



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

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FINANCIAL INCLUSION THROUGH MOBILE WAY: A CASE STUDY OF M – PESA

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ABSTRACT

In the world approximately two billion people are financially excluded, it means they do not have any type of access of financial services like banking. No economic growth and development of any country in the world possible without involving such financial excluded people in the financial system. Thus, financial inclusion is a potentially viable business proposition which provides the poor with opportunities to build savings make investments and get credit. To overcome the problem of financial exclusion, experts have suggested different ways. Technology solutions such as the mobile telephony are one of it. Today many countries of the world are focusing on financial inclusion programs, at this moment it would be interesting to study the successful example of using mobile telephony in Africa. The M-Pesa mobile banking model in Kenya – started just before four years, has gained over thirteen million customers in a very short period and expanded the basic banking services in such remote areas where banking organization were not able to reach. This case study focuses on the solution of microfinance availability through mobile telephony as the route to reach out to a larger customer base.

KEYWORDS

Financial Exclusion, Financial Inclusion, Mobile Banking, M – Pesa, Mobile Telephony.

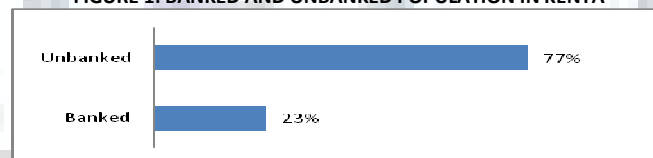
INTRODUCTION

nowadays, financial inclusion is the buzzword amongst the rapidly growing economies and it is being considered as most important factor of rapid economic growth of any nation. Financial inclusion is a necessary condition for generating and sustaining equitable growth. There are few, if any, instances of an economy transiting from an agrarian system to a post-industrial modern society without broad-based financial inclusion. We all know from personal experience that economic opportunity is strongly intertwined with financial access. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments and avail credit. Importantly, access to financial services also helps the poor insure themselves against income shocks and equips them to meet emergencies such as illness, death in the family or loss of employment. What is predictable, though, is that as newer technologies are ushered in; banking services will become more affordable and accessible to all. Harnessing this power of technology for financial inclusion is going to be a big opportunity and a bigger challenge for us. In his recent book Building Social Business, Muhammad Yunus notes that, in the 1960s, no one predicted that the Internet would take the world by storm; that laptops, palm-tops, Blackberrys, i-pods, i-phones, tablets and Kindles would be in the hands of millions. Similarly, in 2010, perhaps we are just as unable to look ahead to 2030. In short, how technology is going to shape our world and our world views is quite unpredictable. At the same time mobile telephony based model of facilitating the basic banking services and using technology as an enabler has been a major kick start to achieve the global agenda of financial inclusion. The world is witness of revolutionary changes in financial inclusion through mobile telephony in Kenya.

ABOUT KENYA

Kenya, considered an economic hub of East Africa, lies astride the equator. Tanzania lies to the south and Uganda to the west; to the southeast lies over 3300 miles of Indian Ocean coastline. In 2007, Kenya's population was estimated at 36,913,721 and its growth rate at 2.8%. More than a third of the population lives in urban areas; Nairobi, the capital, is the largest city, with approximately 3,000,000 people. Like people in many emerging markets, most Kenyans are not used to making electronic payments. At the national level, most transactions are in cash. A survey conducted by Research ICT Africa established that over 80% of Africa's small to medium-sized enterprises (SMEs) conduct their transactions using cash. From the following Figure 1 we can say that only 23% population of Kenya was having bank access in 2007. So for the development of the formal financial system, it was keen need of such system which can reach out to a larger public with convenience.

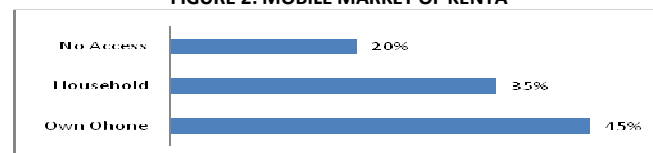
FIGURE 1: BANKED AND UNBANKED POPULATION IN KENYA



Source: Central bank of Kenya

At the same time, the telephone market in Kenya was developing rapidly. Figure 2 reveals that from the total population of the country, 35% having household mobile connectivity, almost 45% population having their own mobile phone and the rest unconnected population 20% was obviously less than the population not having bank access (77%). So the focus transferred to mobile telephone, the most convinced way to reach out the 80% population of the country.

FIGURE 2: MOBILE MARKET OF KENYA



Source: Communication Commission of Kenya

M – PESA

Safaricom launched M-PESA in 2007. “Pesa” is the Swahili word for cash; the “M” is for mobile. M-Pesa is the product name of a mobile-phone based money transfer service. This innovation was not Safaricom’s idea. That was developed by Sagentia - now transferring to IBM in September 2009 - for Vodafone. Vodafone, Safaricom’s parent company in the UK. The development was initially sponsored by the UK-based Department for International Development (DFID) in 2003–2007. DFID helps to develop a mobile phone-based system to improve access to financial services for people in East Africa.

The pilot implementation began on October 11, 2005; other partners were Faulu Kenya, a leading microfinance institution in Kenya, and the Commercial Bank of Africa, which provided the traditional banking infrastructure. The technology platform for the service is provided by Microsoft and was highlighted as a key philanthropic initiative from Vodafone by Melinda Gates of the Bill & Melinda Gates Foundation at DAVOS in 2009. Late in 2007, Celtel launched Sokotele, a competitor to M-PESA. Celtel’s partners in the development are Packet Stream, a public data network operator, and KRep, one of Kenya’s leading micro-finance institutions. K-Rep provides the banking expertise, Packet Stream supplies the vending software, and Celtel Kenya’s cellular network makes the connectivity possible. Jamii Bora, K-Rep and Faulu Kenya, have also introduced services based on SMS (short message service) that let their clients view their balances, request account statements, and transfer money.

The concept of M-PESA is based on branchless banking service, meaning that it is designed to enable users to complete basic banking transactions without the need to visit a bank branch. The initial concept of M-PESA was to create a service which allowed microfinance borrowers to conveniently receive and repay loans using the network of Safaricom airtime resellers. This would enable microfinance institutions (MFIs) to offer more competitive loan rates to their users, as there is a reduced cost of dealing in cash. The users of the service would gain through being able to track their finances more easily. But when the service was trialed, customers adopted the service for a variety of alternative uses; complications arose with Faulu. M-PESA was re-focused and launched with a different value proposition: sending remittances home across the country and making payments. The continuing success of M-PESA, in Kenya, has been due to the creation of a highly popular, affordable payment service with only limited involvement of a bank.

HOW IT WORKS....?

M-PESA Customers can deposit and withdraw money from a network of agents that includes airtime resellers and retail outlets acting as banking agents. M-PESA is operated by Safaricom a Mobile Network Operators (MNO) which is not classed as deposit-taking institutions (such as banks), so M-PESA may not be advertised as a banking service.

The service enables its users to:

- Deposit and withdraw money
- Transfer money to other users and non-users
- Pay bills
- Purchase airtime

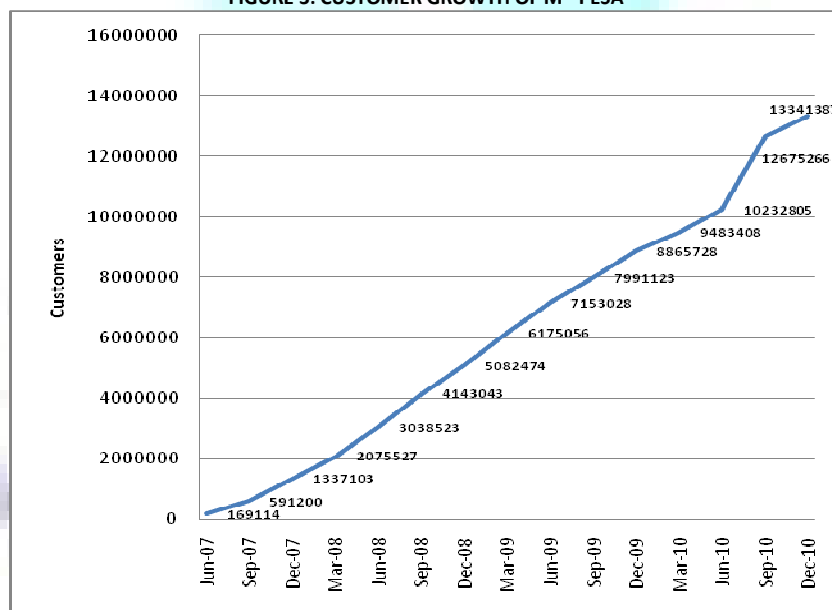
Here is the example how it works:

- Mr. Shyam goes to his nearest M-PESA agents with his official ID and mobile phone to register himself and his SIM card on the system.
- Once he has activated his account and chosen a four-digit password, Mr. Shyam charges up his account by giving the agent cash. The transaction and balance are confirmed via an SMS.
- Mr. Shyam then transfers, via SMS, 3,000 Kenyan shillings (\$38.40) to his mother's mobile phone account. M-PESA charges him a flat fee of 30 shillings.
- His mother receives the SMS and keeps it on her phone until the local M-PESA agent passes through her village. She then transfers that money to the agent's phone via SMS, and the agent gives her the cash. Her mother is charged 45 shillings, a fee proportionate to the size of the withdrawal.
- Mr. Shyam can also send money to friends who have not registered for M-PESA or who use a different phone network. In these cases, the fees at both ends of the transfer are higher.

GROWTH

Technology and innovation often catch on ahead of regulation. M-PESA’s growth is a classic example. Within the first eight months after its launch in March 2007, M-PESA announced a subscription base of 9, 00,000 users and 1,200 agents operating nationwide. Meanwhile, a total of KShs. 4 billion (approx US \$57 million) had been transmitted, with an average transaction value under KShs. 5,000 (approx US \$71).

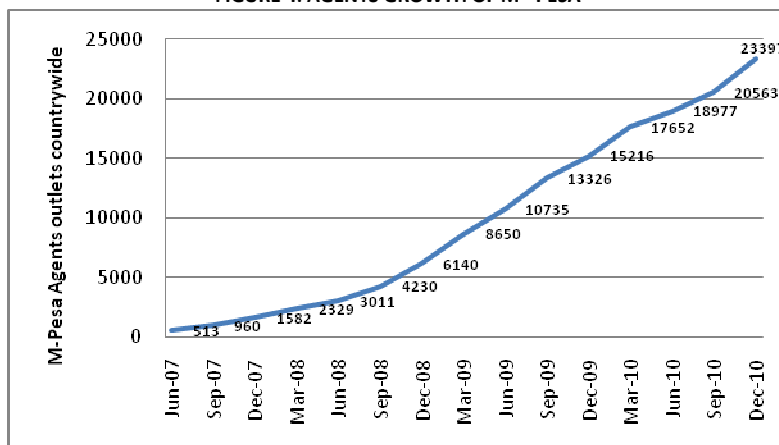
FIGURE 3: CUSTOMER GROWTH OF M - PESA



Source: Safaricom website

In April 2008, Safaricom’s CEO reported that 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 November 2008 it had 4 million users. Meanwhile, in April 2008, a Steadman Group study reported that over 80% of Kenyans were aware of M-PESA and 66% had actually used it. But these M-PESA users represented only 40% of all Safaricom subscribers. As per the latest data, it has over 13 million users and over 23,000 agents. If all these factors remain relatively constant; we can anticipate that M-PESA will continue to penetrate the market for the coming year or so.

FIGURE 4: AGENTS GROWTH OF M - PESA



Source: Safaricom website

Still, Safaricom is not authorized to operate as a bank; the money being circulated is deposited in a physical bank account at the Commercial Bank of Africa, which supervises the daily transactions of M-PESA. Users make their transactions using virtual information. When they want to withdraw cash, they go to an agent, who is authorized to keep cash and can give them the cash equivalent for the electronic value they transmit to the agent.

WHY M-TRANSFERS HAVE SUCCEEDED IN KENYA?

Several factors help explain the success of M-Pesa, especially in Kenya. The top three are the impressive adoption of mobile phones, the need to access financial services, and the low cost of M-Pesa

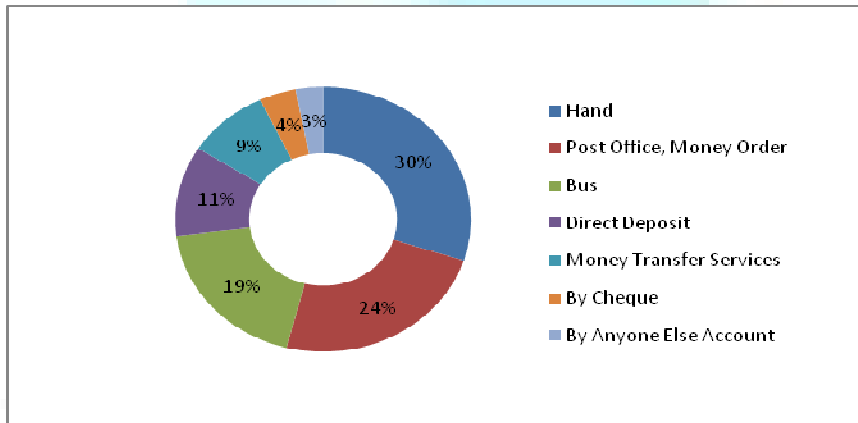
• DIFFUSION OF MOBILE PHONES

As Figure 1 shows, the growth of Kenya’s mobile subscribers has been tremendous. As of September 2009, the number had risen well above 80 million. In the first quarter of 2006 there were 147.4 million mobile subscribers in Africa; two years later the number had more than doubled, to 301.7 million, representing a penetration rate of 30.4%. Kenya’s penetration rate rose from 2% in 2001 to 39% as of the second quarter of 2008. Kenya is the most developed mobile market in East Africa and its penetration rate is forecast to reach 67.5% in 2012.

Four mobile phone operators are active in Kenya. Safaricom, with well over 10 million subscribers, is the clear market leader with 81% of the total subscriber base. Zain (formerly Celtel) follows with just over 3 million subscribers (24%), and Telkom Orange has about 1 million. Econet, barely a month old, has not released any subscription data.

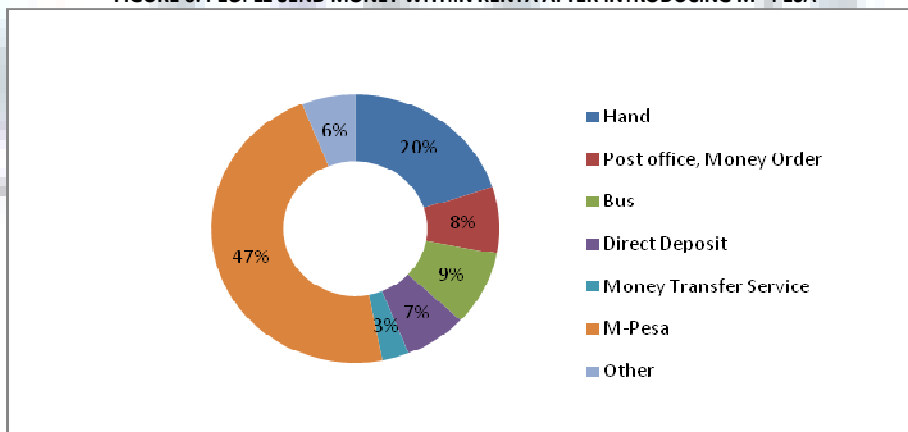
The fact that Safaricom controls such a large percentage of the subscription base has given M-PESA the advantage it needed to penetrate very quickly. Only Safaricom subscribers can operate an M-PESA account, though other network subscribers can receive an SMS from an M-PESA subscriber.

FIGURE 5: PEOPLE SEND MONEY WITHIN KENYA BEFORE INTRODUCING M - PESA



Source: Safaricom website

FIGURE 6: PEOPLE SEND MONEY WITHIN KENYA AFTER INTRODUCING M - PESA



Source: Safaricom website

- **THE NEED FOR ACCESS TO FINANCIAL SERVICES**

As of early 2007, 38% of Kenyans had no access to any form of financial services, according to a national survey, and only 19% had access to formally regulated financial institutions such as banks. In the entire country there were only 400 bank branches and slightly over 600 ATMs—and over 10 million mobile subscribers.

We could easily say that M-PESA took off so rapidly because of the low penetration of banking services and the public need for them. Though few studies have been done to establish whether the service mostly benefits the un-banked, we have several indications that it has gone both ways. Features such as convenience, speed, and low transaction fees attract significant numbers of those who already use banks. Small businesses are among the greatest beneficiaries; using M-PESA lets them go to the bank less often, and spend more time running their businesses. Many un-banked Kenyans can now receive and send money via their mobile phones, wherever they are in the country.

In September 2008, Safaricom signed an agreement with PesaPoint Ltd. To allow M-PESA subscribers to withdraw money through PesaPoint ATMs. Registered in 2005, PesaPoint has a vision: to provide all banked Kenyans with easy access to funds in their bank accounts wherever they are in the country. So far it has installed over 110 ATMs across the country. This agreement helps overcome the problem that agents sometimes do not have enough cash to issue to M-PESA customers who want to withdraw it. This partnership was a major milestone in linking M-PESA to the formal banking system, a confirmation that more financial players are willing to collaborate to improve access to financial services.

In December 2008, M-PESA signed another agreement with Western Union for international cash transactions. Vodafone, Safaricom and Western Union announced that they would partner to pilot a cross-border mobile money transfer service between the U.K. and Kenya. Ultimately M-PESA subscribers will be able to receive international remittances just like local ones. According to the World Bank, Kenyans received approximately \$US 1.3 billion in international remittances in 2007; for some Kenyans, these remittances are a considerable part of their total income

- **LOW TRANSACTION COSTS**

According to the 2007 survey mentioned above, over 70% of Kenyans prefer informal methods to remit funds to their loved ones within the country. Of those interviewed, 55% sent money with friends or family members who would be traveling and 22% used public transport companies. Though such methods are not safe, people prefer them because the transaction fees are lower than those of banks and money transfer companies.

M-PESA offers a very competitive service with a very attractive transaction cost. To send KShs. 35,000 (approx US\$ 500) using a money transfer company such as Western Union would cost KShs. 1,200 (approx US\$ 17) within the country, but using M-PESA to send the same amount would cost only one third as much. And M-PESA is much cheaper than using a bank account. Given their setup and operational costs, banks and money transfer companies cannot offer such low rates.

- **INNOVATIVE USES OF M-PESA**

Originally, M-PESA intended just to design and test a platform that would allow customers to receive money and repay small loans using their handsets. The service was also designed to help microfinance institutions streamline their operations, raising efficiency and boosting business growth. After the pilot the executives at Safaricom saw M-PESA as an opportunity first to become a payment service provider and second to increase customer retention. It has certainly achieved these objectives.

But other, unexpected, uses have also emerged. Some have already been exploited but many more have not. They indicate that a service like M-PESA has the potential to be extended in many innovative ways.

- **PAYING SCHOOL FEES**

Many M-PESA agents report much more business during the early days of January, May and September compared to other months. It was discovered that many parents were using M-PESA to send school fees at the start of new school terms or semesters. M-PESA is a more personal, quick and convenient way to send school fees than the more formal methods. In some cases, parents or guardians send funds to a staff member or even to the child in a school; that person then pays the school fees and gets a receipt. In situations where the trust level is high enough, the electronic money is sent directly to the school cashier, who then prepares a receipt. Both the sender and receiver have confirmations of the money sent on their phones, making it very unlikely that the receiver would refuse to acknowledge receipt of the money.

- **SENDING POCKET MONEY**

Just like they do with school fees, many parents and guardians are now sending pocket money to their dependents using M-PESA. The beauty of this usage is that, to get their money, students in remote areas need not go into town to the post office or Western Union office. M-PESA agents are within reasonable walking distance of many schools. Any student who has access to a mobile phone can get a notification, via SMS, that pocket money has been sent, which is again cheaper and more convenient than other methods.

- **PAYING FOR A DRINK IN A LOCAL CLUB**

On Friday evenings and weekends, many Kenyans visit local clubs to relax and spend time with friends over a drink. Some of these places cannot guarantee security for the club owners, let alone the customers, during off hours. M-PESA provides a secure way to pay and keep money in shops where no credit/debit card infrastructure is in place. In some cases, for the same security reasons, club owners are very particular about only accepting M-PESA and not cash.

- **MAKING INFORMAL LOAN REPAYMENTS**

M-PESA accounts are registered and managed by Safaricom. Each time a sender transfers funds, they receive a confirmation with a transaction identification number, amount sent, name and number of person it was sent to, along with date, time and the remaining balance. The receiver gets equivalent information: transaction ID number, amount received, name and number of sender, date, time and the new balance. This makes it possible to send money using the mobile phone to an officer who can record it as a loan repayment from a member who had gotten a loan. As long as the loan officer knows about and expects a repayment from a specific number, the system is dependable. This usage has been reported with microfinance institutions and savings and credit co-operatives (SACCOs), but not for large financial institutions.

- **SUBMITTING CONTRIBUTIONS TO FUND DRIVES**

People also use M-PESA to send contributions to events like pre-wedding parties and to fund drives for medical bills because it is convenient and available even in remote locations. It is also safer for the treasurers, who need not deal with cash. But the convenience has a downside: when people use technologies like M-PESA, they need not show up for meetings. Their absence removes the social bond as well as the peer pressure that is sometimes necessary to raise more funds. (See the snapshot on social mission.)

- **PAYING FOR PUBLIC TRANSPORT**

The transport system in Kenya is largely controlled by private owners of buses and vans. Travelers rarely have any payment option besides cash. Sometimes travelers must depend on the driver or his assistant for change, an exercise that can get messy when no one has the desired smaller bills or coins. Here is where M-PESA comes in handy. It is also safer for drivers and their assistants to deal with virtual currency than cash. When travellers need less than KShs. 100, the least one can send from an M-PESA account, they can use airtime transfers. Airtime is an electronic value bought from authorized agents to make phone calls. Though airtime is different from M-PESA value, it can be transferred between mobile phones at no cost—and can also be converted back to cash, informally. So the passenger who wants to pay KShs. 10, but has no cash, would transfer airtime worth KShs. 20 (the minimum allowed) to the bus driver, who would then give him back KShs. 10 as cash.

- **KEEPING MONEY SAFE, IN A VIRTUAL CHECKING ACCOUNT**

Moving around with cash is convenient but not safe. Checking, or current, accounts provide safety but not convenience, especially when access to bank branches is limited. In a country where 38% of people have no bank account, MPESA provides both convenience and safety. People walk around with their virtual money knowing they can withdraw cash any time at a minimal fee. Nor does a lost or stolen mobile phone mean catastrophe: no one can access an M-PESA account without a correct personal identification number (PIN). Like the Internet, whose uses have evolved to be very different from those originally

intended, all these ways of using M-PESA have appeared in response to necessity and are not directly controlled by Safaricom. The two snapshots show how M-PESA continues to make a difference in people's daily lives.

• OPPORTUNITIES FOR AGENTS

As M-PESA expands its services, many more agents are signing on. Agents have three primary responsibilities: accept deposits and load them onto a customer's mobile account, transfer funds on behalf of non-registered users, and serve as points for withdrawing cash. Ngummo, a middle-class suburb of Nairobi, has seen the number of its agents rise from four in June 2008 to its current twenty. This indicates how popular the service has become among Safaricom subscribers, as well as being a lucrative business proposition for the agents. Starting with 355 agents in April 2007, currently 15,000 agents are providing the service in each and every corner of the country. Thus it becomes the largest employment provider of the nation.

CONCLUSION

Since M-Pesa resulted from an integration of the retail financial systems and mobile services, many countries, including India, are taking interest in it. In fact it is seen as a grey area, somewhere between the mobile telephony and banking. But as far as the financial inclusion is concerned, the innovative possibilities are many and so are the regulators must deal with these uncertainties. Increasing interest and collaboration of reputed banks and mobile service provider companies is the evidence that a day is not so far when any person of the world would enjoy basic financial services from any corner of the world. This will not be a one-man show; what will set us free is a collaborative engagement by regulators involving research institutions, development agencies, academic institutions and companies in the private sector. Well-crafted and inclusive regulation will increase confidence, and create a fair playing ground for all players and an enabling environment where these innovations can grow and this is the ultimate requirement for global financial inclusion mission.

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