

## MOBILE PHONES FOR MICROFINANCE

Mobile phones can be used for financial services in three different ways: for micropayments (m-commerce), as electronic money (e-money), and as a banking channel.

**M-commerce.** In Japan and the Nordic countries, mobile phones are linked to credit cards or bank accounts and can be used to make small payments, usually for transportation and vending machines. (The phones replace a debit or credit card that the customer must already have.)

**E-money.** In the Philippines, Globe Telecom lets customers load cash (or G-Cash) onto their mobile phones at partner merchants or Globe outlets. For one million customers, G-cash is real value that can be stored and withdrawn as hard cash, transferred to a friend across town or across the world, or used to pay for products at restaurants and stores. In addition, customers of Globe, and of Safaricom in Kenya (which has a similar product called M-Pesa), can use their virtual money to repay loans to, or make deposits in, microfinance institutions.

**Banking channel.** Customers of WIZZIT or MTN Banking in South Africa use their phone as the primary way of accessing their bank account. MTN, a mobile network operator, is partnered with Standard Bank, and WIZZIT is partnered with the South African Bank of Athens. Customers load cash into their bank accounts at branches or automatic teller machines (ATMs), or through a direct deposit of salary, and can use their mobile phone to purchase airtime and make payments, transfers, and balance inquiries.

### Who offers mobile phone banking services to poor customers?

Both banks and network operators, such as MTN, are pursuing this business. Some banks interested

in reaching unbanked customers believe that a mobile phone banking channel will be less costly than bank branches and that many poor people would be more comfortable using mobile phones to do their banking. Network operators see mobile commerce and payments applications (such as e-money) as a service that can generate more revenue on an existing network infrastructure and that can reduce customer turnover.

### Why is there so much excitement about banking the poor with mobile phones?

*Many merchants and poor people have mobile phones, and the number is growing fast.* African mobile phone subscribers grew from 7.5 million to 76.8 million from 1999 to 2004 (International Telecommunications Union 2005), and this will further increase to 250 million in the next four years, according to the Progressive Policy Institute.

*Poor customers are already familiar with mobile phones.* Many poor people already use mobile phones for voice calls and text messages, thus increasing the likelihood that they will need only a limited amount of training to be able use it for banking.

*Mobile phones are “always” on.* Because mobile phones generally are always connected to the network, banks can receive transaction details as soon as the transaction takes place, reducing its uncertainty. Clients can use their own phone, anytime, to find out their account balance.

*Mobile phone operators already know how to handle cash transactions for customers (airtime).* Operators already have a network of retail outlets with which they do business, albeit indirectly because they sell only wholesale airtime. Also, prepaid mobile phone subscribers (many of whom

are poor) are accustomed to handing cash to these dealers in exchange for value in their airtime account.

### What are some reasons to be cautious?

*Mobile banking applications are not yet interoperable.* In most countries, it is not yet possible to send money between any two mobile phones easily and at low cost. Until these restrictions are overcome, mobile phone banking may not achieve the “network effect” that has caused mobile phones to spread as quickly as they have.

*Mobile phone payments may not conform to international security standards.* Because mobile banking is in its early stages, most banks and mobile phone operators have not agreed to a single standard for securely sharing customer account information and verifying customer identity.

*For banks, a “mobile phone only” channel has not yet proved profitable.* So far, most mobile banking services offer only a limited range of products. Until customers pay for a range of financial services through their phone, the channel is unlikely to make money.

*Mobile phone banking may not be able to reach the most remote and poor areas.* So far, most self-employed or informally employed poor people have not used mobile phone banking because providers don’t have large networks where they can deposit and withdraw cash easily.

*Mobile phone banking may not be easy to use for illiterate and older users.* Most mobile banking interfaces and processes require literacy. Further adaptation and training will be required for all customers, particularly illiterate and older customers, to adopt this system.

*Regulation surrounding mobile phone banking is not yet clear.* Key issues include how to protect customers who deposit cash at retail outlets; how to regulate providers that are outside the banking domain, such as mobile operators that issue e-money; and how to apply stringent “know your customer” requirements to providers opening accounts for poor people.

### Conclusions

CGAP, in partnership with the Vodafone Group Foundation and the UN Foundation, is now doing research in the Philippines and South Africa to find out what makes poor people use or reject these services and how remote mobile phone banking can go. This research can help banks, microfinance institutions, mobile phone companies, regulators and donors steer mobile banking toward reaching large numbers of the poor.



### Reference

International Telecommunications Union. 2005. “African Telecommunication Indicators, 2004.” Geneva.

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- Visit [www.cgap.org](http://www.cgap.org) to access relevant material, including
  - “Using Technology to Build Inclusive Financial Systems,” by Gautam Ivatury. Focus Note 32, January 2006.
  - “Using Technology to Build Inclusive Financial Systems.” CGAP Brief, May 2006.