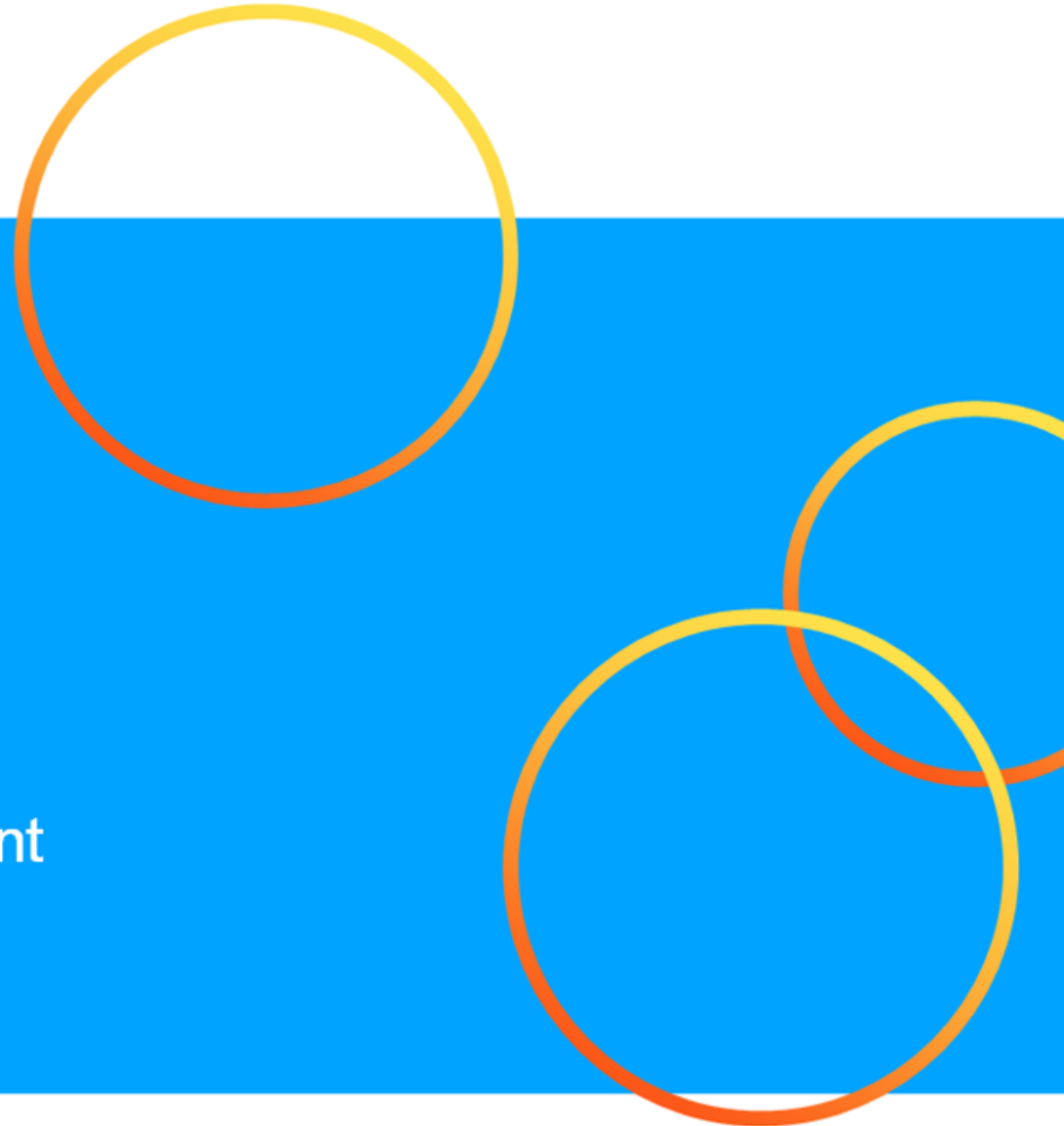




How Mojaloop would change the commercial landscape of MFS

Jacques Voogt, Michael Richards and Innocent
Ephraim



A wide-angle photograph of a cornfield at night. The rows of corn stretch from the foreground into the distance, illuminated by a soft, warm light. The sky is a deep blue, filled with numerous stars. A large, bright, and slightly hazy full moon hangs in the center of the sky, directly behind the text.

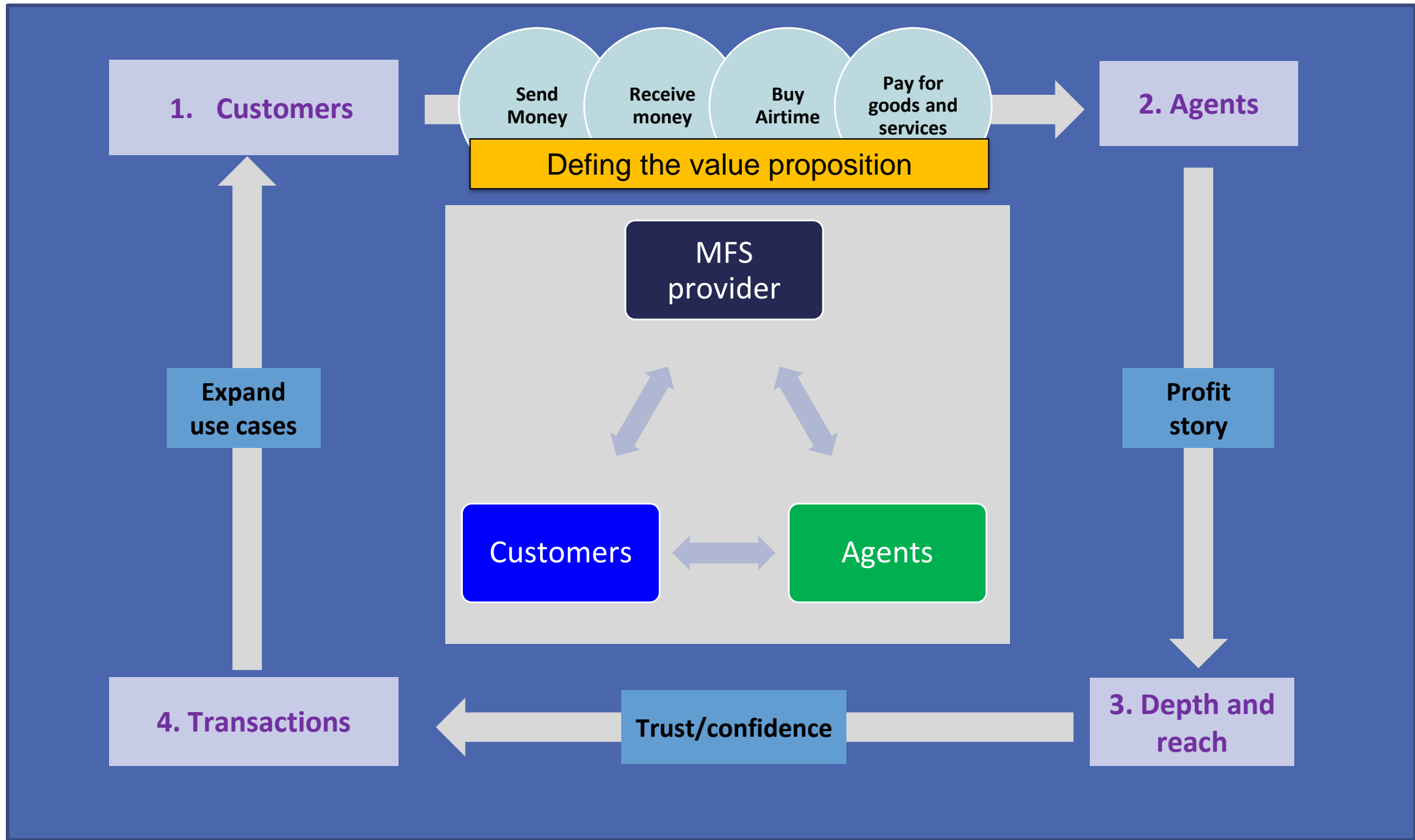
IF YOU BUILD IT,
THEY WILL COME.



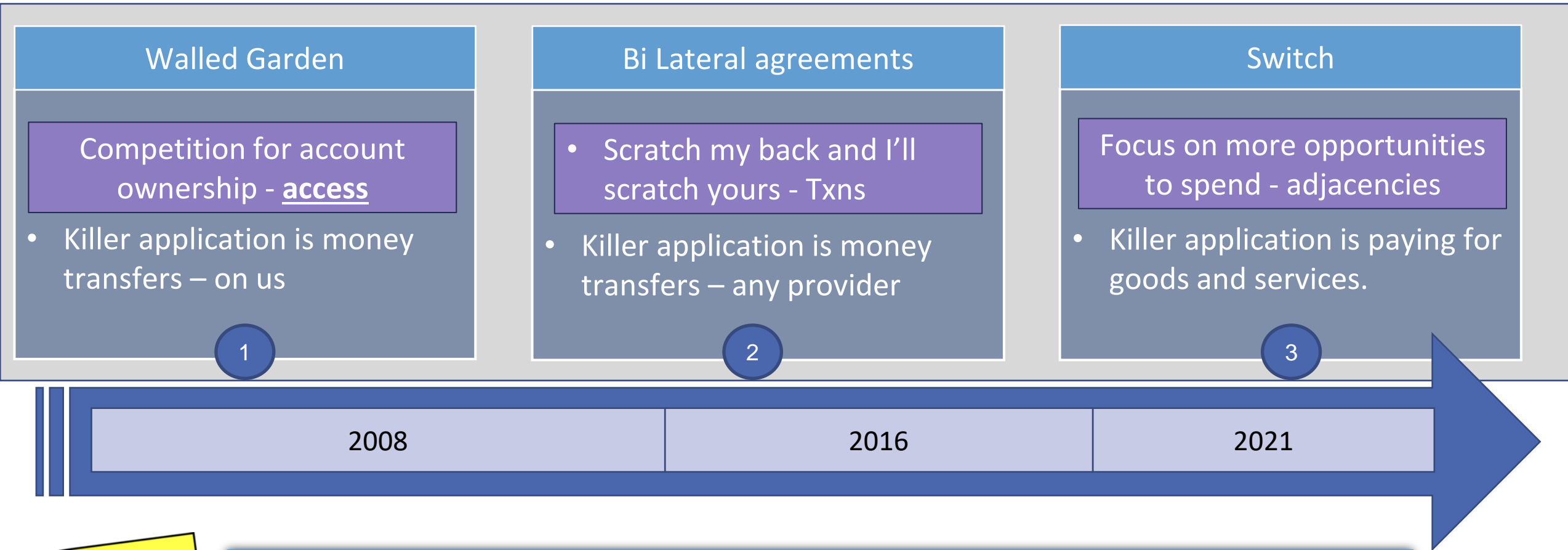
IF YOU BUILD IT,
THEY WILL COME.

But what will make them stay?

Mobile money service delivery in a box

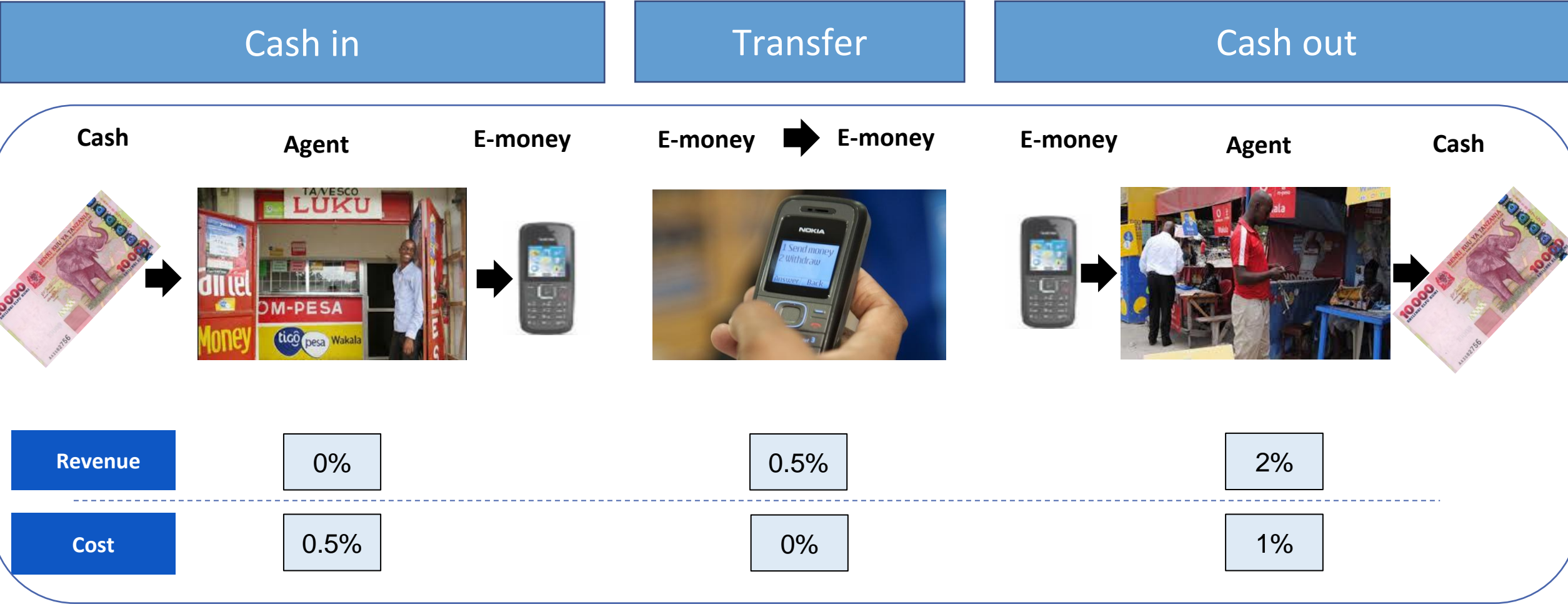


Over time the business and commercial focus shifts....



1. Competition drives innovation in service providers - it's required.
2. Timing is very important – development effort and cost/benefit analysis
3. The current business model underpins the success of mobile money

THE PROBLEM! - Agents were created to establish the cash bridges (access) and create digital currency in a cash based economy and they are still incentivised to support cash out...



Net end to end revenue as a percentage of value deposited, transferred and withdrawn is roughly **1%** of the value of the transaction. Cash-out revenue makes up the bulk of the MNO revenue stream still today.



The agents *are* the merchants, so the current business model works against us....

1. We created a commercial model that motivated merchants to invest in digital cash (float) to support cash deposits and cash withdrawals.
2. We needed merchants (agents) to see a return on their investment in the same way they must see a return when investing in any products they sell.
3. Mobile money agents are a key competitive differentiator in the early phases of establishing the mobile money rails.
4. Now we are trying to get these same agents/merchants to accept digital payment, but the current model is working against us.
5. In Tanzania, only 20% of agents are not also merchants: so there is an opportunity to compensate for reduced agent revenue with increased merchant profitability

Why do we want to drive digital merchant payments?

Reduces the fixed cost (commission paid to agents) of delivering a mobile money service – then we can reduce cost to customer going forward

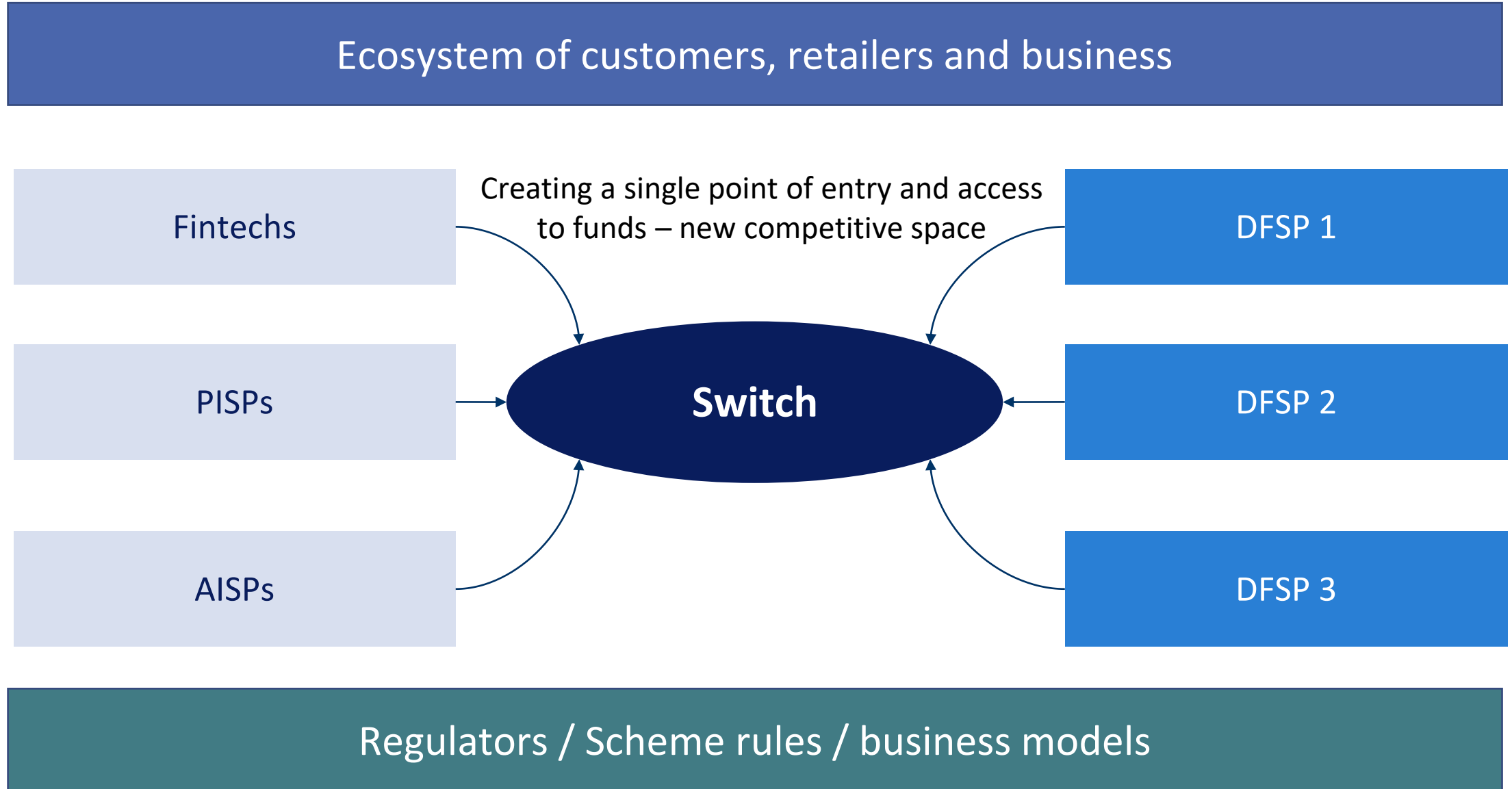
Creates more reason for customers to hold money in their digital wallets, which allows other mobile payment services to be used (insurance, bill payments, airtime purchases, credit scoring etc)

Reduces cost of cash and security issues related to cash management

- Both merchants and customers need to see the value.
- There has to be a commercial and/or practical problem we are solving for adoption to occur



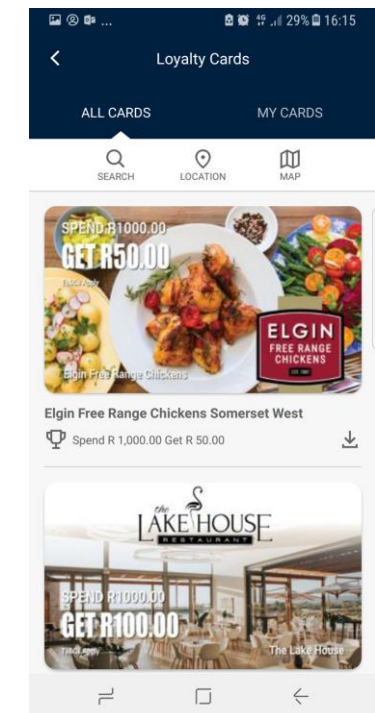
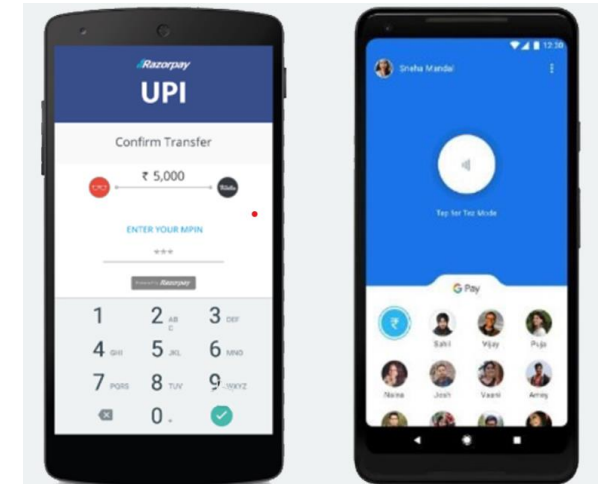
How does a switch impact on the current service offered and how can it help solve the merchant adoption problem?



Fintech providers will change the game with enhanced front end applications – consolidation is key

- The business model for fintech providers does not involve charging users for transactions.
- The user interface will increase usage through improved and increased functionality and value.
- Examples of these would be Google Pay and Zapper in SA who link bank accounts and facilitate merchant payments.
- DFSPs will start to shift focus from access to usage
- The process of association must be secure and once off. Association is managed by the switch not the participants.

Now that new apps are making payments easier the question is: what will incentivize merchants to be paid? How do we grow merchant payments and reduce cash-out in a new connected MFS universe?



What is the merchant dilemma today....?

Merchant services

Banking
services

Stock
management

Customer
management

Management
reports

Merchant Application

Mojaloop

Merchants have three main issues or challenges

1. **Liquidity management :**
 - Working capital split across providers
 - Loan facility – credit score
2. **Stock management:**
 - Inventory management
 - Reducing supply chain delays
 - Reducing stock outage
3. **Customer management:**
 - Credit accounts
 - Notifications

The merchant dilemma tomorrow:

- Liquidity management:
 - Using Mojaloop, a merchant can move their account to a provider of banking services
 - The merchant won't lose customers, since customers with any other DFSP can pay the merchant using Mojaloop
 - A single wallet means better cash flow management and credit scoring
 - The DFSP will (we hope) provide an app to allow the merchant to access these services...
- Supply chain management
- Customer management

The merchant dilemma tomorrow:

- Access to banking services
- Supply chain management:
 - Large wholesalers might see benefit in providing apps to allow merchants to order and pay from them, but:
 - Merchants would need an app from each wholesaler they use (the bilateral problem)
 - Larger wholesalers would be privileged, smaller wholesalers would lose out
 - If merchants can pay suppliers at the point of order using E-money, both merchants and suppliers benefit, and this will create an appetite among merchants to spend, and hence to receive E-money - require a source of E-money
 - Reduced security risk of cash in transit
- Customer management

The merchant dilemma tomorrow:

- Access to banking services
- Supply chain management
- Customer management:
 - Merchants could gain significant benefits from being able to manage customer accounts digitally rather than using cash
 - Saves bookkeeping
 - Customers can be billed directly and reminders issued
 - Customers can pay directly from their DFSP app
 - Merchants can use MRTP to request settlement of accounts

The merchant dilemma: conclusions

- Access to banking can be managed using existing Mojaloop functions
- New digital tools will be required to support supply chain management – new business opportunity
 1. Set up stock inventories
 2. Maintain stock inventories
 3. Set up supplier details
 4. Order from supplier
 5. Pay supplier
- New digital tools will be required to support customer management – new business opportunity
 1. Set up customer account
 2. Put purchases on the slate
 3. Request customer account payment
 4. Record customer account payment

Items in **RED** use Mojaloop;
items in **BLACK** are app-
specific

The merchant dilemma: conclusions

- Access to banking can be managed using existing Mojaloop functionalities
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PISP Bill payment interface



PISP Request to pay

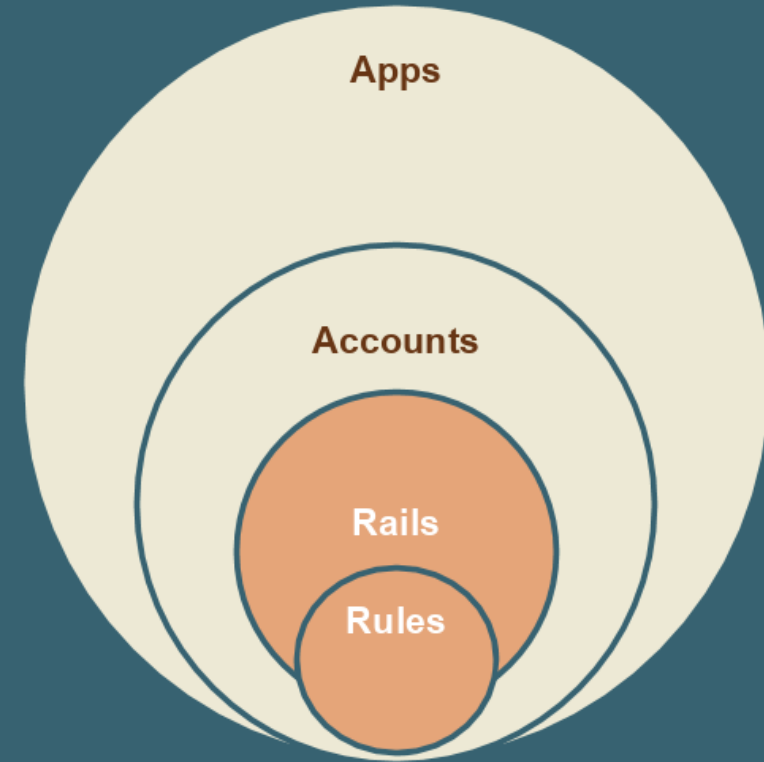


PISP Bill payment interface

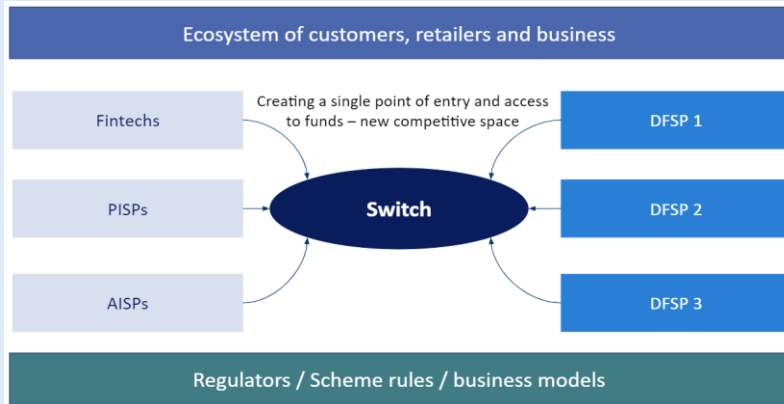
How might the merchant services app be provided?

- L1 principles put this firmly in the competition space (2R, 2A)
- Entrepreneurs can make use of the third party extensions to Mojaloop
- There will be significant opportunities and market for support as well as technology providers

Tanzania created the design principles, then established the rules for national payment rails (cooperation space); accounts and apps left to commercial actors (competition space)



In summary: establish a well supported single point of connection for all...



Mojaloop will open up the MFS landscape by providing a single point of access for customers to all account issuers and service providers

The business model will change as competition will shift from customer acquisition to customer retention

Fixed costs can be reduced by maintaining digital value in customers wallets/accounts

...that will create opportunities for existing and new market players...



Competition will move away from access and shift their focus to retention and services. (2R, 2A)

The differentiators are service consolidation and customer-centric user interface design

...and foster acceptance of digital payments through addressing the challenges faced by merchants today.

Liquidity Management



Stock Management



Customer Management



PISPs get the opportunity to provide value added services and unlock current barriers to access

Deposit points versus spend points

The first wave of financial inclusion was driven by providing deposit points: *new ways for people to get access to accounts*

- It's about deposit-holding institutions...
- ... customers...
- ... and P2P transfers



The next wave of financial inclusion will be driven by providing spend points: *new incentives to keep funds digital*

- It's about third party service providers...
- ... merchants...
- ... and x2B transfers



Any questions?