REGULATORY FRAMEWORK FOR FINTECH IN TANZANIA

Financial Technology /FinTech is the new face of financial advancement, the growth has largely been experienced throughout the globe and as for Tanzania, it has been growing at a rapid pace. Part of the reason for this rapid rise is that Tanzanian regulators are actively encouraging FinTech innovation, it being an emerging industry that uses technology to improve financial activities.

In a simple definition FinTech, it is "any innovative ideas that improve financial service processes by proposing a technological solution according to different business situations, while the ideas could also lead to new business models or even new businesses". Financial technology has been used to automate investments, insurance, trading, banking services, and risk management. FinTech companies use a variety of technologies, including artificial intelligence (AI), big data, robotic process automation (RPA), and blockchain.

FinTech done well is a powerful tool for achieving financial inclusion for Tanzania's mass unbanked population. The need to harmonize all mobile-money platforms has forced the government to incorporate these platforms through the National Switch Interoperability agreement by Tanzania Communication Regulatory Authority (TCRA).

The government provides Legal and Regulatory framework support but at the same time, government and MNO's and firms that involve themselves with the FinTech business have entered into an MoU with the Financial Sector Deepening Trust (FSDT) to allow smooth flow of funding and technical know-how.

Up to now, there are over 21 million active mobile wallets while those who use Mobile financial services stand at 16.6 million. This includes users of mobile banking, mobile lending and saving, money transfers, online mobile payment systems, scanning and tapping card payment aggregation, and international remittance business. This has led many banks to consider prioritizing mobile banking services.

National Financial Inclusion Framework, 2018 – 2022

As part of its refocused agenda, the Framework provides details of its vision, by identifying and separating aspects related to the demand side from those of the supply side. On the demand side, the Framework emphasizes households and micro, small and medium enterprises in the financial inclusion space. It accordingly gives special focus to women. On the supply side, the Framework places emphasis on the requirements for a supply-side ecosystem that implements solutions that are innovative, affordable, and responsive to the needs of individuals and businesses. The Framework balances the role of public and private actors by implementing policies, regulations, and solutions that are innovative and responsive to the needs of enterprises and households The outcomes of thE Framework are in alignment with the national goals of the Second Five-Year Development Plan (FYDP II) and the Third Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP III).

According to the report by the NFIC, the Uptake of formal financial services has reached 65% in 2017 compared to 57.7% in 2013. Accessibility, measured by the proportion of the population living within 5 kilometers from where financial services are provided, has grown from 45% to 86% nationally and is at 78% for those living in rural areas. Notable also is the growth in active mobile wallets reaching over 21 million which are held by 16.6 million Tanzanian adults as reported by FinScope Tanzania 2017.

The Regulatory framework

The Bank of Tanzania is the main Regulator of all the financial sectors FinTech inclusive but at the same time FinTech business may be regulated by TCRA under the Electronic and Postal Communications Act 2010 (EPOCA)

Before FinTech firm looks to introduce a new product in the market the regulatory authority in charge will look at the following categories:

1. Consumer protection
2. Market stability
3. Prevention of money laundering and fraud

While a regulatory authority in charge looks out for the aforementioned, every firm or business indulging itself in FinTech business they have a responsibility to ensure that they have consulted with the relevant authority and have obtained all the required and relevant clearance license and approval while providing an extensive, transparent and upfront disclosure.

The financial sector grew at an average of 13% during the past three years in terms of assets. The supportive legal and regulatory framework, conducive macro-economic environment, and innovation in digital finance platforms contributed to this growth. The sector is dominated by the banking sub-sector, which contributes about 70% of the total assets, while insurance, pensions, and securities account for the remaining 30%

The legal and regulatory environment is an enabler of financial inclusion, defining incentives for financial and nonFSPs to invest in delivery capacities that eventually promote financial inclusion.

There is a need for an enabling regulatory environment to ease business licensing requirements, promote innovations in the financial sector, develop proportional prudential requirements while maintaining an appropriate balance between financial inclusion objectives and other policies, such as financial stability and consumer protection. A more balanced regulatory framework is a requisite for building a deeper and sustainable financial system that supports the economic and social agenda of the country.

The Bank of Tanzania (BoT) is the regulator of the financial sector (including Fintech businesses). The others include TIRA (Tanzania Insurance Regulatory Authority), TCRA (Tanzania Communications Regulatory Authority), SSRA (Social Security Regulatory Authority) , CMSA (Capital Markets and Securities Authority), TCDC (Tanzania Cooperative Development Commission)

According to FSDT, The review of the implementation of the NFIF 2014 – 16 confirms that Tanzania has adopted an enabling regulatory regime for financial services that has resulted in the increase in the number and size of commercial banks, insurance firms, investment schemes, strengthened capital markets operations, the introduction of mobile telecom industry players, and recently, the rapid penetration of mobile financial services. The impact of these policy and regulatory actions is confirmed by the recent growth in formal financial inclusion to 65% (and 72% if you consider the 6% who rely on informal financial products only). This progress, however, is despite certain persistent regulatory constraints that continue to affect the speed and cost of serving individuals and businesses in Tanzania today. (Source: Report on National Financial Inclusion)

According to the report on National Financial Inclusion, Tanzania has not delivered on the appropriate national identification system. This complicates the effective

operation of the financial system and FSPs in particular, that rely on quick and easy identification of the unique identity of every customer. This challenge is particularly acute, as both FSP's and mobile network operators (MNO's) have to abide by Know-Your-Customer (KYC) regulations. Fortunately, Tanzania's "Test and Learn" approach allowed MNOs to launch and scale mobile money services, based on the guidance provided by the BOT's letters of 'no objection' prior to the enactment of the National Payment Systems Act, 2015. However, as the mobile money market matures, with the emergence of multiple players and aggregators, BOT and other regulators need to shift their focus towards adopting balanced proportionate KYC requirements applicable to all providers, which reflect the increasing complexity of permissible financial transactions.

Nevertheless, the growth of the global fintech industry and the absorption of its products by banks from the United Kingdom to Tanzania have raised a number of concerns on the part of regulators, especially regarding consumer protection and market stability. In as far as data protection is in Tanzania concerned when it comes to fintech and regulations, The Electronic and Postal Communication (Consumer Protection)Regulations, GN. No. 427 of 2018, the Electronic and Postal Communications (Investigation) Regulations, 2017, and the Electronic and Postal Communications(Computer Emergency Response Team)Regulations, 2018. Regulation 6(1) of the Consumer Protection Regulations provides that a licensee may collect and maintain consumers' or subscribers' information where it is reasonably required for business purposes. Rule 4 of the Electronic and Postal Communications (Investigation)Regulations, 2017 guards against the violation of any person's entitlement to respect and protection of his person, the privacy of his own person, his family, and of his matrimonial life, and respect and protection of his residence and private communications.

Fintech is rapidly advancing across an array of global markets. While the concept was pioneered in developed countries, the fluidity of international capital and the border-less nature of technology adoption means emerging markets are catching up quickly. As competition mounts between regulatory jurisdictions, the coming years are likely to see fintech innovations across a widening geographic front. We have examples of NALA money, WorldRemit, and many more who are doing great.

Tanzania is a fertile ground for Fintech solutions due to the opportunities that exist given that 67% of the population is unbanked which needs access to financial services.