

Branchless Banking: How does it work?

Mini-conference // Microfinance



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Executive summary

Mobile money and other branchless banking systems have aroused great interest over the last few years. However, results are still imprecise and widely discussed. We focus here on some successful experiments, from mobile money to partnerships with existing networks.

We looked into innovations in financial postal services, phone companies' projects facilitating access to mobile banking, and the use of the banking model through cell phones.

Synthesis

Dominique Villeneuve centered his intervention on experiences and initiatives used by post office networks worldwide for positive financing purposes. Across the world, post offices are by far the most common organization with over 500 000 retail points spread throughout a massive network. In Algeria, for instance, post networks are twice as big as banking networks.

Using post offices for financial purposes is an unprecedented opportunity which derives from the declining amount of physical mails caused by the rise of alternative communication vectors such as electronic messaging. In many places worldwide, post offices already provide financial products such as current and savings accounts, although they do not lend money. Some of them now want to become banks and offer other services such as credits and loans. Over the last 15 years, this trend has been observed in several regions and countries:

- in France in 2006,
- in China in 2007,
- in Morocco in 2010.

We need also mention Bradesco's achievement in winning a government bid for banking correspondence in Brazil in 2002. Since then, they have been able to sell banking services in more than 6200 offices amongst the Banco Postal networks.

MFIs' specific interest in post offices results from:

- Geographic proximity: a major concern for MFIs, which do not like to keep cash reserves, despite the fact that cash is the most common means of payment for microcredit (70-80%);
- Common values: both MFIs and post office networks tend to maximize their geographic cover to better serve all the communities, even the most isolated ones.

Dominique Villeneuve underlined peculiarities of innovations in financial postal services:

- In Tunisia, postal services offer a savings product with a children education insurance.
- In Morocco, postal services offer a savings product with a retirement insurance.

He also presented success stories of postal services in matters of financial inclusion:

- In South Africa: post offices hold the biggest market share (37%) with the "Mzansi account" – a card-based savings product launched by four commercial banks.
- In Brasil, Banco Postal opened 10 million accounts in less than 8 years, especially in the poor "Nordeste" region.
- In Pakistan, in 2007, the biggest MFI partnered with some post offices to

be granted access to 50 extra post offices in Penjab. This partnership led to 150 000 loans amounting to USD 27 millions.

Finally, **Dominique Villeneuve** offered examples of legal matters at stake within these particular strategic alliances:

- In Brazil, drugstores and gas stations can offer financial services. The legal framework for banking correspondence services made things easier for Banco Postal.
- In China, Postbank, which was created in 2007 and became a MFI two years later, offers microcredit and micro-insurance contracts with more than 1.9 million active borrowers today.

Mohsin Syed Ahmed, who represented the **Pakistan Microfinance Network** – an association of 26 MFIs in Pakistan –, talked about the impact of mobile banking in Pakistan. In that country, 62 banks (all of which are private but the National bank of Pakistan) handle 26 million accounts through 190,000 subsidiaries. Besides, 680,000 transactions are completed with mobile phones. While growing significantly, MFIs are serving the poor (the national average monthly net per capita income is USD 370). It is estimated that by the end of 2015, 4 million people will borrow from the MFIs, while a more aggressive prediction reaches 10 millions.

Two branchless banking experiments were recently carried out in Pakistan: Easypaisa and Omni Dukaan. The first one focuses on technology more than the second one, whose business model seems cheaper.

Easypaisa was launched by Telenor Pakistan and gives anyone the possibility to transfer money from an Easypaisa shop (10,500 in Pakistan). However, only Telenor simcard owners are entitled to open an account. Telenor Pakistan has recently partnered with Tameer Microfinance Bank to facilitate the payment of public utility bills, complete domestic fund transfers, and authorize remittances.

Omni Dukaan was founded by United Bank. In this project, the mobile number is also the bank account number. Banking operations can thus be completed from any United Bank branch or any Omni Dukaan shop (existing in 350 Pakistani cities).

Mohsin Syed Ahmed also mentioned several other initiatives:

- Orascom / mobilink (Waseela Bank),
- HBL Ufone,
- Bank Alfalah Warid,
- Dubai Islamic Puiot,
- TCS (Courier Co),
- KASB MobileAkhwat.

Laurent Clauser first introduced **Horus Finance**. Horus/Advans/Noo-madic are involved in the management of MFIs (Advans). They also provide

consultancy in the field of microfinance and development finance (Horus) and have developed a mobile phone banking software (Noomadic) offering strategic services (Horus).

The main purpose of mobile banking is to reduce cost and increase access to financial services. However, Horus considers that drawing conclusions on past experiences requires distinguishing three levels of financial inclusion, which are unequally addressed by branchless banking at this stage:

1. Basic cash services: sending/receiving cash, paying for bills, receiving a salary in cash (level 1)
2. Current account services: transfers, cashless payments, saving small amounts of money (level 2)
3. Credit, savings, insurance (level 3)

So far, the most common mobile banking models – such as E-wallet, which is used by phone companies (e.g. Safaricom's M-PESA) – have been successful in delivering level 1 and 2 services, such as P2P (person-to-person), G2P (government-to-person), P2B (person-to-business), and P2G (person-to-government) transfers. Yet, the actual "new frontier" consists of the utilization of mobile banking to increase access to level 3 services such as credit, savings, and insurance. This requires the involvement of financial institutions. Horus/Advans believe that there are several ways to achieve this goal, and have experienced (or are considering) several different models.

Reaching bank accounts directly with a bank-controlled platform is one potential direction. This is implemented by Xac Bank in Mongolia, which employs 1888 agents and totaled 51,000 clients for this service (24 000 trans-

fers) after a year and a half, as well as Advans Congo, which offers information services, transfers, and potentially an application to use mobile banking for inappropriate debt recovery operations.

Both of these MFIs are using Noomadic Software. They participate in an initiative that aims at supplying electronic wallets to their clients through mutualization: Advans Ghana is intensively helping Bank of Ghana E-Zwitch accounts with daily savings collection (15 collectors of the Susu ethnic group equipped with mobile banking devices, serving 1200 clients on a daily basis). These MFIs also review possible partnerships with the other initiatives that telecom companies, financial institutions, or service providers develop.

Choices are made on a case-by-case basis to answer the following question: in this context, given this level of demand, which model (services/organization/economic model) could best serve the objectives of the MFIs?

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