MicroSave India Focus Note 99

Can MNOs Lead the Way for Banking the Excluded? (1 of 2)

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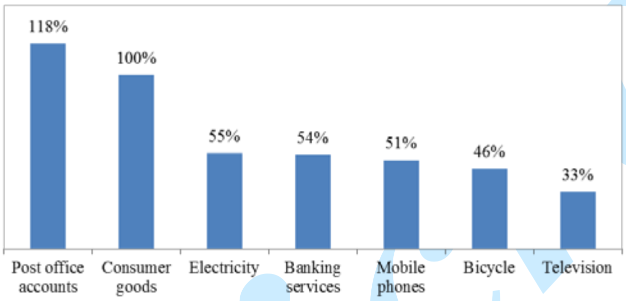
There has been much debate over the limited success of the business correspondence (BC) model in providing meaningful access to financial services to the poor in India. One common argument is that mobile network operator (MNO)-led mobile-money models have been more successful than bank-led models in several parts of the world.[1] Could MNOs emerge winners in India too? This Note, and the next in the series, examine how well MNOs are positioned to provide banking services, and what challenges and barriers they would face in the battle to emerge victorious.

Critical Success Factors for Organised Sectors

A good starting point is to examine the underlying critical success factors for organised sectors that have established large and profitable rural markets. Fast moving consumer goods (FMCG) and durables, mobile phones and related services, pharmaceuticals and two-wheelers all have respectable rural presence in India.

Figure1: Rural household penetration[2]



The common underlying capabilities enabling wide outreach and penetration were:

- product utility and relevance at acceptable price points that created both consumer pull and channel push;
- depth and breadth of reach by riding on large, lean, agile and low-cost multi-product distribution networks;
- ability to realise economies of scale, and of scope, across the value-chain;
- wherewithal to invest in marketing to create awareness for product category and brand building;
- ability to constantly innovate to stay ahead of the competition in a market that is rapidly crowded with multiple players following a "me-too" strategy, once an opportunity is proven; and
- a risk appetite to make long-term investments before realising returns.

Distribution Networks

A deep distribution network is an extremely vital and an asset that is difficult to replicate in India. Therefore effectively leveraging existing infrastructure to reach consumers and deliver multiple services riding on these 'common rails' is likely to be essential for success.

Comparing the different distribution networks with banking or even merchant POS terminals (accepting credit, debit or prepaid cards) highlights the advantage of following an FMCG or an airtime resale distribution model to expand the outreach of banking and financial services.

Figure 2: Channel outreach

Category	Number of outlets[3]
All retail	14 million
Groceries	7.8 million
Mobile top-up	1.5 million
Pharmaceuticals	1.4 million
Merchant POS	0.6 million
Post offices	0.15 million
Mobile handsets	0.12 million
ATMs	0.08 million
Bank branches	0.07 million
White goods	0.05 million

Another important dimension is the distinction between sales and service outlets. (For example 0.12 million retailers sell mobile phones and about 1.0 million sell SIM cards/starter packs, whereas airtime can be purchased at 1.5 million mom-and-pop shops). This strategy needs to be tailored for financial services by differentiating agents, who would do enrolment, sell products and provide customer service, from retailers who would only do cash-in/cash-out (CICO) transactions.

Reviewing the genetic fabric of most institutional business correspondents (agent network managers) reveals that the sector is crowded with first generation entrepreneurs. Their operations are localised or thinly spread out and difficult to scale. They have cumulatively reached a very small percentage of the unbanked population. Many are, unfortunately, eager to tap the one-time revenue from enrolments and government social security payments, rather than build lasting businesses that will benefit the excluded. Others have carved a niche by restricting services to migrant remittances in the large metro cities. Even after many rounds of funding, many of the incumbent BCs do not

[1] *MicroSave* Briefing Note 71; Mas, Ignacio, (2010) Mobile Payments go Viral.
[2] Census of India 2011. Households rather than individuals being units of earnings and expenses, penetration at household level is often a better metric.
[3] Various research reports and *MicroSave* analysis

seem to be geared up for large scale expansion; or to want (or be able) to introduce more banking products, or to invest in marketing, awareness building and consumer protection.

MNOs' Key Advantages

How do MNOs compare with institutional BCs?

1. They have established multi-layer distribution networks, with over 1.5 million retailers selling airtime and providing extensive urban and rural coverage. One can easily find mobile recharge vouchers stocked next to shampoo sachets or food grains in small remote hamlets. A large percentage of these retailers are multi-product outlets and not dependent on a single line of business. This is fundamental to their viability and to a symbiotic relationship with their suppliers. MNOs can leverage a large number of airtime resellers as CICO agents. Moreover, MNOs understand the agent channel needs and motivations very well and can therefore manage them effectively.

2. The MNO business model is based on usage (high volumes of small value transactions), and therefore more aligned to the willingness and ability of the poor masses to pay in small sums; unlike the traditional bankers' business model that is based on float.

3. Mobile pre-paid platforms that manage high volumes of low value electronic recharge are very synergistic with the needs of electronic or mobile banking (e/m-banking). These platforms also allow the ability to offer highly customised and relevant products (supplemented with capabilities for fine segmentation and analysis of usage trends). They also permit the delivery and management of several different product variants simultaneously on their systems (such as multiple rate plans) – a capability that mainstream banking systems typically lack. Moreover, MNO communication networks permit real-time authorisation and settlement of transactions, again a capability very relevant, if not essential, for banking.

4. MNOs have high levels of brand awareness amongst poor and rural customers that can be leveraged well for cross-selling financial services. MNOs also invest regularly and extensively in marketing and promotions to create channel and consumer awareness.

5. Telecommunications is a well regulated service industry, similar to banking. Thus mobile retailers acquiring new subscribers are well equipped to handle KYC norms and service activation processes. They are equally conversant with mobile technology to conduct business.

6. Telecommunications is also an investment intensive and long gestation business. Thus mobile operators have superior capability to source funds, and make large investments with long time horizons for returns.

7. MNOs work through extensive partnerships, aggregating third party products seamlessly into their offerings. Most value added services (ring tones, music, games, wallpapers etc.) are partner products delivered by MNOs. They should therefore be well equipped to bundle and offer multiple banking and third party financial products (insurance, pensions etc.).

8. Last but quite importantly, in the current climate of hyper-competition, bottom-less price-wars, and commoditisation of voice and basic services, MNOs in India are highly motivated to offer stable, diversified value-added-services that have the promise of a substantial upside. Experiences in matured telecom markets around the world demonstrate the importance of services like mobile money in enhancing revenue (M-PESA in Kenya) and reducing consumer churn (in one case of a major African mobile money service by as much as 60%).[4]

Mobile operators can quite effectively play the role of market development through awareness building, consumer education and marketing mobile banking services. Initially the focus can stay on the consumer pull services like airtime recharge, remittance and perhaps utility payments. Once the consumers gain familiarity and trust, additional financial products to meet their life-cycle needs like savings, credit, insurance or pension products can be introduced.

MNOs, in certain geographies, certainly seem to be in a position of advantage to drive branchless banking, having made a good start with mobile money and wallet services. According to CGAP there are 30 implementations in Africa where MNO-driven financial services are already an important part of the financial inclusion landscape.[5]

Assessments[6] of MNOs' performance in India to date, however, suggests that the apparent advantages have yet not translated into roaring success stories on ground. Apart from teething challenges of introducing a new product category, educating channel and consumers, and fine-tuning the business model to meet retailers' earnings aspirations, there are several other barriers to Indian MNOs' ability to establish dominance in e/m-banking. These are discussed in the next Focus Note 100: "Can MNOs Lead the Way for Banking the Excluded? (2/2)".

[4] http://www.slideshare.net/CGAP/five-business-case-insights-on-mobile-money
[5] Ibid
[6] *MicroSave* Agent Assessments of >20 agent networks across India