

The emerging power of mobile banking

Ten years after its launch, Vodafone's M-Pesa platform has become a lifeline in developing nations, says *Cara McGoogan*

Long before the likes of Uber and Apple Pay made mobile payments common currency, people in Kenya, India and Romania were already replacing bank accounts with phones.

A mobile money system that lets users store money, get a loan and make payments securely has given tens of millions of people financial access they would not have achieved through traditional methods. But it is not an innovative startup or major bank that has provided financial services for those with just a handful of coins and a basic mobile phone – it is veteran network Vodafone.

The system, M-Pesa, has become an institution as vital as banks in the countries in which it operates. It is used to pay wages and social security packages, help people start businesses and buy land with small loans, and provide access to a permanent energy supply. But the technology, a decade old this month, was not designed to be so far reaching.

"We launched M-Pesa back in 2007 as a 'stickiness product' that would make people like us more and therefore never leave us," says Michael Joseph, director of mobile money at Vodafone and a former fellow at the World Bank. "It was not intended to make money or to be a business in its own right."

M-Pesa, which first launched in Kenya 10 years ago with almost £1m in funding from the UK's Department For International Development, differs from other mobile banking systems as it associates users' money with a SIM card rather than bank account, letting them store money, make payments and transfers, and request small loans on their mobile phone without an internet connection. As M-Pesa accounts are associated with the card and not the handset, users do not need to own their own phone and in many cases borrow devices when they need to use the service. Cash can be withdrawn from or paid into M-Pesa accounts at kiosks run by locals.

The ease of access M-Pesa offers has contributed to its success in the past decade, growing from a "stickiness product" into a multi-million pound business with tens of millions of users.



A family in Tanzania is one of the millions who have benefited from the M-Pesa mobile money platform

It is now one of the largest mobile payment platforms in the world and provides banking services to 10 countries in Africa, Asia and Europe.

Although the company does not release revenue figures for M-Pesa, Mr Joseph says it earns around 0.5pc on the £1.8bn (£1.5bn) that passes through every month, with a further 0.5pc going to the 287,400 agents who run M-Pesa kiosks. The service only charges for transactions over \$1.

In Kenya alone, where the service has 17.6m active users, M-Pesa's revenues have grown 33.7pc in the last year to almost £200m. In total it has 29.5m customers who used it for around 6bn transactions in 2016.

Industry body GSMA estimates there were around 556m mobile

money accounts in 2016, with 277 services operating in 92 countries.

"Giving underserved people access to digital payments has expanded financial inclusion to hundreds of millions of people in developing countries and has enabled them to be more secure, more empowered and more active contributors to local communities," says Mats Granryd, director general of the GSMA.

"Mobile operators have been at the centre of this success story ... Over the next decade, the industry needs to work together to place the transformational power of mobile money in the hands of those who need it most."

Around 2bn adults are still without access to a bank account, according to

M-Pesa is inching into India, hoping to capture some of the 600m people without a bank account'

2015 figures from the World Bank. This means they cannot send or receive money, are unable to borrow, and have no protection if their cash is lost or stolen. M-Pesa seeks to address this problem in the developing countries where Vodafone operates by removing many of the barriers blocking people from opening accounts, such as distance from a branch, not having sufficient funds and banks being too expensive.

By 2020 the World Bank hopes that all adults will have access to a traditional account or new technology that lets them store money and make transactions. M-Pesa wants to help achieve this goal by growing its user base in India, where 30pc of the world's "unbanked" population lives.

M-Pesa has already been inching its way into the Indian market, with 1.8m active users and a further 8.4m registered customers in the country. But Mr Joseph hopes to boost this number, capturing some of the 600m Indian adults without bank accounts.

Last year, Indian prime minister Narendra Modi pulled the popular 500-rupee and 1,000-rupee notes from circulation. The decision, intended to wipe corruption from the system, forced millions of people to wait in long queues at banks and bred mistrust of the system. Vodafone has not yet benefited from the crisis, but Mr Joseph is confident it can.

"India for me is the next big market to crack, but it's slow to take off," says Mr Joseph. "Since demonetisation there's been a downturn. There's been no cash and, because notes have gone out of circulation, people are holding onto whatever cash they have."

One of Mr Modi's main reasons for removing the notes from circulation was to encourage Indian people to adopt new technologies. In his first national address after demonetisation, Mr Modi said that the country should embrace new technologies such as M-Pesa to clean up its economy.

"We shall carry forward the struggle to free our country from the evils of corruption and black money," he said. He cited the "big revolution" in Kenya that occurred after the country adopted M-Pesa.

The problem is not competition, Mr Joseph says, but regulatory restrictions and distrust from the general public. "Persistence is what's needed. The Reserve Bank of India is encouraging us and Modi's speech was particularly encouraging," he says.

The Indian government has already begun trialling the technology, starting with pensioners in rural areas. It can sometimes take weeks for social security payments to arrive in remote villages, with elected officials tasked with delivering them. To improve the system and take out the middle men, the government has been using M-Pesa to pay pensioners in Haryana state using a text message.

Elsewhere, pregnant women have been receiving state subsidies via messages designed to help reduce infant mortality in India, which accounts for 25pc of all deaths at birth in the world. Using the mobile money the government has been able to reach at-risk women who may not have bank accounts and could live in rural areas.

"Across Africa the innovative use of mobiles is helping millions by saving lives and empowering communities to lift themselves out of poverty," says Priti Patel, the secretary for international development. "British taxpayers can be proud that UK investment in technology is helping people to access basic commodities."

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