

MicroSave Briefing Note # 68

The Role of Partnerships and Strategic Alliances to Promote Mobile Phone Banking at the Bottom of the Pyramid

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Role of Partnerships and Alliances

For small banks and microfinance institutions (MFIs) planning to offer mobile phone banking solutions, a partnership or strategic alliance with Mobile Network Operators (MNOs), banks, and/or third party service providers is essential¹.

Over the past decade, MNOs have been quite successful at establishing strategic alliances and partnerships by tapping into local networks that allow for mobile phone services to reach the bottom of the pyramid. In 2003, Globe Telecom shifted from a scratch-card based airtime top-up system to an over-the-air top-up platform that developed a close alliance and working relationship with an extensive network of distributors and microenterprise operators that grew from 50,000 in 2003 to more than 400,000 in 2006².

It should be noted, however, that forming strategic alliances is challenging, especially when approaching MNOs, which tend to focus on volume first, and value added services second. Hence, smaller banks and MFIs will generally need to collectively work together in order to attract the attention of MNOs and offer a large enough value proposition.

Interesting examples of strategic alliances and partnerships between small banks, networks of MFIs, and MNOs that build on the competitive advantage that each of these players bring to the table include:

RBAP-MABS – GXI

Globe Telecom's G-Xchange Inc (GXI) realised the importance of strategic alliances and partnerships when they were approached by the Rural Bankers Association of the Philippines (RBAP) Microenterprise Access to Banking Services (MABS) programme that planned to help banks offer banking services that could be facilitated via the GCASH platform. This strategic partnership allowed both parties to build on their core competence and develop a full range of mobile financial services, especially mobile banking services that were suited to meet the needs of low-income clients and customers of multiple member rural banks. While on their own, each rural bank was too small to provide a sufficient value proposition for the MNO to work with them, as a collective group sharing a mobile banking platform, these small banks were able to provide a significant business proposition for the MNO.

The large and established network of rural bank branches, and the ability of RBAP and its established MABS programme, provided outreach to a large number of rural communities. This partnership leverages the close existing ties that the banks had established with tens of thousands of micro and small businesses and low income households in their communities thereby allowing them to more easily expand and offer mobile banking services in a wider number of rural communities. Likewise, the MNO was able to more quickly expand the use of their mobile money platform by leveraging the strong reputation and linkages that these microfinance oriented-banks had in their communities.

Under this initiative, five rural banks were able to register over 70,000 clients and employees for mobile phone banking services in more than 50 communities. In one small town, the Rural Bank of Cantilan was able to register over 1,200 mobile phone banking clients using the GCASH platform. With a total population of only 26,500 and approximately 6,000 households, the bank was able to help create and establish a fairly wide spread mobile payment and mobile phone banking ecosystem that benefitted both the bank and the MNO, and created a situation whereby clients were the ones that promoted the services.



(M-banking client of Cantilan Bank, Mr. Larry Bat-ao)

¹ Cracknell, David, "Electronic Banking For the Poor", *MicroSave*, p.17, September 2004

² A Grassroots Approach to Emerging-Market Consumers, *The McKinsey Quarterly* pg 5

M-Paisa – First Microfinance Bank

While **Vodafone** has been very successful providing mobile money transfer services using the **M-PESA** model in Kenya on their own, for their new initiative in Afghanistan, Vodafone and their local partner **Roshan** quickly recognised the importance of leveraging local MFI partners in order to provide increased access banking services, especially the access to credit via a mobile wallet. To accomplish this, they partnered with a large MFI, **First Microfinance Bank**, to offer loan disbursements and repayments via the M-Paisa platform³, thereby allowing the MFI to use the technology platform of the MNO, while the MNO was able to build on the existing network and large base of microfinance clients and thereby leverage the strong grassroots connections of an established MFI⁴.

Orange and PlaNet Finance

Realising the importance of strategic alliances and partnerships between MFIs and MNOs, France Telecom's **Orange** also recently partnered with **PlaNet Finance** to focus on developing mobile phone banking services, first in Senegal, and later in Jordan, Egypt, and the Ivory Coast⁵. By developing partnerships and strategic alliances at an early stage, both parties benefit from the core competence of the other party. Networks of smaller MFIs benefit from the investment of the MNO in managing and hosting a mobile banking platform that can even offer collection or accounting functions, thereby allowing the MFI to focus on its core business.

Joint Ventures between MNOs and Banks

More recently, large MNOs with substantial resources have been establishing or investing in joint ventures with banks. These include: **Telenor and Tameer Bank**; **Globe and BPI**; **Orange and BNP Paribas**; and **Orascom and Ora Bank**.

Telenor and Tameer Bank

The relationship, and ultimate investment made by Telenor, grew out of a strategic alliance that started after Tameer Bank decided that mobile phone banking services would be the best channel to effectively reach out to rural clients. To do this, the bank choose to use a **STK (SIM Tool Kit)** solution that required a very close and integrated partnership with a MNO, in this case, they choose to work with Telenor which had 18 million subscribers in Pakistan. They also choose to take advantage of Telenor's prepaid card distribution network in order to distribute their new SIMs as well as to act as cash-in/cash-out agents for the bank. Tameer Bank had already determined that the new service would be co-branded with the MNO in order to reach out the millions of subscribers who had a strong affinity to MNO but were not bank clients.⁶ After realising the advantages of

having a bank license to facilitate mobile money, Telenor decided to acquire a 51% share in Tameer Bank in November 2008.

Role of Third Party Mobile Phone Banking Service Providers

In addition to partnerships and alliances between banks, MFIs and MNOs, there is also another partnership model, which includes outsourcing some of the functions of the bank or MFI or the MNO to a third-party service provider. This includes aggregators who make use of mobile phone technology to facilitate certain functions of a bank or MFI.

Eko India

In India, one such model is that of **Eko India**, which provides access to low cost mobile financial infrastructure including IT and non-IT services for financial institutions including banks and MFIs. **Eko India** works along with **Eko Aspire Foundation (EAF)**, which acts as a Business Correspondent for banks. **Eko** has developed a banking platform called "SimpliBank" which provides a low cost financial infrastructure that leverages the efficiency of the existing pre-paid recharge distribution network model and the customer behavior associated with prepaid airtime top-up. The third-party platform operated by **Eko** is intended to operate as a hosted mobile phone banking platform for various banks, MFIs, non-banking financial companies, personal loan providers and remittance outlets.

Summing Up

Small banks and networks of MFIs interested in offering mobile phone banking services will need to develop strategic alliances and partnerships with larger banks, MNOs and/or third-party mobile phone banking service providers. Smaller banks and MFIs will often benefit more from working together to share a mobile phone banking platform. This also creates certain economies of scale and a more promising business case for larger banks or MNOs that could host a mobile phone banking platform for the smaller banks or MFIs. Increasingly, MNOs offering mobile money platforms are also investing in or developing joint ventures with banks to more rapidly increase the range of services and uptake of mobile financial services. This can also create an opportunity for smaller banks and MFIs wishing to take advantage of mobile money platforms to facilitate access to banking services.

Lastly, third-party mobile phone banking service providers will also continue to play a role for banks as well as small MFIs who would prefer to outsource certain banking functions and turn over much of the technical development and management of an agent network to a third party.

³ M-Paisa is the name used by Roshan for their m-money platform in Afghanistan

⁴ Interview with Aiaze Mitha, formerly of Roshan.

⁵ PlaNet Finance Press Release October 27, 2008

⁶ **Mas**, Ignacio, and Kabir Kumar, "Banking on Mobiles: Why, How, for Whom?" Focus Note 48, Washington D.C. GCAP, June, 2008.