POSITION PAPER

Is Mobile Money the answer?

Towards Financial Inclusion

ingenico GROUP

Innovative models are constantly emerging to provide almost **2.5 billion unbanked people** in the world with responsible financial services. Including the financially-excluded has become one of the hottest topics in developing countries, attracting great flows of investments and rising up the agenda of governments and regulatory bodies.

This paper describes the current state of the financial exclusion landscape and outlines the real challenges and opportunities in scaling up towards full Financial Inclusion worldwide.

Mobile Money in the developing world: a success story that may not tell it all

Considering the high penetration rate of mobile phones in cash-based societies, mobile is an obvious channel for people to use as they adopt financial services for the first time. Mobile Money[1] services have emerged in developing countries, and related programs are still on the rise. By 2014, over 255 Mobile Money programs had been implemented worldwide. In fact, 16 countries have more Mobile Money accounts than bank accounts[2]. Enabling people to send money or buying airtime through their mobile device has been one of the greatest success stories of the past decade. With such promising facts and figures, Mobile Money seems to be at the heart of Financial Inclusion. But is there more to Financial Inclusion than Mobile Money? If so, what is it, and how can it be achieved?

The gap between concept and reality

According to the United Nations, Financial Inclusion aims to provide "access at a reasonable cost of all households and enterprises to the range of financial services for which they are 'bankable'[3]". Financial Inclusion means holding bank accounts and enabling the unbanked to transact. Financial transactions include sending and receiving money, paying for goods and services, receiving salaries, etc. The ultimate goal is to self-empower the previously unbanked, and provide them with more "sophisticated" banking services such as credits to achieve their plans, insurance to protect them and their relatives, and savings to pay for the unexpected.

Did you know?

16 countries have more Mobile Money accounts than bank accounts[2].

The benefits of Financial Inclusion

Financial Inclusion has long been a top priority for governments and NGOs, as it aims not only to tangibly improve living conditions in unbanked communities, but also to encourage greater contributions to a country's economy. Enabling people with financial services helps individuals, communities and countries develop through credit, insurance and saving services.

At the individual level, Financial Inclusion encourages small business ventures through business loans, and therefore reduces income inequality. It improves levels of healthcare through insurance. It enables families to send their children to school thanks to education credits, and therefore makes education more accessible. It allows women to support their families independently, hence contributing significantly to female empowerment and gender equality.

1 - According to the GSMA, "Mobile Money" is an industry term that defines simply a service in which the mobile phone is used to access financial services; the service must offer at least one of the following services: Person-to-Person transfer, international remittance, bill payment, bulk payment, and merchant payment

2 - State of Industry 2014, Mobile Financial Services for the Unbanked, GSMA

3 - Including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances

At national level, Financial Inclusion supports entrepreneurship, boosts trade, and encourages innovation. Business development creates job opportunities and brings value to the country economy. Another example would be tax collection. Shifting from cash to electronic payment allows governments to better trace merchants' revenues to collect taxes and use them to improve local infrastructures.

The financial landscape in emerging markets

In developing countries, the banking ecosystem is for the few. In Sub-Saharan Africa for example, the banking penetration rate is about 24%. The financially-excluded segment represents low-income earners and people living in rural areas. In fact, in emerging countries, 77% of people living with less than $2 per day and 78% of rural residents do not have a bank account with a formal financial institution[4]. Banks can only be found in big cities which are home to the wealthiest. Branches favor high value savings accounts and loans, and of course, wealthy customers are the best return on investment. Because building branches and hiring staff has a cost, banking services are expensive and exclusive, and households and microenterprises with a low income make up most of Africa's unbanked population.

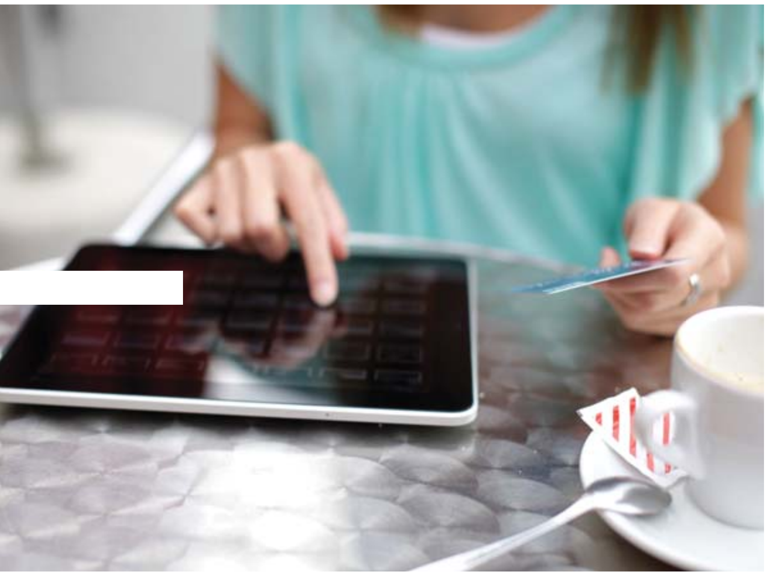
The traditional banking approach does not foster Financial Inclusion and leads to the misconception that banking services are exclusive and 'for the rich' only.

In the past, it was assumed that the poor did not need 'sophisticated' banking services as they had no money to save, and no means to pay off credits or insurance premiums due to their irregular income. Yet, the opposite is true: banking services are even more beneficial for low earners.

Did you know?

77% of people living with less than $2 per day and **78% of rural residents** do not have a bank account

4 - World Bank, 2011



Individual skepticism, the hefty challenge of Financial Inclusion

The unbanked populations strongly need formal financial services but are reluctant to use them. They feel vulnerable and are risk averse and protective with regard to money. A number of interviews with unbanked populations[5] have shown that the unbanked would rather rely on risky tactics to manage their money than use a service they do not trust.

"I save my money with a guy in the village that I know. He is a prominent figure everyone recognizes and I feel that my money is safe with him", stated an African farmer. When people need to borrow money, they turn to their neighbors, friends and family, and engage into a loan that can end up being more costly than the formal credit services financial institutions would offer.

Even when financial services are available, low-income individuals remain understandably protective of their money, and are unwilling to risk losing it by using services and technology they do not understand.

One migrant worker talked of his distrust of modern banking tools: *"I am so stressed about losing my card that I'd rather not use it at all."* Another shopkeeper explained why he closed his bank account: *"My money vanished from my account because of some unexpected service fees"*

People prefer to handle their money in familiar ways. They buy gold or keep their money in coin jars at home.

Fortunately, these attitudes are being challenged by new, innovative approaches and technological developments which make it simple and affordable to access a broad range of financial services, like savings, credit, insurance, grants, pensions, money transfers and more.

The power of attraction of Mobile Network Operators

Unlike banks, Mobile Network Operators (MNOs) have succeeded in reaching "everyone", regardless of their income level.

5 - Such as "The Road to Inclusion, A look at the financially excluded and underserved", MasterCard, Q2 2014

In developing countries today, people are more likely to have a mobile phone than a bank account. In Egypt, for example, only 10% of adults have a bank account at a formal financial institution[6]. In contrast, the mobile penetration rate is about 115%[7].

Getting unbanked people comfortable with the concept of "electronic money" was not an easy task, but MNOs responded well to the challenge. To reach the unbanked and give them access to financial services, MNOs have led Mobile Money programs as part of the Financial Inclusion initiative. They developed best practices and were able to engage with this "difficult-to-reach" population. MNOs quickly became the best-positioned players to provide financial services through the mobile channel to the remaining financially-excluded population.

By 2014, 299 million people had Mobile Money accounts, and this number is increasing year after year (representing a 47% growth compared to 2013).

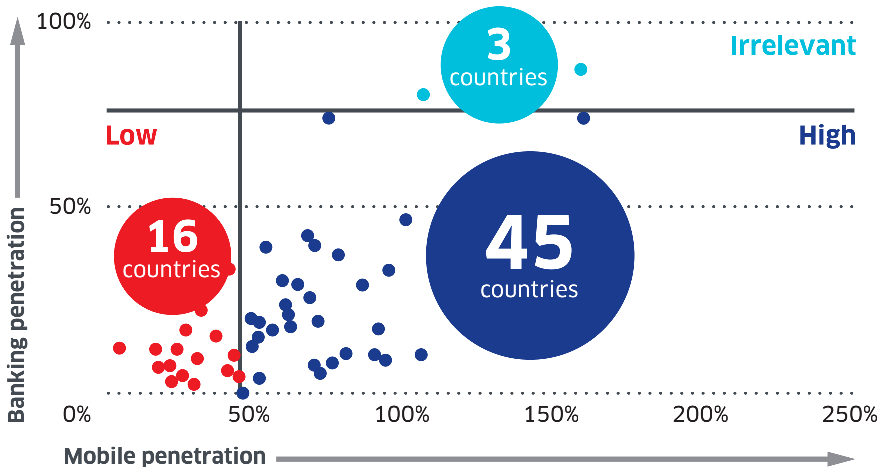
Mobile Money unable to drive Financial Inclusion on its own

Despite the success of Mobile Money, two key findings revealed that we are still far from achieving true Financial Inclusion.

Finding # 1: Financial Inclusion cannot leverage Mobile Money everywhere

The keystone of Mobile Money's success is the mobile penetration rate. In emerging countries, the average percentage of mobile users is high. However, it remains low in some markets. In 2013, mobile penetration rate in Burundi was about 25%.

Using the World Bank data, the diagram below positions countries in the MEA (Middle-East and Africa) region as per their mobile and banking penetration rates, and shows the potential of Mobile Money to drive Financial Inclusion. Where the mobile penetration rate is below 50%, the mobile channel is not as relevant to reach the unbanked population.



Mobile Money ability to drive Financial Inclusion in Africa and Middle East[8]

6 - World Bank, 2012

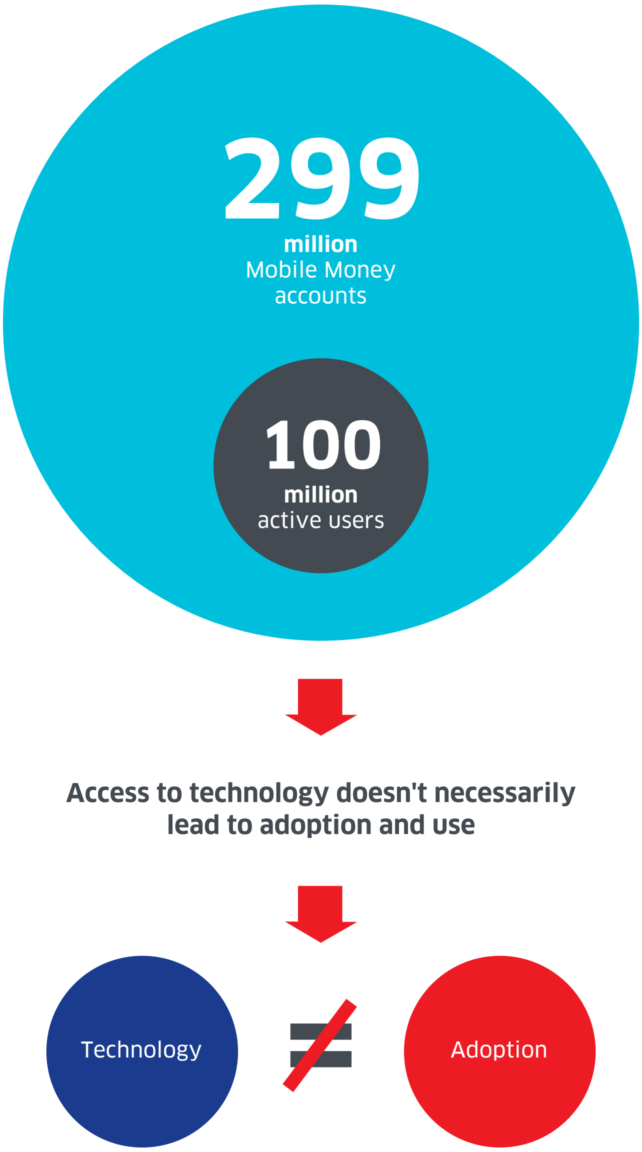
7 - Egypt Minister of CIT, February 2013

8 - Source of data: World Bank Database, 2011 & 2013 - Ingenico Group Analysis

Finding #2: For customers, subscription to Mobile Money does not equal use of those services

In countries where mobile money services are available, around 30% of Mobile Money subscribers are active[9]. And of the 299 million existing mobile money accounts, only 100 million[10] accounts are active worldwide.

The question is: if Mobile Money alone is not the answer, how else can we help the remaining 2.4 billion unbanked adopt financial services?



9 - An active consumer is a user who made at least one transaction over the past 90 days

10 - Source: GSMA Mobile Money for the Unbanked, 2014

The three pillars of Financial Inclusion: Technology, Environment and Proximity

Key Success Factors

Technology	Environment	Proximity
User experience	Policy & consumer protection	Reach
Affordability	Government disbursement	Education
Interoperability	Financial infrastructure	Perception & trust

So far, technology has been considered as the principal barrier to financial services adoption, and it is the one that Mobile Money has done the most to overcome. The goal is to make the service accessible and compatible with any mobile device, in particular feature phones.

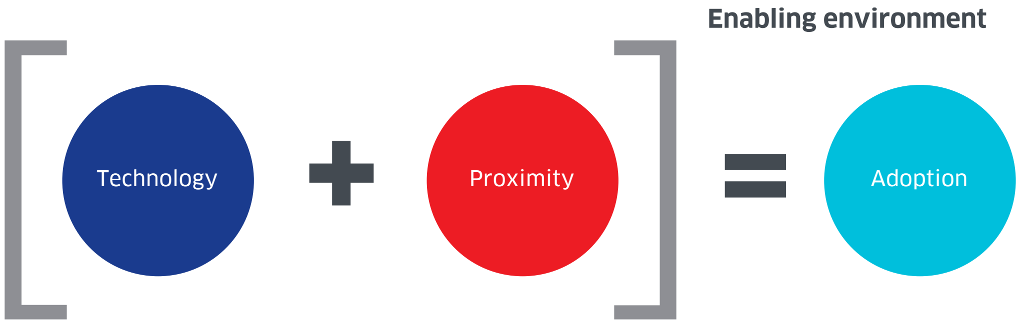
A good user experience, affordability and interoperability are the success factors for the technological side of Financial Inclusion. This way, any phone holder can, through an easy user experience, access a whole range of financial services, pay anywhere and send money to anyone. As a prerequisite, the service must be offered at a reasonable price to keep it affordable to low-income earners.

Besides technology, an enabling environment is needed to make the service "responsible". The Consultative Group to Assist the Poor (CGAP) emphasizes that Financial Inclusion programs must be provided in a well-regulated environment to ensure the viability and trustworthiness of the offered services.

A specific regulation framework is needed to safeguard the interests of consumers through fraud and risk management, consumer privacy protection and chargeback systems. The objective is to set up a strong financial infrastructure as the foundation for any financial program.

According to the World Bank, countries with the same income levels show different levels of financial inclusion. The main reason is due to the lack of enabling environment, resulting from government policy. Therefore a tremendous effort has been made by governments and regulatory bodies to change the market context accordingly, in favor of responsible and sustainable financial programs.

The third pillar, proximity, refers to the reach, education and trust that are the foundation of any service adoption.



Reach. Most unbanked people in emerging economies are geographically distant from the banking culture. Banks in developing countries are barely present outside of urban areas. The limited number of bank branches means that people living in rural areas have to spend time and money getting to a bank branch. The long distances make the unbanked "hard to reach" and discourage them from enrolling in the financial system.

Education. Geographical distance results in a cultural distance from the banking system and its benefits. Delivering financial services must go hand in hand with providing financial literacy programs.

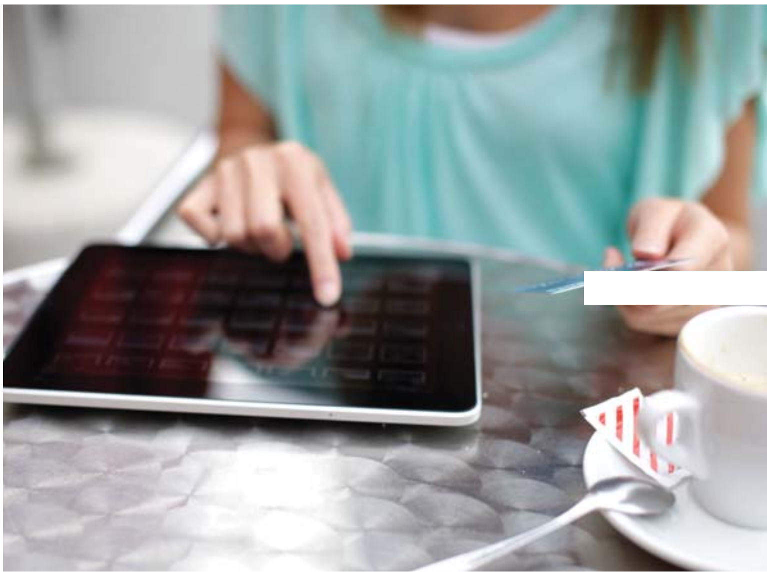
In many emerging economies, literacy rates are low and considered an obstacle to Financial Inclusion. Throughout Africa, adults with a tertiary education are more likely to have an account at a formal Financial Institution (53%) compared to people with a secondary education (35%) or with primary education (13%)[11]. There are also the added challenges of low numeracy standards, huge linguistic variations and cultural differences within provinces in the same country.

Understanding banking terms and conditions generally requires financial education. The banking card fee is a good example. When the consumer is provided with a card for ATM withdrawals, fees may vary depending on the withdrawal amount, the ATM network, the number of withdrawals per week, etc. These constraints make the process overwhelming and make the card holder reluctant to use the service.

Did you know?

In Africa,
53% of adults with tertiary education are more likely to have an account at a formal Financial Institution, compared to **35% of adults with secondary education,** and **13% with primary education.**

11 - Source: Financial Inclusion In Africa, AfDB, 2013



The financially excluded communities need easy-to-use and easy-to-understand banking services. But that is not all – understanding an entire financial ecosystem requires experience, time and patience. New customers often need a helping hand to feel comfortable with this new world, and completely trust the technology behind it before banking can become second nature. Once educated, a newly banked individual understands the service and is able to make sound decisions about their own financial needs.

Trust. Trust results from this educational effort that takes longer in a cash-based society where the financial ecosystem remains unknown. The viral effect helps in building awareness and confidence: the more popular the service is, the more customers get on board with the program. Based on this observation, having a financial representative within the local community is the first step to kick off the snow ball effect.

Unfortunately, financial institutions find it hard to develop their physical presence in rural villages as it is barely profitable. Extending the branch network requires huge investments which do not take into account the low population density of such areas and the income level of target consumers. Reaching people living in remote areas must cost less to keep the program economically viable and sustainable. Innovative new business models are required to allow this close fit with local communities.

Achieving Proximity with Branchless Banking

Deploying a distribution channel delivering financial services outside of the constraints of traditional bank branches, Branchless Banking networks improve the Reach, Education and Trust. It is an essential part of a Financial Inclusion strategy, as it provides a cost-effective means to deliver financial services to remote and low-income segments of society.

Branchless banking relies on technological innovation and mobility to bring financial services to a targeted population without incurring the cost and bureaucratic burden of a physical infrastructure.

At the heart of branchless banking are agents. Acting as the sole and trusted point of contact with the financial ecosystem, they can focus on customers and educate and build confidence. They become the missing link between Financial Institutions and customers. They allow “hard-to-reach” customers to deposit or withdraw cash, manage their account and access various services such as bill payment, money transfer, saving and/or credit.

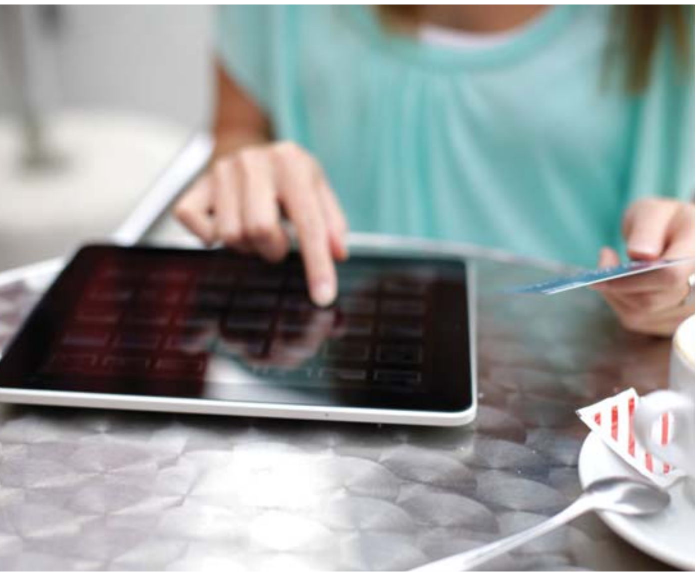
The aim is to remove the barriers to adoption, so in a reversal of the traditional approach, the unbanked no longer need to travel to banks: the banks come directly to them. Formal financial services are no longer perceived as expensive, inaccessible and confusing. Customers now see agents as friendly faces – trustworthy, available and full of useful advice.

An easy-to-deploy model reaching the hard-to-reach populations at a lower cost

Branchless banking was developed to reduce upfront financial investment. Once trained and equipped with the necessary technology, agents can travel by foot, bicycle or car around the countryside. They act independently and are paid commissions based on their transaction volume. This model ensures the agents are motivated and efficient banking advocates. The more services they provide, the more revenue they generate.

Already known among the local community, agents leverage their proximity and trusted relationship with the unbanked. They do not need to be dedicated to Financial Inclusion. A branchless banking agent can be a local merchant (in a grocery store), a third-party network employee (a post office agent) or an independent agent.

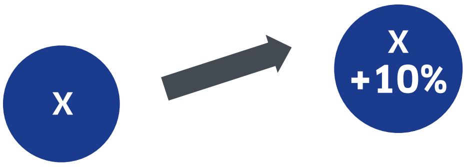
With Branchless Banking, operating costs are low and programs easily scalable. The service can be easily deployed in additional geographic areas, allowing for an extended reach of the unbanked population in remote villages.



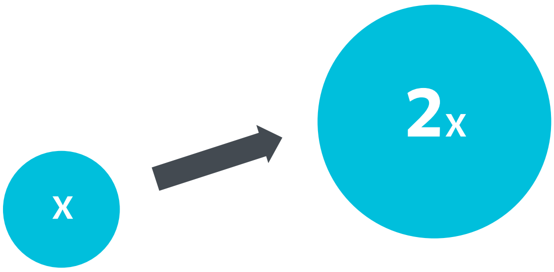
Branchless Banking
and its long-term profitability

Extended reach isn't the only positive point, and the agent's role goes far beyond the subscription stage. Branchless Banking also boosts transaction volume and value per customer. According to the diagram below, assisting newly enrolled customers in transacting for the first time increases the active rate by 10%, and almost doubles the revenue per user.

Assisting newly enrolled customers
in transacting for the first time...



... increases the active rate by 10%



... and doubles the revenue par user

Overcoming the barrier of the initial transaction is challenging and remains key to the educational effort. To be most efficient, the registration process has to be more customer-focused: taking customers through the user experience step by step, explaining the terms and conditions of the service and responding to their concerns. This approach improves brand perception and therefore customer engagement and retention. Enrolled people become active customers and banks no longer suffer the cost of inactive customers.

As a result, the wider the agent network, the bigger the customer base. Branchless Banking helps banks decrease operational costs and increase financial traffic, creating a long-term profitability model.

The success of Branchless Banking in Africa

Numerous success stories demonstrate the importance of Branchless Banking, especially in Africa. In Kenya, banks have built networks of banking agents who travel from one area to another. This successful program conducted by the Cooperative Bank of Kenya is a good example.

Equity Bank deployed a branchless agent banking solution to reach unbanked customers across remote parts of Kenya. The goal was to outsource low-value transactions to the branchless banking agent network, giving more room for high-value transactions in traditional branches.

Equity Bank noticed that being present daily created a relationship of trust with the unbanked. Education, even on a small scale, helped to create a lifelong, loyal, and trustworthy customer base.

The daily presence of agents encourages customers to deposit small amounts of money, thus developing responsible and regular banking habits. Through reducing dependency on physical branches, a visiting agent can meet the needs of dozens of customers in only a few hours, with the added convenience of speaking the local dialect, visiting as often as needed, and being able to offer most features that customers could access at a branch.

Beyond enabling adoption of banking services, the branchless banking solution developed business inclusivity and new jobs. After all, in local communities, who is more trusted than a well-known figure, a friend or relative, to provide the service in terms they can understand? Full-and part-time employment opportunities were created in rural areas and an entrepreneurial spirit was triggered, inspiring more people to become agents.

With the right tools, agents can drive their business responsibly. The revenue model is based on generating a small charge when a transaction is made. Thereby this commission-based approach incentivizes agents to have frequent contact with customers. Agents can earn up to 1,000 dollars per month, and the success of existing agents keeps them loyal to the bank and encourages others to join.

Going beyond Mobile Money, bringing together technology, proximity and education

Branchless Banking agents have become significant enablers of Financial Inclusion across even the remotest parts of the world. With them, the financially excluded learn to trust financial services in general.

The challenge of providing the unbanked with financial services is not about questioning the success of Mobile Money, but proving that Mobile Money cannot be the only answer to all challenges. Financial Inclusion requires more than enabling consumers with the right technology. It requires access, trust and comprehension of financial services. Branchless Banking provides the missing pieces to help complete the Mobile Money picture.

A virtuous cycle of innovation is beginning, offering hope for the future

Widespread Financial Inclusion is opening up new worlds of change, with a myriad of benefits ranging from helping build businesses, providing access to education, improving living conditions, and beating poverty.

Innovative technologies, innovative business models and innovative services are emerging from the developing countries. This is no accident. Financial Inclusion is bringing with it the beginning of a new era of economic and social development. Who knows what exciting changes it will bring for these newly energized and inspired communities around the world?

“ Financial Inclusion is not only about technology and access to financial services. It encompasses reach, education and trust. The ultimate goal is to make sure people go into the world of digital finance in order to improve significantly the lives they will be leading ”.

Jacques Behr, Executive Vice President Europe & Africa, Ingenico Group