Cross-border telephone remittances increase in Africa

By Anna McGovern

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More people in Africa's poorest countries have mobile phones than have bank accounts. That reality is spurring mobile service companies to explore how they can capture a share of the potential banking market by enabling migrants from these countries to transfer funds back home to their families.

Sending remittances by mobile phone can be a cheap, efficient and safe alternative to the usual channels of employing money transfer companies or acquaintances traveling to the home country. Money can be sent to even remote rural areas quickly, so long as the recipient has cell phone access or can go to a participating business that pays out cash.

The market is a potentially lucrative one, Pieter Verkade, an executive at the MTN telecommunications company, told Africa Renewal. Such transfers already are "a well-beaten track, with a lot of migrant remittance money coming into Africa for some time through other channels."

The technology is taking hold especially in countries where established transfer services charge high fees. Kenya's Safaricom and the UK telecommunications firm Vodafone blazed the trail in 2007 when they launched M-Pesa (M for "mobile" and pesa meaning "money" in KiSwahili). It has since expanded into an international transfer service for migrants in the UK sending money home to Kenya. By the end of 2010, four mobile phone operators had signed up more than 15.4 million subscribers - more than half of Kenya's adult population - to their mobile money transfer services.

M-Pesa's rapid growth is particularly astonishing since the service was, at first, "virtually ignored by the financial institutions," recalls Bernard Matthewman, chief executive of Paynet, which developed software for M-Pesa that allows cardless transactions at ATMs.

Part of the early challenge in launching the service, says Matthewman, was convincing banks that people outside major cities were potential customers. Many of the people M-Pesa hoped would sign up had never used an ATM before, let alone used an ATM without a card. Since the launch of M-Pesa, some US$100 million has been withdrawn by remittance recipients from PesaPoint ATMs, without the need for bank cards or a bank accounts.

The use of mobile money transfers for remittances and small payments, such as school fees and utility bills, has expanded beyond Kenya. In South Africa, Vodacom recently teamed up with Nedbank to offer the service for domestic transfers. "Vodacom's existing penetration into the target market was attractive to us," says Ilze Wagener, an executive at Nedbank.

Mobile money transactions can offer banks a way to reach people in rural markets without the expense of building new branch offices or agency outlets. By May 2011, nine months after its launch, the Vodacom-Nedbank partnership had

signed up 140 000 customers in South Africa and set up more than 3 000 M-Pesa outlets and 2 000 ATMs throughout the country.

In some countries, banks are forming partnerships with multiple telecommunications companies. "The mobile money network we now have in place, through partnerships with four different telecoms companies in Ghana, has enabled us to extend our services to reach customers in every part of the country," Owureku Osare, Ecobank's head of transaction banking in Ghana, told Africa Renewal.

There are increasing signs that traditional banking and other financial services are adapting to this new technology and new market. Banks offering mobile money services are encouraging people who may have some money left over from remittances to hold it in "mobile wallets," basic electronic accounts linked to a mobile phone.

"By making it easy for unbanked people to hold money in the mobile wallets linked to their mobile phone numbers, the hope is that eventually the money will find itself in an actual bank account," explains Osare. In May, Ecobank introduced a mobile savings account that can be linked to a mobile wallet for customers in West Africa.

Last year M-Pesa formed one of the first partnerships in which a telecoms company and bank teamed up to offer a basic interest-earning savings account, known as the M-Kesho M-Pesa Equity Account. By mobile phone, an M-Pesa user can move money from an M-Pesa mobile wallet to an interest-bearing electronic M-Kesho account, held with Equity Bank.

According to a 2010 report by the Bill and Melinda Gates Foundation, M-Kesho attracted 455 000 new account holders within its first three months, taking off at a faster rate than the M-Pesa service itself had in its earliest stages. In addition to providing a full virtual account managed from a user's cell phone, M-Pesa offers the M-Kesho account holder the opportunity to take out a microloan after several months.

Beyond savings accounts and microloans, banks have also begun introducing prepaid debit cards and insurance services to this new market. Insurance policies that cover funeral costs are now an important financial service in many African markets, but so far they have usually been confined to cities, according to Verkade.

With mobile money transactions catching on rapidly in Ghana, Hollard Insurance and Mobile Financial Services Africa joined with MTN in early 2011 to launch mi-Life, a mobile "micro-insurance" service available by mobile phone. "These insurance services make complete use of our technology, so that the entire registration process also happens over the mobile phone," explains Verkade.

Another logical step is to move more in the direction of "cash-lite" - transactions that eliminate or greatly reduce cash in the money transfer system, says Matthewman. "We're beginning to see that already, where you can buy your prepaid airtime on an M-Pesa phone and send the airtime to another phone user, eliminating the need for paying in cash." In that way, a remittance sender could send prepaid airtime to a recipient, who in turn could exchange the airtime directly for goods or services at participating retail shops.

Source: Africa Renewal

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