

Growing opportunities for telecom banking

The mobile money industry is in its infancy, but growing fast in parts of the world where more than 1 billion people have a mobile phone but no access to banking services. **Now operators can do what banks cannot.** TEXT David Callahan

▶ **A RECENT ADVERTISEMENT** on South African TV depicts the evolution of payment, from cavemen trading chickens for tools to 1970s hipsters paying for espresso with plastic. “Throughout history, money has changed hands and forms,” the voice-over says.

The next change, the ad declares, is Zap mobile money, “a revolution in commerce.” The message is clear: mobile money is just another form of money, only better.

Too poor to generate a profit for the banks, large segments of the population in emerging markets are turning instead to their mobile-phone operators for consumer financial services. Mobile money is proving to be a viable strategic move for providers that find the right partnerships, marketing and operational models.

A recent survey of 147 countries, conducted by GSMA and McKinsey & Co., found that nearly 45 million people without traditional bank accounts use mobile money services. That number is expected to grow as high as 360 million by 2012, if early adoption rates hold, resulting in an additional USD 8 billion annually in revenues.

Mobile money services typically enable customers to deposit funds by delivering cash to agents who credit the accounts using a special text-messaging system (a process called “cash-in”). Subscribers can use text messaging to make payments from their accounts to retailers or other users. They can also withdraw cash from any agent in the system (“cash-out”), and loans and other services are also offered.

AN UPHILL BATTLE

Within a relatively short period of time, services such as M-PESA in Africa and GCash in the Philippines have proven that the very poor are every bit as interested in financial services as the wealthy. In the Philippines, for example, 26 percent of active users earn

less than USD 5 per day, according to Consultative Group to Assist the Poor (CGAP). GSMA and McKinsey found that 65 percent of low-income households globally want to use mobile money as a savings vehicle, compared with 50 percent across all income groups. Among the poorest segments, about 10 percent have mobile money accounts with an average balance of about USD 31.

As of August 2010, the number of mobile money deployments in the world reached 160, according to GSMA. All of them face an uphill battle introducing a new product – and many will not succeed.

Be that as it may, the industry’s successes have yielded a number of best practices that were recognized at the 2010 GSMA Mobile Money Summit in Rio de Janeiro.

Success stories such as GCash, which is offered by Globe, underscore the importance of combining assets and capabilities from two distinct areas: telecom and banking. Furthermore, an extensive ecosystem of partners to manage cash collections and disbursements is required in order to expand the service and reach new customer segments.

TRUSTED BRANDS

GCash enables millions of Filipinos living abroad to send money home through partnerships with PayPal, BICS, Western Union and other large remittance companies. International money transfer systems are complex, but the payoff could be huge. Foreign workers and immigrants transfer an estimated USD 500 billion to 600 billion across borders each year, according to the World Bank. Furthermore, like every other successful mobile money operator, Globe’s subsidiary GXChange relies on partnerships with financial institutions. As the Mobile Money Summit made clear, regulators appear to favor these arrangements over operators that ▶

PHILIPPINES, market profile

MOBILE MONEY DEPLOYMENTS:

GCash Globe, SMART Money Smart (Philippines Long Distance Telephone Company, PLDT)

- ▶ Mobile penetration: **86.51%**
- ▶ Financial services: **26.00%**
- ▶ Urban population: **63.00%**
- ▶ Adult literacy rate: **93.40%**
- ▶ GDP (Purchasing power parity): **USD 3,515**

DOMESTIC FINANCIAL FLOWS:

- ▶ Cash payments: **USD 78,580 million**
- ▶ Direct credits: **USD 380,190 million**
- ▶ International remittances: **Inbound % of GDP: 11.20%**
Inbound total USD 18,643 million

By 2015 **1.4 billion people** will transact with electronic wallets, Edgar Dunn & Company, a payments consultancy, predicts.

Mobile banking will become a "must-have" when opening a new account

► Banks in developed countries will harness the power of the app and the smartphone to provide their customers with a much improved and personalized service experience. The sign-up process will be a simple box to tick in account opening processes from banks that are keen to make life easier for customers by proving the ability to manage their money on the move in what might otherwise be dead time. (Juniper Research prediction for 2011)

Track the progress of mobile launches with the GSMA's Money Tracker

► www.wirelessintelligence.com/mobile-money

GSMA research estimates mobile financial services could reach a previously unbanked market of 364 million by 2012.

► try to go it alone. Both sides clearly profit from a commitment to cooperation and shared benefit. Mobile operators gain the banks' expertise and capabilities in such areas as designing products and managing the flow of funds, while banks gain a cost-effective way to scale their services to wider, "down-market" opportunities.

However, case studies highlighted at the Mobile Money Summit show that it is important to determine each partner's roles and responsibilities. Insiders in the mobile money business say that an operator will more easily find banks ready to help if it envisions mobile money as a value-added service to increase its subscriber base and margins. However, banks might feel threatened if they perceive that the operator is becoming too deeply involved in financial services.

Operators enter the low-income financial-services market with one advantage over banks: brand recognition. CGAP reports that in the Philippines, for example, 25 percent of low-income consumers are more likely to know the brand name of a mobile operator than a bank. Nevertheless, only 13 percent of unbanked people in the Philippines express an interest in mobile money. Nearly half of those surveyed say they are uncertain. Targeting influential consumers and offering incentives to try the service appear to be effective ways to drive uptake. Sixty-six percent of Filipino mobile money users say they learned about their service through friends or family.

AGENTS ARE NEEDED

In many cases, mobile money competes against traditional savings and loan methods, such as hiding money or borrowing from relatives, according to CGAP. Participants in the Mobile Money Summit agreed that operators with a clear value argument to present to the consumer will stand the best chance.

The Mobile Money Summit also revealed that without an extensive network of agents to provide cash-in and cash-out services – not to mention merchants that accept mobile payment – mobile money services have limited appeal. There is evidence that proximity to an agent increases the frequency of use. A GSMA study found that when an agent is more than 15 minutes away, customers use mobile money once or twice per month.

When the travel time is 10 minutes or less, usage increases to 10 times per month. Consumers in emerging markets place enormous value on ease of use and reliability – qualities that would certainly appeal to their wealthier counterparts in mature markets, too.

Mobile money will remain one of telecom's top areas of interest for months to come. The business has moved briskly from the hype of 2008 to what GSMA Mobile Money Director Gavin Krugel calls "a deeper conversation based on real experience in 2010."

Time will tell, but that Zap ad campaign might have as much to say about the future as it does about the past. ●

Sources:

- MOBILE MONEY SUMMIT 2010: Unleashing the Power of Convergence to Advance Mobile Money Ecosystems, by Piya Baptista and Soren Heitmann (copyright 2010 International Finance Corp. and the Harvard Kennedy School)
- Window on the Unbanked: Mobile Money in the Philippines, CGAP (Consultative Group to Assist the Poor) Dec. 2009
- McKinsey Quarterly, Capturing the promise of mobile banking in emerging markets, by Christopher P. Beshouri and Jon Gravrak. Feb. 2010

“More telcos should do this”

Globe was one of the first telecoms to enter the mobile money business by launching its GCash financial services six years ago. Now that it's a part owner of a bank, the operator's next step could be savings and loans, says **Rizza Maniego-Eala**, head of Globe's subsidiary, G-XChange.

TEXT David Callahan PHOTO John Javonella

Is mobile money a good business for operators?

Definitely. Mobile money offers an opportunity to draw new revenue streams from existing telecom infrastructure. It also helps increase stickiness with consumers and partners. Mobile money needs to be a global industry to grow, just as SMS and voice have moved from being local operations to working across borders and networks.

Over the last 18 to 24 months there has been a big jump in the numbers of operators who have committed themselves to look more seriously at mobile money and who have done either system implementations or pilots. But I wish there were more telcos globally that were doing this. At least now there is a global move toward taking a more serious stake in this business.

What are the main GCash services that your customers use?

In addition to international remittance, and purchase of pre-paid airtime, domestic remittance is a big area for us. It includes money transfers, bank deposits and withdrawals, and the payment of salaries, incentives and mortgages. It also includes paying for goods and services as GCash enables merchants to convert their mobile phones to point-of-sale devices.

Is it difficult to get people to trust a mobile operator to handle their money?

Not really. Before we entered the mobile money business we had a strong pre-paid business, with customers prefunding their phones before using them. So this is almost an extension of trusting Globe to deliver services in exchange for the funds they put in their mobile phones.

Who are your main competitors? How far up the value chain do you see GCash climbing?

Any bank or remittance company would be our competitor, but we also view them as potential partners. For example, large banks are limited in their ability to expand into rural areas. But we can sweep the smaller trans-

actions in these areas in a cost-efficient way and deliver them back to these banks. They do not have to put up significant capital to do this.

In our model for growing services on the GCash platform, partnerships play a key role.

Do you see GCash evolving to become a full banking service?

From a regulatory point of view, we are a financial services company – not a bank – so we can do remittance and electronic money issuance, but we cannot offer interest income on savings or lend money. However, we do want to test models on the GCash platform that would help increase access to micro savings and micro lending. So we purchased a 40-percent stake in a savings bank last year, and that would be the vehicle for our company to offer savings and lending services with an emphasis on micro-financial transactions. ●



Rizza Maniego-Eala, head of Globe's subsidiary, G-XChange.