



Mobile payments

Dial M for money

FRANKFURT

Beating banks at their own game

IT HAS already changed most people's lives, but there is more work ahead for the mobile phone. The trusty SIM card can also act as a debit and credit card. That means it may only be a matter of time before mobile phones are used to deposit, transfer and withdraw cash.

In the developed world, one of the barriers hindering the switch to mobile cash has been the costly infrastructure developed by banks and credit-card companies. With cash machines and bank branches at every street corner there is less call for an alternative payment system.

But out in the African bush, progress is marching to a different drumbeat. In Kenya, where bank branches are few and far between, M-PESA, a mobile-payment scheme run by Vodafone, a telecoms firm, and Safaricom, a Kenyan operator, with the backing of the British government's Department for International Development, has created an alternative to banks. Most M-PESA customers have no bank account, but they withdraw cash and make payments or send money using their mobile phones. Their cash points are a network of airtime sellers dotted around the country—Safaricom shops, petrol stations, or any other shop used to handling cash. Once they have verified a customer's identity via their telephone number, the agents will facilitate a transaction. M-PESA keeps tabs on all the money and the float is held in a single account at the Commercial Bank of Africa in Nairobi.

Thus M-PESA has created its own financial system, including clearing and settlement. Kenya's central bank tolerates it, as long as M-PESA does not pay interest or in- ►►

▶ vest the float. After a full roll-out in March, it already has around 500 agents and 150,000 customers, says Nick Hughes of Vodafone. The system could easily operate across borders. Even now, a pilot scheme enables people to send expatriate remittances to Kenya via the M-PESA system.

The beauty of M-PESA, for those who would like to see competition with bank-sponsored payment systems, is that no bank is involved except as a holder of the float. In theory, the European Commission is encouraging similar competition with its new payment-services directive (PSD), due to come into force in 2009. The PSD foresees the development of non-bank "payment institutions" which need no banking

licence if their activities are restricted, though of course they would be subject to anti-money-laundering controls.

However, a European version of M-PESA might be thwarted by other moves to facilitate cross-border payments, according to Ivan Mortimer-Schutts of the Paris-based Groupe d'Economie Mondiale, a think-tank. In his view (admittedly, his research was commissioned by Vodafone) the prospect of a bank-dominated Single Euro Payments Area, over which there has been much foot-dragging, may have dissuaded mobile-phone companies and other non-banks from innovating in the payments arena. It may be time to call Kenya for a word of advice. ■