



# Savings and Retail Banking in Africa

A case study on mobile financial services:  
unlocking the potential of mobile for  
low-value account holders

March 2021



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## Glossary

- API Application programming interface
- ATM Automated teller machine
- CIV Côte d'Ivoire
- FI Financial institution
- FMT FinMark Trust
- FSP Financial service provider
- KYC Know your customer
- MCBL Mwanga Community Bank Limited
- MFI Microfinance institution
- MM Mobile money
- MMO Mobile money operator
- MNO Mobile network operator
- MVNO Mobile virtual network operator
- SME Small and medium-sized enterprise
- VSLA Village savings and loan associations
- WSBI World Savings and Retail Banking Institute
- ZWE Zimbabwe

# 1. Introduction

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This report focuses on the impact and potential of mobile financial services in the market for low-value savings and transaction products in Africa. It forms part of the World Savings and Retail Banking Institute's (WSBI) series of reports on the state of the financial industry in Africa. The objective of this series is to inform retail banks and other financial service providers (FSPs) about industry developments affecting services to low-income customers.

This study provides an overview of mobile retail financial services in Africa. It identifies some key considerations for FSPs considering either introducing mobile services or expanding their mobile offerings. It focuses on the use of mobile money, but mobile banking and mobile wallets<sup>1</sup> are also covered.

We drew up case studies of FSPs in various national markets. Lessons from these case studies are set out, taking into account circumstances in each country. Many believe high profile brands and strong market presence are necessary for mass market mobile financial services to succeed. But we found examples of smaller institutions crafting innovative and beneficial services. These show mobile services have potential for all FSPs and their customers.

Following two annual publications in 2018 and 2019 of the State of the Savings and Retail Banking in Africa research<sup>2,3</sup> and a first case study on the impact of COVID-19<sup>4</sup>, this is the second in a series of case studies that focus on lessons that may be extracted from other FSPs across the continent as they move down market to serve the bottom of the pyramid in a more meaningful way.

1 The following definitions are based on: IMF (2019), *Mobile Money Note*

- Mobile money is a pay-as-you-go digital medium of exchange and store of value using mobile money accounts.
- Mobile banking is the use of an application on a mobile device to access and execute banking services, such as check deposits, balance enquiries, and payment requests.
- Mobile wallet consists mainly of an application installed on a mobile device, such as a smartphone, which stores credit/debit card information, coupons, or bank account information. It enables customers to make in-store purchases, online payments, peer-to-peer transfers, etc.

2 2018: [https://www.wsbi-esbg.org/SiteCollectionDocuments/Scale2Save\\_2019\\_report\\_final.pdf](https://www.wsbi-esbg.org/SiteCollectionDocuments/Scale2Save_2019_report_final.pdf)

3 2019: [https://www.wsbi-esbg.org/SiteCollectionDocuments/0913\\_ESBG\\_BRO\\_2019SURVEY\\_FINAL%20%281%29.pdf](https://www.wsbi-esbg.org/SiteCollectionDocuments/0913_ESBG_BRO_2019SURVEY_FINAL%20%281%29.pdf)

4 [https://www.wsbi-esbg.org/SiteCollectionDocuments/1354\\_ESBG\\_BRO\\_SCALE2SAVE\\_EN\\_FINAL\\_DEC\\_2020.pdf](https://www.wsbi-esbg.org/SiteCollectionDocuments/1354_ESBG_BRO_SCALE2SAVE_EN_FINAL_DEC_2020.pdf)

## 2. Executive summary

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### How does mobile money affect financial inclusion?

In most of sub-Saharan Africa, improving financial inclusion has been driven by the adoption of mobile money. Mobile money operators (MMO) have cornered most of the growth in accounts. Mobile money aids gender equality: though a majority of account holders are men, the gender gap is smaller than for traditional accounts.

### Will banks and other 'traditional' financial service providers be displaced?

Banks and Microfinance institutions (MFIs) can thrive in the unfolding financial services world which is increasingly digital and more and more mobile. To succeed, banks and MFIs must build on their strengths, and plan their digital and mobile strategies carefully, taking into account the environments in which they operate and compete, and cooperate with other players wherever it makes sense to do so. Customer needs and outcomes should always direct the formulation and execution of their plans.

In order to meet market needs, mobile money may play a role but providers do not necessarily need mobile money to become a mobile service provider. Mobile linked bank accounts might as well be a meaningful option.<sup>5</sup>

### Is the COVID-19 pandemic impacting financial inclusion via mobile services?

The COVID-19 pandemic has accelerated pre-existing, mobile-led growth in digital financial services. Though lockdowns have constrained economic activity, they have encouraged a surge in mobile money transactions, as users switch to electronic payments. Lockdowns pushed many employers to pay salaries directly into employee accounts, and in some countries, state assistance payments were channelled through both bank and mobile money accounts.

### What is the outlook for mobile money in Africa?

The case studies and analyses in this report underscore the continuing potential for mobile transaction and savings services in Africa. Institutions deploying new services must look carefully at each market, the role and positioning of other MMOs, the underlying needs of customers, and the extent to which these needs are being met. FSPs can win significant advantages for themselves and for low-income customers by positioning services to address particular customer needs and marketing products effectively.

<sup>5</sup> GSMA (2020), *State of the Mobile Money Industry in Africa 2019*

# 3. What drives the adoption of mobile money?

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The success of mobile money offers varies greatly from country to country. We identified a range of factors that appear to influence the success or otherwise of a mobile money roll-out:

- Being a dominant and well-established mobile network operator (MNO), trusted in the market.
- Having a well-established agency network that can support mobile money subscribers. Typically, this will be based upon the MMO's agents, but it could be extended to include other types of agents.
- The ability to get cash in and out of the mobile money account/wallet cheaply and conveniently at these agents.
- A well-defined service proposition from the mobile money provider, such as secure transfer of funds to remote family members.
- Positioning the service as affordable: the service has to be seen as cheaper than using a bank.
- An enabling regulatory environment: users must be sure that a national authority is ensuring their money is safe. But regulation must not be too onerous or it will limit the development and deployment of mobile money.
- On-going promotion and support is essential because usage rates of mobile money are typically significantly lower than for bank accounts.
- Operators must add new functions and extend the ecosystem in which mobile money can be used.
- Poor provision of banking and bank-like services creates a fertile market for alternatives such as mobile money.
- In many African countries, banks tend to focus on urban and peri-urban areas, leaving rural areas ill-served. This leaves unmet demand for a means by which urban workers can remit money to their families in rural areas. Mobile money fulfills that need, enabling remittances, payments and savings.

# 4. Mobile financial services in Africa

Africa remains at the centre of global mobile financial services development. East Africa was among the first regions where mobile money developed. West and Southern Africa have an increasing number of successful mobile deployments and there is significant activity in North Africa. South and South-East Asia are also showing significant growth, spurred on in part by rapid FinTech development in those regions<sup>6</sup>.

The emergence of a FinTech sector is not a pre-requisite for the development of basic mobile money services. Broad uptake of mobile services, however, often gives rise to a FinTech hub, driven by mobile-based FinTech. In Africa, the most notable hubs are found in Kenya, Nigeria, and South Africa. Services developed in these hubs then enable additional products, deepening and widening the market reach of mobile offerings.

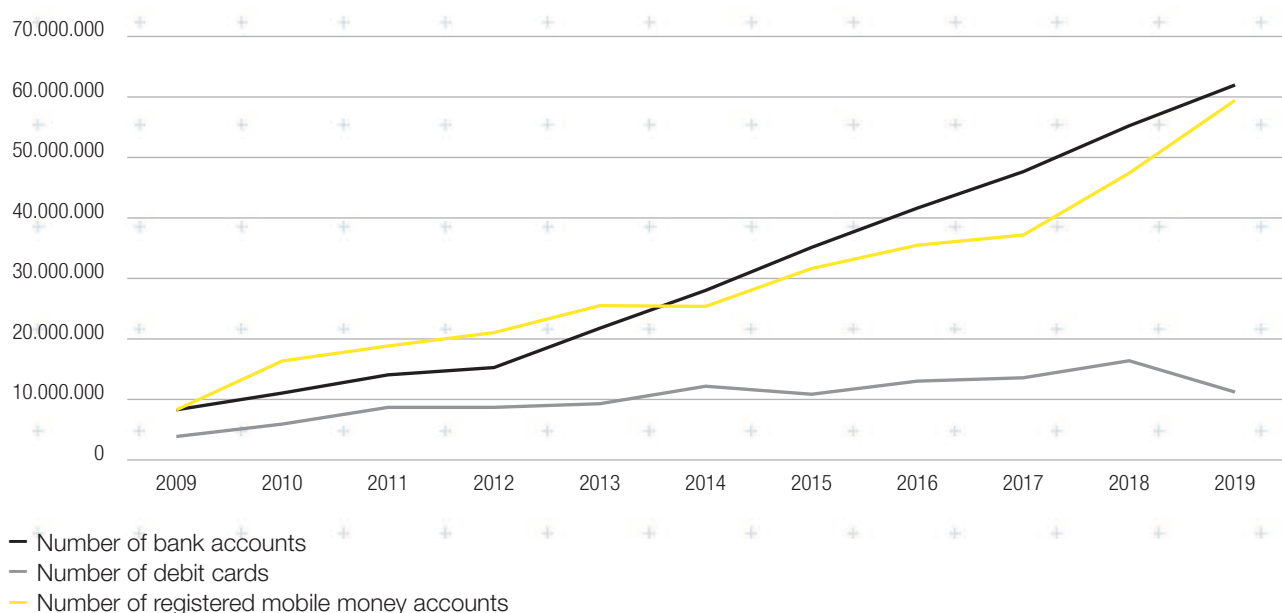
South Africa, historically a leader in African banking trends, has a significant FinTech sector but lacks mobile money. The country has multiple mobile banking and mobile wallet applications on offer, but no mobile money products.

The development of mobile money in South Africa has been held back by the absence of a favourable regulatory framework. The existence of a well-established payments infrastructure left less of an opportunity for mobile money to take off. Cooperation between FSPs and mobile operators has been poor, and early attempts to develop mobile services failed to target unmet needs. However, forthcoming legislation will end the requirement for a mobile provider to work with a regulated FSP, freeing mobile providers to add services. This will level the playing field and allow mobile providers to play to their strengths. This should further encourage the development in Africa of FinTech products which might be useful for operators and FSPs building up services elsewhere on the continent.

## 4.1 The financial services landscape in Kenya

In East Africa, Kenya was a pioneer in the development of mobile transaction services, which have since been readily copied in neighbouring states. Few alternatives were available, mobile phones were widely used, and the regulatory regime was enabling. Use of person-to-person payments (often domestic) grew rapidly, because they met a common need, providing a launchpad for other services.

Graph 1 - Paytime: competition in Kenya



Source: IMF FAS 2020. Total adult population in Kenya in 2019 was estimated at 29 million.

6 IMF (2019), *Mobile Money Note*

The use of mobile money and the number of bank accounts in Kenya have soared, but the number of debit cards, typically associated with a bank account, has grown slowly and is now declining.

## What inferences can we draw for Kenya?

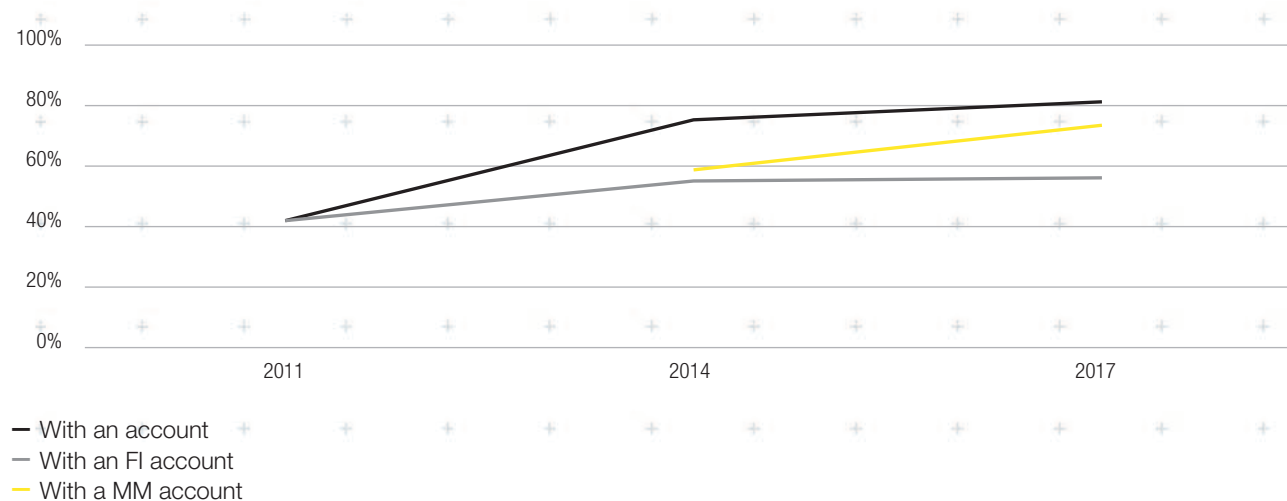
Though mobile money accounts are growing fast, the number of bank accounts is also rising.

There are twice as many bank accounts and mobile money accounts as people: an adult Kenyan generally has more than one mobile money and more than one bank account.

Many Kenyans have a bank account, but no debit card: that is because mobile money is the leader in payment services, and they use a mobile account to settle their bills.

As Graph 2 (below) shows, the level of financial inclusion in Kenya doubled between 2011 and 2017, the last year for which Global Findex<sup>7</sup> data is currently available. The increase in financial inclusion levels in recent years was entirely driven by growth in mobile money accounts.

Graph 2 - What's driving financial inclusion in Kenya?



Source: Global Findex 2017

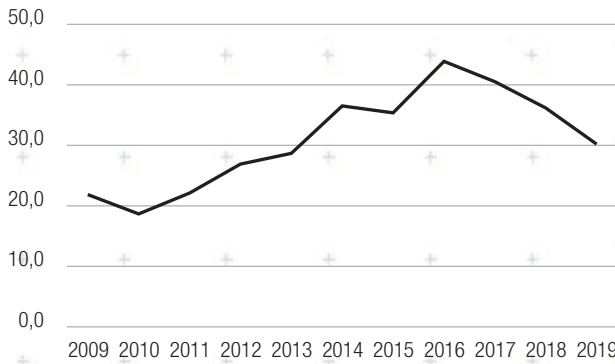
<sup>7</sup> World Bank Group, *Global Findex Database 2017*.

## 4.2 Account usage in Kenya

As the number of mobile money accounts in Kenya has grown, the average number of transactions per mobile money account has declined. (Graph 3).

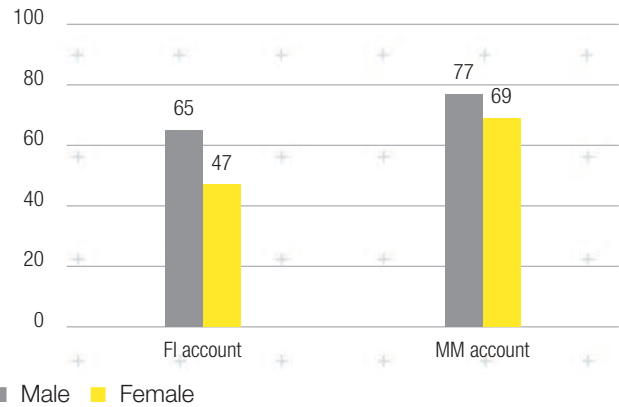
Mobile money accounts reduce the gender gap in financial inclusion. Though men are more likely than women to open a mobile money account, the gender gap is still greater for traditional bank accounts. (Graph 4).

Graph 3 - Average annual transactions/MM account Kenya



Source: FAS 2020

Graph 4 - Gender distribution of accounts Kenya 2017

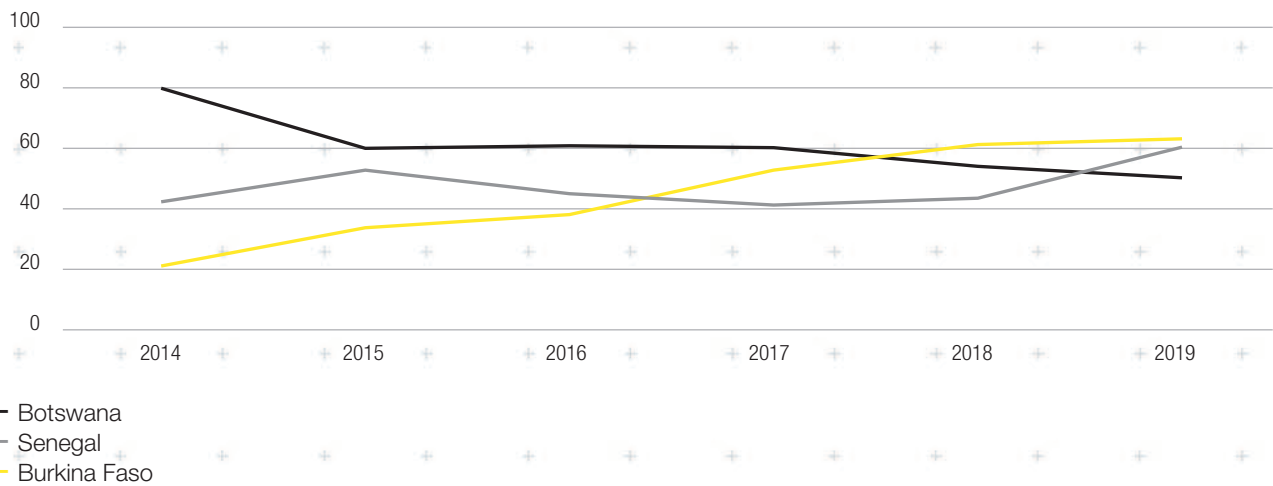


Source: Global Findex 2017

## 4.3 Account usage across Africa

Activity rates for mobile money accounts are often low, and returns for service providers disappointing. Yet usage rates vary widely from country to country.

Graph 5 - Activity Rates of Mobile Money Accounts



Source: FAS 2020. "Active" here means customer activity in the last 90 days

Graph 5 shows that while Botswana's activity rate nearly halved between 2014 and 2019, account activity in Burkina Faso more than tripled, and in Senegal it fluctuated substantially.

As mobile financial markets become established, new and existing participants are offering additional mobile services, often based on FinTech. This is evident in East Africa, where multiple savings and credit products are being offered, and increasingly in West and Southern Africa. Digital (mobile) lending is making inroads into the Kenyan and Tanzanian markets, but high levels of non-performing loans complicate the picture<sup>8</sup>.

8 FSD Kenya (2019), *Digital credit audit report*



The COVID-19 pandemic has driven increased use of digital payments, and especially mobile payments, in some countries. Though lockdowns reduced business activity and transaction volumes, digital and mobile transactions increased. A study by McKinsey, *African banking after the crisis*<sup>9</sup>, noted that results from their *COVID Africa Consumer Pulse Survey* show customers now prefer to interact digitally with FSPs.

**Table 1 - Change in digital and non-digital behavior during COVID-19**

	South Africa	Kenya	Nigeria	Morocco
Online banking	+30%	+37%	+37%	+18%
Mobile banking	+35%	+43%	+44%	+17%
Meeting financial advisor in branch	-32%	-28%	-18%	-9%

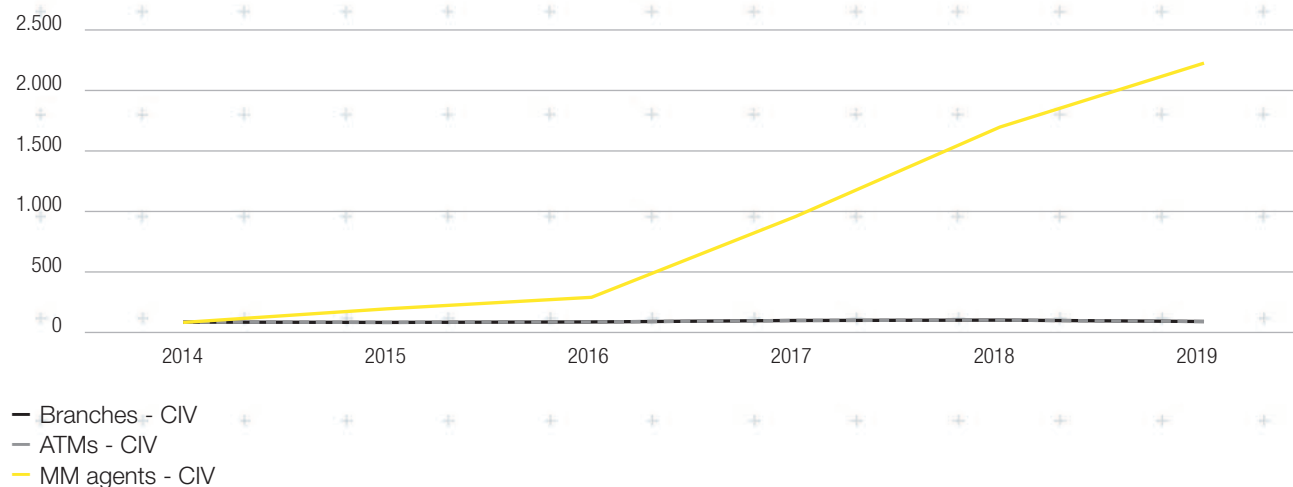
Source: McKinsey COVID Africa Consumer Pulse Survey April 2020

The move to online interactions is likely to further brake the growth of branches and ATMs, which was already slowing or stalled.

In many countries the agency network channel, dominated by mobile money agents, is the only growing distribution channel. The trends in Côte d'Ivoire, shown in Graph 6, are typical.

Agency networks are however often troubled by poor business models, leading to agency churn; by weak client protection, which undermines customer trust; and by service disruptions when agents run out of cash to dispense.

**Graph 6 - Indexed trends in distribution channels in Côte d'Ivoire**



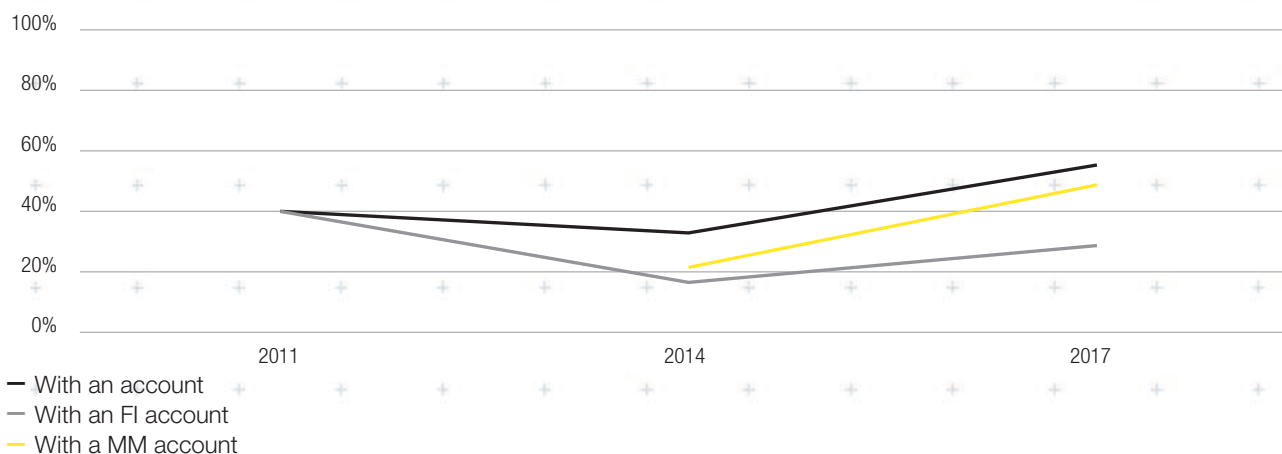
Source: FAS 2020. The baseline for the indices is 2014

# 5. Can mobile money operators be too successful?

## 5.1 The financial services landscape in Zimbabwe

Zimbabwe is experiencing a long-term upswing in the use of financial services, but the impact of successive economic crises is reflected by shifting trends in financial inclusion (Graph 7).

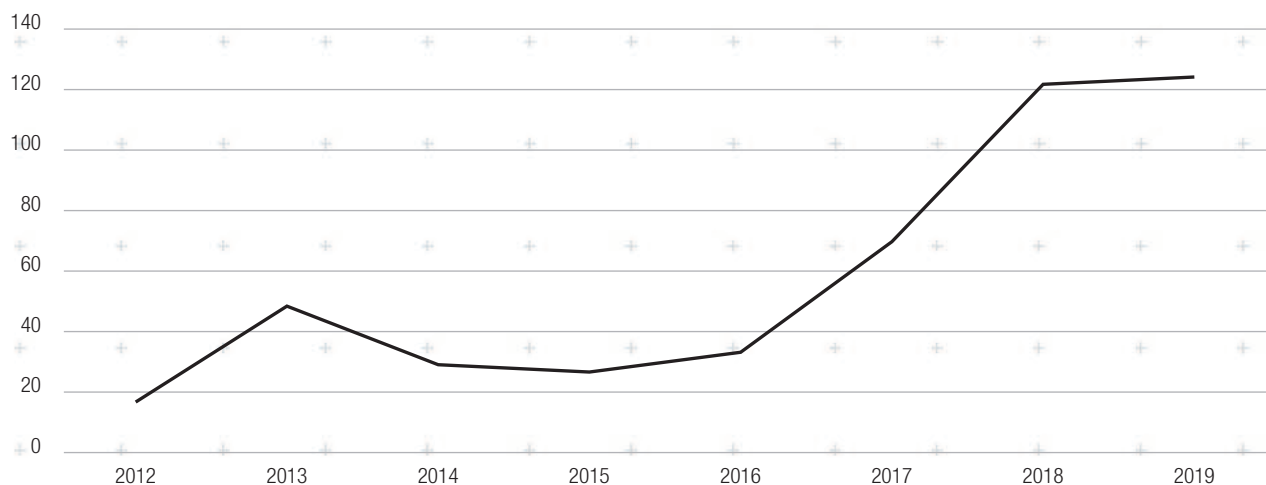
Graph 7 - Down and up: financial inclusion in Zimbabwe



Source: Global Findex 2017

An improvement in financial inclusion since 2014 primarily results from a surge in the number of mobile money accounts, although bank account use also grew. The proportion of the population with a mobile money account has more than doubled. Meantime account activity has soared. That is because frequent cash shortages have forced Zimbabweans to switch to mobile payments.

Graph 8 - Average annual transactions/MM account, Zimbabwe

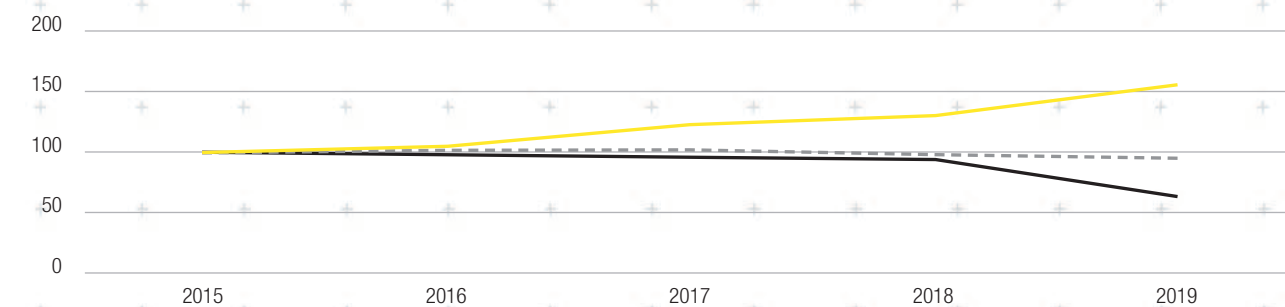


Source: FAS 2020

Despite the increased use of mobile money, the inactivity rate of mobile money accounts is 57%, while the dormancy rate of financial institution accounts is just 18%. The figures are not strictly comparable, since mobile money inactivity is measured over the last three months, compared to 12 months for financial institution accounts.

As is common elsewhere, mobile money agents are the only growing distribution channel in Zimbabwe. Growth is slower, however, because mobile money agents have been in use longer – since 2011.

**Graph 9 - Indexed growth in distribution channels in Zimbabwe**



- Branches - ZWE
- ATMs - ZWE
- MM agents - ZWE

Source: FAS 2020. The growth figures are indexed to the 2015 situation

In Q2 2020 Zimbabwe had 7,475,652, mobile accounts for an estimated adult population of 9,122,863.

## 5.2 Zimbabwe strategy: dominance

Mobile money in Zimbabwe is dominated by EcoCash, the mobile money operator (MMO) of the Econet group. Econet, the largest mobile network operator in Zimbabwe, launched EcoCash in 2011. The company wanted to:

- Increase revenue, because growth of some mobile telephony revenues was beginning to plateau.
- Diversify its revenue streams.
- Reduce churn of its MNO customer base (which was 30% a year).
- Increase the activity of mobile subscriptions, because every additional mobile subscription allocated increases costs for the operator.

The central bank, the Reserve Bank of Zimbabwe, only licenses banks to provide payment services. Because it will not licence Mobile Network Operators (MNOs), Econet acquired a stake in TN Bank, a mid-sized bank, to enable it to offer a mobile money service. This arrangement benefited the bank because it was then able to service clients through the Econet agency network as well as branches. Econet later acquired full ownership of the bank and renamed it Steward Bank. The bank is now run as a separate entity.

Econet's strategy was to quickly extend its agent network, both to capture the mobile money market and to extend its MNO reach. This strategy worked well and Econet was able to maintain and grow its MNO business and dominate the mobile money market. By the beginning of 2020, it had about 100,000 agents. By agreement with the Reserve Bank, know your customer (KYC) requirements for mobile money customers were reduced to just the customer's ID number and mobile number. Agents were, however, expected to undergo the complete KYC process.

EcoCash extended the functions of its basic mobile money product, enabling merchant payments, bill payments, and all forms of person-to-person payments, in addition to pre-paid services (airtime and electricity). Other initiatives included launching *EcoFarmer*, a mobile marketplace of services for farmers. This platform includes payment services and information and education for farmers, but is not well used, because it is connected to the agricultural value chain. It also launched *Ecosure*, offering basic insurance services to EcoCash customers.

The scarcity of physical cash has not only driven day-to-day transactions to digital, but has necessitated the use and acceptance of EcoCash for merchant transactions.

The direct sale of airtime via EcoCash transactions boosted Econet revenues. Airtime sales via agents incurred an 8 – 9% commission paid by Econet but EcoCash sales allowed Econet to retain the full purchase price. Agents protested, because their income fell. That prompted Econet to begin using informal agents for EcoCash.

In 2020, the Reserve Bank determined that EcoCash agents did not meet KYC requirements and that some were involved in illegal foreign currency dealing. The bank capped the value of mobile money transactions and some agents were closed, in a major blow to the MMO. Customers have responded by acquiring another mobile money account to circumvent the payment limits, triggering more mobile money transactions.

Merchants also accept payments by debit cards, which are not subject to the restrictions applied to mobile money. The Reserve Bank required EcoCash to begin using the national payment infrastructure, ZimSwitch, in Q4 2020. Using a single switch slows market development, and concentrates market power. It also pushes up costs for merchants, consumers and EcoCash. Nevertheless, EcoCash still dominates the mobile money market, with 87.5% of registered mobile money accounts and 92.2% of mobile money transactions by value<sup>10</sup>.

## **Lessons for banks and MFIs**

The right mobile money product at the right time, backed by the market power of a major MNO, can achieve deep market penetration.

Mobile money should be seen, managed, and developed as a financial service in its own right.

Keeping operational control throughout the organisation, especially of difficult elements such as agency networks, is essential. Service providers should seek open communication with the regulator.

<sup>10</sup> POCTRAZ (2020), *Abridged Postal & Telecommunications Sector Performance Report Second Quarter 2020*

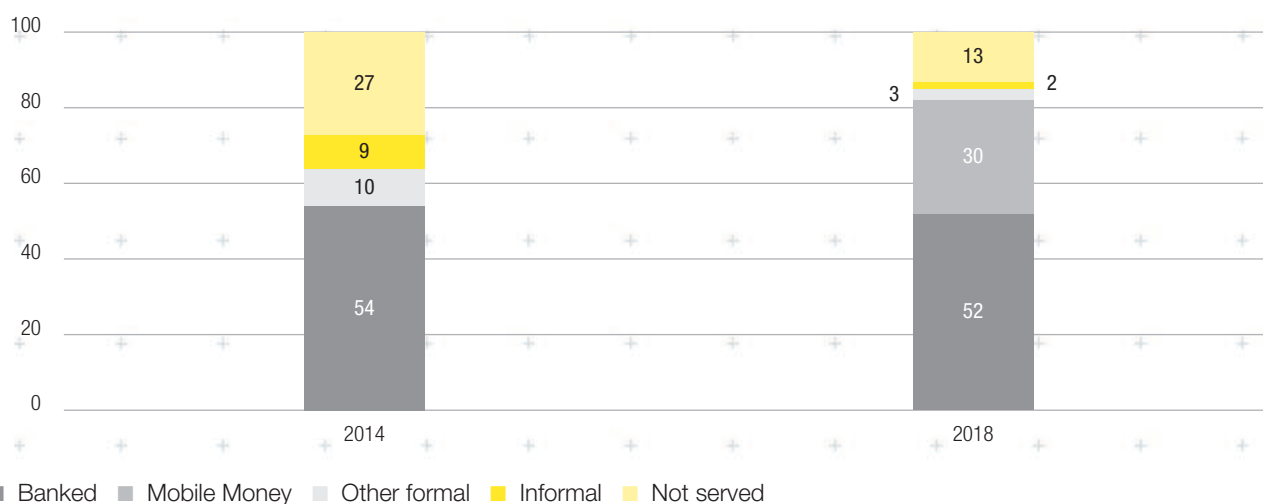
# 6. Mobile money operators can go where banks do not

## 6.1 The state of financial inclusion in Eswatini

Financial services in the Kingdom of Eswatini are provided by a small number of well-regulated service providers. Four banks (three of which are headquartered in South Africa), several microfinance institutions (MFIs), and a single mobile money operator dominate the country's low-value savings and transaction market. Financial inclusion has been rising steadily, reaching 85% of adults in the last FinScope demand-side survey (Graph 10).

The biggest constraints to further takeup and use of financial services are relatively low levels of financial education and capability and the flagging economy – which is closely linked to that of South Africa.

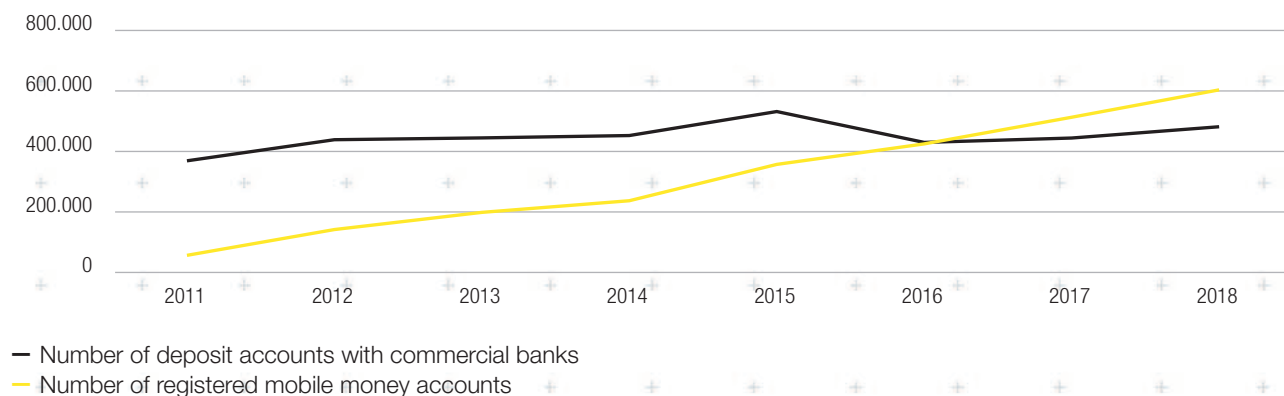
Graph 10 - Mobile now matters in Eswatini



Source: FinScope Eswatini surveys (Mobile money only available in 2018 as a separate category)

Since mobile operator MTN MoMo launched mobile money services, it has become the main force driving increased financial inclusion (Graph 11). Bank account numbers have been growing only slowly. Many customers with a bank account also hold a mobile money account, mainly for making domestic remittances and pre-paid purchases.

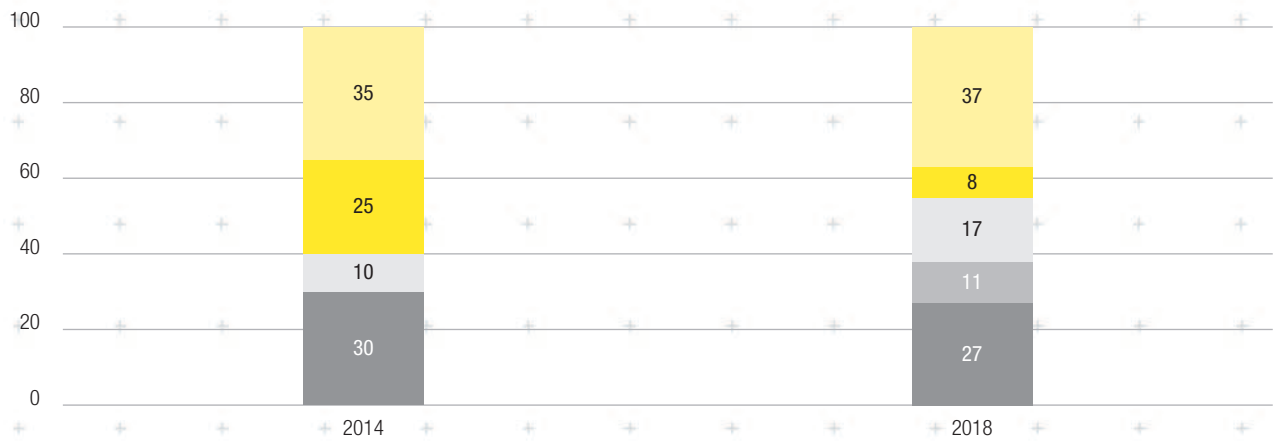
Graph 11 - Account growth - Eswatini



Source: FAS 2020. The adult population of Eswatini was estimated at 676,000 in 2018

In Eswatini, customers are beginning to use mobile money. Formal savings methods are used by 55% of adults, with growth mainly found in MMO and other non-bank formal sectors (Graph 12).

**Graph 12 - How they save in Eswatini**

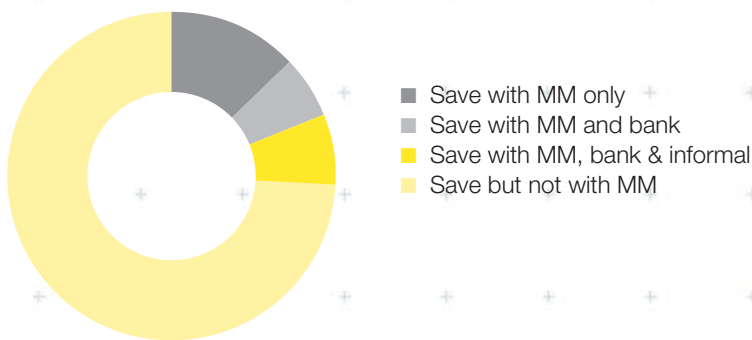


■ Banked ■ Mobile Money ■ Other formal ■ Informal ■ Not served

Source: FinScope Eswatini surveys

Approximately 25% of savers use mobile money as a savings vehicle (Graph 13). Of these, half also use other avenues for saving (banks and informal savings) and half use mobile money only for savings. Some customers seem to prefer using mobile money for saving, even though regulators banned interest payments since operators were not licensed deposit takers. Mobile money accounts currently pay no interest, but MTN MoMo, which dominates the Eswatini market, intends to distribute the interest earned on the trust account to MoMo customers.

**Graph 13 - Average annual transactions/MM account, Eswatini**



Source: FinScope Eswatini survey 2018

## 6.2 Eswatini strategy: dominance

In 2011 MTN, one of the major MNOs in Africa, launched its mobile money offering, MTN Mobile Money, in Eswatini. The product, later rebranded as MTN MoMo, was a success from the start and has continued to grow. By Q4 2020, more than 90%<sup>11</sup> of adults had an MTN MoMo account, and more than 70% of accounts are active, an exceptionally high figure.

### Why has MoMo succeeded in Eswatini?

An effective, ongoing marketing campaign supporting the product.

Low costs for users compared with bank accounts. Users pay only for transactions. There are no ledger or fixed monthly fees.

Vigorous development of the ecosystem in which mobile payments are accepted and used.

Active cooperation with other selected service providers to extend the reach of the product.

To encourage the use of mobile money, MTN MoMo has persuaded large bulk payers and disbursers (of salaries, wages and government grants) to pay into mobile accounts at no cost to the payer. This makes MoMo accounts an attractive recipient of funds, thus increasing the usability of the accounts. To expand the payments ecosystem, MTN has negotiated bilateral agreements with many bill issuers, enabling MoMo consumers to pay their bills directly, benefiting the issuer. Utility bills and subscription television services are the most important bill issuers.

MTN has developed a sizable physical footprint for its mobile money offering. In addition to the main MTN agent network, retailers (large, medium and small), post offices, and other points of service are being used as MoMo agents, so that there are over 4,000 active agents in total. This provides an agent for every 120 active users. In addition, agreements with two FSPs enable MoMo customers to withdraw cash at the ATMs of those institutions.

The functionality has been extended to include paying for goods and services. This was achieved through the introduction of *MoMoPay*, for merchant payments, and *MoMoMarket*, for a digital e-commerce marketplace. The services were designed to be as easy-to-use as possible, overcoming usage and acceptance hurdles. During a COVID-19 lockdown, state assistance payments were made through both bank accounts and mobile money accounts. Though this has not been extended to other types of state assistance payments, some recipients seem to prefer the MMO option.

MTN MoMo sought to involve other service providers where that could improve the value proposition offered to its customers. This method was used to create digital lending, investment markets, and nano-insurance markets. Payment interoperability has been established with the one rival MMO, and discussions to achieve further interoperability with First National Bank's eWallet are ongoing. eWallet is a mobile banking, rather than a mobile money product. It is the main competition for MoMo and has close to a fifth as many clients as MTN MoMo in Eswatini. MTN MoMo has also introduced open application programming interfaces (APIs) on its platform. This will enable other digital service providers to integrate their services into the MTN MoMo ecosystem.

MTN MoMo says that the biggest obstacles to further increase in usage are lack of customer awareness and lack of customer digital and financial capability. Marketing messages and customer outreach are deployed to address these constraints.

### Lessons for banks and MFIs

An MMO will consistently take business from FSPs if unchallenged.

To grow the use of mobile money, an MMO must build a payments ecosystem, and this can be pursued without waiting for the industry or the authorities to act.

Cooperation with other service providers is essential, even when they are direct competitors.

Customer awareness and financial and digital capability are ongoing issues and require constant intervention.

11 This was stated in an FMT interview with MTN MoMo



# 7. Banks can go mobile despite opposition

## 7.1 Mobile financial services in Kenya

Kenya has a well-established and diversified financial sector, which has supported increasing usage. The main driver of increased financial inclusion, shown in Graphs 1&2 earlier, has been the continuing success of Safaricom's M-Pesa – one of the first and most successful mobile money products in the world.

## 7.2 The Equity Bank mobile banking strategy: MVNO acquisition

Equity Bank<sup>12</sup> is a regional bank based in Kenya. Since its inception in 1984, it has successfully focused on extending financial services to the financially excluded and unbanked. It now operates in six countries in East and Central Africa, and has 14.5 million customers. This makes it the largest bank in Sub-Saharan Africa by customer numbers.

The bank has consistently invested in technology and has leveraged these investments to extend customer services, reduce its operating costs, and introduce new services. A key enabler on this journey was the acquisition of a mobile virtual network operator license (MVNO) in 2014, using Airtel as the carrier. This platform, named Equitel, gave Equity Bank greater control over its mobile network environment at lower cost.

The bank developed its *Eazzy Banking* digital solution, which enables virtually all banking transactions and interactions to be done on the Equitel platform. Loan applications are originated and processed digitally on the platform for all customer segments, including SMEs and corporate customers. The bank targeted existing customers with these services, offering customers the convenience of a mobile platform, while simultaneously reducing the bank's operating costs. Merchant services have been streamlined and Equity Bank merchants receive retail payments directly into their accounts, at no extra cost.

Customer transactions are largely originated and completed outside the physical branch network. In total, 77% of the bank's transactions are carried out on the platform via online services. According to Equity Bank's CEO, James Mwangi, "89% of all successfully-processed loans are now originated via mobile channels"<sup>13</sup>. This has allowed Equity Bank branches to focus on supporting customer businesses, rather than processing transactions. ATMs are declining in importance: today, only 4% of transactions are ATM-based.

Compared with the very successful M-Pesa and its nearest mobile money rival, Airtel Money, Equity Bank's mobile banking customer base of 2.1 million is only about 4.2% of the total mobile money<sup>14</sup> customer base in Kenya. However, Equitel processes 21.7% of mobile transactions by value. This suggests that customers will more likely utilise the Equitel platform for high value transactions.

### Lessons for banks and MFIs

Offering digital access and transactions, and in particular mobile services has significant and long-term benefits for FSPs.

Mobile financial services are not restricted to retail customers, but can also be adapted to business clients.

Planning the mobile and digital journey carefully is crucial for FSPs.

It is vital to reap benefits and build on successes.

The nature of the national financial services market must be assessed, the perceived market opportunity defined and the market positions of other players carefully assessed.

Banking services offered in conjunction with mobile banking services can continue to grow, despite the success of MMOs.

<sup>12</sup> <https://equitygroupholdings.com/>

<sup>13</sup> *theafricareport*, 2 April 2019

<sup>14</sup> Equitel was regulated and reported on by the Kenyan Communications Authority, but at the beginning of 2020, the Authority declared it to be essentially a banking service, so regulation now lies with the Central Bank of Kenya. *The Kenyan Wall Street*, 30 January 2020, *Equitel Dropped from Mobile Money Category*



# 8. You don't have to be big to succeed

To offer integrated mobile products, directly or in partnership with other service providers, FSPs must typically invest significant capital and acquire new, relatively scarce, skills. But the mobile market is not open only to big FSPs with ready access to capital. A growing number of smaller FSPs have entered the market successfully, or are planning to. Here are some examples:

## 8.1 FINCA's use of MNO agents in Tanzania<sup>15</sup>

In 2013 FINCA Tanzania, the Tanzanian arm of the international microfinance organisation FINCA, introduced a mobile banking channel called FINCA Mobile. Rather than establish its own network, FINCA partnered with three Tanzanian MNOs, Vodacom, Airtel, and Tigo. By using the existing networks of these MNOs, FINCA Tanzania could provide its low-income customers with convenient, accessible, and affordable access to financial services. Through FINCA Mobile, FINCA customers can perform a variety of transactions at agents of the MNO, including deposits, withdrawals, transfers, bill payments, airtime purchases, loan repayments, and requesting mini-statements.

By adding mobile banking to its services, FINCA Tanzania was able to reduce its operational costs, grow its customer base, and expand its reach. This development brings additional risks that must be managed, since the agents are responsible for managing their own liquidity and client onboarding (KYC). Operational costs have also reduced: on average transactions via mobile at an MNO agent cost FINCA USD 0.50, compared with USD 0.85 at FINCA agents, and USD 1.21 at FINCA branches.

FINCA Mobile improved the customer experience, as waiting time at agents is typically less than at branches. An enabling regulatory environment, anchored by a national ID system and compulsory reporting to the Central Credit Bureau, will help make this partnership more efficient.

## 8.2 Musoni Services and Musoni Microfinance, Kenya<sup>16,17</sup>

Musoni Services is a microfinance software provider that provides affordable, cloud-based banking services to over 100 microfinance institutions in 13 countries.

In 2010, Musoni Services launched Musoni Kenya, establishing it as the first 100 per cent mobile microfinance institution. Musoni Kenya uses M-Pesa deposit and withdrawal networks to disburse loans and collect repayments from customers. In 2013, Musoni's loan officers began using a mobile application on tablet computers instead of paper forms. This new app facilitated client onboarding, loan creation, business appraisals, and report viewing, significantly improving loan officers' productivity. The turnaround time for loans was slashed from seventy-two to six hours.

In 2017, Musoni developed an application that enables customers to check their bank balance, make loan applications, and access customer referrals. Musoni's application is integrated with the Credit Reference Bureau and uses credit scoring to make automated loan decisions based on digital data collected from clients. The entire process of lending to customers is now digitised.

Musoni Kenya has been relatively successful. By mid-2017, it had disbursed 207,823 loans to 91,454 clients.

<sup>15</sup> AFI (2018), *Digital Transformation of Microfinance and Digitization of Microfinance Services to Deepen Financial Inclusion in Africa*

<sup>16</sup> AFI (2018), *Digital Transformation of Microfinance and Digitization of Microfinance Services to Deepen Financial Inclusion in Africa*

<sup>17</sup> IFC, *Mobile Financial Services in Microfinance Institutions: Musoni in Kenya*

### 8.3 Mwanga Community Bank in Tanzania<sup>18</sup>

Mwanga Community Bank Limited (MCBL) was established in Tanzania in 2000, by individual and institutional shareholders from Mwanga District. In 2009, MCBL became a regional bank, authorised to operate throughout Kilimanjaro region. It aims to provide affordable financial services to poor rural people. At end-2016, MCBL had approximately 122,000 clients.

In 2011, MCBL joined UmojaSwitch, a shared payment switch that provides interoperability for ATM services, agency banking and mobile banking. Through UmojaSwitch, member banks can integrate with other service providers, including MMOs, to extend services to their customers. This move enabled MCBL to incorporate village savings and loan associations (VSLAs) into its offering, by linking selected VSLAs to MCBL accounts using M-Pesa. In 2014, to support the roll-out of its VSLA-linkage partnership, MCBL obtained an agency and mobile banking licence. This enabled MCBL to launch its mobile banking service, which enhanced its mobile service offering to customers. MCBL now offers mobile banking to individuals, allowing savings group members to access their accounts online, while still retaining the community aspect of the VSLA model.

<sup>18</sup> UNCDF (2017), *How to Succeed in Your Digital Journey Toolkit #5 Create Your Own Mobile Banking Channel*

# 9. Mobile financial services: guidelines for banks and MFIs

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What factors should banks and MFIs consider when deciding whether to incorporate mobile financial services into their plans?

- Focus on core strengths, such as customer trust, the ability to offer a wider range of financial services than other market participants and a deeper understanding of customer needs. **Constantly renew your understanding of customer needs.** If solutions are no longer in line with customer needs, adapt or discontinue them.
- **Engage with regulators, as far as possible.** Through dialogue, try to ensure a level playing field by encouraging regulators to take a risk-based approach. If necessary, use representative bodies or another forum to establish a discussion platform.
- Build on existing services being offered to customers to determine where best to introduce or enhance the mobile offering. **Mobile money may play a role but providers do not necessarily need mobile money to become a mobile service provider;** for example establishing or enhancing mobile banking may well meet market needs. Always consider the country context; the level of financial inclusion, and the nature of existing mobile money/mobile services and level of uptake.
- To optimise the use of mobile services, FSPs should design these to be as intuitive and easy-to-use as possible. FSPs should carefully **accompany customers on their mobile journey;** from awareness to digital capability and onboarding, initial use, reinforcement, and self-sufficiency.
- Use mobile for more than just payments, sharing information, and other direct financial services. **Mobile can, and should, play a major role in all customer/FSP interactions.** Make it available to all customers, including micro and small enterprises.
- Consider strategic cooperation to extend the capabilities of the FSP:
  - With other stakeholders to develop digital financial and payment ecosystems.
  - With other FSPs to develop a more complete range of services.
  - With MMOs and MNOs, where the FSP can enable them to extend their capabilities.
- Obtain customer feedback constantly. Find out what customers like and do not like, what services they lack, and what other products they are using. Develop products to meet customer needs in line with their experiences.
- Remember that customers may find using mobile financial services challenging. Design interventions and agreements to overcome constraints of:
  - Digital literacy.
  - Access to mobile devices.
  - Affordability of the use of mobile network services.

Banks and MFIs can thrive in the unfolding financial services world which is increasingly digital and more and more mobile. To succeed, banks and MFIs must build on their strengths, and plan their digital and mobile strategies carefully, taking into account the environments in which they operate and compete, and cooperate with other players wherever it makes sense to do so. Customer needs and outcomes should always direct the formulation and execution of their plans.

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# 11. Annexe 1: about the report partners

## About Scale2Save

The World Savings and Retail Banking Institute (WSBI) created in 2016 a new programme in partnership with the Mastercard Foundation “to establish the viability of low-balance savings accounts and use of customer-centric approaches to address barriers faced in access, usage and affordability of savings services”.

Called Scale2Save, the programme is set against a backdrop of problems such as high poverty rates and financial exclusion in sub-Saharan Africa, as well as low formal savings rates. FSPs have a poor understanding of the market savings potential of people in various low-income segments. The needs of existing and potential customers – and how much customers can afford to pay to meet those needs – are not well reflected in FSPs’ business models, customer interfaces and interactions. The resulting poor customer experience gives rise to extremely high rates of bank account dormancy and inactivity. This is a significant cost for FSPs and undermines potentially sustainable business cases to deliver accessible financial services to people in these segments.

The Scale2Save programme’s core activities are to:

- Provide financial service providers with technical assistance to develop savings services valued by low-income customers. WSBI works with eleven financial service providers to develop and deliver savings products that not only broaden access to financial services but also drive ongoing use of those services. The banks are located in Cote d’Ivoire, Kenya, Morocco, Nigeria, Senegal and Uganda. A bank in Tanzania acts as a knowledge partner.
- Conduct research and share lessons between partner banks. WSBI publishes the annual Savings and Retail Banking in Africa report series to facilitate peer learning and the spread of knowledge. The institute also researches new pricing models to help establish a business case for low-balance savings and conducts household research to contribute to knowledge of cash flows in households.
- Communicate lessons learned to the wider sector. WSBI has developed and carried out a targeted communications strategy to share the knowledge generated by the project with key stakeholders.
- Monitor and evaluate the programme. WSBI monitors project progress at partner banks and oversees mid-term and final project evaluations. The programme started in September 2016 and will continue until August 2022.

## About the Mastercard Foundation

The Mastercard Foundation works with visionary organizations to enable young people in Africa and in Indigenous communities in Canada to access dignified and fulfilling work. It is one of the largest private foundations in the world with a mission to advance learning and promote financial inclusion to create an inclusive and equitable world. The Foundation was created by Mastercard in 2006 as an independent organization with its own Board of Directors and management.

For more information on the Foundation, please visit: [www.mastercardfdn.org](http://www.mastercardfdn.org)

## About FinMark Trust

FinMark Trust is an independent non-profit trust whose purpose is “Making financial markets work for the poor, by promoting financial inclusion and regional financial integration”. This goal is pursued through two principle programmes. Firstly, it creates and analyses financial services consumer data to provide in-depth insights into both served and unserved consumers across the developing world. Secondly it carries out systematic financial sector inclusion and deepening programmes to overcome regulatory, supplier and other market-level barriers hampering the effective provision of services. These programmes unlock financial inclusion and sector development through symbiosis between rigorous data collection and research activities. Their work can be found in South Africa, throughout the Southern African Development Community and around the world.







Learn more about Scale2Save at  
[www.wsbi-esbg.org/KnowledgeSharing/scale2save](http://www.wsbi-esbg.org/KnowledgeSharing/scale2save)

