Mobilising services for the good of all

#Financial Inclusion #Technology #Payments

Banks, FinTechs, telcos and regulators all have a role to play in turning mobile money innovation into financial inclusion.

Mobile money transfer service M-Pesa is synonymous with financial inclusion. With more than 22 million subscribers transacting US$150 million daily, M-Pesa, which is operated by Kenyan telco provider, Safaricom, uses mobile money agents across the country to enable subscribers to send and receive money via their mobile phone. Its use of ubiquitous mobile phones helps M-Pesa to

> You couldn't build Alipay in Africa.
>
> **Zennon Kapron,** founder, Kapronasia

provide a user-friendly and cost-effective alternative to traditional money transfer providers.

Mobile banking has demonstrated great promise in overcoming geographic, demographic and institutional constraints to financial inclusion in sub-Saharan Africa. But can M-Pesa's success be replicated in other parts of the world? How should mobile money ecosystems be developed in order for financial inclusion initiatives to succeed? What role could potentially be played by FinTech companies, banks, regulators, telcos and retailers?

These are some of the questions that an esteemed panel of experts – spanning central bankers, regulators, analysts and academics – will debate at a panel discussion on mobile money and financial inclusion this afternoon.

The promise of mobile money and digital channels as catalysts for universal financial inclusion is widely recognized and advocated, says Finn Erik Kolnes, panel session moderator and lead for financial inclusion strategies for Accenture Development Partnerships. "Digital lowers cost to serve, enables reach beyond branch networks and makes sources of big data available for assessing the credit of low-collateral customers," he states.

Success factors

However, Kolnes says M-Pesa's success has yet to be widely replicated outside Kenya. Even within Africa, its expansion has proved challenging. M-Pesa recently closed its South African operations, having failed to attract a critical mass of customers. However, its Tanzanian operations remain profitable, says fellow panellist Jay Rosengard, director of the Mossavar-Rahmani Center for Business and Government's Financial Sector Program at Harvard Kennedy School, Harvard University. "South Africa had more differences than similarities to the Kenyan market — whilst Tanzania had more similarities than differences," explains Rosengard, who recently published a research paper, 'A Quantum Leap Over High Hurdles to Financial Inclusion: The Mobile Banking Revolution in Kenya', funded by the SWIFT Institute. He points to a number of factors in the Kenyan market — the lack of a viable alternative for transferring money, security issues, growth in payments traffic – which contributed to M-Pesa's success.

Kolnes highlights the part played by the regulator — the Central Bank of Kenya – which took a pragmatic approach, making it more straightforward for Safaricom to branch out into the provision of financial services. "That would be so much more difficult for other regula-

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> **Jay Rosengard,** director, financial sector program, Harvard Kennedy School

tors to do at this point in time," says Kolnes, "as digital financial services ecosystems have become much more complex." To replicate M-Pesa's success in other markets would require considerable co-operation and collaboration between multiple parties, says Kolnes. "Regulators would need to have a clear view of the benefits of mobile money and financial innovation and be encouraged to take some risk to allow for limited pilots."

Alternative approaches to M-Pesa's telco-led model have emerged in Africa and Asia, says Rosengard. Describing M-Pesa as a 'virtual monopoly', he says Kenya's third largest bank by net assets, Equity Bank, which focuses on microfinance and small-and-medium enterprises, launched Airtel Money, a mobile banking service that enables users to pay bills and merchants for goods and services. According to Rosengard, competition from Equity Bank forced M-Pesa to change its pricing structure and to accommodate links to bank accounts. In Asia, Rosengard says Bank Rakyat Indonesia (BRI) operates one of the largest and most profitable microfinance programmes in the world, providing payments, savings and credit facilities in urban and rural areas. BRI has even launched its own satellite, and provides agency and mobile banking.

In remote parts of western China, e-commerce platform Alibaba is working with spin-off company Ant Financial's online payment service, Alipay (which does not require customers to have a bank account), to promote greater financial inclusion. Fellow panellist, Zennon Kapron, founder of Kapronasia, an independent research and consulting firm focused on the Asian financial services industry, says Alipay is taking an innovative approach providing microcredit loans to towns in rural areas. "They will identify an influential person in the town and then work with them to lend out the money," he explains. Alibaba has also made a major push into underdeveloped areas to help merchants get online, says Kapron.

The potential for promoting greater financial inclusion in China via mobile devices is significant, asserts Kapron, as there are higher levels of smartphone ownership than in Africa. The Chinese government has committed to promoting greater financial inclusion and has upgraded the telecoms infrastructure to 4G in most rural areas to facilitate mobile data provision. Other local players that could help promote greater financial inclusion include China's Postal Savings Bank, which is scheduled to launch a US$7 billion-plus IPO later this year. Kapron says the bank could use some of the proceeds to become a financially-inclusive bank as it boasts the largest branch network in China.

Work is being done, says Kapron, to determine the unique selling points of the different financial inclusion models to see if they can be replicated in other countries. "But you couldn't take Alipay and build that in Africa," he says, "as there are a unique set of circumstances that allowed that to happen in China." Kolnes points to a potential role in the mobile money 'ecosystem' for non-governmental and international development organisations like Care International, which know the low-income customers, are passionate about empowering them, and can promote financial literacy. "They could act as the last-mile partner to a commercial bank or telco," he explains.

Next phase

Whilst mobile money can reduce payment transaction costs, increasing the disposable income of poor families, Rosengard says the real pay-off comes when it is linked to other financial products such as savings, credit and insurance, which he sees as the next important phase of devel-

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opment for promoting greater financial inclusion. M-Pesa has launched a savings and loans product, M-Shwari, but Rosengard says it has high fees attached to it. "When it comes to asset accumulation, you really need the banks," he says.

But building a business case around promoting financial inclusion among lower-income, higher-risk customers remains challenging for the banks, says Kolnes, as it typically involves smaller transactions with a longer pay horizon. Many telcos, he says, struggle to create interoperable ecosystems and to graduate customers from payments towards the full suite of services, including savings, credit and insurance. "Banks can, in some cases, be reluctant to open up to telcos because they see them as a threat to core segments of their business," Kolnes explains, "and telcos may not have the balance sheet, risk management appetite or suite of financial services to promote financial inclusion initiatives."

Rosengard foresees a greater role for FinTech firms in promoting financial inclusion, for example by providing innovative solutions around credit appraisal and small business financing. Although the term 'financial inclusion' is often equated with low-income populations in developing countries, Rosengard says small, family-run businesses in both developed and developing countries are often neglected by the formal banking sector when it comes to the provision of readily available, low-cost financing. To remedy this situation, he suggests, banks could collaborate with FinTech companies to increase their outreach to the financially excluded, including SMEs, and to lower transaction costs and risk. ■

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Thursday 29 September – 14:00-15:00