

Interoperability of mobile money services

Increased competition and mobile money adoption in emerging markets are boosting opportunities for interoperability

Interoperability will play a key role in the continued expansion of mobile money. In many markets, it is no longer a question of 'if', but 'when', interoperability will occur. The GSMA reports that in 2015 almost two thirds of mobile money markets had two or more live services in operation, while one third had more than three.

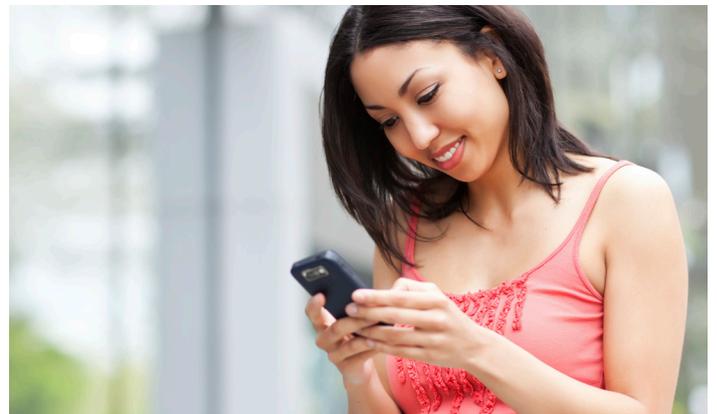
Yet who will facilitate this interoperability, and how it will be managed and monetised? There are currently several different models in existence, each with their advantages and drawbacks. In some countries the central bank or another independent provider is leading the way, as in Indonesia, while in other countries, not-for-profit organisations are taking the first step, such as the Bill & Melinda Gates Foundation with the support of the local regulator in Tanzania.

Most mobile money deployments currently operate as a 'walled garden', meaning that transactions can only be performed between users of the same system, i.e. users can only transfer electronic money to another user of the same mobile money deployment. A lack of interoperability has been highlighted as a major barrier to mobile money market development.

One of the strongest reasons for enabling interoperability is the dramatic increase in subsequent mobile money transactions. Transaction volume in any network is proportional to, and driven by, the number of possible interconnections between subscribers.¹

	Market share %	Mobile wallets	Interconnections within network	Interconnections with interoperability
Operator A	50	5,000	25,000,000	1,000,000,000
Operator B	30	3,000	9,000,000	1,000,000,000
Operator c	20	2,000	4,000,000	1,000,000,000
Total market	100	10,000	38,000,000	1,000,000,000

Interoperability gives mobile money service providers the opportunity to increase digital transaction volumes, improve the sustainability of their mobile money services and to contribute towards an open digital ecosystem which promotes financial inclusion.



GSMA's Mobile Money Interoperability Programme

Interoperability has been highlighted by the GSMA as key to the development of mobile financial services. To support this objective, the Mobile Money Interoperability Programme was launched in 2014 to identify commercially and technically viable options for enabling mobile money transactions beyond the bounds of a single operator scheme, thereby growing the addressable market and significantly increasing the volume of mobile money transactions.

Their first focus area is Account-to-Account (A2A) interoperability.

A2A interoperability in mobile money may create strong positive network effects; there is a wide body of research that investigates interoperability in payments systems and assesses the opportunity for participants that is created through network effects. Studies have found empirical evidence that demonstrates the positive network effects of A2A interoperability between banks, which could be expected to apply also for mobile money.²

The GSMA highlights the key functional requirements for A2A interoperability as the ability to:

- Directly transact between wallet accounts at different MMOs;
- Directly transact between mobile money accounts and bank accounts;
- Settle the funds for transactions across schemes and between schemes and banks;
- Implement common risk management practices that preserve the integrity of the individual mobile money schemes

¹ Ovum Research, Mobile Money in Emerging Markets, 2010

² GSMA, Mobile for development, A2A-interoperability, 2014

Solutions

In countries where it is already in place, interoperability only interconnects mobile money service providers, not banks, in the first phase of the process. The GSMA Mobile Money Interoperability program lists different models to support further implementation.

- Bilateral agreements between mobile money schemes and banks;
- Neutral processor between mobile money schemes and banks;
- Commercial processors between mobile money schemes and banks;
- Using a bank and a national ACH to interface with other banks;
- Direct connectivity to national ACH for all mobile money schemes and banks;
- Commercial processor for bank interface, bilateral between mobile money schemes.

There are several possible options that facilitate interoperability. In the case of an independent provider operating this type of service as a business, the crucial factor is that the service remains economical for the end-user. The set-up cost for this kind of solution is usually expensive though by sharing the interoperability infrastructure, even across countries using a hub model, can drive down costs for all stakeholders.

At eServGlobal, we promote interoperability through HomeSend, our joint-venture with MasterCard and BICS. HomeSend is an open and neutral hub enabling any type of payment or money transfer across service providers, industries and across borders. Connection is rapid, with services open to receiving money not just from domestic sources, but from the significant global diaspora. We feel this is the best option for a long-term solution as it benefits all players in the ecosystem. End-users benefit from an affordable, safe and quick money transfer service and service providers benefit from a one-off connection to the world.

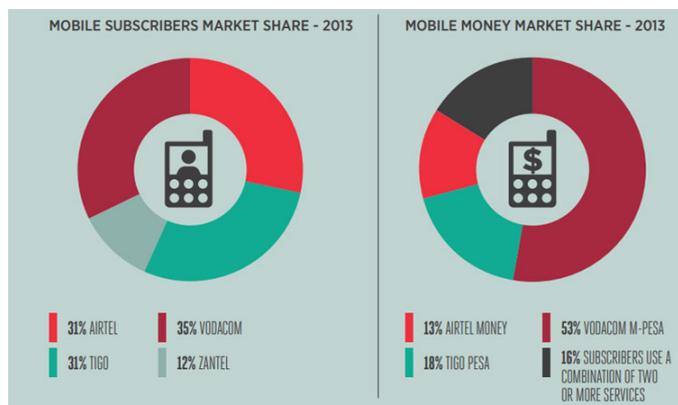
Dominant player markets

In some countries where there is a clear dominant player, service providers may be reluctant to support interoperability. There may be mobile money leaders not keen to open their solutions to others and make their services accessible to those who are not registered as their own subscribers. In this case, we have seen the introduction of Over-The-Counter money transfer products, which enable customers who are not registered to a mobile money scheme to send and receive money by relying on the agent's network. This is comparable to the evolution of ATM networks, which originally started out private before coming together to form a network of networks. The banks with larger proprietary networks, or those who made the biggest investments, were found to be slower to join with other network providers. While banks with smaller networks were the first to join up to interoperable networks.

Tanzania, the ideal conditions for mobile money interoperability

Today, Tanzania is a mobile money and digital financial inclusion success story. The market conditions in this country are ideal for interoperability:

- In December 2013 there were more than 11 million active mobile money accounts and approximately 153,369 agents in Tanzania across four deployments.
- In the same month, mobile money deployments performed transactions worth more than TZS 3 trillion (US\$1.8 billion). The number and value of transactions is growing very fast, and today the Tanzania market is performing close to Kenya.
- 35% of households in Tanzania have at least one mobile money user; 33% of households have at least one registered mobile money user.
- No dominant mobile money players



About eServGlobal

We are eServGlobal. We are a pioneering digital financial transactions technology company. We enable financial and telecommunications service providers to create smoother transactions for their customers through deep technical expertise and rapid implementation.

We utilise the latest technology platforms, with the largest global reach, to offer a range of transaction services including digital wallets, commerce, remittance, recharge, rapid service connection and business analytics.

We combine more than 30 years experience, with an agile, future-focused mindset. We live by relentless progress. We push ourselves to be ahead of upcoming digital disruptions to continue to support our clients in future-proofing their businesses.