

# MicroSave Briefing Note # 47

## Mobile Phone-Based E-Banking: The Customer Value Proposition

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### Introduction

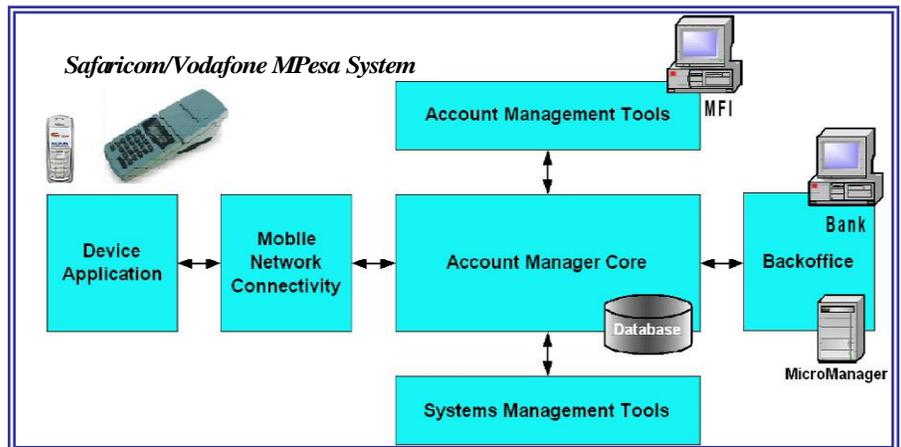
There is growing consensus that e-banking offers a unique opportunity to address mainstream banks' two major barriers to serving the low-income market: the need for a branch infrastructure and managing high volumes of low value transactions. In addition, e-banking systems hold the promise of being able to extend centralised banking systems deeper into rural communities<sup>1</sup>.

Despite this, the many examples of failed e-banking initiatives provide ample warning that offering e-banking solutions is not an easy proposition. Only very few of these initiatives have failed because of technological problems – the technology and security requirements are broadly understood and available. Where e-banking products have often failed is because they have not adequately addressed the customers' needs. Too often the financial institutions have focused on the technological solution or the savings that it can generate for their business, without considering the needs of the customers or the intermediary agents who usually have to provide the service to them. This Briefing Note examines these issues in the context of mobile phone-based e-banking solutions.

### What Low-Income People Want

Customers often want more than just a new channel for traditional banking services. Indeed, traditional services can be irrelevant or of limited value to the low-income market. Vodafone's initial research in Kenya noted two key customer requirements for a mobile phone-based system to succeed:

1. The ability to answer the simple question, "What is in it for me? I need a secure, convenient and lower cost service for financial products that meet my requirements".
2. The importance of moving money around quickly and across the customer's own network. Airtime transfer models have demonstrated this. In Kenya, Safaricom launched the *Sambaza* product that allows subscribers to send small amounts of airtime value across the network to others. After



just a few weeks, many thousands of transactions were being made using this service.

Typically poorer people are looking for the following from a current account offered using e-banking systems:

1. A safe place to keep money.
2. Accessibility / liquidity – The ability to turn electronic money into hard cash and vice versa at convenient locations (agents / ATMs).
3. Ability to transfer money – to and from the financial institution, to make payments and to remit value to friends and relatives.

As part of its preparatory phase, Wizzit used focus groups to establish the spending patterns and financial transactions of its low-income target group and the mobile phone-based solution was built on the basis of this research. Wizzit quickly learnt that the clients wanted inter-operability with the mainstream ATM/POS-device-based payments system, which is already extensive throughout South Africa.

### Benefits – Not Features

In market research conducted for *MicroSave* Action Research Partners implementing mobile phone-based e-banking solutions clients identified the following benefits:

1. It is fast and saves time. "There is no more wasting time ... the funds are very near for my use at any time".
2. The savings associated with the loan disbursement process (which removed the need to go to the bank and pay the fees to cash the cheque).

<sup>1</sup> For more on E-banking, see Cracknell, David, "Electronic Banking For the Poor - Panacea, Potential and Pitfalls" – available on *MicroSave*'s website: [www.MicroSave.net](http://www.MicroSave.net) under the Study Programme section.

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3. The reduction of hard cash in some transactions enhances security. *“One does not have walk around with money in his/her pocket ... my money will still be secure even if I lose my SIM card”.*
4. The solution is also likely to provide convenience especially with person-to-person transactions. *“...It is almost a 24 hour service.”*

### Barriers and Challenges

Conversely, there are also significant barriers to the use of mobile phone-based solutions:

1. Many low-income people, almost 80% of one microfinance institution’s customers in a recent *MicroSave* market survey, do not have mobile phones. Many of these do, however, have access to mobile phones through friends and relatives. Mobile phone public call offices could also assist in overcoming this problem.
2. The experience in Kenya has shown that some customers require significant training to become familiar with phone-based services. It is possible to define a target customer profile according to their degree of comfort with phone usage).
3. Some agents may not have sufficient funds to meet clients’ requirements forcing customers to move from one agent to another looking for cash.
4. Agents may require additional security as they hold greater liquidity to meet the demand for cash.
5. Customers may not be able to read or send SMS messages. In India one bank is developing a solution using numeric messages – so, for example, to send money will be “121”, the mobile number, the amount involved, and the PIN number.
6. Some suppliers may refuse to accept the new mode of payment without significant marketing in order to win their confidence in it.
7. Many rural people do not have electricity in their homes and have to walk to the nearest market to pay to recharge their phone.
8. Some handsets have limited features for example memory and word space.

### Keep It Simple and Learn Together

Many of these concerns reflect the fact that because the technology is new, people are likely to use the solution cautiously. Experience in South Africa and the Philippines shows that once customers have past making around three transactions a month they lose their fear of the technology and the number of transactions increases substantially. Technology specialists and bankers often exacerbate this problem by over-complicating the solution, adding every possible function. In some cases solutions are offered without a clearly defined need for them. It is important to

get into the market with one application responding to a specific need and then expand usage.

In Philippines and South Africa, providers have seen an iterative learning process - to assess if the solution works and if not to go back to clients to get feedback and then revise it. Providers also involved users in how to perform transactions and how to better address their needs. E-banking applications are often ‘data rich’ allowing analysis of usage quickly by the service provider and providing a strong basis for customer relationship management.

### Cash As King

It is important to understand when customers need to use cash and when they do not. Certain transactions have low cost – going to the shop for a small purchase, for example. Whereas the cost of a remittance or transfer is much higher, for example bank charges for processing salary or pension payments. These charges could be reduced if a cheaper mechanism was used.

Nonetheless, to put cash into people’s hands is an extremely expensive exercise – both for the financial institution and the customer. ATMs need to be maintained and stocked with cash; and agents with POS devices or offering cash-back facilities need to derive value from providing these services – either in cash or through increased business, and ideally both! Similarly, the perception that cash is free or frictionless for the low-income customer is wrong, when transport and time re taken into account.

However, providers are only going to be successful in the short term if they concentrate on areas where cash is inconvenient and the solution can do things that cash cannot. Examples of this include:

1. Cash on delivery payments.
2. Small business people’s payments (to suppliers and repaying individual loans) from their business premises.
3. Distributors’ truck drivers who no longer carry cash.
4. Salary payments, especially convenient where high volumes of small wages are disbursed into remote locations
5. Insurance companies (collection of premiums and payout of lump sums).

### Conclusion

E-banking solutions’ ability to respond to these needs and to provide real customer value for the agent and end-user alike will determine the ultimate success of mobile phone-based (and all other) e-banking solutions for the poor.