

## **ADVANTAGES AND DISADVANTAGES OF M-PESA MONEY SERVICES IN KENYA**

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### **ABSTRACT**

Safaricom launched M-PESA in Kenya in March 2007 and has since become the most famous and probably the most successful implementation of mobile money service to date. In May 2008, 14 months after the launch, M-PESA in Kenya had 2.7 million users and almost 3,000 agents. M-PESA uses a branchless banking model (Ivatury and Mas 2008) to enable the service to reach previously unserved communities. Today, over seven years since its launch, M-PESA has gained 20 million registered customers and has 10,000 agents spread across the country. This exceeds the reach of any other financial service in Kenya. Finances 2009 showed that M-PESA has become the most popular method of money transfer in Kenya with 40% of all adults using the service. The same Kenyan survey also shows a dramatic increase in national remittances; from 17% in 2006 to 52% in 2009, which may be attributed to the ease of money transfer through ubiquitous M-PESA agents. Many mobile network operators have been eager to repeat M-PESA's success in Kenya, but the formula for this success is not yet clear. One year after the Kenyan launch, Vodacom launched M-PESA in April 2008 in Tanzania. The user uptake of the service in Tanzania has been much slower compared to its northern neighbor. In June 2009, 14 months after the launch, M-PESA in Tanzania had 280,000 users and 1,000 agents (Rasmussen 2009). M-Pesa is a branchless banking service, meaning that it is designed to enable users to complete basic banking transactions without visiting a bank branch. The continuing success of M-Pesa in Kenya has been due to the creation of a highly popular, affordable payment service with only limited involvement of a bank. M-Pesa customers can deposit and withdraw money from a network of agents that includes airtime resellers and retail outlets acting as banking agents. M-Pesa is operated by Safaricom, a mobile network operator (MNO), which is not classed as a deposit-taking institution (such as a bank). The service enables its users to:

- Deposit and withdraw money
- Transfer money to other users and non-users
- Pay bills
- Purchase airtime
- Transfer money between the service and a bank account (in some markets)
- Pay salaries
- Banking services (many banks have partnered with m-pesa)
- Purchases
- Insurance

## INTRODUCTION

M-Pesa was first launched by the Kenyan mobile network operator Safaricom, where Vodafone is technically a minority shareholder (40%), In March 2007. M-Pesa quickly captured a significant market share for cash transfers, and grew astoundingly quickly, capturing 17 million subscribers by December 2011 in Kenya alone and now they are 50 million users of m pesa. The growth of the service forced formal banking institutions to take note of the new venture. In December 2008, a group of banks reportedly lobbied the Kenyan finance minister to audit M-Pesa, in an effort to at least slow the growth of the service. This ploy failed, as the audit found that the service was robust. When mobile phone usage gained popularity in Kenya, the financial services was revolutionized with the introduction of money transfer using the mobile phones. Among the pioneers of this revolution was Safaricom who introduced the famous M-Pesa which gave a new dimension to money transfer, an option embraced by many Kenyans especially those with no access to banks in the rural areas or those 'afraid' to use banks. Despite the success that has come along with the M-Pesa mobile money service in Kenya since inception some years ago, maintaining this service has proved difficult to Safaricom to an extent of contemplating recalling former employees with the key role been fixing the continuous problems facing M-Pesa. Recent mobile money Reports in Kenya indicate that Over 50% of the adult population use the service to foe various uses e.g. sending money to far-flung relatives, to pay for shopping, utility bills, or even a night on the away from home. Among the pioneers of this revolution was the famous M-Pesa technology which gave a new dimension to money transfer, an option embraced by Despite the success that has come along with the M-Pesa mobile money service in Kenya since inception some years ago, maintaining this service has proved difficult to Safaricom to an extent of contemplating recalling the former Safaricom CEO Michael Joseph with the key role been fixing the continuous problems facing M-Pesa. M-Pesa has in the past been touted as the most successful of these systems, and the first to operate on a large scale. M-Pesa is an initiative between mobile phone giant Vodafone and Kenya's Safaricom. Recent mobile money Reports in Kenya indicate that Over 50% of the adult population use the service to send money to far-flung relatives, to pay for shopping, utility bills, or even a night on the tiles and taxi ride home. The report further says that it's not just for customers at the end of the chain. We've seen businesses adopt mobile money to offer various business to business services, for example suppliers collecting payments from distributors via the mobile channel. Despite Safaricom having deployed several redundancy for this lucrative service, Safaricom CEO Bob Collymore laments that the number of people using the service is growing in an anticipated rate that has proved difficult to be supported by the current platform thus forcing Safaricom to seek to overhaul its entire M-Pesa system and replacing it with another one that will put in place scalability factor. This comes in the wake of the latest outages to hit M-PESA where a breakdown of connectivity between the local servers and the German data centre crippled this popular service early this week. CEO Collymore says it has cost Safaricom millions of shillings since the service is highly relied on by the majority of Kenyans. Collymore says its has not been a walk in the park for Safaricom since they are facing the backlash from angry subscribers because of the inconveniences Safaricom has caused to them in the resent past. This are some of the challenges that his

predecessor never anticipated that they will hit us but they hoped they will be in a position to address these challenges. Other challenges facing M-Pesa is the loss of cash money either through theft from employees, gangsters or organized people who call employees employed in M-Pesa shop where they end up offloading all the cash. Customers are losing money when they send to the wrong numbers and Safaricom is not doing anything about it.

## PRESENTATION

Despite Safaricom having deployed several redundancy for this lucrative service, Safaricom management still laments that the number of people using the service is continuously growing and may soon be difficult to be supported by the current platform thus forcing it to seek to overhaul its entire M-Pesa system and replacing it with another one that will put in place scalability factor. This comes in the wake of the latest outages to hit M-PESA where a breakdown of connectivity between local servers and international data centers crippling its service occasionally. The management says has to spend millions of shillings since it has to satisfy majority of the Kenyan population, which at times feel short changed by the service provider. A study conducted by CGAP, they found that M-PESA generates 4.3 times more gross revenue than airtime commission, however, when you factor in the costs of running M-PESA (such as maintaining liquidity which makes up 30% of agent costs), the information on the service is actually much lower than airtime (97% for M-PESA versus 73% for airtime). This indicates that the ability to drive large volume of transactions is important and that there is an opportunity for Safaricom to increase the value for agents by addressing key issues such as liquidity manager.

## OBJECTIVES OF THE STUDY

The objective of the study is to find out why M-Pesa is popular in Kenya and other countries. To know its usage and know how many people use M-Pesa.

## METHODOLOGY

Data was collected through questionnaire, interviews and journals. The research was done in Mombasa and Nairobi, where most users are found. A total of 250 people were interviewed. It was through closed structured questions.

## CONCLUSION

M-Pesa is also criticized for stopping the government from getting revenue. These are a few of the challenges these are high cost of licences, other challenges facing M-Pesa include the loss of cash money either through theft from employees, gangsters or organized people who call employees, employed in M-Pesa shop where they end up offloading cash. Also customers lose money when they send to wrong numbers and yet Safaricom not doing anything.

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