

## OVUM OPINION

# Mobile Money: Interoperability is the Key to Success

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## OVUM VIEW

### Summary

Ovum is bullish about the prospects of mobile money services in the emerging markets. The central forecast in our forthcoming *Mobile Money in Emerging Markets: 2010–15 Outlook* study is that there will be 1.2 billion mobile money users by 2015, which shows huge growth from the current estimate of 30 million. However, there are many lessons to be learned and a lot of work to be done if operators are to emulate the success of M-Pesa in Kenya. Besides important areas of service design, agent network strategies, and regulatory compliance, addressing the issue of interoperability will be crucial to the development of the mobile money market.

Most providers have stated that interoperability is important, but more in the medium to long term, with the issues of differentiation and exclusivity currently of more importance to operators. However, we believe that interoperability is extremely important to the prospects of the mobile money market, and that it is in operators' best interests to implement it as soon as possible.

### The success of M-Pesa will not be easy to emulate

The success of Safaricom's M-Pesa in Kenya continues to dazzle the industry: 13.5 million customers as of September 2010, 81% of Safaricom's total subscribers, and M-Pesa revenues accounting for 11%, almost as much as all other non-voice revenues combined. Add the expanding gap between (growing) mobile penetration and (low) banking penetration, and mobile money looks a compelling prospect for the unbanked in the emerging markets. With around 90 deployments and around 30 million mobile wallets to date, the success appears unstoppable.

While demand is indeed strong, it is also uneven. Africa and Asia are the strongest, while demand in most other regions is much more muted, as a result of the higher rate of banking penetration. On the supply side, much work remains for service providers to refine their service design, pricing, and agent network strategy. Regulation of mobile money services is still evolving in many markets, and there is little industry activity to address the critical issue of interoperability.

We expect the number of total registered mobile money users in the emerging markets in 2015 to be between 925 million and 1.54 billion, with our mid-range forecast of 1.23 billion users. The key reasons for such a broad range between our pessimistic and optimistic scenarios are the significant uncertainties in a number of key markets around the areas of regulation, the pace and effectiveness of service provider execution, agent network management and, just as importantly, interoperability.

## **Interoperability is key to market prospects**

While there is a fast-growing body of best-practice mobile money service management, the issue of interoperability has largely been a moot point. We believe the issue of interoperability is set to quickly become the critical factor in mobile money development. Most mobile money offerings currently operate as service islands, with little or no interoperability with either services in the same market or with services in other markets. Most industry executives state that interoperability is important, but more in the medium to long term, with the issues of differentiation and exclusivity more important in the short term.

It is in the operators' best interests to implement interoperability as soon as possible. The strongest reason for enabling interoperability is the dramatic effect it can have on growth in mobile banking transactions. Transaction volumes in any network are proportional to and driven by the number of interconnections possible between subscribers, which is known as Metcalfe's Law. Safaricom's 80% market share in Kenya has played a key part in enabling this network effect – but most other markets, where market share is much more fragmented, badly need interoperability.

Service providers must start planning their strategy on the issue of service interoperability now in order to see its resolution in the medium term. We think the operator argument of 'little to gain, much to lose' from interoperability is short-sighted, as it risks suffocating overall market development. Granted, ensuring mobile money interconnectivity is costly, time-consuming, and there is no straightforward approach to achieving it. There are different platforms in use today, and players currently use different service designs. International interoperability also means overcoming regulatory differences and dealing with currency issues and exchange rates. However, there are lessons the industry can take from introduction of SMS interoperability in the late 1990s. In the UK for example, messaging traffic reached a plateau of around 50 million messages per month until SMS interoperability was established in April 1999. Within seven months of the



introduction there was a 350% increase in messaging traffic to 180 million messages per month. A similar pattern occurred in most other mobile markets. When it comes to mobile money interoperability, the industry must learn the lessons from the past, and learn them quickly.

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