CGAP

BRIEF

Window on the Unbanked: Mobile Money in the Philippines

Earlier this year, CGAP teamed up with the GSM Association (GSMA) (a global trade association for the mobile communications industry) and McKinsey (a global management consulting firm) to measure the global market for financial services delivered via mobile phones (mobile money) in 147 developing countries. This is the first study of mobile money and the unbanked—those without access to formal financial services—estimated to be almost 4 billion worldwide.[1]

Based on the analysis, 1 billion people do not have a bank account but do have a mobile phone. By 2012 that number will grow to 1.7 billion, making mobile phones a direct conduit to nearly half of the world's unbanked. As many as 364 million low-income, unbanked people will use mobile money three years from now, generating US$7.8 billion in new revenues for the mobile money industry via transaction fees, improved loyalty, and more cost-efficient airtime distribution. About 120 mobile money services will be launched in developing countries in 2009.[2]

This needs to be put into context. Mobile network operators (MNOs) in developing countries took in US$169 billion in revenues for the year ended March 2009.[3] Thus, US$7.8 billion would represent just 4.6 percent of the industry's income. However, we believe only a minority of MNOs will ultimately succeed with mobile banking. This cohort could see substantial benefits, possibly adding more than 10 percent to gross revenue. This is an attractive scenario at a time when subscription growth is slowing and average revenue per user (ARPU) has been falling by more than one-quarter since 2007 in emerging markets.[4] To take advantage of this mobile money opportunity, MNOs, banks, and their partners must deepen their understanding of unbanked consumers' needs and behavior.

Insight from the Philippines

The Philippines provides a window onto the complex financial lives of low-income families. Three out of four Filipinos are unbanked (Demirgüç-Kunt, Beck, and Honohan 2008). The country hosts two of the earliest pioneers in mobile money—Smart's Smart Money launched in 2001 and Globe's GCash launched in 2004. CGAP, GSMA, and McKinsey gathered data on 1,042 unbanked consumers in the Philippines, split between mobile money users and nonusers.[5]

Key Findings from the Philippines

- One-half of active mobile money users are unbanked.
- 26% are poor, living on less than US$5 per day (the poverty line in the Philippines).
- Mobile money users have ARPUs 40% higher than peers who don't use mobile money.
- Mobile money boosts loyalty: 68% of users with multiple SIM cards say their mobile money SIM has become their primary one for calls and texting.
- Distribution is key: intensive users who do four or more transactions per month are 40% more likely to live within five minutes of an agent.
- 1 in 10 unbanked users saves an average of US$31 (one-quarter of their family savings) in a mobile wallet.

1 CGAP, GSMA, and McKinsey analysis using data from Demirgüç-Kunt, Beck, and Honohan (2008).
2 To arrive at these conclusions, we conducted a forecasting exercise based on relatively conservative assumptions. We assumed that for each country, only one mobile money service would win greater than 10% uptake by users. Further, we assumed relatively modest usage by consumers and stable prices. The number of mobile money implementations is based on a comprehensive survey of MNOs and vendors.
3 Wireless Intelligence: total revenues for 150 operators in 80 developed countries through March 2009.
4 Wireless Intelligence: connections growth since 1995, prepaid ARPU for 49 operators in 27 countries.
5 Data were gathered in March 2009 from 1,042 unbanked people with different incomes, ages, and urban/rural locations. All have access to a mobile phone. We included a booster segment of users living on less than US$5 per day. Unbanked mobile money users are defined as people who have used Smart Money or GCash in the past three months. The margin of error is 5% with a 95% degree of confidence.

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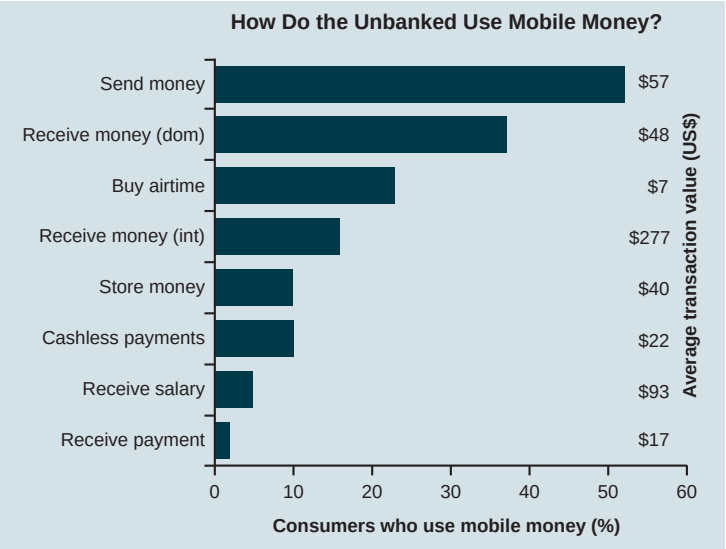
We found a rich vein of new information. One-half (1.6 million) of active mobile users in the Philippines are unbanked. Further, 26 percent of active users have incomes below US$5 per day (the poverty line in the Philippines). On average, unbanked mobile money users spend US$1.9 more per month than their peers, a considerable gain for Filipino MNOs who face ARPUs ranging from US$4.04 to US$5.72 among prepaid customers.[6] The survey also found evidence that mobile money can help combat customer churn (switching to other providers). Among users surveyed who had subscriptions with more than one network, 68 percent say their mobile money provider is the MNO they use most for calls and SMS messaging.



How Do the Unbanked Use Mobile Money?

Low-income Filipinos are primarily using mobile money to send and receive domestic remittances—on average sending US$57 and receiving US$48. However, this masks a more complex reality. Mobile money users are far from homogenous. Surprisingly, 12 percent of low-income, unbanked users do not own a phone. This suggests mobile money can reach lower than even the current bottom of mobile ownership.

Not all users focus on remittances. In fact, one-third of mobile money users do no remittances at all. They use mobile money to purchase airtime and make purchases remotely, providing evidence that the unbanked want and will pay for financial services that go beyond remittances.

Most active users (52%) access the service twice a month or less. However, there is a significant group (40%) of high-intensity users who do more than four transactions per month. They are 50 percent more likely to live outside urban areas, and they are 20 percent more likely to have a full-time job, suggesting that mobile money has gained traction with customers who (*a*) are breadwinners for their families, (*b*) do not have a bank account, and (*c*) have a need for remote payments because they live outside of cities. There is also a "super-user" group in which 1 in every 11 active unbanked mobile money users does more than 12 transactions per month.

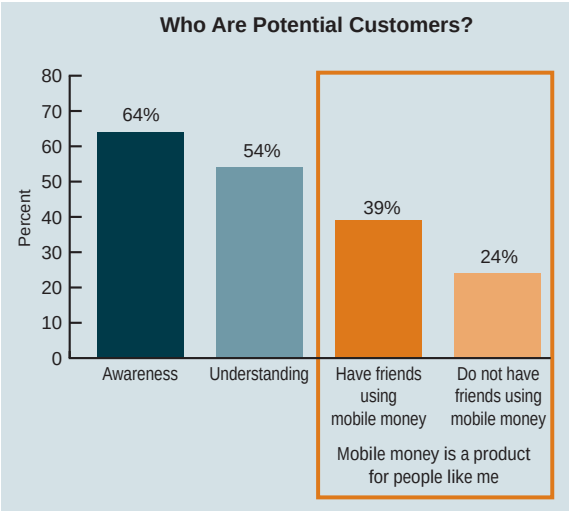
Overall, users give their mobile money service high marks: 92 percent would recommend mobile money to friends and family, and 90 percent feel their money is safe in a mobile wallet. This suggests that once people try mobile money, they find it has value. The focus for industry should be on encouraging potential customers to try mobile money.

Who Are Potential Customers?

Filipinos are active managers of their money. This mirrors findings in other countries showing the poor use a wide number and range of financial instruments.[7] For Filipinos surveyed, informal mechanisms dominate. Ninety-eight percent of unbanked Filipinos receive their income in cash, and they overwhelmingly use informal savings instruments, such as saving at home in a safe hiding place, giving money to a friend or family member to hold, or joining a savings club. All told, low-income Filipinos hold an estimated US$450 million in informal savings balances, actively managed with frequent deposits and withdrawals.

6 Wireless Intelligence: prepaid customer ARPU for Globe Telecom and Smart for the first quarter 2009.

7 For example, Collins, Morduch, Rutherford, and Ruthven (2009) conducted financial diaries with 300 poor families in Bangladesh, India, and South Africa and found households used an average of 8 to 10 different financial instruments over the year.



Low-income Filipinos who do not use mobile money do have very high awareness of MNO brands and even mobile money brands: 64 percent of respondents are aware of at least one mobile money product, and overall they are 25 percent more likely to know the brand name of an MNO than a bank. Fifty-four percent understand the potential uses for mobile money (sending and receiving money, remote payments, airtime top-up, etc.). Further, 75 percent think mobile money would be easy to use.

This looks like fertile ground for quick uptake: potential customers know about services, believe they won't be hard to use, and are already actively managing their money. And yet, the potential isn't converting into reality. Only 13 percent of low-income unbanked Filipinos say they are interested in trying mobile money. Forty-eight percent are uncertain, suggesting hurdles to overcome.

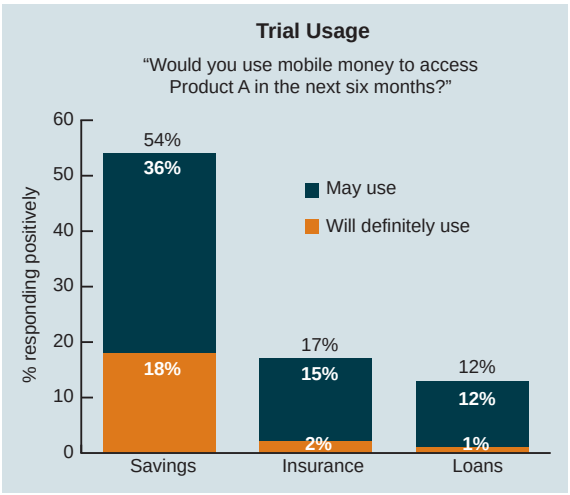
Driving Greater Trial, Adoption, and Usage

The evidence points at four steps the industry should take.

First, get the marketing right. Targeting influential consumers and offering incentives to try the service must be part of the marketing mix. Family and friends are a critical reference group. Family and friends are the most common way users say they learn about mobile money (66%). Nonusers with family or friends who use mobile money are 63 percent more likely to say mobile money is a product "for people like me". Providers might consider offering bonuses or prizes for referring new customers to try mobile money. If trial is key, then it also makes sense to experiment with inducements to bring in new clients. Unbanked users are most enthusiastic about incentives that reduce the cost and risk of trying mobile money, either explicitly (a money back guarantee or free first transaction are the second and fourth most popular) or by offering something else of value that would make up for the time and cost of trialing it (free airtime and prizes are the first and third most popular potential incentives).

Second, understand the financial profile of potential customers. After its low level, the most salient feature of poor people's income is its variability. When income dips, willingness to pay for financial services does as well. Targeting recipients of government-to-person (G2P) welfare payments is worth exploring, because these cash transfers give users a steady stream of payments that smooth income (and not coincidentally would also generate a steady flow of fee-generating transactions for the mobile money provider). For example, a new social transfer scheme (Pantawid Pamilyang Pilipino Program) is already making monthly welfare payments to 700,000 people and may be expanded to as many as 2.7 million in the near future (but is not yet using mobile delivery channels) (Santo Domingo 2009).

Third, build out a dense network of agents. For mobile money to be at all convenient, it must offer easy ways to convert cash to electronic value and back again. To date, the fulfillment infrastructure for Filipino mobile money users has been limited, particularly in rural areas and outside of malls and ATM kiosks. Urban mobile money users say they have four times more bank branches and ATMs



than mobile money agents within 15 minutes of their house. On average, rural users report no agents nearby and that they must travel to reach a location where they can transact. Ease of access is a defining feature between high- and low-intensity users. Intensive users who do four or more transactions per month are 40 percent more likely to live within five minutes of an agent than low-intensity users.

Finally, explore services beyond remittances and airtime top-up. Savings hold particular promise as a service much in demand. When asked what additional services they would be likely to try beyond mobile money, existing mobile money users in the Philippines enthusiastically say savings (54%). Without any marketing and with a poor fulfillment infrastructure, 1 in 10 unbanked mobile money users already stores an average of US$31 in his or her mobile wallet. They report this amounts to one-quarter of their household savings. One could imagine a differential pricing (with deposit transactions priced more cheaply than money transfers) that would make depositing and withdrawing from mobile wallets economical, in turn encouraging clients to keep more funds in storage and conducting transactions electronically instead of in cash.

The mobile phone industry should also look at how mobile money competes against the informal options already used by the unbanked. Currently, the most popular means of saving are hiding cash at home (52%) and giving it to a friend or family member to keep (35%). Savers say they prioritize quick access (49%) and safety (29%). While the proverbial mattress is hard to beat in terms of liquidity and quick access, the mobile money industry may very well be able to pitch mobile money as safer—without risk of theft or family making demands on cash at home—and nearly as convenient (provided a more dense agent network is developed). Having Filipinos convert from informal products may be easier than competing on remittances: 77 percent of unbanked Filipinos currently already use a formal money transfer company. By promoting mobile money as a remittance product, Smart and Globe have put themselves in direct competition with global giants like Western Union and strong local players.

The Bottom Line

While banks are not reaching the unbanked half of the world's population with traditional distribution channels of branches and ATMs, mobile phones *are* penetrating to the unserved, with more than 4 billion mobile subscriptions in the world today according to Wireless Intelligence (www.wirelessintelligence.com). This deep reach of mobile is a potential launch pad for a considerable commercial opportunity—up to US$7.8 billion in direct and indirect revenues by 2012. Belief in this opportunity will spark an estimated 120 mobile money launches in 2009. But to fully exploit it, MNOs, banks, and technology providers must enhance their understanding of how unbanked (potential) consumers behave. Analyzing the needs of the unbanked can shine a light on more effective marketing, pricing that recognizes the variable income of low-income people, the critical nature of building out a network of cash-handling agents, and demand for service offerings beyond remittances.

Resources

Collins, Daryl, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven. 2009. *Portfolios of the Poor*. New Jersey: Princeton.

Demirgüç-Kunt, Asli, Thorsten Beck, and Patrick Honohan. 2008. *Finance for all? Policies and pitfalls in expanding access.* Washington, D.C.: World Bank.

Santo Domingo, Bernadette. 2009. "Arroyo to Seek Legislation Institutionalizing CCT Program." *Business World*, 26 June.

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