![CGAP - Advancing financial access for the world's poor]

Understanding Branchless Banking Business Models – International Experiences

April 17, 2010

CGAP Technology Program

14 active projects in 9 countries, 12 policy diagnostics

- Research, Policy and advisory
- Experimentation and communications
- Co-funded by the **Bill & Melinda Gates Foundation**
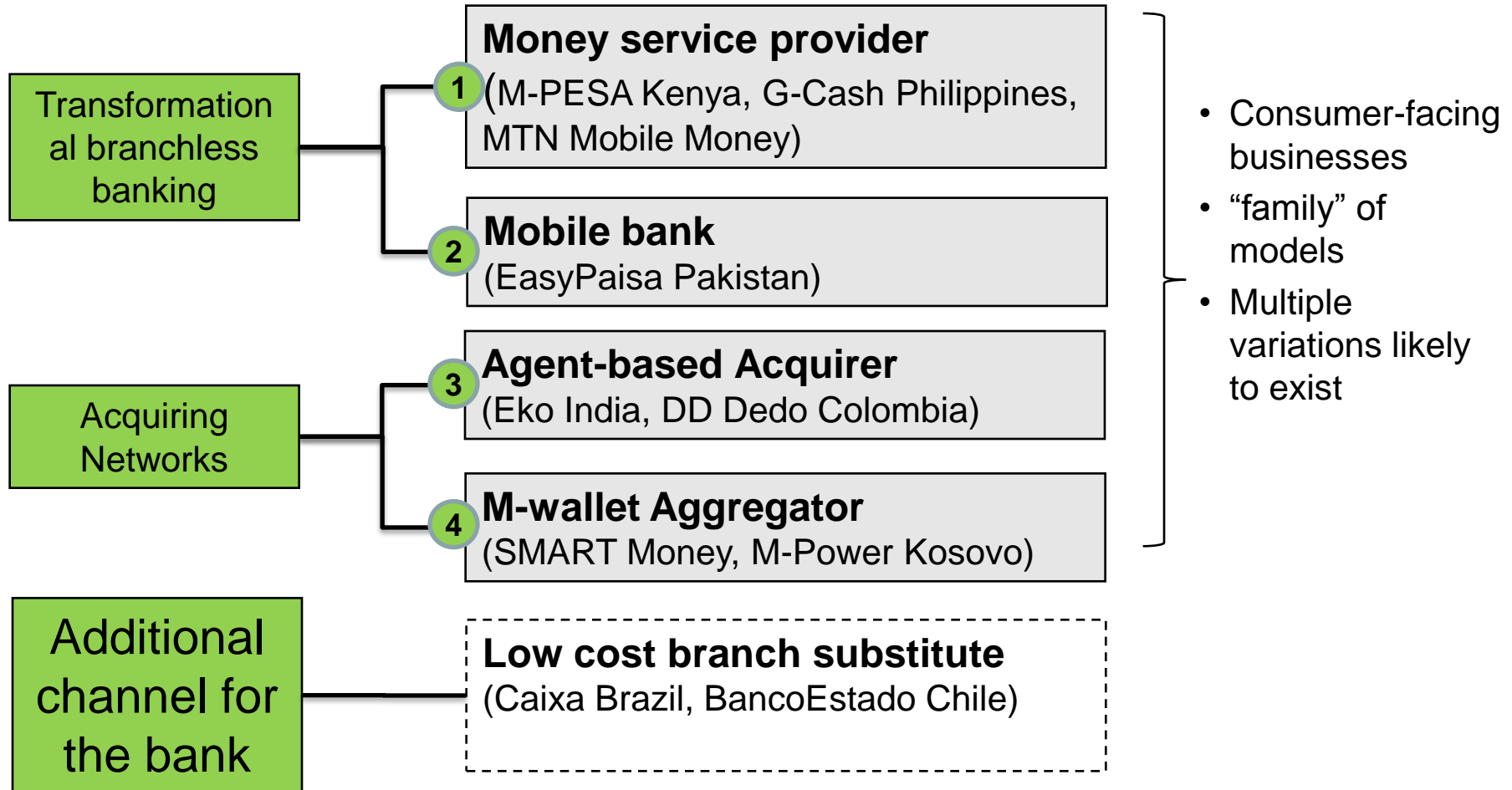

Project Locations

Areas of Focus

- **Clients:** what are the drivers of large-scale adoption and usage?

- **Providers:** what incentives for offering services to large numbers of poor people?

- **Governments and regulators:** how can they develop (1) safe and enabling regulations (2) policies that promote adoption?

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Agenda

- ## Emerging models in branchless banking
  - Money service provider
  - Mobile bank model
  - Agent –based Acquirer model

- ## Business case for key actors
  - Business case for MNOs
  - Business case for Banks
  - Business case for IT provider

- ## Role of market structure

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Emerging models in branchless banking

Transformational branchless banking

1 **Money service provider** (M-PESA Kenya, G-Cash Philippines, MTN Mobile Money)

2 **Mobile bank** (EasyPaisa Pakistan)

Acquiring Networks

3 **Agent-based Acquirer** (Eko India, DD Dedo Colombia)

4 **M-wallet Aggregator** (SMART Money, M-Power Kosovo)

- Consumer-facing businesses
- "family" of models
- Multiple variations likely to exist

Additional channel for the bank

Low cost branch substitute (Caixa Brazil, BancoEstado Chile)

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Understanding business models

Legal structure	Value proposition	Prudential institution
Independent or subsidiary or service	What is the value to the customer?	What is the role of a prudentially regulated institution?
Revenue/Costs	**Business logic**	**Key partnerships**
What are the distinguishing costs?	Why the business does what it does to make money?	What are the key relationships explained by the value proposition and business logic?

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Money service provider

Legal structure

Independent or subsidiary of bank, MNO or other

Value proposition

"Move money electronically anywhere"

Prudential institution

Holds pooled accounts

Revenue/Costs
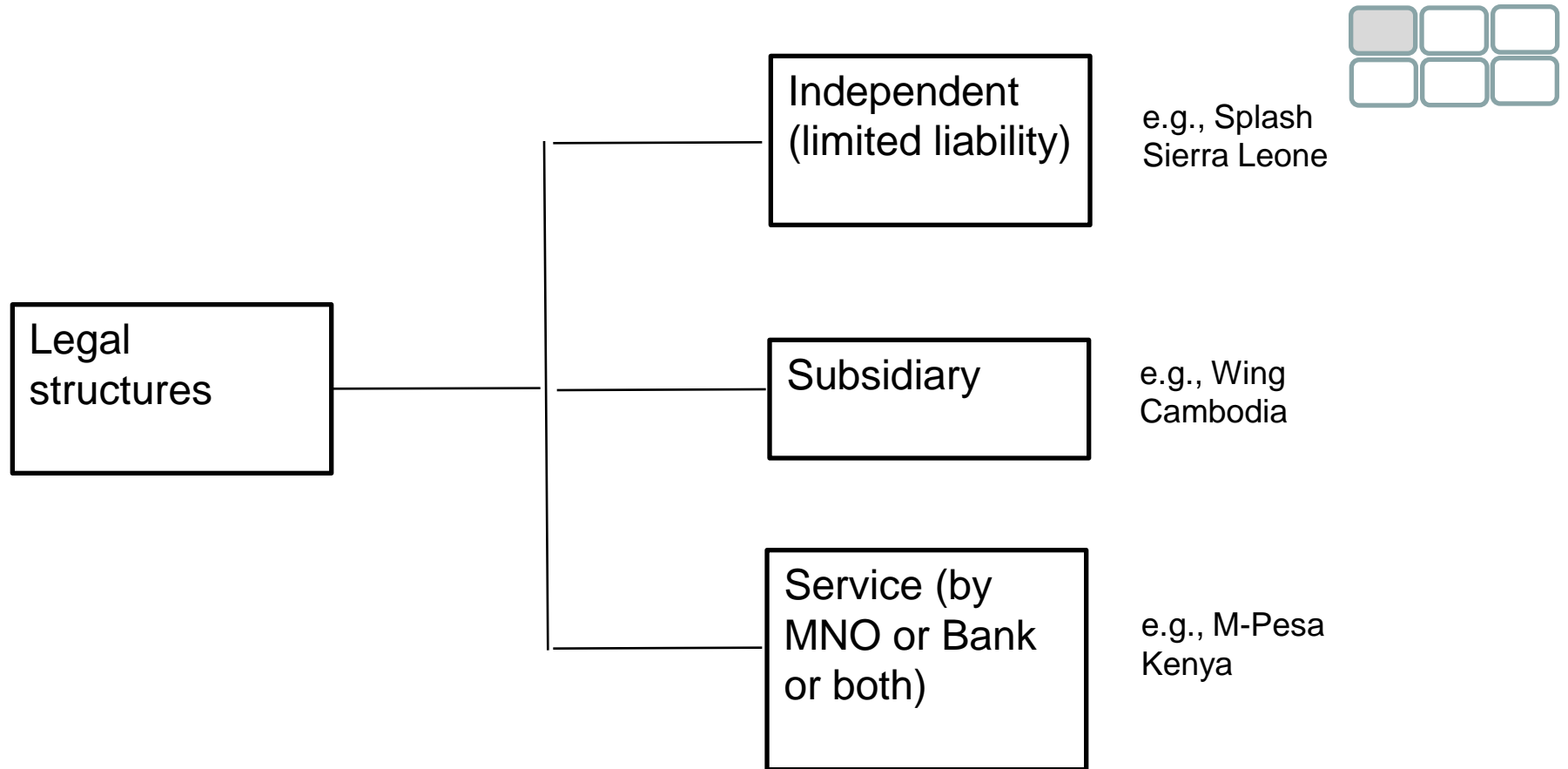
Tx fees (revenue)
Agent commissions (cost)

Business logic
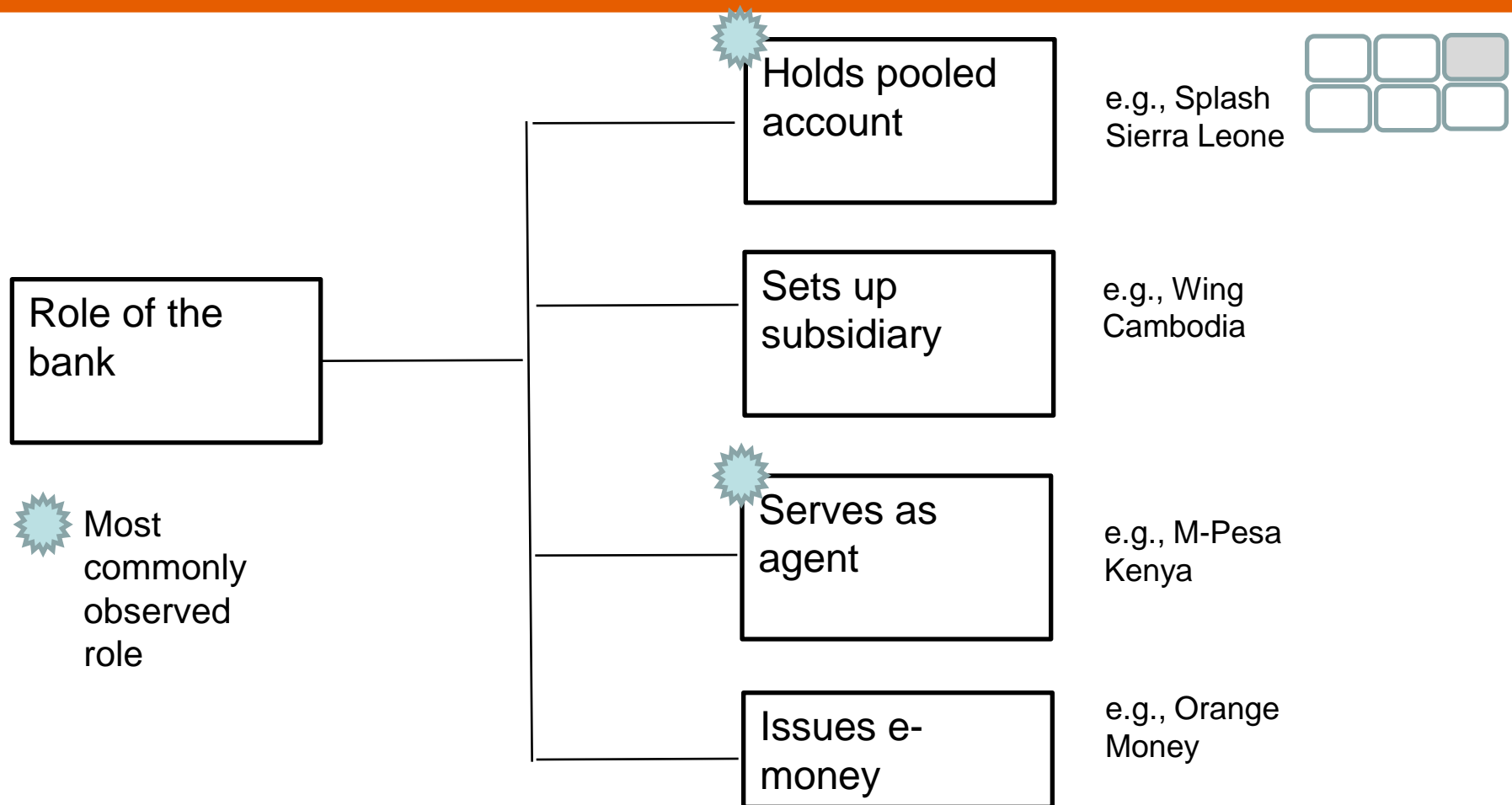
Drive volumes by capturing all payments products

Key partnerships

billers

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Structures observed today

```
                              ┌─────────────────────┐
                              │ Independent         │   e.g., Splash
                          ┌───│ (limited liability) │   Sierra Leone
                          │   └─────────────────────┘
┌──────────────┐         │
│ Legal        │         │   ┌─────────────────────┐
│ structures   │─────────┼───│ Subsidiary          │   e.g., Wing
└──────────────┘         │   └─────────────────────┘   Cambodia
                          │
                          │   ┌─────────────────────┐
                          └───│ Service (by         │
                              │ MNO or Bank         │   e.g., M-Pesa
                              │ or both)            │   Kenya
                              └─────────────────────┘
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Bank in the money service provider model

Role of the bank

- Holds pooled account — e.g., Splash Sierra Leone
- Sets up subsidiary — e.g., Wing Cambodia
- Serves as agent — e.g., M-Pesa Kenya
- Issues e-money — e.g., Orange Money

Most commonly observed role

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Expanding beyond domestic transfers

9 M customers ~17,000 agents

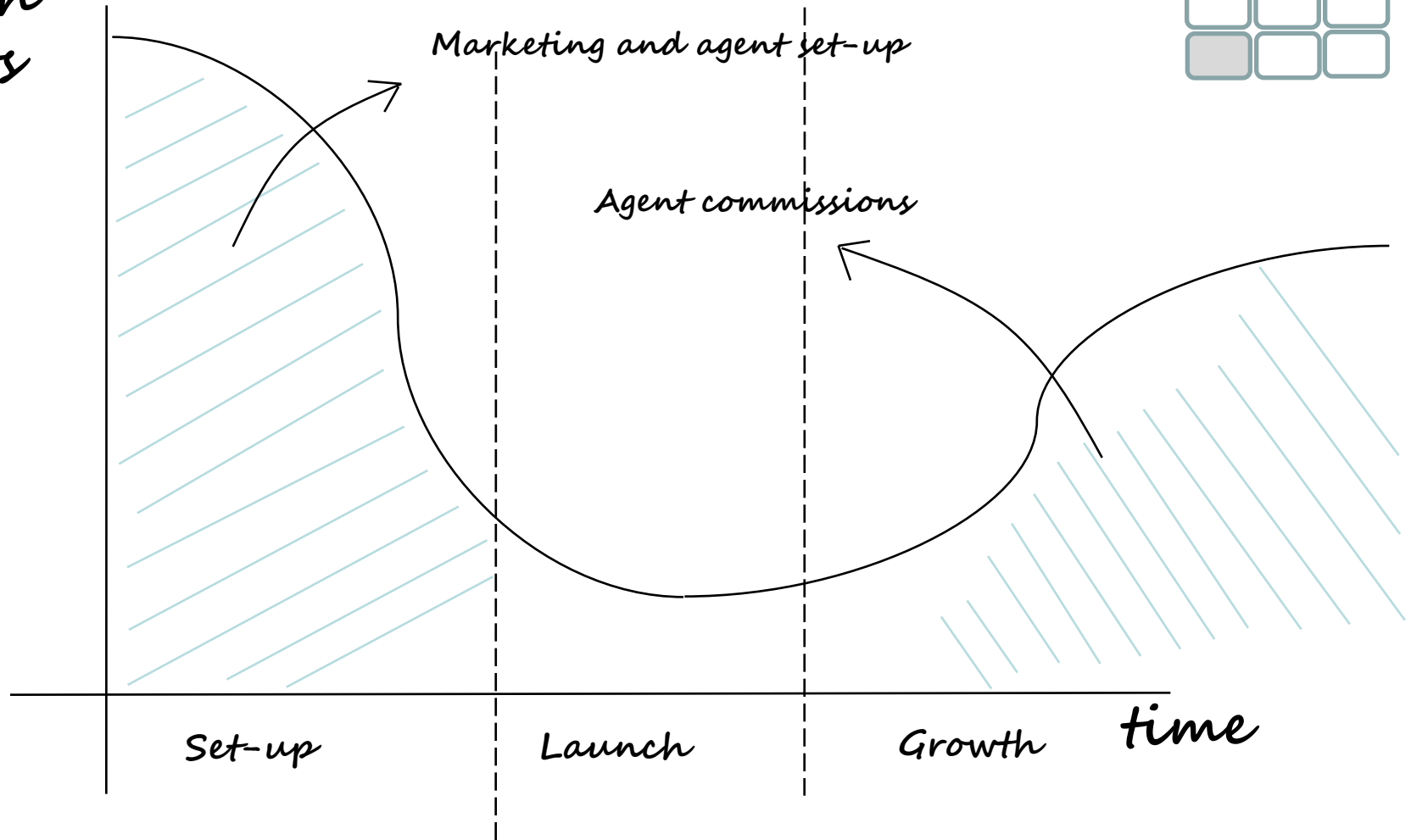**121% CAGR in customers**

$40 M in reported revenue (2009)

Value of P2P Transfers (monthly)
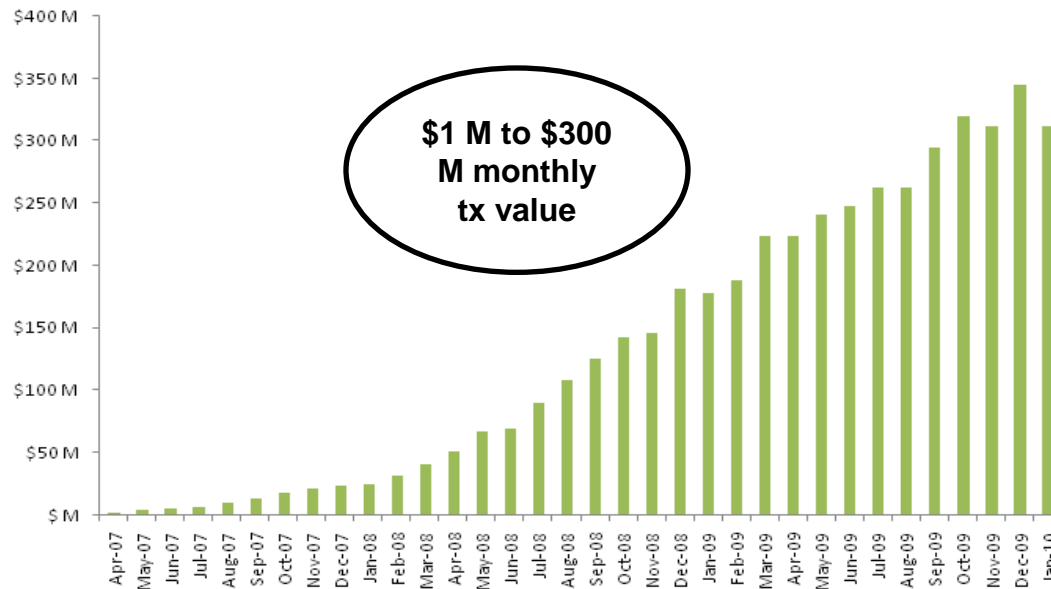
$1 M to $300 M monthly tx value

- Bill payments

- Loan repayments

- Deposit payments

- International remittances

- Government payments ?

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Significant upfront investment

Cash costs $

Marketing and agent set-up

Agent commissions

Set-up

Launch

Growth

time

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Mobile Bank

Legal structure	Value proposition	Prudential institution
Prudentially regulated financial institution	*"Full suite of banking services anytime, anywhere"*	**Owns the customer**

Revenue/Costs	Business logic	Key partnerships
Similar to MSP on payment products but retain profit pool from additional products	**Capture entire profit pool from products**	**Between the bank and the MNO**

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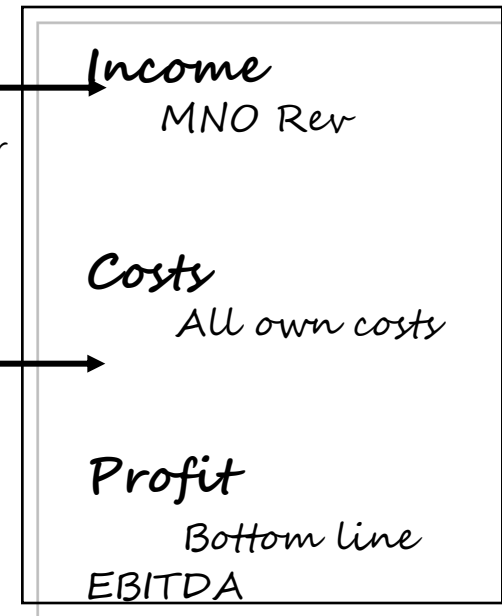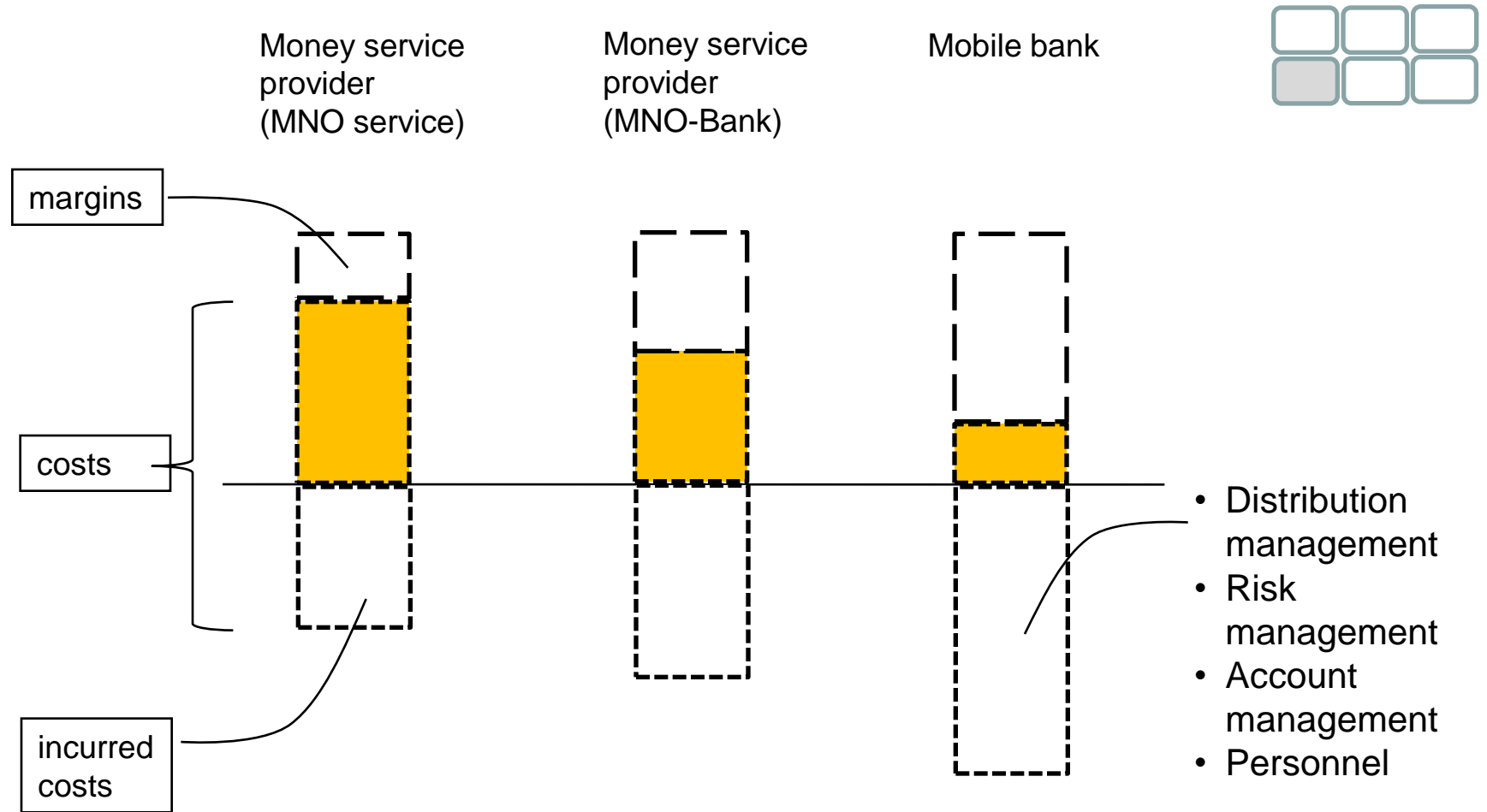# Mobile Bank: operational view
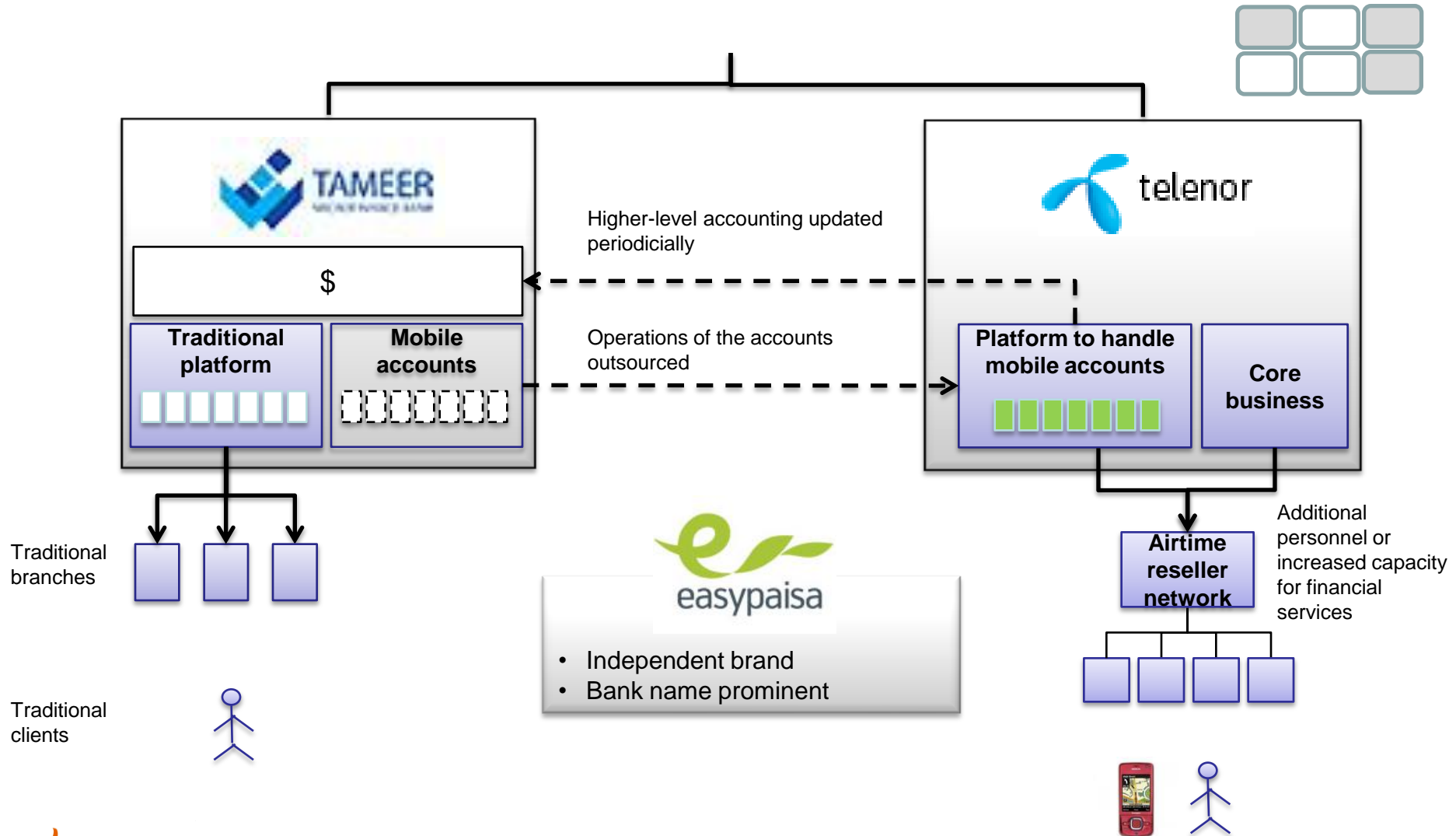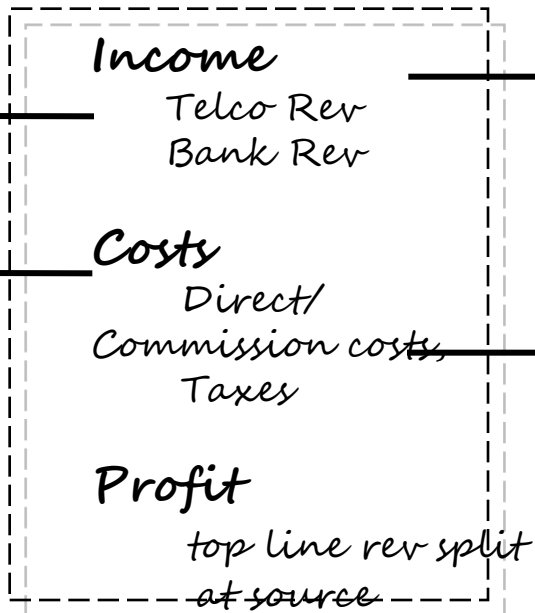
Mobile Bank: financial view
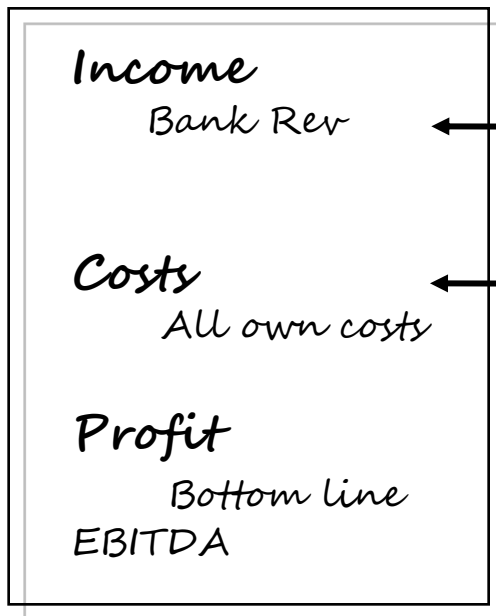
Benefits of leveraging costs

Money service provider (MNO service)

Money service provider (MNO-Bank)

Mobile bank

margins

costs

incurred costs

- Distribution management
- Risk management
- Account management
- Personnel

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Agent-Based Acquirer

Legal structure

Independent or subsidiary of bank, MNO or other that manages the network

Value proposition

"A single network of agent points that is easy to integrate with"

Prudential institution

One of the providers

Revenue/Costs

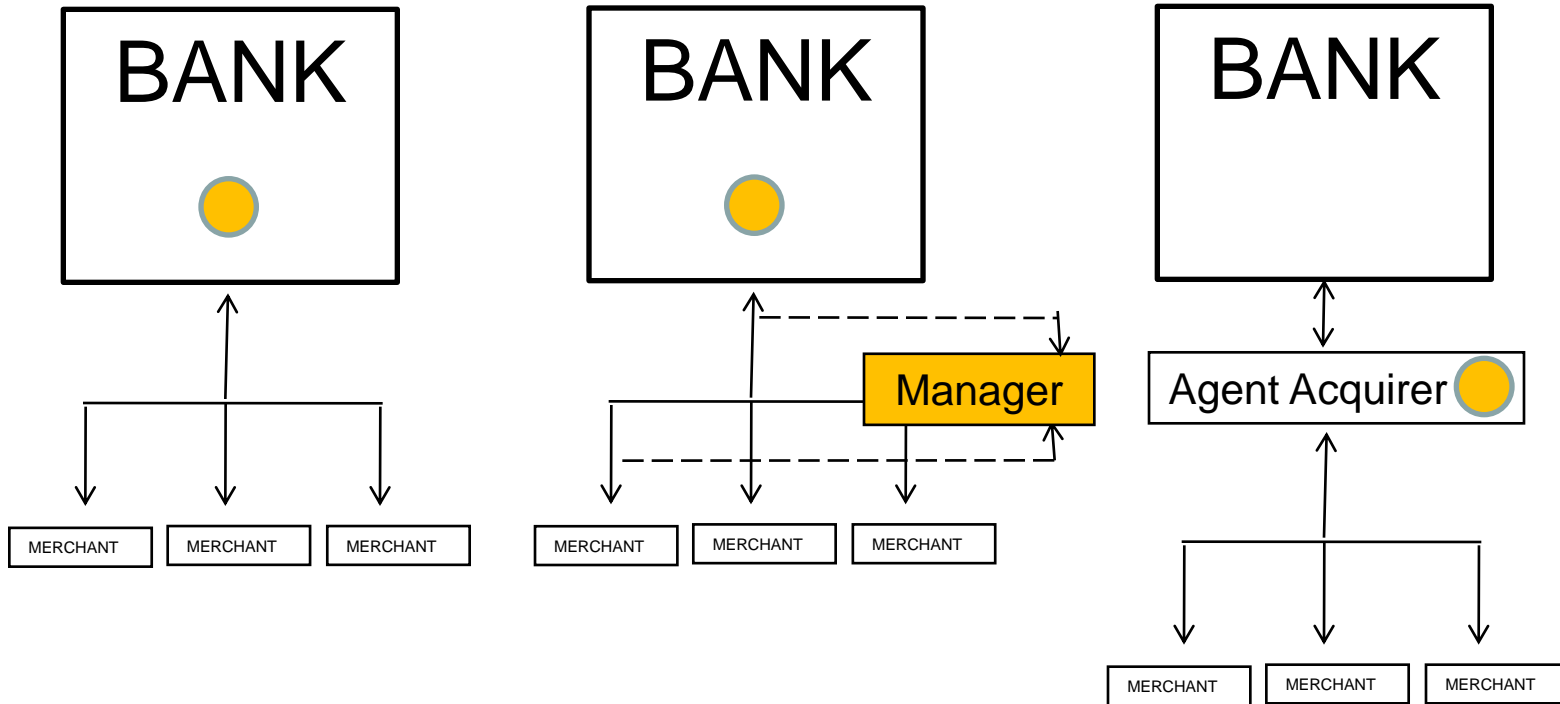*Service fees (revenue)*
Agent commissions (cost)

Business logic
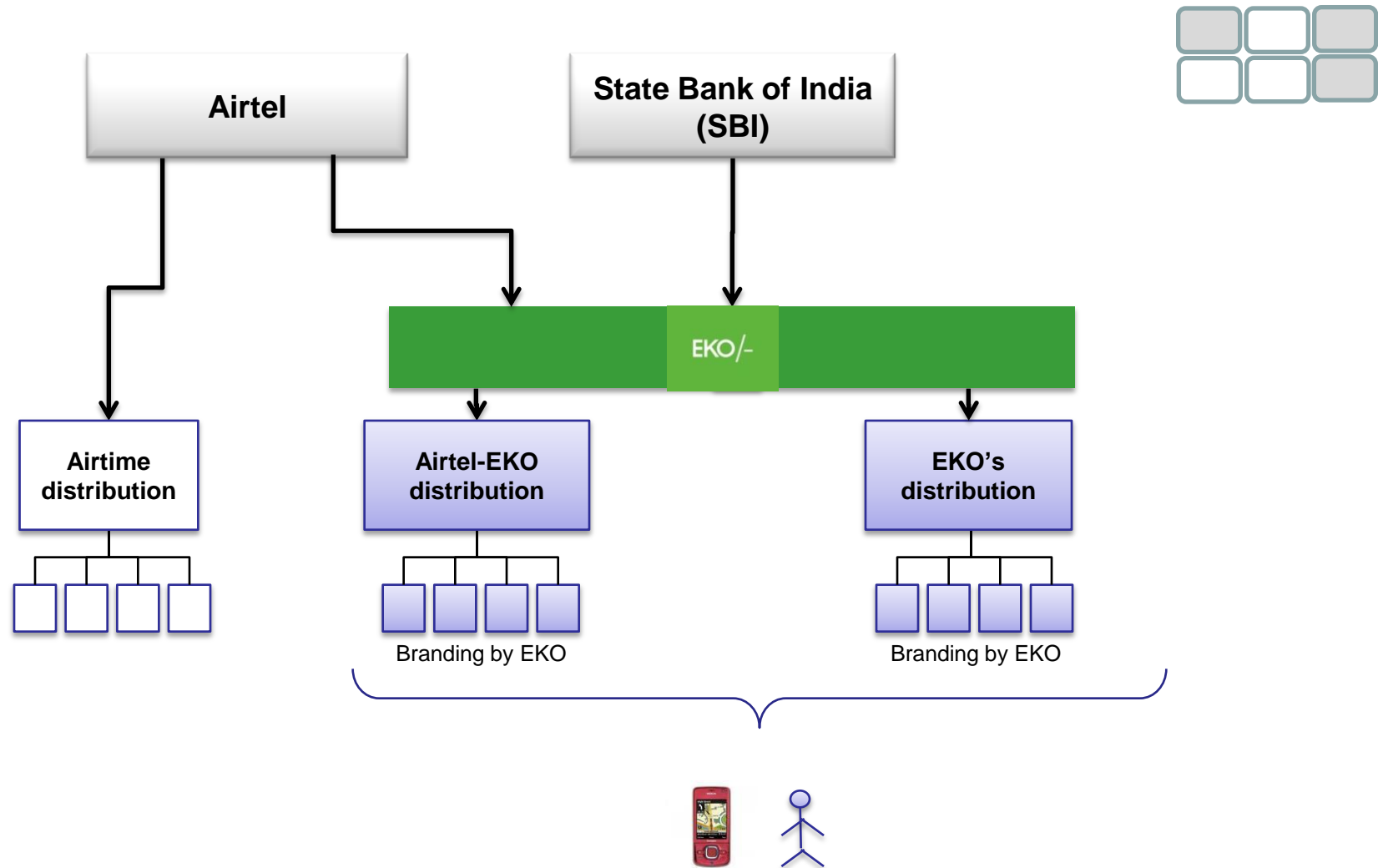
Share the cost of network across multiple providers

Key partnerships

Financial providers, both banks and non-banks

Agent options for banks

Agent-based Acquirer: operational view

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Business case for MNOs

Market Share
- Biggest benefit in non-saturated markets
- 8% increase in market share for Safaricom

Churn
- 0.5% (China) to 6% (India, Philippines)
- Studies cite 30% reduction in churn
- No effect for Safaricom from M-Pesa
- Could be offset with market share

ARPU
- Sharp decline in ARPUs (Ghana and Pakistan halved in three years)
- M-Pesa's contribution to Safaricom revenue was 4% (FY 2009)

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Business case for Banks

Growth

- Lower capital expenditure to set-up infrastructure
- Agent channel is 1/30th the cost of setting up a branch channel

Seg-ments

- Bank targeting customers transacting at low values
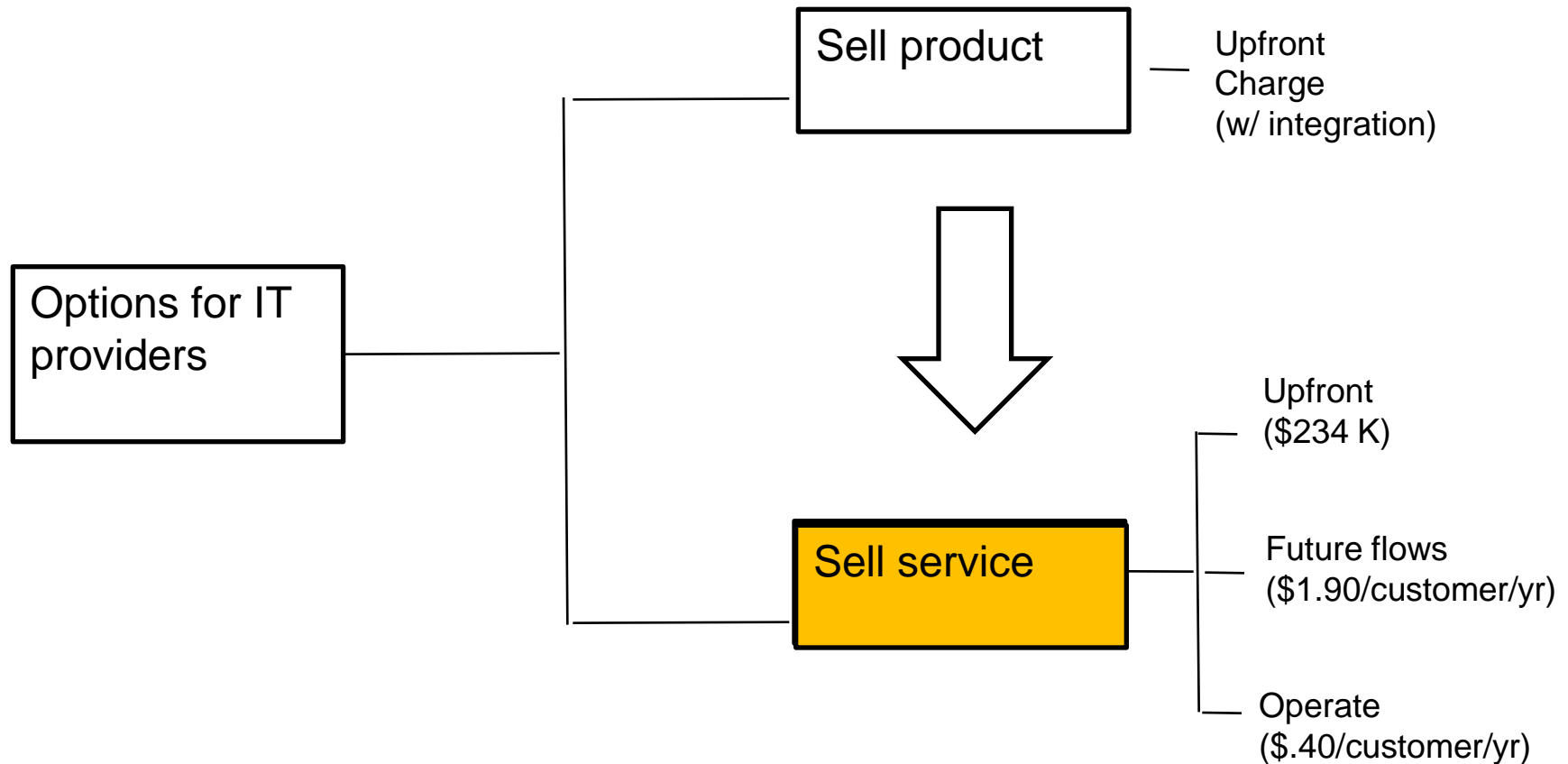- Mobile channel reduces cost per transaction to help maximize margins

Differ-entiate

- Banks in Pakistan watching Tameer Microfinance Bank

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Business case for IT provider

Options for IT providers

Sell product — Upfront Charge (w/ integration)

Sell service

Upfront ($234 K)

Future flows ($1.90/customer/yr)

Operate ($.40/customer/yr)

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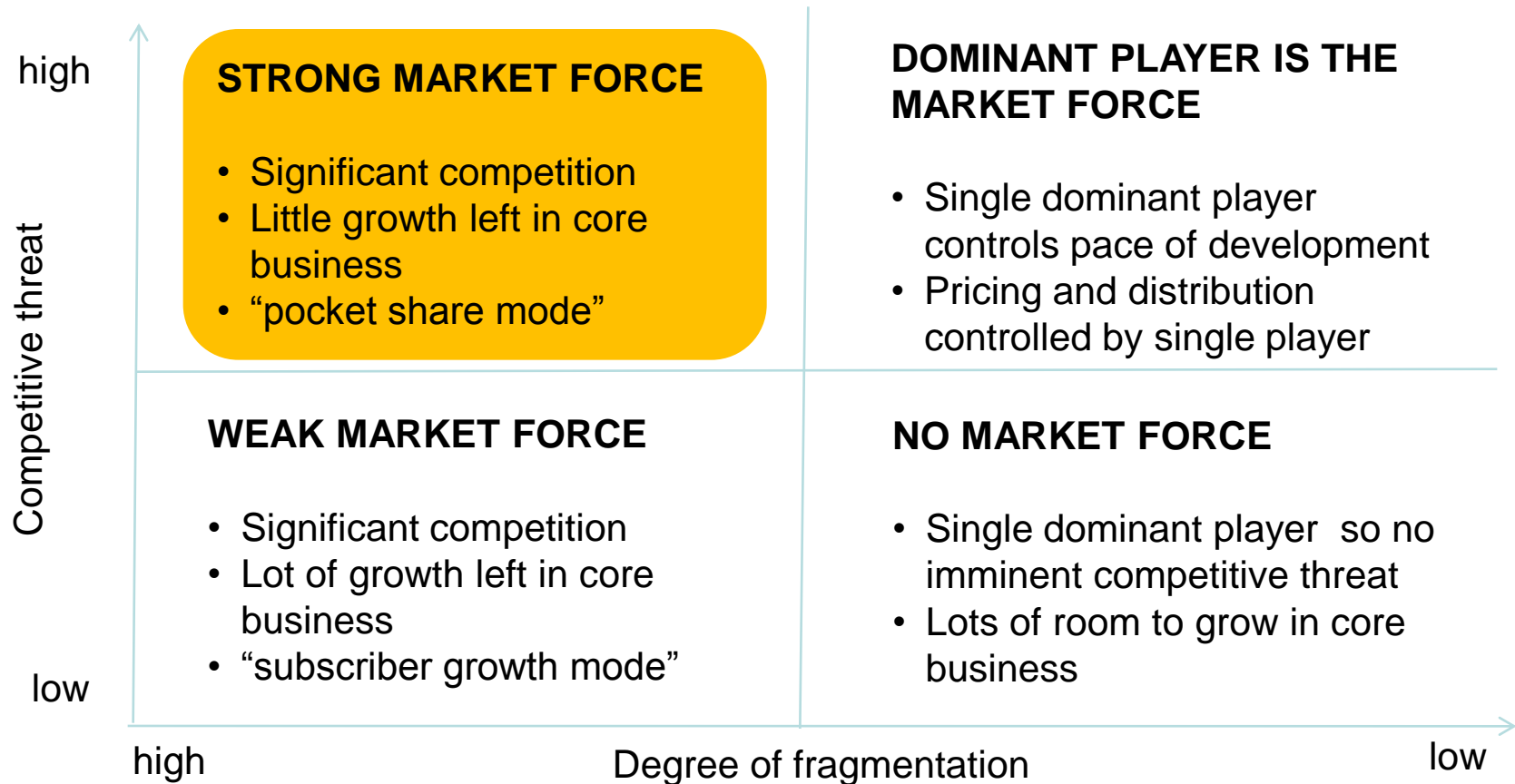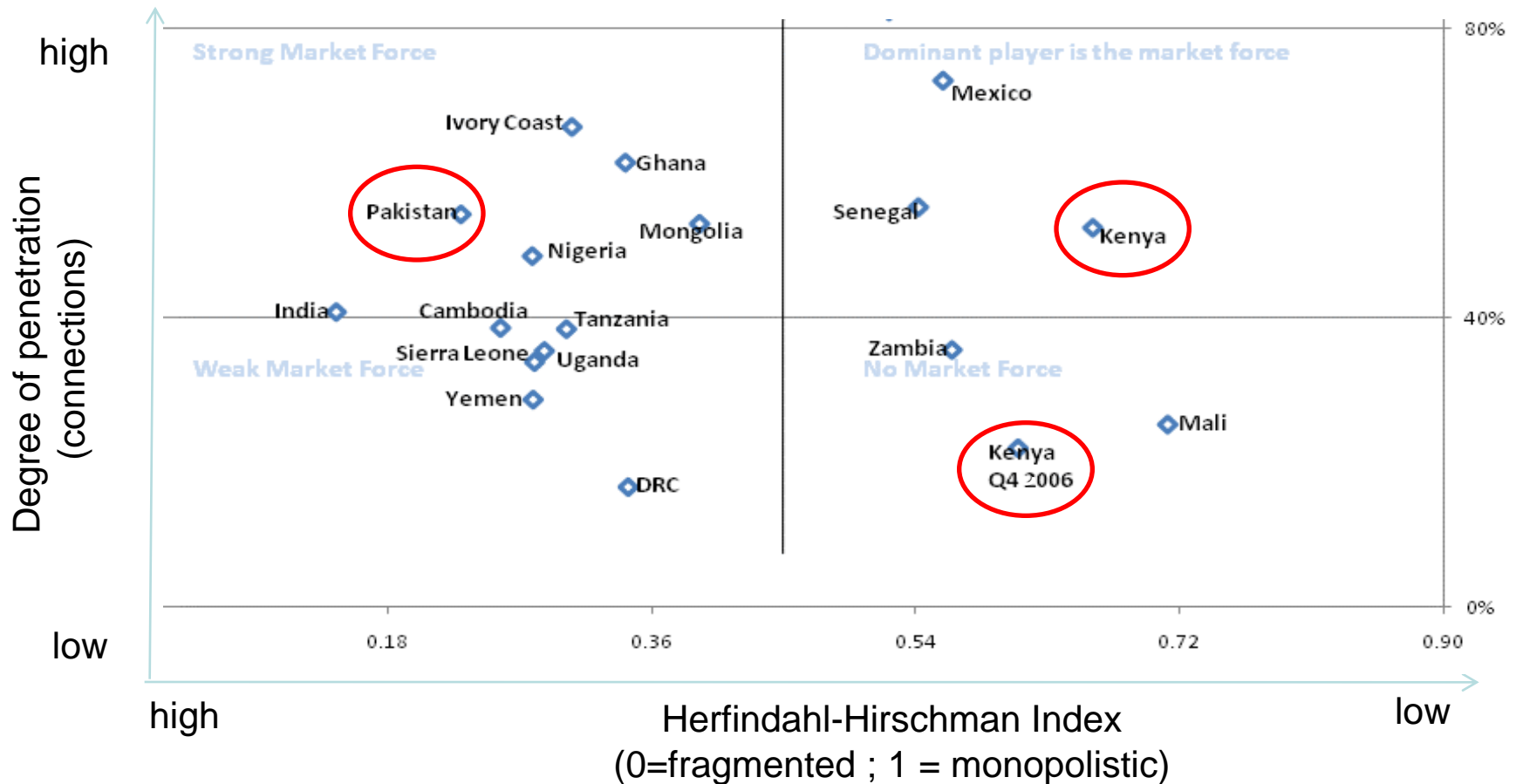- Role of market structure

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Role of market structure in telecom market

Competitive threat (vertical axis: low to high)
Degree of fragmentation (horizontal axis: high to low)

STRONG MARKET FORCE

- Significant competition
- Little growth left in core business
- "pocket share mode"

DOMINANT PLAYER IS THE MARKET FORCE

- Single dominant player controls pace of development
- Pricing and distribution controlled by single player

WEAK MARKET FORCE

- Significant competition
- Lot of growth left in core business
- "subscriber growth mode"

NO MARKET FORCE

- Single dominant player so no imminent competitive threat
- Lots of room to grow in core business

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Role of market structure in telecom market

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www.cgap.org

www.microfinancegateway.org