



# Mobile Money for the Unbanked

## Expanding the Ecosystem of Mobile Money: Considerations for Interoperability

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## Introduction

In this note, we discuss interoperability in broad terms as the interconnection of mobile money services with external parties, with the aim to create value for both customers and commercial players. Interoperability is increasingly cited as a solution to increase transaction volumes and extend the range of financial products offered through the mobile phone. While interoperability is seen by some as a “silver bullet” for greater financial inclusion, it is not a given that interoperability will lead to that goal. To successfully implement interoperability, consideration must be given to the current state of the market. This note serves to promote discussion within the industry about how to evaluate opportunities for interoperability and how more of these opportunities could be realised.

Some important considerations on this subject are as follows:

- The objectives of implementing interoperability and the benefits that could be achieved from it must be established before deciding which assets (e.g., the agent network or mobile money platform) should be interconnected or shared in a market.
- The strategic and financial incentives for interoperability need to be identified to ensure that there is appropriate value for all players.
- These incentives are more likely to become available after the foundations of a mobile money deployment, such as a functioning agent network and an active customer base, have been established. Most deployments today are still occupied with building this base.
- More established mobile money providers have recognised the opportunity for interoperability and are already pursuing some form of interconnection with financial institutions and other external parties. As more deployments mature, the number of external connections and partnerships can be expected to increase through market forces.

- The maturity of mobile money deployments within a market need to be carefully considered in any discussion of mandated interoperability. Prematurely pushing the market towards interoperability has the potential to negatively impact further investments and financial inclusion.

### Focus on the objectives and incentives for interoperability

Opportunities for interoperability arise where interconnections with external parties can create greater value for customers and service providers than a single mobile money service provider can create alone. The emphasis on value for the enterprises involved, as well as for the consumer, is an important point to bring to the interoperability debate. Once an opportunity for interoperability has been identified, it needs to be strategically or financially compelling for all parties involved to jointly pursue it. Given that mobile money service providers are making significant investments into developing the infrastructure for mobile money, external parties who want to use those assets need to bring appropriate incentives to motivate service providers to connect with them.

Focusing prematurely on which assets a mobile money deployment should share with other parties, or which components it should interconnect with its peers, can potentially have unwanted implications in the market. For example, many mobile money providers are still investing heavily in recruiting, training and branding their agent networks as distribution is a competitive element of their service. If these assets were to be shared by their competitors, the competitive aspect in distribution would disappear and there would be less incentive for individual players to invest in increasing access to their service.

### What are the objectives that interoperability can help achieve?

The three objectives presented below highlight areas where partnerships and interconnections can contribute to a greater mobile money ecosystem. These objectives are not exhaustive; however, they provide examples of objectives that might be met through greater interoperability.

**Product innovation beyond domestic remittances and airtime top-ups.** These two basic transactions make up almost 95% of mobile money transactions, according to the 2011 Mobile Money Adoption Survey.<sup>1</sup> By inviting banks, microfinance institutions and third parties to innovate using mobile money and its infrastructure as part of their solutions, providers could make a greater range of consumer financial products and services accessible for their customers.

**Enabling cost-efficient payments to and from the unbanked population.** Distributing physical cash to the unbanked (e.g., through salary payments or government welfare programs) remains expensive and insecure. Governments, employers and other large bulk payers should be able to use mobile money as a cost-efficient and reliable payment channel to reach this population. Industry collaboration in a country could have the potential to facilitate these large bulk payments more efficiently. Mobile money is also available for companies that want to accept payments from customers without bank accounts or easy access to a physical bank branch.

**Replacing cash with electronic means of payment in day-to-day transactions.** The current dominant use case for mobile money is still a money transfer followed by a complete cash-out. By providing tailored solutions for retailers, and establishing interoperability with existing and future retail payment infrastructure, operators can enable more frequent and proximate transactions using stored value on the mobile phone. This would make the service less reliant on cash conversions, provide convenience for customers, reduce costs for operators and increase the relevance of e-money.

### Direction of the market today – have mobile money providers been slow in capturing these opportunities?

Mobile money providers are already beginning to pursue interconnections with external parties. More than two-thirds of deployments worldwide are connected to bill payment partners and around 50% have some form of bulk payment functionality.<sup>1</sup> Connections to financial institutions are increasing across deployments.

Despite these efforts, transactions that require no external interconnection – airtime purchases and domestic remittances – account for almost 95% of mobile money transactions globally.<sup>1</sup> Have mobile money providers been too slow to capture the opportunities offered by greater interconnectivity? Given the youth of mobile money and the complexity associated with offering these services, the current pace might be well justified.

Mobile money is a young industry, with over two-thirds of all deployments launched during or after 2010.<sup>1</sup> The youth of the industry is important in the context of the operational complexity involved in launching a mobile money program. Agent networks need to be built from scratch and nurtured to profitability. Customers, many of whom have never before used an electronic account, need to be taken through a complex journey. Technical platforms need to be customised to match the specifics of each market. Fraud and risk procedures and customer care facilities need to be put in place. A handful of markets have demonstrated that these challenges can be successfully overcome, however many are still working hard to clear these hurdles.

Allowing mobile money operators to build a solid foundation and teach customers how to use the service before laying on more advanced interconnection is essential. Ensuring the reliability and availability of the service takes precedence for operators. A strong foundation is necessary not just for the success of the individual deployment, but for positive network effects following interoperability as well.

What is the perceived opportunity (or problem) in the market?

Does solving the problem bring value to both a) consumers and b) commercial players?

How could partnerships and interconnections help achieve this objective?

<sup>1</sup> “State of the Industry: Results from the 2011 Global Mobile Money Adoption Survey” by Neil Davidson and Claire Pénicaud, 2012. (<http://www.gsma.com/developmentfund/state-of-the-industry-results-from-the-2011-global-mobile-money-adoption-survey/>)

<sup>2</sup> “The Case For Interoperability: Assessing the value that the interconnection of mobile money services would create for customers and operators” by Neil Davidson and Paul Leishman, 2012. ([http://www.gsma.com/developmentfund/wp-content/uploads/2012/06/mmu\\_interoperability.pdf](http://www.gsma.com/developmentfund/wp-content/uploads/2012/06/mmu_interoperability.pdf))

The GSMA Mobile Money for the Unbanked team previously investigated the value of interconnecting mobile money wallets in a market, enabling transfers between different service providers to originate and terminate in a mobile money account. This differs from the current scenario, where customers receiving transfers through service providers other than their own are given a code and required to cash-out the money. Although interconnected mobile money wallets seem attractive, the value for consumers and enterprises had not been strong enough to be pursued in any market. This was due, in part, to a lack of markets with multiple established deployments and unarticulated benefits for customers at the time of the study.<sup>2</sup> While this has not happened yet, the incentives to pursue similar implementations may become available in the future.

### How will the industry achieve these objectives in the future?

So far, operators have had an incremental approach towards connecting to external parties, where the commercial deals and technical integrations are negotiated on a case by case basis. This allows greater control for the operator, as specific business rules and pricing can be tailored for each connection. However, due to the capacity constraint of operators, not all players who want to access the platform are granted it. In some markets, operators have brought in aggregators to help handle their business development with third parties to address this constraint. An open question is whether, going forward, operators will choose control or openness around managing connections to third parties.

To accelerate the connection process and reduce development costs, technology platforms will have to enable flexible and efficient technical connectivity, most likely by establishing common and standardised APIs. Making them available to developers, financial institutions and businesses allows these players to incorporate mobile money into their business solutions and apply it to the more niche, or long tail, opportunities in the market that a single provider has difficulty to cater for.

In other industries, the use of conventions and standards has created an enabling environment for third party companies to add value, as they could develop solutions for an industry and not only for individual deployments. In the card payments industry today, standards, such as EMV (chip and PIN) and common protocols, have allowed external players to add value to the industry. While card companies are not interoperable with each other, they are so with the same third parties. One example is the point-of-sale device, which can initiate transactions with different card payment networks due to same security processes (EMV), size of the card, etc. This example illustrates that interoperable environments can be accomplished in more ways than connecting platforms.

### Conclusion

The road to financial inclusion through mobile money has so far been market-led, and this should continue to be the case when it comes to interoperability. As an increasing number of mobile money deployments become successful and reach maturity in their markets, more focus will go towards pursuing greater connectivity with partners, third parties and financial institutions. Sharing assets is likely to happen when it creates customer value and also makes commercial sense for the stakeholders involved. As such, regulatory and top-down interventions regarding interoperability that have strong commercial implications are encouraged to be made with caution and in dialogue with the industry to achieve the intended results and avoid unwanted ones.

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