

MicroSave Briefing Note # 94

Riding the M-PESA Rails: Advantages & Disadvantages

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MicroSave's recent research with 14 financial institutions in Kenya revealed the perceived opinions as to the advantages and disadvantages of linking with M-PESA.

Advantages for Financial Institutions¹

By riding on M-PESA rails, most banks, MFIs and Deposit Taking Microfinance Programs (DTMs) are looking for cost reduction, increased staff efficiency and convenience of customers, which ultimately should lead to more deposits/transactions.

Cost Reduction and Efficiency

By having their customers use M-PESA, many institutions have been able to achieve cost reductions because all or part of the cost is borne by the customer. For example, an MFI that disburses loans through its branches/groups spends huge sums on cash logistics, cash insurance and managing the risk of carrying cash. Disbursement through cheques is also costly as MFIs have current accounts and are charged for each cheque leaf and cheque clearing. Using the Business-to-Consumer (B2C) service of Safaricom,² the MFI only has to deposit money in its M-PESA account and provide a list of recipients and the amount to be paid to each. For this service Safaricom charges the MFI on a per transaction basis, but the charges are lower than what the MFI would incur for any other traditional mode of disbursement. Similarly, accepting deposits at a bank branch is more expensive on a per transaction basis to the institution as it incurs expenses for branch infrastructure, manpower, equipment and security arrangements. By asking customers to deposit or repay loans through M-PESA, the financial institution is essentially outsourcing teller activities to the M-PESA agent. This logic also applies to other financial institutions like insurance agencies, investment and pension plan providers or pre-paid instrument providers using the M-PESA platform and agents to collect premiums and deposits.

Using the M-PESA platform and its agents allows financial institutions to decongest their banking halls and offices. Removing crowds from branches gives staff more time to focus on product sales, business development, customer acquisition and related activities. They need to worry less about cash management and servicing the products, as deposit and withdrawal or repayment and disbursements can be

done through agents. On this count, most financial institutions agree that linking to M-PESA has increased staff efficiency. However, the lack of back-end integration has created inefficiency as well. In a reported 10% of cases, staff has to manually match funds coming into the bank from an M-PESA customer, to that customer's account.

While financial institutions do indeed value cost saving and efficiency, they also face a challenge of potential under-utilisation of the existing branch infrastructure (including staff). Banks will need to either retrain, and redeploy, staff away from service functions (cash tellers etc.) and into sales functions (to grow the client base and/or cross sell products etc.), or create less expensive branch infrastructure. While this has not been seen yet, institutions are beginning to realise the opportunity, and challenge.

Customer Satisfaction

Customers do not have to come to the often-distant bank branch or deal with cashiers, nor do they need to queue and complete bank forms. There are too few actual users at this point to judge client satisfaction, but it seems likely that a bank which offers the convenience of M-PESA could maximise positive benefits (security, product offering, interest payments) and minimise the inconvenience of visiting a branch.

Advantages for Customers

The biggest benefit for customers is that they need not travel to a bank branch or an MFI's designated point for transacting into their accounts. They can just deposit money into M-PESA account at the nearest M-PESA agent and transfer from M-PESA to their bank account. It brings to them the following benefits:

- *Cost savings* on travel expenses, opportunity cost of losing wages or turnover etc. (It should be noted, clients may need to pay transfer and withdrawal fees to the telco which may lessen the benefit).
- *Convenience* of transacting whenever/wherever: M-PESA agents are ubiquitous and if a customer already has sufficient balance in his/her M-PESA account for the loan repayment, then he/she does not even need to go to an agent.
- *Reduced risk* of carrying cash. M-PESA agents are nearer than the bank/financial institution's branch.

¹ Briefing Note # 93 "Innovation and Adaption on the M-PESA Rails" discussed some of the financial institutions using the M-PESA infrastructure, this one looks at the advantages and disadvantages of doing so.

² <http://www.safaricom.co.ke/index.php?id=270>

Disadvantages for Financial Institutions

The biggest challenge that financial institutions are facing is reconciling deposits initiated by M-PESA users to customers' accounts. While this is often due to customers keying in incorrect account numbers, it is also due to system incompatibility between the institution and Safaricom. Additionally, there is also a delay in the transfer of funds from customers' bank accounts into their M-PESA accounts. This is due to what is perceived as a slow response from Safaricom on customer initiated transfer of money from bank to Safaricom (withdrawal).

Deposit and withdrawal transactions become complicated because the bank cannot initiate deposit into, or withdraw directly from, a customer's M-PESA account without involving Safaricom. Similarly Safaricom cannot initiate deposits into, or withdrawals from, a customer's bank account without the bank being involved. The two systems have to communicate with each other. Issues arise when the systems are incompatible or when the link between the systems fails.

Commonly observed issues are:

- The wrong business (bill) number entered by the customer in the "pay bill" function. This leads to transfer of money from her M-PESA account into a different biller's account instead of her bank.
- The wrong account number entered by the customer. Under this condition, money is transferred from her M-PESA account to the right financial institution, but then the financial institution's system is not able to locate the right account, or credits a different account if an account with the number entered by the customer does exist.
- Delays in processing transactions. This issue arises at Safaricom's end as well as the financial institution's end. Some delays are expected due to cross checking and verification of inputs entered by customer, but other time delays are caused by reasons that are unclear to financial institutions.
- As a consequence of the above, manual reconciliation is often required.

Disadvantages for Customers

Everywhere/anywhere options are minimised by delays in receiving bank confirmation that money has been credited to the customer's account. This is, of course, exacerbated if the client has entered the incorrect business/biller number, or the incorrect account number. Additionally, each bank issues different instructions: most banks ask for the account

number, but some give an option of either entering account number or the National ID number, or even the passport number. For borrowers, it becomes more complicated because in the same institution they may have both a savings and a loan account, making errors even easier.

Withdrawals from a bank account using the M-PESA channel can also be challenging as customers have to connect through the institution's m-banking platform and then transfer to M-PESA. Execution of the withdrawal instruction often takes a long time – as much as a few hours. The "clunky" interface between the back-end systems lead financial institutions to blame the slow response time on Safaricom.

The Consequences

"Safaricom is playing a bully. It dictates all terms and does not listen to the other partner's problems".

- Senior manager of one large bank in Kenya.

Reduced Promotion

Institutions that have agreements with M-PESA are not heavily promoting the opportunity, despite the potential benefits. They are aware of the issues faced by customers as well as the back-end challenges of reconciliation and so on. They are allowing customers to subscribe to the service on their own (the early adopters) so that with low volumes and more knowledgeable customers they can first test the systems, improve processes and then (perhaps) promote more widely or implement mass registration.

The Search for Alternatives

Financial institutions are looking for alternative arrangements to mitigate the challenges of riding the M-PESA rails. Some, such as SMEP and Musoni are building middleware to better integrate with Safaricom's systems; others (including most banks) are seeking to reduce their dependence on Safaricom by signing agreements with other mobile network operators; many are waiting to see if Safaricom's promised improvements, particularly an application programming interface (API) will manifest; and four of the largest banks are building their own agent networks to avoid or compete with M-PESA's in offering access to a full-range of financial services.

Briefing Note #95 "Do the M-PESA Rails Contribute to Financial Inclusion?" looks at the market and strategic implications of these moves.