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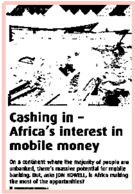

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Liquid assets: mobile banking will let many Africans who have never had a bank account before join the global financial world and control their money – wherever they may be

Cashing in – Africa's interest in mobile money

On a continent where the majority of people are unbanked, there's massive potential for mobile banking. But, asks JON HOWELL, is Africa making the most of the opportunities?

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Money makes the world go round, or so the saying goes, and the global economic crisis only went on to further underline the point. The revolution of cashless currency is still only in the early stages but plenty of work has already been done to empower those who have never had access to formal banking facilities before. The future is looking very bright indeed.

Globalised money

Research from Berg Insight is predicting that the worldwide number of users of mobile banking and related services is forecast to grow from 55 million users in 2009 to reach 894 million in 2015, with a compound annual growth rate of 59.2 per cent. And it won't be the developed markets that will be doing the driving either, despite the mobile penetration rates being higher and the prevalence of smartphones being more predominant.

Out of the 894 million, only 201m will be in Europe and North America. The hot region is due to be Asia-Pacific, accounting for more than half of the predicted user base. And it's fair to say that Africa will account for a significant proportion of the remaining 200 million or so users. As Norman Frankel, CEO of mobile money solutions provider Mi-Pay, puts it: "With mobile penetration at over 270 million, and over 75 per cent of the population 'unbanked', Africa has quickly become a global springboard for this rapidly evolving new market."

A survey from CGAP, an independent policy and research centre dedicated to advancing financial access for the world's poor, covers 139 countries and showed how only 30 per cent of people in developing nations had deposit accounts with regulated financial institutions, as opposed to 80 per cent in developed regions. This leaves seven out of ten people in developing nations excluded from the regulated financial system and all the services that this can include. Banks tend to target richer clients and leave state financial institutions and co-operatives to handle the microfinance that rural and less well-off people deal in. But CGAP acknowledges that assessing the scale of non-bank financial institutions' operations is more difficult, often with information being limited or not available at all.

"Mobile handsets are in an excellent position to become the primary digital channel for providers of banking and related financial services on emerging markets," says Marcus Persson, telecom analyst, Berg Insight. "People who sign up for their first mobile subscription today will likely open their first bank account in the coming years and thus join the modern financial system."

And the key here is that this will be a worldwide phenomenon, not only in terms of user numbers but also with regard to the way they can access services. Mobile subscribers now have technology in their pockets that would've been expensive 10 years ago. Functionality such as colour screens or Java have spread all the way down to the basic end of the market. This means that banking applications that could not be run on an entry-level mobile a decade ago can now be used by almost everyone.

This is just the beginning. "Money management by mobile phone is becoming mainstream," says Alastair Lukies, chief executive officer of Monitise. "A sea change is well under way in how people manage their day-to-day finances as they realise how simple, slick, and fast mobile banking is – as easy as a few taps on a keypad. As the services become more sophisticated and comprehensive, we expect uptake will accelerate markedly."

Customer services

So what will subscribers be able to do with mobile banking? A quick look at Zain's *Zap* service gives a measure of the current possibilities for customers. Users can withdraw cash or pay for goods, pay bills, transfer money to relatives, top-up their (or someone else's) airtime. And if they have a bank account they can also manage it via their mobile and send or receive money from it.

This demonstrates how mobile banking services have already developed beyond being just a mobile front-end to a traditional bank account. Africa has shown that it is willing and able to use the services on offer in ways that hadn't been expected when mobile banking was launched. For example, purchasing top-ups was enabled via phones in order to sell more airtime but then people started using that credit as a kind of virtual currency.

Mobile phones also tend to incorporate some security; even a PIN makes breaking into someone else's account more difficult than physically stealing cash from them. And *Zap* uses protection through a security application that needs a password for every transaction carried out.

As mobile banking spreads, and both shops and customers take it up, it will reduce the need for people to carry cash. Paying bills can be done faster and more conveniently, and much more of the financial process can be automated. The latter is important when the key for the industry is to offer services to users who have not had previous experience of the banking system.

Pros and cons

Those who already have a cellphone and are comfortable with using it are more than likely to jump at the opportunity to move to mobile banking. But will it save users money?

A pricing analysis of branchless banking performed by Claudia McKay and Mark Pickens of CGAP found that on average branchless banking is 19 per cent cheaper than traditional banks. For money transfers, the saving above the "informal options" is 54 per cent. More importantly, especially for users who are likely to have small incomes and perform low-value transactions, branchless banking saves more money the lower the transaction value. The survey used a sample of eight scenarios and compared how much cheaper the banking was when the deposit amount was USD23, USD69, and USD207. For the highest value, branchless banking actually cost 45 per cent more. But for the other two amounts, the savings were 38 and 19 per cent respectively.

However, there are problems that will need to be considered as services are rolled out further into rural areas. Signing up for a mobile phone or bank account can require identification of one form or another and many people could lack any kind of government documents or even a fixed address. For example, *Zap* requires a valid photo ID card to sign up. Other regulations, such as consumer protection, are also in their infancy in some markets. It may take government intervention in order to bring stability to financial services in certain countries.

Hannes Van Rensburg, CEO of Fundamo, points out that education will be one of the keys to success. "People need to be educated in order to truly understand the features of the service as well as the importance of financial inclusion. It is also vital that there is a strong and knowledgeable agent network that is essential to deliver that education and access."

His suggestion is that operators and banks need to think big but start small. They need a modular payments model to support the desired growth. A scalable solution is also key in order to meet regulatory standards and able to ensure interoperability with banks, vendors, and operators as more of them enter the market.

Philip Sowah, country manager of Zain Ghana, speaks to the press at the Zap launch. Ghana is the seventh African country to offer the operator's mobile banking service

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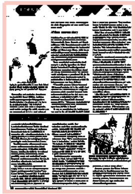

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Paying for goods with mobiles in some North African countries is likely to begin with online shopping and digital content, but will spread to 'real' shops, too

Creova offers such a solution. According to the firm's CEO, Ramzi El-Fekih, its *Mdinar* mobile payment system (see *Bringing value to Tunisia*, below) is a lot cheaper and a lot faster for operators to deploy. "For example, if tomorrow a music store wants to integrate its music with its catalogue for mobile users then we can turnaround and do it in a week or two, at most four weeks. With *Mdinar*, we actually put the whole thing together and went to trial in not even a month."

African success story

Mobile banking services are spreading, based on the success of previous services. For example, Zain started with Kenya, Tanzania, and Uganda in February 2009. These deployments worked out so well that in January this year the firm launched in Niger and Sierra Leone. Ghana, which has an estimated 80 per cent of its population currently unbanked according to Zain, has also deployed *Zap*. And in Malawi, the operator is currently running a commercial trial system.

To put some kind of number on how much money is to play for, figures from the United Nations International Fund for Agricultural Development report show that Africans abroad are sending USD40 billion home. The operators would naturally want to get a slice of this pie. But ironically it seems that those who pushed for mobile banking in the first place and provide the infrastructure are now being sidelined.

"The mobile payments industry has turned 180 degrees from being led by the mobile phone operators who viewed this area as a huge cash cow to one strictly controlled by central banks insisting on bank-led services that may or may not have a mobile phone operator in the consortia," says Simon Cavill, director of strategy, Mi-Pay. "This process started due to the incredible success of the initial service in this space from *M-PESA* in Kenya."

He goes on to explain how the banking sector was upset by this and asked the country's Central Bank to license such operations. "They now issue licenses for bank-led consortia wishing to run mobile financial services, where the mobile phone operator is a subservient party in many cases."

Global firms are viewing Africa as a potential market with interest. For example, m-commerce solutions provider Utiba is headquartered in Singapore but has begun moving into Africa. "We have three customers in Africa at this time," says the firm's co-CEO Justin Ho, but that's just the beginning. "This industry is gathering steam. There is a growing pie for qualified companies to benefit from and we will be there to do our part," he predicts.

Meanwhile, multichannel customer service and knowledge management software provider, eGain, is making a play to support mobile operators as they launch mobile services. It aims to solve the customer support issues that the new functionality is likely to raise. Starting with South Africa, the company is now aiming to expand. "We're just in the process of closing an opportunity which is outside South Africa. Kenya is also one of the markets which is pretty advanced in mobile comms right now, and we're working with some partners there, too," says Ashutosh Roy, eGain's CEO. The company hopes that working with MTN could lead to many more African rollouts.

Ultimately, banks want mobile services to be successful to allow their business to access the unbanked section of Africa's population. Operators need to use m-banking platforms as a differentiator that will be a 'sticky' service to keep churn rates down. With so much to gain, the continued success of mobile banking is all but guaranteed. ■

BRINGING VALUE TO TUNISIA

An m-wallet solution called *Mdinar* was launched earlier this year in Tunisia. It's offered by mobile operator Tunisiana and the Banque Internationale Arabe de Tunisie (BIAT), in partnership with a microfinance institution in the country (ENDA) and a service provider called Viamobile. However, the underlying technology powering the service, has come from Creova.

The *Mdinar* service offers person-to-person, top-up, and loan payment services from a user's mobile phone. It also offers multiple features, including the ability to view account balances, history of transactions, and the possibility to save and use the list of people frequently receiving payments from the user. It also allows subscribers to send a request for money to another person.

"Our payments solution system does not simply interface to a loan management system by just providing a standard interface," says Ramzi El-Fekih, Creova's CEO. "A typical user wants to see all loan information (such as amounts, dates, history), and the loan provider wants the processing to be handled in real-time and automatically (with no paperwork or reconciliation time needed). Our technology meets these requirements and is scalable, interoperable with financial and commerce systems, and adaptable to different segments and applications."

The service isn't initially being aimed at mainstream shops. "We're not going to target those in the beginning," explains El-Fekih. "For example, it's going to be websites that sell goods and services, especially digital content. When we go for shops we'll go for the supermarket chains. So we're not going to go for individual shops."

It might be tempting to get smaller traders on board, but even those will be brought in later. "The souks or the mom and pop shops are actually ready for this and want this. They've been selling phone top-ups through their phone with USSD for a while now so this is just another service. However, that is going to be done in different phases. We want to make sure that we do it right so we want to do a few tests with certain types and then we'll move to others. From an infrastructure perspective all they need is a phone and, at most, a receipt printer."

Given the problems that Telenor Pakistan suffered when its *EasyPaisa* system went live and promised that users could pay bills before the required agreements had been reached with electricity providers, it's understandable that Creova want to do it right the first time without alienating customers.

Tunisiana has launched the Mdinar m-wallet solution from Creova. The service is still in its early deployment stages so bricks and mortar banks aren't under threat yet

eGain