# *MicroSave* Briefing Note # 100

## Can Bank-led Models Really Deliver on the Promise of Mobile Money?

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### Introduction

There is some debate, but perhaps not enough, of the potential profitability of the mobile money solutions that are so widely promoted as the answer to financial inclusion.[1] In India, despite the best efforts of the Reserve Bank of India (RBI), banks continue to shy away from offering real m-banking services. Instead, they seek to meet the targets mandated by the RBI by signing up as many customers as possible and then quietly encouraging the accounts to become dormant – not least of all because of the pain involved in making a transaction.[2] This strategy also works for the agents who make money from the sign-up of customers, but much less from the transactions.[3]

### Profitable For MNOs

Safaricom now claims that makes a profit from its remarkable M-PESA operations in Kenya – indeed in 2010 the gross revenues from M-PESA were up by 56% from the previous year to Ksh.11.78 billion ($157 million) – 13.3% of Safaricom"s total revenue for the year. Safaricom made a profit of Ksh.13 billion ($173 million) in 2010, so M-PESA now looks to be a very significant part of its operations.[4] But much of the profitability may be unique to mobile network operators (MNOs). A study of MTN Uganda"s MobileMoney noted that after 18 months of operation and nearly 400,000 active users, nearly half the gross profit arises from indirect benefits that only MNOs are in a position to realise.

> "The service is now cash-flow positive on a month-to-month basis – and they crossed this critical threshold just 14 months after launch. MTN"s peak financing requirement, or the amount that they had to finance before MobileMoney became cash-flow positive, was less than US$4 million. … We found that indirect benefits unique to MNOs – including savings from airtime distribution, reduction in churn, and increased share of wallet for voice and SMS – combined to account for 48% of MobileMoney"s gross profit to date."
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> – Paul Leishman, "Is There Money In Mobile Money?", GSMA, 2011

### Challenges and Opportunities for Banks

For consumers, however, there are several very important reasons why they would prefer to use banks offering financial services through convenient agent-based systems. These reasons can also be the basis for a financially viable bank-led model:

1. Mobile wallets are perceived be to too liquid – many people want a service that is marginally less liquid, and on which it is less easy to transact.
2. MNOs are not banks, and not entirely trusted – many people believe that MNOs do not provide the security (or deposit insurance) offered by banks.
3. MNOs cannot offer the range of financial services that banks can. Users of M-PESA do not get access to structured savings (such as recurring deposit) products, they cannot access loans and other financial services like insurance and pension plans from Safaricom, they do not receive interest on their savings balances, and they do not receive a statement of their transactions.

> "M-PESA is like having your bank account in your pocket. Your money can be given to you anytime by anyone. This is convenient, but then you end up spending much more. For example, when I am not driving my taxi, I tend to make calls and use more money just because I can transact using M-PESA."
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> "M-PESA is a communication company. Equity are money people. People have more faith in banks, if M-PESA name was replaced with Equity it would be a huge hit!"
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> - Respondents in Focus Group Discussions for *MicroSave*"s M-PESA Rails study

In *MicroSave* Briefing Note # 97 "The Business Case for Branchless Banking - What"s Missing?", Ann-Byrd Platt argues that banks are not interested in the potential business at the bottom of the pyramid because: 1. it requires a radical re-work of their old business model; and 2. the burgeoning middle class in developing countries already present a tremendous business opportunity that is both easier and fits the current business model. This is true for the vast majority of banks. However, there are potentially important exceptions.

[1]See *MicroSave*"s India Focus Notes 72 and 73 for a discussion of many of the key issues.
[2]See *MicroSave* studies on Dormancy in No Frills Accounts and the The Answer is "Yes"- Cost and Willingness to Pay in India
[3]See *MicroSave* India Focus Note 32, "Making Business Correspondence Work - Crossing the Second „Break-Even""
[4]See Safaricom 2010 results

Some banks really do see the potential of the low income market – Barclays Bank has made three attempts to push down market in Kenya over the last 15 years. And dotted across the globe there is a growing array of banks that are serious about providing financial services for the poor:

- ***Equity Bank*** has seen its number of accounts rise from 109,000 at the end of 2001 to 6 million by the end of 2010; and made a net profit of $95 million in 2010. Furthermore, Equity is based in Kenya – in "M-PESA land" and thus in an environment where the population is already well versed in, and reasonably comfortable with, making financial transactions on their mobile phones. The potential for offering a wide-range of financial services through a rapidly developing network of agents serving what is perhaps the best-loved bank brand in Kenya, is clearly very high. Equity Bank"s excellence in retail lending, particularly the EquiLoan and Salary Advance products, means that it is uniquely positioned to realise the potential of offering these products, and pre-scored automatic overdrafts, over mobile phones.
- ***BanKO***, a collaboration Bank of the Philippine Islands or BPI, the Ayala Corporation, and Globe Telcom, is set to launch its savings product with the use of an e-wallet platform linked with BanKO"s own network of cash-in cash-out agents called KASH, the BPI ATM network, and the Globe broadband infrastructure. BanKO intends to reach one million clients comprising the C, D and E market in its first year of launch – scheduled for September 2011.

> With the financial inclusion of those in the base of the demographic pyramid as its primary objective, the new BPI Globe BanKO's strategic initiatives include the development of innovative products and services, the establishment a market-oriented ecosystem and the use of alternative low-cost channels of delivery through the mobile phone.
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> \- BanKO"s website

- In South Africa, the four major banks have been compelled by the government to serve down-market, and appear increasingly interested in using mobile phones to penetrate the low income market after the largely ill-fated *Mzanzi* accounts. Standard Bank has started migrating *Mzanzi* customers to their mobile money and community banking delivered through *spaza* (small retail) shops. In 2010, Nedbank teamed up with Vodacom and launched M-PESA services in South Africa.
- IFC has invested in 13 green-field banks in Eastern Europe, Latin America, Africa and Asia. In addition to this, Kreditanstalt für Wiederaufbau (KfW); Netherlands Development Finance Company (FMO); the Dutch foundation (DOEN); the European Bank for Reconstruction and Development (EBRD) have also sponsored a number of such green-field banks across the world.

These banks all appear well-positioned to be among the first to demonstrate profitable m-banking operations for the mass market – not least of all because their primary credit model is individual lending. However, many banks or deposit-taking non bank financial institutions focused on the poor remain dependent on group-based lending approaches. Mobile phone-based systems are likely to be nemesis of group-based systems – persuading borrowers to attend group meetings when they can send their loan instalment over the mobile is a difficult ask. But for those that embrace mobile money and agent-based systems, the opportunities to decongest banking halls, serve significantly more customers with a range of savings, credit and bancassurance products appears very large.[5]

> In this context, Grameen Bank appears perfectly poised to introduce mobile money-based banking. Its flagship savings product, the Grameen Pension Scheme, is a recurring deposit product that requires regular savings contributions to build up lump sums over 5 or 10 years. These savings balances could secure emergency loans issued by agents on behalf of the bank, displacing moneylenders that are still able to charge up to 10% per month for similar distress credit.
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> Furthermore, Grameen Bank is beginning to offer larger-scale individual loans (see *MicroSave* Briefing Notes on Grameen II # 8, "Lessons From the Grameen II Revolution" ) that are much more amenable than the bank"s original group-based lending to repayment through mobile- and agent-based systems.

One of the keys to success of bank-led models will be to leverage the bank"s ability to offer credit. This can be done in many ways that de-risk lending. In addition to the salary-based lending used by Equity Bank and so many others has perfected,[6] longer-term savings products with linked to immediate access to credit to 90% of the value of the savings balance held provide fully secured lending opportunities. These products are perfectly aligned with the benefits and attributes of mobile phone and agent-based systems, since they leverage the convenience and extended opening hours of local agents. And, for banks, they provide tremendous opportunities to increase revenue streams, while de-congesting banking halls, both for loan application and for deposit and repayment transactions.
The potential for profitable mobile- and agent-based financial services is clear in theory … in the next year or two, *MicroSave* hopes and believes that it will be demonstrated in practice.

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[5] For a discussion of the importance of this, see *MicroSave* India Focus Note 65, "Successful Banking Correspondents Need a Compelling Product Mix"

[6] Note that salary-based lending is not as easy, or risk free, as it first appears – see *MicroSave* Briefing Note # 45, "Microfinance Institutions and Salary Based Consumer Lending"