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Kenya's Safaricom Introduces Mobile Money Transfers

May, 2007 Denis Gathanju

A new mobile telephony service allows subscribers in Kenya to transfer money instantly. The service, offered by Safaricom, Kenya's leading mobile phone operator, is a big hit with subscribers. Dubbed Mteja Pesa (M-Pesa)—Mobile Money—the service is among the world's first mobile money services to not only facilitate money transfer but also allow subscribers to maintain bank accounts on their mobile phones.

According to the World Bank, money remittances from migrant workers and expatriates to their friends and relatives back home far outweigh foreign aid and are key pillars of the growth of the gross domestic products in the developing economies of Africa, Latin America and the Caribbean. M-Pesa was first envisaged as a money transfer service that would simply allow Kenyans to transfer money using their mobile phones. It now promises to generate millions of dollars in profits and earnings for international operators and banks as people use their mobile phones to manage bank accounts and receive funds from abroad.

Safaricom isn't alone in the business, either. The Postal Corporation of Kenya has entered the money transfer business aggressively. Other competitors range from unlicensed envelope couriers to Western Union. The hope is that access to secure electronic funds and cash at a lower cost will help to drive the Kenyan economy and provide a partnering model for mobile operators, banks and institutions like the postal service in other developing regions.

Mobile Intersects With Money Transfer

According to a Vodafone report, mobile phone connectivity in Africa grew more than 5,000 percent between 1998 and 2003, with more than 52 million mobile phone users, in addition to more than 25 million fixed-line users. This, says the report, indicates that Africa recorded the greatest mobile telephony growth in the world during that period.

The report also examined mobile telephony's impact on GDP growth in African nations and found that between 1996 and 2003, a country with an average of 10 or more mobile phones per 100 people enjoyed 0.6 percent greater GDP growth per capita than otherwise identical countries that lacked such mobile telephony penetration. The report said that mobile telephony had twice the impact on GDP growth for developing African nations as for developed countries.

Meanwhile Kenya, for its part, is virtually an archetype of the importance of foreign money remittances to developing economies. According to Gichane Muraguri, an official with Kenyan Community Abroad (KCA), Kenyans living abroad remitted more than \$743 million in 2005 and \$923 million last year—equivalent to 10 percent of Kenya's national budget.

M-Pesa Means Mobile Money

In rural Kenya, mobile telephony is gaining ground. In these areas, access to banking services is limited, and it is the people in these areas that M-Pesa particularly targets. Morton Saulo, a Nairobi-based telecommunications expert, says the Kenyan money transfer market is yet to be fully exploited, given the right stimuli, because only 3 million of the more than 33 million Kenyans operate bank accounts.

"With its ability to store money as e-cash," said Michael Joseph, Safaricom's CEO, during the launch of the M-Pesa pilot project last year, "this service will benefit more than 80 percent of the Kenyan population who do not have bank accounts." Safaricom boasts 6 million of Kenya's 8 million mobile subscribers. In addition to permitting users to send money to others, M-Pesa offers pragmatic features like storing money temporarily on the mobile phone to avoid risk of theft or loss, especially on bus rides. Users can withdraw their money on arrival at an authorized outlet.

M-Pesa utilizes new-generation SIM cards that have specially embedded software. The service uses a secure mobile phone SIM toolkit application to transfer money between prepaid electronic money accounts. Customers load M-Pesa accounts through the same top-up network they use to load their mobile prepaid value. With a simple menu on the phone, in English or Swahili, customers can transfer money to anyone else in the system.

"If I want to transfer money to my cousin in [the town of] Karatina and I'm in Nairobi, all I'll need to do is to approach a dealer and pay the amount to the Safaricom account," Joseph explained at the pilot launch. "The dealer will then issue me with a secret code, which I'll SMS to my cousin. The money is instantaneously transferred into my cousin's account. He can then withdraw the money from any dealer in Karatina using the code."

Currently, Safaricom operates 400 M-Pesa dealerships around the country.

M-Pesa allows users to make four basic types of transactions: transfers from individual to individual, transfers from individuals to businesses, withdrawals at registered outlets, and loan receipt or repayment. Users can send amounts of around \$1.40 to \$500 to any phone at a cost of \$0.78 to \$2.50. The service could be used to make bill payments for electricity, water or parking. It will also be possible to buy goods via SMS and to have salaries paid into mobile phones.

"M-Pesa is a valuable case study of digital money in action," said Paul Makin of Consult Hyperion in Nairobi during the official M-Pesa launch March 6. Consult Hyperion is the British IT consultancy that worked on the product for Vodafone, which owns 49 percent of Safaricom. The service is expected to shake up the Kenyan microfinance banking landscape, with similar effects across the developing world, because of its potential for general-purpose cash-replacement.

"It involves replacing cash with electronic money," Makin explained. "It radically reduces transaction costs, provides new functionality and most of all, it provides an infrastructure that delivers capability and efficiency to the microfinance world."

Vodafone and Citibank Partner

The industry pairings between banking and mobile have “the potential to create a step change in global remittance services—one in which the mobile service provider plays a central role,” according to plans released during the pilot phase by Alan Harper, group strategy and new business director for Vodafone.

Safaricom has teamed up with Citibank and the Commercial Bank of Africa in the M-Pesa venture and put a \$714 ceiling on M-Pesa accounts. The accounts will incur transaction charges, but subscribers will not have physical contact with the banks involved. The banks will not even have the subscriber details.

Vodafone says that Kenya’s quick adoption of mobile services serves as an encouraging model for new initiatives. Gavin Darby, the company’s CEO for non-European affiliates, says it intends to take the service international on the back of successful trials in Kenya.

Kenyans Need Legitimate Providers

A lack of security in traditional money transfer options is also driving Kenyans to seek new providers they can trust. As urbanization has increased in Kenya, so has the need to send money back home to rural areas. This has in turn spurred the growth of formal and informal money transfer operators.

Over time unofficial companies, especially the public transport companies, have joined the lucrative money transfer business. In their simple model, one would slip money into a khaki envelope, scribble the name and ID number of the recipient, and hope that the transport company delivered the cash to loved ones up-country. The government has warned the public against using these services, because public transport companies take their time to disclaim any losses. They are not registered money transfer firms.

“While the government recognizes and encourages competition, it is unfortunate that money transfer is being undertaken largely by unlicensed providers,” lamented Mutahi Kagwe, Kenya’s information and communications minister. This, he has cautioned, presents a risk to customers who are not assured of any guarantee or compensation for unforeseen losses.

Competition with the Postman

The traditional post office faces the real prospect of extinction. Its revenues, largely derived from snail mail, have taken a nosedive as faster communication methods have emerged, like mobile phones. The Postal Corporation of Kenya, or Posta, has had to rethink its products and is adopting new business strategies to remain afloat.

With more than 900 outlets in Kenya, the Posta hopes to be a dominant player in the roughly \$100 million local money transfer market through its PostaPay instant money transfer system. PostaPay is promising customers a turnaround time of no more than two minutes between the time the money is sent and received. This would represent a major improvement on existing substitutes. Conveying money in Kenya through the Posta has always been akin to snail mail, with a turnaround of one week at the fastest. The firm’s existing money order product, which transfers more than \$85 million annually and largely dominates the market, has a turnaround time of about two days.

PostaPay Relies on Mobile

With the new PostaPay service, all that is required to make the transaction—apart from the cash—is a password for the recipient. The sender sends a text message from his mobile phone to the recipient indicating the amount of money sent and the password. On receipt of these details, the recipient presents himself at any PostaPay location; completes a form with his personal information; provides the name and address of the sender, the password and the amount of money expected; and he is given the cash.

The Posta charges a commission of about \$2.14 for transactions between \$1.40 and \$14, up to \$36 for a transaction between \$1,071 and \$1,429. PostaPay intends people to send larger sums of money, so fees are proportionately very high for smaller sums. The current average transaction is \$14. According to statements by PostaPay CEO and Postmaster General Fred Odhiambo, the firm is already generating in excess of \$228,571 a day from money transfer commissions.

Contrast this with the postal corporation’s previous offering: a one-day telex-based telegraphic money order that was discontinued six years ago after it became uneconomical to maintain the machines leased from Telkom Kenya. The new PostaPay service, Odhiambo said at its launch, effectively replaces the corporation’s other money transfer services, such as money orders and postal orders, which relied on physical transport of payment slips.

International Money Transfers

PostaPay will be luring the vast Kenyan diaspora living and working in the United States to send money to friends and family from the PostaPay website using their credit cards. The firm has linked up with U.S.-based Afripayments LLC, which has provided the Internet-based technology for PostaPay. Afripayments will also act as the firm’s partner for international remittances.

Afripayments Chairman Mohammed Yousif has bemoaned the high transfer costs that Africans living abroad must pay to channel the money they earn home through expensive networks or unofficial vehicles. “Afripayments’ goal,” Yousif said in a statement, “is to continuously bridge this gap and meet the needs of a larger number of Africans.”

Out of the more than \$268 billion in remittances sent across the world every year, Africa controls 10 percent of the market, most of which is in the hands of private companies. According to communications minister Kagwe, African posts handle only 5 percent of the growing flow of money coming home from overseas.

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