MicroSave Briefing Note # 108

Incentives for E/M-Banking Customers To Drive Usage

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November 2011

Introduction

The previous Briefing Note 107 in this series looked at issues to be considered while pricing e/m-banking services. It presented challenges that arise while pricing new channels in relation to existing channels, and also the effects of flat or percentage based pricing. This Note looks at various ways of incentivising customers to increase the uptake and use of m-banking services. Since mobile banking services are new to most of the target clientele, it is important to devise incentive schemes which will encourage clients to try out these services and start using them regularly. This Note also attempts to present some popular incentive schemes offered to drive customer usage by mobile banking deployments across the world.

Free Registration and Cash-in Scheme

Many mobile banking deployments across the world offer free registration and/or cash-in. Offering free registration and cash-in has a direct impact on customer uptake and usage patterns. Free registration encourages customers to try out the service and (hopefully) start using it regularly. Offering free cash-in should result in customers depositing money in their e-wallets and using it for other chargeable services like transfers, bill payments etc. For example, popular m-banking deployments like M-PESA in Kenya and Easy Paisa in Pakistan offer free registration and cash-in. MobileMoney, MTN Uganda had gone to the extent of rewarding a start-up balance of Ush.5,000 (approximately US$0.2) for every new customer signing up for the service. However, the scheme did not result in increased customer usage.[1]

It is to be remembered that even if customers are not charged for account opening or cash-in, the agent channel must still be paid commissions to facilitate these services. This can be achieved by pricing the cash out transaction to customers in such a way that it will also account for the commission to be paid to the agent for facilitating deposits. Cost and willingness to pay research conducted by *MicroSave* in India indicates that majority of target clientele for mobile banking (the un-banked or under-banked) are willing to pay a fee only on withdrawals and not on deposits. They claim deposit fees would be a strong deterrent to regular savings.[2]

But on the other hand, a customer with limited withdrawals/transfers can enjoy a virtually entirely free saving account with a free registration and free cash-in. In these situations, service providers have to bear the costs of maintaining the account and paying channel commissions.

Free cash-out services are less prevalent than free cash-in schemes. First National Bank's e-wallet customers are allowed one free withdrawal each time they are sent money. For every additional withdrawal, they are charged R5 per R500 withdrawn, up to a maximum of R15 (approximately US$2.1). Some deployments offer free cash-out for unregistered users, but usually the sender is charged a high fee for transferring money to the unregistered user. For example, M-PESA charges Ksh.10 (US$0.11) for a transfer of Ksh.100 to a registered user. The same Ksh.100 transfer to an unregistered user is charged Ksh.75, but the unregistered receiver on the other end can withdraw for free. This is designed to encourage the sender to instruct the receiver to register for the service.

Incentives to Push Preferred Products

Across the globe, many e/m-banking service providers offer incentives to push one preferred product, usually by pricing them cheaper than other service providers in the geography. In a previous *MicroSave* India Focus Note,[3] it was argued that in case of bank-led models in India, it is evident that each bank and its commission structure favour a 'primary product', and not all favour the same products equally. Vodafone implementations (M-PESA in Kenya and Tanzania, and M-Paisa in Afghanistan) and MTN implementations in Côte d'Ivoire and South Africa target money transfers. Several of these charge fees 20% cheaper than other providers of money transfer, but equal to or even above the fees of all service providers for other services.[4] To increase the usage of money transfer, SMART Money in the Philippines offered a limited period free airtime and free SMSs to customers when they transferred money.

Airtime Discounts When Purchased Through the Mobile Banking Network

In case of mobile network operator (MNO)-led mobile banking deployment, offering airtime discounts or bonuses when directly purchased through mobile banking network is quite common. Many m-banking deployments, which include G-Cash and SMART Money in the Philippines, and several African providers such as M-PESA in Tanzania, Orange Money in Côte d'Ivoire and Zap (now Airtel Money) in Kenya have offered airtime discounts and bonuses for a limited period or continuously. Offering airtime discounts is a win-win situation for both the MNO as well as the

[1] Jeff Mbanga, MTN's Mobile Money Remains Profitable, Despite New Cracks, The Observer, 2011
[2] See *MicroSave* India Focus Note 67 "Clients' Willingness to Pay "Reasonable Fee" for BC Services"
[3] *MicroSave* India Focus Note 72: Sustainability of BC Network Managers (BCNMs): Review of Commission Structures, 2011
[4] Claudia McKay and Mark Pickens, "Branchless Banking Pricing Analysis", CGAP, 2010

customer. When airtime is purchased through mobile wallets, MNOs save on cost associated with distribution of airtime through several layers of distributors and agents. For example, the recent limited period 'Supa Sunday' offered by M-PESA provided a 25% bonus on airtime top up. A customer who wants to transfer Ksh.1,000 and buy an airtime top-up of Khs.250, with the Ksh.62.50 bonus earned through the airtime top up, the money transfer is effectively free (the fee for transferring Ksh.1,000 to a registered user is Ksh.30 or US$0.33).

However, offering such airtime discounts and bonuses cannibalises the commission earned by agents selling airtime. Since in most mobile money deployments, airtime sellers are mobile agents, these discounts may discourage agents from signing customers for mobile money accounts. To tackle this issue, operators like G-Cash in the Philippines offer a commission to agents every time when a customer whom they signed up does an airtime recharge through the mobile money account.

Limited Period Introductory Pricing Schemes

Whenever a new service is launched, many m-banking service providers offer the service for free for a limited period. Offering the service for free helps to encourage customers to try out and gain familiarity with the new service - and thus be more likely to use it continuously. Obviously, service providers should clearly state right from the beginning that these introductory, promotional offers are for a limited period and may be extended or withdrawn anytime. For example, in October 2010, M-PESA launched *Nunua-na* M-PESA which allowed M-PESA users to instantly pay for the goods purchased at select super markets using M-PESA account. The service was offered for free, but with a disclaimer that Safaricom may, at a later stage, introduce a nominal fee.

Loyalty Schemes and Reward Points

Mobile banking service providers also offer loyalty schemes and reward points for balance maintenance, usage or for the service charge paid. In case of MNO-led models, MNOs who already offer reward points schemes for their mobile subscribers have started extending these schemes to their mobile banking customers also. The popular *Bonga* points offered to pre-paid and post-paid customers of Safaricom are now available on chargeable M-PESA transactions including withdrawal, transfers and bill payments.

Subscription Plans

Of late, subscription plans are becoming quite prevalent in the e/m-banking landscape. Subscription plans aim to drive customer usage by collecting an upfront subscription fee that entitles the user to an unlimited or specific number of free transactions. In Brazil, Bradesco and CAIXA charge a monthly fee for a predefined set of transactions. Transactions beyond the predefined set come at an additional cost. Eko in India experimented with a yearly subscription fee that covered basic cash in and cash out transactions for a year. However, only a small percentage of customers bought the annual subscription plan, and most of the customers preferred to pay on per transaction basis, so Eko phased out the scheme. Subscription-based fees are perhaps unsuitable for low income customers used to buying goods in small quantities according to their daily needs.

Refer a Friend Reward Schemes

Usually, customers of m-banking services learn about them from their neighbours, friends and relatives. A regular user can educate the new user on product details and how to use the services. They can also influence a prospective customer by sharing their experience and benefits of the services. Offering 'refer-a-friend' reward schemes can be a very powerful incentive for increasing customer sign up. This kind of scheme is not used in e/m-banking, but is common amongst MNOs seeking new mobile connections, as well as banks for credit cards.

Non Cash-based Incentives

Apart from cash-based incentives and rewards, there have been quite a few non cash-based incentive schemes offered by m-banking service providers worldwide. M-PESA in Tanzania launched a 'Recharge and Win' contest. Customers who recharged airtime through M-PESA entered a contest where they could win prizes through lucky draws. While M-PESA experienced an increase, both in recharge and use during this scheme, it is difficult to assess the direct result of this scheme as it was offered along with a 5% bonus on airtime recharges.

Conclusion

Offering incentive schemes can be very influential in driving customers for first-time and repeat use. But operators need to be very cautious while designing incentive schemes so that they do not have an undesirable impact on customer use and on the channel. Operators should measure the effectiveness of the incentive scheme periodically. The effectiveness can be measured on three dimensions:

1. The overall success of the scheme in terms of additional business volume and revenue generated;
2. Satisfaction of customers; and
3. Channel feedback and satisfaction.

MicroSave's Customer and Channel Satisfaction Measurement and Management (CSM) tool can be very effective to analyse performance of incentive schemes from customer and channel perspective. On the basis of this, mobile money providers can take strategic and operational decisions to ensure improved and effective incentive schemes.