Mobile money

A payment industry revolution impacting marketing and distribution

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"Until now, banking is one of the few industries in the world that hasn't yet been reinvented by Silicon Valley," said Steve Streit, founder and CEO of Green Dot.

Mobile money services are sweeping across all continents. With early successes recorded in Asia, Latin America and Africa back in 2010, mobile money services are breaking out in developed countries in a northbound wave. Entering the market as pure players, retailers or Telco operators, few of them hail from the traditional financial services industry. But all of them compete fiercely to provide enhanced customer experience in transaction services - with growing success. Is it time for providers of savings, credit and risk coverage products to consider mobile money service providers as new distribution partners?

First launched in Africa, Asia and Latin America back in 2008, mobile money gained popularity with a service that allowed end users to safe keep their cash miles away from the nearest bank branch. In rural areas for instance, farmers and traders were able to dispose of their cash receipts in short order, storing their daily earnings using their mobile phone. To do so, they could exchange coins and banknotes for electronic money at a corner shop, a grocery store or a gas station down the road. The benefit? Keeping your earnings safe from theft, fire or flooding, or more prosaically from insistent family and relatives.

Open 24/7, a number of retail stores provide basic financial services, such as the withdrawal or deposit of small amounts of money, to a multitude of clients. In Kenya, Rwanda or Tanzania, 80% of the population now have a mobile money account. A staggering rate of penetration, compared with the 25 to 30% painfully achieved by traditional banking and micro finance after decades of 'financial education'. The speed of this success has also been impressive: mobile money operators break even within three to five years, as recently highlighted by GSMA. This proves that the market was ready for this product before non-financial service providers decided to address it with innovative solutions.

Alongside the basic cash deposit and withdrawal service, mobile money operators have developed a complete payment ecosystem: merchant payment, bill payment, loan installments, payment of taxes, disbursement of loans and payment of insurance premiums are all part of the service available today in most developing countries.

New players entering the game

In developed countries, the challenge is different. Banking services are available to the many. Bills can be paid by wire transfer, and plastic cards are widely used for merchant payments.

Nevertheless, several non-traditional providers of banking services are emerging. Primarily designed for the 'unbanked' (i.e. people without a bank account), they are also enticing a growing number of price-sensitive clients looking for a basic service. In the United States, GoBank has been offering *"a checking account designed for people who are fed up with big banks and their big fees"* (sic GoBank website testimony) since early 2013.

"GoBank is designed from the ground up to be the bank account for the smartphone generation," said Steve Streit, founder and CEO of Green Dot, a purveyor of prepaid debit cards.

Cash deposits can be made at retail partners such as Walmart, cash withdrawals at ATMs or at retail stores, and merchants can be paid with a debit card. Innovations include photo check deposits, which use the smartphone camera, bill payment using an online checkbook, and a discretionary account keeping fee. In France, a similar initiative was launched in early 2014; Compte Nickel is a prepaid mobile account with no overdraft facility, offered by a payment services provider. The major innovation is the choice of retail partner for distribution and servicing, namely the network of tobacco stores in France. This network offers a potential 27,000 points of service across the country, visited by hundreds of thousands of customers every day. The account opening process is designed to take under five minutes, and is carried out directly in tobacco stores, requiring only a copy of the client's ID, a mobile phone number and a postal address. In the first 12 months, more than 85,000 prepaid accounts were opened.

Allowing merchants to communicate with customers is certainly key to the success of mobile money in developed countries

Amazon coins, Google Wallet and ApplePay are not targeting the 'unbanked'. At a time when ApplePay garners a lot of media attention with a U.S. rollout under way and a European one in preparation, the Starbucks mobile money service deserves attention. Although Starbucks mobile money can only be used at Starbucks points of sale, and involves only small transactions, 7.5 million purchases are made each week via the Starbuck app. This makes the Starbucks mobile payment service the runaway leader in mobile payments at retail stores in the United States at the present time.

Convenience comes first

Back in 2009, Starbuck realised that three out of four gift cards where used by the card purchasers themselves, finding them more convenient than coins and banknotes for buying their daily cup of coffee. The app, originally launched in 2010, now offers a virtual gift card, reloadable in seconds at coffee shops, and offering subscribers extra benefits with a companion loyalty programme. The wallet now accounts for nearly 16% of the chain's 47 million weekly transactions. This innovation comes courtesy of a brick-and-mortar retailer which had identified early on the benefit of developing a mobile wallet to drive customer loyalty, enhance customer experience, increase check-out security at point of sale, and lower transaction costs. In mid-2012, a consortium of 15 major U.S. retailers launched a similar initiative to develop a merchant-owned mobile payment solution called CurrentC. CurrentC uses the same ingredients as the one used by Starbucks to build its successful wallet and promises to further develop the customer loyalty features.

Linking mobile payments to loyalty is a promising way of delivering tangible added value to end users in developed countries, from the viewpoint of both the customer and the merchant. Loyalty is central to the Starbucks mobile app and the CurrentC service. It is also deeply embedded in Fivory, the mobile money wallet launched last year by Credit Mutuel, a major French retail bank. The value proposition is very effective once it offers the client immediate cash back on the retail price, a powerful driver of adoption and usage in the market. Letting merchants interact with customers before, during and after a purchase is another effective feature.

Allowing merchants to communicate with customers is certainly key to the success of mobile money in developed countries. As it provides the payment industry with a new revenue stream, along with new opportunities for marketing and advertising, it fills the space in the traditional revenue model between transaction fees paid by the merchant and cardholder fee paid by the customer.

Mobile money is no longer a hot topic in the payment industry solely. It has ripple effects in marketing and distribution, such as Starbucks' current foray into online retailing based on its mobile account. The retail industry is also driving change by developing and testing new customer trajectories, mixing online and offline scenarios. When scanning the barcode of a product in a store, you can see if the product is well rated by your social circle, and where to find the best price close to your current location.The app will let you know if you have enough money in your mobile accounts to check out on the spot, or suggest alternative payment methods, using credit, for instance. It can go even further – and inform you that by waiting 24 hours, you will save extra money and keep to your monthly budget, by adding the product to an online shopping list for home delivery in two days.

Telco operators position their wallets as new distribution platforms for financial services and products. They have successfully shaped their business model in fast developing countries. In most advanced markets in Asia and Africa, Telco mobile money clients are now able to pay utility bills directly from their wallet, pay taxes and government services, pay scholarship fees, receive pension and social security benefits, make payments to merchants, make loan repayments, get a loan disbursed directly in e-money, and pay insurance premiums. Even a companion Visa or MasterCard debit card is provided to mobile money account holders to enable cash withdrawals at ATMs, card payments to merchants, and to equip customers for online shopping (e.g. Orange money in Kenya, Botswana; Millicom Tigo Cash in Senegal and Rwanda; MTN Mobile Money in Latin Africa). Vodaphone or Orange may well end up offering a similar service in Europe in the near future.

Mobile money a new reality

For traditional financial services providers, providing savings, credit and risk coverage products to the mass market, it is time to consider the upcoming mobile money providers as potential new business partners focusing on transactional services to and from a mobile account. A number of European banks are closely monitoring this fast evolving market, and in a few cases are making early-stage investments in promising start-ups to prepare future interactions with their technology, distribution models or customer value proposition.

The next step is to build their internal capacity to address mobile money opportunities: the capacity to interact with current and future financial customers via multiple mobile-based transaction service providers. This means adding a new channel to customer relationship management alongside existing ones such as social media, online and mobile banking, call centres, branches and ATM’s.

The ability to acquire, process and exchange information on payment behaviour for purchases, to accumulate customer intelligence, shape service offerings and provide customised products and services. In that area, even well-established operations such as credit risk scoring might benefit from innovations.

Mastering the operational impact of mobile money may become even more critical when offering proprietary solutions

Lendup or ZestFinance in the United States, Lenddoo in Philippines and Colombia, Kreditech in Germany, Wonga and Cignifi in the United Kingdom are developing alternate credit-scoring models, mixing social media activity, airtime use, location data, web browsing behavioural analytics, e-commerce shopping customer behaviour and device data.

Finally, mobile money offers traditional financial service providers an opportunity to market their financial products via new distribution channels in a way that banks and insurance companies in developing countries are already accustomed to. For this, traditional bankers and insurers must develop specific products tailored to mobile distribution: specific, smartly targeted and available in one tap.

The impact for banking and insurance COOs will depend on their institution's mobile money strategy. In any case, COO involvement in the decision-making process at an early stage is essential for gauging the state of readiness of potential partners, the impact on the institution's existing operations and for ensuring execution in a timely manner.

In our experience, while operational impacts are very low for simple custody of funds for electronic money, they grow larger when a partnership involves the distribution of a portfolio of targeted financial products via mobile, the exchange of customer data in real time or the management of a new relationship channel alongside existing ones.

Mastering the operational impact of mobile money may become even more critical when offering proprietary solutions. One example is Equity Bank, Kenya's largest bank by customer base, which got a MVNO licence (Mobile Virtual Network Operator) in the spring of 2014 from the Communications Commission of Kenya with a view to challenging M-Pesa's dominant position in the Kenyan Mobile Money market.