MforMobile

Mobile Payments Latin America

Part 1: A Banks Perspective

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Scotiabank and Citi/Banamex give their industry leading insights into the challenges and opportunities facing mobile payments in the region.

Up to 60 percent of Latin Americans, or 250 million people, lack access to banking services, according to the World Bank. Yet, across the region mobile penetration is at between 90-100 percent. Mobile devices, unlike bank branches or computers, are widely available; they're not seen as luxuries, but normal items that everyone, more or less, has. That creates a perfect opportunity for banks, and other operators, to offer new types of financial products. And now many are doing so, widening access to bank accounts, loans, and insurance. Moreover, other companies are introducing new types of mobile systems, such as NFC-based, or contactless, payments. In all, Pyramid Research forecasts the number of mobile payment users will grow to 140 million by 2015. In time, mobile payments could increase the number of banked people substantially, and perhaps end the use of cash for many transactions.

Getting to that point will take time, however. Cash is a durable commodity and people are comfortable using it. In many cases, they see it as more trustworthy than electronic forms of payment, especially in countries with histories of bank runs and financial crises. Cash is not seen as a problem by many people, at least until they've tried something else. Most intractably of all, introducing new payment systems involves a coordinated approach, where consumers, retailers, merchants, agents and other actors need to proceed together. There is no point individuals having new ways to pay, if there's nowhere to buy anything. Equally, there's no point retailers, merchants and agents installing expensive equipment, if nobody is going to use it. To build out a comprehensive infrastructure, banks, payment providers, mobile operators and wallet players have to be inventive and patient; they need to be open towards collaboration, both with competitors, and companies outside their industry. That's not a natural attitude for many organisations that want as much control as possible.

To help make sense of the complex Latin American market, ahead of the Mobile Payments Latin America Summit 2013, 4-5 December. Two leaders of the region's biggest banks generously agreed to give their thoughts. They tackle the crucial questions banks face in the region and give their insights into the opportunities presented. We're grateful for their participation.

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Jeffrey Bower is the International Director for Mobile Payments at Scotiabank. He is responsible for product innovation in payments and launching new business models in key markets across Latin America and the Caribbean. He joined the bank in 2010, and has developed several mobile payment programs, including TchoTcho Mobile in Haiti, one of the first successful such projects in the Americas.

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Marcelo Scaglia is a Managing Director of Banamex/ Citi. He joined Citibank in Latin America in October 1993, as the Transaction Banking head for the Latam South region and the business head in Colombia from 1998 to 2000. In 2000 he moved to Mexico, where he led the Transaction Banking business for Banamex as well as retail banking businesses. He heads up the Transfer partnership with America Movil, a mobile payments operator serving the unbanked market, currently operational in Mexico and being rolled out across Latin America.

BUSINESS OPPORTUNITY

Why are mobile payments important to your bank?

Bower: Three and a half years ago, as a response to the devastating earthquake, we launched a mobile money service called TchoTcho Mobile, in Haiti, in partnership with Digicel. In a short period of time, it has gained more than 600,000 users, most of whom have never had a formal financial service before. It is one of the first successful mobile money projects in the region. TchoTcho is a win-win product, where the bank, the agents, the processor, the telecom company, and the users, all derive benefits.

In the last five years, the level of financial inclusion around the world has increased at an unprecedented rate. Technology enables these massive shifts. It allows customers to access a service wherever they are and whenever they want, and often at a cost lower than with traditional systems.

In the Americas, mobile penetration is, for the most part, nearing 100 percent. That allows financial services providers to gain access to consumers who, for reasons of distance and cost, were previously considered unbankable. When users conduct transactions electronically, they generate behavior data. We can use this to determine suitability for new forms of savings, loans and insurance products. We've never had this data before, and it's going to have a huge impact in lifting people out of poverty.

Accounts are only half the story. Our customers need localised, trusted points of access. Mobile money requires institutions to pursue the growth of branchless banking networks. This is hugely important for improving education on the value, as well as the usage, of financial services in the developing world.

None of this is easy. Establishing a mobile money ecosystem is a complicated task that requires many entities to work together. There's the bank, the telecom company, the processor, agent networks, value-added services providers, and so on. Also, every country is different, with a unique culture and its own set of complex regulations. Getting everyone to work together towards the same goal is always a big challenge.

The first question in mobile money should always be: 'What problem is mobile money solving for the consumer?' The second question should be 'How can we work together to make this happen?' Too often, entities focus too closely on their own internal goals, rather than focusing on the needs of group and the consumer. Any organization that puts themselves ahead of customer needs is going to put the program in jeopardy.

When you look at programs that have been around for a long time, you see proof that solutions don't necessarily translate across countries. When M-Pesa moved from Kenya to Tanzania, everyone assumed it would immediately be a success. The countries are right next door to one another, and they have similar cultures, after all. But the Tanzania program faced a number of unique challenges and took much longer to be adopted. There is no simple answer to mobile money. The key is to understand your market and to learn to co-operate with entities you are not used to cooperating with.

Scaglia: We launched **Transfer Banamex** in joint venture with América Móvil, which has a 70 percent market share in Mexico with most of the customers being prepaid (90%). The main objective of the initiative is to serve the 48 million unbanked customers we have in Mexico, providing them with their first banking relationship, as well as providing a convenient solution for banked customers. The scope includes rolling out across Latin America. The success of this kind of solution is based, among other factors, on the scale you get, so the solution is an "open loop" solution where other banks and MNOs are welcome to join.

The center piece of Transfer is a Simplified Account, which can be opened over the phone, on the internet, or at a non-bank agent, and has a monthly deposit limitation of $1000.The customers can have a debit card, if they request, but the focus of the new solution is having the mobile phone as the main payment method, with your mobile phone becoming your cash wallet. Operation of the service is based on SMS/USSD infrastructure.

In Mexico, Banamex has around 25 percent market share with approximately 18 million customers in the group, more than 1800 bank branches and 7000 ATMs. Even with that coverage infrastructure, it is not possible to serve with the complexities of those 48 million people living in small towns, who are totally cash-based, with the current banking model. They do have cell phones, though and have easier access to a non bank agent than to a bank´s branch.

We see the possibility of building a completely new banking model to serve this segment of the market, and cross-sell traditional products as well as new microproducts. Transfer Banamex was launched in May last year, and had a high success rate among the unbanked market. As well as being a very good platform to solve the funds disbursement needs of the government and companies, and a collection solution to the different types of companies and industries.

EXPECTATIONS

What are your growth expectations over the next two years?

Bower: In Latin America and the Caribbean, 70-80 percent of the population is unbanked or underserved. That is a massive number of people. Estimates show that between a third and a half of a country's overall population are potential users of mobile money. This means that the vast majority of the region does not have access to financial services and there is a huge potential to provide these in some form. With mobile penetration nearing 100 percent, this is an important channel to explore. The expectation is that the use of mobile financial services will increase exponentially in the coming years, and most likely will eventually surpass the number of banked customers in the region. I expect mobile money to take off, provided it's designed properly.

Scaglia: We expect to reach more than 5 million customers in five years in Mexico and successfully roll out Transfer in the key Latin American countries. Success will be related to our ability to work with the authorities and the different regulations to create an environment that allows the business growth.

We also need to create a collaborative environment in all the countries where we want to operate, aligning a common vision across all the key players; MNOs, banks, retailers etc. Nobody has 100 percent control of the key success factors in introducing and developing this kind of business. At the beginning, each player said "I am the key player", but with time to negotiate and compare visions, everyone now understands that we need each other to be successful and provide the right solution for the market. Unless everyone is a key player, then you don't reach a successful solution, because everyone is pushing in their own direction, instead of having a collaborative vision.

CUSTOMER PROPOSITION

What is the value proposition for consumers and how do you best educate them to spur adoption?

Bower: A key barrier to adoption is educating the poor on the value of financial services. This is no small task. You have to create a product that makes sense for people to use. Financial institutions are doing this by lowering account opening requirements through simplified or basic accounts, offering 'pay as you go' services, establishing agent networks in the communities where people live, and providing account access through mobile devices.

Often, financial institutions make missteps designing a product that doesn't appeal to consumers. Even something as simple as the words they use to talk about the product can make it unattractive. While bankers may talk about a 'bank account' or 'savings', in some countries, people with lower incomes don't believe they can afford to 'save'. People with lower incomes may see putting money into a bank account as a wasted opportunity, because they believe their money is no longer actively working for them. For them, it makes more sense to invest any excess capital into livestock, or their ability to grow additional crops, or into their communities.

Also, the individualistic concept of funds ownership – one account, one person – may not always appeal to the poor. For example, it is common throughout Latin America for groups of individuals to pool their savings and to share resources in times of need. Financial institutions need to be more aware of the poor's financial behavior in order to design relevant products for their target markets.

It's not just about designing something that works. Consumer education is a huge challenge that requires face-to-face in the community. Financial institutions literally have to get out there, to each and every street corner, to explain to people how to use the product. This is where the real heavy lifting must take place.

In many mobile money programs, the agent is the key training point, because it represents the face of the business in the community, the people who are pushing the product. The agent is the mobile money salesman, and the first line of customer support. But to get the agent to assume this role, the product must be structured with the right types of incentives, like registration incentives or trailer fees. It is important to remember that each time a program includes a new transaction into the offering, the agent business model changes dramatically, potentially necessitating a change in incentives. Creating and maintaining a viable business model for the agents is hugely important for the education of the consumer.

Scaglia: The Consultative Group to Assist the Poor (CGAP), which promotes financial inclusion globally, has identified more than 120 mobile payments projects around the world, but only 11 that can be said to be relatively successful. Success stories were related to a specific event acting as a trigger, such as a civil war or financial crisis, generating a specific need to be solved, or were the result of a thorough analysis of customer needs and construction of the adequate solution.

The most important business decision is to focus on what the customers need and not be confused by creative solutions that seek a "problem to be solved". In this regard, education of the customer is important for success, but really it is easier to spur adoption when you have a solution that fits their specific needs. Another important aspect of adoption is the different views of all the players across the payments cycle.

Our main objective is to eliminate cash to improve efficiency and reduce costs. The problem is that if you go to the people who are involved in the payments cycle, they may not share that goal. Their needs are totally different; they feel comfortable using cash and feel no need to change. Success is absolutely related to understanding the small merchant, the small company, the pension beneficiary, etc., and focusing on their needs; not related to eliminating cash but related to their reality. For example, the subsidies beneficiary needs additional value for their money, if we can provide that with extra benefits for buying at a store, they are not going to cash out the money from the ATM. We want to eliminate cash, but sometimes we need to solve other customer needs to reach our objectives.

MERCHANTS

How can banks build an acceptance network among merchants?

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Bower: The challenge with building acceptance is that you need to have a high level of issuance and use for a payment method. But a high level of issuance and use necessitates wide acceptance. The question is, which comes first?

First, financial institutions need to agree on some kind of standard. You can't expect merchants to accept 15 different kinds of this new form of money. There's no way that would happen. Herein lies the value of working with a large partner, like a telco, a large retailer, or an association like Visa or Mastercard that can set national or regional standards and perhaps link existing systems together. They have the ability to establish the rules for banks to agree to.

Once the standards are in place, financial institutions can leverage their relationships with corporate customers and governments to push wider adoption. If governments could choose to issue subsidies for using mobile money, a large number of customers with mobile money to spend would quickly incentivise merchants to accept mobile money for goods.

Finally, there are associations in countries that set up and distribute merchant terminals. Potentially they could be convinced to accept a certain form of payment and can update the terminals. The problem in Latin America and the Caribbean is that POS penetration terminals is quite low.

What makes sense for small micro-merchants is for them to sign up for a merchant mobile money account and to accept micropayments via their mobile phone, no terminal required. This would allow any merchant with a mobile phone to accept mobile money payments and would drive acceptance. But doing that requires complex discussions with the regulator to create lower KYC requirements for micro-merchant profiles, and in some cases, tax exemptions. Regulators must see mobile money acceptors as micro-merchants, rather than full merchants.

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Scaglia: We have to consider two different kinds of merchants, the type that today has a POS and is already part of the current banking platforms for acquiring transactions, and the ones that are small or, in general, prefer not to participate in current payments methods and operate totally in cash.

For the first one, we need to provide a new solution that fits their needs and current way of operating. For a retailer for instance, they are not willing to dramatically change the way the cashier operates just to receive mobile payments. With this type of merchant we also face the "chicken or egg" situation, where they want to wait for you to have a high number of mobile payments customers, but at the same time that situation is not helping you to build volume. Once again a collaborative approach to create a common vision among banks and retailers is critical in building an acceptable solution for everyone. An important aspect to highlight when creating the right environment with the big and more relevant merchants, is building cooperative solutions that add value for the customers to drive adoption and transaction volume, otherwise the solution risks being irrelevant to the merchant and loses focus.

The situation is somewhat different with the second type of merchant, here where we have the chance of providing varied solutions, adoption will be defined by how adequate that solution is for them, and there will be a battle among the different providers to be the most relevant one. The unbanked merchants, who don't have a POS, aren't going to join unless they see some tangible benefit. The convenience for them is not very clear, because they feel comfortable using cash. What they struggle with is to offer more goods, and the problem of checks bouncing. If they use the cell phone as a point of sale, they can also make local remittances, and they can eliminate the possibility of fraudulent bills.

You have to understand the pain points for the merchants. Otherwise all you have is an intelligent solution that will not be attractive for the tem. For this type of merchant the supplier of good, like Coke, can play an important role in building the network, because they can provide benefits to the merchants if the payments of goods is made electronically, and that is an incentive for the merchant to receive electronic payments through a mobile phone.

END NOTE

The speakers' comments show the enormous potential of mobile payments, but also the complexity of introducing them in developing markets. On the one hand, going mobile could be a tremendous enabler. Millions of previously unbanked, and under-served, people are set to join the formal financial world, with all the opportunity that entails. We really could be talking about a step-change in many countries: financial enfranchisement on an unheard-of scale.

On the other hand, the need to create an entire "ecosystem" of payers, merchants, telecoms providers and bankers, is a tough ask. And, surely, not everyone can succeed. As we can see from the failure of some projects already, this is not a job for the faint-of-heart. It takes persistence and unusual thinking. It also takes very fine-grain knowledge. Jeffrey Bower's comments about the language of mobile payment marketing seem insightful. You can't talk to someone who's skeptical about the formal financial system in the language of the formal financial system. You need to approach people in terms they appreciate. And, you need to do it block by block, town by town. It's the only way. That's why the agent network is so important.

At bottom, the question with mobile payments is whether companies can convince people they need something when they don't necessarily see a need for it. After all, if we're honest, there isn't a huge amount wrong with cash, debit or credit cards, aside from marginal issues around, say, fraud. From many customers' perspective, these are methods that work, until they try the thing that's better. That makes mobile payments a tough sell to begin with – one that may take a while. It will surely happen in time. But it's going to take energy, trial-and-error, and a real focus on customer behavior.