

## CreditSMS Helps Structure Informal Mobile Finance

Ken Banks and Benjamin Lyon, IDG News

Mobile commerce (m-commerce) is quickly becoming one of the most cost-effective, far-reaching means of giving the 'un-banked' poor their first taste of financial services. Yet many of these services are almost entirely informal, connected to neither banks nor traditional forms of regulation. Whatever the implications of this may be, two things seem clear. M-commerce is not only irreversible, but promises to only gain in popularity. A new initiative - [CreditSMS](#) - aims to take advantage of this, integrating m-commerce with traditional financial management tools, thereby formalizing the informal and bridging the financial divide.

The widespread popularity of M-PESA in Kenya and GCash in the Philippines shows that people throughout the developing world are eager to leverage the technologies they have (i.e. mobile phones) in order to gain access to the services they need (i.e. savings, credit, remittances and insurance). What is interesting is that many innovations in this field tend to be initially developed not by corporate researchers but by the 'un-banked' themselves. Instead of loading pre-paid airtime into their phones, for instance, many users began instinctively sending the airtime activation codes to their friends via short message service (SMS), which gave rise to a de facto airtime sharing service.

Taken one step further, end-users then realized they could either sell the airtime back to an airtime distributor at a discount or sell it at a premium to people in their community who didn't have access to a phone. In essence, they discovered that airtime itself could be a source of income, and an informal mobile money transfer system was born. Now that airtime and mobile money transfer systems are becoming the norm, the question has evolved from 'How do we formalize the transfer process?' to 'How do we formalize the more complex transactions made possible by mobile transfers?'. Put more simply, how do we give informal operators and 'branchless banks' the same tools as formal institutions?

CreditSMS is constructing a financial management software module to be run through FrontlineSMS which allows real-time communication between m-money transactions and individual profiles. ([FrontlineSMS](#) is free and open source software which turns a computer and a mobile phone into a two-way group messaging hub). By doing so, any user within an airtime or mobile money transfer network will be able to distribute and keep records on m-money transactions en masse, allowing microfinance institutions (MFIs), co-operatives, rotating savings and credit associations, or even extended kinship networks to run their own 'branchless banks' across broad areas without necessarily registering with local regulators.

In addition to providing the means to keep track of basic transactions, the CreditSMS platform will provide all the necessary parameters for users to create and transmit unique financial packages via SMS. For instance, they will be able to provide savings services by holding m-money in the SIM card of the local CreditSMS hub. When a saver within the network wants to deposit or withdraw savings, all they need do is text the corresponding key code and amount to the hub which will then automatically check the request against their profile and deposit or release the appropriate funds.

But savings are only the beginning. MFIs that use the CreditSMS system will be able to distribute micro-loans and receive scheduled repayments via SMS, saving both the costs of transportation and time traditionally needed to reach rural and disconnected clients. In turn, MFIs will be able to reduce the interest rate on loans (which is typically greater than 25%) and have more time to manage larger client portfolios across greater distances.

CreditSMS will also enable MFIs to provide insurance and social security services to their clients. By allowing users to create unique service packages and track regular payments via SMS, MFIs can track which clients are covered by which package and what their expected payouts are. Although insurance and social security may seem like unnecessary luxuries in the developing world, access to services like crop, emergency, health, and life insurance could potentially transform the way clients view the future and take entrepreneurial risks. Not only that, but reliable use of these services will allow clients to build credit ratings that will encourage their eventual graduation to the formal economy.

There are, of course, caveats to facilitating the increased efficiency and reach of 'branchless banks'. Where no regulation exists to protect clients from usurious charges, financial mismanagement or even outright theft, protection mechanisms play a crucial role. The success of informal money transfer systems like Hawala, Hundi and Fei Chen do show us one thing, though – the importance of trust. Take Afghanistan as an example. In the absence of formal banking institutions (and, more generally, the rule of law), money exchange dealers in Kabul formed an association based on quality service and honesty. Money exchange dealers who violated the rules of the association were expelled, blacklisting them from the Kabul market and effectively running them out of business. Although trust is no substitute for bodies such as the Federal Deposit Insurance Corporation (FDIC), it does remain a powerful and ubiquitous force in informal economies that cannot be ignored nor discounted. It is, after all, the very glue that holds these informal economies together.

Although any system is susceptible to manipulation and human error, the services made possible by CreditSMS have the potential to revolutionise - and perhaps democratise - the world of finance for the better. By making it possible to literally place a full range of financial services in a client's hand, regardless of where they live, CreditSMS aspires to help mitigate one of the greatest inequities of our time.

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