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Mobile Payments – Can the M-PESA Model work in other markets?

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A mobile finance revolution has been taking place over the last two years. This revolution has demonstrated that mobile can become a true mass market banking and payment medium and places a developing economy at the forefront of innovation.

Since its launch in 2007 by Kenyan Mobile Network Operator Safaricom, M-PESA, has achieved extraordinary growth. Over 6 million customers have registered with the service (nearly 50% of Safaricom's user base) and person to person transfers during the first two years totalled the equivalent of USD 1.6 Billion, equivalent to 5.5% of Kenya's GDP. All of this has been achieved using universally available basic handset technology. With headline figures like these, Mobile Network Operators, Banks and Payment providers should be questioning whether this success is replicable in other markets.

Undoubtedly M-PESA owes much of its success to economic and social factors present in Kenya. It has provided a simple solution to a fundamental market need – the ability of a large population of unbanked individuals to make personal money transfers.

New M-PESA customers register with one of 9000 authorised local agents – supermarkets and small urban and rural traders - to get an account that is managed by Safaricom but funds are banked as a float with the Commercial Bank of Africa. In addition to making person to person transfers, account holders can pay bills and purchase and transfer mobile phone credit. Cash deposits and withdrawals from the M-PESA account are handled through the agents..

The high proportion of unbanked individuals in Kenya is combined with a large number of domestic and international migrant workers needing to transfer money home and a lack of safe and reliable alternative cash transfer mechanisms. Safaricom has been in a unique position to exploit this demand. It has dominant market share (77%), and the Government is a major shareholder.

Safaricom has built on this advantage by deploying a strong branding and marketing campaign, rigid control of the agent network and a commission and pricing structure designed to incentivise growth through the agent network and customer recommendation. The combination of socio economic factors and operator market dominance enjoyed by Safaricom are uncommon. Indeed M-PESA's roll out in Tanzania has been far less successful.

In spite of this we believe an adapted M-PESA model, driven primarily by a need for convenient person to person payments, is transferable, though it needs to be carefully defined and marketed to drive adoption and bring a return to service providers. To assess the opportunities markets can be considered as:

- Mainly unbanked
- Mainly banked
- Hybrid

The proposition needs to be tailored according to the type of market, the level of competition amongst potential service providers and the availability of established alternatives.

We believe the potential is highest in other “mainly unbanked” markets but that there could be an opportunity in hybrid markets – where there is a significant population of both wealthy banked and poorer unbanked individuals and migrant workers and a need to transfer money between the groups and back home.

Nokia Money and Obopay (in which Nokia has acquired a \$35M stake and rights to use the technology) could address both opportunities. Nokia has stated its intention to address mainly unbanked markets where there is a relatively low penetration of bank accounts and a high penetration of mobile phones. Obopay has however launched its service in both India and the US.

Obopay offers similar facilities to M-PESA but also addresses banked individuals. In the US an account holder can send up to \$1,000 to any mobile phone user, for a charge of \$0.25 through a text message transfer. The receiver (who does not have to be registered with Obopay) pays nothing and can either sign up for an Obopay account or have the money transferred directly to their bank account. Consumer’s bank accounts and ATMs fulfil the role of the MPESA agents with an associated Obopay branded MasterCard offered to all account holders facilitating ATM cash withdrawal.

The service is being promoted primarily on the basis of convenience for casual person to person payments – those times where you would pay a family member, friend or a trades person in cash but don’t have the money to hand.

In Hybrid markets where the population is sharply divided between banked and unbanked, this model could form the basis of a single service capable of addressing the needs of both groups. Obopay has the simplicity to address the low end handset user, but has the functionality that could also be used by the more sophisticated.

Success will rely upon identifying a significant population of individuals who are unbanked or rely heavily on cash. Service providers will also need to have sufficient market weight and marketing resources to drive awareness and adoption.

We believe initiatives will need to be led by Retail Banks, MNOs or major branded payment service providers. Smaller payment providers such as Obopay will need to partner to successfully deploy.

Some key lessons from the M-PESA will also be fundamental to success, notably a focus on the branding and marketing to build consumer awareness, understanding of the benefits and trust. Pricing and user experience need to be designed carefully to drive viral adoption.

If the model is to really succeed interoperability will also be critical. It is unlikely that one provider will be able to dominate in most markets and if consumers need to register multiple accounts with competing providers the concept will fail.

We recommend that banks and MNOs and mobile payment providers carefully follow the progress of Obopay and its partners in the US. Interested service providers should also fully assess the financial and strategic returns for adoption of Obopay or deploying a similar solution.

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