

MicroSave Briefing Note # 95

Do the M-PESA Rails Contribute to Financial Inclusion?

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Background: The Core Business Proposition of M-PESA¹

There is a sense of discomfort among the financial institutions about the success of M-PESA and the challenges of dealing with Safaricom. As discussed in [Briefing Note # 94](#), most financial institutions have had difficulties in their attempts to extend their products and services through the M-PESA channel. This may be, in part, because some of them hoped that by association, their products would take off the same way Safaricom's person-to-person (P2P) money transfer product did. For others, Safaricom appears to offer direct competition, particularly as a viable option to bank savings accounts.

Poor Man's Financial Inclusion?

This is, however, an over-simplified view of the situation. According to several industry experts, by design or by default, a substantial proportion of the Kenyan population is using M-PESA as an addition to bank savings accounts, and less frequently, as a full-scale substitute. The current pricing structure of M-PESA with its free deposits, does offer a tremendous opportunity for un- or under-banked people to build up what Stuart Rutherford would call "useful lump sums". In this sense it provides a very valuable service to facilitate saving up for future needs.

The worry among financial inclusion proponents and

"I deposit whatever money I have with me whenever I visit M-PESA agent (point), and not only what I have to send home. Therefore most of the times my M-PESA account has some spare amount for emergency needs...it varies, but usually it is Ksh400-500".

- An M-PESA user in Nairobi.

banks is that poor people will use M-PESA as a full scale substitute for formal institutions. One expert calls this "low equilibrium financial inclusion" – or put simply, "poor quality, high cost and potentially high risk, financial inclusion". Users of M-PESA do not get access to structured savings (such as recurring deposit) products, they cannot access loans and other financial

services like insurance and pension plans from Safaricom, they do not receive interest on their savings balances, they do not receive a statement of their transactions, and often lack privacy because of the close involvement of agents. And with the standard charges of Ksh.30 (US \$0.35) for transfer, and Ksh.25 (US \$0.29) for cash out, the costs of transacting on the M-PESA platform remain quite high for low-value transactions.²

Basic, Valuable ... and Increasingly Popular

M-PESA does provide excellent money transfer services and a very convenient, if basic, way to set aside money. Many research papers show that the average Kenyan is happy with the impact that M-PESA has had on their lives – see for example "Community Level Economic Effects of M-PESA in Kenya".³ Furthermore, in focus group discussions a

"M-PESA is a communication company. Equity are money people. People have more faith in banks, if M-PESA name was replaced with Equity it would be a huge hit!"

- A user in a focus group in Nairobi.

few clients expressed that they have confined themselves to saving on M-PESA, and thus may not be motivated to open accounts with banks. The recent FSD Savings Survey conducted in October/November 2010 showed that the average balance held on M-PESA had risen to Ksh1,080 (\$12.70) – a five-fold increase over the Ksh.230 (\$2.70) recorded by the Central Bank of Kenya (CBK) audit in August 2009.⁴

Integration with the Financial System

Almost all commercial banks are of the view that Safaricom has a duty towards the clients and the economy, and it should develop systems to allow banks/financial institutions to integrate with it more effectively. While arguing "duty" may not carry significant weight in a free market economy, most bankers also feel that this makes business sense. Although the current scenario is not encouraging, with its integration and support related challenges, the potential of the M-PESA channel with the advent of

¹ [MicroSave Briefing Notes # 93 "Innovation and Adaption on the M-Pesa Rails"](#) and [# 94 "Riding the M-Pesa Rails: Advantages & Disadvantages"](#) discussed the current operational state of M-Pesa and how financial institutions are using it to offer their products and services through mobile phones. This Briefing Note looks at the strategic implications of M-Pesa and the role it has played in furthering financial inclusion in Kenya.

² See [MicroSave Briefing Note # 93 "Innovation and Adaption on the M-Pesa Rails"](#)

³ [Plyler](#), Megan G, Sherri Haas and Geetha Nagarajan; Iris Center, University of Maryland; June 2010

⁴ An earlier report published by Ignacio Mas and Dan Radcliffe suggests that the average balance in M-PESA account was US \$2.70 according to an audit by Central Bank of Kenya in August 2009.

better application programming interfaces (APIs) and negotiated agreements could indeed offer a way out of a low-equilibrium financial inclusion “trap”.

All of the banks and financial institutions interviewed saw merit in getting into a relationship with Safaricom, but all are facing issues with back-end integration.⁵ In March 2011, industry sources close to Safaricom hinted that Safaricom is indeed developing an application programming interface. It realises that competition is increasing, the regulator is tightening controls and customers are demanding more, better and cheaper products and services.

A recent development might increase the ability of banks and Safaricom to work together towards true financial inclusion. The CBK conditioned its approval on an increased upper-limit on transaction size, against a reduction in M-PESA customer tariffs. As this would put pressure on agent commissions (even if offset by increased volume), it may result in M-PESA agents also being able to sign agency/outlet agreements with a range of financial institutions.

MFIs are quite positive about Safaricom’s ability to provide them the rails they need for cost reduction and increasing the efficiency of staff. It remains to be seen whether deposit-taking microfinance institutions are also able to persuade customers to route their deposits through M-PESA the way they are strongly encouraged to route their loan repayments. It will also be interesting to see the long term effects of M-PESA on group meetings – there is a clear risk that clients will simply send their loan repayments from their place of business or home, in preference to attending a meeting.

The Quest for Alternatives

Equity Bank and others are creating their own delivery channels by setting up agent networks with a focus on rural locations. There is an urgency to create a parallel system as no institution wants to depend solely on Safaricom. The past few months have witnessed a spate of agreements between financial institutions and MNOs. Even other MFIs, SACCOs, insurance companies and pension product providers are tying up with MNOs other than Safaricom. The market share of Airtel and Orange has increased. At the end of Q1 (2010-11) Airtel increased its market share in the mobile market to 13.5%, up from 9.1% at the end of Q4 (2009-10). In the same period Orange has grown its market share from 2.7% to 4.0% while Safaricom’s share has decreased from 80.7% to 75.9% of the total market. This change is due to many factors, including the on-going tariff war on voice and message rates, promotional campaigns etc. but it illustrates the reality

that Safaricom will have to work hard to retain market share and keep customers from moving to other operators. A trend that is likely to increase with number portability being introduced by the Communications Commission of Kenya.

The Future of Financial Inclusion?

Multiple systems competing for customers are likely to result in significantly reduced costs, improved products and customer service, and eventually interoperability between the mobile money/m-banking systems. In Kenya, where the basic measure of financial inclusion has risen very significantly as a result of M-PESA,⁶ these changes will enhance the quality of that financial access. The challenge will be for the financial institutions and MNOs to offer compelling products and services that maximise the competitive advantage of each player. This should result in significant reductions in the cost of mobile money-based services ... and this is likely to come only as they increase the integration of the systems and range of services offered.

“M-PESA itself does not constitute financial inclusion. But it does give us glimpses of a commercially sound, affordable and effective way to offer financial services to all”.

- Ignacio Mas and Dan Radcliffe (*ibid*).

However, the dream of full integration and interoperability seems distant. In March 2011, CBK Governor Njuguna Ndung’u said, “Interoperability will help to reduce costs but if you reduce costs without following the rules of the game you will kill the innovation. There are proprietary rights that you have to respect”.⁷ Many industry insiders remain concerned that this approach will entrench what is now increasingly viewed as Safaricom’s monopoly position – thus yielding low equilibrium financial inclusion. While M-PESA’s rails offer the potential, Kenya may yet have to wait to realise comprehensive, commercially sound, affordable and effective financial inclusion.



⁵ See *MicroSave Briefing Note # 94 “Riding the M-Pesa Rails: Advantages & Disadvantages”*

⁶ Even in 2009, FinScope showed that 23% of Kenyans were formally banked, but that an additional 18% had access through “Formal – Other”. This latter percentage will undoubtedly have risen by May 2011 when M-PESA had over 14 million registered SIMs.

⁷ Quoted in *The East African*, March, 14, 2011