Mobile Banking –where in the world are we?

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Banks under pressure?

• From the World Payments Report (2014) the claim is that a few years ago, banks held 100% of the payments space. In 2014 this had reduced to 75% and by 2016 was predicted to reduce to 50%. *Do banks want to be in the payments space at all?*
• 49% of Millennials would change their bank for another with a better mobile and digital offering.
• 2/3 of Americans prefer going to the dentists than to their bank.
• The "Holy Grail" of the banking industry –the bricks and mortar branch– is under threat and fighting for survival in its current form.

Threats to the banks are coming from nontraditional sources including Mobile Network Operators, coffee shops and other retailers, technology companies, hand set manufacturers and of course traditional banks. MNO's today have grown from offering money transfer products to offering savings, loans and micro insurance products and services and we see this trend continuing and growing.

The list could go on but the message is clear. Banks have to do something –and quickly or "they risk entering a spiral of decline similar to laggards in other industries" (January 2015, by Henk Broeders and Somesh Khanna "Strategic choices for banks in the digital age"). They go on to say that… "Appreciating the magnitude of the opportunity (of digital) –and the gravity of the threat– is vital…"

There is confusion in the minds of the banks:
– Caused by the hype around the Mobile Network Operators and their entrée into mobile money.
– Uncertainty as to the revenue model around mobile banking
– Uncertainty as to regulation and its consistency in application across industry players
– Massive pressure from Governments on financial inclusion forcing banks into a segment of the market that they do not understand
There is concern that some serious banks are fined huge amounts of money for non compliance regarding KYC yet the MNO's escape these punitive measures. There is concern and confusion that

[1] WIZZIT International is a global pioneer and leader in the provision of mobile banking technology and branchless banking models to leading financial institutions around the world. Currently the WIZZIT model is deployed across three continents in 9 countries through its partner banks. Established in 2002 and going live with its first implementation in 2004, WIZZIT was the first to offer access to financial services using the mobile phone and USSD as a channel.

banks in West Africa as an example, cannot charge customers for making a deposit to a bank account yet MNO's are allowed to charge for deposits into mobile wallets.

There is concern that MNO's in some parts of the world have the power to prevent access to their channel – most notably USSD which makes mobile banking available and accessible to everyone irrespective of their hand set or sim card capacity.

Claims that the costs of processing transactions can be reduced from as much as $3-50 per transaction to less than $0-08c. Claims that using a branchless banking model through mobile banking reduces traffic and pressure in the branches. The costs of servicing a customer in a branch is estimated at $2-00 even if that customer has simply walked into a branch to pick up a brochure.

Then there are the range of options that a bank faces:
– They can build the technology themselves. Research would indicate that this will take anything between 12 months and 5 years by which time the opportunity has passed and competitors are even more entrenched.
– They could partner with any one of the MNO's bashing on their doors. As has been proven, strategically it is suicide for a bank to tie up with one MNO. It means they can only offer subscribers of this MNO a product or service. To offer other customers a product they would need to have relationships and integrations into all the MNO's in a country. The bank does not own the platform nor do they have any say in its features, benefits or pricing
– They could outsource/partner with a reliable and reputable technology provider… but we are finding that banks are opting for the most expensive decision –doing nothing, which in light of the confusion seems to be the preferred *modus operandi*.
In spite of all this banks are primarily focused on growing their balance sheets through increasing their deposit base; managing efficiency ratios (costs and productivity); maximizing stakeholder value and mitigating risks – (massive increase in fraud).

Can Digital Financial Inclusion effectively address these priorities? If not, it will be difficult to get Digital and particularly mobile banking higher up the banks strategic agenda.

What does financially included really mean?
Part of the problem is simply in definition and I would pose the question –because I can send money via my mobile wallet to friends and family am I financially included? I can buy airtime direct from my mobile wallet– am I financially included? Can a partnership between a bank and an MNO really work? The world is littered with failures currently of models that have been tried and failed. Banks are not particularly good at partnering. The DNA of the entities are like the proverbial oil and water. Banks typically have to take the regulatory and compliance risk. The MNO's have fantastic distribution, much better understanding of the lower end of the market and their needs and they are aggressive marketers. A perfect partner for the conservative risk averse banks whose DNA is geared towards the upper and middle income groups and the corporate world. Why then can they not get it together?

How long will unlevel and blatantly unfair playing fields be tolerated?

When will someone publish the costs to implement and enforce KYC regulation and compliance against the benefits that this has given the world? How much longer are we going to prevent people having financial access simply because they cannot comply with rules and regulations set by the first world with little or no understanding of the emerging markets.

Do regulators understand the impact of freezing 300,000 accounts of previously unbanked people on a Friday afternoon and the reputational damage this causes to everyone concerned with and involved with financial inclusion. Do Regulators and compliance officers understand that a farm labourer earning less than $200 per month is very unlikely to be funding terrorist activities or laundering money (both deplorable acts), yet is prevented from opening a bank account because he cannot produce the required paperwork –not that he does not want to but because he does not have it! Yet I and 4 non Kenyans all independently at different outlets opened a Mpesa account without producing 1 document or piece of paper!

Banks have to realise that the starting point for Digital Financial Inclusion is not technology; it is not Regulation or Compliance but **the needs of the consumer**. Until we understand this we will continue dishing out irrelevant products and services that are not used. Banks cannot seriously expect the unbanked/financially excluded segment of the market to be excited about products and services that have been designed for middle and upper income groups. Obviously the needs are totally different, yet we seem not to have grasped this basic principle. If we are to succeed, we have to start with the customer and build something that has better functionality, benefits and cost than the “cookie jar” or the “mattress”. If we cannot get to this level we should not even be considering this business.

There is much to do. There are no blueprints. There will be trial and error. There will be fall out and more failures that success.

We can expect more focus on security and standardization. We can expect moves toward interoperability and one would hope for more sanity in relation to Regulation and compliance together with consistence in application across service providers. We believe banks will prevail, but we will see the emergence of the Post Offices globally as serious players in the financial inclusion space. They have everything, image, brand, trust, credibility, distribution but lack the “digital” which can be acquired quickly and cost effectively.