Challenges in Mobile Banking: Early findings from the field

According to the 2013 State of the Microcredit Summit Campaign Report, microfinance now provides over 200 million of the world’s poor with access to financial services. Many practitioners believe that technology can transform how current and potential microfinance clients do financial transactions by allowing them to use their computers or smart phones. Many expect that mobile banking will facilitate financial inclusion and give people at the bottom of the pyramid a tool to fight poverty. However, this promise has not been fully realized, and there is still a growing divide between the poorest households which are still operating in a cash economy and the formal economy that is increasingly digitizing transactions. If the poorest are not to be left behind again, we must connect them to the digital financial system.

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The Microcredit Summit Campaign is the world’s largest global network of microfinance practitioners and stakeholders. The Campaign was launched at the first Microcredit Summit in 1997, which remains the largest gathering of microfinance practitioners to date. Since then, the Campaign has led the sector towards reaching the ambitious goals set by its members at the 1997 Summit and expanded in 2006.

Microfinance Opportunities is a global non-profit committed to understanding the financial realities of low-income households. We work with financial service providers, policy makers, telco’s, card providers, mobile money operators and other private sector organizations to connect product and service offerings to the realities of the unbanked or underserved.
2 Challenges in Mobile Banking
Mobile banking, or m-banking, is one of the most promising tools for achieving a cost-effective pathway to digital financial inclusion at scale. Globally, mobile phone use has grown at an explosive pace as people around the world from the top to the bottom of the pyramid have decided that they are affordable and effective tools for communication, security, entertainment, and other uses. The ubiquitous use of mobile phones makes them an effective, cost-efficient and scalable service delivery platform. Many practitioners have recognized and harnessed this potential through a variety of mobile banking tools, allowing previously unreachable clients to make digital payments via their phone, or sending clients SMS payment reminders. Through mobile banking, transactions can be conducted more securely and at lower cost than with traditional platforms. While billions of low-income people now own and use mobile phones*, they are not yet widely used in the developing world for accessing financial services.

*The International Telecom Union predicted there to be 6.8 billion mobile phone subscriptions by 2013 with over 5 billion of those in the developing world alone. www.itu.int
There are many and often divergent expectations from this technology but not all may be well founded. Microfinance institutions worldwide are using mobile phones to reach out to poor people to overcome difficulties faced by traditional service models due to lack of physical proximity to service providers, low education and literacy, or an inadequate understanding of the market space. The purpose of this study was to investigate and document the use of mobile banking in 1) reaching clients further down the poverty scale, and 2) making it easier for very poor people to participate in the digital economy.

Successful m-banking initiatives must overcome challenges such as how to build low-cost “onramps” for poor people to convert cash to digital money; physical, digital and psychological barriers; and increasing transactional points within poor and rural areas.

This study was conducted by the Microcredit Summit Campaign and Microfinance Opportunities, in partnership with the Gates Foundation. It tries to provide, through exploratory research with practitioners, some early insights into ways of making m-banking more effective for both clients and providers and to establish baseline information in an emerging space. For the purpose of this study, we contacted the Summit’s institutional members in countries all over the world to encourage them to participate in this research. Once organizations were recruited, we organized online focus group discussions which were moderated by the staff at Microcredit Summit Campaign and Microfinance Opportunities. Most of these organizations were in early stages of implementing m-banking platforms – some are still in the planning stage whereas others are beginning to conduct transactions using it. The discussion therefore revolved around their expectations from m-banking and how it may help them achieve their social mission more effectively. They were also probed about the challenges they are facing or foresee while implementing m-banking.

Mobile Banking and your Social Mission

In defining their social mission, MFIs tend to include the process of providing financial services to a specific clientele identified variously as “excluded,” “poor,” “extremely poor,” and so on. Additionally, MFIs often emphasize their role in assisting that client group in improving their situation (escaping poverty, becoming financially included, etc). In the focus groups, participants generally agreed that mobile money holds potential as an appropriate tool for their organization to achieve what they identified as their social mission goals. The main reason was that financial services are often located at prohibitive distances from clients. This particularly holds true for people who live in remote areas with difficult terrain as well as women in conservative societies where social restrictions prevent them from transacting where the services are currently offered.

For this reason, Kashf Foundation in Pakistan is seeking to offer mobile services to its female clients. According to Sana Annas, “Our vision is to provide financial services to all in a gender equitable society. So we are working with women [as] it sometimes becomes difficult for women in Pakistan to go out of their homes and then go to far flung branches to deposit their monthly installments on a monthly basis. So instead of going out, mobile money will be more helpful for them and will facilitate them.”

Andrea (Aya) Silva of the Grameen Foundation in the Philippines added “Poverty is really in the rural areas and...[in] their location even the closest bank would be several kilometers. So providing mobile financial services could be a practical way for people to engage.”
Challenges in Implementing Mobile Banking

During the discussions, it became clear that the challenges to making mobile banking fully accessible to low-income clients can stem from infrastructure, client capabilities, and costing. While mobile banking has the potential to support the social mission of MFIs, MFIs often face financial, technical and operational constraints in planning and implementing mobile initiatives. Utilizing mobile technology to deliver financial services in rural and remote areas can prove difficult if the necessary infrastructure is lacking. Currently, connectivity remains low in rural and geographically secluded areas like mountainous regions or regions with low population densities. To address this issue, the participating MFI representatives felt there was a need to upgrade the existing infrastructure to ensure full access to technology.

However having cell phones and access to networks is not enough. Some discussion participants thought that a greater challenge lay in client capabilities, which requires teaching people how to use this technology for banking purposes. Participants stated that in many of their countries, the majority of the target population has little or no education. It is important to note that some MFI representatives thought that clients were quite adept at the technological aspects of operating a mobile device, but did not have enough “trust” in using the device to conduct financial transactions. Mharra De Mesa-Sarmiento of CARD, explained “We are teaching them the benefit of this technology. It’s their hard earned money, [so] it’s really their trust that they will put in. Before we had face to face transactions, but here their money is in their phone transferred to another account into their phone.” Participants from CARD Bank in the Philippines and Amhara Credit and Savings Institution in Ethiopia said that their institutions are working to develop programs specifically to address trust when transitioning from a cash-based to a mobile-based transaction platform.

A related concern mentioned by some discussion participants was that the clients felt that mobile devices are eroding the MFI-client relationship by replacing the social component of face-to-face groups with SMS messages. Participants from these MFIs appreciated the value of these social interactions, and
thought that mobile banking needs to be implemented in a way that does not erode the core MFI-client relationship.

In all cases however, participants thought that while the use of cell phones is prevalent, using mobile devices for financial transactions requires education and training for clients – whether to overcome technical operation or trust barriers.

Such initiatives could be incorporated before and during early roll-out of an m-banking platform, and perhaps during new-client intake. This would ensure both fuller financial inclusion as well as help achieve the needed economies of scale to ensure the sustainability of the platform.

An additional constraint mentioned by participants from CARD was the need for the MFI to manage liquidity flows with mobile agents who directly interact with clients in setting up their mobile accounts. “[Some agents] don’t have the liquidity or the required cash for them to keep in their account” which causes problems in meeting demand of clients. This in turn can negatively influence client participation in m-banking systems, creating a vulnerability in meeting volume targets to maintain sustainability. Growing a mobile banking platform also often places added demands on liquidity due to the sheer increase in transaction volume.

Citing the difficulty in reaching a level of self-sustainability with an m-banking platform, discussion participants repeatedly noted that their MFIs highly subsidize mobile banking services to make them affordable for the poor. One participant noted that their clients viewed transaction fees, regardless of the amount, as a fine, which then posed a powerful disincentive for them to conduct their transactions via mobile. Even the minimal requirement of having airtime on phones so that transactions can be carried out can be a burden for low-income clients.

A kiosk operated by a client of Sinapi Aba Trust (Ghana) proudly displays her affiliation with MTN, a mobile network operator. Photo courtesy of Sabina Rogers.
Thus building the platform cost structure is a crucial factor and may point to the need for further innovations that can allow MFI’s to develop the right model for the local context.

While elaborating how MFIs operate, the participants said that their organizations usually collaborate with existing telecom companies to reach their target population. This has the advantage of saving the MFI the cost associated with developing infrastructure from scratch. However, the real challenge is to reach out to people living in remote areas where even telecom companies are not currently providing services. Hence, as put by Ms. Silva of CARD, it is essential “to develop a sustainable ecosystem” which is beneficial to all the stakeholders. Telecom providers, for example, may have incentives to partner with MFIs who can take on the role of implementing training for their client groups, thereby increasing their use of mobile devices on the telecom’s network. As noted by Anne Hastings, then CEO of Fonkoze in Haiti, a country’s regulatory framework can have a major influence on collaborations between banks and telecoms that can make or break a mobile banking platform.

The findings of the joint research team are not conclusive, but should serve as guidelines for further investigation. These insights point to some important challenges that many practitioners are facing in providing mobile banking services to low-income MFI clients around the world. While these challenges are significant, innovators are working to overcome them and it remains important to communicate their experiences to the global microfinance community. It was the goal of this study to make a contribution by communicating the
experience of several MCS members to show that these challenges are not isolated, and while they should not be thought of as insurmountable, a great deal of work remains to overcome them.

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**Key Findings – Mobile Banking and your Social Mission**

*Generally, mobile banking can be an effective tool in achieving an institution’s social goals. M-banking permits savings that help reduce cost barriers of products for poorer clients. Can help overcome both distance barriers as well as social restrictions to accessing services.*

**Key Findings – Mobile Banking Implementation**

*Mainly center around infrastructure, client capabilities, and cost.*

*Access to phones and network required but not enough – TRUST is an important factor.*

*Network access an issue when reaching into remote areas.*

*Financial sustainability for m-banking elusive.*

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