The Rise of Mobile Commerce

A Focus on Mobile Money Transfer

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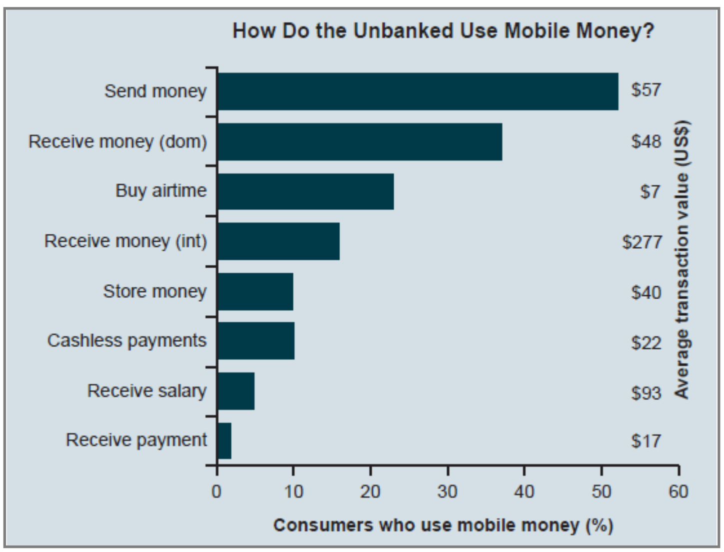
Executive Summary

Today there are over 4 billion mobile phone subscribers in the world, making up an astounding 60 percent of the global population. With a projected 7 billion subscribers by 2015, more than 1.5 billion consumers will by then be using the devices to carry out complex financial transactions such as paying bills, buying and selling stocks and transferring money.[1]

It is estimated that over 1 billion people do not have a bank account but do have a mobile phone. By 2012, that number is expected to grow to 1.7 billion; making mobile phones a direct conduit to nearly half of the world's unbanked. As many as 364 million low income, unbanked people will use mobile money three years from now, generating US$7.8 billion in new revenue for the mobile money industry via transaction fees, improved loyalty and more cost efficient airtime distribution. With huge opportunities for reaching the unbanked, the developing world is leapfrogging the developed world in terms of innovative solutions; about 120 mobile money services projects were underway in developing countries in 2009.[2]



An Overview of Mobile Money Transfer (MMT)

Around the globe, there are numerous initiatives that enable individuals to transfer money to one another via their mobile phones. These transactions are called Person-to-Person or Peer-to-Peer (P2P) remittances, and the two people are often unbanked.

[1] ThinkEquity Partners, 2009
[2] CGAP, 2009

One major contributor to almost 3 billion people remaining in poverty is lack of access to financial services such as savings accounts, access to credit and ability to transfer money. At the same time, global mobile phone usage has exceeded 4.1 billion people with 15 new connections added per second – over 1.3 million per day, with many of these mobile phone subscribers living in remote and impoverished corners of the world.[3]

> *"The next few years will be a climate of explosive growth for mobile money transfers."*
>
> *Lance Blockely*
> *Edgar, Dunn & Company*
> *December 2009*

Mobile remittances represent an opportunity to initiate relationships with these unbanked consumers who are heavy users of both remittances and mobile phones, making the convergence of remittances and mobile phones inevitable. This convergence offers opportunities as mobile payments will be more convenient, rapid, secure and accessible to a greater number of senders and recipients. Banks are starting to use remittance services to lure in unbanked customers from new demographic segments, convert them from unbanked to banked and cross-sell them more profitable products.

The cross-border remittance market is currently worth about US $300 billion and is expected to increase to US $500 billion by 2012. Due to the acceleration of mobile phone usage among the unbanked and growing volume of remittance transfers made by migrant workers, mobile payment schemes are expected to flourish particularly in developing countries where less than 30 percent of individuals have bank accounts but over 80 percent of the population owns at least one mobile phone.[4]

Improving the Standard of Living

According to the World Bank, an extra 10 phones per 100 people in a developing country boost gross domestic product growth by 0.8 percentage points. More than 4 billion handsets are now in use worldwide, three-quarters of them in the developing world.[5] In Africa, four in 10 people now have mobile phones, and mobile money is making its mark since it allows cash to move at the same speed as a text message.

[3] BankABillion, 2010
[4] Lafferty Group, June 2009
[5] "The Power of Mobile Money," The Economist, Feb. 2009

In developing markets, mobile-money services allow small retailers to act like bank branches: they accept cash and can credit that cash via text message to a mobile-money account. M-PESA, (M for mobile and pesa meaning money in the Swahili language) a mobile-phone based money transfer service that launched in 2007, has soared to nearly 7 million mobile users in Kenya – a country of 38 million people; 18.3 million of whom have mobile phones.[6] M-PESA first became popular as a way for young, male urban migrants to send money back to their families in rural areas. It is now used to pay for everything from school fees to taxis. Similar schemes are popular in the Philippines and South Africa.

The advent of M-PESA has boosted economic growth: the incomes of Kenyan households using M-PESA have increased between 5 percent and 30 percent since they enrolled in the service.

It is hard to think of a tougher environment in which to test the potential of mobile remittance than Afghanistan. With a population of 30 million people, 36 percent of them live below the poverty line and 74 percent are illiterate. But bringing banking services to Afghanistan is exactly the challenge that Roshan, a local mobile operator with over 3.5 million subscribers, is taking on.

Roshan's M-Piasa mobile payments offering allows subscribers to add and withdraw funds to a virtual account, pay loans, top-up their airtime account and other services. The solution is not tied to a bank account and requires no minimum balance.

Over the last six months, Roshan has experimented with using a mobile remittance service to pay the salaries of its own staff as well as a trial with around 50 members of the Afghan National Police in Wardak province. The officers in Wardak can withdraw their salary at an authorized agent or can immediately send it to their families using their mobile phone.[7]

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[6] "The Power of Mobile Money," The Economist, Feb. 2009
[7] CGAP, January 19, 2010

The Case for Mobile Money Transfer

Mobile Phones Provide a New Remittance Channel with Greater Reach

Mobile phones now significantly outnumber ATMs, giving mobile operators a level of reach far greater than money transfer providers and banks. Mobile operators are therefore uniquely positioned to solve the access problems and drive costs down to levels that open the formal remittance channel to users that would otherwise seek informal methods of remittance.

With many traditional remittance services, access to facilities to receive money is often limited. This is particularly true for the poorest people in more rural areas where the banking sector is under-represented and the economy is largely cash-based. Those who would benefit most are therefore the least likely to be able to receive remittances from migrant workers.

In the developed world, the availability of smartphones, a demand for an integrated lifestyle and a desire for greater convenience are driving increasing interest in mobile money and mobile enabled remittance.

Mobile Technology Can Lower the Cost of Remittances

Mobile technology can lower the cost of remittances as it removes the need for physical points of presence, and ensures a timely and secure method of transaction. This concept of 'e-cash' is extremely attractive to low income users. The World Bank estimates that reducing remittance commission charges by 2 percent to 5 percent could increase the flow of formal remittances by 50 percent to 70 percent, which would boost local economies. Reducing the cost of sending each individual remittance encourages the delivery of lower value remittances at values far less than today's average transfer of US $200. [8]

Mobile Communications Can Drive Growth of Formal Remittance Market

The ubiquity and high penetration rates of mobile technology around the world provide mobile operators with the potential to vastly improve and transform access to remittance funds for people in developing countries. The Global System for Mobile Association (GMSA) forecasts that the 'formal' global remittance market could be grown from around US$300 billion today to over US$1 trillion in five years with the help of mobile communications.

[8] GSMA, 2009

Africa and Asia are the incubators for many different types of schemes – often offered by non-traditional players such as 3rd party processing companies like M-PESA and, with increasing frequency, the mobile operators themselves. These non-traditional players are providing financial services and creating competition for banks.

"We see evidence that the telcos are getting into mobile payments, one way or another. They're not waiting for the banks."

Javelin Strategy & Research 2009

Euronet and Remittance

Entering any form of remittance market is not easy. Some of the obstacles that need to be overcome include the challenges of dealing with varying regulatory requirements of different countries, wide-ranging global regulations such as Anti-Money Laundering (AML), Combating Financing of Terrorism and the USA Patriot Act. An additional layer of complexity is the need to support transfers from multiple initiation points (bank accounts, sending agents and prepaid cards) to multiple end points (bank accounts, mobile wallets and virtual accounts).

Collaboration with a service provider such as Euronet with international payment infrastructure helps banks and mobile operators enter the remittance market by having the complexity of regulations and transaction routing handled for them by the provider.

Euronet provides global consumer-to-consumer money transfer services through a sending network of agents and company-owned stores, disbursing money transfers through a worldwide payer network.

We deliver electronic consumer-to-consumer money transfer services from 13 countries through a network of approximately 81,300 locations comprising of send and payout/correspondent agents serving more than 100 countries, processing approximately $6 billion in money transfers annually.

Euronet entered the mobile payments space by offering money transfer payout at an ATM based upon the money transfer recipient receiving a text message from a Euronet sending agent containing withdrawal instructions.

One unique feature of this transaction is that the recipient does not need a card to withdraw their funds from the ATM, thereby helping to reach as many people as possible, including the unbanked.

Summary

The remittance market is large and is continuing to grow. The global migrant worker population is expected to increase to more than 280 million in 2050 with the total value of global remittances in the next five years estimated to be around $700 billion.[9]

In addition to being a good business practice, remittances have the potential to bring profound change to the lives of banked and unbanked individuals in developing countries, as well as to the social and economic growth of their communities.

Euronet is uniquely positioned as a powerful mobile remittance player by operating a global remittance network, by driving tens of thousands of ATMs and hundreds of thousands of POS terminals, by issuing prepaid cards, and by providing mobile banking services and connections to mobile network operators.

These abilities enable the convergence of the key components necessary for a successful mobile money transfer solution.

[9] GSMA, 2010

About Euronet

Euronet Worldwide is an industry leader in processing secure electronic financial transactions. The company offers payment and transaction processing solutions to financial institutions, retailers, service providers and individual consumers. These solutions include comprehensive ATM, POS and card outsourcing services; card issuing and merchant acquiring services; payment software solutions; consumer money transfer and bill payment services; and electronic distribution for prepaid mobile airtime and other prepaid products.

Euronet's Electronic Financial Transaction (EFT) division processes transactions for a network of over 9,700 ATMs and approximately 53,000 POS terminals across Europe, the Middle East and Asia-Pacific. We provide comprehensive electronic payment solutions consisting of ATM network participation, outsourced ATM and POS management solutions, cross-border transaction processing services, credit and debit card outsourcing and electronic recharge services for prepaid mobile airtime. We own and operate transaction processing centers in Hungary, Greece, Serbia, India and China, and serve an impressive client and partner portfolio of over 100 customers including banks, card organizations, mobile operators and retailers.

On both an outsourcing and in-house solution basis, Euronet provides a suite of payments software offerings for card issuing, transaction acquiring, mobile access, mobile commerce and transaction delivery systems utilizing an integrated payments hub strategy. With clients in over 70 countries, Euronet's software solutions service customers ranging in size from single community banks to multi-organization processing environments.

With Euronet, you benefit from 35 years of diverse payments experience and gain a focused partnership with an industry leading, financially sound, global organization. Make the smart choice by choosing Euronet – an organization uniquely positioned to meet your diverse needs - anytime, anyplace.

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contact your Euronet sales representative
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