Mobile money in Africa
Mobile money is growing rapidly around the world. In its simple form, mobile money allows consumers to use their mobile phone as a virtual wallet, storing ‘cash’ which they can either spend with retailers, pay service providers, transfer to peers, or exchange for physical cash with a participating agent. Corporates can also use the service to disburse bulk payments and salaries or receive payments from consumers. These services bear particular relevance to Africa, where mobile money has experienced rapid growth. This is as a result of the continent’s rapid economic growth in general, combined with a large unbanked population in the region. For example, there are more mobile money accounts than bank accounts in countries such as Kenya, Madagascar, Tanzania and Uganda. In essence, mobile money services can provide financial access to consumers without a bank account, and for corporates, they can offer lower transactional costs and a scalable alternative to conventional banking services.

Applications for mobile money

To understand the potential application of mobile money in Africa, it is useful to explore some examples. A newspaper vendor may make a mobile money transfer to his supplier for bulk stock, later collecting the goods at a designated point, and using a payment acknowledgement on his phone alongside a unique reference number as proof of payment. As an extension, a consumer may use a mobile money payment to pay the vendor in advance for a week or month of newspapers.

Consumers can make simple peer-to-peer payments to give gifts or settle debts with friends. Or alternatively, a consumer could use mobile money to pay bills on request from a utilities provider, who in turn benefits from a prompt payment.

On a larger scale, the treasurer at a large textile manufacturer may wish to make over 30,000 wage payments in several regions across the country. The treasurer can log into their internet banking channel and upload bulk files containing employees’ mobile numbers as beneficiary details. After approving the payments and dispatching them to the bank, the treasurer will receive a report detailing the payment status for both successful and unsuccessful payments, supporting reconciliation.

Finally, a pub owner may need to pay his day’s goods delivered on a real-time basis, as the beer distributor’s truck driver will not off-load the goods until funds are received. The pub owner initiates a payment to the ‘unique mobile billing number’ for his main distributor; the truck driver receives a notification of payment and off-loads the goods.

The distributor’s treasurer can view the status of all his truck drivers’ collections from his office and is then able to make a bulk mobile wallet transfer to the beer company for more stock. An ancillary benefit for such an example is that the truck driver has since stopped receiving cash for stock settlement, and is now no longer a target for cash robberies.
Understanding the key players

For mobile money services to operate, they require a supportive ecosystem with a number of players. The key players are outlined below:

- **Mobile network operators (MNOs)** provide the technological infrastructure to disburse funds, train and assist ‘agents’ in managing liquidity, and support agent network development.
- **Consumers** register for services, performing ‘cash-ins’ at agency outlets to convert physical cash to mobile money before using the mobile funds to perform transactions.
- **Agents** facilitate ‘cash-in’ and ‘cash-out’ transactions by converting physical cash to mobile money and vice-versa; they help educate consumers, maintain liquidity, handle account opening procedures and report suspicious transactions in line with regulatory requirements.
- **Corporates** distribute funds through mobile money bulk disbursements.
- **Regulators** provide an enabling environment for mobile money, protecting the stability of the financial system and ensuring that regulations are implemented.
- **Banks** facilitate bulk disbursements and assist with AML and sanction screenings, protect beneficiaries’ funds by holding actual cash in a trust account, and provide reports to regulators.
- **‘Super agents’** are bulk ‘efloat’ distributors and are typically financial institutions (whilst agents typically distribute person-to-person efloats), earning a commission based on the amount of mobile money trading they undertake. It is now commonplace to see banks integrate mobile money functionality into their existing bank channels such as mobile banking, ATM or internet banking, allowing for seamless settlement between funds in customer accounts and their efloat.
The mechanics of the interaction between these players can be outlined as follows: for mobile money to operate in any economy, the mobile network operator (MNO) has to hold a ‘trust account’ with a local bank. This trust account holds funds equivalent to the amount of ‘emoney’ or efloat circulating in that economy. The trust account is typically held at a bank, and is closely monitored and regulated to ensure that the consumers of the emoney service are sufficiently protected from institutional risk such as bankruptcy or insolvency. All mobile money transactions are regulated and monitored to ensure they meet all compliance and anti-money-laundering policies stipulated by their regulator.

The MNO will thereafter invest in a distribution network, comprising of super agents and agents, through which a consumer can access emoney. These agents can be existing MNO distributors, bank branches, gas stations, supermarkets, shops, ATMs or similar. At the end of each day, an agent will review their net position and will require access to a super agent to either purchase more efloat with excess cash, or trade-in excess efloat for cash and bank it.

This process has since advanced to a level where agents, super agents and registered customers (whether individuals or corporates) are integrated electronically, allowing for straight-through transaction processing and subsequently eliminating the need for physical movement between players.

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Drivers of success and associated challenges

There are a few limitations on the effectiveness of mobile money schemes, which should be recognised. Inter-operability can be a barrier, where different types of accounts or different mobile money schemes cannot interact with one another, fragmenting the flow of emoney. Another possible limit is on the regulatory side – where limits are placed on the amount which can be held on an individual mobile wallet, the value of transaction permitted, or the total number of transactions per day.

In terms of the external environment, regulation and public policy is crucial. To ensure success, policies must ensure that consumer funds are protected, as well as maintaining a level playing field which allows both banks and non-banks to provide mobile money services. Regulation also has a role in ensuring that all transactions can be monitored to reduce risks associated with money laundering and terrorist financing.

There are also a number of controllable factors, which ultimately define whether a mobile money service will succeed or falter. A key aspect is the relevance of the proposition – ensuring it meets the local needs and dynamics through an affordable service, accessible via a wide number of phones, and is user-friendly, well supported and trustworthy. Part of ensuring trustworthiness involves fraud risk and management, implementing controls which protect all stakeholders in the mobile money ecosystem.

Another important factor is the agent network distribution – MNOs should actively track and manage their agent network size to ensure that the concentration is both sufficient to service customers, whilst remaining profitable for the agents. User awareness and education is key, and so is the management of agent liquidity, which can ensure there is sufficient cash to meet consumers’ demands to cash in or cash out their mobile money.

“A successful service must be affordable, accessible via a wide number of phones, and user-friendly, well supported and trustworthy.”

Partnering with a financial institution

For corporates considering utilising mobile money initiatives, it can be highly beneficial to work with a financial partner. A primary benefit is the bank’s existing financial institution mandate. With this, a corporate treasurer can access all of their banking and transactional products and services from a ‘one-stop bank’.

The treasurer is also shielded from the complexity of having a direct and separate service agreement, as this is already resolved via a back-to-back agreement with the bank and the MNO.
Banks’ physical branch networks can also support by providing mobile money service points. This will be an added benefit to the existing MMO networks across the country, as a treasurer should not have to change their existing banking behaviour per se. In terms of risk management, regulation and security, banks are already well regulated and, as such, will apply similar principles of risk controls in their mobile money functionality and channels such as secure channels, monitoring and controls.

“A treasurer should not have to change their existing banking behaviour.”

Banks also have access to multiple MNOs across a given market, and will typically have established strategic partnerships on behalf of their clients. The bank can extend mobile payment capability via their existing channels, reducing the complication of running a separate channel specifically for mobile money payments. Finally, banks can also ensure the liquidity adequacy of non-bank service providers, such as MNOs and other third parties. In some cases, the bank may already have the MNO’s trust account. This goes a long way to enhancing the turn-around on bulk mobile purchase and payment settlement.

Conclusion

The problem that many treasurers are seeking to solve today is providing convenient alternatives to cash payments and collections in their Africa operations. There is significant underlying demand for digital payments in many sub-Saharan Africa markets – by both individuals and organisations alike – and the widespread consumer acceptance of mobile-communications technology is highly encouraging.

Launching mobile payments in new markets is seldom easy. This article depicts a service provider-led deployment and success story. For treasurers that are able and willing to participate in this space in the near future, this model is likely to change. Banks are now substantially clued in, and we should start to see them take the lead in mobile money deployment in some markets. As such, today’s treasurer should be open to these conversations as they present opportunities to win important first-mover advantages.

In next quarter’s newsletter, Helene Rosenberg, Director, in our US Cash Management team, will discuss launching cashless solutions in Africa, and best practices for corporate treasurers located outside of the continent.

About the author

Catherine has over 12 years’ experience in cash management solutions. This has seen her lead a team of over 60 professionals across 12 African countries in delivering corporate treasury and transaction banking solutions to subsidiaries of global corporates, large local corporates and global development organisations based in Europe, the United States, the Middle East and Asia.

She has a wealth of experience in product development and management, cash management sales, and proposition development. Her experience spans into corporate channels, which are critical in the delivery of corporate cash management, including mobile banking. She is presently Director, Transactional Services for Barclays Africa.