economic activity experienced during the first quarter of the year as a result of agricultural activities and the likely negative impact of Covi-19 pandemic.

However, there was a significant improvement when this trend is compared to a similar period in the preceding year (first quarter of 2020) as the volume and value of transactions is shown to have increased by 59.1 percent and 37.0 percent during the period under review.

2.0 PERFORMANCE OF VARIOUS PAYMENT PLATFORMS

2.1 Transaction Flows in Various Payment Channels

Table 1 below highlights the trend in transactions recorded in various payment channels during the period under review.

Table 1: Transaction Flows in Various Payment System Channels

| Payment Type | OCT-DEC 2020 | | JAN-MAR 2021 | | Percentage Change | |
|-------------------------|--------------------|-------------------|--------------------|-------------------|-------------------|---------------|
| | Volume | Value (K'billion) | Volume | Value (K'billion) | Volume | Value |
| MITASS Total | 1,830,942 | 15,641.0 | 1,674,124 | 11,902 | (8.6) | (23.9) |
| Large Value | 76,422 | 14,328.5 | 69,000 | 10,545.7 | (9.7) | (25.9) |
| ACH | 1,754,520 | 1,402.0 | 1,605,124 | 1,356 | (8.5) | (3.3) |
| EFTs | 1,467,443 | 772.9 | 1,337,703 | 758.7 | (8.8) | (1.8) |
| Cheques | 287,077 | 629.3 | 267,421 | 597.1 | (6.8) | (5.1) |
| RETAIL DFS | 149,486,942 | 2,076.0 | 143,997,547 | 1,900 | (3.7) | (8.5) |
| ATM Transactions | 3,500 | 0.2 | 4,057 | 0.2 | 15.9 | - |
| Internet Banking | 714,317 | 1,060.9 | 661,106 | 953.3 | (7.4) | (10.) |
| Mobile Payments | 148,186,556 | 994.0 | 14,278,3205 | 927 | (3.6) | (6.8) |
| Bank-led | 7,954,467 | 207.8 | 7,733,880 | 194.0 | (2.8) | (6.6) |
| Non-bank | 140,232,089 | 785.9 | 135,049,325 | 732.6 | (3.7) | (6.8) |
| Point of Sale | 582,569 | 20.9 | 549,179 | 19.5 | (5.7) | (6.7) |
| Grand Total | 151,317,884 | 17,716.0 | 145,671,671 | 13,801.0 | (3.7) | (22.1) |

2.2 MITASS Performance

The volume and value of transactions processed in MITASS declined by 8.6 percent and 23.9 percent to 1.7 million and K11.9 trillion, respectively, in the first quarter of 2021 relative to the fourth quarter of 2020. Large value transactions contributed to the decrease as their volume declined by 9.7 percent whereas the value of transactions dropped by 25.9 percent during the period. As explained above, the general decrease in the transactions processed during the period under review is attributed to seasonal economic factors and the negative impact of the Covid-19 pandemic.

The trend however, shows significant improvement when compared to a similar period in 2020 as the volume rose by 10.1 percent while the corresponding value of transactions recorded an increase of 37.8 percent. This buttresses the fact that MITASS remains a systemically important payment infrastructure for processing large value and time critical financial transactions that among others, underpin implementation of monetary policy as well as financial stability initiatives.

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

2.3.1 Overall Performance

Retail DFS transactions recorded a reduced performance during the period under review as both the volume and value of transactions declined by 3.7 percent and 8.5 percent to 144.0 million and K1.9 trillion, respectively, if compared to the preceding quarter. However, significant improvements were observed when this trend is compared to a similar period in 2020 as the volume rose by 60.0 percent whereas the value increased by 31.9 percent during the period of review. This observation shows that retail digital transactions continue to gain ground in terms of usage by the general public, largely owing to its convenience and efficiency as opposed to cash and other paper-based payment instruments.

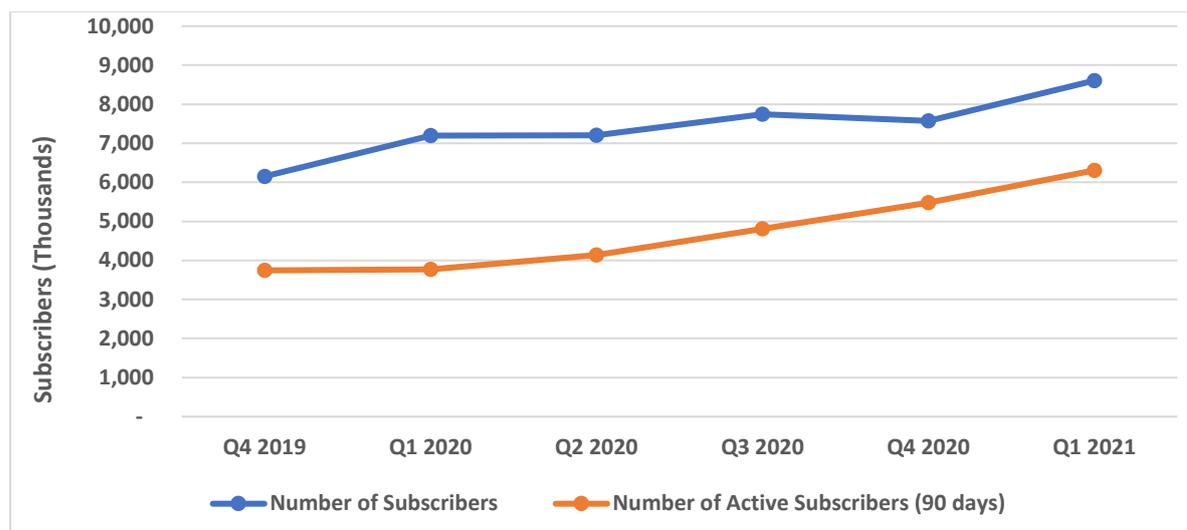
2.3.2 Non-Bank Mobile Payments

Number of Registered and Active Subscribers

Relative to the fourth quarter of 2020, the number of registered subscribers for non-bank mobile money services rose by 13.6 percent to a total of 8.6 million at the end of March 2021. Male subscribers continue to dominate as they constituted 63.2 percent of the total subscriber base, with women lagging behind at 36.8 percent. This continued gender disparity in the adoption and usage of mobile money services needs to be reversed if the country is to achieve meaningful financial inclusion.

There was a slight improvement in the 90-day activity rate for mobile money subscribers as it increased to 73.3 percent in March 2021 from 72.3 percent in December 2020.

Figure 1: Trend in Total vs Active Mobile Money Subscribers



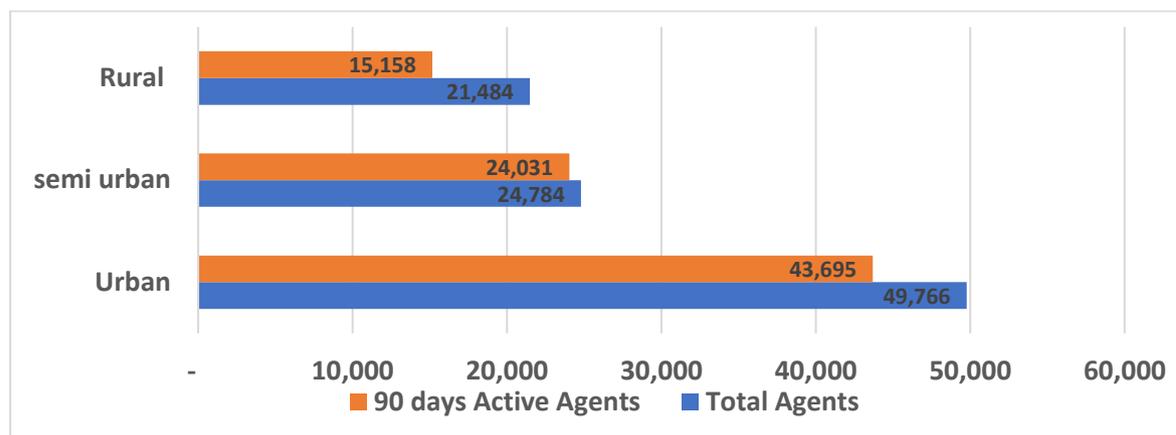
Source: Reserve Bank of Malawi

Mobile Money Agents

The mobile money agent network continued to expand as the total number of registered agents rose by 4.5 percent from the previous quarter to 84,297 in March 2021. This is a welcome development as it in essence increases the number of access points for the services across the country.

However, geographical distribution of the agents remains a challenge as the majority of them are located in urban and semi-urban areas with rural areas having fewer numbers to serve the huge population. For instance, out of the total number of agents, only 22.4 percent (21,484) are geographically located in rural areas and the rest are in urban and semi-urban areas (*Figure 2*). In addition, 70.6 percent of agents based in rural areas were active over a 90-day period compared to 90.8 percent (74,550) of those based in urban and semi-urban areas. Agents could be shunning away from operating in rural areas due to relatively lower volumes of mobile money transactions processed. Introduction of incentives such as increased commission for rural based agents could perhaps incentivise them to increase their footprint and to remain active.

Figure 2: Geographical Distribution of Mobile Money Agents

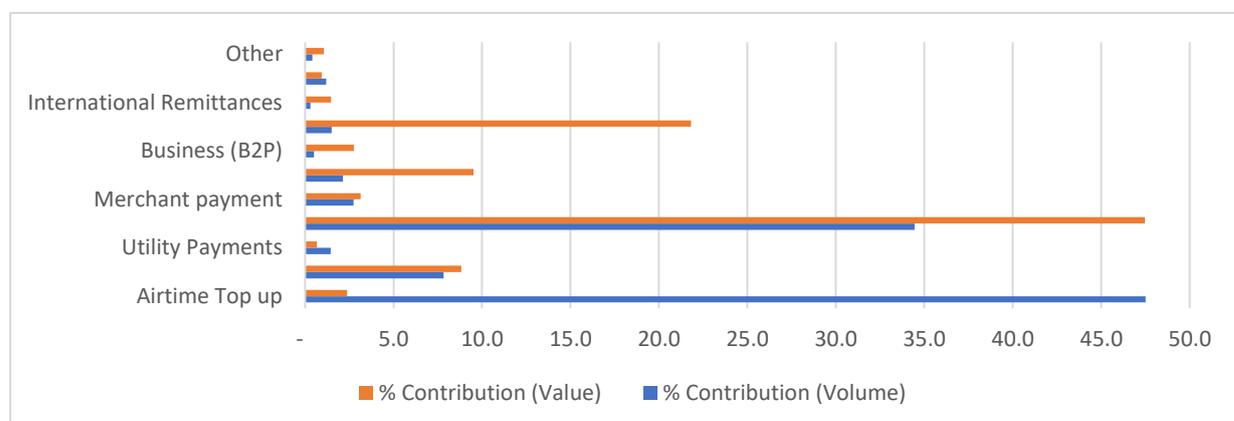


Source: Reserve Bank of Malawi Data base

Nature of Transactions on Mobile Money Platforms

Despite the significant increase in both the volume and value of mobile money transactions since inception, usage has largely been limited to a few types of transactions amongst those available on the platforms. For instance, save for cash in/cash out, transactions on mobile money platforms are dominated by Business to Business (B2B), airtime top-ups and Person to Person (P2P) transfers. Service providers are therefore encouraged to do more sensitisation campaigns focusing on the benefits of using mobile money for payment of goods and services, utilities and other third-party payments. Figure 3 below highlights the contribution of various transaction types to total mobile money transactions processed during the period under review.

Figure 3: Percentage Contribution Based on Transaction Type



Source: Reserve Bank of Malawi Data base

2.3.3 Bank-based Digital Payment Channels

Internet Banking Services

Relative to the fourth quarter of 2020, the total number of subscribers for internet banking services rose by 6.2 percent to 248,185 in March 2021. However, despite the increase, usage of internet banking services dropped as the volume and value of transactions declined by 7.4 percent and 10.1 percent to 661,106 and K953.3 billion, respectively, as shown in table 1.

Mobile Banking Services

As was the case with internet banking services, the total number of mobile banking subscribers also increased during the period, by 5.0 percent to 1.1 million as at March 2021. However, the volume and value of transactions decreased by 2.8 percent and 6.6 percent to 7.7 million and K194.0 billion in the first quarter of 2021. This trend is expected to reverse in the second quarter of the year following the onset of the agricultural trading season and the relaxation of Covid-19 restrictions which may have a positive effect on economic activity.

ATM and Point of Sale (POS) Services

The total number of Auto Teller Machines (ATMs) installed across the country remained at 493 as at March 2021, the same figure recorded at the end of December 2020. There was however a marginal decrease of 1.0 percent when compared to a similar period in 2020 as the number of terminals recorded as at March 2020 stood at 498 terminals. Relative to the last quarter of 2020, the number of ATM transactions (comprising cash withdrawals, funds transfers and bill payments) declined by 11.8 percent to 6.0 million whereas the value of transactions declined by 10.4 percent to K234.1 billion during the review period. However, a comparison with a similar period in 2020 reveals an increase of 10.7 percent in value of transactions during the quarter under review.

With respect to POS services, the total number of terminals deployed at merchant outlets across the country increased to 2,915 during the period under review, from 2,854 in December 2020. Compared to a similar period in 2020, the number of POS terminals is shown to have risen by 21.9 percent. This is a good development as it increases the number of touch points from where users can pay for goods and services. During the period under review, the volume and value of POS transactions declined by 5.7 percent and 6.7 percent to 549,179 and K19.5 billion, respectively, if compared to the previous quarter. This outturn is attributed to decreased economic activity due to factors explained elsewhere above.

3.0 TRANSACTIONS PROCESSED VIA THE NATIONAL SWITCH

The National Switch platform facilitates interoperability of retail transactions across different payment channels. Currently, the Switch facilitates clearing of automated teller machines (ATMs), Point of sale (POS) and mobile money transactions. There was a slowdown in the transactions processed by the Switch during the quarter under review as their total volume declined by 16.9 percent to 2.2 million, if compared to the preceding quarter. Similarly, the corresponding value of transactions decreased by 22.6 percent to K43.1 billion during the same period. Table 2 below provides a summary of the performance of the Switch in terms of transactions processed during the quarter under review.

Table 2: Transaction Flows through Natswitch

| Payment Type | OCT-DEC 2020 | | JAN-MAR 2021 | | Percentage Change | |
|--------------------|------------------|-------------------|------------------|-------------------|-------------------|---------------|
| | Volume | Value (K'billion) | Volume | Value (K'billion) | Volume | Value |
| ATM Transactions | 865,053 | 32.0 | 795,001 | 29.0 | (8.1) | (9.4) |
| Point of Sale | 280,901 | 8.9 | 277,579 | 8.3 | (1.2) | (6.7) |
| Mobile Money | 1,224,771 | 6.2 | 1,131,538 | 5.8 | (7.6) | (6.5) |
| Grand Total | 2,370,725 | 47.1 | 2,204,118 | 43.1 | (16.9) | (22.6) |

3.1 Interbank ATM Transactions

The volume of ATM transactions processed through the National Switch declined by 8.1 percent to 795,001 during the period under review whereas the corresponding value of transactions decreased by 9.4 percent to K29.0 billion. These figures represented 13.3 percent and 12.4 percent of the total volume (6.0 million) and value (K234.1 billion) of all ATM transactions recorded during the quarter under review. This outturn reflects continued customer preference for ATM terminals of their domiciled banks than those provided by other banks since transactions processed via the Switch are only interbank.

3.2 Interbank POS Transactions

Relative to the fourth quarter of 2020, the volume and value of POS transactions processed via the Switch declined by 1.2 percent and 6.7 percent to 277,579 and K8.3 billion in the first quarter of 2021, respectively. Proportionally, the volume and value of POS transactions processed through the Switch represents 50.5 percent and 42.6 percent of the total volume and value of POS transactions processed during the quarter under review as shown in Table 1. The higher proportion signifies that POS terminals are more widely shared than ATMs in terms of use amongst different banks' customers.

3.3 MNO-led Mobile Money Services

Mobile money transactions processed via the Switch was low during the period under review as both the volume and value of transactions declined by 7.6 percent and 6.5 percent to 1.1 million and K5.8 billion, respectively. This could be due to the general reduction in economic activity that led to the decrease in transactions processed through the various payments streams during the quarter under review.

Proportionally, the volume and value of mobile money cross platform transactions processed during the period represented a modest 0.84 percent and 0.79 percent, respectively, of the total mobile money volume and value of

transactions as shown in Table 1 above. Public awareness and marketing activities are therefore required to encourage increased utilisation of the cross-platform facility so that customers can enjoy the convenience afforded by the facility.

4.0 OTHER DEVELOPMENTS IN THE NATIONAL PAYMENTS SYSTEM

Issuance of the Business Licensing (Deployment and Usage of Electronic Payment Channels) Regulations

In a bid to attain convenience for both the business community and their clients, the Ministry of Trade in collaboration with the Reserve Bank of Malawi issued the Business Licensing (Deployment and Usage of Electronic Payment Channels) Regulations, 2019. The main objective of these Regulations is to make it mandatory for all licensed businesses to deploy and use one or more electronic payment channels for payment of goods and services in order to provide a convenient, safe and efficient experience for customers in terms of payment options. Specifically, the Regulations require all businesses registered and mandated to use electronic fiscal devices under the VAT Act and those with an annual turnover of K10 million and above to deploy point of sale (POS) devices at their premises. Businesses outside these two categories are obliged to deploy at least one electronic payment channel of their choice such as mobile money, mobile banking and internet banking. The payment channels are also expected to be displayed at a conspicuous place to help create awareness of their availability to customers.

Although the Regulations were issued in 2019, enforcement was delayed and will begin on 1st July 2021. The delay was caused by the negative impact of the COVID-19 pandemic on various planned public sensitisation activities. However, currently, sensitisation is being conducted through various print and electronic media channels. The Ministry of Trade and the Reserve Bank of Malawi are also planning to carry out physical engagements with business operators across the country to increase awareness of the Regulations. These engagements will follow applicable COVID-19 protocols/rules set by Government on public gatherings.

Retail Instant Electronic Funds Transfer

To complement the drive towards a cashlite economy, an initiative is being pursued by the financial services industry to implement retail instant electronic funds transfer service. This service will be run at the National Switch and will process transactions in real-time. It has the potential to promote trade and also boost growth opportunities for Micro Small and Medium Enterprises (MSMEs) and the industry at large through a secure and efficient mode of payment, which results into value being realised instantly into either a bank account or mobile wallet and in doing so improving liquidity for the MSMEs and consumers at large.

The service is estimated to go-live later in the year. Testing is at advanced stages with some member banks and mobile money operators for account-to-account and wallet-to-wallet instant transfers, respectively.

5.0 CONCLUSION

There was generally a slowdown in the performance of various payment streams as both the volumes and value of transactions declined during the period under review when compared with the last quarter of 2020. As highlighted above, this outturn could be attributed to the slowdown in economic activities as a result of seasonal changes and the effects of the Covid-19 pandemic. Nonetheless, there was notable improvement in the level of transactions processed during the period under review when compared to a similar first quarter period in the previous year.

The retail payments segment continues to face challenges such as low participation of women in mobile money services and low awareness and sparse availability of access points in remote areas which affect adoption and usage of electronic payment products and services in the country. Operationalisation of the Deployment and Usage of Electronic Payment Channels Regulation is expected to increase efficiencies in the payment system.