

m-banking, m-remittances

Case studies from the Philippines

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Objectives

1. Present two specific models of m-banking with potential relevance to Nigeria
 - Do/will they accelerate expansion of access to financial services?
2. Highlight: Potential implications for regulators
3. Explore: Will this happen spontaneously or is a particular enabling environment required?
 - If so, what are some characteristics of this enabling environment?

infoDev

- Multi-donor partnership housed at the World Bank in the Global ICT Department (GICT)
- Investigate the appropriate and effective use of information and communication technologies (ICTs) to help meet a variety of development challenges
- Internal 'knowledge shop' for the donor community
- Particularly interested in mobile-enabled services across all sectors (financial services, e-governance, health, education, etc.)

www.infodev.org

Sources

- Micro-Payment Systems and Their Application to Mobile Networks
Assessments of Mobile-Enabled Financial Services in the Philippines
- Use of m-Commerce for International Remittances
Assessments of Mobile-Enabled Financial Services in the Philippines
(forthcoming)
- Mobile Banking: Knowledge Map and Possible Donor Support Strategies
- Expanding Financial Services to the Poor: The Role of ICT
(workshop proceedings)
- prepared by Neville Wishart and David Porteous for *infoDev* and its partners
(CGAP, Dfid, GSMA, IFC)

www.infodev.org/m-banking

The Philippines



- Over 7,100 islands
- ~ 83m people, 63% urban, median age: 22.5
- GNI/per capita around \$1,300
- 92.6% literacy; two official languages and eight major dialects

The Philippines



- International migration and large remittance flows have been prominent features of the Philippine economy for many decades.
- Limited access to financial services, particularly in rural areas. A large proportion of the population are excluded from formal banking systems and make payments entirely using cash.
- Considered the ‘texting capital of the world’.

When cash can't do the job, you need the smarter cash.



INSTANT Cash Transfer



Send cash safely and conveniently anywhere in the country



Universally accepted MasterCard Electronic payments

SMART Money Cash made smarter.

Two cases:

SMART Money

(2000 →)

GLOBE G-Cash

(2004 →)



The Players

- GLOBE Telecom
 - Started cellular service in 1994
 - Post-paid – high revenue customers
 - GSM Prepaid service from 2000
 - Approx 13 million customers Dec 2005
- SMART Communications
 - Started cellular service in 1999 with GSM prepaid
 - Approx 20 million customers Dec 2005

SMART'S Drivers

- GLOBE's early start
 - Captured all the high value customers
 - Picked up all the early adopters
- SMART's late start
 - Develop innovative prepaid services
 - Identify barriers to cellular use
 - Sachet purchasing
 - Prepaid reloads and prepaid P2P transfers

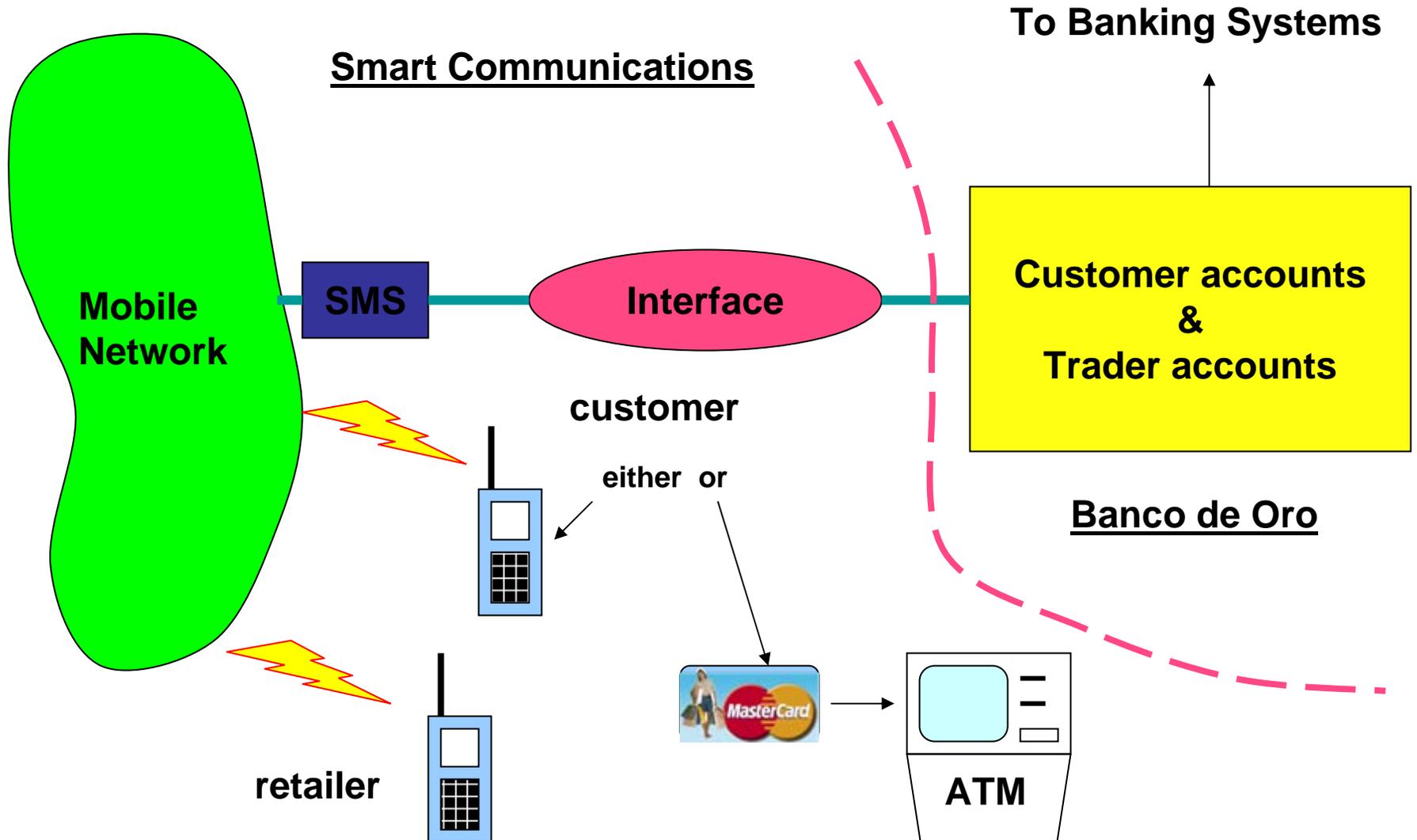
SMART's Initial Offer

- Prepaid service
- Over The Air (OTA) prepaid recharges
- OTA credit transfers P2P – “*PasaLoad*”
- Credit recharge values as low as US4cents
- Credit recharge from “official” channels set at min of P30 or US57cents

SMART Money

- SMART's branded product is SMART Money
 - In conjunction with Banco de Oro (BDO)
 - Allows non-banked customers to have an “account”. Facilitates universal OTA recharges
 - no scratch cards required
 - Logical extension to allow cash withdrawals, cashless purchasing in shops
 - Approx 2.5M customers at end 2005

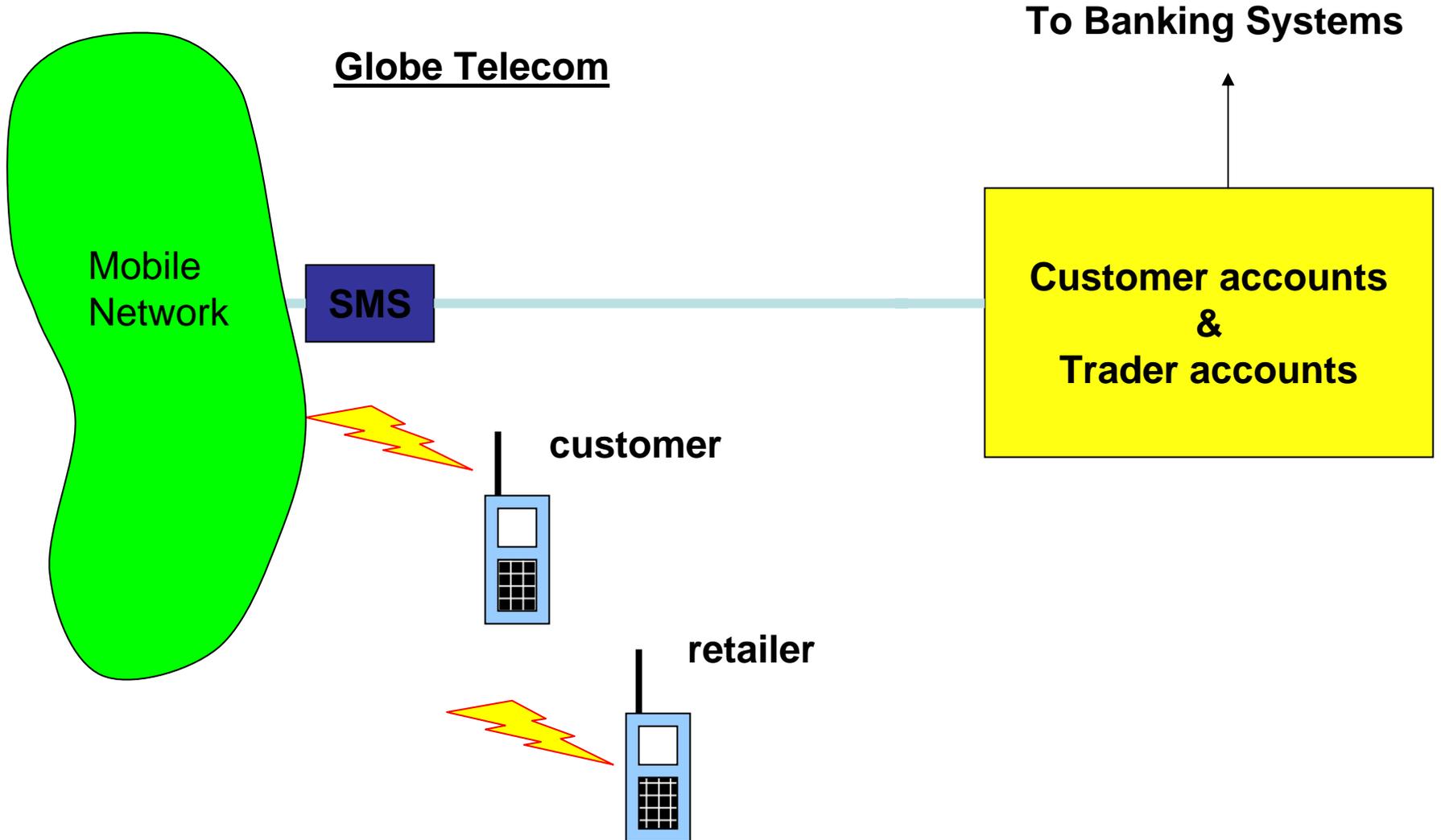
SMART Configuration



GLOBE's G-Cash

- Globe's branded offering is G-Cash
 - Started in October 2004
 - A standalone facility – not associated with a bank
 - Links into other financial transaction systems
 - Over 1 M users by end 2005

GLOBE Configuration



Service Features

- Common features
 - An account that is NOT a bank account (wallet)
 - Any mobile customer can sign up
 - ID prerequisite to open account
 - Cash deposits and withdrawals
 - Cash purchases
 - P2P credit transfers to both cellular and wallet
 - Prepaid account recharge
 - Automatic deposits from employer payroll
 - International transfers

Some Other Features

- **GLOBE**
 - Additional services including ticket purchases, games etc
 - Tax payments for individuals and companies
 - Donations to specific charities
 - Cooperation with Rural Bankers for micro-finance.
- **SMART**
 - Issue of MasterCard debit cards to be used anywhere
 - Cooperation with TRAVELEX for international transfers to the customer wallet.

Key differences

- SMART: Debit card, issues with Banco de Oro and Mastercard
 - Build upon existing ATM network
- GLOBE: Assumes responsibility for financial aspects itself
 - More complex
 - Increased regulatory issues
 - Need for banking partner is eliminated
 - Potential for additional services

Typical Tariffs

- SMART Money

- Deposit cash

- 1% at BDO or SMART
- Free elsewhere + SMS (2.5P)

- Withdraw cash

- 1% at official sites
- Free elsewhere + SMS (2.5P)

- Purchases – SMS (1P)

- P2P & Reloads - SMS (2.5P)

- Direct Credit (payroll etc)-
free

- GLOBE G-Cash

- Deposit cash

- 1% at official GLOBE outlets + SMS (1P)
- Free elsewhere + SMS (1P)

- Withdraw cash

- 1% at official GLOBE outlets + SMS (1P)
- Free elsewhere + SMS (1P)

- Purchases – SMS (1P)

- P2P & Reloads – SMS (1P)

- Direct Credit - free

Statistics

- Transaction volumes around 1-2 per day per customer.
- SMART report a cash float of US\$10M and growing
- SMART have over 700,000 cooperating retailers
- International transfers from OFWs > US\$50M / mo.

Special note on remittances

Two general models:

1. Direct credit from bank accounts to customer's 'm-wallet'
 - Occurs through a bank or overseas money transfer office
2. Originator uses mobile network to initiate transfer
 - Originator must have funds in the account (transferred from bank account or paid in cash to mobile network company agent)

International and domestic

Security Issues

- Uses encryption for all transactions
- All transactions are confirmed by SMS
 - Every transaction requires a PIN
 - Account debit and credit occurs on receipt of PIN
 - Customer receives text confirmation with every transaction, even ATM and POS
- All accounts operate as debit accounts
- Fraud and money laundering issues dictate max transaction values and max balance

Central Bank Issues

SMART

- Because of the way in which the service is being implemented (all transactions are held within the BDO system), SMART has been able to side-step the significant issues that are of concern to the Central Bank (BSP).
- SMART has left all such activity in the hands of BDO and as a result, it is BDO's responsibility to meet the Central Bank requirements (security, bank liquidity, AML).
- BDO handles SMART Money accounts in exactly the same way as other accounts. (depositing and withdrawal of cash from the system requires the customer to present a formal ID or have a bank debit card.)
- The SMART Money account is limited to P50,000 at any one time (US\$950) and is accompanied by daily transaction limits.

GLOBE

- With GLOBE taking responsibility for all the financial transactions, the service is of specific interest to the banking regulator (BSP) and the Anti-Money Laundering Council (AMLC).
- At this stage of development, the company has limited the customer's account size to an instantaneous maximum of P10,000 (US\$189).
- While this is a different value to that for SMART, the difference is not related to the technology or method of service provision, but rather to company policies and agreement with BSP.

The Lessons

- Sachet purchasing – enough for today
- Transfer of credit (cash or airtime) P2P
- Low charges – typically US 2 cents but can be higher
- Low transaction values acceptable – down to US 4 cents
- Recharge prepaid account
- Easy deposit and withdrawal
- Extensive dealer arrangements – front door

Market Observations

- Debit card is useful but not suited to small transactions
- Current market probably includes significant levels of upper class users. (Target market would not be playing games or buying theatre tickets)
- No solid independent research yet into who is using the services

Key market factors

- Key market factors making m-banking attractive in the Philippines
 - wide availability of mobile telecommunications to the target market
 - “SMS country”
 - large segment of population with little/no access to financial services
 - need for safe, low-cost money transfers
 - relative ease with which mobile users could avail themselves of the m-banking services
 - ability to top up mobile accounts – paved way for acceptance of other features
 - low transaction charges (~ US2¢ to US6¢)
 - extensive features offered to enable users to pass financial credits between parties
 - ability to withdraw cash (note: cash withdrawal fee applies)
 - ability to make cashless purchases at participating retail establishments
 - receptiveness of regulators (telecom and central bank)

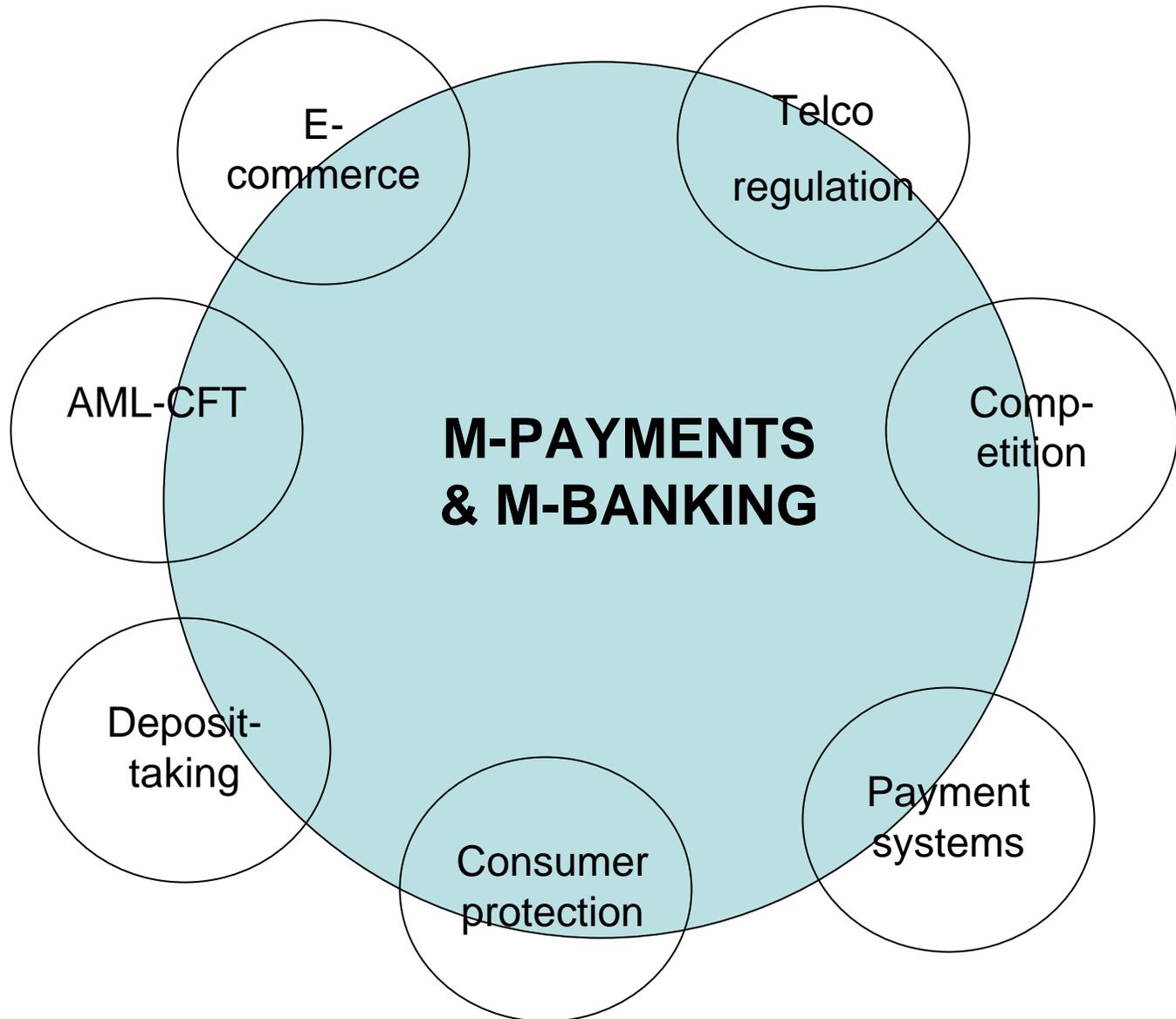
Advantages to many stakeholders

- For users:
 - an opportunity to become engaged in the formal banking sector,
 - facilitate and reduce the costs of remittances,
 - to enable financial transactions without the costs and risks associated with the use of cash (including theft and travel to pay in person)
- For telecom operators:
 - a significant increase in text messaging revenues and a large drop in customer churn
- For consumers:
 - m-banking is more secure and flexible than cash, allowing consumers to make payments remotely
- For banks:
 - increase in customer reach and the added cash float available to the bank
- For retailers:
 - added business opportunities through the sale of prepaid account credits
- For micro-finance institutions:
 - the ability to advance funds into remote areas and have regular repayments that do not significantly inconvenience the user
- For service industries and utilities:
 - the ability to get payments electronically from a significant portion of the overall population

Additional advantages

1. Move the “unbanked” community toward the “banked” status.
 - Allows the financial sector to make use of the cash float that would otherwise be invisible to the official systems.
 - SMART Communications (~ 2.5 million users) reports float of over US\$10 million.
 2. Greater access the financial sector has to the target market.
 - With a formal channel available, the financial organizations are able to advance funds to small traders for business development while at the same time having a channel that assists debt repayment.
 - Philippines example: small business trader has to take a full day away from his business in order to make a finance loan repayment to travel to a bank.
 3. Unbanked sector is the most likely beneficiary of international remittances
 - It could be argued that m-Commerce is unnecessary for an improved international remittance service, but an improved remittance service alone is unlikely to result in any significant improvement in access to the unbanked community.
- By bringing these 2 complementary services together, both objectives are more likely to be realized
 - improved remittance service
 - significant shift from “unbanked” to “banked”
 - Draw a large portion of the informal remittances into the formal system
 - Reduce personal risk to the remitter and the beneficiary
 - Draw cash into the formal financial systems (with added benefits that brings to the national economy)
 - Potential to migrate users toward greater use of existing and future financial systems likely to be available in the country.

Overlapping domains & issues



Barriers to adoption

- Customer adoption issues
 - Trust (security → perception)
 - Convenience → simplicity
 - Existence of other mobile-enabled services
 - Mobile phone culture
- Fragmentation/ lack of interoperability
 - Non-viable business models
- Regulatory issues

Some Conclusions

1. Additive and transformational models of m-banking are emerging, in which banks and telcos play different roles
 - There is considerable potential for transformational models to address unbanked needs
2. Transformational models are unlikely to emerge spontaneously. They need sufficient openness and certainty in the environment.
 - A high level roadmap of principles is a useful starting point in defining this

Important caveat

- Given the availability of suitable systems and the appropriate regulatory environment, the Philippines experience suggests that m-banking products and services look to be making inroads into unbanked communities.
- However: Experience and data are preliminary, and much additional research needs to be done!

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