

MicroSave Briefing Note # 106

Pricing Mobile Banking Services

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Introduction

In Africa people are used to paying to get access to financial services. Until a decade ago, ledger fees were common. *MicroSave* once worked with a bank in Africa that had a savings product with the tagline or slogan of “Grow With Us”. When *MicroSave* performed the market research to understand why the number of account holders was low and stagnant, we quickly learned that, because the ledger fees typically exceeded the little interest paid on the balances held, the product was known in the markets as “Shrink with Us”.

Transaction v. Ledger Fees

Most people prefer to pay transaction fees - they can see someone doing some work for them and understand that this costs money and thus they need to pay for the service. But when they leave their money in an account and return six months later to discover that much of it has disappeared because of ledger fees, they get upset. After all, the bank has done no work for them, and could have earned interest on their money if it was lent out!

This cultural norm of charging for financial services is, however, one of the reasons that mobile money has taken off quickly in Africa. In Kenya, the lowest withdrawal fee for any of the accounts aimed at poor people (i.e. those with low minimum balances) is Ksh.30. So it is very acceptable for M-PESA to charge Ksh.25 for a cash-out transaction. M-PESA agents are usually closer to their customers’ homes or places of work. Agents’ shops are considerably less congested than most banks’ branches. So this fee offers (on a relative basis at least) real value for money.

Willingness to Pay

In the Indian sub continent, by contrast, bank transactions are free – and always have been. Indeed in India, the central bank recently mandated that all ATM transactions whether on- or off-us should be free of cost to the customer. This means that for many Indians, paying for financial services is an anathema – and completely new idea. But is it a completely unacceptable idea?

MicroSave recently completed a research looking at the reasons for wide-spread dormancy in the no frills accounts opened by banks at the behest of the central bank. Much of the problem was driven by the inconvenience in accessing the services because of the

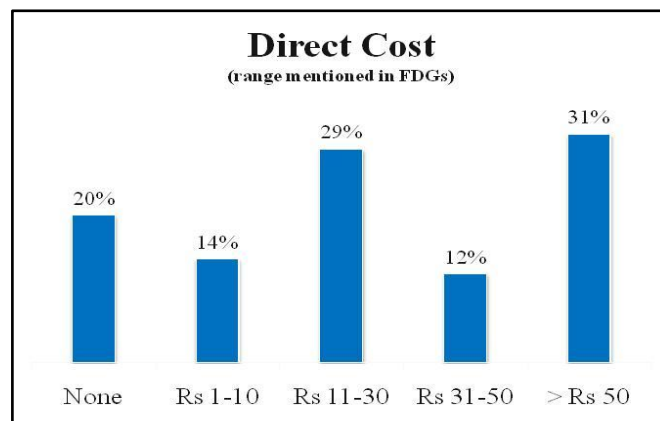
distance to bank branches and the long queues in the branches.

On the basis of this *MicroSave* conducted a study on the cost people incurred to transact at bank branches and their willingness to pay for an agent-based system in their villages. Respondents were poor (three quarters of them earned less than Rs.5,000 or \$111 a month), about half of them were illiterate, and about half were day labourers, selling their labour to survive. Respondents were chosen on the basis that they had a bank account. Forty percent of them visit bank branches twice a month and 61% have average transaction size of between Rs. 500 – Rs. 2,000 (\$11-44).

There are many and varied reasons why poor people do not like to visit bank branches in India. Almost invariably, at the top of the list was the amount of time that has to be spent in a bank branch to make a basic transaction. This problem has been made worse by the payments of the Government’s National Rural Employment Guarantee Scheme. These benefits are paid on the same day each fortnight or each month. This results in extremely crowded branches.¹

Another issue is the distance that many have to travel to get to the bank branches, which requires them both to spend money on transport and to lose valuable time that might otherwise be spent on income generation or important household activities.

In addition, as is common worldwide, illiteracy creates significant barriers where transaction forms must be filled out – a problem often made worse by unhelpful bank staff.



FDGs = Focus Group Discussions

¹ See [MicroSave India Focus Note 63 “Why People Do Not Use Present Banking Systems – A Case For BCs”](#)

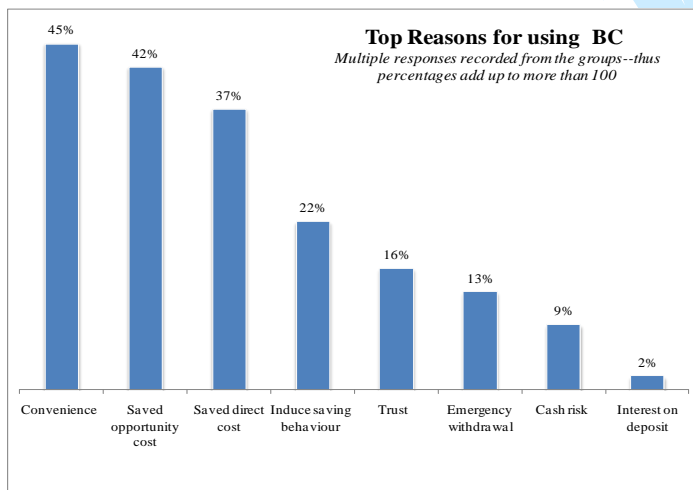
Other barriers to using distant bank branches include the risk of carrying cash; the cost of making the transaction; and the very way that the banking system operates, which is not welcoming to those making small transactions. The direct and indirect costs associated with travelling to a bank branch are not inconsequential. More than 70% report direct costs of more than Rs.10 (\$0.22) and indirect costs of wage labour range from Rs. 50 to Rs.150 (\$1 to 3) and sometimes more.

In the light of these barriers and the financial and opportunity costs associated with branch-based banking, we should not be surprised that poor people are indeed willing to pay for agent-based banking services in their villages.

The Benefits of Agent-Based Banking

The benefits that our respondents recognised immediately included:

- The convenience and time they would save
- The lower direct and indirect costs of making transactions
- The elimination of tiresome travelling
- The removal of cash risk
- An opportunity for women to save quietly without their husbands' knowledge
- Agent-based banking would encourage more savings and enable quick withdrawals for emergencies, and
- Respondents looked forward to easier interactions with local and trusted agents.



How Much Are They Willing To Pay?

About 69% of respondents immediately agreed to pay fees for an agent-based service, and an additional 13% agreed to fees at the end of the discussion of the idea. So 82% of respondents say they are willing to pay for services that will reduce their real and opportunity costs.² However, most were not willing to pay for deposit transactions. But they are typically willing to pay 1-2% of the withdrawal amount. Those that transact

regularly want a fixed fee to reduce their costs. And of course, we should be aware that this is expressed demand – how many would really pay these fees if they were introduced remains to be seen.

There are concerns about agent-based systems that will also affect willingness to pay in India and indeed worldwide:

- Concerns about security of savings deposited through agents. In India, many have had bad experiences with private, unregistered groups and roving agents of financial institutions
- Others are simply unwilling to pay for services that they currently get free in banks and from some financial institutions' agents
- Some simply like the opportunity to travel outside village
- And of course some live near to the branch anyway and are willing to tolerate the queues.

India is one of the most price-sensitive markets in the world. With traditional banking services offered free of charge, many observers were concerned that poor people would be unwilling to pay for agent-based services.

This is clearly not the case in the vast majority of cases. Poor people are indeed willing to pay for local, convenient and friendly services.

Furthermore, they are quite rational about the amounts what might need to be paid. A 1% fee on a typical withdrawal transaction of Rs.1,500 yields \$0.33 close to the rates charged by M-PESA.

The challenge will be that if banks (as opposed to mobile network operators) offer agent-based services in the villages the deposits to withdrawals ratio will rise. In Kenya M-PESA sees one deposit for each withdrawal; whereas Equity Bank's nascent agent network initially saw 3-4 deposits for each withdrawal. *MicroSave's* research suggests that this is for two reasons: first, the M-PESA wallet is seen as being too liquid and to encourage spending; and second, Equity is more trusted for savings as it is a bank.

Conclusion

To cover the cost of paying agents, banks will either have to charge for deposits, or look to make money on other services delivered through their agents, including from remittances and payments, selling insurance, and interest earned on loans. Pricing remains a challenge – but there are many opportunities!

² See [MicroSave India Focus Note 67 "Clients' Willingness to Pay "Reasonable Fee" for BC Services"](#)