



## Mobile channel can bank the unbanked

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More than seven out of ten people in the world never use a bank at all. In this issue of the Goldfinch Report, GFG Group's General Manager for South East Asia, Peter Goldfinch, says the mobile channel offers a way to bring the unbanked in from the cold – at a profit. Peter's credentials have been earned over 23 years experience in electronic payments, including pioneering work on ATMs and EFTPOS, and the introduction of credit and debit cards in Russia.

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Providing banking facilities to the unbanked sector of the population throws up a number of challenges. These challenges vary quite differently between the developed and developing worlds. The unbanked sector of the population is in the region of 70-80% of the total world population, so this is an issue for the majority of people.

The USA has a significant Latino community which some have estimated to be more than 50% unbanked. This is made more significant because this community remits funds back to their home country. Approximately \$35 billion p.a. is remitted from the United States to other countries in Latin America. The total worldwide value of remittances is estimated at over US\$230 billion p.a. These funds are critical to many economies, and can account for a third of their GDP.

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Unbanked people who use banking services on an as-required basis find that they pay excessive charges. The services are not necessarily delivered by the banks. Frequently smaller remittance agents are used - many not registered - who offer lower rates but with a higher risk. Often remittances are delivered as cash. The services are often slow, unreliable and expensive.

A remittance study published by the Inter-American Dialogue Center indicated that the cost of sending an average remittance of US\$150 to Cuba was 16.67% or US\$25. Nicaragua was 10% and Ecuador was at the bottom of the table at 4.07% although the average amount was almost twice that sent to Cuba. The same report highlighted sending money to countries such as Pakistan and Turkey from Europe was a lot lower.

For the developing world the remittance challenges are similar for the micro loan sector. Access to funds via micro loans is a low risk highly profitable business sector in many Asian countries - such as Indonesia - for those institutions that participate.

The ability to secure loans to allow crops to be planted or to support the community when crops fail because of environmental reasons, the ability to save to self finance investment in tools and methods that enable yields to be improved is critical to improving the overall standard of living. Micro financing is also a key strategy in developing small business, and therefore local employment.

In countries such as Indonesia a network of community agencies has been established by banks to lend and collect payments.

A key challenge in both the developed and developing markets is connecting banking services to the unbanked populations.

For the developed world it is less physical and more one of attitude. The key factors are:

- Overcoming prejudices held towards banks. A Federal Reserve Survey conducted in 2001 suggests that 22.6% of the unbanked do not like dealing with banks. By comparison, insufficient money was offered as a primary reason for not having a banking relationship by only 14%, and high charges 10%.
- Location of banks, and business hours, is put forward as an issue but in the survey this was a reason for less than 1%.
- One size fits all in respect to products is also considered an issue. Products are developed to meet the needs of the higher net worth customers and not for the lower income market segment.

The single challenge for the developing economies is not to get unbanked to the bank but to get the bank to the unbanked. Payment and financial models begin to work when the points of access expand to a point of critical mass.

Further:

- Financial regulations are often inadequate or inappropriate, especially for the rural sector. Regulations relating to supporting infrastructure such as telecommunications are holding back the development of mobile networks.
- Banks don't have the long-term vision nor the skills and understanding to develop products. Banking needs go beyond micro finance, to savings services and an efficient payment channel(s).
- The infrastructure taken for granted in developed countries does not exist or at best is unreliable. For example:
  - Fixed line connections
  - Electricity
  - Technical support

The populations also have a high level of illiteracy.

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Many are looking to technology to solve the problems, especially with respect to access and providing a payment channel. The virtual agent is considered less expensive than extending the branch network.

Technology has some severe limitations if the infrastructure as mentioned above is unreliable or non-existent.

Mobile is being seen as a means to access the unbanked. The Philippines is promoted as one country where this is being achieved. A significant supporting factor is the mobile operators' greater penetration of the consumer base, compared to the banks. In general terms the Filipino banks penetration is approximating 30% of the population whereas mobile is approximating 60%. So simply mobile has a 30% greater penetration. This scenario is common across many of the developing countries.

But to achieve and increase this level of penetration the mobile operators need to:

- Reduce the denominations of an airtime reload. Smart Communications in the Philippines refers to this as the 'sachet approach' where airtime can be purchased a few minutes at a time
- Extend the airtime sales distribution network, especially into the rural areas
- Extend or enhance the capacity of the networks into the rural areas to ensure sufficient coverage and reliability
- Source low cost handsets, even if they are second hand from other countries

The mobile handset is required to be linked to a bank account. The mobile network through the handset allows the account holder to enquire on their account, to transfer funds to another mobile account, to perform bill payments and to make purchases.

There will still be the need to provide a cash dispensing services and this is the restrictive aspect of mobile.

Smart has resolved this in two ways.

- Firstly through issuing a branded debit card linked to the account. This supports ATM cash dispensing and cash out at the point of sale where such a facility is supported. In many developing countries the number of ATMs is low, and are not located conveniently for the unbanked. Rural penetration is non-existent and ATMs are an expensive channel even in the developed world.
- Secondly through specific merchants or agents supporting a funds transfer from the subscriber's account to a cash dispensing agent's account via the handset. Resellers of airtime who are accepting cash payments can also be used as cash dispensing agents.

A mobile payment scheme for the unbanked is also going to have to fight the same battle as any new payment scheme introduced in any country: achieving critical mass.

In the remittance situation in the Philippines it would be interesting to know how long funds stay in the mobile account. Are the remitted funds converted to cash immediately? Or does a percentage stay to be either saved or used for electronic payments. By expanding the scope to make electronic payments less will need to be withdrawn and held as cash. Savings held in the mobile account will improve.

Promoters of mobile banking services need to put as much effort into building up acceptance as they do into increasing the number of account holders.

Further trust in the service becomes a factor in increasing account holders. Trust will come with a history of reliability and integrity. As account holders increase, more will sign up.

For regulatory acceptance and customer acceptance the service needs to be a partnership between the banks and the mobile operators.

## About Peter

Peter Goldfinch, GFG Group's General Manager South East Asia, is a respected analyst and commentator on global trends in payment technology.

One of the original founders and shareholders in GFG Group, Peter has a background of more than 23 years in the information technology industry, most of which has been involved with consulting and systems development for banking and finance customers in 25 countries.

He has particular expertise and experience in payment systems, including mobile payment systems. His career highlights include pioneering work on the first ATM and EFTPOS networks.

In the mid-1990s, he played a key role in the introduction of credit and debit cards into the Russian market, working with GFG's customer SBRF.

## About GFG

GFG Group is a highly-specialised payment solutions company, providing its clients with products, advice, and systems integration and outsourcing services. Accredited by the World Bank, the company has established a global presence over the last decade – delivering leadership payment solutions to more than 50 customers in over 40 countries.

A key element in GFG Group's success is its focus on development and investment in five high-demand payment solution areas:

- Card Management
- Mobile Payments
- Payment Tools
- Managed Services

The company's core research and development team is based in Auckland with consultants and technical staff located in the international offices to provide front line 24 x 7 support for customers in multiple geographies.

GFG Group Ltd  
Level 10  
Qantas House  
191 Queen Street  
Auckland  
P O Box 5825 Wellesley Street  
Auckland

Telephone: +64 9 966 7041  
Facsimile: +64 9 966 7070  
E-mail: [info@gfg-group.com](mailto:info@gfg-group.com)

Banks bring to the service:

- In most countries a high level of trust and comfort for the regulators
- Payment methods and processes are well proven, delivering the reliability and integrity factor

Operators bring to the service:

- Access to a market segment not currently accessible to the banks
- The network necessary to support the payment transactions cost effectively

The challenges will relate to service branding and customer ownership. But more importantly a level of trust and spirit of co-operation between these two businesses is essential. Banks often see mobile operators as attempting to become banks. Operators see banks as traditionalist, slow decision makers and too risk adverse. For both banks and operators the unbanked sectors in the developing world offers a win – win opportunity.

Operators find that as they extend their networks to the lower social economic groups their ARPU declines. At some point the new customers cannot generate sufficient revenue to support the networks expansion. Bank services will increase usage and therefore ARPU.

Operators will find they do not need to share in the banking revenue. Sufficient revenue will be generated from their standard set of service charges.

Banks are possibly in a less fortunate position as they may need to develop specific products with lower charges than currently made to their more affluent customers. But the lower cost of using mobile and the size of the market should deliver them ample rewards.

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