

# MicroSave Briefing Note # 82

## Practical Advice to Reach a Tipping Point in M-Banking Solutions

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M-banking is maturing into a global industry, such that it is possible to determine the steps that providers have taken to reach a tipping point. This Briefing Note seeks to provide pointers and ideas for achieving scale.

### Provide Value in Addition to Cash

Any mobile banking solution has to contend and compete with the ubiquity, accessibility and portability of cash. Furthermore, the value users receive must be sufficient for the user or seller to pay a transaction fee. This means that building a winning customer value proposition is the first, and arguably the most essential part of building successful m-banking solutions.

*For customers:* Why should customers put money in their account for purchases that they can do in cash? In Kenya, M-PESA's success is based not just on the remittance service offered, but also the high price of alternative options for transferring money and poor security of alternative mechanisms for moving cash.

*For merchants:* Accepting mobile payments can be cumbersome; however, merchants are able to handle transactions that they could not do before. Furthermore, they do not have to leave their premises, and can perform remote transactions for themselves.

### Incentivise Customers

The initial challenge, recognised by Wizzit in South Africa, is that users have to have experience an easy to use solution several times to build trust and familiarity. In the Philippines airtime top up provided this incentive. Every time Globe users load airtime they get a rebate, whilst SMART offers additional airtime. Once an active user base is established it is possible to graft on additional payment options.

Six months after launch Safaricom ran a promotion, which paid a small amount of M-PESA money to winning customers: this meant that 60-70,000 people experienced M-PESA. Subsequent promotions meant that Safaricom paid 240,000 people a small amount. These promotions cost broadly the same as other marketing campaigns, but generated huge user experience. For the same reasons, Safaricom also pays shareholders dividends through M-PESA.

### Build an Agent Network

Even with customers incentivised to try the solution, they need to have sufficient access points to enable these transactions to take place.

*Incentivise agents:* In the Philippines, initially agents wanted to charge very high fees due to existing incentives paid on airtime, this made it more difficult to create the agent network. Conversely, M-PESA paid commissions to its agents to register customers, which encouraged a rapid expansion in signed up customers.

*Build staff familiarity with the solution:* Staff familiarity with new products is vital. For G-CASH all staff members at one partner bank were paid through the solution, so all staff knew how to use it. This made them much more effective in selling the benefits of the solution.

*Determine characteristics of key agents:* Research in the Philippines showed that grocery operators, pharmacies and pawn shops had large amounts of cash to manage liquidity. They have to hold larger cash floats than airtime resellers as their average transaction sizes are significantly larger.

*Use existing relationships:* In the early days in Kenya, when Safaricom recruited agents, they had the advantage of long term relationships with a large number of exclusive dealers. Safaricom was able to add value to its existing offering to its agents.

*Build customers and agent networks simultaneously:* For almost all m-banking solutions it is vital to develop the agent and customer base at the same time. Unless the mobile network operator occupies a dominant position such as M-PESA, this may mean localised campaigns to build the agent and customer base simultaneously.

*Develop sub agents:* In the Philippines, anyone with a phone can become a cash-in /cash-out point, within the limits set by the regulator. So in a rural community there can be many informal agents - G-CASH resellers. In some communities large volumes of cash move through these networks.

### Build Key Transaction Drivers

The first product on an m-banking delivery channel must build transaction volume. This requires careful research within the target community. The experience of successful m-banking solutions shows that this factor differs from community to community. In Colombia bill payment was the vital area to develop. Research found more than 30 different household transactions related to paying bills. This meant it was possible to build large numbers of transactions quickly around bill

payment. In the Philippines, the key driver of transactions was inward remittances, on which the sender pays the fees. In Kenya the key driver for M-PESA is domestic transfers, which built on detailed understanding of Kenyan social and economic dynamics.

*Communicate relevance to customer:* The M-PESA product showed simplicity and relevance, Safaricom talked of only one thing for two years. The message was simply, “Send money home”. The market was not confused with multiple messages, until millions had tried M-PESA, and had it in their hands.

*Learn quickly from mistakes:* Pilot testing m-banking solutions is difficult due to the investments required in building agent networks. However, it is vital to learn quickly as course corrections can be very expensive. EKO in India did not have money to build agent networks through the network operator. “We started by using “spray and pray” methods of developing our network i.e. putting agents everywhere we could. However, we found that for the agent and super-agent had to see benefits in the first month. For us “spray and pray” costs were very high. Hand picking our agents has been better”.

*Ensure motivated actors:* Those that are likely to benefit from it, make the best sellers of the solution. One mobile network operator planned to provide a payment solution to banks, however, take up rate has been paltry at best. This is partly because banks were to be the sellers of the solution and they did “a terrible job”. Conversely when actors are motivated there can be considerable success. In the Philippines, Rural Banks could push in the communities better than the mobile network operators (MNOs). “We looked for agents who know everyone in the community, for example an elderly travelling salesman, got excited by G-CASH, everyone in town looks up to him. He was the perfect example of a maven - he won the micro-entrepreneur of the year from Citibank”.

*Target early adopters:* A key initial target for early sales are those customers who are more likely to adopt innovative products, these are called “early adopters”. Segmentation analysis can be used to identify individuals who are likely to fit this category, and highly targeted sales campaigns can be undertaken.

#### **Add Value to Existing Key Transaction Drivers**

Once the solution has launched and the key transaction driver identified, long term profitability is likely to be determined by adding value onto the solution and thus build more transactions and increased income from the existing user base.

There are a range of emerging products well suited for m-banking. In microfinance there are regular

disbursements and repayments of loans. However, mechanisms for disbursing microfinance loans must be carefully developed due to the higher relative size of loan disbursements, which create liquidity challenges. In the formal sector there are allowances and salaries, and in the state sector, social payments. Again, with social payments it is critical to design mechanisms for managing liquidity as these payments are often made in rural or difficult to reach areas. Over time, more loans are likely to be issued through mobile phones. However, if the full benefits of automation are to be derived, this may require credit scoring mechanisms to be developed for low income markets. Business to business transactions has significant potential in some markets once value chains are understood.

A service which offers significant potential is recurring deposit products that facilitate small regular saving to build useful lump sums. Susu collectors in West Africa provide a good example of this. However, one challenge is to build trust in the channel among low income customers. Another challenge would be the price per transaction for depositing small amounts of money.

#### **Who Pays and How?**

Historically people have not paid to deposit money or use cards: merchants would pay for the transaction in order to generate sales. The mobile payment environment is different. Yet, if the customer to pay for deposits then who is going to pay? Getting the economics right is important so that the chain of transactions can happen, otherwise customers are not going to use e-payments. Similarly if merchants need to be paid, who is paying for this – in principle this should be those businesses which benefit!

#### **Where to Offer Services?**

A study conducted in the Philippines shows branchless banking is particularly attractive in isolated areas where payment options are limited. This strongly suggests that it is possible to reach isolated conflict affected areas with m-banking. The challenge in is whether transaction volumes can match the costs required to establish these remote networks, especially before m-banking solutions have reached maturity.

#### **Massive Potential**

As a final remark, m-banking is building infrastructure which will be leveraged in many ways in the future. The current success stories of M-PESA, Globe/GXI and SMART give an indication of significant potential, but the picture continues to evolve rapidly.