

An Analysis of M-Pesa Use in International Transactions

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Abstract

In recent times, inexpensive mobile phone technology has become widely available in developing nations and enhanced the emergence of mobile money transfer services. A good example of such a service is Safaricom's M-Pesa, which was introduced in March 2007, in Kenya. The program has extensively grown in terms of subscribers and the amount of electronic funds transferred through it. M-Pesa's local success has prompted its launch in a number of countries outside Kenya. This study indicates that culture, competition, regulatory requirements and impact on the economy affect M-Pesa use in international transactions. Furthermore, the study shows that M-Pesa is ahead of 34 Kenyan banks in international money transfers. The study finally gives recommendations on M-Pesa use in international transactions.

Keywords: M-Pesa, International Business

1. Introduction

In 2007, Safaricom, the largest Kenyan mobile telecommunications company launched M-Pesa (M for mobile and Pesa is the Swahili word for money). It is a micro-financing and money transfer service that is designed to allow users to access basic banking transactions via their mobile phones rather than a bank (Safaricom, 2015). In March 2013, M-Pesa users had reached 15.2 million out of the company's 19 million subscribers. The figure increased from 14.9 million the same time in the previous year. The scheme earned Ksh 10.43 billion in revenues, with a remarkable annual growth of 32% (CISCO, 2013). Locally, M-Pesa has several uses, including storing, transferring and withdrawing money electronically, topping up airtime, buying goods and services, offering savings and loan products, paying school fees, utility bills and international remittances. Companies can also use the scheme for disbursing employee salaries and collect bill payments (Safaricom, 2015). Kenya was the first developing nation to launch a mobile-banking service based on text messaging (Shaikh, & Karjaluto, 2014).

The international market is one of the opportunities available to Safaricom to expand the M-Pesa scheme. The company's major stakeholder, Vodafone, has recognized this as M-Pesa is no longer restricted to local use. It has been extended beyond Kenya's borders and onto the international scene. The service has been launched in a number of countries outside Kenya. They include Tanzania, Afghanistan, Fiji, South Africa, the Democratic Republic of Congo and India. Additionally, Safaricom's partnership with Western Union permits M-Pesa customers to receive money from 45 nations, including the United Kingdom, United States, Italy and Canada (CISCO, 2013).

Safaricom is gradually rising to become one of the top ten biggest international money transfer agents in Kenya. This trend will see the company acquire a larger market share than 34 commercial banks within a very short period of its entry into the international cash remittance business. Currently, the telecommunications firm receives over 4% of all cash remittances from foreign nations (Herbling, 2014a).

Recently, Safaricom partnered with five other international money transfer providers to enable Kenyans in the diaspora to send money to the M-Pesa accounts of the firm's customers in Kenya. The partnering organizations are mHITs in Australia (1 AUD = Ksh 76.8148), PostFinance in Switzerland, Xendpay (no fees charged) and SkyForex (rate =£1.00) in the UK (Safaricom, 2015). This has increased the number of Safaricom's partners in the global cash transfer business, given that the firm had previously engaged remittance schemes such as, Xpress Money (USD 8 transfer fees), WorldRemit, Skrill IT (1% of the amount transferred) and Western Union (1 USD = Ksh 97.2635) (Safaricom, 2015). Safaricom has also partnered with MoneyGram with the aim of attracting Kenyans who send money abroad to support their children or pay for imports. This kind of cross-border/outward remittance can benefit from the ready market of Kenyan student populations, especially in Uganda, the UK, US, India, Malaysia and Australia (Herbling, 2014b).

Prior to the deal, Kenyans could only use MoneyGram by going through a partnering institution such as, a bank or licensed provider of money remittance services. This deal also enables MoneyGram customers in more than 90 nations to send money directly to M-Pesa accounts (Herbling, 2014b). All these partners will expand M-Pesa throughout Europe, Australia, North America, Asia and the Middle East where Kenyan migrants exist in large numbers (Herbling, 2014a).

1.1 Problem statement

The markets into which M-Pesa is expanding present their own threats, particularly competition from existing mobile operators and new entrants into the mobile money business such as, Wizzit in South Africa and M-Check

in India. M-Pesa, for instance, might not be easy to export to India due to the country's fierce competition and regulation of mobile money transfer by the central bank. This is despite the prospects that India offers for Vodafone and Safaricom to repeat the success that M-Pesa has had in Kenya. These include a large cell phone user and remittance market, high number of unbanked people and Vodafone's overwhelming presence (Mak, 2013). Similarly, well-established global online firms such as, Google and international payment systems like MasterCard and Visa are pursuing the possibility of venturing into the mobile payment market (CISCO, 2013). Safaricom is also competing against commercial banks that currently control the remittances market in their role as cash agents for money transfer providers such as, Western Union, MoneyGram and Xpress Money. These banks include Equity Bank, Kenya Commercial Bank, Chase Bank, CFC Stanbic, NIC, Western Union-Postbank, First Community Bank and Barclays (Herbling, 2014a).

In addition to stiff local and global competition, M-Pesa's international expansion has to take into consideration the regulatory requirements of counter-terrorist financing and anti-money laundering initiatives. Although the service has remained largely safe from corruption or misuse, it has been susceptible to fraud and social engineering scams in which unsuspecting users have lost money to tricksters. With the ongoing expansion of the scheme into foreign countries, the likelihood that criminals could make it an easy tool for terrorism financing and money laundering cannot be ignored (Buku, & Meredith, 2013).

CBK statistics suggest that inward remittances through M-Pesa have been coming solely from Europe because of Safaricom's alliance with the Western Union (Herbling, 2014a). Consequently, there is a need to investigate the reasons for the gap in inward remittances from other regions where M-Pesa is available.

A number of studies have been conducted on the use and impact of M-Pesa in Kenya. Very little has been done in investigating its use within the global context. This study, therefore, sought to find out the use of M-Pesa in international transactions.

1.2 Objectives

The study intended to:

1. Investigate the success of M-Pesa in international transactions and how it compares to local financial institutions;
2. Describe the factors affecting the use of M-Pesa in international transactions
3. Give recommendations on how M-Pesa can succeed in the international market

2. Literature review

The international remittance market is a potential source of new revenue for Safaricom through the M-Pesa scheme. Moreover, international expansion could be motivated by the desire to replicate local success in a new market. Some or all of the factors that have enhanced M-Pesa's success locally need to be present in the target countries for similar or better outcomes to be realized. On the local scene, a number of factors have increased the attractiveness of M-Pesa compared to other mobile-money systems. First, Kenyans turned to M-Pesa to escape the high expenses, slow pace and unreliability of sending money using other methods (The Economist, 2013). Similarly, M-Pesa has been facilitated by the unprecedented uptake of mobile phones with about 80% of Kenyans subscribing to mobile networks (Kiganane, & Kyalo, 2015).

Second, M-Pesa has been able to take root because of Safaricom's dominance in the mobile telecommunications market and marketing campaign effectiveness. During the introduction of M-Pesa, Safaricom already enjoyed a large customer base with an 80% market share, strong brand recognition and trust. Safaricom's market share places it significantly ahead of its closest competitors: Airtel, Orange and Yu. Consequently, even before the introduction of M-Pesa, the company had a loyal base of customers that it could use to draw attention to its remittance service (Buku, & Meredith, 2013). Additionally, M-Pesa's rapid spread has been facilitated by an expansive network of airtime resellers that act as M-Payment agents (Muthure, Ofafa, Muathe et. al., 2013).

Safaricom also changed M-Pesa's core proposition from a means of loan repayment to a method of making person-to-person transfers, primarily to their family and friends. This idea was captured in a simple message/proposition: "send money home" (The Economist, 2013). The simplicity of the M-Pesa user interface complements the service's value proposition. It operates on an application on the user's mobile phone. Users can easily find the M-Pesa service by launching it right from the main menu of their phones where it resides. There is no need to download it from the network every time it is required. The user is also guided by a number of simple prompts regarding the number of the destination phone, amount of money to be transferred and sender's personal identification number. Upon confirmation, the information is sent to the M-Pesa server using a single text message, thereby, reducing messaging costs and the risk of interruption of the transaction request (Safaricom, 2015).

Third, M-Pesa addresses the existing demand for local remittances. Prior to the launch of M-Pesa, Kenyans relied on family members, friends, public transport companies, the Kenya Post service, forex bureaus

and commercial banks to transfer money. These services came with availability, reliability and security challenges that caused inefficiencies and service gaps in relation to money transfer and receipt (Buku, & Meredith, 2013). M-Pesa has proved useful to Kenyan households for convenient and easy money saving and transfer. This was particularly seen during the 2007/2008 post-election violence when people could not easily move from one location to another for personal or business activities (The Economist, 2013).

Fourth, the Central Bank of Kenya that regulates banking and mobile money transfer has been supportive to the M-Pesa scheme by allowing Safaricom the freedom to structure the service proposition, business model and distribution channel in a way that aligns with the market (The Economist, 2013). M-Pesa uses a highly effective, simple and transparent business model in which agents' earnings consist of commissions paid by Safaricom while the transaction fees paid by end users are the revenue sources for Safaricom and supporting operators that mainly consist of banking partners and remittance channels (CISCO, 2013). For these reasons, the scheme acquired a good customer base since its launch and enjoyed a network effect as more people learned about it and signed up.

3. Methodology

3.1 Data and data sources

The study used primary and secondary data to highlight its findings. The study used the documentary method to gather secondary data. Secondary data was obtained from corporate reports from Safaricom and Central Bank of Kenya and corporate financial and business news analyses from media publications such as, the Business Daily and the Economist. This consisted of statistical data on the international M-Pesa transactions in comparison with those of financial institutions in Kenya. Primary data was collected from a sample population of 45 employees of Safaricom Kenya Limited. 35 respondents participated fully and formed the basis for the findings of this study. Questionnaires were administered to respondents to facilitate collection of primary data.

3.2 Data Analysis

Data was analyzed quantitatively to reveal M-Pesa transactions in the international scene and how that compared with similar transactions by local banks (Appendix 1). The results were presented in a table and graph format. Furthermore, Data on factors affecting the use of M-pesa was analyzed quantitatively using weighted average and percentages. The results were presented in a table format (Appendix 2). From the findings, recommendations were made on what can be done to enhance the use and success of M-Pesa in international business transactions.

3.3 Findings; conclusions and recommendations

On culture, the study found out that majority of the respondents as shown by 55.56% and a weighted mean of 1.89 were in agreement that culture influences the level of acceptance given to M-Pesa, majority of the respondents strongly agreed that M-Pesa can succeed by understanding the belief systems of others in relation to money as shown by 44.4% and a weighted mean of 2.79.

On competition, the study found out that majority of the respondents as shown by 55.56% and a weighted mean of 2.13 strongly agreed that banks and other financial institutions outside Kenya poses a threat to the use of M-Pesa in international transactions, 55.56% and with a weighted mean of 1.56 were in agreement that M-Pesa is threatened by similar forms of mobile money in other countries, 44.44% with a weighted mean of 2.56 of the respondents strongly agreed that Financial institutions outside Kenya are afraid of M-Pesa's dominance.

On regulatory requirements the study found that majority of the sampled respondents as shown by 50% and a weighted mean of 2.13 were in agreement that regulatory requirements influence the use of M-Pesa in international transactions in that; M-Pesa can be used as a tool for terrorism financing and money laundering and that Regulations in foreign countries influence the use of M-Pesa as shown by 37.5% respectively. This is an implication that any regulatory requirements by a state whether local or international can positively or negatively influence the use of M-Pesa in international transactions.

On M-Pesa's impact on the economy, the study found out that majority of the respondents as shown by 77.78% and a weighted mean of 2.11 strongly agreed that M-Pesa can be a major source of foreign exchange earnings for Kenya. On the same question, majority of the respondents as shown by 88.89% and a weighted mean of 2.11 strongly agreed that M-Pesa can facilitate easier movement of money across the globe; an implication M-Pesa use in Kenya can have a great impact in the Kenyan economy

3.3.1 Conclusions

Culture

The study concludes that culture influences the level of acceptance given to M-Pesa. Furthermore, M-Pesa can succeed by understanding the belief systems of others in relation to money.

Competition

The study concludes that, banks and other financial institutions outside Kenya pose a threat to the use of M-Pesa

in international transactions, M-Pesa is threatened by similar forms of mobile money in other countries and, that financial institutions, outside Kenya are afraid of M-Pesa's dominance.

Regulatory Requirements

The study concludes that; regulatory requirements influence the use of M-Pesa in international transactions in that; M-Pesa can be used as a tool for terrorism financing and money laundering and that Regulations in foreign countries influence the use of M-Pesa; an implication that any regulatory requirements by a state whether local or international can positively or negatively influence the use of the use of M-Pesa in international transactions.

Impact of M-Pesa use on the Economy

The study finally concludes that M-Pesa can be a major source of foreign exchange earnings for Kenya, and that M-Pesa can facilitate easier movement of money across the globe; an implication that M-Pesa use in Kenya has had a great impact in the Kenyan economy and the same model can be replicated in other countries.

3.3.2 Recommendations

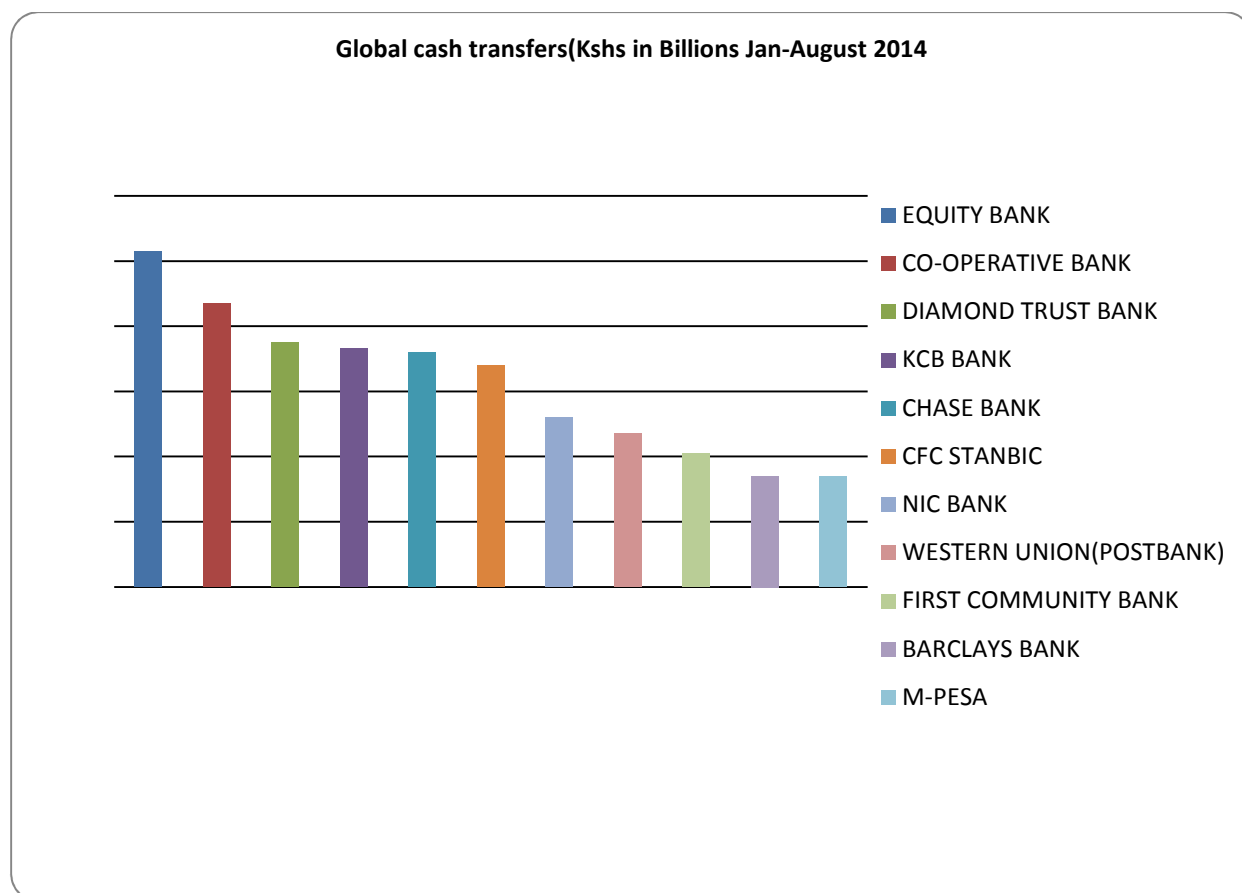
1. The study recommends that the management of Safaricom's M-Pesa should be keen on individual benefits other than generally looking at the culture of the people in a certain region.
2. The study concludes that M-Pesa stakeholders should continue offering the best of their services and products locally and internationally for this was found to give it an outstanding market share when compared to its' competitors who offer the same products and services.
3. The study finally concludes that the State as well as other countries in which M-Pesa is used, adopt an open minded approach in their regulatory requirements and other policies therein to benefit from the services offered by M-Pesa since this will have a greater impact in economic growth in the long run.

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Appendix 1:
The success of M-Pesa in international transactions and how it compares to local financial institutions

BANK	Global cash transfers (Kshs in Billions Jan-August 2014)
EQUITY BANK	10.3
CO-OPERATIVE BANK	8.7
DIAMOND TRUST BANK	7.5
KCB BANK	7.3
CHASE BANK	7.2
CFC STANBIC	6.8
NIC BANK	5.2
WESTERN UNION(POSTBANK)	4.7
FIRST COMMUNITY BANK	4.1
BARCLAYS BANK	3.4
M-PESA	3.39



Source: Herbling (2014a); Business Daily
 (M-Pesa is ahead of 34 Kenyan banks at position 11)

Appendix 2:
Factors affecting the use of M-Pesa in international transactions

Whether culture affects M-Pesa use in International transactions

	Agree–	Strongly agree–	Neutral–	Disagree–	Strongly disagree–	N-No of Respondents	Weighted Average–
Culture influences the level of acceptance given by M-Pesa	55.56%	22.22%	0.00%	22.22%	0.00%	35	1.89
M-pesa can succeed by understanding the belief systems of others in relation to money	11.11%	44.44%	11.11%	22.22%	11.11%	35	2.79

Whether competition influences the use of M-Pesa in international transactions

	Agree–	Strongly agree–	Neutral–	Disagree–	Strongly disagree–	N-No of Respondents	Weighted Average–
–							
– Banks and other financial institutions outside Kenya poses a threat to the use of M-Pesa in international transactions	33.33%	55.56%	11.11%	0.00%	0.00%	35	1.78
– M-Pesa is threatened by similar forms of mobile money in other countries	55.56%	33.33%	11.11%	0.00%	0.00%	35	1.56
– Financial institutions outside Kenya are afraid of M-Pesa's dominance	11.11%	44.44%	22.22%	22.22%	0.00%	35	2.56

Whether regulatory requirements influence the use of M-Pesa in international transactions

	Agree–	Strongly agree–	Neutral–	Disagree–	Strongly disagree–	N-No of Respondents	Weighted Average–
– M-Pesa can be used as a tool for terrorism financing and money laundering	50.00%	12.50%	12.5%	25.0%	0.0%	35	2.13
Regulations in foreign countries influence the use of M-Pesa	37.50%	37.50%	0.00%	25.00%	0.00%	35	2.13

Whether M-Pesa has an impact on the economy

	Agree–	Strongly Agree–	Neutral–	Disagree–	Strongly Disagree–	N-No of Respondents	Weighted Average–
– M-Pesa can be a major source of foreign exchange earnings for Kenya	11.11%	77.78%	0.00%	11.11%	0.00%	35	2.11
– M-Pesa can facilitate easier movement of money across the globe	0.00%	88.89%	11.11%	0.00%	0.00%	35	2.11

(Source; Author, 2015)

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