
YEAR

Mobile money

Proven systems built on mobile connectivity and increasingly flexible means of exchange provide a tipping point in the shift towards the cashless society.

The ability to replace cash with digital money transferred via mobile phone has been one of the 'next big things' for well over a decade now. Proponents have for years been predicting widespread use of mobile payments for a range of activities from transportation ticketing to buying a can of cola. They posited that this would all take off in the technology-savvy European markets, probably led by partnerships between banks, IT firms and mobile operators. What few recognised was that regulation and the willingness of consumers to make the shift would be such a barrier; what even fewer saw was that serving the unbanked population in Africa would be the catalyst for change. Today, with more money flowing around Africa by mobile phone, the adoption of micro-payment systems spreading globally and the associated regular coverage of the impacts in the *Financial Times*, *Wall Street Journal* and *The Economist*, many now believe that we really are at a point of change.

The principle has been proved that innovation often occurs where the need for change is greatest. Look to Africa, where there are few banks, poor physical infrastructures and a rural population often dependent on remittances from the city. It is here that technology can really demonstrate value by offering a secure, efficient alternative to cash transactions. Such has been the success of products like M-PESA in Kenya that we are at a point where, looking forward to 2020, many experts, as well as the key players such as banks, governments and retailers, can see a world, particularly in emerging economies, where the majority of cash transactions have been replaced by digital ones – and where most of these will be made by our phones. Twenty years after the invention of the Mondex electronic cash card system at NatWest Bank in the UK, the reality has come to life on the rugged landscape of the African bush.

Consumer-focused digital money transactions via mobile phone now cover banking services (eg, deposit taking and account management), transfers (eg, distribution of state benefits or person-to-person remittances) and payments (eg, settlements of bills and purchases of goods and services). In 2010, proven examples of these services are up and running, not just in pilot programmes, but in full use by millions of people around the world. In South Africa, Wizzit has positioned itself as a virtual bank and customers can use their phones to make person-to-person payments, transfer money, purchase pre-paid electricity and pre-buy airtime for their mobile. This service is focused on the 16 million South Africans that do not have bank accounts and the same model is in use elsewhere: in Kenya, M-PESA customers (approximately 11 million of them) regularly transfer money from one to another via their mobile, store cash on their phones and access MKESHO, a separate interest-paying account; in Turkey, millions of people send money using Turkcell's mobile service; and in the Philippines, GCash is a highly successful mobile wallet service enabling cashless and cardless micro-

As has been seen in Africa, if systems are successful for the poor unbanked they are quickly adopted as the standard.

transactions, including payments to shops and utilities and transfers to other people. By meeting a clear need to provide simple and secure access to basic financial services to those without bank accounts in the developing world, these and other systems have made money transfer cheap and easy for millions. They are being embraced as part of micro-finance programmes across Asia and Africa and have global support from the World Bank as well as a host of major commercial organisations, including mobile operators and retail banks.

Back in the developed world, where the idea initially failed to take off, we can now see many of the ingredients coming together for the shift to mobile money. Foremost have been pre-pay cards on public transit systems, such as Oyster Card in London, which have now evolved into micro-payment schemes. In Japan over 50 million people carry phones capable of serving as a wallet. With the roll out of NFC (near-field communication) technologies now under way, the ability to migrate these to your mobile is imminent. According to VISA Europe: 'The technology for paying with cell phones by flashing them near reading equipment in stores or on public transport is ready and the initial feedback is good – trials show that consumers overwhelmingly like it. But the biggest problem has been the business model.' With the impetus for change now building and regulators recognising the need to enable mobile banking to scale, the successes from Africa and Asia are providing the basis for new business models globally. The industry is making strong predictions: analysts at GIA and Berg Insight forecast that 'by 2015, mobile financial services will be used by 1 billion people globally'. Juniper Research predicts that 'as many as one half of the world's mobile subscribers will be making m-payments by 2014, with 500 million people making m-payments on the Indian subcontinent alone'.

In his initial view on the future of money for the Future Agenda programme, Dave Birch suggested that 'Money as an acceptable means of exchange is already undergoing change. Money is useless as a medium unless it is acceptable to both parties in a transaction. In many countries cash is falling as a proportion of transactions.' He asked: 'In a decade, will cash still be there? Why? Might we eliminate money through "turbo barter"? Is cash replacement realistic and under what circumstances? Why now? Which technologies have come together to make this a point in time when the possibility of a change from cash to an alternative means of exchange is not only credible but also increasingly probable?' He then gave his view that:

"The means of exchange is most immediately subject to the pressure of rapid technological change, particularly since we are at one of those inflexion points that come along from time to time. The mobile phone is about to become the most important means of exchange on a global basis and the first technology with the potential to replace notes and coins as the means of exchange for the 'average' person."

Others agree that, with everything that has gone before, the time is right for change: 'Willem Buiter, Professor of European Political Economy at the London School of Economics and former chief economist of the European Bank for Reconstruction and Development, is not the first economist to think about getting rid of cash. But he may be one of the first to think about getting rid of cash in a technological era that actually makes it entirely feasible.'

"If the central problem has been the cost of transactions for poor people, and the central solution is to use mobile phones to make transactions, then the key compromise is straightforward to set out: We must encourage easy-entry competition for low-value, interpersonal transactions and allow not only mobile operators but other newcomers to deliver a service."

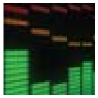
More realistic limits for the Know Your Customer (KYC) and Anti Money Laundering (AML) protocols and increasing competition in the provision of mobile payment services will bring hundreds of millions of people into the financial system. This would deliver a significant net welfare increase and make a huge difference to the daily lives of some of the poorest people. As has been seen in Africa, if systems are successful for the poor unbanked they are quickly adopted as the standard. Designing for the 'bottom of the pyramid' is a widely used challenge, but in mobile money transfer its worth is proven.

'People will always need cash for the black economy and in many countries that is significant'.

So, does this mean the end of cash? The vision of 100% electronic cash has already been bounced around for many years but few people truly see this as a 2020 reality. In a workshop in India, it was highlighted that 'people will always need cash for the black economy and in many countries that is significant'. In the UK, around 15% of cash payments are outside the taxation system; in Italy, it is 20%; in India, around 40%; and in Greece, well over 50%. While some may see that Greece is an extreme case and that as economic growth in India continues more of the money flow will go through the official systems, it is clear that in most countries a good percentage of the money that oils the wheels of society and trade will continue to come from a pocket rather than a phone.

However, now everything – from all three technological, regulatory, business and consumer points of view – is coming together for a major shift to mobile money transactions. Many see that by 2020 there will be fewer credit cards, less cash and well over half of all consumer money transfers will be digital, with the vast majority of these being done on our phones.

Related insights



Page 87

Page 99