The Enigma of Mobile Banking

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Mobile money systems: “holy grail” to bank the unbanked...

“The potential of mobile phones to revolutionize access to financial services in developing countries is exemplified powerfully by the success of M-Pesa mobile money service in Kenya”

“New uses for mobile phones could launch another wave of development.”
“The mobile service that is delivering the most obvious economic benefits is money transfer, otherwise known as mobile banking.”
The Economist, September 26th-October 2nd, 2009

... but so far the global experience is patchy


Conceptually, mobile money systems are very simple

Money in (inlet) → Network → Money out (outlet)

- Mobile money systems require a way for money (usually cash) to enter the system and a way for money to exit the system
- The system is usually thought of as the “mobile network"

In reality, the ecosystem is significantly more complex

Building the “inlet network” is a significant channel in itself, as it requires recruiting and managing thousands of “points”

Inlet network
Mobile company’s own network
Merchant network
Banks
Other correspondants

Network

Money out (outlet)

Network

Mobile company’s typical value proposition
- Airtime
- Payments
- Cash
- Savings

Drivers
- Widespread
- User-friendly
- Receiving network in place
- System considered safe
- Use of cash is “dangerous”
- Distance (outlet at different place from inlet): Transfers and remittances
- Except for temporary repository of cash, not explored
- Regulation (enters freely into banking arena)

Key variables that influence the driver
- System
- Regulation
- Scale of accepting network
- Security/safety
- Migration
- Brand equity of provider

Certain combinations of these key variables are essential for determining success or failure

More challenging than building the inlet network is building a good value proposition for the outlet network
More holistically, the complete ecosystem is quite complex

M-Pesa has concentrated on “cash in – cash out” (transfers)

In the Philippines, all players have extended into most parts of the ecosystem, except credit and savings

Oi Paggo is currently building its offer based on credit

Literature has identified certain enablers of mobile payment systems

The first enabler – reasonable wireless infrastructure and use – does not appear to be a determining factor. M-Pesa began offering mobile money services when penetration was around 20%
In countries where m-money initiatives have been launched, penetration of financial services has varied widely.

Even the strength of the financial system and the availability of credit shows no consistent pattern.

The cost of transfers (outgoing) also varies significantly from country to country.

Also, the cost to the sender of an (incoming) international transfer varies significantly.

Also, international incoming transfers (remittances) show a significant variance. They are relevant in the case of the Philippines and less so in the case of Kenya.

Domestic remittances (measured by internal migration and the size of rural population), also varies significantly within our case studies.
Security (as measured by the homicides ratio) also does not show a pattern

Our hypothesis:

None of the factors identified by the prevailing literature on the subject explains the existence and success of a mobile money system.

Except for very basic wireless penetration, none of these factors appears to be essential nor enabling.

As same companies have mixed experiences (M-Pesa in Kenya, Tanzania and Afghanistan), it is not solely dependent on the mobile company's abilities nor on its entrepreneurial skills.

A set of unique characteristics of each country, together with non-hindering regulation, will probably determine success on a case by case basis.

As more companies launch these services, some of them will manage to turn them into successes.

There appears to be no set of clear identifiable and replicable variables that serve as a basis for success.