

The power of mobile money

Once the toys of rich yuppies, mobile phones have evolved in a few short years to become tools of economic empowerment for the world's poorest people. These phones compensate for inadequate infrastructure, such as bad roads and slow postal services, allowing information to move more freely, making markets more efficient and unleashing entrepreneurship. All this has a direct impact on economic growth: an extra ten phones per 100 people in a typical developing country boosts GDP growth by 0.8 percentage points, according to the World Bank. More than 4 billion handsets are now in use worldwide, three-quarters of them in the developing world (see our special report). Even in Africa, four in ten people now have a mobile phone.

With such phones now so commonplace, a new opportunity beckons: mobile money, which allows cash to travel as quickly as a text message. Across the developing world, corner shops are where people buy vouchers to top up their calling credit. Mobile-money services allow these small retailers to act rather like bank branches. They can take your cash, and (by sending a special kind of text message) credit it to your mobile-money account. You can then transfer money (again, via text message) to other registered users, who can withdraw it by visiting their own local corner shops. You can even send money to people who are not registered users; they receive a text message with a code that can be redeemed for cash.

By far the most successful example of mobile money is M-PESA, launched in 2007 by Safaricom of Kenya. It now has nearly 7m users—not bad for a country of 38m people, 18.3m of whom have mobile phones. M-PESA first became popular as a way for young, male urban migrants to send money back to their families in the countryside. It is now used to pay for everything from school fees (no need to queue up at the bank every month to hand over a wad of bills) to taxis (drivers like it because they are carrying around less cash). Similar schemes are popular in the Philippines and South Africa.

Banking on it

Extending mobile money to other poor countries, particularly in Africa and Asia, would have a huge impact. It is a faster, cheaper and safer way to transfer money than the alternatives, such as slow, costly transfers via banks and post offices, or handing an envelope of cash to a bus driver. Rather than spend a day travelling by bus to the nearest bank, recipients in rural areas can spend their time doing more productive things. The incomes of Kenyan households using M-PESA have increased by 5-30% since they started mobile banking, according to a recent study.

Mobile money also provides a stepping stone to formal financial services for the billions of people who lack access to savings accounts, credit and insurance. Although for regulatory reasons M-PESA accounts do not pay interest, the service is used by some people as a savings account. Having even a small cushion of savings to fall back on allows people to deal with unexpected expenses, such as medical treatment, without having to sell a cow or take a child out of school. Mobile banking is safer than storing wealth in the form of cattle (which can become diseased and die), gold (which can be stolen), in neighbourhood savings schemes (which may be fraudulent) or by stuffing banknotes into a mattress. In the Maldives many people lost their savings in the tsunami of 2004; it hopes to introduce universal mobile banking next year.

Financial innovation has a bad reputation at the moment, because exotic derivatives were one of the causes of the credit crunch. But mobile money and other new ideas that could help the poor provide a useful reminder that financial innovation in itself is not always a bad thing.

Given all of its benefits, why is mobile money not more widespread? Its progress has been impeded by banks, which fear that mobile operators will eat their lunch, and by regulators, who worry that mobile-money schemes will be abused by fraudsters and money-launderers. In many countries mobile money has been blocked because operators do not have banking licences and their networks of corner-shop retailers do not meet the strict criteria for formal bank branches. And some mobile-money schemes that have been launched, such as one in Tanzania, failed to catch on. As recently as a year ago people wondered whether M-PESA's success was a fluke.

Out of Africa, always something new

But in recent months there have been some more hopeful signs. Kenya's success story has demonstrated mobile money's potential, and its benefits are starting to be more widely appreciated. More enlightened regulators are no longer insisting that these services meet the rigid rules for formal banking. Some banks, meanwhile, have come to see mobile money not as a threat but as an opportunity, and are teaming up with operators. And phone companies have studied Kenya closely to learn how to establish and market a successful mobile-money scheme. MTN, Africa's biggest operator, has launched a mobile-money service in Uganda in conjunction with Standard Bank; it appears to be doing well. MTN is fine-tuning its service in Uganda before rolling it out across Africa.

Banks and regulators elsewhere should take note. Instead of lobbying against mobile money, banks should see it as an exciting chance to exploit telecoms firms' vast retail networks and powerful brands to reach new customers. Tie-ups between banks and operators will help reassure regulators. But they, too, need to be prepared to be more flexible. People who want to sign up for mobile-money services should not, for example, have to jump through all the hoops required to open a bank account. Concerns about money-laundering can be dealt with by imposing limits (typically \$100) on the size of mobile-money transactions, and on the maximum balance. And inflexible rules governing the types of establishments where cash can be paid in and taken out ought to be relaxed. Mobile money presents a shining opportunity to start a second wave of mobile-led development across the poor world. Operators, banks and regulators should seize it.