Mobile Money for the Unbanked

GSMA Webinar
Mobile Money Pricing & Commissions

"We are currently waiting for all participants to join and will begin the webinar shortly. If you have specific questions you'd like to answer via this webinar, feel free to send us a confidential message now."

BILL & MELINDA GATES foundation

The MMU programme is funded by a grant from the Bill & Melinda Gates Foundation

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Agenda

Segments

1. Pricing a mobile money service **9:00-9:45**

A. Valuing the service
B. Structuring the tariff sheet
C. Proofing against fraud

Questions & Answers

2. Setting mobile money commissions **9:45-10:30**

A. Commissions 101
B. Overview of agent profitability drivers
C. Influencing agent profitability

Questions & Answers

Our Task:

***Task**: design a tariff sheet and set of agent commissions.*

***Service**: MMU-PESA, a new offering targeted at the unbanked*

***Features**: Domestic P2P transfer*

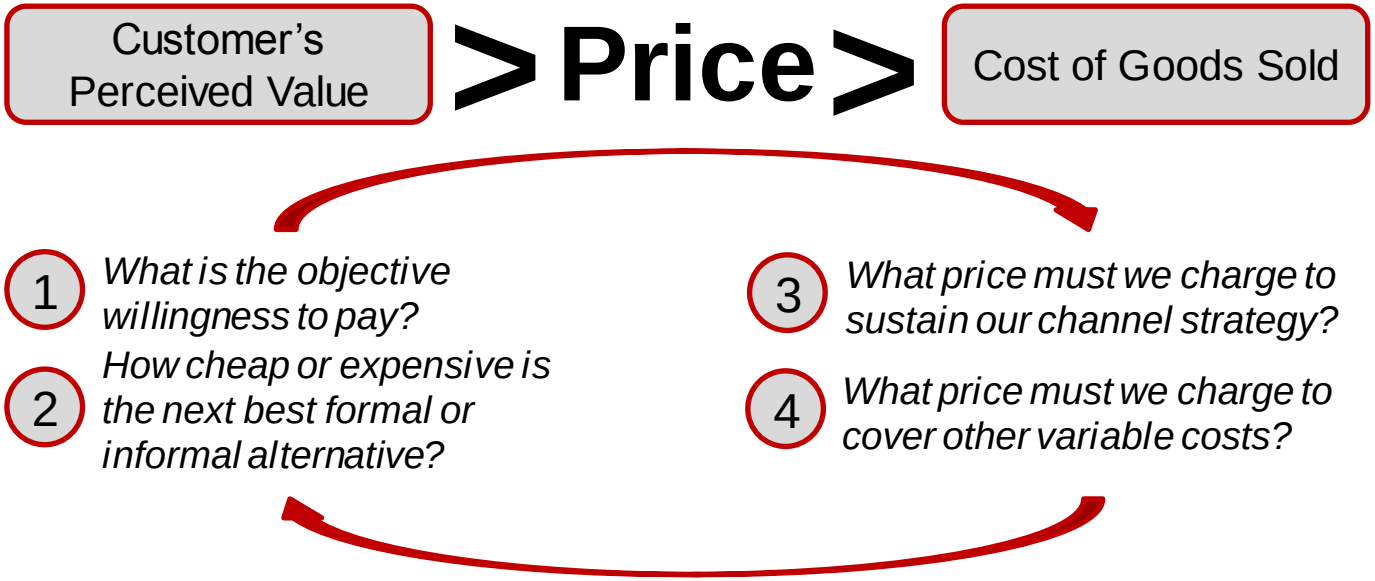
***Provider**: Mobiphone, a GSM operator with 30% market share.*

***Country**: Mobiland, a country with 20% bank penetration, and 4 competing mobile operators.*

If you as a question, you will remain anonymous to the group

Valuing the service

Value-pricing approach

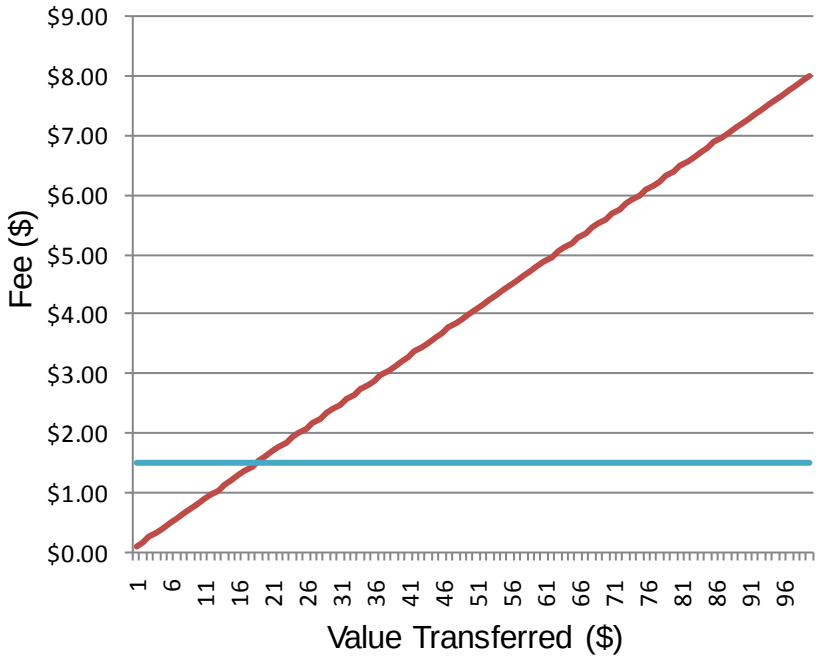


Valuing the service

P2P transfer alternatives in Mobiland

Service	Price	# Outlets	Speed	Reliability
Pesagram	8%	1,000	Instant	High
Bus Driver	$1.50	80	2-Day	Low

Cost of P2P transfer using existing alternatives

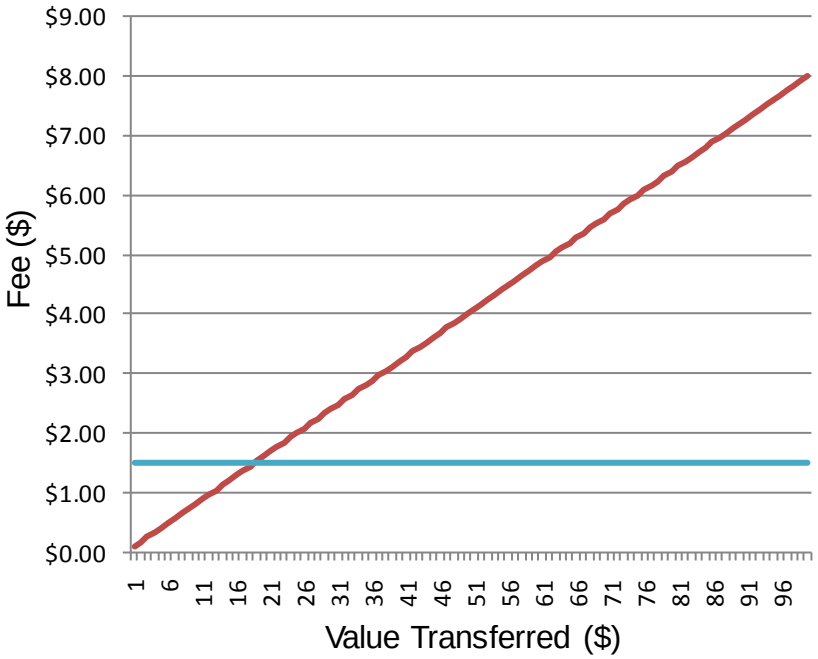


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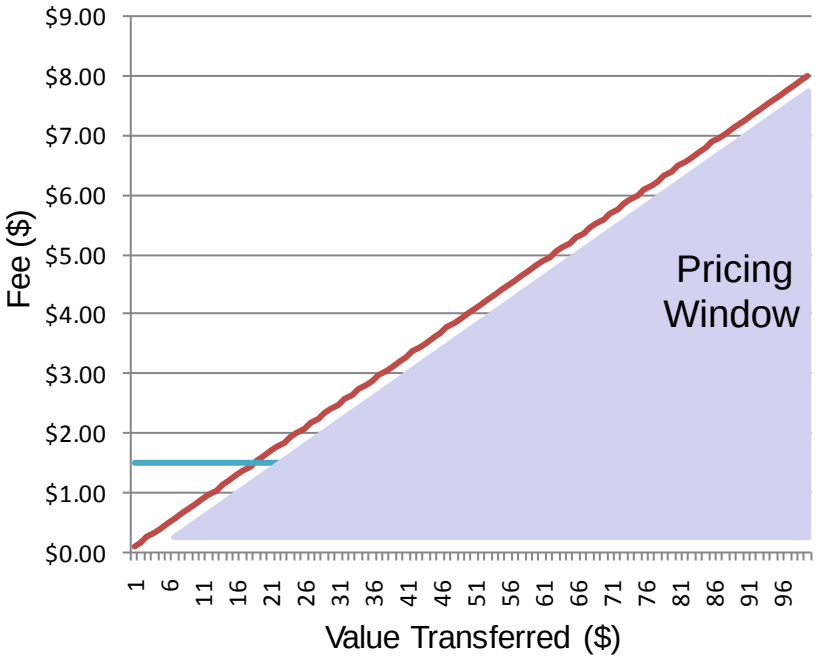


Valuing the service

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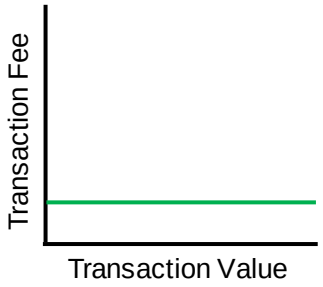
Cost of P2P transfer using existing alternatives



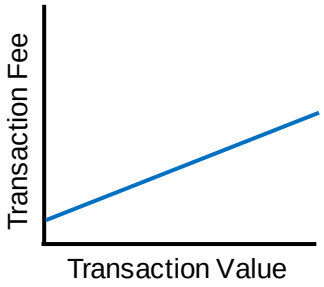
Structuring the tariff sheet

Model

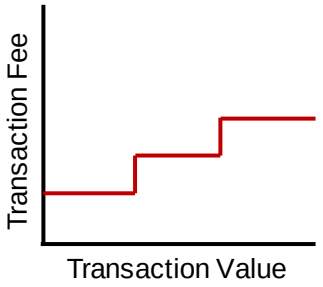
1 Flat-Rate



2 Percentage-Based



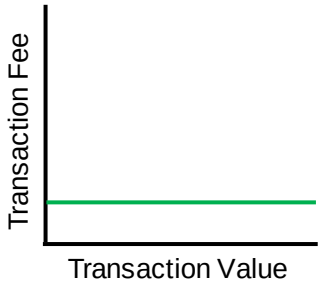
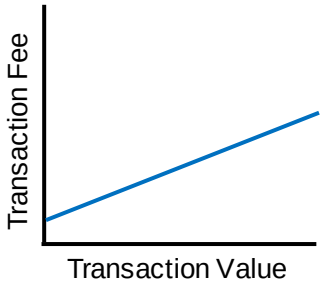
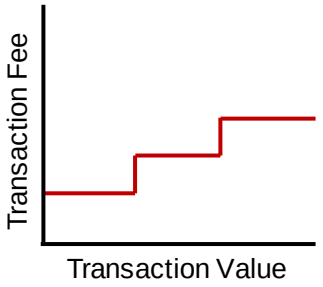
3 Tiered



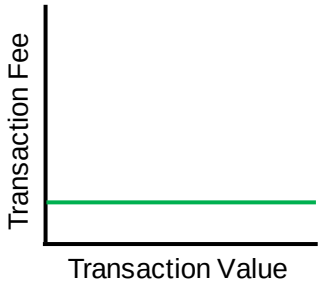
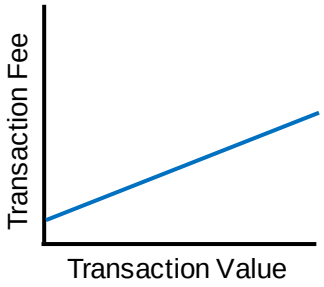
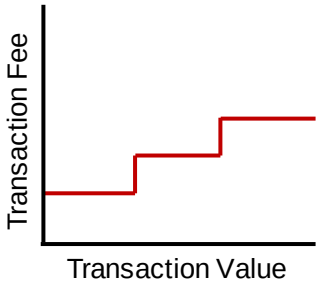
In Mobiland...

Bus Driver	*$1.50*	*Pesagram*	*8%*	*Not in use*	

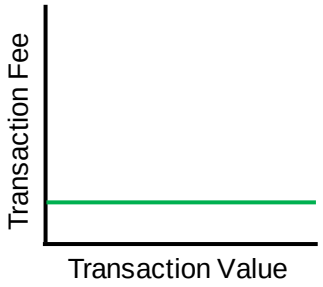
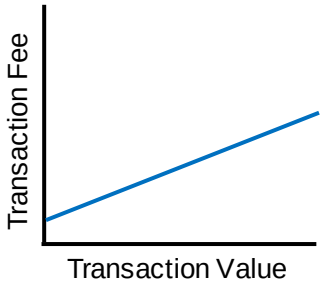
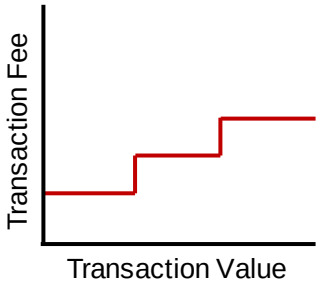
Structuring the tariff sheet

	1 Flat-Rate	2 Percentage-Based	3 Tiered
Model			
Advantages	• Simpler		
Disadvantages	• Difficult to remain competitive on price for low-value transactions • Difficult to generate enough revenue from high value transactions to satisfy agents		

Structuring the tariff sheet

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Advantages	• Simpler	• Captures more value • Simpler in some markets	
Disadvantages	• Difficult to remain competitive on price for low-value transactions • Difficult to generate enough revenue from high value transactions to satisfy agents	• Difficult to generate enough revenue from low value transactions to adequately compensate agents • Difficult to remain competitive on price for high value transactions.	

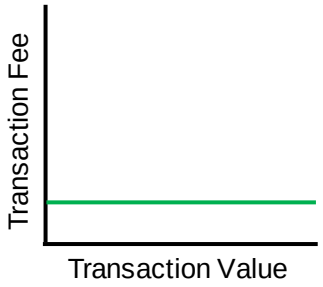
Structuring the tariff sheet

	1 Flat-Rate	2 Percentage-Based	3 Tiered
Model			
Advantages	• Simpler	• Captures more value • Simpler in some markets	• Captures more value • Easier to satisfy agents
Disadvantages	• Difficult to remain competitive on price for low-value transactions • Difficult to generate enough revenue from high value transactions to satisfy agents	• Difficult to generate enough revenue from low value transactions to adequately compensate agents • Difficult to remain competitive on price for high value transactions.	• Less simple

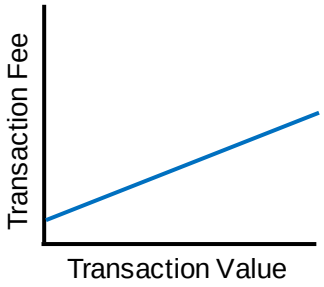
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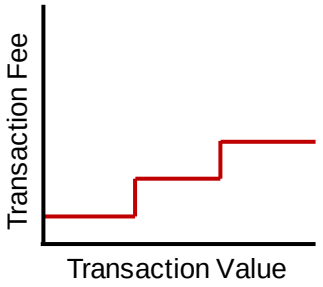
1 Flat-Rate



2 Percentage-Based



3 Tiered



M-PESA

Wing

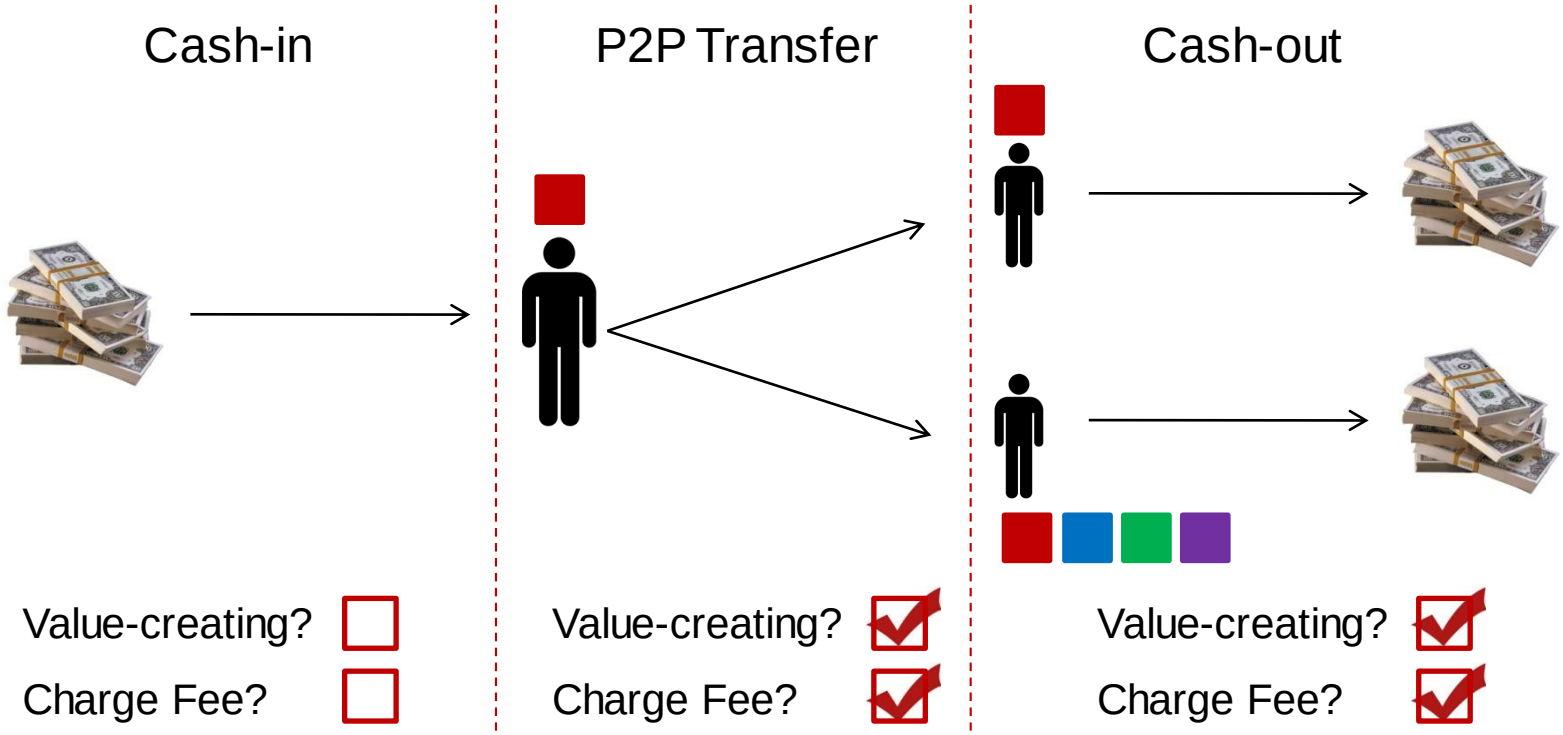
Orange Money

Zap

tigo pesa

Digicel MobileMoney

Structuring the tariff sheet



Best practice: charge only for 'value-creating' transactions

Creating a tariff sheet for MMU-PESA

Guidelines

Value

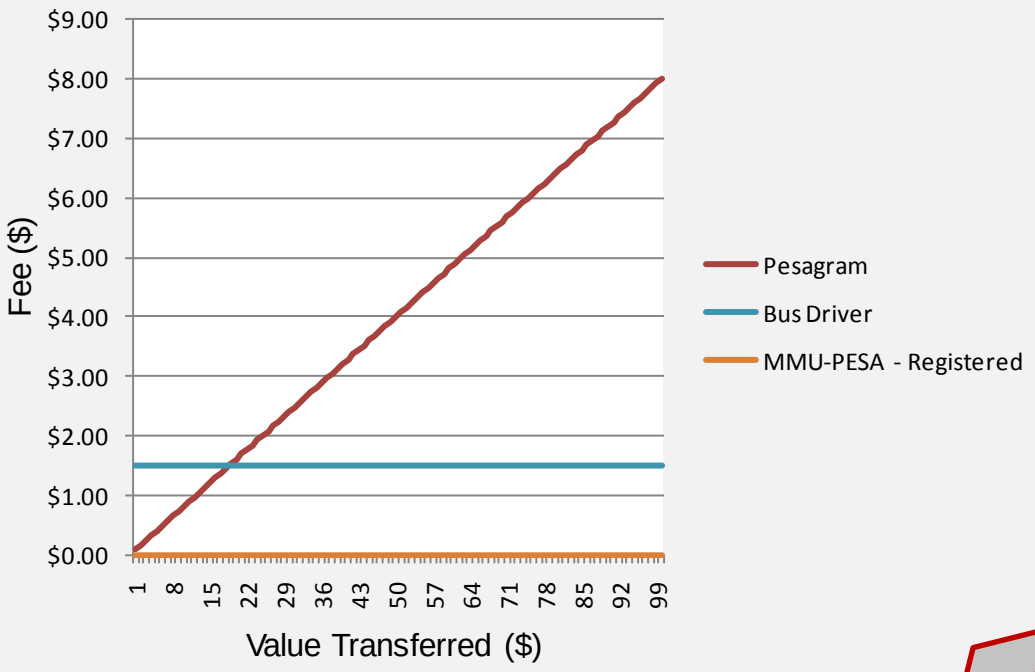
Cheaper than Pesagram
More expensive than the bus driver

Structure

Tiered pricing structure
Only charging for value-creating transactions

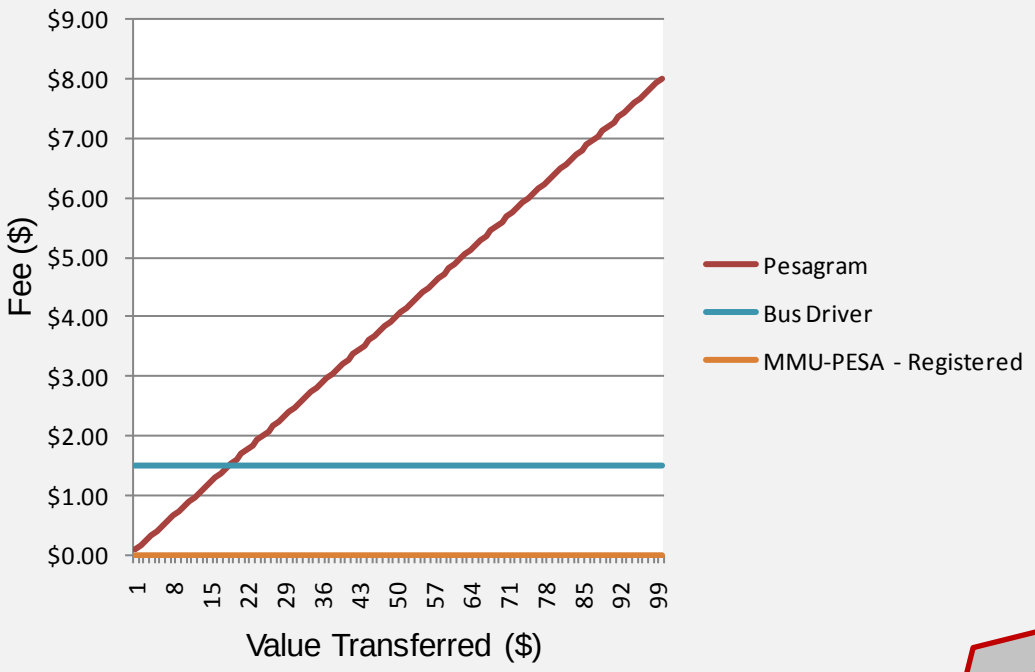
MMU-PESA – Tariff Sheet

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Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
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Withdraw Registered	$1-35	$0.00
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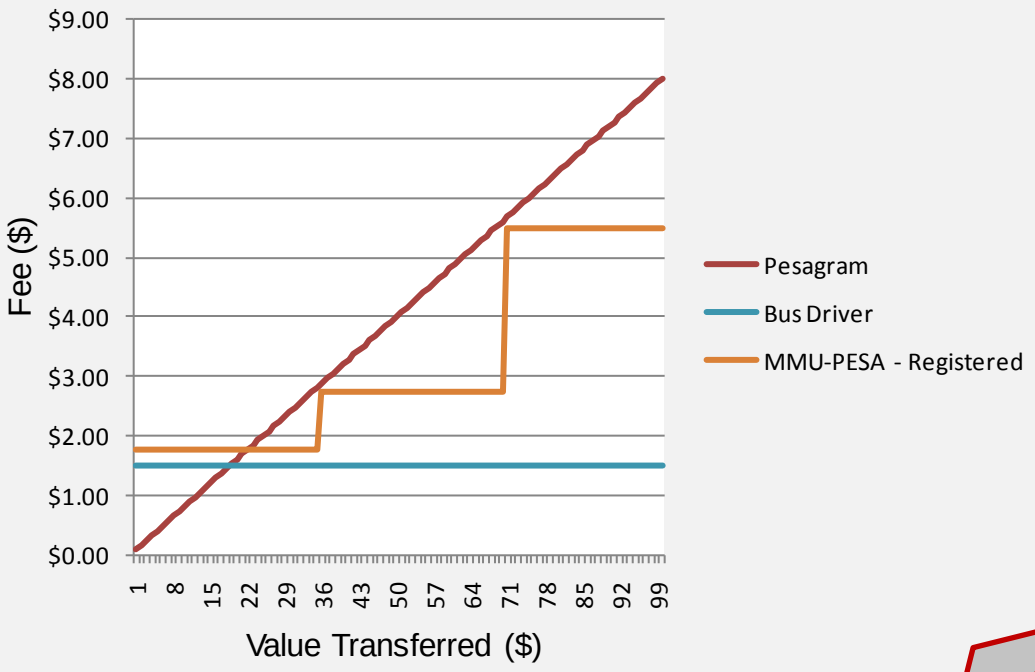
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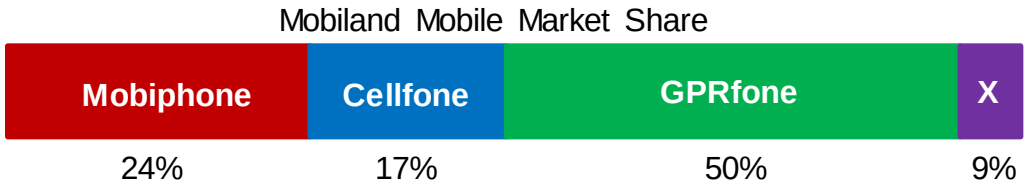


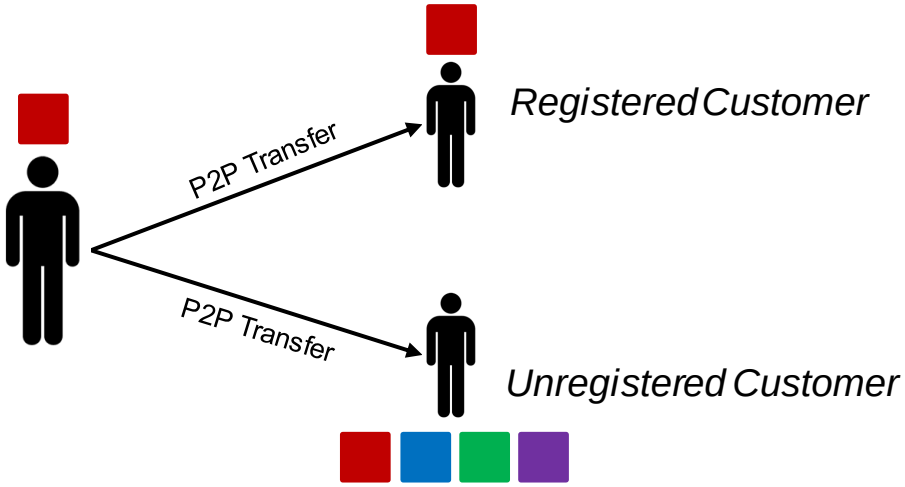
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Structuring the tariff sheet



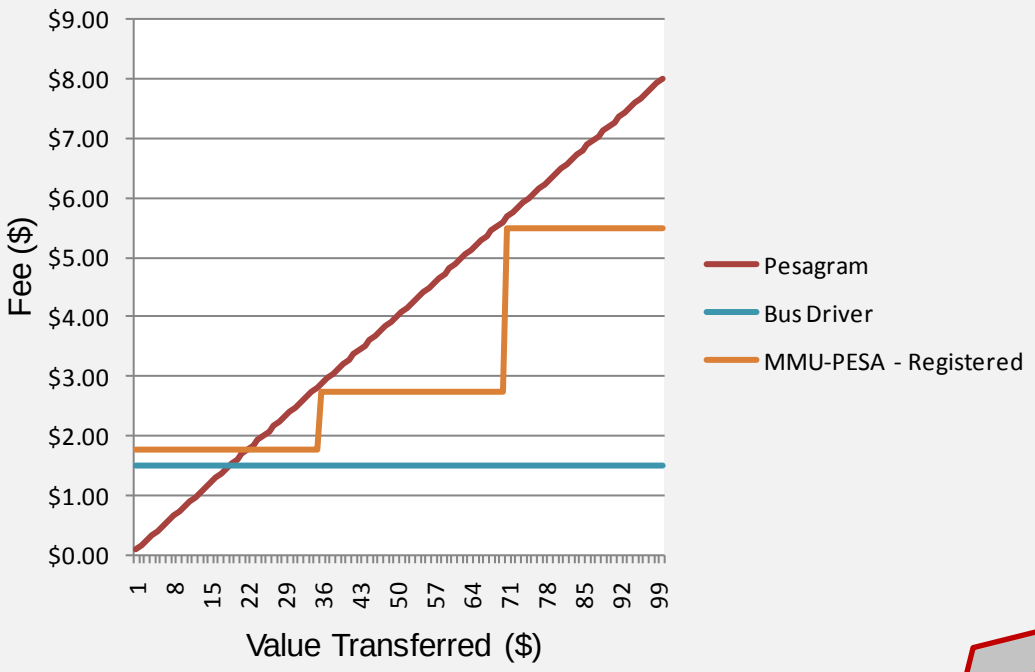


"When a money transfer is between two registered customers, those are two customers who are less likely to churn.

"When a money transfer is sent to an unregistered customer, we earn a higher margin.

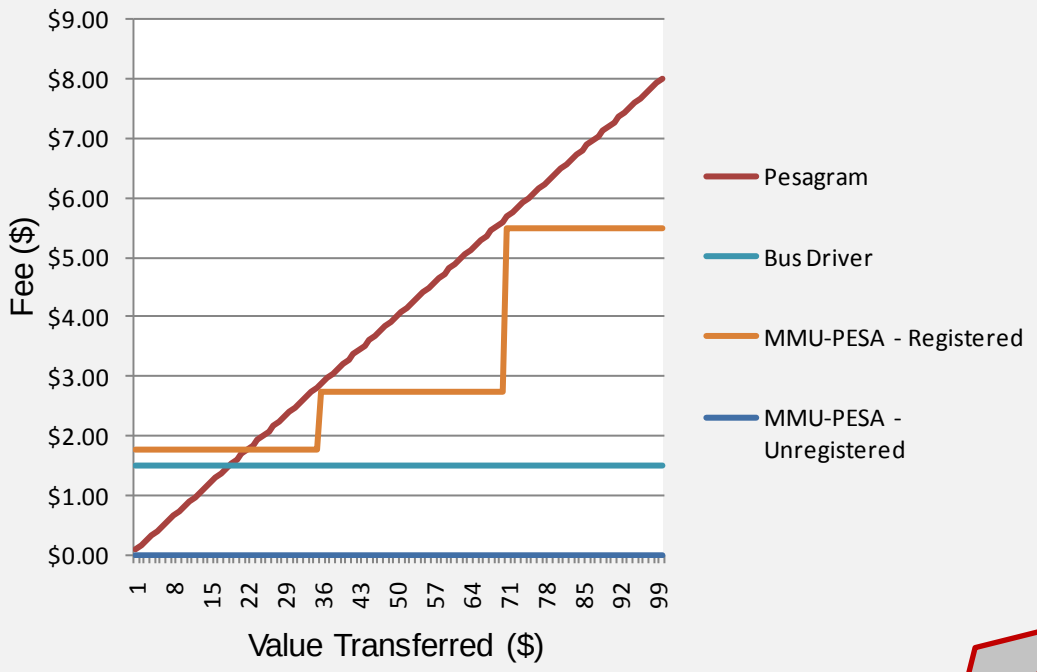
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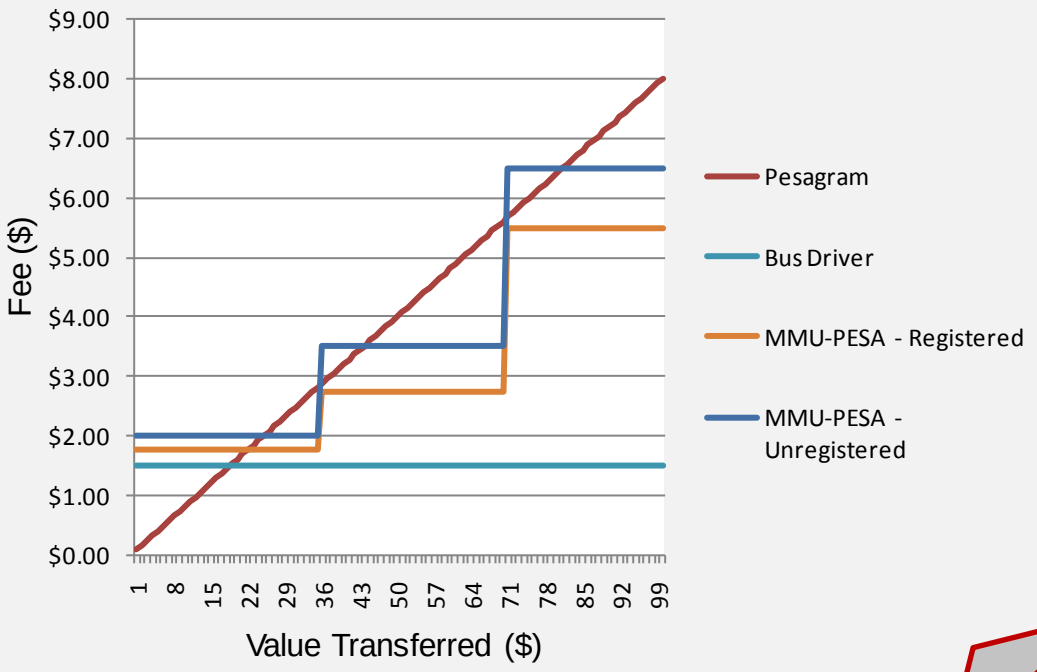
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Scanning for risks

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1. Direct Deposit

"Occurs when the customer initiating a P2P transfer hands an agent cash, but provides them with the mobile number of the recipient rather than their own in an effort to avoid paying a transfer fee."

Scanning for risks

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1. Direct Deposit

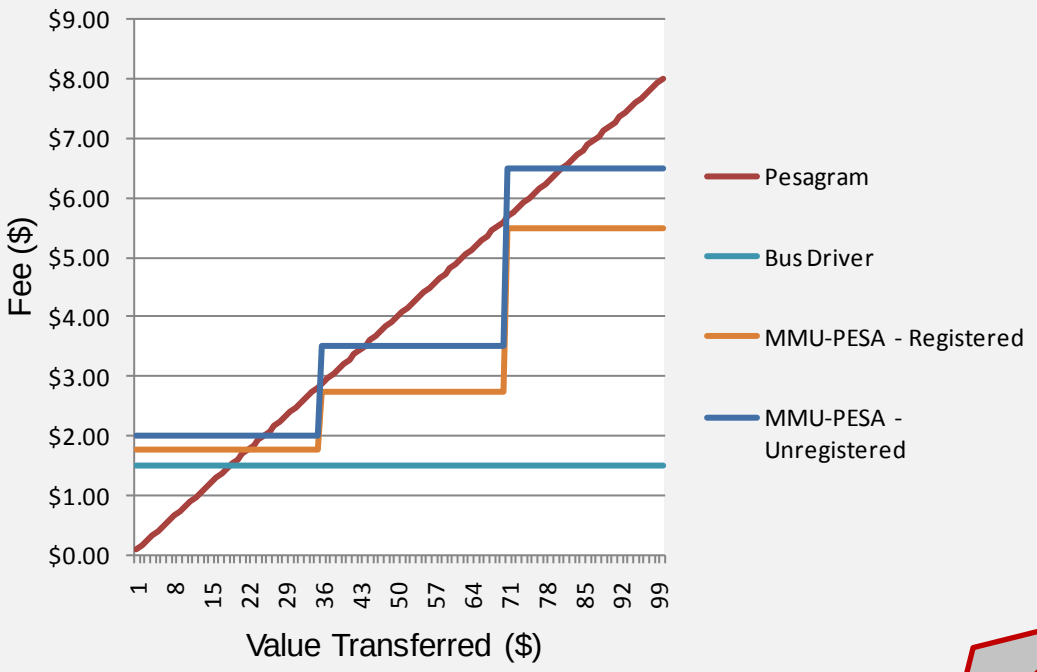
"Occurs when the customer initiating a P2P transfer hands an agent cash, but provides them with the mobile number of the recipient rather than their own in an effort to avoid paying a transfer fee."

2. Split Transaction

"Occurs when a cash-in, cash-out or bill payment is split into multiple smaller ones to minimize fees."

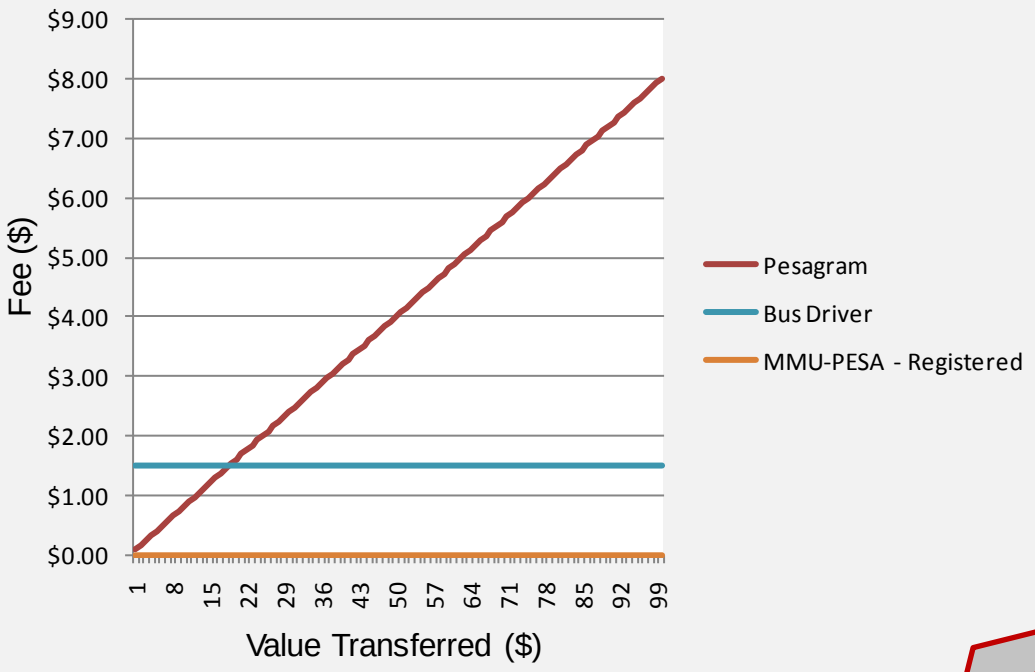
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MMU-PESA – Tariff Sheet

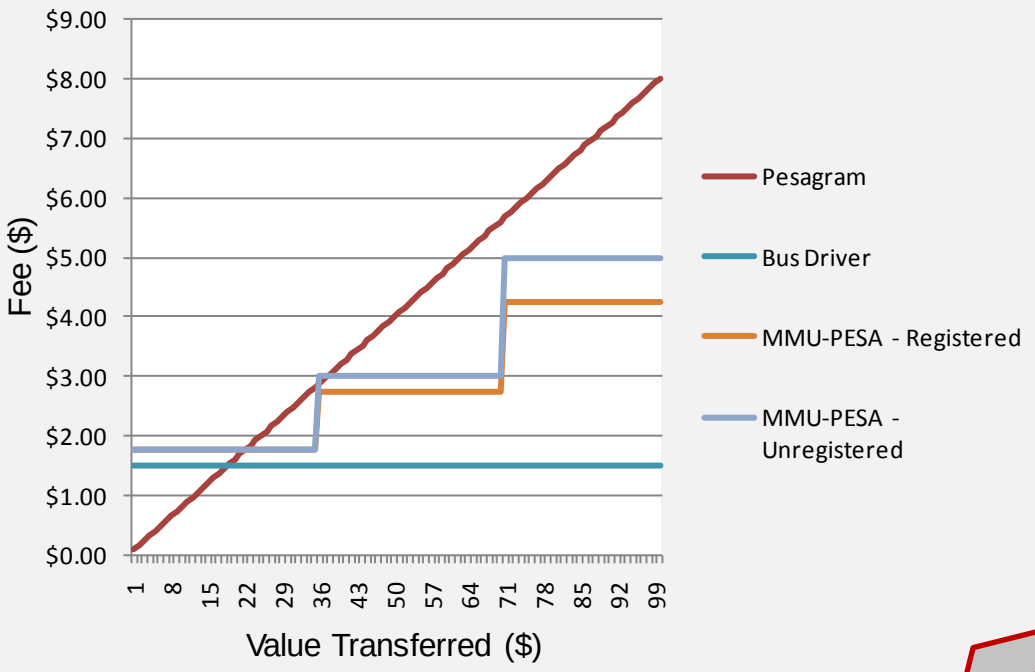
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MMU-PESA – Tariff Sheet

MMU-PESA Customer Tariff		
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Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
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	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
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All deposits must be made into a customer's own account.



Pricing Summary

MMU-PESA Tariff Sheet

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Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Attributes

1. Priced according to perceived value
2. Structured using tiers
3. Option to send to unregistered recipients
4. Fees only applied to 'value creating' transactions
5. Minimal risk of direct deposits
6. Minimal risk of transaction splitting

Agenda

Segments

1. Pricing a mobile money service **9:00-9:45**

A. Valuing the service
B. Structuring the tariff sheet
C. Proofing against fraud

Questions & Answers

2. Setting mobile money commissions **9:45-10:30**

A. Commissions 101
B. Overview of agent profitability drivers
C. Influencing agent profitability

Questions & Answers

Our Task:

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***Service**: MMU-PESA, a new offering targeted at the unbanked*

***Features**: Domestic P2P transfer*

***Provider**: Mobiphone, a GSM operator with 30% market share.*

***Country**: Mobiland, a country with 20% bank penetration, and 4 competing mobile operators.*

If you as a question, you will remain anonymous to the group

Commissions 101: do agents even need to be paid? what for?



Help me register! And teach me!

That takes up my staff's time.

Sell me e-money!

That's working capital I need to tie up in e-float.

Buy my e-money!

Holding cash is costly and risky.

Show me a tariff poster!

My wall space is very sought after.



Principal: pay agents for every activity they perform, even if the MNO does not charge the customer a fee.

Commissions 101: how are the economics different from airtime?

	Airtime	Mobile Money
Cash Flows	"As soon as I sell all my scratch cards, I've earned back my principal and also my profit margin."	"When I sell my e-money, I've made my principal back, but don't get paid commissions until end of month."
Restocking Frequency	"Once my airtime is sold, it's gone. I can't make money by accepting someone else's and reselling it."	"For every cash-in transaction I perform, I can do a cash-out in turn; this means restocking less often."
Foot Traffic	"Everyone on my street sells airtime – I get no major lift in sales from selling this product."	"Selling mobile money differentiates my business – it generates additional foot traffic."

Overview of agent profitability drivers

What are the variables that drive an agent profitability equation?

1. **Float**
   the amount of e-money and/or physical cash an agent must have on hand to transact.
2. **Restocking cost**
   the cost an agent incurs to restock his cash or e-money float balance.
3. **Volume of transactions**
   the volume of cash-in/cash-out transactions performed each day by an agent.
4. **Average commission value**
   the average commission earned for performing cash-in/cash-out transactions.
5. **Average transaction value**
   the average value of cash-in/cash-out transactions performed by customers.

What is the formula that determines agent profitability?

Profit Margin X Asset Turnover

or

$$\frac{\text{Commissions} - \text{Restocking Costs}}{\text{Float}}$$

or*

$$\left(\frac{\text{avg. commission value}}{\text{avg. trans value}} - \frac{\text{restocking cost}}{\text{float}}\right) \times \left(\frac{\text{avg. trans value} \times \text{\# of transactions}}{\text{float}}\right)$$

* Assumptions:
  - The agent performs only one type of transaction (cash in or cash out), not a mix
  - The agent incurs no labour costs
  - Every transaction is the same average value, and the agent depletes her stock of float completely before restocking

Creating agent commissions for MMU-PESA

Guidelines

Value

Low enough such that MNO earns acceptable margin

High enough such that agent earns acceptable profit/ROA

Structure

Agents need to be paid for every activity

MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff			Commissions
Transaction Type	Range	Fees	
Deposit	$0-100	$0.00	need to pay
Transfer to Registered	$0-100	$0.50	
Transfer to Unregistered	$1-35	$1.75	
	$36-70	$3.00	
	$71-100	$5.00	
Withdraw Registered	$1-35	$1.25	need to pay
	$36-70	$2.25	need to pay
	$71-100	$3.75	need to pay
Withdraw Unregistered	$0-100	$0.00	

All deposits must be made into a customer's own account.

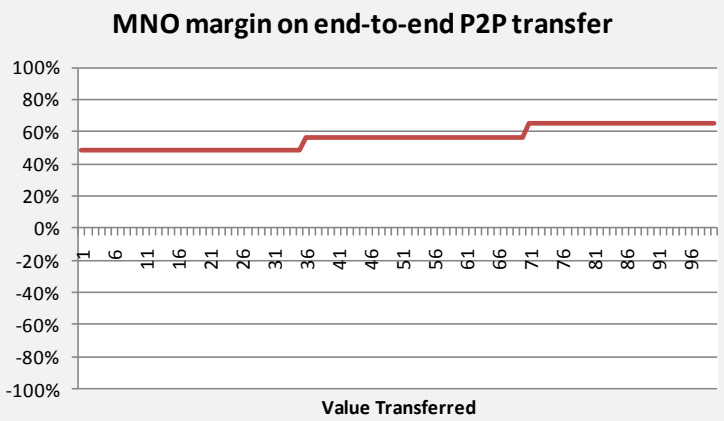
MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Commissions
$0.30
$0.60
$0.90
$1.20

MNO Profitability



MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Commissions
$0.30
$0.60
$0.90
$1.20

Agent Profitability

(11%) Return on assets
(.30) Daily profit

Variables

$1,000 Float
$15 Restocking cost
2 Volume of transactions per day
$60 Average commission value
$50 Average transaction value

MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff			Commissions
Transaction Type	Range	Fees	
Deposit	$0-100	$0.00	$0.30
Transfer to Registered	$0-100	$0.50	
Transfer to Unregistered	$1-35	$1.75	
	$36-70	$3.00	
	$71-100	$5.00	
Withdraw Registered	$1-35	$1.25	$0.60
	$36-70	$2.25	$0.90
	$71-100	$3.75	$1.20
Withdraw Unregistered	$0-100	$0.00	

All deposits must be made into a customer's own account.

MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff			Commissions
Transaction Type	**Range**	**Fees**	
Deposit	$0-100	$0.00	$0.90
Transfer to Registered	$0-100	$0.50	
Transfer to Unregistered	$1-35	$1.75	
	$36-70	$3.00	
	$71-100	$5.00	
Withdraw Registered	$1-35	$1.25	$1.80
	$36-70	$2.25	$3.60
	$71-100	$3.75	$7.20
Withdraw Unregistered	$0-100	$0.00	

All deposits must be made into a customer's own account.

MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Commissions
$0.90
$1.80
$3.60
$7.20

Agent Profitability

131% Return on assets
$3.60 Daily profit

Variables

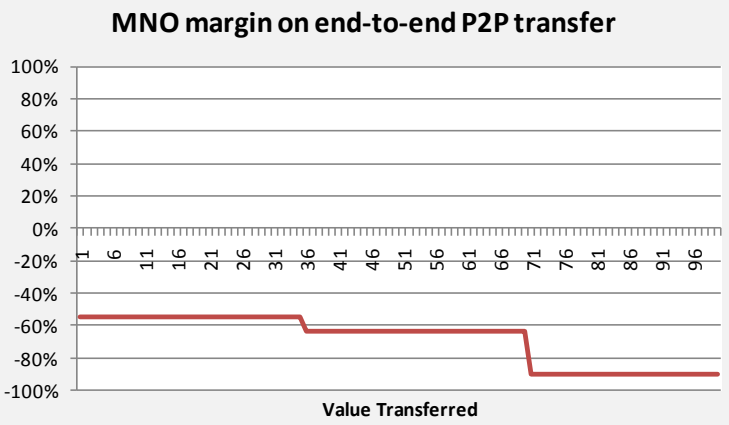
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$15 Restocking cost
2 Volume of transactions per day
$0.60 Average commission value
$50 Average transaction value

MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

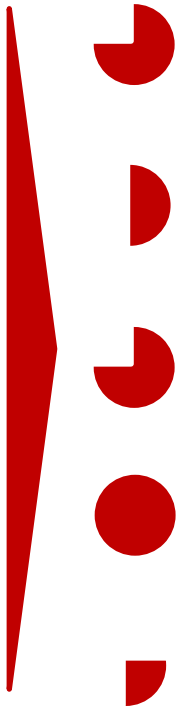
Commissions
$0.90
$1.80
$3.60
$7.20



Overview of agent profitability drivers

What are the variables that drive an agent profitability equation?

MNO Influence



Agent Perspective

1. **Float**
   the amount of e-money and/or physical cash an agent must have on hand to transact.
   "the less float I need to hold, the less amount I have tied up in working capital"
2. **Restocking cost**
   the cost an agent incurs to restock his cash or e-money float balance.
   "the less time and money I spent balancing float, the better"
3. **Volume of transactions**
   the volume of cash-in/cash-out transactions performed each day by an agent.
   "the more transactions I process, the more I earn"
4. **Average commission value**
   the average commission earned for performing cash-in/cash-out transactions.
   "the higher commissions I earn for each transaction, the better"
5. **Average transaction value**
   the average value of cash-in/cash-out transactions performed by customers.
   "the more transactions of a profitable value, the better"

Influencing agent profitability drivers

What are the variables that drive an agent profitability equation?

1. **Float**
   the amount of e-money and/or physical cash an agent must have on hand to transact.
2. **Restocking cost**
   the cost an agent incurs to restock his cash or e-money float balance.
3. **Volume of transactions**
   the volume of cash-in/cash-out transactions performed each day by an agent.
4. **Average commission value**
   the average commission earned for performing cash-in/cash-out transactions.
5. **Average transaction value**
   the average value of cash-in/cash-out transactions performed by customers.

***Tactic #1**: Leverage airtime distribution network to rebalance liquidity for agents on a regular basis.*



MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Commissions
$0.30
$0.60
$0.90
$1.20

Agent Profitability

(11%) Return on assets
(.30) Daily profit

Variables

$1,000 Float
$15 Restocking cost
2 Volume of transactions per day
$0.60 Average commission value
$50 Average transaction value

MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Commissions
$0.30
$0.60
$0.90
$1.20

Agent Profitability

40% Return on assets
$1.10 Daily profit

Variables

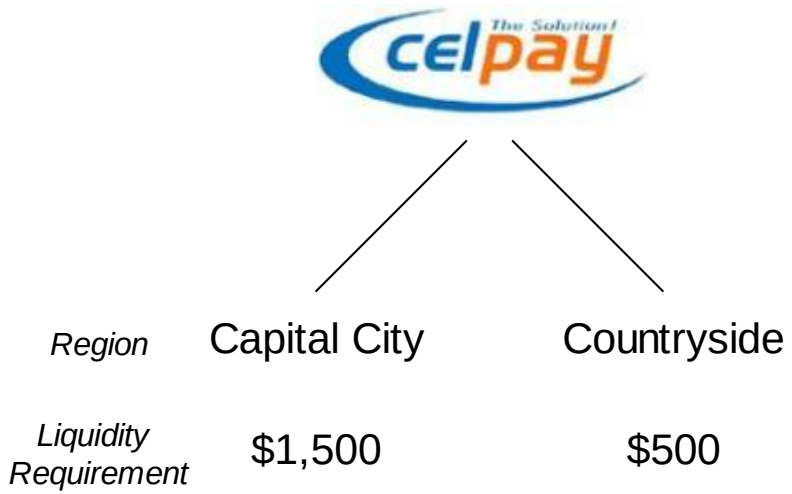
$1,000 Float
$1 Restocking cost
2 Volume of transactions per day
$0.60 Average commission value
$50 Average transaction value

Influencing agent profitability drivers

What are the variables that drive an agent profitability equation?

1. **Float**
   the amount of e-money and/or physical cash an agent must have on hand to transact.
2. **Restocking cost**
   the cost an agent incurs to restock his cash or e-money float balance.
3. **Volume of transactions**
   the volume of cash-in/cash-out transactions performed each day by an agent.
4. **Average commission value**
   the average commission earned for performing cash-in/cash-out transactions.
5. **Average transaction value**
   the average value of cash-in/cash-out transactions performed by customers.

***Tactic #4**: Create different sets of liquidity requirements according to likely volume.*



MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Commissions
$0.30
$0.60
$0.90
$1.20

Agent Profitability

40% Return on assets
$1.10 Daily profit

Variables

$1,000 Float
$1 Restocking cost
2 Volume of transactions per day
$0.60 Average commission value
$50 Average transaction value

MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Commissions
$0.30
$0.60
$0.90
$1.20

Agent Profitability

49% Return on assets
$1.10 Daily profit

Variables

$800 Float
$1 Restocking cost
2 Volume of transactions per day
$0.60 Average commission value
$50 Average transaction value

Influencing agent profitability drivers

What are the variables that drive an agent profitability equation?

1. **Float**
   the amount of e-money and/or physical cash an agent must have on hand to transact.
2. **Restocking cost**
   the cost an agent incurs to restock his cash or e-money float balance.
3. **Volume of transactions**
   the volume of cash-in/cash-out transactions performed each day by an agent.
4. **Average commission value**
   the average commission earned for performing cash-in/cash-out transactions.
5. **Average transaction value**
   the average value of cash-in/cash-out transactions performed by customers.

***Tactic #6**: Market the service to drive up transaction volumes.*







MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Commissions
$0.30
$0.60
$0.90
$1.20

Agent Profitability

49% Return on assets
$1.10 Daily profit

Variables

$800 Float
$1 Restocking cost
2 Volume of transactions per day
$0.60 Average commission value
$50 Average transaction value

MMU-PESA – Agent Commissions

MMU-PESA Customer Tariff		
Transaction Type	**Range**	**Fees**
Deposit	$0-100	$0.00
Transfer to Registered	$0-100	$0.50
Transfer to Unregistered	$1-35	$1.75
	$36-70	$3.00
	$71-100	$5.00
Withdraw Registered	$1-35	$1.25
	$36-70	$2.25
	$71-100	$3.75
Withdraw Unregistered	$0-100	$0.00

All deposits must be made into a customer's own account.

Commissions
$0.30
$0.60
$0.90
$1.20

Agent Profitability

736% Return on assets
$16.13 Daily profit

Variables

$800 Float
$1 Restocking cost
30 Volume of transactions per day
$0.60 Average commission value
$50 Average transaction value

Agenda

Segments

1. Pricing a mobile money service **9:00-9:45**

A. Valuing the service
B. Structuring the tariff sheet
C. Proofing against fraud

Questions & Answers

2. Setting mobile money commissions **9:45-10:30**

A. Commissions 101
B. Overview of agent profitability drivers
C. Influencing agent profitability

Questions & Answers

Our Task:

***Task**: design a tariff sheet and set of agent commissions.*

***Service**: MMU-PESA, a new offering targeted at the unbanked*

***Features**: Domestic P2P transfer*

***Provider**: Mobiphone, a GSM operator with 30% market share.*

***Country**: Mobiland, a country with 20% bank penetration, and 4 competing mobile operators.*

If you as a question, you will remain anonymous to the group