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Mobile Money and Traditional Banking

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Abstract

We use the advent of a mobile money innovation in Kenya in 2007 as an interesting laboratory to investigate its impact on the performance and outreach of commercial banks. Combining the 2006, 2009 and 2013 FinAccess household surveys with bank financial statement and branch penetration data at the county level we find that banks more exposed to the competitive pressure induced by the mobile money innovation improved their performance and expanded their outreach towards households traditionally excluded by formal financial institutions. Additional results further show that households report less supply side barriers to financial access in counties more exposed to the advent of the mobile money innovation. These results highlight the importance of increasing the contestability of banking markets in order to promote financial inclusion and a more competitive banking sector.

JEL Classification: G10, G21, G51

Keywords: M-Pesa, financial inclusion, bank competition, traditional banking, mobile money