



# Mobile Money for the Unbanked

## Is there Really any Money in Mobile Money?

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## Is There Really any Money in Mobile Money?

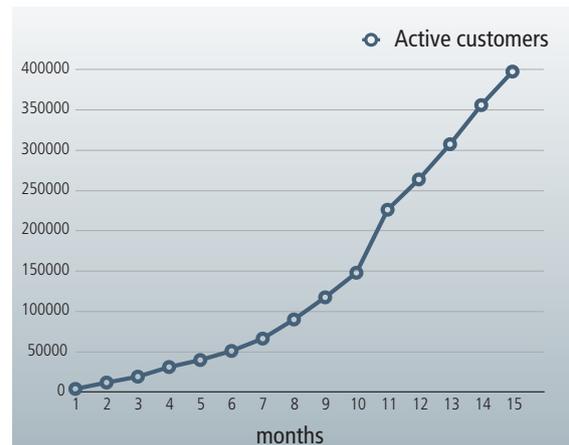
From Afghanistan to Zambia, mobile network operators (MNOs) in developing countries are launching mobile money services at a rapid pace. Yet while their enthusiasm to enter this business is clear – to date 78 deployments have been launched and another 83 are being planned – their rationale for doing so is not. There’s no doubt that Safaricom’s runaway hit, M-PESA, is profitable. But Kenya represents somewhat of an anomaly – the perfect coalescence of latent demand, a dominant MNO and a progressive regulator. So the question remains for just about every MNO outside of Kenya: is there really any money in mobile money?

To answer this question, GSMA has studied our portfolio of MMU fund grantees, which includes rapidly scaling deployments like easypaisa in Pakistan, M-PESA in Tanzania and Kenya, and True Money in Thailand; interviewed mobile money practitioners; and conducted a deep-dive into the operational and financial results of MTN Uganda’s MobileMoney, a promising deployment from the East African country of 32 million where 80% of the population lacks access to financial services.

In an effort to provide a level of depth that’s useful to mobile money practitioners, we’ll focus primarily on MTN Uganda’s MobileMoney, but will be sure to put their experience in a global context where relevant. So before we answer the provocative question posed in the title of this chapter, first a bit of background on MTN Uganda’s MobileMoney.

Launched in partnership with Stanbic Bank in March 2009, the service enables customers to send and receive money domestically and buy airtime using their mobile phone; it’s delivered via a network of 1,400 agents; and, most importantly, **it’s growing rapidly, now counting 400,000 active customers, processing as many as 385,000 P2P transfers per month, and serving as the channel through which 3% of total airtime is sold per month.**<sup>1</sup>

Exhibit 1: Growth of active customers and transactions for MTN Uganda’s MobileMoney



**Active Customers**, defined as any customer that has performed a cash-in, P2P transfer, cash-out, or airtime top-up within 90 days.



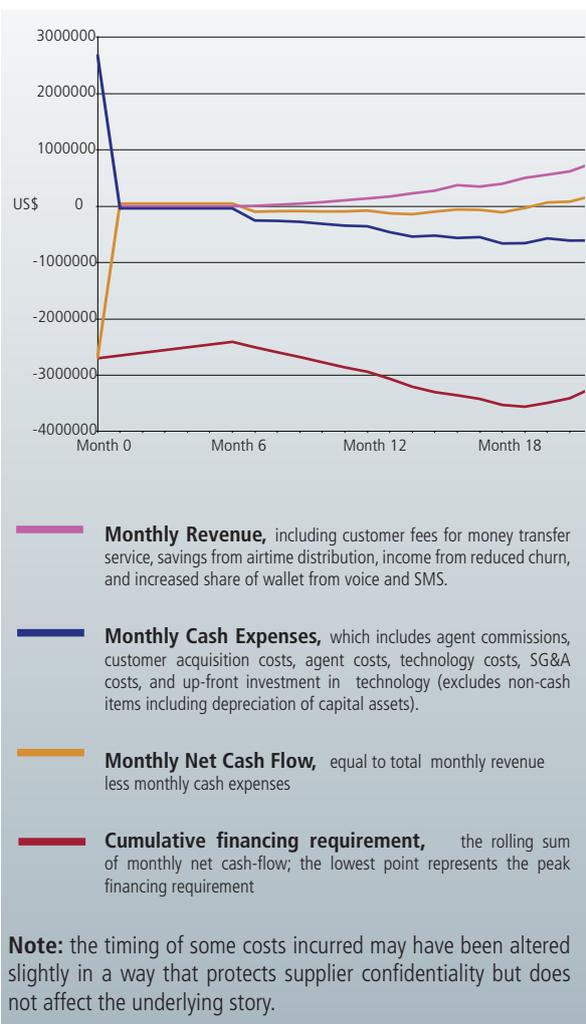
**P2P transfers**, defined as a transfer of money to a registered or unregistered customer.

While MTN does have a full roadmap of features planned, we’ve not made any projections in our study: every insight presented is based on actual data and has been analysed using our GSMA financial model.

MTN Uganda’s MobileMoney is now cash-flow positive on a month-to-month basis – and they crossed this critical threshold just 14 months after launch.

So, is there really any money in mobile money? In the case of MTN Uganda's MobileMoney, the answer is yes. **The service is now cash-flow positive on a month-to-month basis – and they crossed this critical threshold just 14 months after launch.** MTN's peak financing requirement, or the amount that they had to finance before MobileMoney became cash-flow positive, was less than US\$4 million.

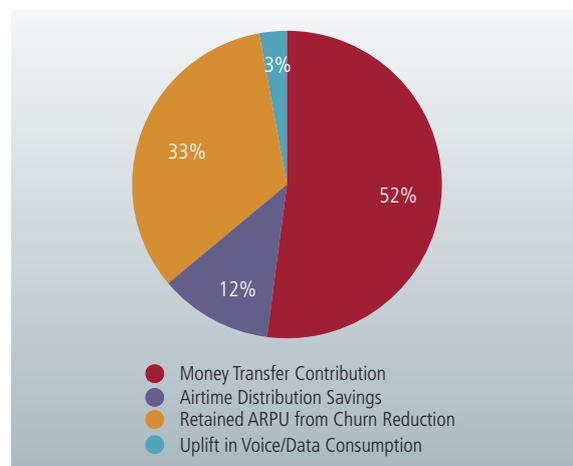
**Exhibit 2: Financing requirement for MTN Uganda's MobileMoney**



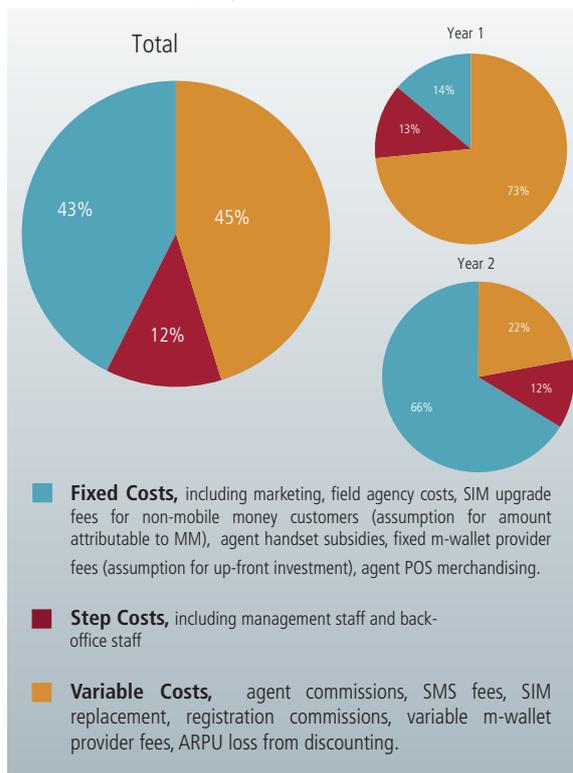
For MTN Uganda, these numbers are exciting. But what's interesting for mobile money practitioners everywhere is exactly how this service became cash-flow positive. **We found that indirect benefits unique to MNOs – including savings from airtime distribution, reduction in churn, and increased share of wallet for voice and SMS – combined to**

**account for 48% of MobileMoney's gross profit to date.** We also found that 55% of the costs in the business to date are variable and step rather than fixed; in other words, **MTN's financing requirement has been (and increasingly will be over time) driven by their own customer growth.**

**Exhibit 3: Gross Profit contribution to date (MTN MobileMoney Uganda)**



**Exhibit 4: Breakdown of Total, Year-1, and Year-2 costs (MTN MobileMoney Uganda)**



## How Much Must an MNO Invest in Mobile Money Before Turning a Profit?

The first chapter of this article introduced MTN Uganda's MobileMoney, a service that has turned an exciting corner into cash-flow positive territory. But the CFO of any mobile network operator (MNO) knows that simply getting out of the red on a month-to-month basis is not enough; his alternative investment options are usually very attractive, so he needs to know just how much is required to scale a mobile money service – and whether future income will justify the spend.

Unfortunately, **there's no generic amount that an MNO – in any market, operating with any business model – can assume they need to invest before turning a profit.** Until now, Safaricom's M-PESA has provided the industry's only reference point; and the best estimates reckon that Safaricom and Vodafone have spent to the tune of US\$30 million scaling the service so far.<sup>2</sup> **Our team's recent analysis of MTN Uganda's MobileMoney indicates that they've spent somewhat less, roughly \$10.5 million in total costs and investments to date, driving the service into cash-flow positive territory on a month-to-month basis.** It does merit note, however, that in its first 16 months M-PESA grew twice as fast as MobileMoney in terms of customer registration as a percent of mobile subscribers (roughly 31% vs. 17% by month 16).

Alas, in the absence of context, top-line investment figures like these are of limited applicability. For starters, Kenya's population is 36 million – so the country is a bad comparable for practitioners in Fiji (population 844,000), India (population 1,100,000,000), and most countries in between. Moreover, for better or worse, MNOs in other countries have not replicated the M-PESA model: in some cases they've promoted different services, and in others struck different bank partnerships – and each of these factors impacts profitability.

It's difficult to 'spend like Safaricom' unless customers are adopting and using the service

Finally, and perhaps most important, **a successful mobile money service's financing requirement will ultimately be driven by variable and step rather than fixed costs;** in other words, it's difficult to 'spend like Safaricom' unless customers are adopting and using the service.

So instead of asking "how much must I invest?", the more relevant question practitioners have begun asking is "what costs will drive my financing requirement?". To answer this question, let's again examine the case of MTN Uganda's MobileMoney.

In Exhibit 4, we see that so far, 55% of MobileMoney's financing requirement stems from variable and step costs, and 45% from fixed costs – **thus, more than half of their financing requirement has come, in part, from customer adoption and use.**<sup>3</sup> We also see that in their first year of operation, they incur an initial flurry of fixed costs, including investment in the m-Wallet platform, upgrades to their SIM access gateway, spending on above-the-line marketing<sup>4</sup>, and opting to embed their application on all new SIM cards. These fixed costs were not insignificant – yet as the service grew, they were quickly overtaken by variable costs, including customer registration commissions, agent commissions, and per-customer technology licensing fees. **In the second year of operations, variable and step costs like these account for fully 66% of the total costs in the business.**

It's clear, then, that the financing requirement for a successful mobile money service is driven largely by variable and step costs – but is all the spending even worthwhile? That is, can mobile money services generate a sufficient net present value (NPV)? For MTN Uganda's MobileMoney, the signs are promising: if we assume that the service continues to grow roughly at Uganda's rate of inflation and then include the terminal value in our calculation, the NPV for MobileMoney is positive. It's difficult to say exactly when the cumulative net cash-flow curve in Exhibit 2 will become positive, particularly since MTN is planning to launch additional services that will surely generate incremental revenue; still, simply based on the foundation they've laid with their domestic money transfer and mobile top-up offerings, it's only a matter of time before MTN recoups its investment.

<sup>2</sup> Mas, Ignacio and Radcliffe, Daniel, Scaling Mobile Money (September 22, 2010)

<sup>3</sup> And as the service grows, the model will be predicated even more on variable and step costs

<sup>4</sup> MTN has spent a total of US\$850,000 on above-the-line marketing; this amount is assumed to be slightly skewed to up-front spending.

## How Significant are Airtime Distribution Savings to Profitability?

One of the most important sources of value for mobile network operators (MNOs) who offer mobile money services is the ability to sell airtime using the platform. When a customer buys airtime using mobile money rather than with scratch cards, operators unlock value in two ways. **First, they pay lower commissions:** the commissions paid to agents for performing cash-in (a necessary step before buying airtime) are typically lower than the discounts at which MNOs sell airtime to the channel—although the degree of difference will vary by market. **Second, MNOs save on the manufacturing and storage of scratch cards.** Any savings realized in these ways flow straight to their pre-tax bottom line.

So how big a deal is this? We've found that for successful services, savings from airtime distribution can be a big deal indeed. **For MTN Uganda's MobileMoney, this value source has contributed a total of 12% of their gross profit to date.** Even though the service is less than a year and a half old, MTN has still managed to derive significant value from their mobile top-up feature: in their best month so far, roughly 3% of total airtime was sold through MobileMoney – at more than a 9% savings compared to airtime that would have otherwise been purchased via scratch cards.

For MTN Uganda's MobileMoney, savings from airtime distribution has contributed a total of 12% of their gross profit to date

Beyond Uganda, MNOs are collectively eyeing – or already capitalizing on – mobile top-up as a means of reducing their cost of distributing airtime. **Safaricom has led the way, apparently selling 19% of its airtime on M-PESA.** And in the context of total profitability for their service, this feat has been important: if we assume that Safaricom saves 8% in costs on airtime sold through M-PESA, and assume that in their last fiscal year, they sold about \$800 million in prepaid airtime in total, this suggests that they'd have generated savings of \$12.8 million (note that these figures are illustrative). By some estimates, that's more than a quarter of what M-PESA generated in profits on a standalone basis.

Outside of Africa, mobile top-up has been an equally important value driver for mobile money services – and often by strategic necessity. In the Philippines, where existing domestic money transfer alternatives are better than Kenya, both SMART Money and G-Cash have aggressively promoted their mobile top-up services; in Indonesia and Thailand where regulatory guidelines currently don't allow customers to withdraw money from an e-wallet, Telkomsel and True Move have both promoted mobile top-ups for T-Cash and True Money respectively as an important 'use of electronic funds'; and in Fiji, where physical distribution of scratch cards to remote areas can be a challenge, Digicel and Vodafone have both launched with mobile top-up as a core feature.

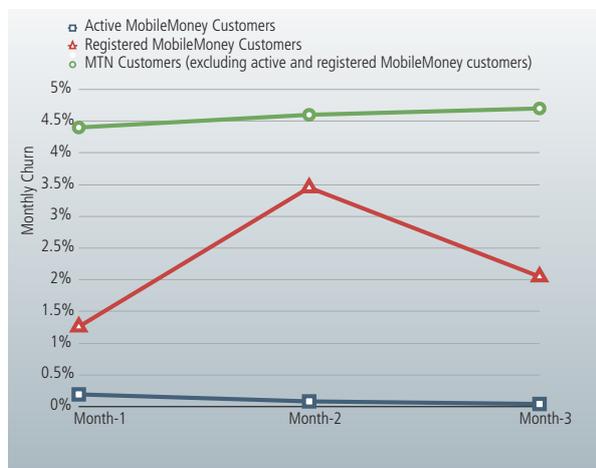
So how can MNOs evaluate the importance of mobile top-ups to their profitability? The first step is to identify the size of the discount at which airtime is sold to the channel: the higher the discount, the greater the opportunity for mobile money to deliver value. Second, an MNO must estimate the percent of total airtime sales they can reasonably convert from scratch-cards to mobile money. And third, an MNO must consider the myriad costs involved in facilitating mobile top-ups. These can include but are not limited to: perpetuities paid to top-tier agents on airtime sales for customers they register for mobile money; incentives paid directly to frontline agents or customers themselves to stimulate adoption; and commissions paid to agents for facilitating cash-in (because customers can't buy airtime from an empty e-wallet).

## How Significant are Churn Reduction Benefits to Profitability?

If you've ever attended a mobile money conference, you've likely heard a speaker tout the potential benefit of 'reduced churn' that mobile money can unlock for an MNO. But what you probably haven't heard is whether any service has actually delivered on this promise – and if so, whether the subsequent benefits amount to a big or small deal in the overall financial model.

In our analysis of MTN Uganda's MobileMoney, a service that has turned the corner into cash-flow positive territory on a month-to-month basis, we uncovered a startling finding: **in any given month, the churn rate for active mobile money customers is negligible.** That is, while the churn rate for regular mobile customers was roughly 4.5% per month, the churn rate for an active mobile money customer was no more than 0.2% over the course of the three months for which we analysed data.

**Exhibit 5: Churn Comparison (MTN MobileMoney Uganda)**



This is a dramatic reduction, but the question remains: does it make much of a difference to the overall profitability of the service? In the case of MobileMoney, the answer is a resounding yes. Of the total revenue generated to date, churn reduction benefits account for 33% – and if the service wasn't delivering this benefit, MobileMoney would have barely been out of the red by now. In other words, the benefit of reduced churn matters – a lot.

Alas, there is one catch: **not every service we've studied has generated results as impressive as the**

**ones described above.** Some services report a less dramatic reduction in churn; some report no change in churn; and some even report a slight temporary increase in churn. This variance underscores an important message for MNOs that launch mobile money services on the basis of potential for churn reduction: the benefits are real and attainable, but only for those who execute effectively. That is, the services that have not realised any churn reduction benefits are those that have registered customers with no real interest in the service, or been plagued by bad customer experiences, poorly planned agent networks, and half-hearted attempts at creating a strong brand and relevant service offering. It's easy to see, then, why executives in some countries have gone as far as charging internal transfer pricing premiums to their mobile money business units, reasoning that a poorly executed foray into financial services will do nothing more than jeopardize existing relationships with valuable mobile customers.

So what does this mean for a mobile money practitioner? First, it means that execution is everything. **The promise of 'reduced churn' has been realised – but only by deployments that are well funded and have executed effectively.**

Second, **without considering the benefits of reduced churn, the profitability picture is incomplete.** Today, many MNOs choose to exclude churn benefits from their P&L or business plan: some do so because executives are sceptical about whether variances stem from 'causation' or 'correlation'; others reason that if this service is to be sustainable, it must be on the basis of direct benefits alone. The latter rationale is prudent, but when capital budgeting season arrives and executives start to ask for IRR figures, it behoves practitioners to have these figures at hand.

And finally, **the significance of churn reduction benefits underscores the importance of tracking the right metrics.** For practitioners to gauge whether the service is moving the needle on churn, they must first have a process established, usually one in which an external data warehousing team is engaged, to track the metric. This can be time consuming, but given the potential importance of this metric, it's clearly worthwhile.

## How Significant is ARPU Uplift to Profitability?

The previous chapter described how significant churn reduction benefits can be to the profitability case for mobile money; and when people talk about indirect benefits, ‘reduction in churn’ is usually closely followed in the same sentence by ‘uplift in ARPU’ (Average Revenue Per User). Having shed light on the important role churn benefits can play in the context of profitability, in this chapter we’ll focus on the role of uplift in ARPU. But before we answer the question posed in the title of this chapter, let’s first determine whether ‘uplift in ARPU’ is even the right metric for practitioners to measure.

To gauge whether mobile money actually causes customers to spend more, ‘uplift in ARPU’ would need to be measured over time. But this particular type of analysis is tricky. First, the average selling price for airtime and SMS, and therefore ARPU, in a country varies for any number of reasons on a month-to-month basis, so it’s impossible to simply attribute any change solely to mobile money. Second, in many cases ARPU figures will already include revenue generated from mobile money – so taking credit again would be inaccurate.

It’s clear, then, that ‘uplift in ARPU’ isn’t a perfect metric. But what, if anything, is? **We propose that the less catchy, but somewhat more accurate, phrase of “increased share of wallet for voice and SMS” is the more relevant metric.** By measuring ‘minutes of use’ and ‘billable SMS events’, an MNO can isolate changes in customer behaviour, something that’s not possible with an ‘uplift in ARPU’ calculation. Additionally, “increased share of wallet” accurately describes just why a mobile customer might consume more mobile services on their mobile money SIM; that is, it’s easier to imagine a customer who carries two SIM cards, each month spending \$3 on one, and \$2 on the other, shifting some of her spending to the stickier of her two SIMs. So if we accept “increased share of wallet for voice and SMS” as a good metric, the question still remains: is it a significant driver of profitability?

Unfortunately, our findings in this department are inconclusive. From a survey conducted in 2009 by McKinsey & Co., CGAP and GSMA, we know that in the Philippines 44% of mobile money users carry more than one SIM, and 68% report using their mobile money SIM as their ‘primary SIM’; this is encouraging, but not conclusive evidence that

this benefit is real. In the case of MTN Uganda’s MobileMoney, active customers do consume slightly more voice and SMS than non-mobile money customers, but drawing a solid conclusion here would be incredibly challenging from a data-mining perspective.

While we haven’t conclusively pinpointed the impact of “increased share of wallet for voice and SMS” in a financial model, it’s plain to see that the potential to reap benefits is massive – and there are some steps MNOs can take to position themselves to do so.

Beyond executing well to ensure customers do indeed have an incentive to keep their mobile money SIM in the phone more often than not (a subject I discussed in the previous chapter), promoting mobile money as a method of topping up is also important. In particular, **MNOs have found success by promoting mobile money as an option for topping up in small increments, and topping up after hours when scratch cards may be unavailable.** For instance, WING, a Cambodian mobile money service, has enjoyed success with their mobile top-up feature, and found that 33% of top-ups on their system occur outside typical store hours, and 70% occur at the US\$1 price point, a level at which scratch-cards are a particularly expensive as a distribution option.

## How Significant are Direct Revenues to Profitability?

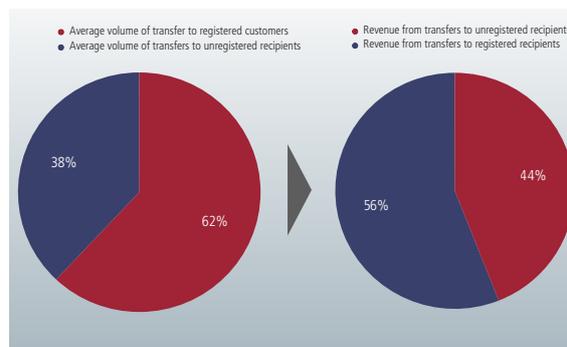
So far in this article, we've written about the role that indirect benefits play in enabling a mobile network operator (MNO) to turn a profit from a mobile money service – but what about the most obvious source of value, direct revenue from customer fees? After all, this is often the single source of value upon which MNOs evaluate the business case for mobile money.

For MTN Uganda, who currently offer domestic money transfer and mobile top-up services, direct revenues include fees to send money, and fees to withdraw money from an e-wallet. **To date, these direct revenues, less commissions paid to agents, contribute 52% of total gross profit for the service.** It's clear then, that this is an area of the business case not to be neglected. So how can MNOs ensure they're well positioned to fully capture this source of value? Well in the case of MTN Uganda's MobileMoney, **one decision has had more of an impact than any other: enabling P2P transfers to unregistered recipients.**

Uganda is a fragmented mobile market: according to Wireless Intelligence at time of writing, MTN holds 44%, Zain, Warid and Uganda Telecom each hold roughly 18%, and Orange holds 3% market share. So it's not surprising, then, that when MTN launched the service, they made sure customers could send funds to recipients on any network. **To date, 38% of P2P transfers made using MobileMoney have been from a registered customer to an unregistered recipient;** and this use case has generated 45% of total revenue (and even more in gross profit). Two things are striking about this data: first, **the overall number of P2P transfers to unregistered users is quite high**, which suggests that had MTN not offered this option, they likely would have left some revenue on the table. Second, **P2P transfers to unregistered users are more lucrative for MTN than P2P transfers to registered users** (i.e. 38% of transactions are generating 45% of revenue). This occurs because MTN charges customers a premium – 7% for low and 94% for highest value transfers – to make a transfer to an unregistered recipient, and the commission paid to agents remains the same. Thus, by enabling P2P transfers to unregistered recipients, MTN not only expands the base of potential users for their service, they also generate a significant amount of revenue.

Exhibit 6: % of transactions to unregistered customers

Exhibit 7: Money Transfer Revenue



But not every MNO allows P2P transfers to unregistered recipients: some reason that by doing so, they are forfeiting potential net new mobile revenue from recipients who, if they want to receive money, have no choice but to activate a SIM from the MNO in question (and then, as the theory goes, start to use this new SIM for mobile services, too). But this walled garden logic is risky: mobile money is a service that is predicated on network effects, and particularly in countries with fragmented mobile market share, the 'closed model' presents an insurmountable customer experience barrier to adoption, ultimately making it difficult to scale the mobile money service. And if a mobile money service cannot scale, its sustainability becomes questionable – so in the end, any benefits of net new revenue will be short lived.

It's clear, then, that direct revenues are a significant value source, and mobile network operators have an opportunity to maximize them by enabling P2P transfers to unregistered recipients – a feature that, coincidentally, is just what customers in Kenya, Uganda and other successful mobile money countries have demonstrated that they want.

## How can an MNO Manage Costs to Achieve Profitability?

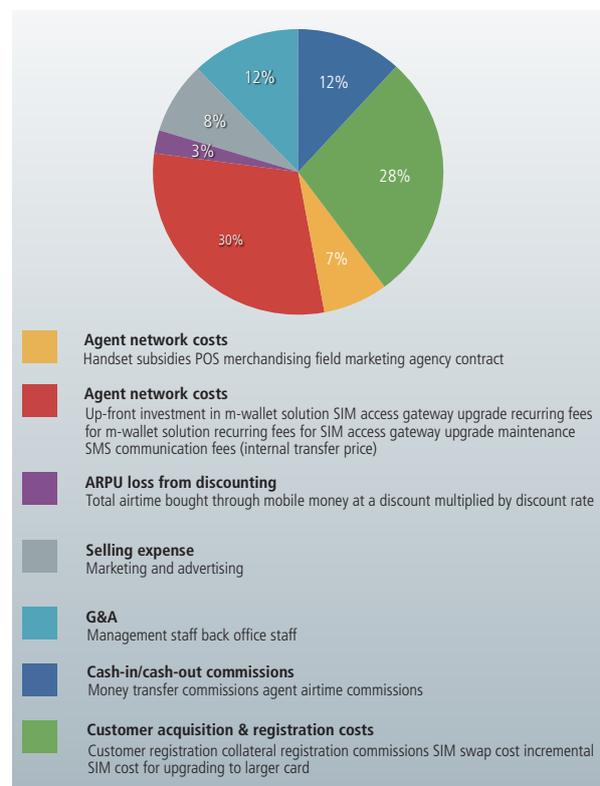
When most people hear the phrase “to turn a profit, we need to manage our costs”, they usually take it to mean “to turn a profit, we need to reduce our costs”. But when it comes to mobile money, practitioners have found that some costs can be done away with more easily than others. So the trick, then, is to understand which are strategic (and must be protected), and which are discretionary (and can be curtailed).

But before we begin our evaluation process, let’s first briefly take stock of the costs (and there are many) that are involved in launching a mobile money service. Before launch, MNOs incur a series of technology costs, including investing in an m-wallet platform, upgrading their SIM or USSD access gateway (in most cases), and deciding whether to embed their application on all new SIMs – and in most cases consequently upgrade to a larger card (while this isn’t a cash outlay at first, it’s a decision of major financial significance). The next tranche of costs are go-to-market related, and include recruiting and paying for management and back-office staff, training and merchandising a network of agents, and designing and launching above and below-the-line marketing campaigns. Most of the costs identified thus far carry on after the service has been launched, but the day a service goes live, a third set of costs come into play: ongoing costs. These typically include cash-in/cash-out commissions for agents, SIM cards, starter packs and agent registration commissions for customer acquisition, and internal transfer fees for using SMS services or selling airtime at a discount. For a full breakdown, refer to Exhibit 8.

So which of these are strategic and which, if any, are discretionary? Unfortunately, answering this question is not as simple as sorting costs according to size. If we look at the drivers for MTN Uganda’s MobileMoney, we find that **highly strategic operational activities – things like building and managing an agent network, or providing great customer care – are comparatively inexpensive**. Since launch, 7% of MobileMoney’s total costs have been on building and managing their agent network<sup>5</sup>, and 4% has been on back-office customer care.<sup>6</sup> And while it’s true that Safaricom spends somewhat more on these particular activities, and has benefited from an agent network of industry leading quality, the insight is

still applicable: these activities are routinely touted as strategic imperatives for any successful mobile money service – but for MTN, they’ve cost a pittance compared to the amount spent on technology<sup>7</sup> (30%) or customer registration commissions<sup>8</sup>(12%) to date.

Exhibit 8: Detailed breakdown of costs



So if these activities deliver such good value for money, why do some practitioners have a difficult time getting budget to do them properly? In many cases, this stems from the fact that **highly strategic, financially insignificant costs often require a commitment to spend in advance of having any indication of whether the mobile money service will be a success**. For instance, MTN had to commit to a fixed monthly contract with a field marketing agency (\$623,000); pay for and train their dedicated call centre representatives (\$440,000); and design and fund an above-the-line marketing campaign (\$850,000) all prior to launching their service. Each of these activities has been instrumental in MTN Uganda’s success, **and their decision to invest aggressively in them ultimately stemmed from their confidence that the service would become a hit**.

<sup>5</sup> Includes handset subsidies, agent POS merchandising, and field marketing agency costs

<sup>6</sup> Includes total cost of back-office staff

<sup>7</sup> Includes cost of m-wallet platform and monthly charges, SIM access gateway upgrade and monthly maintenance charge, and SMS communication fees

<sup>8</sup> Includes commissions paid from MTN to agents (\$1.33 per registration).

But that's not to say all of their spending has been strategic; some costs were discretionary, and potentially could have been substituted for less expensive, equally effective alternatives. For instance, MTN recently introduced an airtime bonus for customers who top-up using mobile money, an incentive many MNOs have used in an effort to encourage customers to top-up using their e-wallet. But this tactic was particularly costly since it negates a big portion of the savings realised from eliminating discounts paid to dealers.

Moreover, like they have in other markets, MTN has pursued a strategy of aggressively registering new customers in Uganda. In practice, this has meant registering more inactive customers (552,213) than active ones (421,254). And this strategy has been expensive: MTN has spent a total of \$1.3 million on registration commissions and new SIM cards for customers that have not performed a single revenue-generating transaction..

MTN's decision to invest aggressively in marketing, agent monitoring, and call centre staff ultimately stemmed from their confidence that the service would become a hit



## How can MNOs Ensure Their Tariff and Commission Models are Well Designed?

For a mobile money service to scale and achieve profitability, it's critical to have well designed customer tariff and agent commission models. So how can MNOs ensure their tariff and commission models are well designed? Here again, MTN Uganda's MobileMoney exemplifies some key insights.

If the MobileMoney customer tariff model looks familiar to you, that's probably because you've seen it in action before: in structure, it's a replica of Safaricom's M-PESA. And as Ignacio Mas noted in the 2009 Mobile Money for the Unbanked Annual report, this tariff structure (and the way it's taken to market) works for a few reasons: **it's simple and transparent, customers are not bound by minimum balance requirements or prohibitive deposit fees, and it offers customers an ability to send money to non-customers.**<sup>9</sup> It's inevitable that MNOs will innovate and trial new models, but the design features listed above can be considered prerequisites for an effective tariff model in any environment.

MTN MobileMoney Rates

Activity	Transaction Tiers		Charge
	Min	Max	
Loading Money	5,000	1,000,000	0
Sending Money			
To registered user	5,000	1,000,000	800
	5,000	30,000	1,600
	30,0001	60,000	2,000
To non-registered user MTN or Local network	60,0001	125,000	3,700
	125,001	250,000	7,200
	250,001	500,000	10,000
	500,001	1,000,000	19,000
Withdrawing			
	5,000	30,000	700
	30,001	60,000	1,000
	60,001	125,000	1,600
By registered user	125,001	250,000	3,000
	250,001	500,000	5,000
	500,001	1,000,000	9,000
By non-registered user MTN or Local network	5,000	1,000,000	0
Buying airtime	5,000	1,000,000	0
Daily transaction limit	UGX 1,000,000		

It also merits note that MTN Uganda's customer tariff model grants customers minimal leeway to defraud the operator of prospective direct revenues. That is, given that the P2P transfer fee typically accounts for less than half of the total end-to-end cost of sending money using the service, **customers have little incentive to perform a direct deposit.** Moreover, MTN has structured its tariff tiers in such a way that **there is no opportunity for a customer to reduce their fees by splitting a cash-in or cash-out into multiple smaller tranches.**

But it's not just MTN's customer tariff model that merits attention. Their agent commission model has been thoughtfully designed, too. The article Neil Davidson and I wrote for the 2010 Mobile Money for the Unbanked Annual Report details most of our thinking on agent incentives, but it's worth briefly noting here how MTN espouses some key principles.

First, **MTN pays MobileMoney agents a commission for every activity that they perform, even though MTN may not charge customers a fee directly for each one.** For instance, even though MTN doesn't charge customers a fee to cash-in, they do provide agents a commission for providing this service in recognition of the time and cost involved. Of course, while MTN take a temporarily hit by subsidising cash-in, the fees collected from an end-to-end money transfer (which includes a cash-in, a transfer, and a cash-out) do exceed the corresponding commissions paid. **All told, the margin MTN earns for a typical end-to-end P2P transfer (excluding variable technology fees) to a registered customer is just north of 50%.**

Second, while MTN may pay agents for both cash-in and cash-out, **they deliberately pay a higher commission to agents for facilitating cash-out than they do for cash-in.** This stems from the simple fact that 'cash-out' agents have a higher cost of restocking their inventory of physical cash than cash-in' agents do for restocking their inventory of e-money. As such, 'cash-out' agents must be compensated accordingly.

<sup>9</sup> Ignacio Mas: Good Service Design Features of M-PESA's Money Transfer Service. 2009 MMU Annual Report.

Third, MTN recognized that to keep agents engaged in the period following launch when transaction volumes are typically low, it would be important to provide them with a different source of revenue. **To this end, they have provided agents with a commission for every customer that they register.**<sup>10</sup> Thus, in the early days following launch, MobileMoney agents earned money by registering customers; as the service scaled they increasingly earned their money from facilitating cash-in and cash-out transactions for customers.

## **Appendix A: Resources**

### **GSMA Financial Model**

The GSMA Financial Model is an excel tool that practitioners can use to develop a comprehensive view of the profitability of their mobile money service. The model generates a P&L statement that is based on a series of user inputs, including investment, direct benefits, indirect benefits and costs.

### **GSMA Metrics Dashboard**

The GSMA Metrics Dashboard is an excel tool that presents practitioners with an easily digestible summary of their operational metrics that matter most. Existing and future customers of Comviva, Fundamo, Sybase 365 and Utiba can integrate the Dashboard as a reporting feature free of charge.

To receive a copy of the GSMA Financial Model or the GSMA Metrics Dashboard, send an email to [mmu@gsm.org](mailto:mmu@gsm.org).



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