Appraising HOMELINK’S BUSINESS MODEL in international mobile money remittances

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Review Paper

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Based on a case study carried out by the researcher at Homelink Financial Services, Zimbabwe in 2008, the paper demonstrates the apparent relevance of financial services targeted at diaspora remittances to mobile money service providers. It exposes Homelink’s business model which heavily depended on the physical contact between money senders or receivers with service providers. A redesign of the business model utilising integrated mobile money technology that allows person-to-person and person-to-business international money transfer is then proposed. The paper demonstrate how the proposed international mobile money transfer business model promotes deepened financial services and may foster development of tiered value propositions different from the current ones that mainly target low-income communities as it fully captures the market potential and utilizes inherent technological advantages. The paper aims to direct theorists and practitioners’ attention toward the development and growth of mobile telephony based international remittances by researching migrant needs and designing products to meet those needs.

Key words: Homelink Financial Services; mobile money; money transfer services; Reserve Bank of Zimbabwe; international mobile money transfer, remittance, Zimbabwe

INTRODUCTION

Mobile phone usage is evolving buoyed by increasing applications. One such development that has created global interest is the use of mobile phones to receive and send money. The service commonly referred to as mobile money involves the performing of banking services through the use of a mobile phone. The service regarded as a bottom of pyramid innovation is of special interest to low-income communities as it enables them to bank for the first time. The service facilitates transfer of funds from person-to-person, payment of bills and government-to-people transfers. The service has recently evolved to include money deposits and payments of loans (The Economist, 2013).

Mobile money has mainly been offered within countries. However, the evolution of the service driven by its global reach through internetworks, low cost, need to deepen traction and convenience has drawn the interest to introduce international mobile remittances tapping into an over $400 billion market (Sivapragasam et al., 2011). The global remittance market can provide an opportunity for local mobile money operators to tap into the international market, reach new customers and create room for new products development which can increase revenue. Sivapragasam et al. (2011) report that some Asian countries have started to introduce some kind of both formal and informal international mobile money transfer services. Research and development of international mobile money transfer services is still patchy and uncoordinated.

While there is evidence of interest to take mobile money services into cross-country segments, there remains the need to establish the most viable business model for international mobile money transfers that can conveniently reach the vast majority of the unbanked people without formal bank accounts or access to traditional brick-and-mortar money transfer agencies. The paper appraises a business model based on a Zimbabwean money transfer agency created and owned by the Reserve Bank of Zimbabwe that distributed and offered financial products remittances.
The business model for international money transfer is then customized and redesigned utilizing mobile phone technology. The business model can be customized further to the context of the adapting company and the needs of the targeted market.

**Introducing Homelink’s financial services, Zimbabwe**

Most Zimbabweans, local and those in the diaspora, would remember Homelink Financial Services (now branded Easylink) a money transfer agency (MTA) that was a spin-off from the Exchange Control Department of the Reserve Bank of Zimbabwe during the height of foreign currency shortages in the country in 2005. The MTA was registered as a private company wholly owned by the central bank to perform quasi-fiscal operations related to mobilization of foreign reserves for the country. Its main target market was professional Zimbabweans that emigrated into the diaspora looking for greener pastures. The company has now ceased operations due to abolishment of quasi-fiscal operations by the central bank, lack of funding, effects of the global financial crisis in the company’s major markets and other operational inhibitors resulting from hyperinflation and the death of the Zimbabwe dollar. The company is now for sale and has been on the market for over two years.

The two major financial products offered by the company included basic person-to-person money transfer services and a foreign currency denominated mortgage scheme. Some of the products that were still in the development stages before the company scaled down its operations include the international calling card, bereavement scheme, foreign denominated bonds and groceries. MTA service was offered in such a way that the recipients would have the option to either receive their money in hard currency or in the local Zimbabwean dollar. However inconsistent monetary policing led to mistrust as payment terms were sometimes abruptly changed to unilateral payment in the unstable local currency. This drove away customers who had to find other ways of remitting funds back to their relatives as the local currency had lost value while the official foreign exchange rate was lowly pegged.

The foreign currency denominated mortgage scheme’s value proposition was around home ownership. The company acquired and built houses for sale in medium to low density suburbs which would be offered mainly to the diaspora market and some locals especially those working in non-governmental organizations that had started receiving salaries in hard currencies. The mortgage scheme suffered from limitations placed by the shareholder on the subsidiary which took all the sale proceeds without remitting anything to the extent that it ran out of houses. The company also offered to buy houses in local currency paying through the banks where it would be impossible for the seller to withdraw the money due to the general shortage of the local currency notes and daily withdraw limits imposed by the central bank during that time. The hyperinflationary period also required fast decisions and action to protect value. This inflexibility by the company led house sellers to withhold their properties. The company attempted building the houses but that even worsened the time-to-market and the number of units it could sell. The 2008 global financial crisis in the western world and a concoction of labour laws in the European Union that limited the number of jobs one could do affected the targeted markets’ disposable income. The company was also inflexible to increase the duration of the mortgage from five years and incomes (rentals) received on the properties which was usually paid in the local currency was meagre and totally distorted the value of the house market. All this led to a spat of repossessions of the houses as the mortgagees failed to cope up with the compressed exorbitant repayments. This further tainted the image of the company and dented its ability to attract new clients as a negative word of mouth spread against the company’s policies and products. Though the business model was commandingly robust, the company’s lack of preparedness and failure to decisively respond to the demands by house sellers on one side and the effect of the financial crisis on its target market on the other side heralded its free fall.

The paper is based on a case study carried out by the researcher at Homelink Financial Services, Zimbabwe in 2008 for a Master of commerce in financial management degree programme at the University of Cape Town. In the following section, the study reviews the business model that was applied by Homelink and some of the interesting financial products that it offered to attract Zimbabweans in the diaspora. Next, the paper demonstrates how local mobile money can mimic Homelink’s business model but utilizing mobile phone technology to enter into the foreign markets with sizeable pockets of locals. In the conclusion, the paper proposes development of sophisticated financial products offered on global mobile money platforms targeting the affluent diaspora market to capitalize on the latent opportunities exposed by Homelink Financial Services, Zimbabwe.

**The case for the business model**

Whilst Homelink has certainly seen its sunset, the business opportunity and the market it was pursuing is readily available and might be financially stable and settled than it was around 2005. Unfortunately the company did not produce financial statements to highlight its performance. However it is estimated that the money transfer agency handled at least US$100 million from 2005 to 2007 while the mortgage scheme sold 550 units (of which 145 were newly built) for the same period valued at US$10 million (Mazambani, 2008), an achievement not too low. The company was planning to increase newly built units to 300 units between 2008 and 2009 which never happened due to hyperinflation and economic meltdown in Zimbabwe.
The business model of Homelink’s MTA service was distributed through international MTAs such as Western Union International, MoneyGram among others who would receive money from the sender in the source market and signal Homelink to dispatch the money to the recipient in Zimbabwe. The international MTAs charged the sender 10% commission of the value sent which Homelink would remit in full without charging anything to the receiver from its own cash float. Homelink would receive 3% as commission from the international MTAs for its distribution function in Zimbabwe. The international MTAs and Homelink would calculate and rebalance the transfer of cash between themselves through their internal business operations depending on who owed the other.

On the mortgage side, the scheme was initially distributed through project promoters located in the source market who performed due diligence on prospective house buyers. The promoters received 0.5% commission of the house price as application fee ring-fenced on mortgage repayments and 10% commission on mortgage repayments remission. However there were no legally binding agreements between Homelink and its project promoters such that it was hard to align their behaviour and operations. Relations were severed and Homelink tried to directly reach the market by establishing its own offices in the UK and the rest of the world through an in-house developed online enquiries and application system that was slow and more often than not offline due to continuous updates. The company changed the house application system by imposing a deposit of 20% of the price of the house and $250 application fee. It also established 24/7 call centres in Harare and Bulawayo to handle customer calls.

The business heavily relied on physical presence in the source market to ensure that it reached as many customers as possible which the international MTAs easily provided in the source markets. On the contrary, Homelink had to open several dispatching outlets across Zimbabwe mainly in major cities, border posts and tourist destinations in order to provide a convenient service to the customers. This had an impact on the operating margins for the company.

In the following section, the paper demonstrates how Homelink’s business model can be integrated into the mobile technology. The benefits of the mobile technology based international money transfer are in global reach, low transaction cost, reduction in transacting distance and transport cost.

**Leverage of Mobile Technology in International Remittances**

The growth and development of Homelink services was limited by the need to have physical presence in the source markets, in the receiving country and the hyperinflationary period it was introduced in the country did not do any good. Development in mobile technology has made it possible for money transfer and other financial services to be performed from person-to-person over a mobile phone across geographical places (Kufandirimbwa et al., 2013). The use of mobile phones in global money transfer may drastically reduce the cost of remitting and promote local development. To perform the end-to-end financial services, local mobile money operators can partner with host market mobile money operators, host international money transfer agencies or other financial institutions in the target market. In some markets there might be need for direct entry in some cases especially where entry barriers are low and there are huge pockets of professionally employed locals with strong family ties back home.

The early stages of mobile money might have been designed for person-to-person transfers in low-income communities but its full potential is in deepening the service and reaching new geographical frontiers with tailor made value propositions tiered to the different segments of the market. As the service is introduced, new trade will develop in those tiers driven by the information communication technology based mobile money service further integrating new global business players into the mobile money ecosystems and exposing them to new market frontiers and opportunities that would be unthinkable without the service. Mobile money has the capacity to further reduce the distance and time of transacting in different global locations. It can also help financial markets rally out of the global recession as it promotes trade (Ibrahim, 2008).

For operators in Zimbabwe the timing in the dollarized Zimbabwean economy cannot be any better as there are no more distortions from currency exchange controls that used to exist. The service can be offered to over 3 million Zimbabweans that emigrated mainly to South Africa and the United Kingdom.

**CONCLUSION**

The attempt by Homelink Financial Services to capture the cross-country remittances market through offering financial products that met the needs of the customers and the unofficial financial performance clearly shows that there is a business case. The company failed to survive due factors of internal processes inflexibilities such as inconsistent payout policy on remittances due to changing exchange control policies between 2005 to 2009, high operating costs, inflexibility to supplier demands and customer needs and a generally hyperinflationary environment it operated in which was unrelated to the viability of its targeted market. The market it served is still available, growing and maybe financially stable than it was around the late 2000s at the height of the global financial crisis when the company was introduced.

Homelink Financial Services’ business model can be customized to the business context that the adopting company is operating in and the needs of its targeted
customers. Mobile money service providers with their technological advantage, global reach through internetworks integration, a ubiquitous network of distributing agents in the receiving country and their ability to lower costs of remission to the clients are well placed to take advantage of the business opportunity that was exposed by Homelink Financial Services. The business model evidently show that there is a case for mobile money to develop and offer financial services targeted at the diaspora market such as person-to-person money transfer services, mortgage schemes, insurance, funeral cover among other financial products. The mobile money operator can partner other mobile money operators in the source market, international money transfer agencies and/or financial institutions in the host country. In countries where there are huge remittances potential and low barriers to entry, direct entry may be the most viable strategy. Adding cross-country mobile money transfer services into the mobile money company’s product mix will result in new opportunities that will result in increased revenue for the operator.

Cross-country mobile money transfers may result in significantly reduced operating costs for distributing the money as the service utilizes a direct virtual mobile network through the receiver’s mobile phone and a readily available mobile money distributing agent network in the receiving country. The deepening of financial services offered on mobile phones aimed at the global market will result in tiered products targeted at different market segments such as the bottom of the pyramid and the affluent diaspora market. The introduction of international mobile money transfer services may also increase remittances to developing countries. Global mobile money remittance has the capacity to promote trade and development in developing countries. Theorists and practitioners interested in international mobile money transfer should increasingly research and develop products that meet the needs of migrants by reducing the distance and time of transacting across the globe.

REFERENCES


