MicroSave Briefing Note # 107

Pricing for E/M-Banking

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Introduction

MicroSave conducts extensive work to understand customer perceptions around pricing of agent-based banking products across different countries. Pricing is one of the key challenges that the implementing bank or agent network managers (ANMs) face especially while introducing a new channel.

This Note discusses customer perceptions around some of the key pricing issues for banks while implementing agent-based banking:

1. *Pricing across different channels*: How to price new channel relative to existing channels - at par, or lower or at a premium?
2. *Flat or percentage based pricing*: Percentage based pricing works out to be cheaper for small transactions, but do the customers choose on that basis?

This Note will be useful for banks and ANMs pricing products and services offered through agent-based e/m-banking systems.

Issue 1: Pricing Across Different Channels

This section discusses pricing when a bank is planning to extend its offerings using alternative/non-conventional channels like agent-based banking (mobile or POS) in addition to conventional banking channels (like ATMs and branches). It analyses the outcomes of different ways of pricing new channels vis-à-vis existing channels.

Option 1 – Different pricing across channels

Banks generally follow differential pricing across channels to encourage transactions through a particular channel. Typically new/alternative channels are priced lower than conventional banking channels to encourage customers to transact using the new channels. On the other hand, the implementing bank may also find it easier to recover costs through differential pricing by directly pricing transactions on the channel on the basis of actual (usually substantially lower) costs incurred.

However, *MicroSave*'s experience with ongoing implementations in India, Kenya, South Africa and elsewhere suggests that higher prices do not necessarily deter existing customers from using branches. They often still prefer to transact at the branches regardless of price, especially at the start, just to confirm the authenticity of new channels. Branches are still regarded as the face of banking.

Other issues with differential pricing across different channel are:

- Perceptions of quality and equality may arise if different channels are priced differently. For example, if the new channel is priced lower, customers may perceive it to be inferior to conventional channels. In research in South Africa, respondents suggested that if agent-based banking is priced lower than conventional channels, they would not accept it as banking service, as even the pricing suggests that the new channel is second-rate.
- Alternatively, some customers may feel excluded from the branches if services at branches and ATMs are priced at a premium, and so may not even open the account.

Option 2: Single pricing across all channels (new and existing)

A single price across channels is easy to communicate and is also perceived to be transparent method of pricing. Charging a single price across all channels will help to present the new channels at par with conventional banking channels. However, a single pricing strategy may not be always successful in decongesting the banking halls, as it does not create any difference between the channels, and customers continue to use bank branches as a result of trust and habit. However, in the different implementations in many countries, *MicroSave* has observed that while customers might initially visit branches to confirm the authenticity of the new channels, ultimately their behaviour is driven primarily by access and convenience rather than anything else.

Issue 2: Flat Vs Variable pricing

Whether to charge a flat rate irrespective of value of transaction, or charge a percentage based rate based on the value of transaction is one of the most debated pricing issues.

Option 1 – Flat price

Flat price is extremely easy to communicate to customers, especially in markets where banks are perceived as costly and non transparent. When it comes to pricing, customers are often more concerned about how easy it is to understand the tariff structure than the actual amount or what it effectively costs.

Research done by *MicroSave* in South Africa suggested that customers do not calculate the transaction cost as a percentage of transaction value. Instead they care about what it costs in relation to what they will not be able to do with the money spent: for example *"That will cost me the equivalent of a half kilogram of rice*." This is one of the reasons informal channels usually charge on flat rather than percentage basis.

Flat pricing also encourages agents to perform all sizes of transactions as the fee remains the same irrespective of the value transactions. However, it works out more expensive for low value transactions and effectively penalises customers undertaking low-value transactions. The State Bank of India charges a flat fee of Rs.25 (for deposits up to Rs.10,000) for all non-base or outstation branch deposits, irrespective of value. Nonetheless, out station deposits into an SBI account is one of the most widely used methods for domestic remittances by migrants in India.[1]

Option 2 – Percentage based pricing
Percentage based pricing makes each transaction cost the same (in relative terms) regardless of transaction size. But if the agent incentives are also aligned with percentage based pricing, then agents may not be interested in conducting small value transactions.

Past experience indicates that percentage based pricing is difficult for agents and customers to calculate. For example, Vodafone M-PESA in Tanzania changed from percentage based pricing to a combination of tiered/flat pricing for this reason.

Option 3 - Tiered/Banded Pricing: This is one of the most commonly used methods of pricing. It charges different amounts for different ranges of transactions. It allows the system to cover the cost of both low and high value transactions. For example, in Kenya, M-PESA charges tiered prices for all transactions.[2] For example, the fees for transfers to registered users are as follows:

Transaction Range (Kshs)	Charges (Kshs)
50- 100	10
101-35,000	30
35,001-70,000	60

This kind of pricing is, however, more difficult to communicate and for customers to understand. Implementing bank/ANMs have to put an extra effort to ensure that every agent has complete set of charges displayed – and can explain them to customers.

Option 4 – Hybrid pricing *(fixed for low value transactions and variable for higher value transactions)*
This entails a minimum, flat charge for transactions up to a certain amount, e.g. Rs.100, to cover costs and then a shift to percentage based pricing. Hybrid pricing perhaps has more advantages for banks/ANMs than for the customers. Hybrid pricing allows the system to cover the costs of low value transactions and at the same time maximise the income from facilitating large value transactions. But on the other hand, it is difficult for customers and agents to understand. For example, M-Paisa in Afghanistan recently changed from tiered to flat pricing for same reason.

Hybrid pricing is also discriminatory for clients making small transactions as it charges more for these transactions in order to cover costs. Finally, this type of tariff is more complex and thus difficult to communicate.

Global Experience on Pricing

Out of the following fourteen models in implementation - Easy Paisa (PAK), G-Cash (PHP), M-Paisa (AGF), M-PESA (KEN), M-PESA (TZN), MTN (IVC), MTN (ZA), Orange Money (IVC), Smart Money (PHP), Wing Money (CAM), Wizzit (ZA), ZAP (ZA), ZAP (KEN), Eko (IND), the table indicates the number of providers that charge a specific type of pricing:

Transactions	Free	Percentage	Tiered /banded	Flat
Cash In	**7**	4	2	1
Cash out	1	1	**8**	4
P2P transfer (within network)	0	1	4	**9**
Bill payments (excluding Eko)	1	0	0	**12**

Claudia McKay and Mark Pickens, "Branchless Banking Pricing Analysis", CGAP, 2010

Conclusion
Pricing is one of the most important aspects for the success of a mobile banking initiative. In the mobile banking landscape there is no one successful pricing scheme. From discounted/free m-banking services to charging customers differently in different channels, pricing schemes can be very different. In a price sensitive market like India, where traditionally banking services have been offered for free, pricing e/m-banking services can be very challenging when compared to markets, such as Africa, where banking services have always been very expensive.

Apart from the pricing schemes, the method of calculating commission plays a very important role in moulding customer perceptions and earning revenues for the implementing bank/ANMs. Hence it is important to design a pricing scheme that is relevant to the traditional banking context and takes local socio-economic and cultural perspectives and norms into consideration.

[1] See *MicroSave* India Focus Note 68 "SBI *Tatkal* – From Cash to Cash Cow"
[2] For more on M-PESA's costs and charges see *MicroSave* Briefing Note # 93 "Innovation and Adaptation on the M-PESA Rails"