

# MicroSave Briefing Note # 99

## NextGen Mobile Wallets: The Slim Billfolds May Prove More Lucrative

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Mobile wallets are often discussed, and often misunderstood, as the new way to think about payments and banking services—for both rich and poor. Mobile phones may be the only technology that is equally interesting to both ends of the economic spectrum right now. And wallets, because they involve money, are the bit everyone wants to figure out. There is of course a sharp divide between what an iPhone and Android wallet with an e-wad of credit/debit/loyalty cards can do in a shopping mall, and what more basic phones with prepaid or no cards at all can offer less affluent parts of the world. But that gap may be less significant and more quickly bridged than we imagine.

Their respective audiences have very different needs. The most obvious is that the high end of the market already has too many other payment options and a mobile “swipe” with special discounts or long-distance money transfer is novel, but not absolutely necessary. For lower income brackets, with no or limited access to banks and cash machines, mobile wallets are potentially far more meaningful.

The business case differs less. For both ends of the spectrum, some combination of mobile operators, banks, bank card issuers, credit and other card payment services, payment processing networks, and the technology companies that provide the requisite chips and software have to agree on: (1) who manages the wallet, including the many liability and security issues, and (2) how to divide up the tiny (usually less than 3%) flat, tiered, or percentage fees that wallet customers are willing to pay and the merchants and other payees are willing to forfeit.<sup>1</sup> This is not a business proposition for the impatient or anyone not already adept at revenue-sharing models. Perhaps the only surprise is how many participants in the U.S., U.K., Brazil, Zimbabwe, Kenya, India, Pakistan and the Philippines are eager to invest in wallet development at all. They include Google, Apple, (and rumoured soon, MicroSoft), Visa, MasterCard, Citibank, Bank of America, FirstData, PayPal, Nokia, Telenor, Telecel, Orange, Vodafone, Globe, and Safaricom ... among others.

The next interesting question is why such an impressive roster and wide range of players all covet a tiny fractional piece of a complex and problematic business. Improving payment mechanisms for the poor and underserved—or for that matter, the rich and already surfeited—is a only a meaningful strategic objective for the corporate entities above if serious revenues and profits are involved. The first step toward understanding

the monetary rationale for wallets, particularly for the underserved audience, begins with a list of the various types of m-wallets on offer. There are more than you might think.<sup>2</sup>

- Authorised bank agent mobile wallets. A branchless banking network allows trusted local agents to identify customers and act as their intermediaries. The agent’s phone, coupled with unique ID security for each customer, can receive and send money on his/her behalf. Deposits, withdrawals, remittances, loan repayments, government benefits, and bill payments are all possible. Agents serve as cash-in and cash-out points and useful arbiters in case of disputes. (Eko in India and Pakistan’s MCB Mobile are two examples).
- Customer mobile wallets linked to bank accounts. Agents are still necessary for cash-in/cash-out, dispute resolution, and back-up assistance, but customers manage their own payments and transfers via their own phones. Most current offerings are available in the US via smart phone apps (please pg. 2), but Telenor, an active player in South Asia, is also moving in this direction. For young rural and urban migrant workers, the independence and personal control of finances are strong incentives to bypass agents—and their service fees.
- Authorised mobile agent wallet. In this version, a trusted local agent, generally already performing airtime top-up and other phone-related services, can enable sending, receiving, and storing electronic money for their customers. Most countries’ regulations require bank partners and the MNO m-wallets generally have less flexibility than the two bank-led models above. (Safaricom’s M-PESA and Telenor’s Easy Paisa with a microfinance partner are two notable exceptions).
- Customer mobile wallets linked only to MSISDNs (Mobile Subscriber Integrated Services Digital Network Number) and SIM card IDs. As with bank wallets, mobile wallets subscribers still need agents as cash-in/cash-out points, but they too enjoy greater freedom, lower fees, and the privacy of managing their own money via their own phones. Many apparently use this option less for payments and more as an alternative to bank savings.<sup>3</sup> (Celpay in Zambia and Fundamo working with MTN in Africa are two examples).

<sup>1</sup><http://www.nytimes.com/2011/03/24/technology/24wallet.html>, <http://technology.cgap.org/2010/02/04/a-mobile-wallet-and-the-price-of-money/>

<sup>2</sup>Excerpted from <http://www.gatesfoundation.org/financialservicesforthe poor/Documents/agent-banking.pdf>

- **Card options.** For the moment, these alternatives only work with point-of-sale (POS) devices and do not include a mobile interface. That does not mean FINO in India and others cannot and may not soon.
- **POS payment cards.** An authorised bank agent with POS devices and bank enables customers to store money, make loan payments and recurring deposits, receive government benefits, and pay participating utilities, clinics, schools, and merchants. Examples include Brazil's Caixa Econômica Federal bank cards and FINO in India.
- **Prepaid cards.** Generally issued by banks as a "credit" card but pre-loaded with cash, these cards are expected to surge 40% to a projected US\$59 billion in revenues in India alone in the next six years.<sup>4</sup> Governments in India, sub-Saharan Africa, Colombia and Brazil are also experimenting with prepaid cards for social security, unemployment, child-support, and pensions. Businesses are using them internally for payroll checks, insurance claims, and healthcare benefits, and externally for store refunds and promotions.<sup>5</sup>

If only to enable government benefits, healthcare, and insurance, the "why" suddenly becomes a bit more clear for all the various m-wallet participants, particularly those involved with payment cards and willing to enter developing markets. Governments make regular payments to upwards of 170 million poor people worldwide.<sup>6</sup> A recent Lloyds of London study estimates the microinsurance market to be between 1.5-3 billion policies globally, growing at more than 10% in some areas—and this is less than 5% of the potential total.<sup>7</sup>

M-wallets have three important barriers to adoption. The first is signing up merchants, institutions, and other vendors for new technology that most will have to help underwrite. The second is figuring out how to split the equivalent of three cents or less on every \$1 transaction five ways (MNO, bank, cards, payments processor, and technology provider) and still make money. Finally, persuading potential customers that a wallet is a better, safer way to pay and be paid is a lot easier in places where other options are limited, but trust, convenience, and compelling need still matter before these customers will agree to try.

One solution that helps resolve all three is to eliminate "elective" use whenever possible. Non-elective wallets already exist in Brazil, India, Mexico and South Africa's government payment programmes. (Beneficiaries must use designated m-wallets to collect money, pay premiums, file claims, receive checks and reimbursements).<sup>8</sup> If all payments are processed via mobile transfers, administration costs drop, sometimes substantially, and fraud and leakage are easier to control.<sup>9</sup> And if mandatory for G2P or healthcare and insurance, institutions, merchants and other vendors are far more likely to choose m-wallets as their preferred payment/disbursement mechanism. The vexing arithmetic involved in splitting pennies among too many m-wallet providers becomes markedly less so when multiplying by hundreds of millions and billions.

Other problems remain, of course. One partner inevitably wants more control, more rewards, and fewer risks. Who "owns" is the customer is a critical question for all participants. Mobile wallets are no different from any other aspect of financial inclusion; the dominant player is still usually the bank.<sup>10</sup> Nevertheless, seamless cooperation amongst all players matters more for m-wallets than most inclusion efforts.

And two recent announcements—a Google-Citibank-First Data collaboration and Square, a new m-wallet led by Twitter's founder Jack Dorsey—augur well for both low-income customers and retailers around the world without credit-card terminals, electronic cash-registers, and other expensive POS devices.<sup>11</sup> The next logical step for Square is the same, vastly larger target everywhere else on earth. If money makes the world go round, then the next generation of m-wallets may in fact help it move around to more people in more parts of the world more easily.

<sup>3</sup>Ibid.

<sup>4</sup><http://www.thehindubusinessline.com/features/investment-world/personalfinance/article2057487.ece?homepage=true>

<sup>5</sup>Ibid, and the ILO Social Finance Network Micro-Insurance, Geneva, Sam Daley-Harris, 30 March 2011

<sup>6</sup>This 2009 estimate from CGAP's "Banking the Poor via G2P Payments" has almost certainly grown in the interval.

<sup>7</sup><http://www.cgap.org/gm/document-1.9.41174/FN58.pdf>

<sup>8</sup><http://www.clydeco.com/knowledge/articles/growth-of-the-microinsurance-market-in-africa.cfm> and Microinsurance Innovation Facility forecasts.

<sup>9</sup><http://www.cgap.org/p/site/c/template.rc/1.26.12640/>

<sup>10</sup>Ibid. and <http://www.gatesfoundation.org/financialservicesforthe poor/Documents/beyond-enablement.pdf> and

<http://www.cgap.org/gm/document-1.9.41174/FN58.pdf>

<sup>11</sup>For more detailed explanation, please see *MicroSave* Briefing Note 98 "Branchless Banking Update: Should We Bank on Phones or The Post?"

<sup>11</sup><http://www.nytimes.com/2011/05/27/technology/27google.html?hpw>,

<http://www.nytimes.com/2011/05/24/technology/24pay.html?ref=technology>