The Economist

Mobile banking

Is it a phone, is it a bank?

Safaricom widens its banking services from payments to savings and loans

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SWAHILI continues to creep into the language of global finance. M-PESA, a thriving money-transfer system run by Safaricom, a Kenyan mobile-phone operator, and named after the word for "cash", has already entered the lexicon. Having persuaded millions of Kenyans to send cash through an SMS network, Safaricom is now trying to tempt them into a savings-and-loans service called M-Shwari, after the Swahili for "cool" or "calm".

Loans as well as phones

Safaricom has nearly as many subscribers as Kenya has adults—19m people from a population of 43m. Almost 15m of them use M-PESA for everything from paying electricity bills to school fees, thanks to a simple text-based menu that is accessible on even the most basic mobile phone. The firm, which is 40%-owned by Vodafone, makes its money through transaction fees when customers withdraw or transfer cash at a network of more than 40,000 M-PESA agents throughout the country.

An M-Shwari account works along similar lines. It can be set up instantly and accessed from any mobile handset. It is operated jointly with Commercial Bank of Africa, but no branch facilities are offered. It requires no minimum balance and offers a small overdraft, with a one-off, 7.5% set-up fee. If they are refused loans, applicants are not told why. Defaulters face losing their phone number, which Safaricom reckons means more than a duff credit rating in mobile-mad Kenya.

The service has had a fast start. In its first four months 2.3m subscribers opted in to M-Shwari; about 900,000 of them have active accounts. Deposits to date total 4 billion Kenyan shillings ($47m). One-third of customers have applied for small loans, averaging around $12.

Marketing for M-Shwari leans heavily on a rags-to-middle-class dream. A television advertisement shows one of Kenya's many penniless backstreet car mechanics toiling away under an old banger. He uses the service to save for a $60 box of tools and ends up with a garage equipped with computers and staff in overalls. Bob Collymore, Safaricom's chief executive, believes that Kenya's unbanked sector could have savings of $3.4 billion, much of it stuffed in jars or mattresses, earning nothing and at the mercy of thieves.

But questions remain over how many of Kenya's financially excluded people Safaricom is really reaching. A recent survey by Bankable Frontier Associates, a microfinance consultancy, found that in a cross-section of average Kenyan towns and villages the median transaction amount was just $1, most of it in paper money. The handful of mobile payments that showed up averaged $75.

Rivals warn (they would, of course) that Safaricom's heft is squeezing the scope for innovation. Some observers had hoped the firm would open its M-Shwari platform up to lots of banks but no lender except Commercial Bank of Africa may use Safaricom's extensive network of agents. Bill Maurer of the Institute for Money, Technology and Financial Inclusion worries that without more competition, Kenya faces all the risks associated with a "monopoly or quasi-monopoly". Safaricom is admired abroad; at home, its success is raising questions.

From the print edition: Finance and economics