Mobile technology may serve underbanked with no cryptocurrency

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As Facebook touts a new cryptocurrency as a way to serve people who are underbanked, mobile technology companies may provide the same path to financial services using good old-fashioned dollars.

The technology would avoid many risks worrying lawmakers and regulators, such as money laundering and undermining the Federal Reserve's ability to set monetary policy. But some who track these technologies say allowing tech companies to become the bankers for the underserved carries risks of its own.

In the U.S., 8.4 million households have no bank accounts, according to a 2017 Federal Deposit Insurance Corporation survey. Worldwide, that number is closer to 2 billion. An additional 24.2 million U.S. households are considered underbanked, meaning they have access to a checking or savings account, but from alternative financial services outside of traditional banks.

Typically those households are poor, and the lack of financial services can keep them in poverty.

That's the justification Facebook is using for its cryptocurrency, Libra, according to David Marcus, the man leading the effort for the social media giant who testified to Congress about it last week. Anyone with a "$40 smartphone and a data plan" would be able to access banking services through Libra, he told lawmakers.

"You don't actually need a new currency to make all that happen," said Rivka Gewirtz Little, research director of global payment strategies at the market intelligence firm International Data Corp. "What you need is fair and accessible services."

To connect people with the banking sector, three things need to happen, she said: Access to financial instruments, meaning the ability to deposit and move around money; access to nonpredatory capital; and the ability to participate in marketplaces.

Mobile services that rely on currencies backed by central banks, like the

U.S. dollar, may provide a simpler avenue to reach the underbanked, she said.

A service called M-Pesa, launched in Kenya in 2007 by wireless carriers Vodafone and Safaricom, is considered a runaway success in mobile banking. It allows people to move money using Kenya's currency, the shilling. The name Pesa is derived from the Swahili word for money.

The service is now available in 10 countries across Africa, Asia and Europe.

"They took off in other markets more rapidly than we've seen anything occur in North America or Europe because they were solving a very real pain point," Gewirtz Little said, meaning a high portion of unbanked people in countries like Kenya. "It's a pain point that's not as extreme here."

Mobile wallet potentialU.S. adoption of fintech products like mobile wallets has been "lackluster" in comparison, largely because most products required a link to traditional banking institutions, usually in the form of a checking account, credit or debit card, she said. For the unbanked, mobile wallets held little promise.

That's starting to change, Gewirtz Little said, making her more optimistic about mobile banking's chances than in the past. Mobile wallets and other tech products offer more functions, like sending money to other users, and although M-Pesa has no exact equivalent in the U.S., a new product from T-Mobile comes close.

The mobile carrier teamed up with BankMobile, a division of Customer Bank, earlier this year to allow people to bank on their phones through a service called T-Mobile Money. The bank and carrier offer high interest rates on deposits, and fewer fees than traditional banks. Users can deposit checks, manage bills, pay for goods using a phone or a debit card.

Unlike mobile wallets, which require an existing connection to a financial institution, T-Mobile Money is the connection. That opens up greater potential for the service to connect the underbanked to financial services than earlier fintech products, Gewirtz Little said.

People are taking notice. The Financial Clinic, a nonprofit group that operates clinics that coach the working poor on finances, is taking a good look at T-Mobile Money and other fintech innovations for their potential to connect the underbanked to financial services, assistant director Andy Collado said.

T-Mobile Money has the potential to be a "great equalizer" for the unbanked, Collado said. "I could see a future where everyone's bank is on a phone."

T-Mobile Money's 4% interest rate on the first $3,000 in deposits would be especially attractive to the clinic's clients, he said.

"Close to half, if not more than half of the country doesn't have close to $500 for an emergency fund, so providing a super high rate that would be beneficial to the vast majority of the people in the country is a big benefit," Collado said. "It might encourage people to save more because they're getting a higher rate."

Still, Collado recommended caution. Like with other tech products, data privacy and security are a concern.

"How do they maintain these financial records? Who has access to these financial records? What are they doing with your data? Those are very big concerns," he said. "We've got to be very careful to make sure everyone's protected on the other end and that there are significant enough consequences if these companies do not protect that information."

T-Mobile doesn't have access to customer financial data, which is handled by BankMobile, a spokeswoman for the wireless company said.

Milford Bateman, an adjunct development studies professor at St. Mary's University in Canada, is urging caution with any banking activity sponsored by mobile carriers.

Data security is one concern, said Bateman, who has studied M-Pesa. A lawsuit filed last month in Kenya alleged that Safaricom violated the privacy of 11.5 million M-Pesa customers when a data breach exposed their sports betting history and other personal data.

Although many in academia have lauded M-Pesa as a way to profitably move capital into poor communities, Bateman disagrees with that assessment. The service has sapped money from impoverished communities through fees skimmed from transactions, he said. Unlike a financial co-op or credit union, which would reinvest profits into communities, fees go to Safaricom and Vodafone shareholders. The money leaves communities and, in some cases, the country.

Easy access to cash loans has also led people into deeper financial problems, he said. The ability to use M-Pesa to gamble has exacerbated the problem. Bateman, who is not familiar with T-Mobile Money, predicted that similar products would present the same threats to poor communities in wealthy countries.

"In the poorest communities in the U.S.A. and Europe, the digital experience will be that it helps some, but overall it begins to extract significant value over time," he said. "So much money is on offer to the fintech companies that no one is really asking the right questions. It's like the opioid crisis all over again: you push a product on to the poor and don't ask what the long-term consequences will be."