

a mobile revolution
banking services for the “unbankable”



Consider a mobile phone application which enables you to pay your bar tab or groceries; allows you to withdraw cash from ATM machines or to pay your children’s tuition fees, amongst many other services - and all without having a bank account. No, this is not the latest iPhone gadget but one which is found predominantly on the simple mobile phones of users in developing countries.

Mobile Banking or M-Banking, has become the major financial service for the traditionally “unbankables”: people who do not have sufficient funds to open a bank account or who live in remote areas of their countries which are not served by banks. Although this market segment seems unattractive at first it can be very lucrative because of its enormous size.

For example the demand for a safe transfer of remittances from urban workers to their rural families is known to be significant across the whole developing world; so once a service for “unbankable” money transfers has been introduced successfully in one country, it can be scaled to any other part in the world.

A pioneer in this case is Vodafone which in 2007 launched the service M-Pesa (M for mobile; pesa is Swahili for money) through its Kenyan affiliate Safaricom.

M-Pesa customers use a simple SMS-based program on their mobile phone for a variety of money transfers, from Person to Person (P2P) (the most popular) to paying utility bills and for sundry purchases such as bus fares.

The M-Pesa service is sold through Safaricom agents who have stalls all over Kenya and function as “bank branches”. Consider the example of a Kenyan father who wants to send money from Nairobi, where he works, to his family which lives in the countryside. Before M-

Pesa entered the market his options were to send the money with friends, with the *matatu* (unlicensed companies who offer money transfer services) or through a service offered by the post; all of which are known to be unreliable.

Today, the father takes the money to an M-Pesa agent of his choice who credits the amount to his account. Then, he initiates a transfer through his mobile phone and a receipt is sent via SMS to both him and his wife. If she needs cash, she finds an M-Pesa agent in her neighborhood and can collect the money, or she uses the value stored in her account to pay for groceries at market vendors who accept mobile payments.

Facts and figures speak for the value the Kenyan people attribute to the M-Pesa service: In April 2008 M-PESA had well over two million active subscribers, transmitting over 100 million KShs. (approx. US\$ 1,428,571) a day. This was just over a year after M-PESA was launched. Three months later, at the end of July 2008, M-PESA had 3.6 million users, and was adding 10,000 new registrations daily. In just the month of July 2008, people transferred KShs. 21 billion (approx US \$300 million). In early 2009 it counted 6 million users.



And the market is clearly not saturated yet. In early 2009 a competitor, Zap “mobile wallet”, entered the Kenyan market and within the first three months grew its customer base to over 200,000 users. Nokia and Orange also announced the imminent launch of services.

As mobile phone companies and increasingly commercial banks too, scramble to serve the previously so uninteresting “unbankables”, the lives of thousands of people around the world are being dramatically improved, from Central and Latin America to Africa and Asia. Microloans are being paid through phones, lowering the costs to Microfinance Institutions who in turn are able to cut their interest rates; fewer families fear

having their entire savings robbed - literally away from underneath their mattress - and remittances which often make up a significant chunk of a family's income are now safely transferred with no risk of loss. Meanwhile it has become possible to transfer money between several African countries (marking the world's first boarderless networks), breaking down former barriers to trade and economic development.

M-Banking is testimony to the immense benefits that can be found in market based solutions to development. Just like all other people, the poor living at the 'Bottom of the Pyramid' demand products and services which they are willing to pay for; it is up to the companies to think outside the box how to meet their needs at an acceptable cost. Much rather than exploiting poor people, companies who target the Bottom of the Pyramid usually improve their quality of life more dramatically and sustainably than any Development Agency ever managed to.

If you want to learn more about mobile banking you might find the following resources helpful:

Articles:

Tonny Omwansa: *M-Pesa Progress and Prospects*; Innovations / Mobile World Congress 2009

Ignacio Mas and Olga Morawczynski: *Designing Mobile Money Services*; Innovations spring 2009

Videos:

M-Pesa short documentary

<http://www.youtube.com/watch?v=zQo4VoLyHe0>

M-Pesa TV commercial

<http://www.youtube.com/watch?v=nEZ30K5dBWU>