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## **M-PESA**

In 2006, a small scale experimental program in Kenya called M-PESA transformed payment strategies for emerging markets. This test program was started by Vodafone through funding from the department for international development. M-PESA started in Kenya on March 2007, in conjunction with Safaricom, a leading mobile telecommunication company in Kenya. It is a mobile phone application payment service where “ M” stands for mobile and “ Pesa” is a Swahili word denoting money. Currently, over nine million clients use M-PESA monthly to transact tens of millions. In developing economies, people work far from where they live and send domestic payments to their extended families in the countryside (Todd and Sharma, 2010). The main emphasis of M-PESA was to allow such workers to send cash home in safer, quicker and cheap means. To use M-PESA, people can simply start using this application by registering at licensed M-PESA agents for free located in supermarkets, gas stations and shops selling prepaid airtime cards. Clients use the money to purchase electronic cash from licensed agents, and then use their mobile handsets to make business transactions. For example, send cash to other people or buying extra airtime. E-cash can simply be transformed to money by trading it back to a licensed agent. Agents obtain a commission for offering money in and money out services and for customer registration.

## **Bill payments**

Bill payment is a new option recently added to the M-PESA menu. This design allows customers to settle their school fees, house rent and other utilities. In

rural areas, the delivery of fresh drinking water improved via the use M-PESA's bill payment menu. A Danish firm called Grundfoss established a solar driven metering system to propel fresh drinking water from boreholes into the country side. Villagers used to pay for the pumps via a smart card which was difficult to apply credit in the country side where the pumps were located. M-PESA solved this problem by providing a platform where clients sent cash to Grundfoss via the “ pay bill” option which credited the smart card ready for use. In addition to this, several micro finance institutions now use the M-PESA pay bill option to collect loan repayments. This reduces the time spent by clients moving to urban areas to deposit money in their bank accounts and instead utilize that time attending to their farms. Similarly, payment of insurance and micro insurance is possible via M-PESA.

## **Business Payments**

Another additional feature is the business payments that allow a business to pay several employees via their M-PESA accounts. Safaricom introduced this feature to pay its temporary workers in the rural areas. Previously these workers had to travel to a nearby Safaricom office to collect their paychecks, which wasted a lot of time. Currently they obtain their money directly via their M-PESA accounts. Many firms are currently using M-PESA to send money to their work force working far from their main offices. Recently Safaricom decided to pay dividends to its shareholders via M-PESA which was a noble idea according to thousands of shareholders.

## **Agent Administration Tools**

At the country side, the only available places to become M-PESA agents are small shops. Commercially it was not practical for M-PESA to relate with every small shop in Kenya. To address this issue, M-PESA formed the aggregator model where a supplier is nominated to select and oversee agents in these small stores. In return, he benefits from a share of commissions earned by the M-PESA store. Further, M-PESA had to sort the issue whereby if an agent goes out of e-cash or money they cannot serve their clients. To achieve this, more e-money had to be channeled into the system. This idea suffered difficulties since it took longer for the bank to clear deposits before new e-cash can be provided. This meant the agent who did not have e-cash or money cannot offer M-PESA services. To address this difficulty, larger agents with more cash or e-cash were allowed to act as representatives for smaller shops. This meant that smaller shops can purchase or retail e-money from the larger agents.

## **Banking Services**

Currently M-PESA is offering mobile phone with formal banking services. In May 2010 Safaricom and Equity bank, a principal bank in Kenya, started to offer every M-PESA user the chance to start a savings account. The clients use their M-PESA account to credit and withdraw cash from the M-KESHO account. This initiative provides millions of Kenyans living in the country side with banking services for the first time.

## **Benefits and Pitfalls**

M-PESA recorded its one millionth client nine months later after it launched. Though the growth was fast and massive, there were several implications each with substantial costs.

### **Budget changes: The fast growth required a considerably reworked budget**

Customer care: M-PESA needed a considerably bigger call center and an additional customer care representatives than they had earlier planned.

System capability: During the start the system had a procedural design that could comfortably accommodate the original business idea and a functional safety margin. This size exceeded and had to be expanded urgently.

Managing licensed agent demand: A bigger number of agents had to be short listed, registered and educated to oversee the rising demand.

## **Reference**

Todd, R., & Sharma, M. (2010). Innovations in rural and agriculture finance. Washington, D. C.: International Food Policy Research Institute .: