MicroSave India Focus Note 100

Can MNOs Lead the Way for Banking the Excluded? (2 of 2)

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The previous Focus Note 99 "Can MNOs Lead the Way for Banking the Excluded? (1 of 2)" discussed the differentiating capabilities of MNOs that could help them attain leadership in electronic or mobile-banking (e/m-banking). There are, however, several challenges and barriers that Indian MNOs would need to surmount.

Fragmented Market – No Single Winner

The first hurdle is around the structure of the Indian market that makes it very distinct. India is an extraordinary market where no single player has a dominant market share in almost any given sector. Most sectors (except those regulated to have a fewer number of players)[1] see fierce competition amongst multiple participants. The market for the distribution of e/m-banking services is unlikely to be driven by the strategy of one or a few players. Multiple players will introduce their own innovations and variants to stay differentiated and to retain or expand market and revenue share.

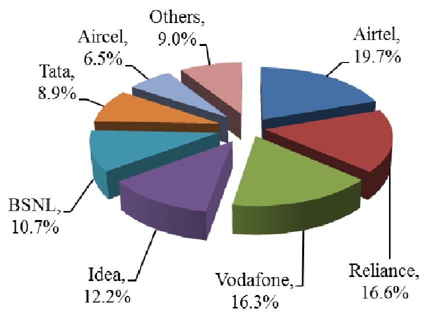
Figure 1 highlights the structure of several consumer retail sectors and services in India. As can be seen, rarely do the market leaders have more than 30% share. The second, third and fourth players often fight the market battle very closely, followed by a long tail of smaller players.

Figure 1: Market shares in select consumer retail sectors / services[2]

Sector / Service (# of players)	Leader	Second	Third	Next 5
Credit cards (25+)	29%	21%	14%	25%
Debit cards (31+)	36%	6%	6%	16%
Merchant POS (23+)	30%	28%	23%	12%
Mobile handsets (8+)	30%	14%	7%	49%
DTH Satellite TV (6)	27%	24%	23%	26%
Colour TV (8+)	26%	15%	11%	47%

The telecom market, with 14 players in the mobility segment (and Reliance Industries expected to join the fray soon as a 4G service provider), is highly fragmented too. Apart from the market leader (Airtel), there are five other players with market shares ranging from 9% to 16% (see Figure 2). This might not be a deal breaker for Indian MNOs, as in other somewhat fragmented markets (like Tanzania and Pakistan), mobile money has achieved scale. However the risk of a first mover disadvantage of investing and creating and educating a market that is subsequently leveraged by other followers (including non MNOs – business correspondents, utility payment service providers or pre-paid instrument issuers) remains.

Figure 2: MNOs consumer market share



Customer Relationship And Channel Readiness

Banking involves relationship and trust-based, high-involvement selling. Several products require multi-year or even lifetime (for pension products) service and support.

MNO distribution, on the other hand, is geared up for over-the-counter low- Rapid service delivery and the instant transaction completion does not require building trust. involvement selling. The relationships MNOs pursue are, in the main, with corporate accounts and not with retail customers.

These contradictory needs can potentially be addressed by segregating the sales and service channels. Banks can play a key role in selling banking products (savings, time deposits, credit) and providing customer care and other support. Whereas MNO retailers can undertake the routine high volume, cash-in/cash-out (CICO) transaction and payment (service) activities.

Nevertheless, until banks and MNOs can seamlessly collaborate to establish and operate well differentiated sales and service channels, the same set of retailer agents will need to fulfil both roles. Indeed, in the short-run it appears that this is essential for the agent value proposition.[3] Agents will also need to become adept at managing the complex needs for liquidity management, consumer protection and risk mitigation required for banking products.

[1] Primarily industries based on natural resources like oil & gas, metals and minerals

[2] Market research reports and *MicroSave* analysis

[3] See *MicroSave* India Focus Note 90 "Taking Financial Inclusion to the Next Level"

Hurdles With A Compelling Channel Proposition

MNOs sell through a multi-tier distribution structure comprising the main or super distributors, the sub-distributors or stockists and the retail outlets that stock multiple goods apart from mobile top-up. Retailers are entrepreneurs wanting to maximise their return of investment (RoI) both for capital and time invested. Below is a comparison of RoI benchmarks they tend to use when investing in the working capital for a new product and making the sales push.

Figure 3: Retailers' RoI Expectations[4]

Product	Commission	Inventory
Mobile accessories	15 to 25% +	7 to 15+ days
Groceries & consumer goods	7% to 20%	15 to 45 days
Mobile handsets	5.0% +	10 to 30+ days
Airtime recharge	2.5%	1 to 3 days
Money transfer (cash-in end)	0.5%	2 to 4 days
Mobile banking	0.5%	7 to 20+ days

Retailers are happiest pushing high-margin, low-turnover, or low-margin, high-turnover, products. However, mobile banking in India is, at present, still a very low margin and low turn-over service (with the exception of money transfer from metros). Mobile money remains unattractive unless either margins increase or volumes rise to respectable levels.

Moreover, the most widely adopted feature of mobile money globally – of airtime recharge[5]- has the danger of cannibalising retailers' established high margin business. MNOs in many other environments (for example Tanzania, Uganda and Philippines) have overcome this barrier by: (a) initially appointing retailers that do not perceive cannibalisation as a major risk; (b) paying agents for airtime loaded through the mobile money accounts they have opened; (c) incentivising these retailers until mobile money volumes were respectable; and/or (d) building a concurrent network in addition to airtime distribution.[6]

The next big hurdle is non-exclusivity of the channels. MNOs are a preferred business partner for retailers/ distributors due to the promise of volumes from their core airtime reselling business. However, for mobile money, they can (and do) happily also partner with non-MNOs. The net impact is that players like Eko or Oxigen offering alternate mobile money propositions have the opportunity to leverage retail channels as extensively as the MNOs. MNOs themselves sell talk time through large aggregating partners like Oxigen, Mobile Store, Mobeepay and EPRS, as alternate channels. MNOs are also facing competition from existing players like ItzCash, *Suvidhaa*, Beam and similar providers, who are enjoying first mover advantage in providing money transfer, payment and e-commerce services.[7] Competition will also come from large players like Western Union, who have forayed into the domestic money transfer business and are eventually aiming to scale to over 100,000 of their branded outlets.

Emerging Alternatives To Mobile

Mobile money leveraging high penetration levels provides greater value to consumers who are able and willing to conduct self-service transactions (other than CICO). The Indian poor and financially excluded also tend to have lower literacy levels (or are at best numerically literate) and find it difficult to use mobile phones for purposes other than taking calls or dialling out. This is reflected in the fact that the average talk-time of consumers in tier III geographies is 1.24 times higher than those in tier I, whereas the same ratio for outgoing SMS per consumer stands at 0.45.[8]

With this literacy barrier, agents' perception of value (commissions and promotional benefits), as well as consumers' comfort with and utility of an interface is likely to considerably influence adoption of mobiles or alternatives like internet or card based interfaces - although these alternatives are likely to be more expensive in terms of both capex and opex.

The Government of India has taken several measures to increase the reach and adoption of Internet at village *panchayats* (cluster) level. The National Optic Fibre Network (NOFN) for broadband connectivity to all the 250,000 *panchayats*, costing Rs.200 billion is being implemented. The National Broadband Plan 2010 envisages internet in very village by 2014. Even now, the internet kiosk models of State Bank of India and Bank of India are functioning reasonably well in rural areas operated by BCs like TranServ and SAVE.

MNOs need to be cognisant of these diverse alternatives, with which they must compete and develop their strategies accordingly.

The next few years are likely to witness consolidation in the financial inclusion space, with exit or acquisition[9] of smaller entities, as MNOs and other large corporates expand their presence and scale. One can also expect greater convergence of the mobile and banking sectors, and enhanced collaboration. It is too early to assess who will eventually emerge as the winner!

[4] Various reports and *MicroSave* analysis
[5] IFC study of mobile money (2011)
[6] See *MicroSave* Briefing Notes # 136 and # 137 on "Structuring and Managing Agent Network"
[7] For example Oxigen directly controls 100,000 retail outlets and conducts 20 million transactions a month. ItzCash processes payments worth more than Rs 100 million daily.
[8] TRAI performance indicators
[9] FINO's acquisition of Nokia money is a case in point