

Cell phones calling for bank development

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Better mobile banking in the Philippines, where people spend more on calls than food, could improve the standard of living for millions.

Cell phones are already widespread in many developing countries. In the Philippines, for example, half the population owns one. And when it comes to family budgets, cell phones (26 percent) account for more than food (25 percent).

However, countries such as this one still have a long way to go before they can access financial services; most families remain locked out of even the most basic services, something vital for improving their standard of living.

Francesc Prior and Javier Santomá, specialists in the subject of banking access, delve into this issue in "[La banca móvil como catalizadora de la bancarización de los pobres: Modelos de negocio y desafíos regulatorios](#)" ("Mobile Banking as a Catalyst for Banking for the Poor: Business Models and Regulatory Challenges"), in which they discuss how cell phones can open the door to banking for the poor.

Philippines, the seed

The Philippines is the developing country that has achieved the best results with cell-phone banking. This powerful sector is dominated by two operators, which account for the majority of the country's 43 million cell phones.

Smart is the leading company, with 25 million mobile devices, as well as being the one to develop the most prevalent mobile-banking model. The company began by focusing heavily

on the service offered to the poorer segments, who could add credit to their prepaid cards in increments as small as 60 cents. This formula attracted many customers, as well as many businesses, who signed up for wireless phone crediting in order to cut costs.

In 2001, the company made its next big leap by launching Smart Money, a subsidiary that offers the possibility of associating a prepaid phone card with a bank account. Smart forged an alliance with Banco de Oro (BDO), one of the country's largest banks. Smart handles the telecommunications infrastructure, the customers and the SMS platform, while the bank manages the prepaid accounts. This formula has two advantages: investments are minimal, and there are no regulation issues to contend with, as the accounts are handled by a financial institution.

For customers, getting registered with Smart Money is a snap. They can do it in person or via their cell phones. The account is activated upon making their first deposit. After that, they can make purchases, cash deposits and withdrawals. They can also make national person-to-person transfers for a mere 5 cent fee. Such P2P transactions are the driving force behind the provision of banking access. In just one year, Smart Money registered a million customers.

The other success story, Globe Telecom, is the country's second-largest operator, with 16 million customers. Its mobile-banking subsidiary, known as G-cash, directly handles the prepaid accounts. This model is more expensive than going through a bank and also requires approval from regulators. But being independent means they can take a more aggressive approach to developing value-added services. Furthermore, they can make money by investing a portion of the deposits in the financial market.

G-cash allows users to make domestic or international transfers, pay bills, settle their loans at rural banks, and make transactions at point-of-sale (POS) terminals. The consumer pays 2 cents for each operation and an additional fee for transactions performed at POS locations. Remittances, as with Smart Money, are one of the cornerstones of the service. G-cash is notable for its international service, which covers brokers from the Philippines to Hong Kong, Singapore, Taiwan and Malaysia. Thanks to an agreement between Globe and rural banks, users can also receive microcredits.

Smart and Globe's very different business models both work equally well and demonstrate that banking can, in fact, be done via cell phones. The combination of reduced costs and the popularity of the platform creates valid offers for those with low incomes.

In addition to the Philippines, mobile banking (or m-banking) is gaining momentum

elsewhere, including Japan, South Korea and several African countries. Both the Japanese and Koreans have long used their telephones for just about everything.

Yet other experiences show that the virtuous circle of m-banking is not guaranteed. How can it be better promoted?

Challenges for regulators

Prior and Santomá believe that beyond supply and demand issues lies an essential factor: public policy. Banking via cell phones is dependent upon five supervisors: banking authorities, payment-system regulators, telecom and competition regulators, and the authority responsible for battling against money laundering. There are obvious risks of coordination. Thus, some groundwork will need to be laid first in order to give impetus to the sector.

The first step is to officially recognize electronic signatures. PIN numbers or biometric identifiers must be given legal validity. Many developing countries have yet to do this, which poses a risk: transactions could be systematically denied. Why, then, would merchants accept cell-phone purchasing from their customers if they may end up having to deal with a nonpayment?

While merchants need protection from theft or fraudulent transactions, by the same token, there must be assurances that operators or agents will not take advantage of their poor clients for their lack of experience with financial products. However, if the conditions imposed by the regulators equate to costs, the offer weakens. Prices and minimum balances will be higher, putting them out of reach of the underprivileged.

Another basic issue affects the central competency of the financial regulators, who, by definition, seek to maintain as stable a national financial system as possible. For that reason, tougher regulations are placed on any payment types that could jeopardize the system. Theoretically, these would be the ones meeting one or more of the following conditions: being the only payment system available, managing large amounts of money or being used in the capital market. Must these apply to mobile banking? According to Prior and Santomá, that would be unfair. A retail payment system still under development could be throttled by overbearing conditions.

Ready for war

The laws against the financing of terrorism and money laundering also affect mobile banking. They require customers to identify themselves before opening an account or making cash transactions. Many countries base this authentication on ID cards and verify the applicant's place of residence with a utility bill or the like. But this formula is not feasible in developing countries: in Africa, for instance, just 22 percent of all families receive mail at home.

The non-bank agents could make household visits, but the regulators have to provide clear guidelines for defining what is and is not valid identification. Otherwise, institutions would be exposed to negative audits and penalties for taking what are supposedly unacceptable risks. Banks could end up adopting overly conservative policies, as we have seen in the United States (see "La estructura de los sistemas de pagos al por menor y la bancarización en Estados Unidos"/"Structure of Retail Payment Systems and Banking in the United States").

Finally, the regulator will have to face another, more important war: that of corporations. Payment systems are a highly complex ecosystem in which competition coexists alongside cooperation, day in and day out. It is logical that providers would agree to establish certain minimums. Some infrastructures, for example, are more profitable and sustainable when shared.

Above all, in terms of the consumer, the services must be compatible. Imagine only being allowed to call people who are subscribers to the same phone company you use? These sorts of market logics should not overstep the line, as we have seen in the telecom sector, where switching carriers was, until recently, just short of mission impossible. Prior and Santomá call on regulators to prevent that scenario from being repeated in the m-banking sector. Consumers must have total freedom to switch and choose the financial institutions, the operator and the cell phone model they want. The line between cooperation and anticompetitive practices can get rather thin.

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