

MicroSave India Focus Note #111

Can You Really Use Mobile Money for Microfinance? Lessons from a Pilot

Akhilesh Kumar Singh, Lokesh Kumar Singh and Nishant Kumar

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Mobile money is receiving increasingly global attention as some observers hope that it will largely replace cash – in the long run at least. MFIs stand to gain immensely from the advent of mobile money as (*inter alia*) they have to deal with large amounts of cash, often in remote areas.

The potential benefits of replacing cash with mobile money, led to a partnership between a large mobile network operator (MNO) and a mid-sized MFI in Uttar Pradesh. The partnership has provided valuable lessons for the MFIs and MNOs seeking to set up a sustainable mobile money-based systems. In this Note we examine the evolution and mechanics of this partnership, and how MNO-MFI partnerships could be made mutually more rewarding in the context of mobile money deployments.

Why Partner?

For MFIs, the elimination of cash from the system addresses many of the risks related to it, and enables easy cash and account reconciliations. For MNOs the partnership brings a large captive client base making regular transactions. These benefits are hard to come by for both partners individually. Hence has the potential to be a mutually symbiotic relationship.

Why This Pilot?

The key objective of the pilot was to see if the, largely illiterate, borrowers were comfortable using a mobile banking system and willing to pay for the easy, doorstep and round the clock services.¹ If successful, of course, benefits would accrue to both the partners as discussed above.

Pre-requisites for Successful Take-off

Changing the customer interface from human to a mobile based platform, requires a behavioural shift in MFI clients. To facilitate this certain pre-requisites, or critical success factors (CSFs), were agreed upon by all the stakeholders. These CSFs are presented in the table.

How Was It Positioned?

Under the pilot, the MFI and MNO partnered to offer the MFI's clients the mobile money platform as an alternative window for making their weekly loan repayments. The MFI did not push its clients to use the mobile money channel as it would cost client around 1% of the transaction amount. Instead, the channel was offered as an additional option on top of the existing practice of physical cash collection.

As a Business Correspondent (BC) for a large bank, the MNO was able to offer savings accounts operated through the mobile platform. The larger, long-term idea

was to offer a bouquet of financial services to the MFI's clients - including loan receipt and repayment, savings, remittance, bill payment, as well as insurance premium payment and claim receipt. However, to start with only savings deposits and loan repayments were piloted.

MicroSave, as a technical partner, supported the pilot by designing the pilot test plan, systems and processes right from communication and marketing to repayment and day-end closing.

| CSF | Responsibility | Details | Responsible Partner |
|--|---|---|---------------------|
| Customer education and willingness to transact | Marketing and communication of the product | Behaviour change required to move to a self-assisted mobile based payment system Consistent messaging to highlight the benefits to the clients | MFI |
| | Responding to customer service and grievances | Once clients are on the mobile money platform they will have service related issues/ grievances needing redress | MFI |
| Investment of resources | MIS support to MFI | Requires technical support from MNO in the form of user friendly reports for reconciliation | MNO |
| | Preparation of sales pitch | To keep the sales pitch focused on benefits of using the mobile platform, and develop promotional material, for the channel and products. | |
| | Capacity building MIS modification Process modification | MFIs staff to be trained to sell the new payment method. MFI's MIS has to accommodate the additional payment method in account reconciliations. Processes for the new mobile money repayment method provided to clients | MFI |
| Infrastructure readiness | Customer Service Points | Given that the mobile based platform attracts user charges, there should be customer service points close by (within 1 – 1.5 kms of clients' residences) | MNO |

¹ See *MicroSave* study on "[Cost and Willingness to Pay](#)" to understand customer demand and willingness to pay for door step banking services.

Outcome of the Pilot

However, despite the meticulous preparation, the project quickly lost momentum as there was a deadlock between MFI and MNO on who should build and manage the agent network. The MNO wanted the MFI to manage it, while the MFI's contention was that managing agents would defeat the whole purpose of pilot as it wanted to get out of cash management.

Partnerships between MNOs and financial service providers at "Bottom of Pyramid" should be preceded by detailed deliberations about roles partners will play (see: [The Role of Partnerships and Strategic Alliances to Promote Mobile Phone Banking at the Bottom of the Pyramid](#) and [Mobile Payments: Rethinking Partnership Strategies](#)). However these issues were not given enough attention to upfront, as a result, this seemingly win-win arrangement failed because of lack of clarity of expectations amongst the partners. The initial understanding was that MNO would appoint agents within 1 - 1.5 kms of the MFI's group meeting places in order to promote mobile based repayments. Accordingly, the MNO went ahead with this understanding and mapped locations to appoint agents. However, when the business growth did not meet expectations, the MNO proposed that the MFI should manage the agents. The MFI did not agree to this arrangement and pilot came to a standstill.

Lessons

The most important lesson is the importance of setting reasonable and realistic expectations between the collaborating partners. In this particular case, the MNO promised to deliver services at locations very close to borrowers' residences. However once it started implementation, it realised the enormity of appointing such a large number of agents and, more importantly, managing these on regular basis.

One of the main reasons for difficulty in creating desired agent density was unfavourable agent-level business economics. This meant that, at the time of the pilot in early 2014, the MNO struggled to find the desired number of agents, and saw limited business growth for its mobile platform.

MicroSave has documented how important and difficult it is to ensure agents' satisfaction with mobile money business.² In this particular case a typical agent within the pilot geography had the potential to earn between Rs.500-600 (\$8-10) per month.³ This amount is only likely to be of interest to people with very limited business income of around Rs.3,000-4,000 (\$50-67) per month, who may perceive it as a good marginal addition to top up their current business. However, the

MNO pitched agency to larger businesses, run by better educated people, earning much more than this.

| Number of Clients and Repayments | |
|---|-------|
| Number of centers linked to the agent (within a radius of 1-2 km) | 4 |
| Average borrowers per center | 17 |
| Number of repayments per member per year | 50 |
| Average amount per repayment (in Rs.) | 291 |
| Total number of clients per agent | 68 |
| Total number of repayments per agent outlets per year | 3,400 |

Assuming that clients take up the offer (and many may not of course) this could provide a good, but probably not sufficient basis for a credible business case for some agents. However, if other services are added on top of these basic repayments, and offered to the whole population rather than just the MFI's clients, the business case for the agent seems clearer. These services will include deposit mobilisation, insurance payments etc. as well as the direct benefit transfers/G2P payments that are proposed by the government. However, all these depend, on the proximity and accessibility of the agent to his/her potential clients.

| Commission on Basic Loan Repayments, Top-ups & Savings Deposits/ Withdrawals in Rs. | | | |
|---|-------------|--------------|--------------|
| | Pessimistic | Neutral | Optimistic |
| Repayments | 4,947 | 4,947 | 4,947 |
| Saving ⁴ | 330 | 495 | 826 |
| Withdrawal ⁵ | 264 | 396 | 661 |
| Mobile Top Ups ⁶ (2.25% of recharged amount) | 557 | 743 | 929 |
| Total commission for the year | 6,098 | 6,581 | 7,363 |
| Basic monthly agent income | 508 | 548 | 614 |
| Additional Potential Income From G2P Payments (not including savings from the broader community) | | | |
| G2P (MNREGS ⁷ and NSAP) ⁸ | 321 | 483 | 643 |
| Total monthly agent income | 829 | 1,031 | 1,257 |

Our experience from this pilot is that there are obvious benefits from partnerships between an MFI and an MNO to provide mobile money facilities to the MFI's clients. Mobile money agents will also benefit beneficiaries of social benefit transfer schemes such as MNREGS and NSAP. This, in turn, will lead to better remuneration for agents. To realise these benefits, the business case for agents, that must form the backbone of this offer, has to be carefully analysed.

² See *MicroSave* Policy Brief #6 "Assessing Agent Profitability: *MicroSave's* Agent Journal Studies"

³ Calculated based on the current business volume of the MFI in the particular geography

⁴ Assumption - Rs.20, 30 and 40/week/client in pessimistic, neutral and optimistic case respectively and 0.5% commission on float

⁵ Assumption - An average withdrawal of 80%/account/year and 0.5% commission on withdrawal amount

⁶ Assumption - An average mobile top up of Rs.30, 40 and 50 in pessimistic, neutral and optimistic scenario

⁷ Average MNREGS and NSAP payment of Rs.386,067 per village

⁸ Assumption - 50%,75% and 100% G2P withdrawals through mobile money agent