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BRIEF

The Role of Mobile Operators in Expanding Access to Finance

Mobile phones may have a huge role to play in expanding access to finance. But does the company that operates the mobile network need to actually provide financial services? Or should others offer financial services, with the mobile operator merely providing the underlying wireless connectivity? The fact that mobile phones can be used as transactional devices doesn't necessarily mean that the mobile operator needs to "own" the financial service.

Banks tend to view mobile banking as a way to enhance service to existing customers, while mobile operators are more focused on addressing the mass market and the unbanked (Ivatury and Mas 2008). In the Philippines and Kenya, allowing mobile operators to design, market, and sell their own transactional savings products[1] has opened a path for extending basic financial services to the mass market in a way that traditional banks have not done.

What advantages do mobile operators have?

Mobile operators have some core strengths in the following areas:

Network of physical retail outlets. Compared to banks, mobile operators do business with much larger numbers of retail outlets, which can support cash-in and cash-out services, as well as perform know your customer (KYC) procedures.

Secure electronic transaction capture (front-end) capability. The operator's control of the SIM card puts it in a unique position to offer a customer service platform that is both secure and user friendly.

Transaction processing (back-end) platform. The platforms for processing prepaid mobile billing are simple compared to typical core banking systems, since they do not need to support a high level of customer reporting (e.g., no monthly statements) or regulatory reporting. Though more scalable and cheaper than core banking systems, a prepaid platform would need to be modified to meet the higher reporting requirements of financial transactions.

Marketing and sales. In emerging markets, mobile network operators have strong brands backed by mass marketing capacity that has reached lower income people in ways that banks often have not.

What's in it for the operator?

A mobile operator could simply rent out these capabilities to others, for example, selling SIM services to financial institutions, managing a network of cash-in/cash-out retail agents, or co-marketing. However, there are four main advantages for operators to offer mobile payment services directly:

Additional revenues from transaction charges. Taking an average charge of 25¢ per transaction, a customer doing one transaction a week would generate $1 in extra revenue per month, which might represent a 10 percent increase in typical revenue for that customer for the operator.

Churn reduction. Mobile operators increasingly must deal with customer turnover, or churn. There are some examples where regular users

1 By this we mean an account that can be used for payments and transfers, but not "deposits," though clients may use the account to keep money safe for short periods.

of payments services stop switching mobile operators once they are familiar with how the service works and have a bank account linked to their mobile phone number.

Branding. Being first-to-market could help augment an operator's brand positioning based on customer service and innovation.

Distribution cost reduction. Operators incur substantial costs collecting revenue from their customers.

Options for mobile operators in financial services delivery

At the most basic level, a mobile operator can offer **secure communications services** to financial service providers, enabling transactions. This places the mobile operator in the role of relaying messages between the provider and customer.

Mobile wallet services are like a real wallet—a "container" to manage financial transactions. So-called m-wallets manage the flow of transactions between accounts as directed by the mobile customer.

The next step is for the mobile operator to host the accounts of these third parties and to authorize transactions on their behalf. With **account hosting services**, the accounts are held in the name of a third-party institution that keeps the float, but account management is delegated to the mobile operator.

The next level in the value chain is for the mobile transactions provider to also issue accounts where value can be stored before or after the transaction. The mobile operator is the **account issuer**, and becomes a financial service provider. These are prepaid or electronic money or simply mobile accounts[2]—basic transactional deposit accounts accessible from a mobile phone.

A **mobile banking capability** would be one that goes beyond making and receiving payments, enabling the end user to manage on-demand savings balances and potentially use a broader range of products that allow for safe storage of value, as well as credit and insurance.

Figure 1 shows various value chain segments that go from the pure telecoms provider (only normal connectivity services) to the mobile operator becoming a (authorized or de facto) financial institution.

What should operators watch out for?

Despite their advantages, mobile operators also have some capacity gaps when it comes to offering a mobile payments service. For example, maintaining the integrity of a payments system demands strong internal controls at the customer front end. Such controls are relatively weak for prepaid airtime resellers. Mobile sales channels support a simple, single-product sale (voice); they might find it difficult to position a more complex product that requires a higher level of effort both to sell and use. There are four fundamental risks:

1. **Breaches in data and transactional security.** Breaches in data privacy, accounting errors, or fraudulent transactions could expose an operator to large liabilities and serious reputational damage.

2 Some people refer to these accounts as the mobile wallet. We prefer to call it a mobile account sitting inside a mobile wallet.

Figure 1: Value chain options for a mobile operator in the delivery of mobile transactions

Telecoms business ⟷ Banking business

Co-marketing, co-branding | Own marketing, branding

Retail distribution network (for cash transactions)

Role of mobile operator in delivering financial services	**Secure communications**	**Mobile wallet (presentation) services**	**Account hosting & transaction authorization**	**Account issuance**
Examples of who is doing it	• Any bank doing WAP • WIZZIT (+ Bank Athens + all mobile operators, S. Africa) • Barclays (+ all mobile operators, India)		• Smart Money (Smart + Banco de Oro, Philippines) • MTN Banking (MTN + Standard Bank, S. Africa)	• G–Cash (Globe, Philippines) • M-PESA (Safaricom, Kenya) • M-Paisa (Roshan, Afghanistan)
Key mobile operator strengths	• Ubiquitous wireless network • SIM security	• Control of user interface • Handset provisioning	• Familiarity with real-time prepaid platform • Cash in/out points	• Large customer base • Brand, customer trust • Solid financials
Value to mobile operator	• Driving additional data traffic (support core business)	• Creating customer stickiness (churn reduction)	• Generating additional service revenues • Branding, innovation	• Business diversification (entry into adjacent sector)
Potential risks for operator	• Network security breach	• Unsatisfactory customer experience • Handset security breach	• Accounting error, fraud • Breach of client data confidentiality • De-focusing	• Investment risk (loss of value of accounts) • Application of banking regulations

2. **Operational focus.** The complex delivery of financial services could distract management from its core communications business, perhaps stretching the abilities of smaller mobile operators.
3. **Additional regulation**. Operators may not want to add financial regulation and supervision to the substantial regulatory oversight they already receive.
4. **Customer care costs**. For help, many (if not most) customers would call the operator. Frequent calls could easily wipe out service profitability of service delivery to many customers.

Summing up the mobile operator's perspective

Mobile operators have comparative advantages in the creation of a mobile payments service. The business case for such service includes reducing customer churn, increasing revenue per customer, and avoiding the expense of distributing prepaid cards. Mobile operators have a further advantage over banks: their existing customer base includes a large number of unbanked people, and hence they can convert users among their existing base rather than needing to acquire new customers. A bank, on the other hand, would have to reach beyond established customer segments to offer mobile banking, justifying it on incremental revenues.

Reference

Ivatury, Gautam, and Ignacio Mas. "The Early Experience with Branchless Banking." Focus Note 46. Washington, D.C.: CGAP.

May 2009

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