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Mobile Money for the Unbanked

MMU Global Event 2014

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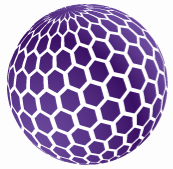
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Welcome

Zouhair Khaliq
Managing Director, Mobile for Development, GSMA

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GSMA Mobile Money for the Unbanked

New insights on mobile money

Claire Scharwatt

Market Intelligence Manager, Mobile Money, GSMA

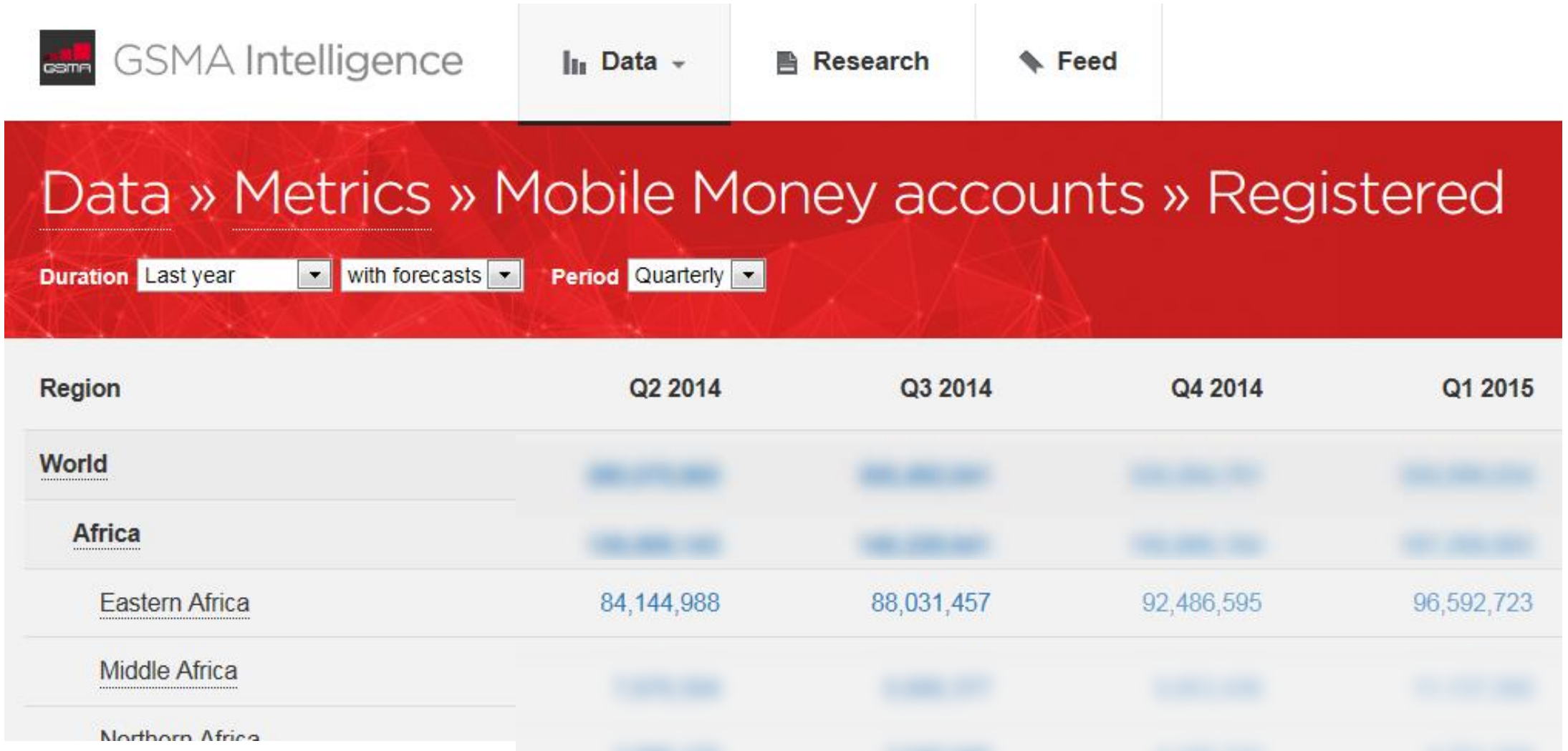
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Visit new online mobile money database on GSMAIntelligence.com



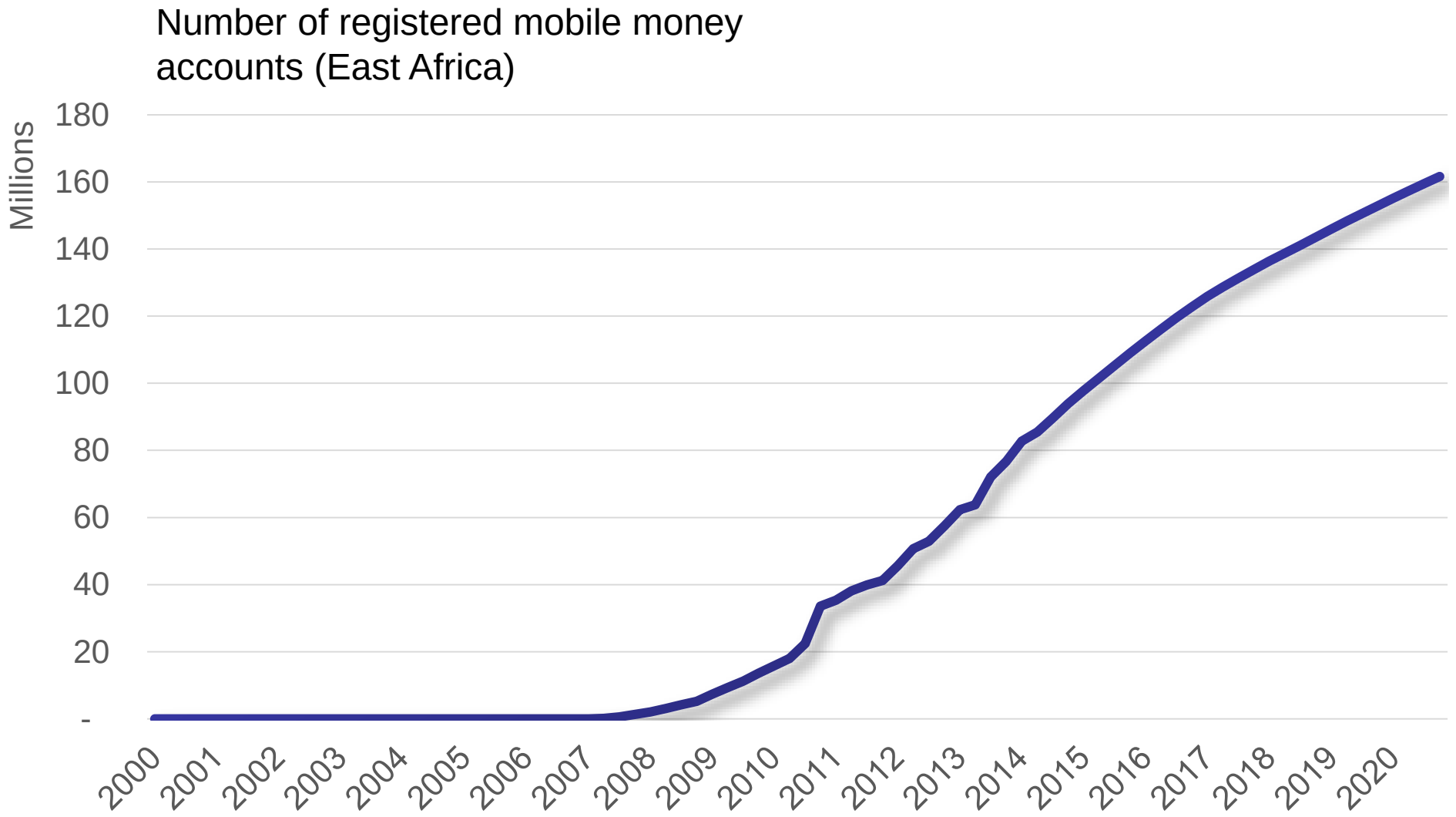
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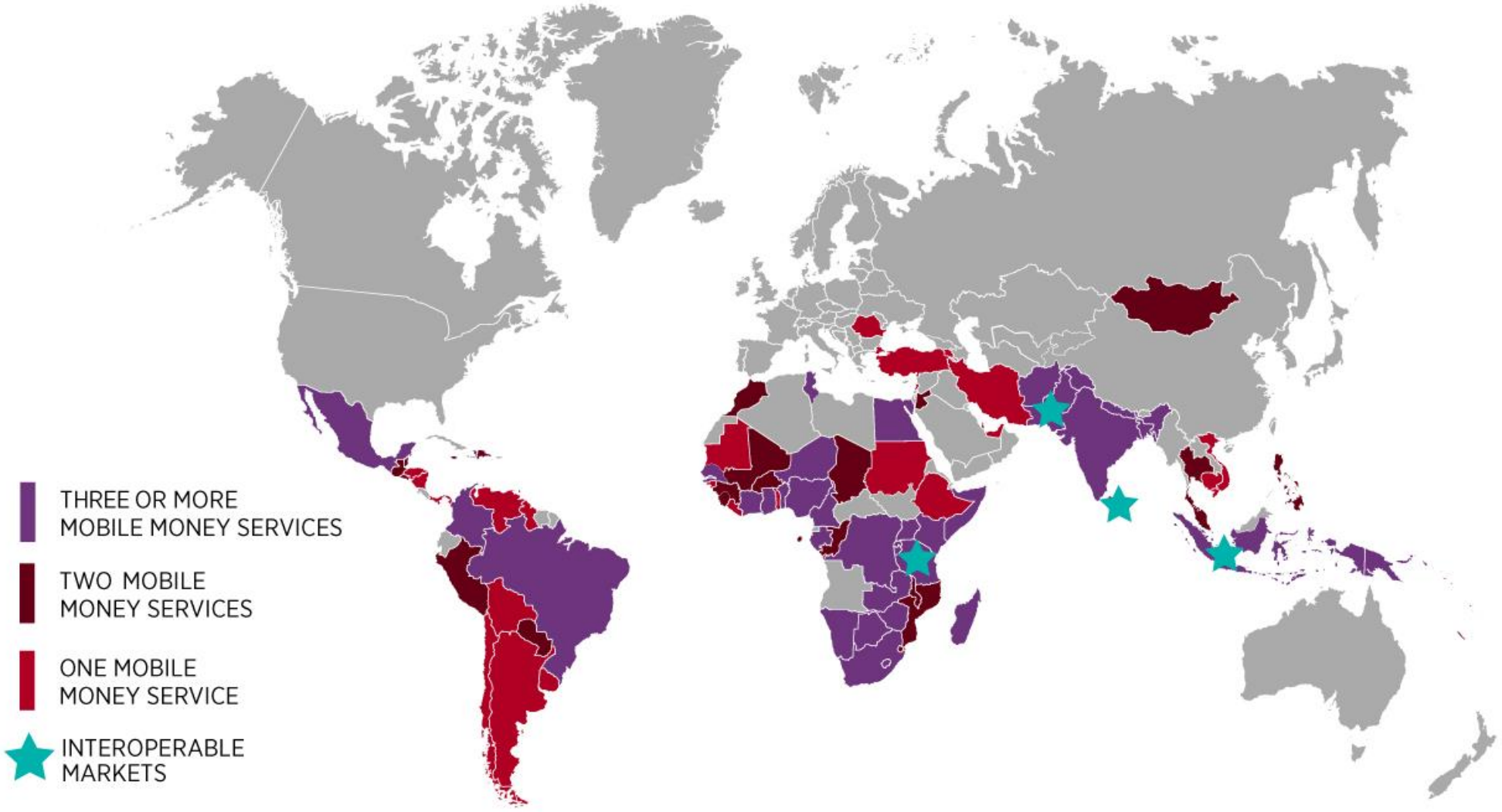
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The number of MM accounts continues to grow fast: In East Africa, it will double by 2020 to reach 161m



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In 2014, mobile money services have become interoperable in 3 new markets



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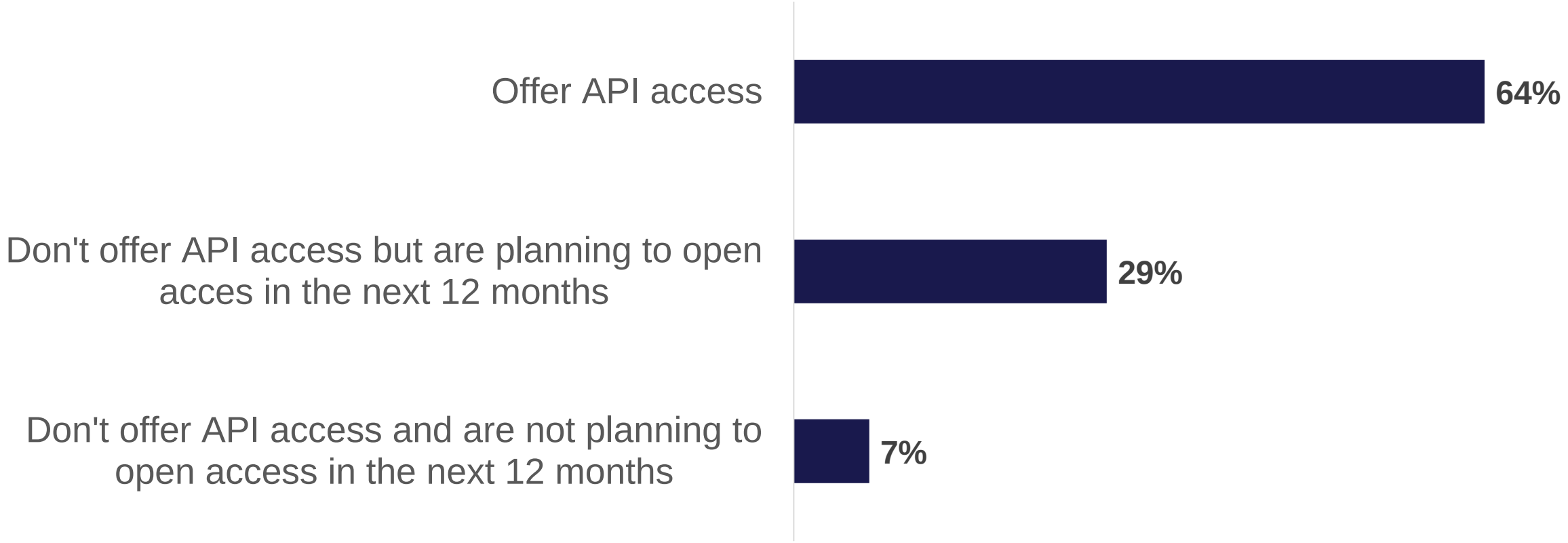
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In 2014, operators have focused on ecosystem development as a key driver of scale

Operators are increasingly opening access to their APIs:



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Mobile money has become a major driver of financial inclusion and is enabling the growth of M4D

- Operators are reaching a growing number of customers at the BoP
- The growth of mobile insurance, credit and savings is accelerating; >17m mobile insurance policies have already been issued
- Services providing access to healthcare, education, utilities are increasingly relying on mobile money rails to reach the underserved



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airtel tigo ZANTEL part of etisalat vodacom

Interoperability in Tanzania

Andrew Hodgson

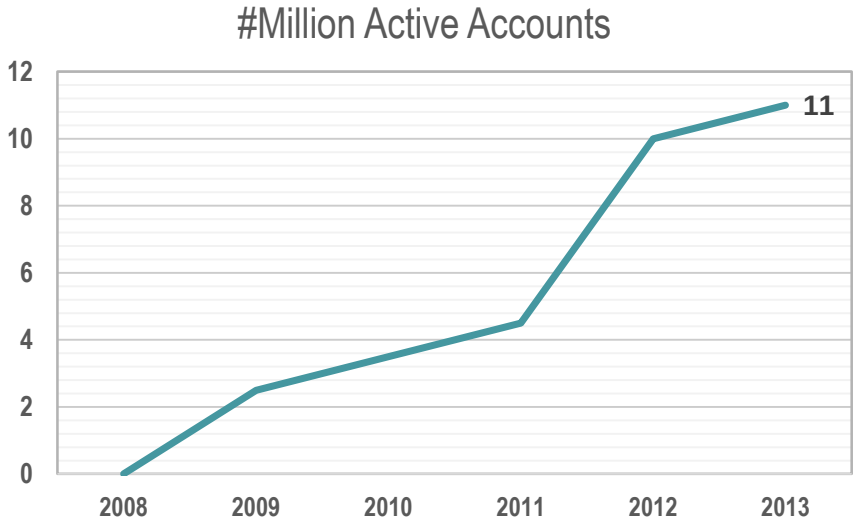
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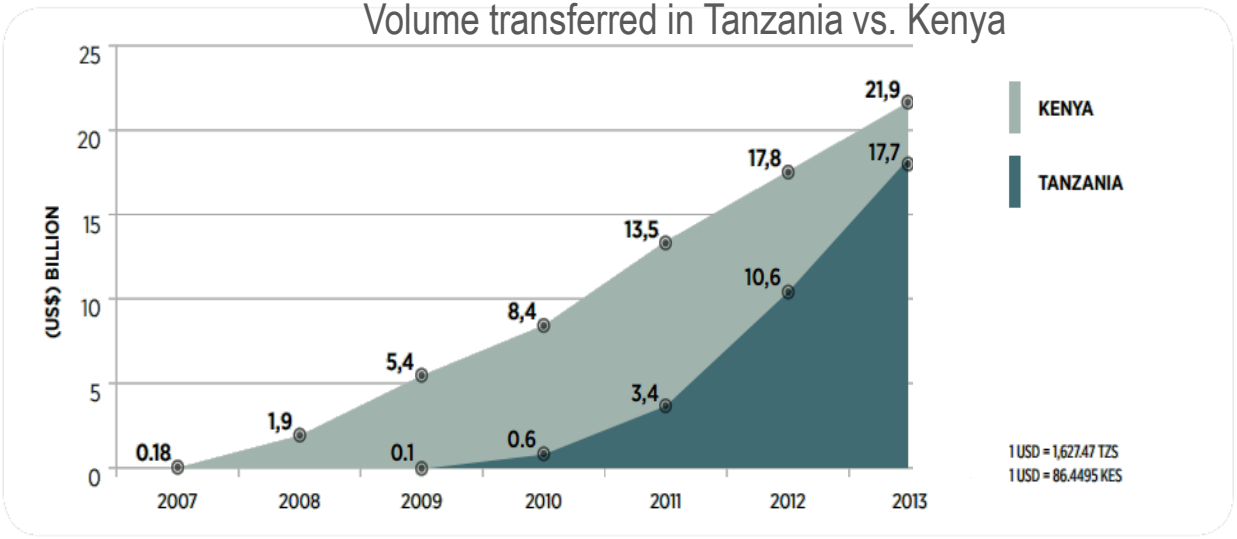
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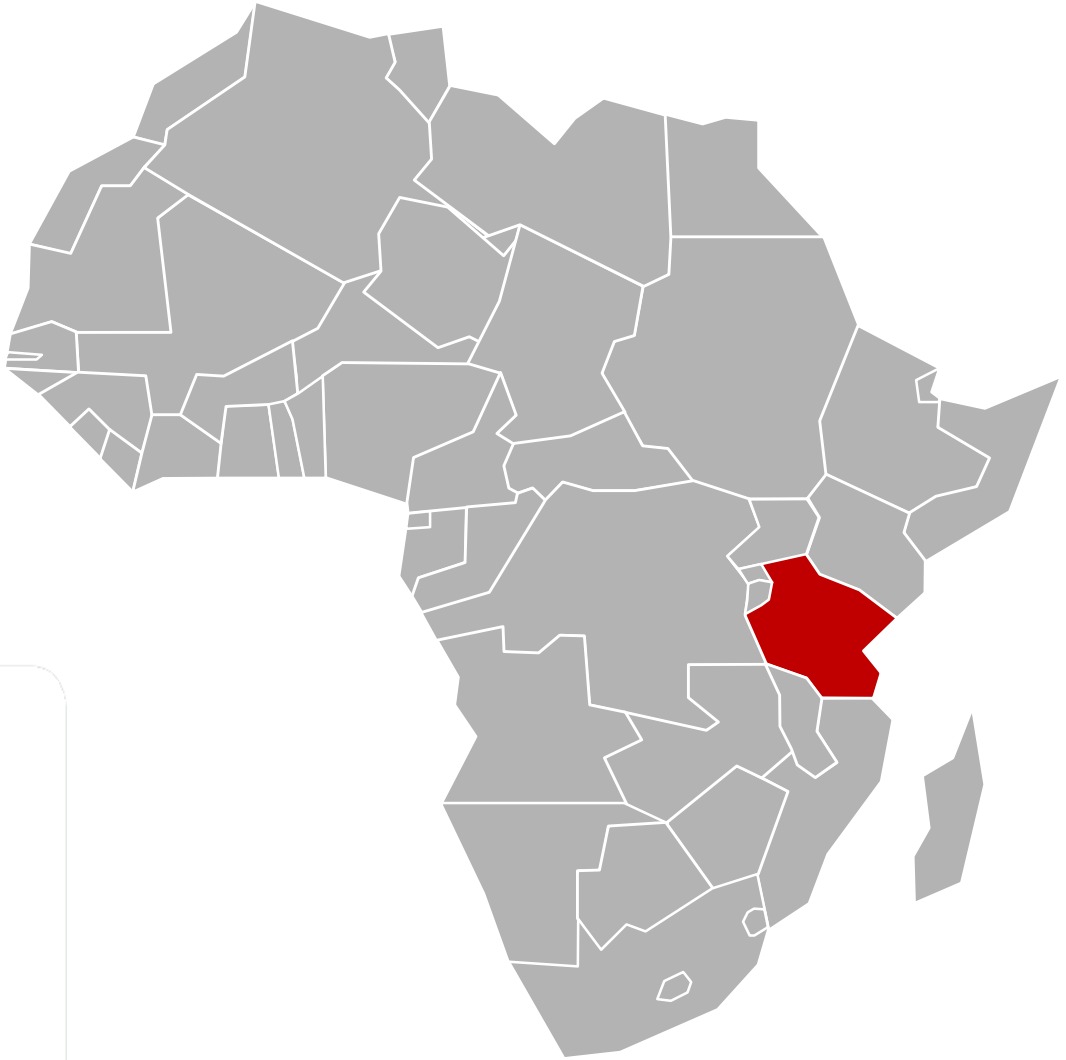
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Mobile Money in Tanzania – Overview







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Milestones leading to interoperability

- **2008**: Zantel launches EzyPesa (then Zpesa)
- **2008**: M-PESA is launched by Vodacom
- **2010**: Tigo Launches Tigo Pesa
- **2011** Airtel re-launch as Airtel Money (previously Zap)



- In June 2014, Tigo, Zantel and Airtel made an announcement that agreements had been made between the three operators.

2012

- Tigo starts conversation about interoperability 2011/2012 with all operators in the market.

2013

- 2013 IFC, funded by the Bill and Melinda Gates Foundation starts working on rules around interoperability.
- In November 2013 the first bilateral agreement between Airtel and Tigo was signed, that allowed them to test and start working on a pilot launch
- In 2013 the Bank of Tanzania encouraged interoperability efforts by the operators.

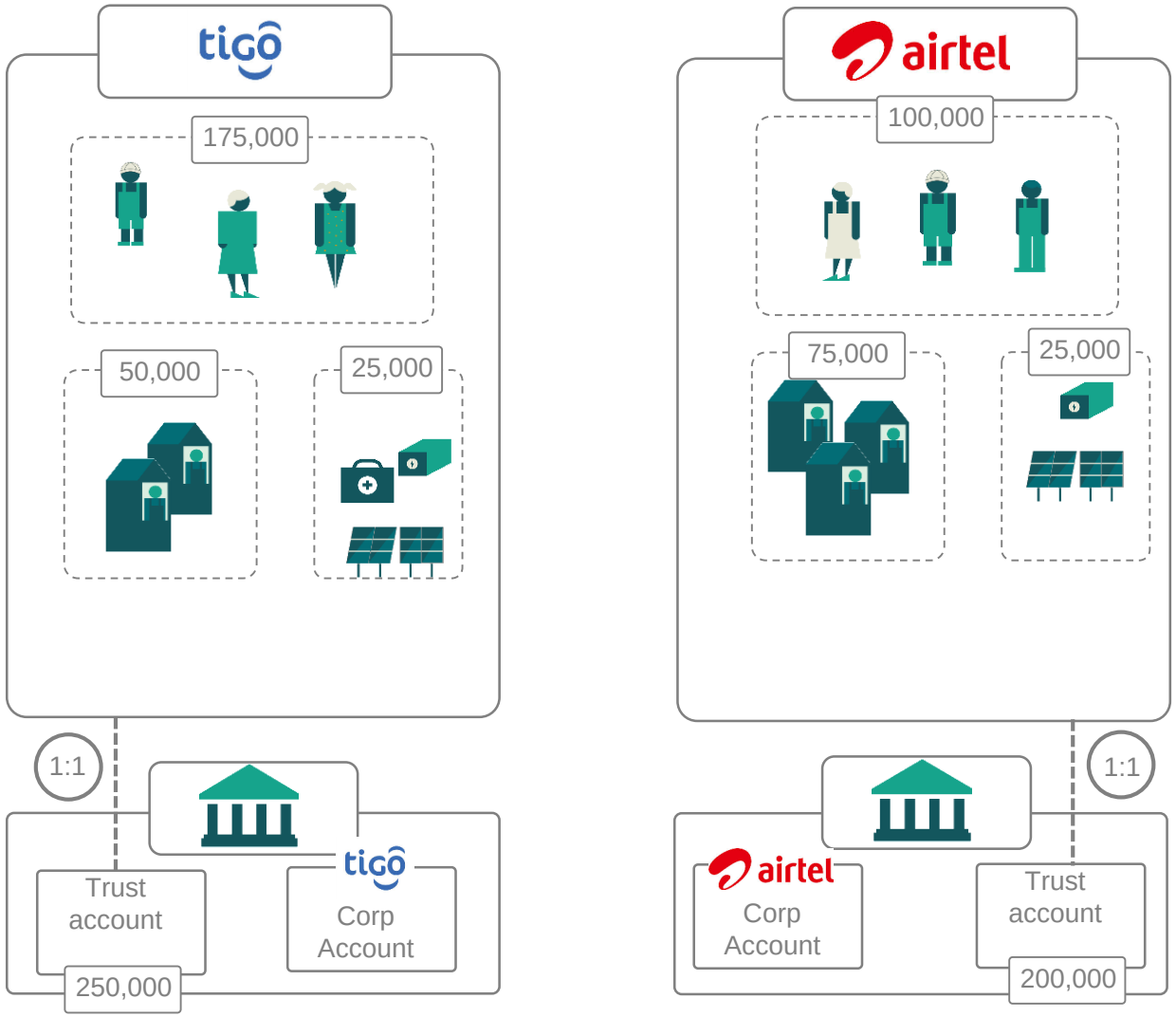
2014

- In August 2014, Tigo and Airtel launches W2W interoperability using ATL campaigns (Radio was the first mass media used)

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Bilateral interoperability – Step by step

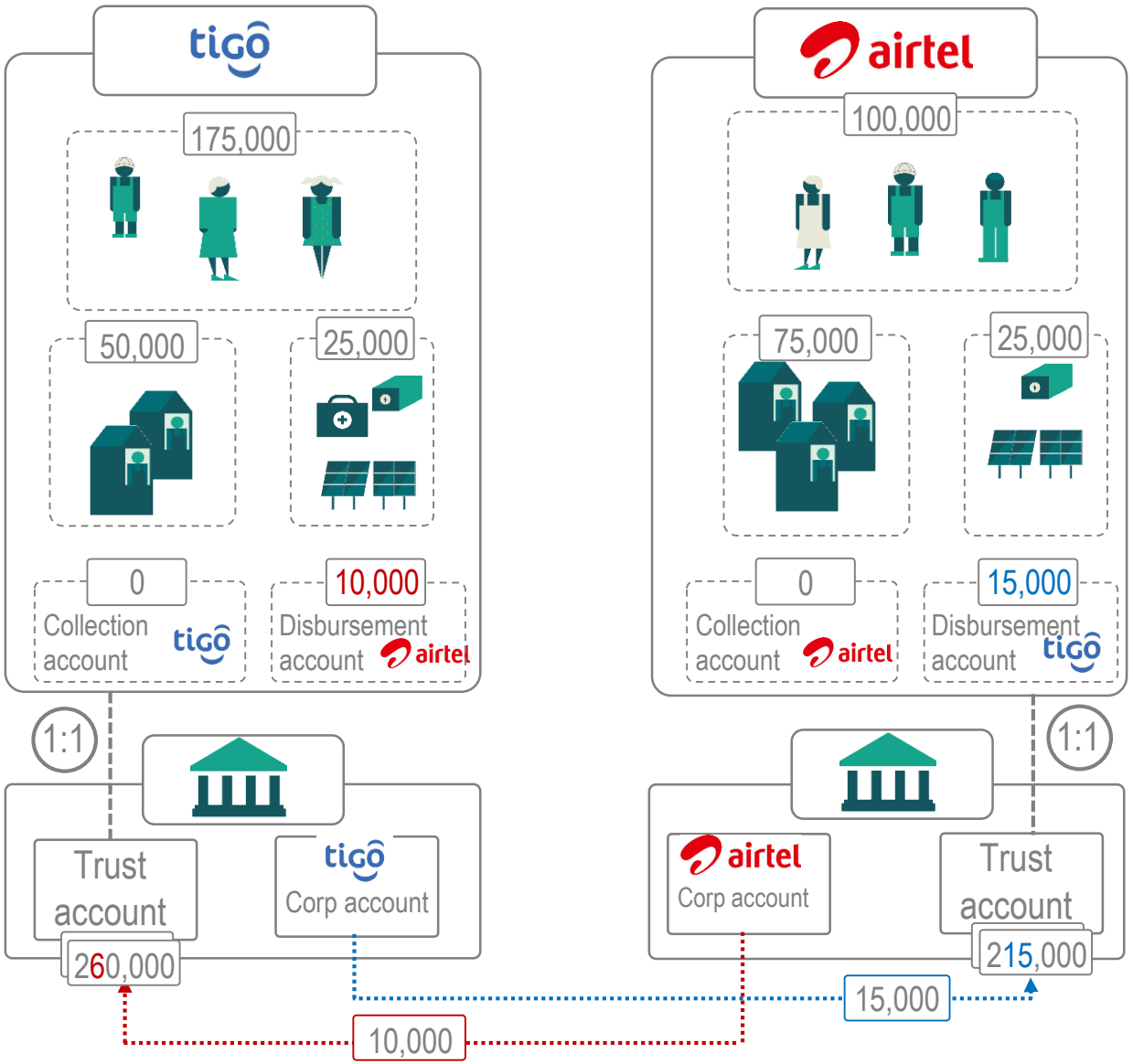


- Each MNO has
  - Customers
  - Agents
  - Corporate partners

The total balances of all on the platform is represented 1:1 in the trust account(s).

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Initial pre-funding scheme



- Each operator pre-funds an account at the other operator with their own funds
  - Correspondently a disbursement account of e-value of each operator is created at the other operator platform

In this example:

- Tigo pre-funds 15,000 at Airtel, changing Airtel available e-value in the market to 215.000

- Airtel prefunds 10,000 with Tigo, changing Tigo's available e-value to 260.000

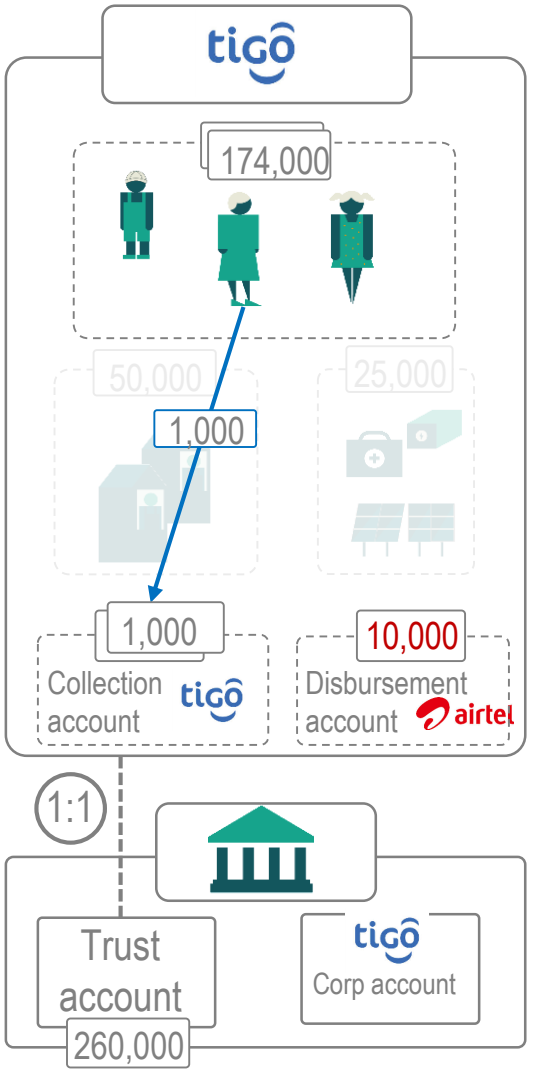
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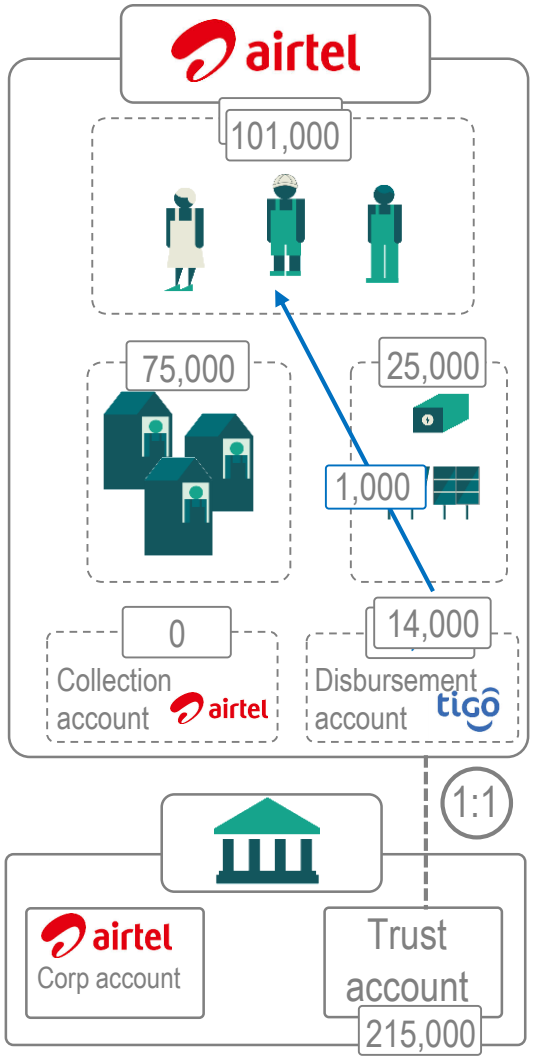
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Transaction steps





In this example: Tigo customer sends 1,000 to Airtel customer

On one hand, Tigo customer has 1,000 debited from his/her wallet and Tigo's collection account is credited in Tigo's platform

On the other hand, in Airtel's platform Tigo's disbursement account is debited and Airtel customer credited with 1,000

Trust account balances remains constant whenever a transaction between Tigo customers and Airtel customer is performed

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Commercial Model

- Should not create economic barriers to consumer
- No Surcharging for the consumer
- P2P OnNet Tariff = P2P XnNet Tariff
- Not Cost recovery
- equitable Share end to end profit share
- Each party should be equally motivated to encourage each incremental transaction irrespective of direction
- Both parties benefit equally from every incremental transaction
- If benefit not equally distributed operators will prioritise one direction over another (Usually “the receiver” position)

Trn Description	Trn Type	Retail tarriff	Whole Sale Tarriff	Net Margin
Cash-In	Deposit	-%	(0.50%)	(0.50%)
P2P	P2P	0.75%	-%	0.75%
Cash out	Withdrawal	2.00%	(1.00%)	1.00%
Totals		**2.75%**	**(1.50%)**	**1.25%**

Off-Net (Sender)		Rev	Cos	Margin
Cash-In	Deposit	-%	(0.50%)	(0.50%)
P2P	P2P	0.75%	-%	0.75%
ICX (OUT)	Withdrawal	0.38%	-%	0.38%
Cash out	Withdrawal	-%	-%	-%
Totals		**1.13%**	**(0.50%)**	**0.63%**

Off-Net (Reciever)		Rev	Cos	Margin
Cash-In	Deposit	-%	-%	-%
P2P	P2P	-%	-%	-%
ICX (IN)	Deposit	-%	(0.38%)	(0.38%)
Cash out	Withdrawal	2.00%	(1.00%)	1.00%
Totals		**2.00%**	**(1.38%)**	**0.63%**

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Challenges / Learnings

Competitive Suspicion

- Technical solution comparatively simple using existing Tech
- Far harder to find an agreement where all parties perceive a mutual benefit of exchange

Commercial Model

- Both parties should be rewarded equally for transactions irrespective of the direction of the flow
- Parties tend to manipulate costs and depending on whether they are “senders” or receivers

Marketing

- Invest in marketing campaigns (ATL) to generate higher impact
- Get more insights on subscribers sending / receiving cross-net (e.g. who are them?, different reasons for sending/receiving?)

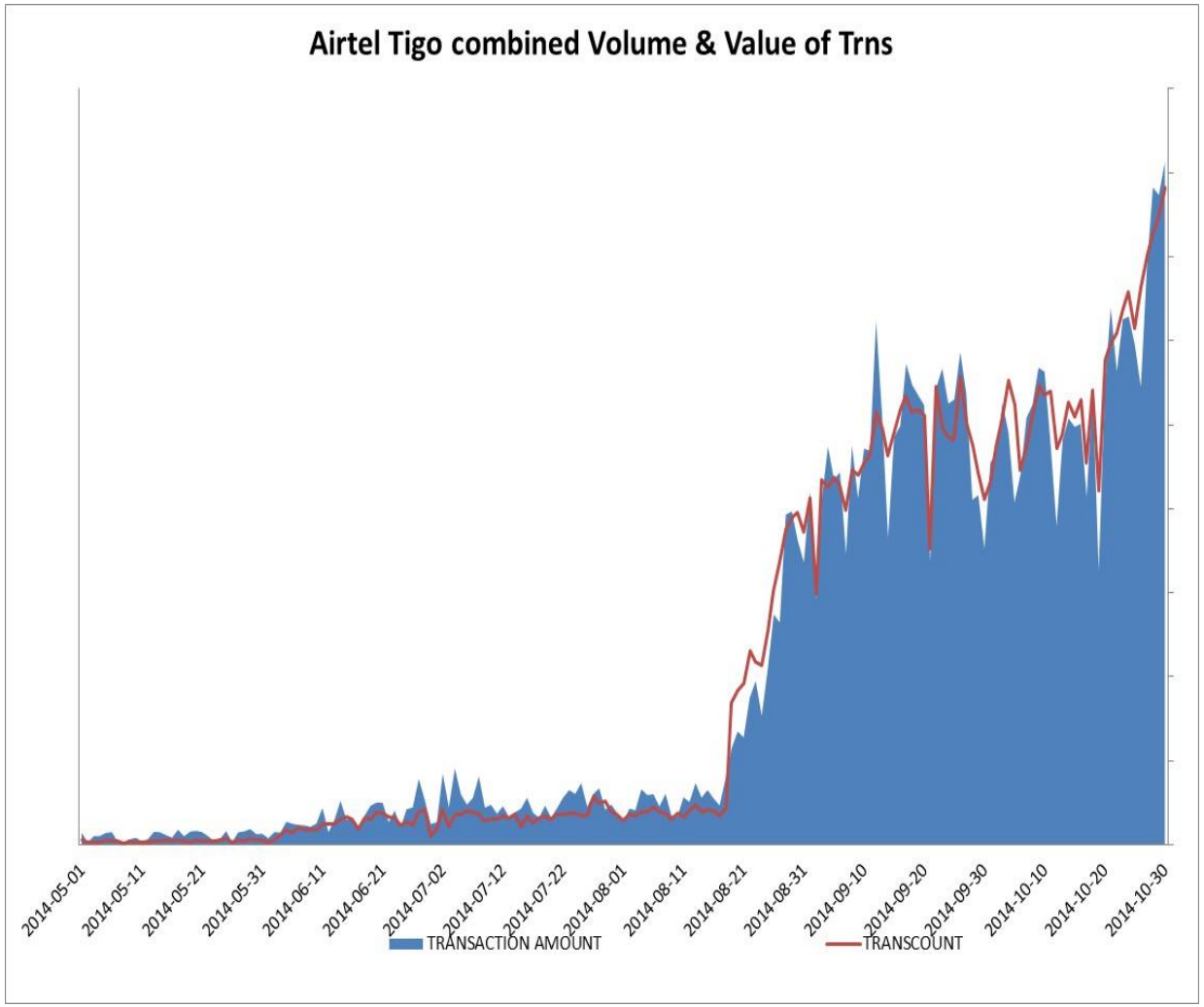
Clearing and Settlement

- Biggest danger is that prefunded disbursement has inadequate to complete transaction
- Regular automated setoff can reduce 90% of funding requirement
- Frequent settlement can further reduce funding requirement

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Initial results



Unilateral Tigo to Airtel Transactions

- Moderate success and transaction usage
- Low visibility and awareness
- Organic growth slow

Bilateral Airtel Tigo Transactions

- Exponential increase post launch
- Widespread acceptance and awareness
- High visibility due to press release
- Exponentially faster adoption that of voucher transaction

Current Learnings

- Start slowly
- Find the technical and administrative bottlenecks and eliminate these before volumes grow
- Pilot phase prior to commercial launch very necessary
- Any marketing exponentially increases awareness & uptake
- One parties marketing assist volume in both direction

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Next steps

Technically	▪ Focus on system reliability to minimise any downtime ▪ Include functionality to allow sender to see name of recipient before confirmation to avoid mistakes
Operation / Customer Care	▪ Invest on increasing customer care
Marketing	▪ Invest in marketing campaigns (ATL) to generate higher impact ▪ Get more insights on subscribers sending / receiving cross-net (e.g. who are they?, what are the reasons for sending/receiving?)
Distribution Network	▪ Consider cash in / cash out integration

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Mobile Money Interoperability – Speaking from experience

- Andrew Hodgson, Head of Financial Services, Tigo Tanzania
- Omar Moeen Malik, Head of Strategy, Projects & Product Development, EasyPaisa, Telenor Pakistan

Moderator:

Charles Niehaus, Payments Consultant, IFC

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Building the mobile money ecosystem

Nicolas Vonthron,
Mobile Money Manager, GSMA

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First, let's have a look at profitability of mobile money

Profitability metrics are different than core GSM

- Mobile money is an OpEX, not a CapEX business (agent commissions for cash-in and out consume 40-80% of mobile money revenue)
- Most of the 240+ deployments to date suffer from underinvestment in OpEX
- Mobile money negatively impacts EBITDA in the short-term and mobile money can face internal KPI conflict
- Operators and financial officers should therefore compare mobile money and GSM businesses based on free cash flow generation, that is, approximately EBITDA minus CAPEX

Assumptions for the study

- Mobile money is managed through a dedicated business unit within an MNO or, in some cases, as a separate entity altogether
- Indirect benefits of mobile money, such as churn reduction, can be significant, but are not directly reflected in the P&L.
- Revenue generated from the float does not contribute to the profitability of the mobile money business
- Mobile money is first and foremost a transactions-driven platform, with costs and revenues tied to the movement of value

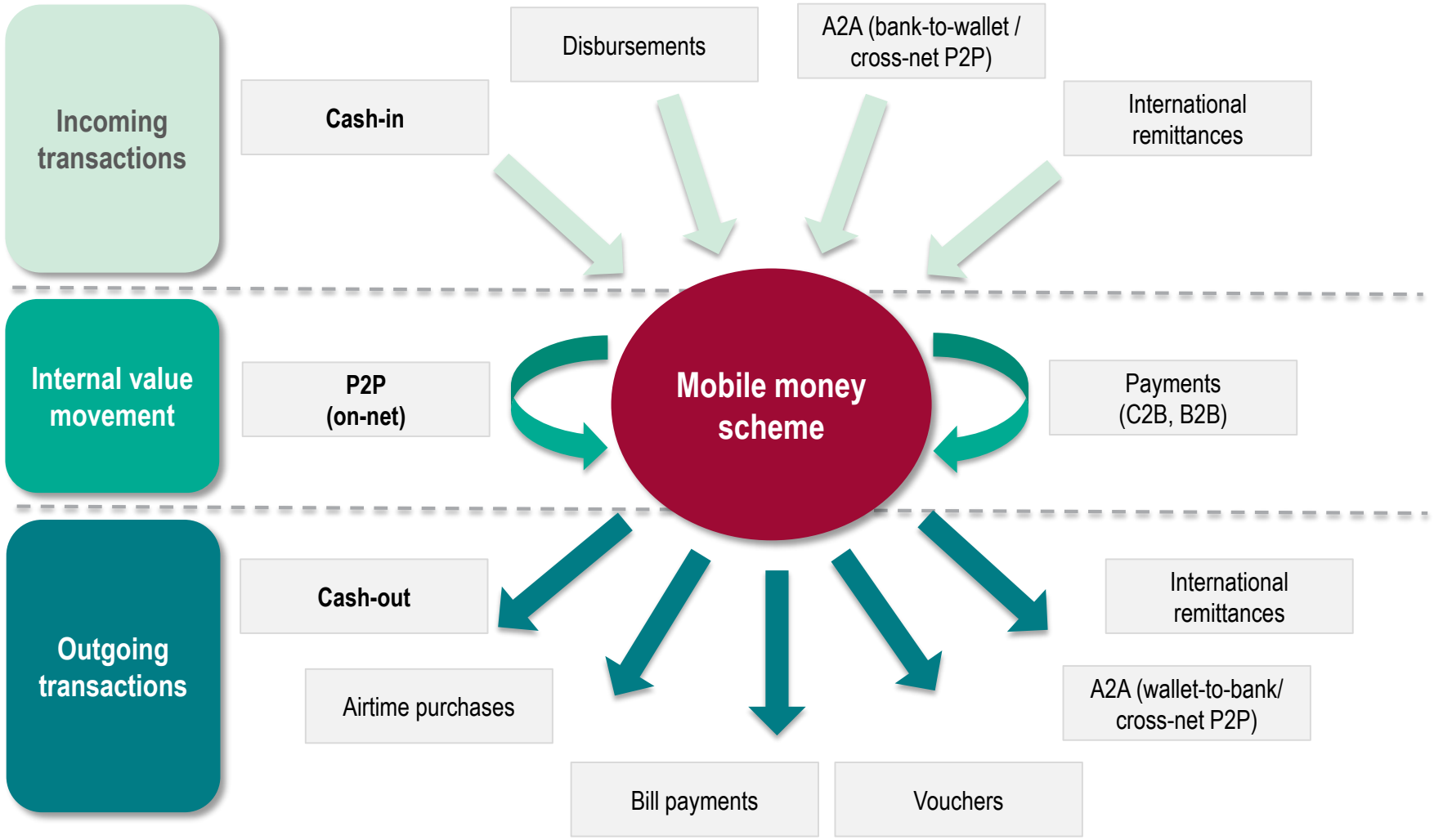
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3 scenarios were analysed

	1 Start-up, Early Stage	2 High-growth, remittance-based	3 Mature, ecosystem-based
	1 – 2 years	**4 years**	**>5 years**
Description	▪ Customer acquisition phase ▪ Provider focused on generating market awareness ▪ Priority is basic foundations of mobile money	▪ At least 15% of GSM base active mobile money users ▪ Network effects kicking-in ▪ One predominant use-case (e.g., P2P, bill pay)	▪ At least 30% of GSM base active mobile money users ▪ High growth of bill payment and bulk payment transactions
Profitability metrics	▪ Highest cost categories agent commissions for registration, agent on-boarding, and marketing ▪ Very little revenue at this point (>1% of total MNO revenue) ▪ Negative margins	▪ Highest cost category agent commissions ▪ Revenue coming primarily from P2P and cash-out ▪ Mobile money revenue approx 5% of total MNO revenue ▪ Modest, positive margins	▪ Agent commissions compressed ▪ Revenue sources more diversified, less from cash-out ▪ Mobile money revenue >15% of total MNO revenue ▪ Healthy margins

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Transaction and system overview: path to profitability



Shifting form costly cash-in networks

Increasing velocity of money

Expanding outgoing transactions options

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Metrics and key findings: necessary ecosystem

	Start-up / Early Stage (1-2 years)	High-growth remittance-based (4-5 years)	Mature, ecosystem-based (>5 years)
Ratio of total digital transactions to total cash-in	1	1.4	6
Revenue			
Total revenue (% of MNO revenue)	0.2%	5%	15%
Average transaction revenue (% of value)	1.7%	3.4%	3.3%
Transaction margins	31%	55%	65%
EBITDA margin	-726%	2%	20%
Capex ratio (% of total MM revenue)	$1-3M USD*	8%	3%
Cash flow margin	NA	-6%	17%

Moving to the ecosystem can improve the profitability of a mobile money deployment by 5 to 10 times

A mature, ecosystem based deployment could have cash flows comparable to GSM core business

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Building the mobile money ecosystem

Rationale – Approach – Challenges

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Building the ecosystem: rationale, approach, challenges

- Michael Elliott, Programme Director, TechnoServe Kenya
- Mohammed Yahya Khan, Chief Financial Services Officer & Head of Easypaisa, Telenor Pakistan
- Rambert Namy, Group Director Mobile Money, Ooredoo

Moderator:

Yasmina McCarty, Commercial Director Mobile Money, GSMA

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Moving to scale in a tough market

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Moving to scale in a tough market

- Felix Kamenga, Managing Executive Vodacom Business & Product Management, Vodacom DRC
- Alban Luherne, Orange Money Director for Africa, the Middle-East and Asia, Orange
- Brett Magrath, COO, Zoona

Moderator:

Tillman Bruett, Manager, Mobile Money for the Poor, UNCDF

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Merchant Payments: Ready to Scale?

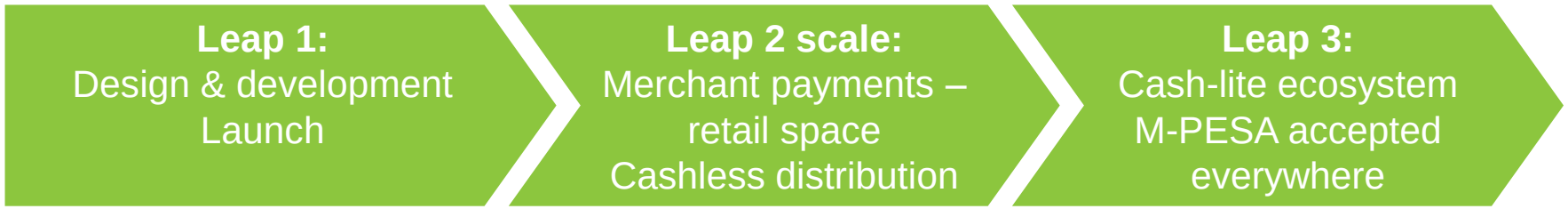
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Safaricom M-PESA Retail Payments Solutions

Background

- Lipa Na M-PESA (pay with M-PESA) is a payments collection service for merchants who include retailers and wholesalers
- Payments collection for wholesalers called Cashless distribution enables a wholesaler to collect Payments via M-PESA from the retailers
- Both services ride on a Mobile wallet on M-PESA “Buy Goods and services” function
- Over 120,000 Merchants have signed up for Lipa Na M-PESA
- Currently the value of transactions via Lipa Na M-PESA is bigger than any Acquiring Bank in Kenya

The Merchants’ journey



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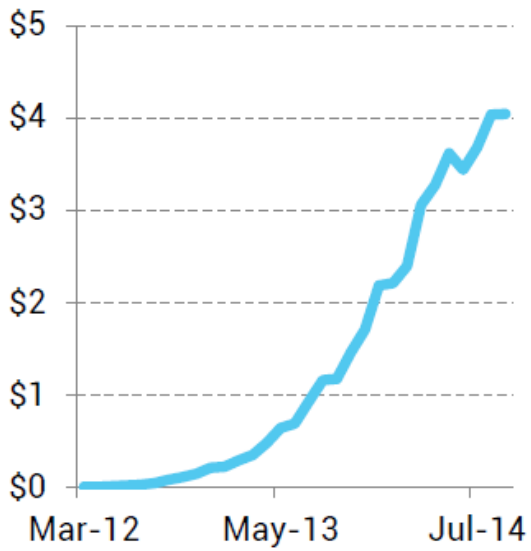
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Kopo Kopo's perspective

Exponential transaction growth

29mos

transaction volume growth

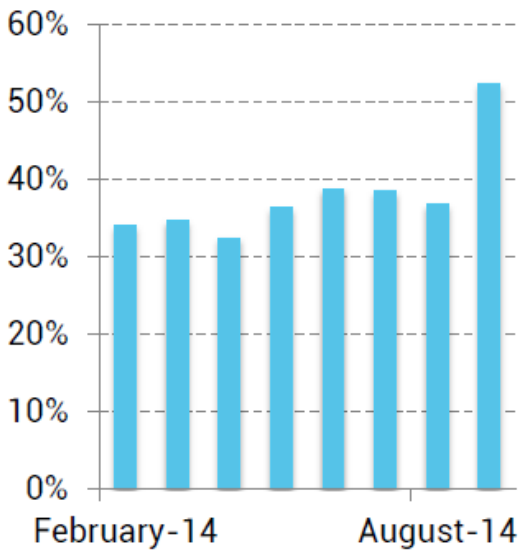


Million USD

Activated merchant base

50%

30-day activity rate

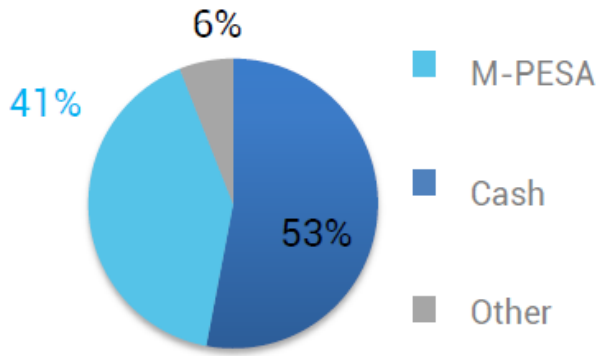


Activity Rate

Merchant payment champions

20x

More likely to prefer M-PESA



Payment Preference

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Merchant Payments: Ready to scale?

- Ibrahim Abdirahman, Business Development Director, Telesom
- Dylan Higgins, CEO & Co-Founder, Kopo Kopo
- Alvin Okari, Senior Manager, M-PESA Product Development, Safaricom

Moderator:

Chris Williamson, Senior Mobile Money Manager, GSMA

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Mobile innovation

How will this impact the future of mobile money?

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How will mobile innovation impact the future of mobile money?

- David Damberger, New Product Development Strategy & Business Development Adviser, M-KOPA
- Katerina Kyrili, Head of Business Development, Bima (Milvik)
- Brett Loubser, Head of Marketing, WeChat Africa
- Roan Murray, CEO, Switching House

Moderator*:*

- Mark Napier – Director, FSD Africa

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