



Roundtable on Mobile and Agency Banking
Discussion Paper

October 2014

Introduction

A recent study has said that mobile phones will outnumber human population by the end of 2014 reaching a staggering 7.3 billion against the human population of 7 billion. Over 100 countries have the number of cellphone accounts exceeding their population. By 2020, over 6 billion consumers will be connected to the internet with a mobile device. There are now more than 1 billion people around the world who have mobile phones but who have no bank accounts. Branchless banking regulation permitting banks to appoint agents to conduct banking transactions on their behalf have been introduced in many countries to expand the outreach of banks and the value and volume of transactions being done outside the bank branches is growing rapidly across most countries.

Most commercial banks across countries offer mobile banking solutions for their clients, with differing levels of sophistication and varying levels of activation. With the continuous expansion of the mobile user base and increasing demand for mobile financial channels, mobile banking is poised for growth. There are 352.1 million mobile banking customers at the top four Chinese banks, (according to their 2013 annual reports). That's more people than live in the United States and this number of mobile banking customers is growing rapidly, as a large majority of people in China have access to a bank account (64%). In India, there are 900 million mobile subscriptions, 450 million bank accounts and only 67 million mobile connections are linked to bank accounts. Most banks across the world, offer additive mobile banking service for their existing client base, where mobile is an additional and more convenient access channel. On the other hand, countries with low banking penetration and high mobile penetration have seen rapid rise of mobile money service being offered by mobile network operators. In June 2013, there were over 203 million mobile money accounts worldwide, and of this half were in Sub-Saharan Africa only. There are atleast 9 countries already where registered mobile money accounts exceed bank accounts: Cameroon, Congo, Gabon, Kenya, Madagascar, Tanzania, Uganda, Zambia and Zimbabwe.

With the rapid growth of mobile usage, combined with advancement of technology and facilitative regulation for expanding the reach of financial services, there is tremendous opportunity for transformational innovation through mobile and agent networks to reach out to underserved customers, introduce new products, deepen customer relationships, explore new sources of revenue and rationalise costs.

Roundtable Discussion Session I: A threat or an opportunity for banks and providers of financial services?

Digital mega trend is profoundly impacting all businesses globally. Ubiquitous and high speed connectivity, instant information, cheap and unlimited storage, secure digital identity, influx of multi-feature and affordable access devices, are all contributing to a rapid change in the ways consumers can be served. We have seen the complete transformation of the music and media industries with the advent of digital.

Some of the long standing paradigms in banking and financial services may need to be revisited.

Current Paradigms	Emerging Paradigms
Financial services is a serious business and needs direct contact and documentation	Financial services are a virtual product and can be offered remotely
Brick and mortar presence is core to building trust and confidence	Positive customer experience and excellent service quality builds trust and confidence
Get the customer to come to the bank (defined channels) for what she needs	Be available wherever the customer is
Focus on the “stock” of deposit and loan balances	Focus on the “flow” of transactions and payments
All products – savings, credit, investments, payment services, should be offered by a single provider	Each provider may choose to effectively focus on certain products and services only

Iconic technology companies like Google, Apple, Amazon with their technological prowess and operational excellence have provided customers with unparalleled digital experiences. Customer expectations are being driven very high by their experience with non-bank digital companies – ease and convenience, targeted offers, instant fulfilment. With the introduction of Apple Pay, Apple has marked its entry in the payments business by offering a convenient and secure proposition to its phone customers. Global e-commerce leader, the Alibaba group, has led the way into microfinance with a dedicated lending arm called Alifinance, which relies on platform data and credit scoring to lend to micro and small enterprises trading on the platform. M-pesa, the mobile money service offered by Safaricom in Kenya contributes over 18% of the total revenue of the telecom company. Non-bank challengers are operationally built for continuous innovation, and are often more agile with remarkable “speed to market” with product and software upgrades. The line between services offered by banks and non-banks are getting blurred. Equity Bank in Kenya has through its wholly owned subsidiary announced its entry as a Mobile Virtual Network Operator.

Recognising the shifting trends, banking regulators have responded with different measures to promote competition, innovation and financial inclusion. The Central Bank of Brazil and the financial services regulator in Peru have issued regulation that allows for the creation of a new and specialized legal entity for e-money issuers under license from the financial sector authority. The Reserve Bank of India has recently issued draft guidelines for the licensing of “Payments Bank”. Regulators in many geographies have also been instrumental in driving payments infrastructure and common standards to adapt to new customer requirements.

Points for discussion:

1. What opportunities do these changes present, for redefining the provision of financial services to all? How can the breadth and depth of financial services be enhanced by leveraging emerging technologies?

2. What kind of synergies and partnerships are required to create a multiplier effect and a thriving digital ecosystem?
3. In the wake of rapidly changing technologies (swipe card to smart card to smart phone.....and more to come), how can you future proof your business model and investments?

Roundtable Discussion Session II: How can customer adoption to mobile financial services be accelerated?

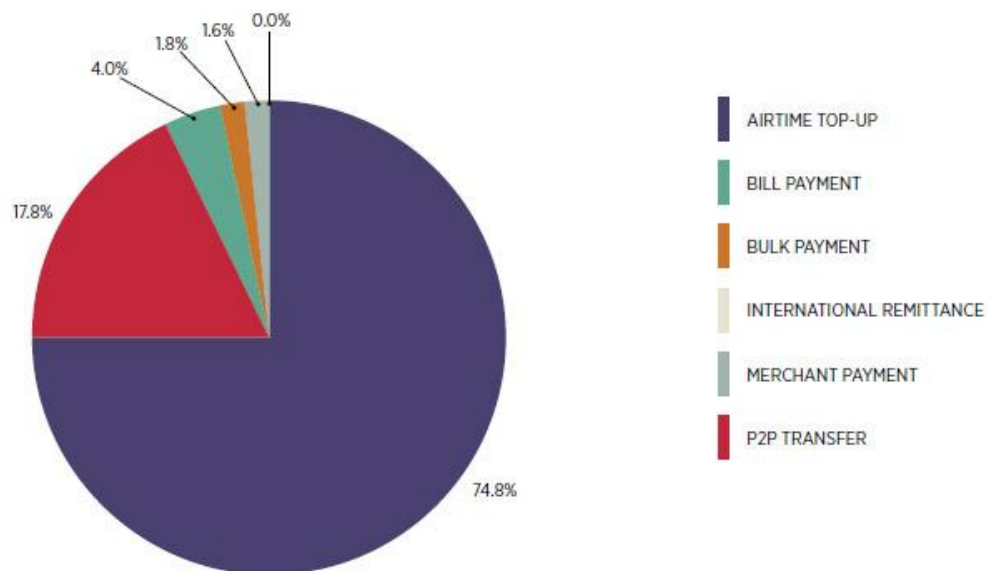
The proof of the pudding lies in eating it. Low customer activity rates have been a persistent challenge across the mobile financial services spectrum. For the purpose of this Roundtable, mobile financial service refers to the broad spectrum of transactions, payments, purchases, that can be done using a mobile device. It also includes mobile credit, savings, insurance services that allow customers to access these more effectively through the mobile, and not merely using mobile as an alternate channel.

Kenya is probably the only country to have more active mobile money accounts than adult citizens. Even though mobile penetration has grown rapidly in most countries, active usage of mobile financial services though growing is a fraction of the potential. At each stage from registration to activation, to become the medium of choice for most transactions, there are challenges that must be overcome. Distribution and reach, customer awareness and handholding provided to the customer could play an important role in the customer onboarding process. It requires massive scale, dedicated focus and persistent efforts to get across this first chasm. Customers, who have a positive experience at the point of registration, might be encouraged to transact on the same day. There is evidence from mobile operators that suggests that there is a stark difference in future activity between customers that transact at the point of registration and those that do not. Customers who transact at the point of registration are more likely to be future active customers. It therefore becomes imperative that

financial services providers have processes that allow instant activation on registration. Many banks that have a process that involves a time gap between registration and the account becoming “live” on mobile (several days in some cases) could see significant drop-outs.

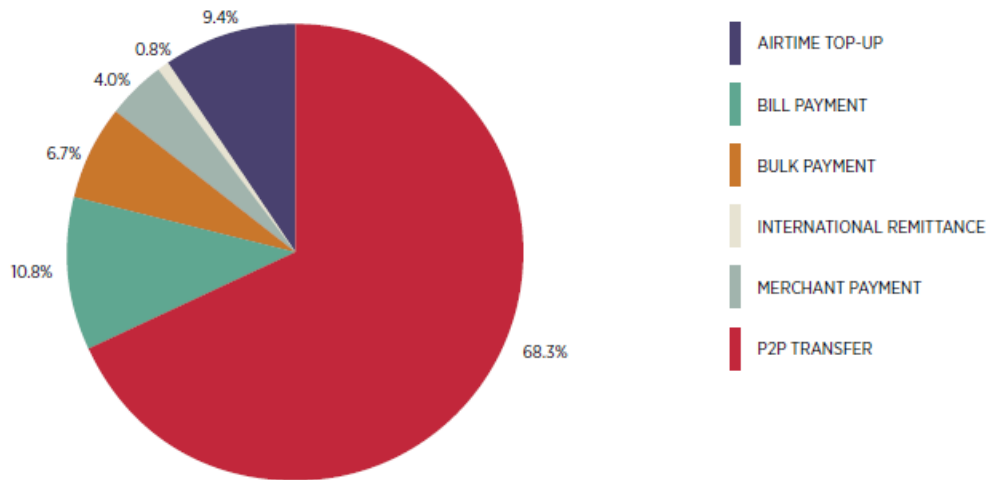
Wide availability of products and services through the mobile is another important factor in driving usage.

GLOBAL PRODUCT MIX BY VOLUME (JUNE 2013)

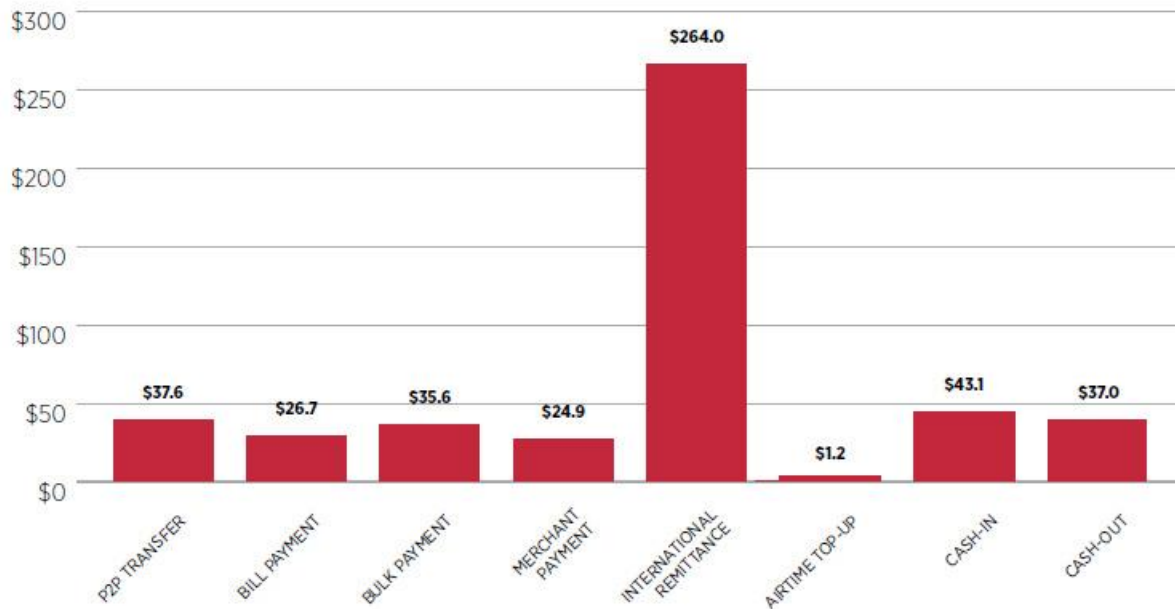


Source: State of the Industry, 2013, Mobile Financial Services for the Unbanked, Claire PéniCaud & Arunjay KataKam

GLOBAL PRODUCT MIX BY VALUE (JUNE 2013)



GLOBAL AVERAGE VALUE OF TRANSACTIONS (USD) PER PRODUCT (JUNE 2013)



Source: State of the Industry, 2013, Mobile Financial Services for the Unbanked, Claire Pénicaud & Arunjay KataKam

As the graphs above show, airtime top-ups, domestic P2P transfers and bill payments are the main stay products that have evolved. But efforts need to be made to develop the following opportunities as mainstream mobile financial products.

1. **Merchant payments** across the wide spectrum of big and small shops and stores. Kopo is a merchants solution company in East Africa that enables small and medium businesses to accept mobile payments and networks with hundreds of businesses from salons to restaurants to office supply stores on one hand, and providers of mobile financial services on the other hand. Ecocash in Zimbabwe motivates its customers to use mobile payments to make small purchases at corner stores to avoid the problem of exact change. NFC technology allows a payment by touching or tapping a mobile device to a contactless terminal and can be used by commuters for bus fares, shoppers at in-store checkout counters, fast food chains, parking tickets, etc.
2. **E-Commerce payments**. This refers to the purchase of goods and services through online payments. In 2013, Alipay, the payment arm of the huge Chinese e-retailer Alibaba Group, had 100 million users, who completed over 2.78 billion mobile transactions with a total value topping \$148.43 billion. In India, there are more than 200 mn internet users and more than 75% access the net through the mobile. The e-commerce industry presently at about US\$ 10 bn in India is growing at a rate of more than 50%. However, a significant majority of the e-commerce payments are through “cash on delivery”.
3. **International remittances** – Developing countries received over \$400 billion in remittances in 2012 according to a World Bank report. In these markets, using mobile for international transfers represents a tremendous opportunity that would benefit both customers by making transfers quicker and more convenient.
4. **Savings and credit products** – Commercial Bank of Africa, the second largest bank in Kenya, offers a mobile based savings and loan product called M-shwari. Customers can apply for a quick loan approval, open a bank account, get loan disbursement and make

loan repayments all through the mobile only. Algorithms using airtime purchases and call history data for credit scoring allow loan providers to measure purchasing power and reliability, lower cost of customer acquisition, and reduce default rates. Lenddo operates in Philippines, Mexico and Colombia and is making loans based on social reputation – data about who you know on social networks and what those people say about you is used as an important input in determining if you’ll repay a loan. This helps reach out to an emerging middle class who have not been traditional customers of banks and do not have financial histories. Musomi in Kenya is the first MFI to go 100% mobile using mobile money transfer service for all loan repayments and disbursements. Mobile based savings products provide a safe and secure alternative to cash which is prone to thefts and spends.

5. **Insurance products** – Tigo Kiiiray in Senegal is an example of mobile based life insurance product. Kilimo Salama—a micro-insurance program from Kenya—provides mPayment linked crop insurance to farmers. Farmers purchase insurance via their mobile phones and, if weather stations show loss, all farmers are paid, regardless of actual field losses. Using mobile technology, micro-insurance could reach millions of smallholders.
6. **Value added services** – Banks can enhance customer experience and build better loyalty through rich mobile applications. Commonwealth Bank of Australia’s Property Guide App for its prospective mortgage customers provides a unique and user friendly tool to make their property search easier.

A key component of rapid mobile phone uptake is the increase of “digital footprints” in the form of mobile phone and mobile payments records. Using non-traditional data and analytics to capitalise on this information presents significant opportunities for financial inclusion and to manage risks better.

Points for discussion:

1. How to create an attractive customer value proposition for mobile financial services?
2. How can there be better collaboration amongst market players to adopt common standards, common infrastructure, inter-operability and yet retain their unique proposition for their customers?
3. How can customer confidence in using mobile financial services be enhanced through adequate client protection practices around usage of client data, security against frauds and errors, transparency of charges?
4. What kind of customer grievance redressal mechanism should be built by providers of mobile financial services, such that it's quick, efficient and cost effective?

Roundtable Session III: How can agent network be made an effective partner in providing financial services?

With a view to expand the outreach of banks and reduce “cost to serve” for the small value transactions, regulators across many countries, permit banks to appoint a retail or a postal outlet or a trusted local establishment or trusted local person as an agent or a business correspondent (BC) of the bank and offer on its behalf a range of services such as accept deposits and payments, make withdrawals, make transfers and source new customers. The ease and utility of this channel has resulted in agents rather than bank branches becoming the face of the financial industry. In many countries, the agent outlets far outnumber the bank branches. However, a major challenge for the industry is ensuring agent activity and quality of service.

While digitisation may overtime lead to lowered emphasis on a physical presence in the form of an agent outlet, for now agents play a useful role in accepting and dispensing cash, in enabling “assisted” transactions for transfers and payments and also as a distribution point for new customers. While it is hard to get aggregate data on bank agents, there is evidence that a large

majority of registered agent outlets are not active, and where they are active, the number of active customers per active agent is not a very encouraging ratio.

Multi-brand agent: One of the ways to improve financial viability for an agent is to operate as non-exclusive agent for multiple banks. While this is a common practice in the telecom sector, most bank agents are exclusive. In Peru, while the large banks had their exclusive agent network, Globokasnet established a multi-brand agent network for all banks and financial institutions. The customers prefer this option as it offers them inter-operability and ability to manage multiple transactions through a single outlet. The aggregated traffic made the proposition more viable for the agent. Banks were reluctant to accept this initially, but eventually saw the merit in the proposition of having a shared network especially in far flung low density areas.

Reliability of service: In order to build trust and confidence with the customers, it's important to ensure that there is no "downtime" and the agent is always able to transact. It therefore becomes imperative to have a robust agent network administration with IT support, "always on" connectivity and quick trouble shooting mechanism. Agent needs to invest in working capital and have sufficient liquidity to handle the flow of transactions intra-day.

Proper selection of agent, continuous engagement and skill training and sufficient earnings for the agent are important factors to make the agent network effective.

Points for discussion:

1. Agent motivation to put in required effort and resources is based on his potential for earnings. Increased footfall, high transaction volume, providing value-added services like pick-up point for e-commerce merchandise, are some of the attractions for the agent. What has been the experience of various banks and mobile network operators in enabling these?

2. Is there a need for proper institutionalization of agency banking to ensure hassle-free service delivery for the agent as well as for the customer?
3. Is there a case for convergence of the mobile agent network and bank agent network?
Or is there a special skill set and profile required to be an agent for financial services?

Roundtable Session IV: Profitability and adjacencies

Mobile financial services present an exciting opportunity to expand the reach and depth of financial products and digitisation of the economy. Full scale commercial implementation of mobile financial services requires a multitude of players i.e. Government, Banks and financial institutions, Mobile Network operators, agent network and mobile equipment vendors.

Government: Bulk payments from the government like direct benefit transfers, pension payments (g2p), if done through the mobile can result in significant volumes to drive adoption and usage. A recent paper evaluates the impact of biometrically-authenticated payments infrastructure on public employment and pension programs in the Indian state of Andhra Pradesh, using a large-scale experiment that randomized the roll-out of the new system over 158 sub-districts and 19 million people. It found that, while far from perfectly implemented, the new system delivered a faster, more predictable and less corrupt payments process without adversely affecting program access. The investment was cost effective as time savings to beneficiaries alone were equal to the cost of intervention. Overall, the results suggest that investing in secure authentication and payments infrastructure can significantly add to “state capacity” to effectively implement social programs in developing countries. While the opportunity is massive, its resource intensive and requires fully committed partnerships to make it work at scale.

Banks and financial institutions: The motivations for a bank to exploit the branchless banking model could be very different – balance sheet growth, geographical reach and penetration,

financial inclusion of the underserved, reduce operational costs, opportunity to cross-sell other products and services. However, it may require significant re-design of business model (strategy, technology, process, product design) to be effective – is it worth the effort?

Mobile network operators: MNOs are facing competition in their core business from services such as WhatsApp, Skype, etc. MNOs have a number of assets that they can leverage to offer mobile financial services, including distribution network, expertise in handling small value transactions and manage interoperable platforms. It's expected that mobile financial services could provide many indirect benefits in the form of lower customer churn, savings in airtime distribution, higher revenue per customer, apart from additional direct revenue stream. Can they build the necessary partnerships with the ecosystem to make this work?

Agent network: A strong and motivated agent network is a major factor in the success of mobile financial services. But the role is very different from their core business activity (running a shop, selling airtime, etc.) as it requires investment in training capital to understand the products and processes, and also financial capital. The agent needs to play the role to educate the customer about the services and motivate adoption. The returns on his investment both in time and cost should be sufficient to sustain his interest.

Points for discussion:

1. What are the key drivers of profitability for mobile financial services:
 - a. Scale and reliability – reach, ubiquity, error free
 - b. Inter-operability – The larger the network, the greater is the interconnections achieved through inter-operability
 - c. Velocity of money – volume of transactions
2. Is there a profitable business case for various incumbents to invest, innovate and drive this?

3. Are there are partnerships possible that could strengthen the business case for the partners collectively?

For any comments/feedback/queries on this please write to Smita Aggarwal at saagarwal.cafral@rbi.org.in