

Prospects for Mobile Money in the Pacific

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PFIP Desired Outputs by 2011

- Scalable or replicable projects, that are sustainable and target low income
- Improved market intelligence and reliable information on supply and demand to catalyze entry of new players into the market
- “win-win” partnerships, among FSPs and with other actors (telecoms, etc.) with lower cost delivery channels
- Better informed consumers and industry-wide commitment to consumer education and protection

Outcome: 250,000 more with new or improved access by 2011...

PFIP Strategy – Build Inclusive Financial Systems

Policy, Legal & Regulatory
 Policy Environment
 National Microfinance Strategies
 Legal and Regulatory Framework

Financial Infrastructure

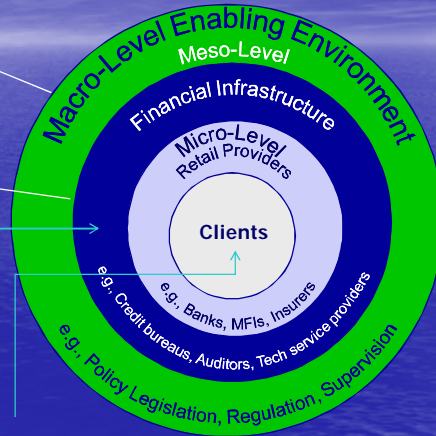
- Institutional Support
- Physical Infrastructure

Supply

Commercial Banks,
 Non-Bank Financial Institutions
 Savings and Credit Unions,
 Credit Cooperatives,
 Postal Banks,
 Insurers,
 Remittance Companies
 Leasing Companies

Demand

Low Income Households,
 MSMEs, Small-holder
 farmers, self employed
 women, Self Help Groups



PFIP Instruments

Policy, Advocacy & Coordination

- Advocacy
- Strategies
- Donor Coordination
- Global linkages

Knowledge Generation & Sharing

- Market Research
- Baseline Data
- Demand Studies
- Meetings, Conferences
- Scholarships

Technical Assistance & Grants

- Product development
- Systems development
- Expert advice

Key Actions 2008

- Research
 - Mobile money in PNG
 - Microinsurance in PNG, Fiji
 - Financial Capability in Fiji, Solomon Islands
- Sharing
 - Microfinance Pasifika Support
 - Pacific Microfinance Week
 - Targeted learning events
- Grants
 - All branchless banking
 - 2 banks, 1 MFI, 1 IT firm, 1 MNO
 - 1 regional, 2 PNG, 1 Fiji, 1 Vanuatu
 - 2 grants pending
- Technical Assistance
 - Government payments (Fiji)
 - Financial Education (Tonga, Samoa)

What is mobile money?

- m-payments – transferring money via mobile phones
- e-commerce – utilizing mobile phone for purchases
- m-banking – save, withdraw, receive loans, make payments with mobile phone
- m-wallet – all of above, including a place to store (i.e. save) money



Situation in the Pacific

- 8-9 million persons across over 20 countries and territories across 1/3 of earth's surface
- Est. 80% unbanked
- 80% rural, > 60% engaged in subsistence agriculture, low level of economic activity
- High dependence on international and domestic remittances (1 salaried:15-20 family members)
- Great need to transfer and carry money
- High cost of transport, poor infrastructure
- Modern banking system, but limited outreach
- Nascent microfinance institutions, limited outreach
- Culture constraints to entrepreneurship, savings, accumulating wealth

Definitions

- P2P – person to person transfer
- G2P – government to person transfer
- B2P – business to person
- ATM – automated teller machine
- EFT - electronic funds transfer
- POS –point of sale
- SMS- short messaging service
- USSD – unstructured supplementary service data



What can mobile money do?

- For clients
 - carry or store cash electronically
 - pay bills
 - transfer or receive money domestically
 - Remit or receive money internationally
 - Receive salaries, wages or other payment
- For business
 - Pay vendors, suppliers, or landowners
 - Reduce cash balances in stores, buyers
 - Increase store traffic
- For governments
 - Salary payments
 - Social protection payments

Models of Mobile Money

FACT:

77% of rural respondents note and income increase since adopting M-Pesa

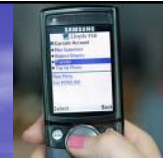
-CGAP

OBSERVATION:

"The greatest challenge of launching a mobile money services is the new relationship that have to be established...how fast a mobile money service can grow is dependent on the strength of these relationships"

GSMA Study

- Current models
 - Bank-led (Wizzit, WING)
 - MNO – led (M-Pesa)
 - Joint Venture
 - Third party – IT, Distributor
- Pacific Initiatives
 - BSP SMS banking
 - EsiPay (PNG)
 - Others ready to launch...



Why does mobile money matter?

- March 2007 - Safaricom launches M-PESA
- May 2008 – 2.7 million users and 3,000 agents
- May 2009 – 7 million users and 10,000 agents

- Demand is high
- It is scalable – no clear limit
- Real and opportunity cost savings are great
- Rural income increases (mostly women)
- Urban savings increases
- It is the first step for many for financial inclusion

Business model drivers

- Banks
 - Lower cost platform (than ATM)
 - Reduce ATM and branch traffic
 - Reduce funding cost
 - New customers
 - Transaction revenue
 - Can reduce bank transfer revenue

→ *Primarily defensive niche channel strategy*
- Telco's/Distributors
 - Facilitate sale of pre-paid airtime
 - Increase data usage
 - Decrease churn (increase "stickiness") on pre-paid voice customers
 - Leverage airtime distribution channels
 - Give agents new revenue stream
 - Not usually allowed to keep float

→ *Offensive marketing strategy*
- Third party
 - transaction fees
 - licensing software
 - serve corporate clients
 - May keep float

→ *Business proposition*

Lessons Learned

- Usage
 - Recurrent transfers (family support) are “bread and butter”, with one-off transfers growing
 - Transfers become smaller, more frequent
 - Urban usage drives rural registration
 - Nearly 50% maintain a balance for accessibility
 - Savings becomes more frequent, grows
- Trust in technology is high
- Trust in the offerer varies, early experience matters
- Mobile penetration must and must be with larger MNOs
- Agent incentives must be adequate
- Work within cash movement

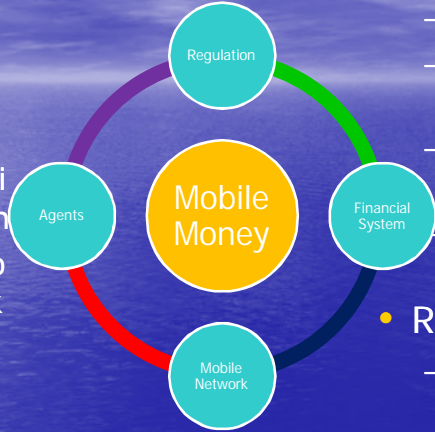
Vodacom M-Pesa (Tanzania)



- Worked through larger aggregators and independent agents
- Priced on a scale to attract smaller, more frequent payments
- Link registration to SIM and phone purchases
- Recurring remittances are a good starting point
- Early users hear through advertising, later from word of mouth
- Financial literacy is a constraint, marketing needs to educate

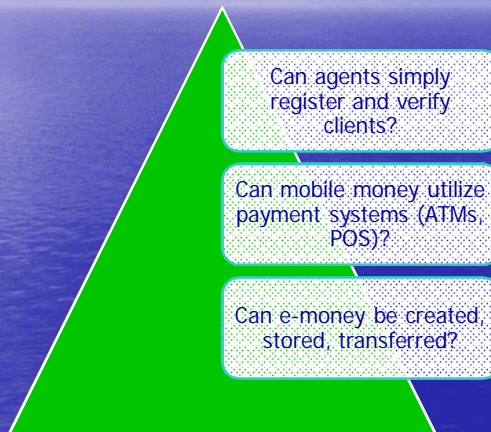
Partnerships

- MNOs
 - Platform
 - Hardware
 - Low cost
 - Geographic outreach
 - Distribution network
- Donors
 - Capital
 - Technical Assistance
 - Advocacy



- Banks
 - Cash movers
 - Banker to agents
 - Banker to MM operator
 - Linked bank accounts
- Regulators
 - E-money regulations
 - Agent regulations
 - KYC relaxation

Regulatory Questions



Opportunity

- Telecommunications liberalization in SI?
 - Entrance in 2007 of Digicel into PNG, Fiji, Vanuatu, Kiribati, Tonga, Nauru
 - In PNG alone, 1.5 million subscribers in 2 1/2 years (from 100,000)
 - Geographic coverage from 70-100% in most countries
 - Cost reduced by 25-60% due to competition
- Interested regional players (banks, telcos, distributors) who could work in multiple countries
- High and growing level of ATM, EFTPOS in most countries
- Permissive (but unpredictable) regulatory environment
- High demand for domestic and international remittances
- Large market of unbanked - only 75,000 have bank accounts in SI
- High demand for increased security

Next Steps for the Solomons?

- Allow rapid mobile phone penetration, price competition
- Enabling regulation and policies
- Build relationships Look at cash movers outside of Honiara
- Leap frog technology (e.g. no ATMs or POS)
- Catalyze system with government and business payments

Ideas?

- Why would people want to move or store money? What market research is needed?
- Who are the major money movers?
- Who has the best distribution network?
- What regulations do we need to change, create?
- What policies could incentivize mobile money?