MicroSave Briefing Note # 116

Building Business Models for Mobile Money

Krishna U.M. Thacker and Graham A.N. Wright

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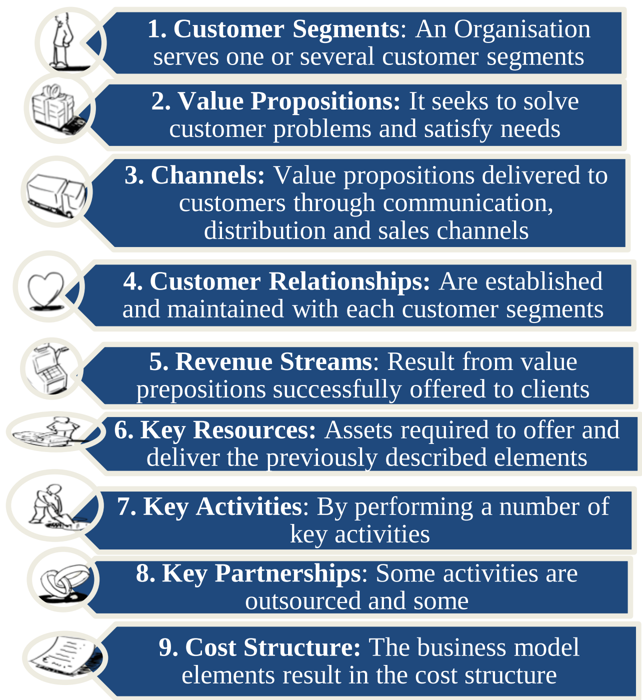
In the words of Victor Hugo, *'Nothing is more powerful than the idea whose time has come'*. At present, there are *5.2 billion mobile connections*[1] and growing as we write (and growing even more as you read) while only around *2.2 billion people have bank accounts*. We also have *robust mobile banking technology platforms* available that can provide real-time, seamless access between a mobile phone and a bank account and in most parts, there is an almost *ubiquitous network of airtime resellers*. Given these conditions, one cannot help but wonder why we cannot bring financial inclusion to match (or at least come closer) the mobile penetration figures? What is stopping us to achieve that? Why can we not put together all the pieces of puzzle to offer banking/financial services to the large unbanked segment that is on the mobile network?

Many individuals and institutions alike seem to have asked that question. Some are already on their way *forging strategic multi-industry alliances* to offer financial services to the un/under-banked segment. *There are 113 live mobile money deployments and around 88 in pipeline for the next year*[2] trying to make the goal of financial inclusion a reality. Having said that, most of such deployments (from authors' personal experience with both failed and surviving deployments) seem to be in rush to get numbers and forging partnerships with an approach of "let's try/do something together and figure it out as we go along" instead of taking the pains to sharpen a *mutually aligned business model and developing synchronised strategies*. In what often turns out to be a 'speed to market' and 'number' game, it might just be a good idea to take a small pause: understand, develop, analyse and critique the business model. Since, business models, to a large extent determine 1) the costs we incur during the process of delivering the final product, and 2) the value we generate for the end user on a sustainable basis; with the difference between the two being surplus/deficit. This in turn determines whether the business will be sustainable or not i.e. the survival chances of the business and achieving the goal of financial inclusion through this promising channel. In essence, "*A business model describes the rationale of how an organisation creates, delivers and captures value".*[3]



To understand and assess the business of mobile banking[4] more clearly and in more detail, we shall use a business model framework and some of the concepts co-created by an active and vibrant community of practitioners in an online community called the business model innovation hub. The business model revolves around *9 building blocks*, described by Osterwald et al.[3]

[1]Out of which there are 3.7 billion unique mobile users according to http://consultantvalueadded.com/2011/03/07/mobile-as-a-trillion-dollar-industry-check-this/
[2]http://www.wirelessintelligence.com/mobile-money
[3]Business Model Generation, A. Osterwalder, Yves Pigneur, Alan Smith, and 470 practitioners from 45 countries, self-published, 2010
[4]This is largely focused on bank-led models since more work around the globe has been done on MNO led models, the authors have tried to assess it more from a bank perspective and what unique values they can add to a mobile banking initiative and vice versa

We shall now use the 9 building blocksdescribed above and develop a fairly generic business model for a typical bank trying to target its unbanked segment.

Key Partners

Strategic alliances with the following players are at the heart of the model/offering

- Bank/Licensed Financial Institution
- Distribution Agency/ Agent Network Manager
- Technology Partner
- Mobile Network Operator

Key Activities

- Product Design and Implementation
- Marketing / Promotion
- Technology Management
- Channel Management

Key Resources

- Agent Network
- Brand
- Product
- Transaction Platform

Value Propositions

The value preposition revolves around making the financial services **accessible** (at near doorstep) and **convenient** (few queues and fast processing). This is done by offering bank's products through a distribution network of resellers (to de-congest existing branches). At the same time, maintaining a **secured transaction** enviroment through password-enabled transactions and real-time confirmation. Clients can use a range of financial services (cash-in/out, money transfers, top-up etc.) with **reduced effective cost** of transaction/ cash (saving on travelling to and from banks, standing in long queues and foregoing working hours to access banking services).

Customer Relationships

Personal Assistance through agents (facilitating purchase, cash-in, cash-out transactions and offering other assistance through call-centers)

Self-service or automated services (e.g. remote transactions from their handset)

Channels

Reseller network (managed by self or third party) critical for all phases of channel management right from awareness, helping clients evaluate the product by explaining the product features, offering them instant purchase, delivery and after sales service.

Mobile network (increasing awareness, allowing convenient usage/delivery through a client's handset)

Customer Segments

A **multi-sided market**/platform which needs a sufficient/large base of ***un/under banked clients*** and a large base of resellers/ ***merchants*** acting as bank agents to deliver full value to end-users in a cost effective way. The model requires to a strong value proposition both for the end-users and the resellers/merchants (agents) hence it is described as multi-sided market/ platform.

Cost Structure

Cost Structure: A cost-driven model with opportunities for economies for scope once the channel is established. Some key costs involved are

- Variable usage costs
- High agent management costs
- Fixed technology costs

Revenue Streams

- **Subscription fees -** Account opening commissions
- **Usage fees** - Revenues from usage or maintenance