

Vodafone: Expanding Access to Financial Services



Initiative Description

In 2008, Vodafone joined the Business Call to Action (BCTA) with its pledge to increase access to financial services, drive small-scale enterprise, and stimulate economic growth in key emerging markets through its Vodafone Money Transfer platform known locally in Kenya, Tanzania, Fiji, Afghanistan, and South Africa as M-PESA or M-Paisa.

Vodafone's goal:

- Expand access of Money Transfer platform in Kenya, Tanzania, South Africa, Fiji, and Afghanistan so that people can securely receive or transfer money

Business Model

Across the developing world, lack of access to basic financial services hinders economic growth and development. Informal, cash-based economies leave citizens vulnerable to risks and without a secure means of saving or transferring money. Experts estimate that roughly three billion people worldwide are unbanked.¹ For the vast majority of this population, paying bills, saving money, or sending cash to family members in another village, is a dangerous, time consuming, and expensive prospect. With roughly two billion mobile phone users in developing countries, mobile money transfer and payment services provide a potential solution to connect the millions of people who do not have access to formal financial services.

In 2005, Vodafone won a grant from the UK Department of International Development to develop a new application that specifically targeted the unbanked in Africa. Vodafone chose to pilot the project in Kenya, where over 70 percent of households did not have bank accounts, but many had access to a mobile phone.² The goal was to provide a mobile application which offered a valuable service for an underserved market group of low-income consumers that had use of a mobile phone yet lacked access to financial services.

After two years of development, Vodafone, in partnership with Kenya's national network operator, Safaricom, launched a money transfer service that was able to operate on a basic mobile handset using SMS technology. Originally designed as a service to help loan borrowers pay off microfinance loans, M-PESA was quickly adapted to serve as a more general money transfer service.

The concept behind M-PESA, "pesa" is Swahili for money, is to provide a simple, secure system for making person-to-person money transfers.



¹ "Mobile Banking: From Concept to Reality," Consultative Group for Advancing the Poor, (June 25, 2009). Retrieved from: <http://www.cgap.org/p/site/c/template.rc/1.26.10806/>.

² Mwangi S. Kimenyi and Njuguna S. Ndung'u. "Expanding the Financial Services Frontier: Lessons from Mobile Banking in Kenya," Brookings Institution (October 16, 2009). Retrieved from: http://www.brookings.edu/articles/2009/1016_mobile_phone_kimenyi.aspx.

It began by building a vast network of Safaricom-accredited M-PESA dealers around the country. Customers first visit an accredited Safaricom M-PESA dealer to set up an account for a subscriber identity module (SIM) card. Once an account is set up, the customer can make money transfers simply by buying electronic money (e-money) that is then deposited onto their phone via the M-PESA system. The customer receives a text message to confirm the transaction, which he or she can either store in their M-PESA account until needed, or forward it on to someone else. When needed, the e-money can be converted back into cash at any registered M-PESA agent or even through an automatic teller machine.

In Kenya, uptake for the product was swift; within just 14 months of the launch of M-PESA, there were 2.7 million users and almost 3,000 outlets. The system uses the mobile phone, network, and SIM to create a financial service infrastructure for customers that are generally considered too low value for traditional banking products. There is no account opening fee, no minimum account balance, and there are no monthly charges or minimum number of transactions. The service is “pay-as-you-go”, with deposits being free, and transfers and withdrawals being charged a minimum fee.

How it Works:

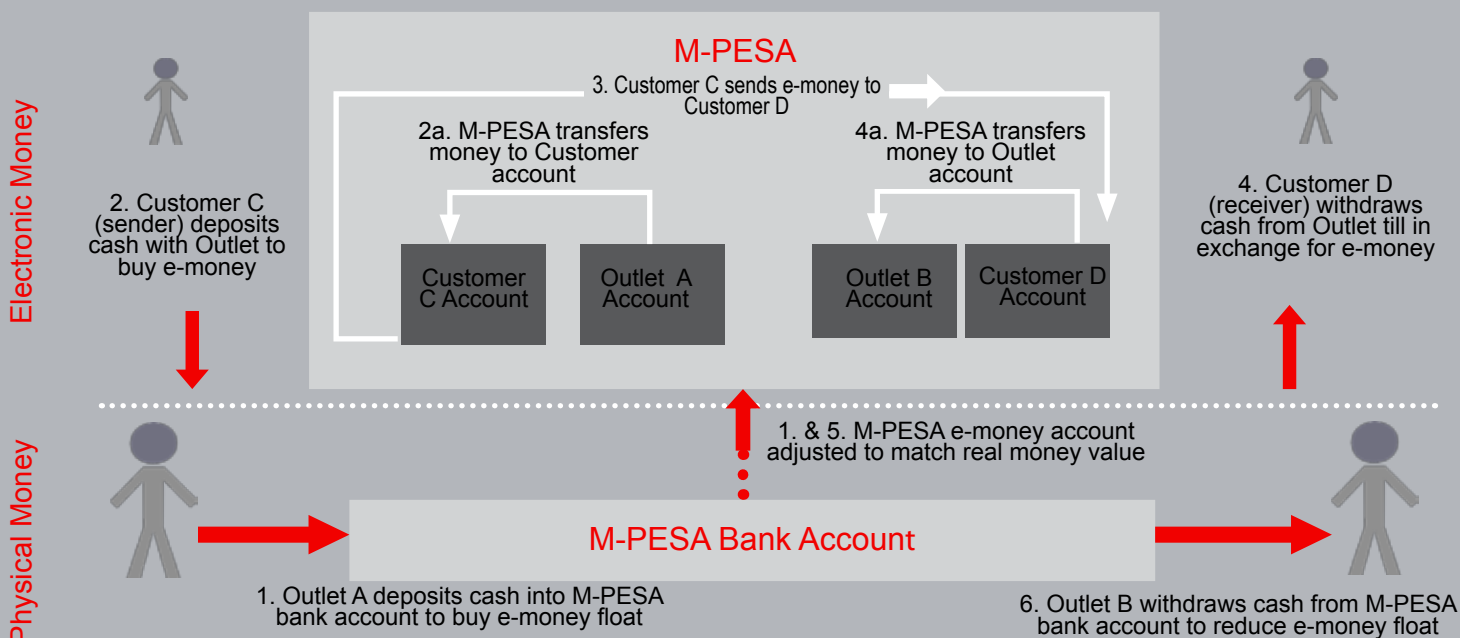
Four years after the successful completion of the pilot in Kenya, Vodafone has rolled the product out to Tanzania, South Africa, Fiji, and Afghanistan. To date, more than 18.5 million registered customers rely on the Vodafone Money Transfer system. The mobile technology company is now looking to replicate the

model in other markets and is currently building partnerships with national mobile phone operators that have expressed interest in the product. For example, Vodafone is working with Safaricom in Kenya, Vodacom in Tanzania and South Africa, and Roshan in Afghanistan.

Once a new market is identified, Vodafone provides the national mobile operator with a best practice guide that outlines how to set up the system organizationally. The company then works closely with the mobile operator to help them incorporate the application into their service offerings. In addition to the technical support, Vodafone assists the national operator with any regulatory issues which might arise, sharing best practice solutions from other markets. Vodafone also supports the recruitment and training of Money Transfer outlet managers. These entrepreneurs, which include airtime vendors and retail shop managers, are expected to pass a test on anti-money laundering and counter terrorist financing before they are certified to process transactions.

Money Transfer outlets market the service to potential customers and provide support to existing customers. In return they earn a commission for marketing and customer support as well as the registration and processing of any transactions (both money coming in to the outlet and also being given out). These transactions are closely monitored by the national mobile operator. In addition to providing a basic service that allows customers to transfer funds and make payments, the service has been expanded to allow customers to pay bills, school fees, or loans. Businesses can also use the Vodafone Money Transfer system to pay salaries or repay loans.

Vodafone's Money Transfer Business Operations Model



Source: Nick Hughes and Susie Lonie, "M-PESA: Mobile Money for the "Unbanked" Turning Cellphones into 24-Hour Tellers in Kenya, (MIT Policy Innovations, Winter & Spring 2007.)

Results Achieved

To date, Vodafone's Money Transfer platform has seen tremendous uptake. Across all markets, there are more than 18.5 million registered customers that transfer over US\$350 million each month through the platform.

Business Impact

The Vodafone Money Transfer service is a revenue-generating application that helps retain customers and differentiate Vodafone's partner operators in already-saturated markets.

Today, the service is generating significant revenues. For example, in Kenya, in 2009 an increase in operating profit was due in part to the growth in M-PESA revenue. According to Safaricom's 2010 financial statements, M-PESA brought in Ksh 7.5 billion (US\$91.9 million) in revenue, more than double the amount it generated the previous year. Tanzania also shows strong growth opportunities with the average number of transactions increasing by 19 percent month-on-month throughout 2009-2010 and with around 5 million subscribers having registered for the service. In addition to profits, innovations which enable customers to improve their daily lives help to increase customer loyalty to Vodafone networks and products.

The Money Transfer service provides customers with an added incentive to remain loyal to Vodafone's affiliate networks. The success of Vodafone Money Transfer has led to other mobile network operators launching their own mobile money services worldwide.

Development Impact

Vodafone's Money Transfer service addresses Millennium Development Goal (MDG) 1 to reduce poverty and hunger.

Vodafone is achieving MDG 1 by improving access to financial services at reduced cost and promoting job and opportunity creation. More than 14 million customers relied on the Vodafone Money Transfer service in 2009-2010. The average transaction was worth around US\$20 for a total US\$3.6 billion which was transferred through the platform last year. A survey found that on average over three hours and around 200 Ksh (US\$2.59) is saved per transaction because it reduces the need to travel to pay school fees, bills, or transfer money.³

The service is also helping to promote opportunity and job creation for thousands in the markets in which M-PESA is available. In Kenya, for example, there are over 18,000 outlets servicing customers for cash-in and -out transactions, which has resulted in the creation of approximately 30,000 new jobs. Outlets often have M-PESA stations alongside their normal goods and services where customers can withdraw transferred money. Around 60 percent of outlets interviewed claimed that M-PESA is their primary revenue earner and at least 13 percent of the lowest income businesses say their monthly revenue has increased. A Consultative Group to Assist the Poor study suggests that up to 30 percent of M-PESA users have experienced an increase in income.⁴

3 "FinAccess National Survey 2009," FSD Kenya, June 2009. Retrieved from: http://www.fsdkenya.org/finaccess/documents/09-06_10_FinAccess_FA09_Report.pdf.

4 Olga Morawczynski and Mark Pickens, "Poor People Using Mobile Financial Services," Consultative Group for Advancing the Poor, August 2009. Retrieved from: <http://www.cgap.org/p/site/c/template.rc/1.9.36723/>.



Vodafone is the world's leading mobile telecommunications company, with a significant presence in Europe, the Middle East, Africa, Asia Pacific and the United States.



Key Success Factors

Having an Appropriate Regulatory Framework

Vodafone and its mobile network operators seek to work with regulators, either the central bank or other government officials, to build an appropriate regulatory framework for a successful service. It is important that the national regulators are fully briefed about how the Money Transfer system works and the way in which Vodafone addresses issues, such as money laundering and counter terrorist financing. For example, each national mobile phone operator employs a designated anti-money laundering officer to brief outlets on what to look for in terms of criminal behavior, to monitor transactions, and to report suspicious activities.

Successful Organizational Model

One of the key success factors for Vodafone has been the creation of accredited and trained agents who act as outlets for the service. Safaricom were able to train and accredit a large number of their already established networks of airtime sellers. Because most airtime sellers were eager to add to their product line offerings, there has been a lot of interest in servicing Money Transfer platform customers.

Transparent Customer Processes

By working closely and communicating regularly with key stakeholders including regulators and customers, Vodafone has ensured that its operations are transparent. Mobile operators require money transfer outlets to go through a rigorous security process. Vodafone also requires that supporting mobile operators dedicate a customer service division to the Money Transfer service. Such steps are crucial to gain the trust of customers.

Transparent Pricing System

The cost to transfer money is kept uniform across the entire network of outlets regardless of local mobile phone operators and is clearly communicated to customers. Plus, free registration and no monthly fees have helped outlets to persuade potential customers to subscribe to the service.

Next Steps and Spin Off Effects

Vodafone will continue to expand access to its Vodafone Money Transfer platform in line with its commitment to the Business Call to Action. In the coming years, it expects to:

Extend Access

In 2010, Vodafone continued to expand access to Vodafone Money Transfer, with additional launches to be announced later this year.

Facilitate International Money Transfers

In 2009-2010, Vodafone piloted a system of international money transfers between the UK and Kenya to assess the potential for international money transfer to existing domestic money transfer markets. Vodafone is continuing to explore the expansion of other corridors for international money transfer.

Explore the Delivery of Humanitarian Aid

Through a trial project with Concern Worldwide, M-PESA was used to distribute humanitarian aid in Kenya to women who were most affected by post-election violence. Lessons learned from that trial will be used in additional iterations of the service.

Develop Bank Partnerships

In Kenya, Safaricom has developed a partnership with Equity Bank to provide a new product called, M-KESHO. M-KESHO is an Equity Bank interest-bearing savings account that Safaricom customers can access using their M-PESA accounts on their phones.

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