

Mobile-Banking (m-banking)

Many poor people remain unbanked:

Improving access to financial services, such as savings, deposits, insurance and remittances is vital to reducing poverty. Savings can help poor people to invest in productive assets like livestock, a loan may help to expand business activities and insurance can provide income for a family if a bread winner becomes sick.

In many developing countries, however, 9 out of 10 people do not have a bank account or access to basic financial services. Poor people are often not considered viable customers by the formal financial sector as their transaction sizes are small, and many live in remote areas beyond the reach of banks branch networks. Informal banking services such as microfinance and village savings and loan associations remain limited in their reach.

In order for banks to view the poor as viable customers, new ways of serving them profitably need to be explored. Extending branch networks is often too expensive, but the development of appropriate technologies can provide one answer to this problem.

M-banking as a solution:

Offering banking products through mobile phones is one option that offers great potential for reaching poor people:

- Many poor people already have access to mobile phones;
- mobile networks can reach remote areas at low cost;
- a mobile handset can easily be adapted to handle banking transactions; and
- the poor often have greater familiarity and trust with mobile phone companies than formal banking institutions.

In the last 5 years mobile phone communication has grown faster in Sub-Saharan Africa than in most other parts of the world. African mobile phone subscribers grew from 7.5 million to 76.8 million from 1999 to 2004¹ and is expected to increase to 250 million in the next four years².

Although m-banking is currently at an early stage of development, things are moving fast. In the Philippines the two largest mobile phone operators, SMART Communications and Globe Telecoms, have launched mobile banking solutions aimed at the poor. In March 2006, Globe Telecoms had approximately 1.3 million registered users for its G-Cash payments system, which allows customers to use their mobile phones to make financial transactions, including repaying loans, transferring money to friends and relatives across the world, and paying for goods and services. G-Cash now handles about US\$100 million of transactions per day. SMART Money offers many of the same features as G-Cash, but the most popular feature, SMART Padala ("send"), enables over 1 million Filipino overseas workers to transfer almost US\$50 million per month to their relatives in the Philippines³.

¹ International Telecommunications Union

² Progressive Policy Institute

³ Infodev

Innovation is generating new products and services which are being launched in Africa and other developing regions.

The degree to which m-banking will make new services to poor people is dependent on several factors including: the availability of information on the poor as potential consumers; the extent to which the poor have access to mobile phones and are financially literate; the level of competition in the market and the extent to which regulatory barriers which impact the development of mobile banking can be reduced.

The role of UK DFID in promoting M-Banking:

The UK Department for International Development (DFID) supports m-banking as a means of achieving the Government's commitment to tackle the barriers that prevent poor people from gaining access to financial services. DFID believes that there is an important role for donors in ensuring that m-banking develops in a way that includes and benefits the poor. DFID works with other donors and governments to:

- Undertake research on the poor as potential consumers, so that the private sector can identify a valid market segment and also understand and have confidence in developing new products targeted at the poor. DFID is working with several partners to carry out customer studies to encourage other players to enter new markets
- Provide assistance to regulators to help raise awareness of issues, reform regulations and help create certainty in the market place to ensure that the markets are governed effectively and include the poor. DFID is currently working with a number of partners to assess the state of regulatory environments for mobile banking in ten countries
- Encourage competition in banking, telecommunications and mobile-banking and offer incentives to the private sector to develop new business models that target the poor. Through the Financial Deepening Challenge Fund, DFID provided a grant to Safaricom, a subsidiary of Vodaphone in Kenya, to pilot M-Pesa, an m-banking solution which allows people to send and receive money through their mobile phones without needing to have a bank account. This year M-Pesa has been launched as a commercial product and has been expanded to allow the sending of remittances from the UK to Kenya via mobile phones.

DFID will continue to play a catalytic role in stimulating innovative business ideas which benefit the poor and will join with other donors to launch the Africa Enterprise Challenge Fund in 2007 which will invest in projects that will help to increase access to financial services for poor people in Africa.

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