



Advancing financial access for the world's poor

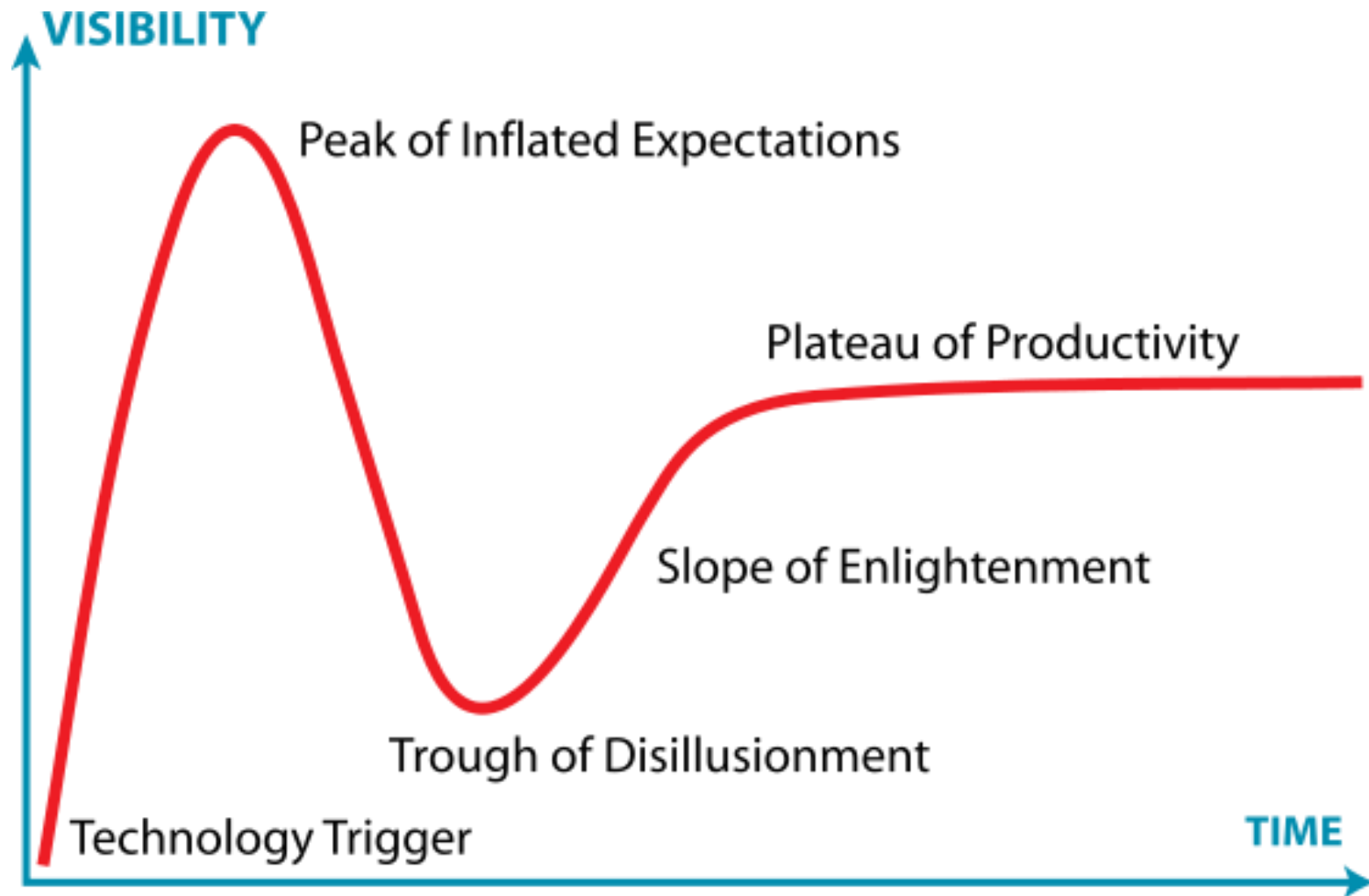
The Hype Cycle and Mobile Banking

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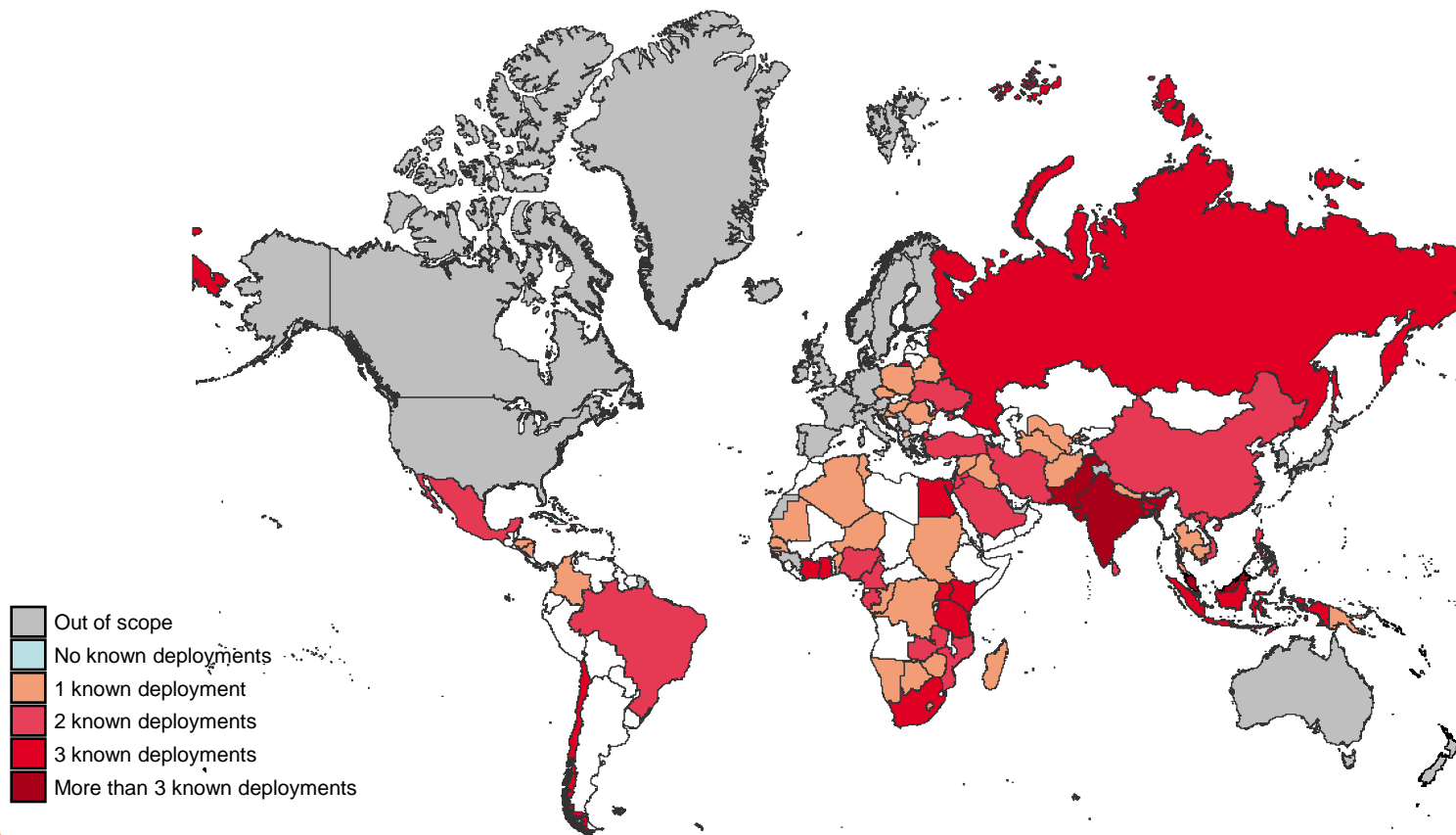
Mobile Money Summit

A technology roller coaster?

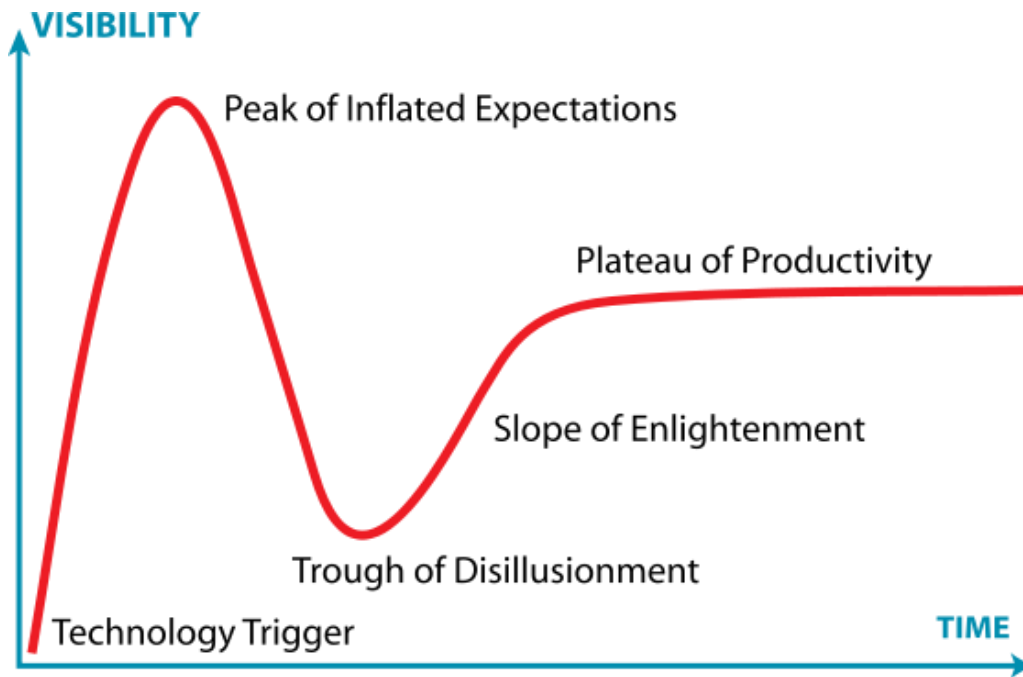


Huge potential

- 120 mobile money services this year in emerging markets
- 1.7 billion unbanked customers with mobile phones by 2012
- US \$5 billion in direct revenues for mobile operators by 2012



Where are we now?



CGAP's experience

2006: "This is cool!"

2007: "But how do we do it?"

2008: "Oh, this is harder than it looks and it takes longer than we thought."

Complexity of business arrangements observed today

Major business arrangements observed today	Low cost branch substitute	Business arrangement	Product types
	E-money distribution	<ul style="list-style-type: none"> • Deposit taking institution with additional full service channel to reach new segment <i>e.g. Caixa Economica (Brazil)</i> 	<ul style="list-style-type: none"> • Payments and tx accounts
	Mobile bank	<ul style="list-style-type: none"> • E-money issuer with distribution network for cash conversion <i>e.g. M-Pesa (Kenya)</i> 	<ul style="list-style-type: none"> • Remittances, P2P-Payments, tx accounts
	M-Wallet	<ul style="list-style-type: none"> • Deposit taking institution and mobile operator in JV or under common ownership <i>e.g. Telenor / Tameer (Pakistan)</i> 	<ul style="list-style-type: none"> • Remittances, Payments, tx accounts, savings
	Agent acquiring networks	<ul style="list-style-type: none"> • Common brand and service for multiple deposit taking institutions, e-money issuers, specialized loan inst., etc. <i>e.g. SMART (Philippines)</i> 	<ul style="list-style-type: none"> • Payments, tx accounts
	Payment services aggregation	<ul style="list-style-type: none"> • Cash conversion aggregation; need not be under common brand <i>e.g. Eko (India)</i> 	<ul style="list-style-type: none"> • Subset of financial services
		<ul style="list-style-type: none"> • A company contracting with several other companies (billers, merchants) for one-stop payment services 	<ul style="list-style-type: none"> • Payments

Success story in Kenya



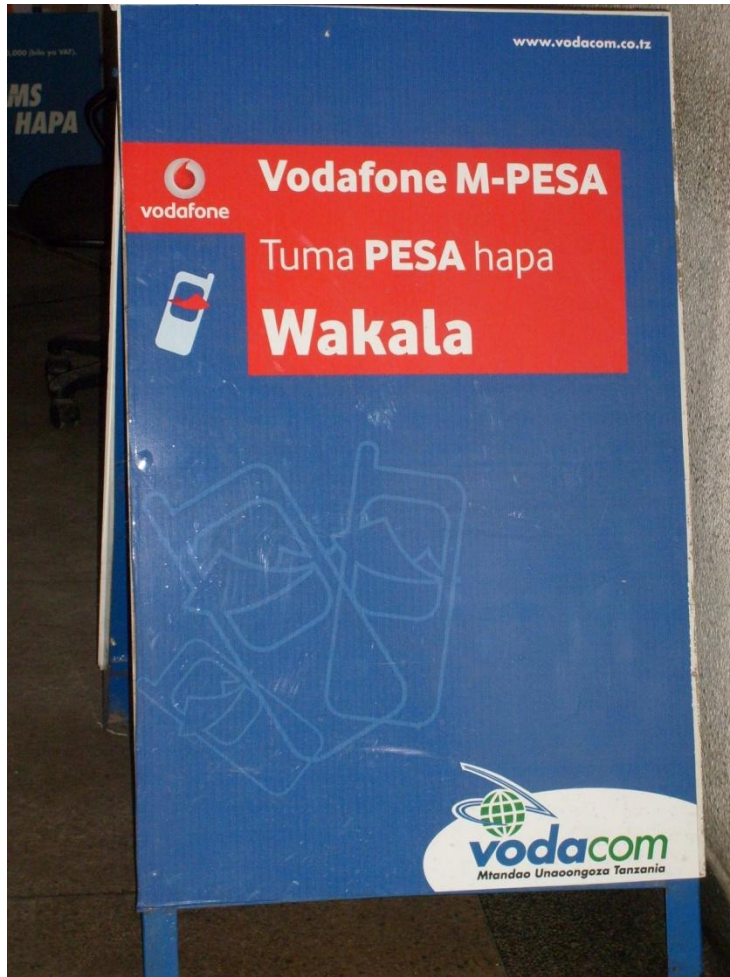
Current numbers:

- 6.3 million customers
- 9000 agents
- US\$170 million P2P in Feb. 2009

Customer satisfaction:

- Users say it is faster (98%), more convenient (97%), and safer (98%) than alternatives
- 4 out of 5 say not having it would have a “large negative impact” on their lives
- It is the main means of sending money for 50% of Kenyans

Slower start in Tanzania



Scale in May 2009 – a year after launch:

- 280,000 customers
- 930 agents
- US\$5.7 million in value in May 2009

Differences with Kenya: what counts?

Geography: Tanzania twice the size of Kenya.

Market share: 39% Vodacom vs. 79% Safaricom.

Agent network: Vodacom has 6 wholesale dealers to tap for agents vs. Safaricom's 300.

Marketing: Vodacom targeted better off customers in the beginning. Changed to "*M-PESA is easy, affordable and for everyone*" later on.

Technology: Vodacom uses USSD while Safaricom uses STK.

Complexity in India

Huge Potential

- 400 million SIMs, 15 million new mobile users added every month, 70% of population has access to mobile telephone networks
- Only 55 million bank accounts out of 1.15 billion population

But Regulation

- Bank accounts and MNO interoperability required
- No private for profit distribution network permitted

So complex business models

- Agents as “middlemen” between banks and MNOs - Eko
- Restrictions on MNO ownership of agent networks
- Card use for government payments ?

Three key areas to be addressed to avoid the peak of inflated expectations

1. Regulation

2. Customer Needs

3. Distribution Networks



1. Regulation

Regulation is sometimes a constraint but not the only obstacle and often not the primary challenge

- Number of countries where nonbanks have found accommodation is larger than where it has been prohibited
- Globally, 4 in 10 countries permit banks to use agents
 - Of these countries, a majority permit agents to handle deposits (65%) and a sizable minority permit them to do KYC to open accounts (32%)
- Countries where regulation restricts MNOs to carrying data and where agent restrictions stunt viability are the exception

There is more to be done but regulators are learning quickly and many are in the process of making adjustments to open space

2. Customer Needs: reaching deeper

More can be done to reach unbanked and poorer customers

- 70% of M-PESA customers are existing bank customers who are mostly employed and relatively better off people. While there are more than 2 million were previously unbanked customers, many more unbanked people remain to be reached.
- An estimated 150 – 200 million families worldwide receive social safety net payments from governments. Mobile money businesses serve a small percentage of these people in only a few countries.

2. Customer Needs: payments +

Customers want more than payments and try to fit services to meet their needs

- M-PESA is *not* designed (or regulated) as a savings product

↓ BUT

- But more than 30% of banked M-PESA users say they now use M-PESA as a way to “store” because money is easily accessible. And almost 60% of Philippines customers want savings services

↓ SO

- Customers clearly want more than payments
- How do we offer customers the services that actually meet their needs?



3. Distribution Networks

Being a cash-handling agent is not the same thing as selling airtime top-ups. This is harder to do than most anticipate.



Areas to address:

- Agent costs to get started and keep going
- Agent incentives for customer sign-up vs. customer use
- Who should *drive* the business? MNOs, banks, 3rd parties, partnerships?
- What role do “superagents” or aggregators play

Kenya: Agent Business Case

Airtime vs. M-PESA (US\$): 19 agents representing 125 M-PESA shops

	<u>Airtime</u>	<u>M-PESA</u>
Capital	129	1,605
<u>REVENUE</u>		
Gross revenue	3.77	16.11
# trans / day	163	87
Avg ticket size	0.46	16.95
margin	5.0%	1.1%
<u>EXPENSE</u>		
Liquidity mgmt	-	3.82
Space (rent + util)	0.73	0.73
Wages	1.21	1.21
Taxes	-	3.38
Cost of capital	0.28	1.95
<u>PROFIT</u>		
	1.55	5.01
<u>ROI</u>		
	373%	97%

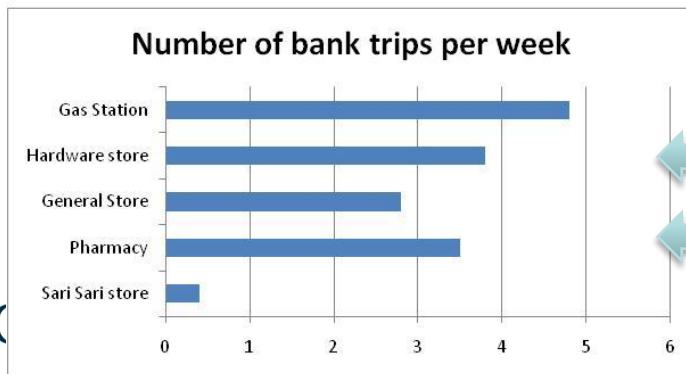
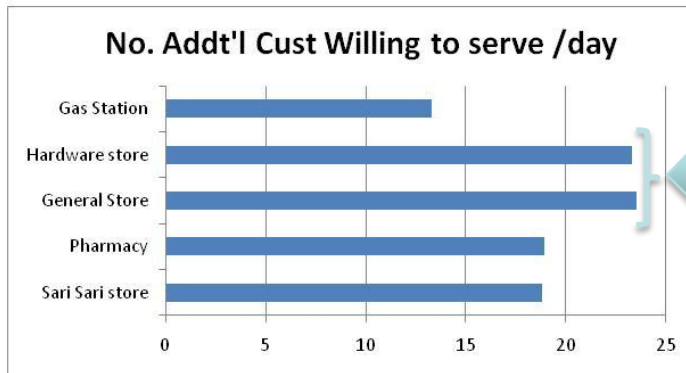
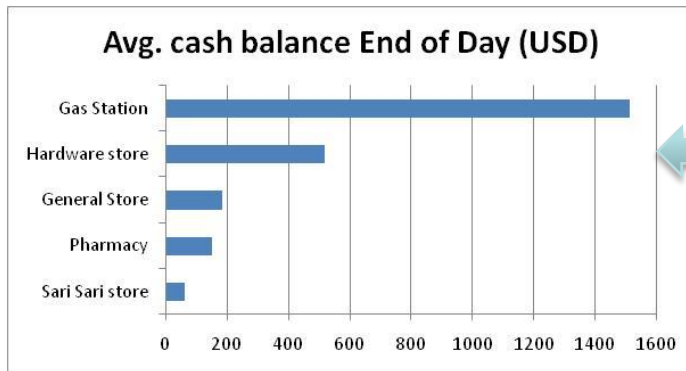
• Capital investment for M-PESA is much higher

• Transaction amounts are the key to higher revenues for M-PESA even though % margin is lower

• Costs are higher for M-PESA. The cost maintaining liquidity is the single highest cost (30%)

• Bottom line: the M-PESA business generates more profit

Philippines: Identification of Agents

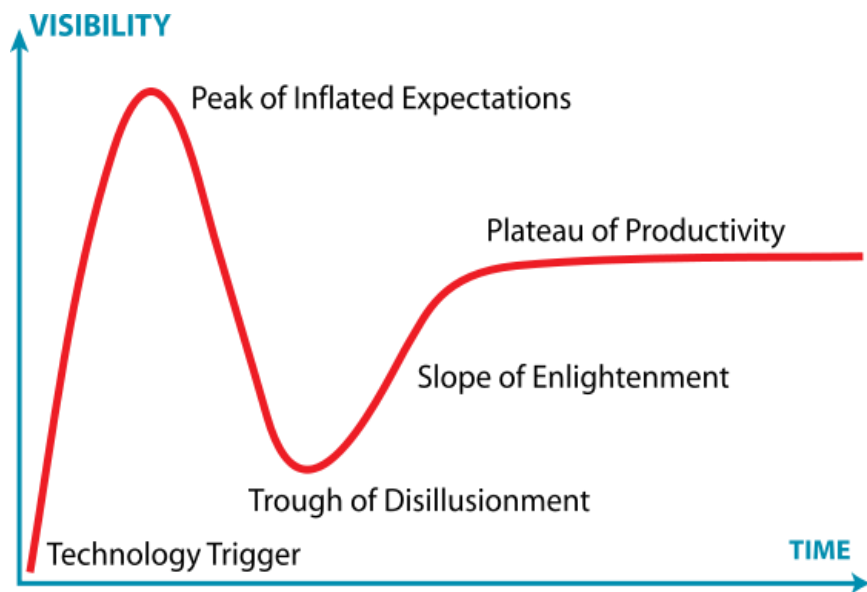


Different kinds of stores vary in terms of:

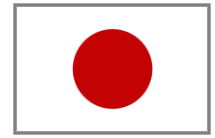
- **Surplus cash at end of day** - hardware stores seem to handle twice as much as rest of stores
- **Number of additional customers who might be served per day** (without adding more personnel) - varies between 12 and 23
- **Number of bank trips per week to manage liquidity of core business** - hardware stores and pharmacies go to the bank between 3 to 4 times a week

Branchless Banking Scenarios: 2020

Driving question: How can government and private sector most affect the uptake and usage of branchless banking among the unserved majority by 2020?



- 1999: Global mobile penetration 8% and no mobile money
- 2009: Global mobile penetration 50% and mobile money taking off
- Where will we be in 2020?



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