

Mobile money faces developed-world challenge

March 12 2012, By Kim Hjelmgaard

Instances of the so-called tail wagging the dog abound. Add to that club mobile-money services, the idea that you can make financial transactions of all kinds using only a cellphone.

The technological brawn, sophisticated banking and widespread [financial literacy](#) seemingly required to deploy mobile-money programs are, of course, heavily concentrated in the developed world.

Yet it's in places lacking that infrastructure, such as sub-Saharan Africa, where the idea has actually taken hold.

Take Kenya, for example. According to the World Economic Forum's "Mobile Financial Services Development Report," roughly 10 percent of Kenya's 40 million people use mobile-money initiatives like Safaricom's M-Pesa. The branchless banking platform enables users, armed with only their mobile phones, to pay bills, deposit and withdraw money as well as transfer funds to M-Pesa's users and nonusers alike.

Services such as M-Pesa's work by using a subscriber identification module, or [SIM card](#), which store personal data and network information.

Broadly speaking, the portfolio of financial services that fall under the rubric of mobile money range from paying for goods and services to transferring funds to receiving an overseas remittance.

Like other examples of companies and nations that have seen high adoption rates for mobile money, including MTN in Uganda, Vodacom in Tanzania, Smart in the Philippines and True Move in Thailand, relatively few people in Kenya - 10 percent, the [World Economic Forum](#) report estimates - have access to traditional [banking services](#), according to Greenwich Consulting, a telecommunications consulting firm.

But they do have access to SIM cards via their mobile phones.

Jean-Marie Letort, a partner at Greenwich, said: "Of the approximately 130 mobile-money schemes that have been launched to date, there really are very few successes. And almost all of them are in emerging markets."

Letort explained that the concept of mobile money generally works best right now in places where people do not have bank accounts but do have phones.

He also said that while many in the global telecoms industry are beginning to talk about whether the West can replicate the success of emerging markets, there is a bottleneck in the developed world that revolves around the adoption of a preferred radio technology called NFC, or near-field communications.

NFC allows the wireless transfer of data over very short distances.

While NFC is not exactly new to the industry, it is seen as a key component of a fledgling mobile-payment ecosystem in the more mature markets of the U.S. and Europe that are juggling the competing needs of banks, retailers, operators, manufacturers and others.

"In the developed world, everyone in the industry is aggressively talking about launching the digital wallet that can be used in day-to-day life: to

sign up for insurance, to access micro-finance, for paying utilities or your taxes," he said. "The first step is equipping merchants with NFC."

Last week, Britain's Vodafone Group PLC announced that it signed an agreement with Visa Inc. that will permit 398 million Vodafone customers in more than 30 countries to make payments for goods and services with their phones. The underlying technology for this deal will be NFC.

Elsewhere, Western Union and Sweden's Ericsson agreed to work together "to accelerate the interconnection between the mobile commerce ecosystem and the existing financial world."

Western Union also said it would partner with Afghan telecoms operator Roshan to introduce mobile-money-transfer services in Afghanistan.

In a brief interview at the Mobile World Congress in Barcelona last week, Thor Hague, Western Union's vice president of digital ventures, said: "NFC promises to be more convenient (for consumers), and it could even replace the credit card, but right now in the developed world it's a technology in search of a market."

He added it was important to remember that mobile money is bound to look different in different markets.

Don Callahan, Citigroup's chief administrative officer and chief operations and technology officer, said in reply to emailed questions: "Trust and security will continue to be pre-conditions for user adoption (of mobile money) to scale beyond small-value transactions."

Callahan also said that the key enablers powering the mobile-money ecosystem don't have the confidence yet to allocate the significant capital required to scale on-the-go financial services.

Google Inc.'s Google Wallet mobile-payment system allows users to store some credit cards on their phones, which can then be used to make payments in certain retail outlets. However, it has not been widely adopted in part because Citigroup is the only the only bank that has adopted the service. An NFC-enabled phone is also required.

Brett King, author of the book "Bank 2.0" as well as a consultant to financial institutions on the topic of [mobile money](#), warned that credit card companies run the risk of being left behind if they don't adapt.

"If Visa and MasterCard don't convert their networks to phone-capable in the next 24 months, I fear Square, PayPal, iTunes and a myriad of others are just waiting in the wings to circumvent their rails," he said.

"Argue all you like about NFC adoption; that's not what you should be watching," King continued. "The tipping point is the behavioral shift on the mobile phone - that is what will kill plastic, and it's already happened."

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