Mobile money

What mature markets should learn from growth markets

Many banks in mature markets are treating mobile as just another channel. Failure to compete effectively in mobile money will likely have a serious impact on their core businesses. But there are lessons to be learned from banks in growth markets, particularly in five key areas.

Banks in mature markets can learn five important lessons in mobile money from growth markets – if they are bold enough to take on the challenge:

1. Think "essential" not "clever"

Instead of "What clever things can we offer on mobile?," mature-market service providers should ask, "What do our customers need that would be best done on mobile?"

2. Share the burden

There is a limit to how far one bank can push its ambitions for pan-regional market penetration. Past experience shows that cooperation is the only way to achieve lasting scale and profitability.

3. Open up for interoperability

To create interoperability, accelerate acceptance and gain trust, mobile-money services providers should leverage existing payment mechanisms commonly used in mature markets, such as an automated clearing house.

4. Scale is king

Rather than going for all-out innovation, banks in mature markets should focus their initial services on areas of high existing demand, to quickly achieve scale and tie customers into an "essential" service.

5. Embrace regulation and the essential role of government

Early, continuous collaboration with regulators is a preferred approach, particularly as it provides a chance to influence policy. Engaging governments also gives access to the scale they offer as mobile-money customers.

Mobile-money services – including mobile banking, mobile payments and mobile commerce – are a central feature of the financial landscape in growth markets. In mature markets, they are typically little more than add-ons, with limited user-bases and no compelling value proposition for either customers or providers.

Too many mobile-money providers in mature markets are focused on devices rather than services. They are building out costly point solutions with dubious value propositions and, consequently, unimpressive penetration. The experience of growth markets shows that mobile money is really about enabling the movement of monetary value from anywhere, to anywhere – reliably, conveniently, cost-effectively and securely. Today, that might mean sending a personal payment from one mobile phone to another, or making an in-store purchase using a tablet, or paying utility bills from a smartphone.

In the years to come, the devices will be radically different, so a device-centric strategy is doomed to obsolescence. Instead, the crucial element to focus on is the infrastructure that enables one entity to establish a financial relationship with another entity on a national or international basis, regardless of device or geography: in a nutshell, "banking without borders."

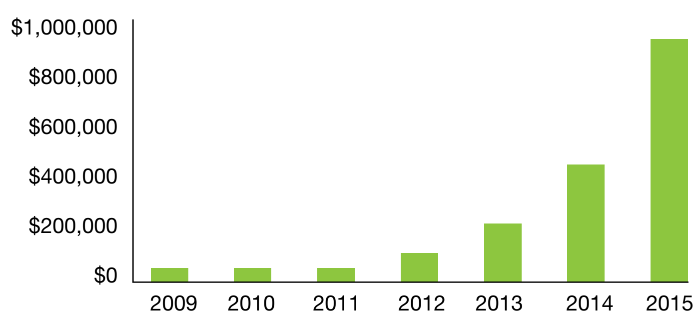
No one knows for sure how mobile money will play out, and the approach that works today may not work tomorrow. Credit card companies, banks and mobile operators will all be fighting for supremacy, and winning market share early may prove a decisive advantage. Even then, if a provider gains a dominant position in one market, the likely future convergence of national schemes into a global standard may yet pull the rug out from under its feet.

To build a commercially viable mobile-money business, financial institutions will need a bolder, more comprehensive and more flexible vision. They will also need a global technology partner that understands how to build a coherent, future-proofed mobile-money strategy – one that also has the local expertise to help execute it over the long term.

Today, too many banks in mature markets are simply reinventing existing functionality for the mobile channel and ignoring its potential as a game-changing, disruptive technology. Banks need to think bigger, seizing the opportunity to build a universal mobile commerce ecosystem that customers and merchants trust and that delivers better margins and greater loyalty. They should also be aware that their success is not guaranteed. Failure to act decisively will open the door to competitors both in banking and in other industries. What's more, the likely future predominance of the mobile channel will mean that any failure to act will impact on their core businesses, not just on what many banks currently see as peripheral or value-add services.

As can be seen from Figure 1, forecasted growth in mobile payments is expected to be significant and is anticipated to approach one trillion US dollars worth of transaction value by 2018. The associated revenues from mobile money are expected to grow at an equivalent pace as adoption and utilization becomes ever more widespread and ubiquitous.

Gross value of mobile payments transactions ($ million)



Source: IE Market Research Corporation.

Figure 1: **Gross value of mobile payments transactions, 2009-2015.**

1. Think "essential" not "clever"

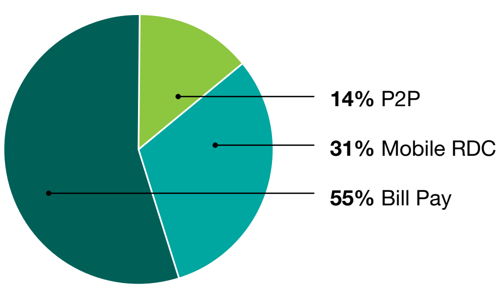
In growth markets, mobile-money services are essential; in mature markets, they may be convenient for customers, but they are generally little more than "clever" add-ons, offering functionality that most customers continue to access in-branch, over the telephone or online.

Instead of thinking, "What clever and exciting things can we do with this mobile presentation layer?," or "How can we make a better-looking mobile service than our competitors?," service providers in mature markets must think, "What do our customers need to do that would be best done as a mobile service?" This means finding – or creating – a compelling unmet need for mobile services among their customers. For example, customers in mature markets are typically already able to make person-to-person (P2P) payments; extending this capability to the mobile environment is unlikely to generate much traction (see Figure 2).

To take perhaps the best-known example from growth markets, M-PESA started in Kenya with a single, simple message: "send money home." M-PESA was not dreamed up by a marketing executive looking to create a slick mobile app; rather, it was a response to academic research showing that citizens were transferring pay-as-you-go mobile airtime between themselves as a form of remittance. In a country with few banks, a high proportion of unbanked citizens, and a large migratory worker base in cities supporting unbanked or underbanked rural families, M-PESA was a true game-changer. It provides a trusted – and essential – service that is aligned with central banks and regulatory bodies.[1]

GCASH can act as a second example of a successful, high-uptake mobile-money service. Here, the identified need was for the millions of migrant workers in the global Filipino diaspora to send cash back to relatives in the Philippines – conveniently, cost-effectively and securely.[2]

While most banks in mature markets have enthusiastically embraced P2P and remote deposit capture (RDC) mobile payments, there are no success stories that get anywhere near to the scale achieved by M-PESA, GCASH and numerous similar developing-world examples. The key reason is that, while the overall model can be duplicated in mature markets, the exact service model cannot. Banks cannot simply chant the "mobile everything" mantra and expect customers to arrive in their millions – what works in Kenya and the Philippines will not instantly meet the needs of mature markets.



Source: MobileFI Blog, July 16, 2013.

Figure 2: **Mobile payments offerings distribution from 13 leading U.S. Banks.**

2. Share the burden

The current state of the mobile-money environment can be likened to the early days of the credit-card industry. The earliest credit cards were issued by retailers to their own customers, with no thought to interoperability or to the potential to share costly infrastructure. It took Bank of America to change the way the business was structured by promoting acceptance across the entire retailer landscape and establishing mutually beneficial shared infrastructures.

The direct lessons for the mobile-money industry are that there is a limit on how far a single bank can push its ambitions for pan-regional market penetration. Past experience shows that cooperation is the only way to achieve lasting scale and profitability.

There are a number of processes within any payments business that: do not generate revenue in their own right; are costly to implement and run on a small scale; require significant operational expertise; are non-competitive activities; and become more effective and less costly as volumes grow.

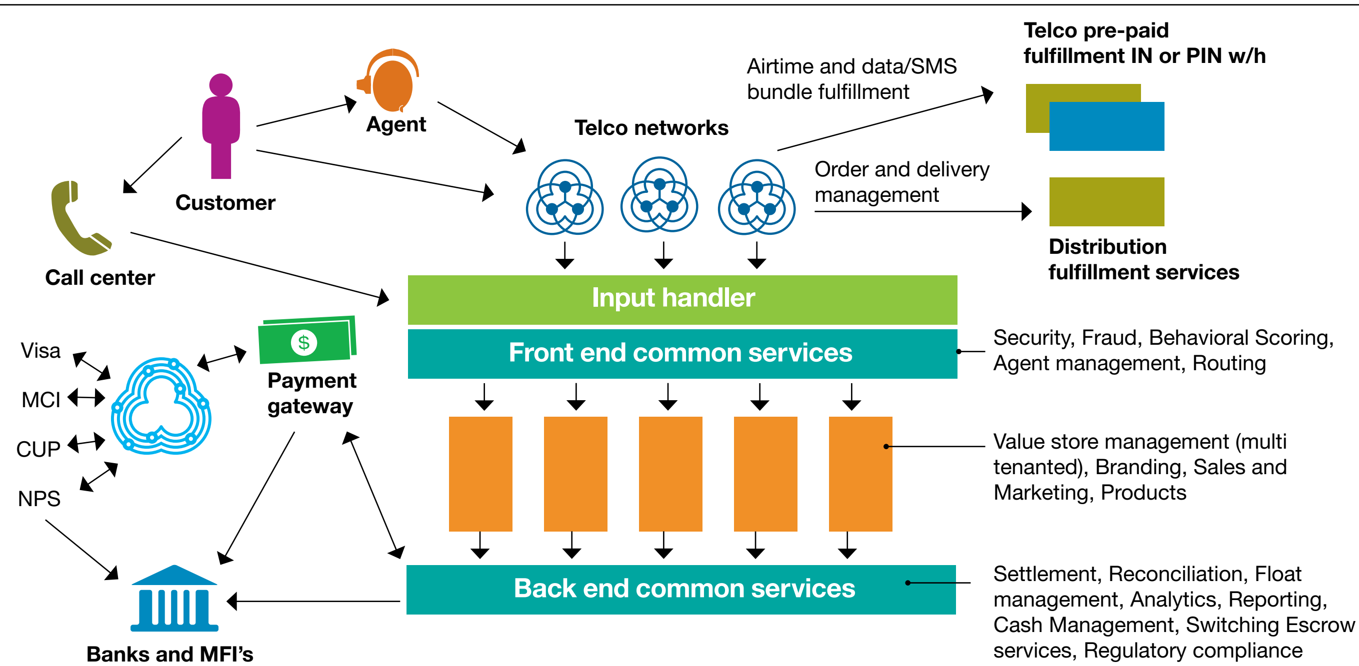
Learning from the past experience of the credit-card industry, the mobile-money industry should move towards the creation of processing utilities. Such utilities can provide:

- Fraud prevention and detection capabilities that improve with increasing volume and benefit all participants
- Centralized switching platforms that help drive down unit costs and provide sufficient scale to enable cost-effective investment in the most suitable and advanced technologies
- Centralized reconciliation, clearing and settlement capabilities with the necessary statutory reporting to, and oversight from, the regulatory authorities
- Dispute resolution and support capabilities, plus enforcement of standards and management of arbitration.

As with credit cards, the ownership of each customer never moves to the utility itself, and the existence of the utility does not restrict competitive differentiation or service innovation. Participants rid themselves of unglamorous and costly generic processes. The shared utility provides the scale and ubiquity to allow widespread adoption of mobile-money services.

"The profile of service providers and role of supporting institutions has often been a key determinant of success. It is seen that most deployments have been promoted by MNO's, usually with a dominant market position. However, nearly all of them have entered into partnerships with diverse payment system facilitators and providers including financial institutions, utility service providers, payment processing entities like payment card issuers, currency exchanges etc."

Mobile Money – Influencers of Success; Raunak Kapoor, Denny George, Shivshanka V, et.al – for Microsave



Source: IBM Global Business Services.

Figure 3: **Components in the mobile money ecosystem.**

3. Open up for interoperability

In most of the world, customers will use mobile money through an infrastructure of multiple service providers. The topic of interoperability should be considered at three different levels.[3]

- Platform – customers of one service can send money to, or receive money from, customers of another service
- Agent – customers can deposit or withdraw at an agent of another service provider
- Customer/merchant– a customer can access their account from any device on any network; a merchant (who is not acting as an agent) can interact with customers at point of sale

The GSMA Annual Report 2012 calls for the provision of common interfaces to enable interoperability across these three levels and with other platforms across country and industry boundaries.[4] Such forms of interconnection might include international mobile money (whereby two mobile operators in different countries enable transfers between their respective customer bases), interconnection with financial institutions (whereby a mobile operator in one country connects its platform with that of a traditional financial services provider to enable transfers between mobile money accounts and bank accounts) and connections to other payment networks (whereby a mobile operator in one country links its mobile money service to, for example, Visa or MasterCard).

At the outset, M-PESA was fortunate not to have to face a significant interoperability challenge as Safaricomm (the mobile network operator) had a very significant market share in Kenya. This positioning allowed for a rollout based on a single platform with a single set of agents aligned to a single set of processes with a single service provider. However, this advantage did not deflect M-PESA's focus from the key customer requirements for a trusted and convenient service with a clear value proposition and pricing regime that was easy to use and well supported.

Mature markets (and the majority of growth markets) will almost certainly not have it so easy; here, providers will need to address interoperability in a much more complex ecosystem. This ecosystem will not only be more fragmented but will also have to contend with other influences, for example:

- Government regulation seeking a balance between market incentives and anti-competitive concerns (often in the form of cost of entry). Platform or agent dominance by one party simplifies interoperability, but can create a non-competitive environment that could limit the overall capability.
- The lack of an acceptable technological lowest common denominator – SMS or USSD services are not well understood by smartphone users and are often incompatible with advanced handsets.
- The agency model is not prevalent, which negates the provision of cash in/cash out functionality and first line training and marketing.

To date, the mobile-money debate has focused disproportionately on supply-side concerns such as operator service compatibility and challenges of maintaining a diverse and evolving handset landscape. In reality, the demand side considerations –the value proposition, consumer confidence, and ease of use – are the true drivers to adoption.

To facilitate interoperability, accelerate acceptance and gain consumer trust, mobile-money services should be looking to leverage existing payment mechanisms such as the direct payment and direct withdrawal automated clearing house (ACH) mechanisms commonly used in mature markets. Such an approach has the immediate advantage of reducing costs – particularly where the set-up and maintenance of the necessary mandate agreements is pushed back to the consumers themselves as a self-service option.

A focus on the demand-side drivers and the empowerment of the end user with respect to payment arrangement set-up, management and control will accelerate acceptance and increase the push for mobile payment interoperability.

"More established mobile money providers have recognised the opportunity for interoperability and are already pursuing some form of interconnection with financial institutions and other external parties. As more deployments mature, the number of external connections and partnerships can be expected to increase through market forces."

GSMA — Mobile Money for the Unbanked - Annual Report 2012

4. Scale is king

At first sight, scale in the mobile-money industry looks like a chicken-and-egg problem. A successful service requires scale (as it provides both ubiquity and cost efficiency), but scale can seemingly only come with success (because consumers will not start using a service if it lacks ubiquity and cost efficiency).

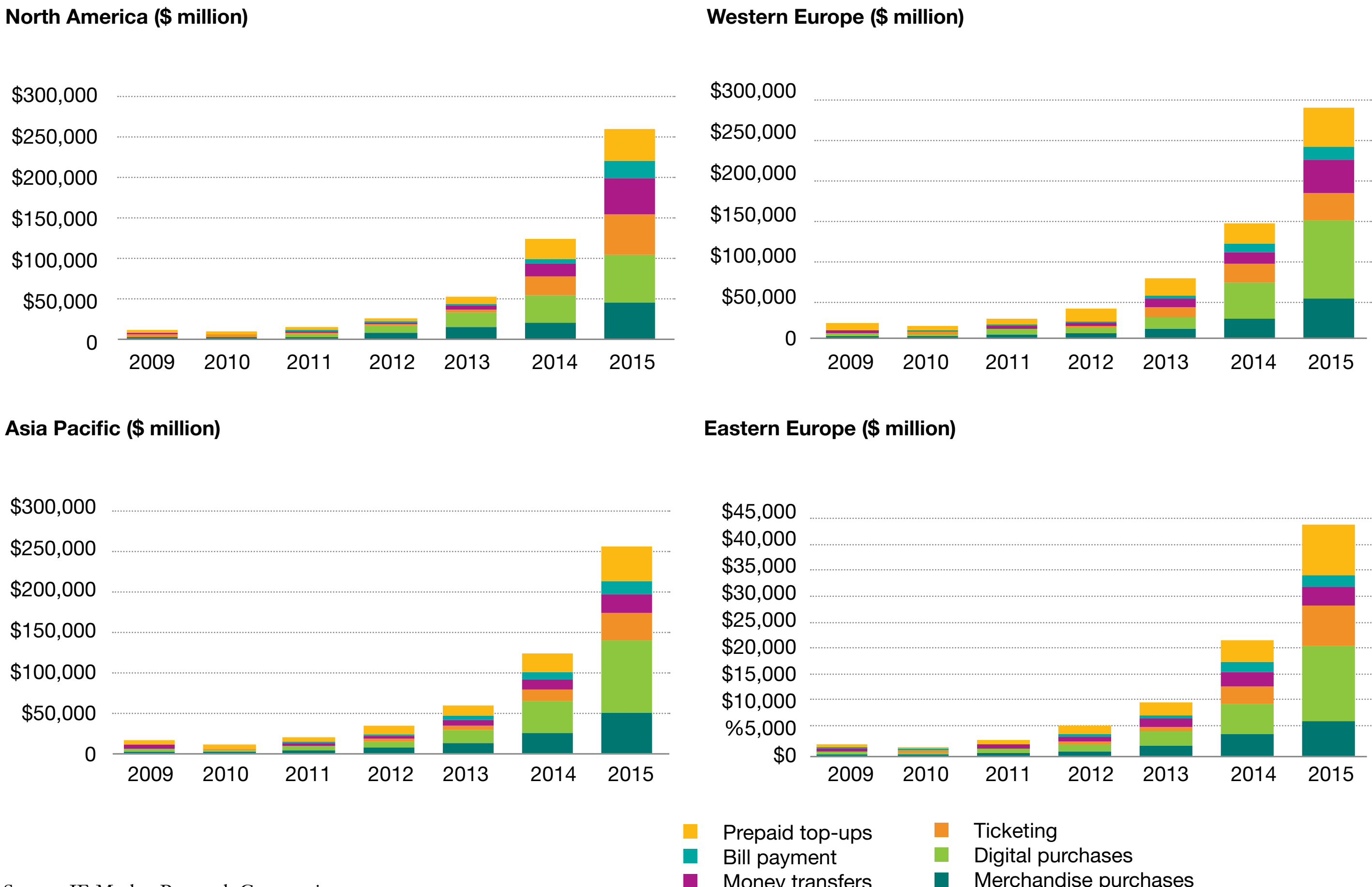
M-PESA quickly reached a critical mass of users – growing from its 2007 launch to encompass 14.7 million users by March 2012, or some 35 percent of Kenya's population.[5] This was clearly helped by the nearly 80 percent market share enjoyed by its local mobile operator at the time of launch.[6] No financial institution in mature markets enjoys a comparable market share, and local/central regulation is often designed to prevent such concentration. For example, U.S banks are prevented from holding more than 10 percent of domestic deposit accounts.[7] This immediately highlights the need for interoperability and partnerships in mature markets if they are to achieve the necessary scale to make mobile-money services commercially viable.

Even with the top four U.S. banks collaborating on P2P services since 2012, this still only guarantees a maximum 40 percent share of U.S. account holders (given the 10-percent rule). If consumers and merchants rushed to open accounts with the "big four" banks solely to access these new P2P services, growth prospects would in any case be limited, as those banks already hold 32 percent of all deposit accounts.[8]

This paper contends that banks would be unwise to try to replicate M-PESA's model in mature markets. While P2P payments are essential in Kenya, mature-market consumers simply have too many other options for credit and non-credit payments. Banks should instead focus on the essential financial services demanded uniformly by consumers and merchants nationally. In the United States, these are electronic debit and credit services, checks and cash.

Banks have already invested heavily in collaborative capabilities around these services, and their infrastructures already include bill-pay and standing-order mandate management services. A large majority of all U.S. checks are already imaged centrally in the regulatory mandate-driven Check21 shared utility, Viewpointe, and, of course, consumers and merchants use cash for many of their small purchases daily.

By focusing initial mobile-money services on these areas of high existing demand, banks in mature markets can quickly achieve scale and tie customers into a service that they will see as essential. Once they have built up this broad acceptance and large customer base, banks are then free to introduce profitable new value-add services that would not have been able to gain the necessary market traction on their own.



Source: IE Market Research Corporation.

Figure 4: **Gross value of mobile payments transactions, 2009-2015.**

5. Embrace regulation and the essential role of government

Every non-cash-based payment transaction takes place in an environment subject to regulation and government oversight. Depending on the jurisdiction, this oversight may be heavy-handed and intrusive, or barely visible, sporadic and badly implemented. Transactions will also be subject to global regulations around Anti Money Laundering (AML) and the financing of terrorism.

Historically, some mobile-money schemes (for example, M-PESA) were primarily overseen by the Telco regulators initially and only later fell within the purview of the financial regulators. In some geographies (for example, Nigeria), mobile payments are primarily the responsibility of the banking community and are regulated accordingly.

The actual regulatory requirements may vary from simply defining the Know Your Customer (KYC) requirements all the way through to determining the pricing regimes that can be applied. As mobile money becomes increasingly sophisticated and pervasive, the likelihood of greater scrutiny is growing, particularly as lawmakers strive to ensure full protection for consumers. Governments are also keen to ensure that mobile-money services are inclusive of, and accessible by, the entire population. For example, in May 2013, the Central Bank of Brazil issued the medida provisoria (MP) for mobile payments. The bill establishes the regulatory framework to allow non-bank eMoney issuance.[9]

The lesson from successful implementations in the growth markets is that early and continuous collaboration with regulators is the best approach – particularly as this early involvement gives providers the opportunity to influence policy.

A further reason for engaging governments early is to gain access to the scale they can offer as customers of mobile-money services. Globally, more than 450 million people are directly employed in the government sector, at least 200 million of whom work in government units.[10] In the growth markets in particular, governments are cottoning on to the idea that the ubiquity of the mobile handset, coupled with the implementation of mobile wallets, makes it a convenient, cost-effective and transparent route to handling financial transactions with both employees and citizens.

Many governments would also like to use mobile-money solutions to help reduce the cost of public-fund disbursements, including pensions and social grants. Finally, governments are keen to accept mobile-money payments from their citizens for the provision of services, so as to increase transparency, improve cash flow and improve customer convenience. The movement to mobile will be facilitated by the launch (for example, in India and in Nigeria) of sophisticated biometric identity documents, which can add further layers of security to mobile payments.

"Over the past few years, a number of countries have seen the emergence of two separate but complementary policy agendas as governments seek to increase the use of electronic G2P payments as they aim to promote greater financial inclusion."

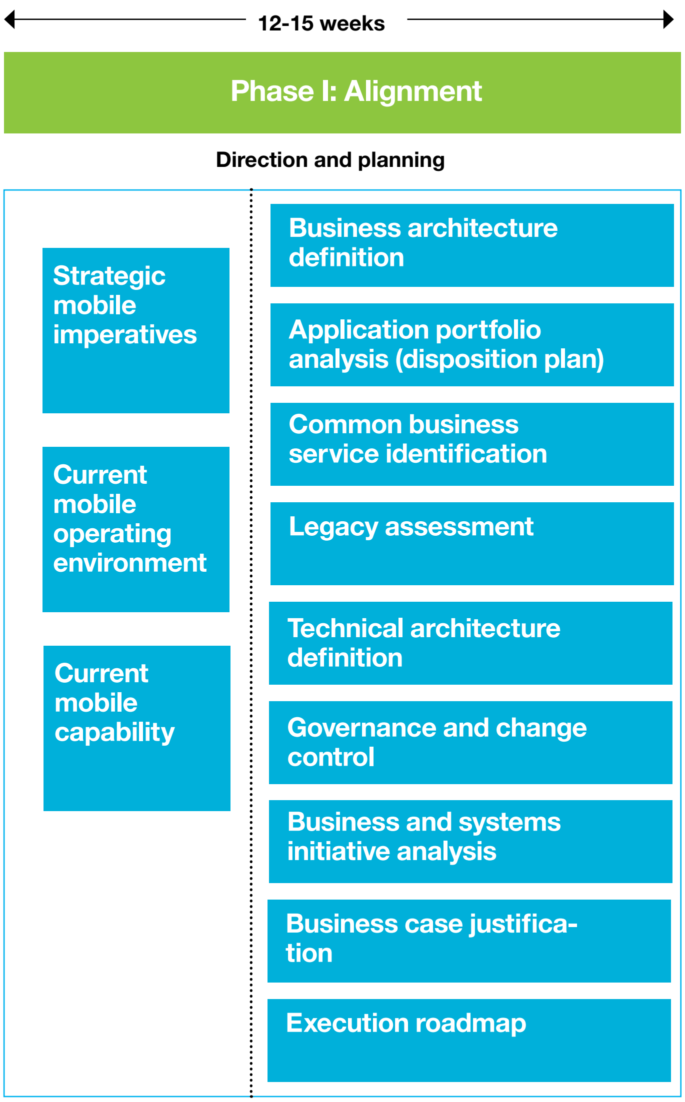
Source CGAP

Preparing for change

The mobile-money arena is highly complex and changing very rapidly. No one knows for sure what tomorrow will bring, and today's winning approach may have a short shelf-life. Credit card companies, banks and mobile operators will all be jostling for market share, and providers must be prepared to accept that the initial service roadmap may be completely different from the path consumers and merchants will ultimately want to follow. Providers will need to be agile, flexible and informed:

- Agile enough to identify or create new business opportunities and pursue them to profitability
- Flexible enough (and with a correspondingly flexible infrastructure) to adapt their strategies as market conditions and regulatory structures change
- Informed enough to understand at all times the evolving wants and needs of their customers.

The implication is that banks will need to develop a flexible, service-oriented framework approach that delivers high degrees of scalability and resiliency. This will require adherence to standards for accessing core services – ideally from third-party utilities – and the ability to interoperate with other banks. In the mature markets, interoperation and collaboration will be vital enablers for mobile-money providers to compete on price with existing national payment options.



Source: IBM Global Business Services.

Figure 5: Critical alignment activities.

Rather than running mobile services as costly point solutions, mobile money providers need to create a flexible underlying platform of shared services, on which they can rapidly and cost-effectively build new mobile solutions. The next step will be to move from these isolated islands or "closed loops" of users and functionality to full interoperability between providers. By creating interoperable standards – or having such standards imposed on them by national regulators – mobile money providers can achieve scale in a cost-effective manner, then look to build differentiated services on top of commodity shared services.

The core infrastructure for a collaborative national mobile-money scheme will require a large one-off investment. Although banks will be able to defer costs to a certain extent by adopting a utility model offering pay-per-use, they may also wish to engage a flexible technology partner able to provide creative long-term financing arrangements.

Partnering for the future

Today, too many banks in mature markets are treating mobile as just another channel, failing to appreciate that it is likely to be the predominant channel in the future. Failure to compete effectively in mobile money will therefore mean a serious impact on their core businesses, not just on what they currently see as the periphery.

To prepare for the unknowable future of mobile money, service providers should partner with a global organization that both understands how to build a coherent, future-proofed mobile-money strategy, and that has the local expertise to help execute it over the long term.

The crucial element will be the infrastructure that enables one entity to establish a financial relationship with another entity on a national or international basis, regardless of device or geography. To create and maintain such an infrastructure will require a partner with:

- Global scale to support large networks and extensive functionality
- Industry knowledge and understanding of how to monetize mobile services
- Proven ability to design and integrate end-to-end mobile-money services
- Proven ability to created open shared platforms, and to build shared or outsourced services
- Proven ability to manage and mine huge volumes of data to generate new insight and enable targeted marketing
- On-the-ground understanding of both mature and growth markets.

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