

Increasing Financial Inclusion Through E/M-Banking: Insights from International Experiences

May 2014

IFC's Purpose

- To promote open and competitive markets in developing countries
- To help generate productive jobs and deliver essential services to the underserved
- To support companies and other private sector partners where there is a gap
- To catalyze and mobilize other sources of finance for private sector development



Our Three Businesses

• Integrated Solutions, Increased Impact

• Investment Services

- Loans
- Equity
- Trade finance
- Syndications
- Securitized finance
- Risk management
- Blended finance

• \$49.6 b portfolio (FY13)

• Advisory Services

- Access to finance
- Investment Climate
- Sustainable Business
- Public-Private Partnerships

• \$232 m (FY13)

• IFC Asset Management Company

- Wholly owned subsidiary of IFC
- Private equity fund manager
- Invests third-party capital alongside IFC

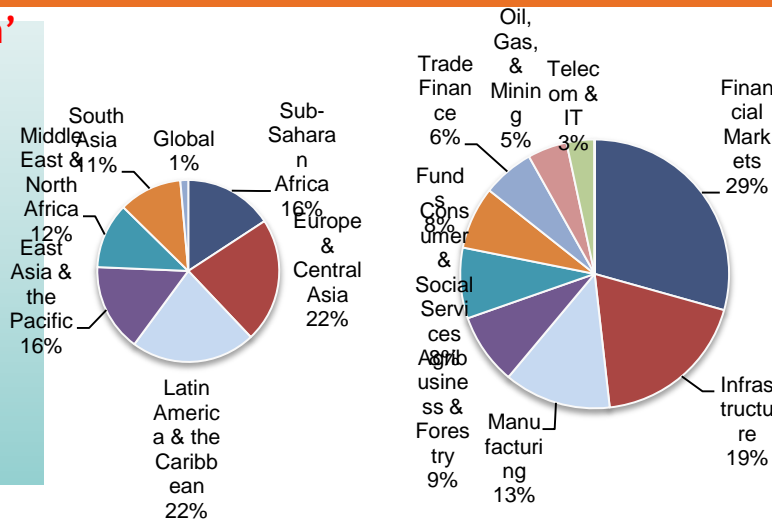
• \$5.5 b under mgmt (FY13)

IFC at a glance ...

• Total Portfolio: \$49.6 Billion

• **Established**

• **Largest emerging markets Investor**



• **Loans**

- Project and corporate financing
- On-lending through intermediary institutions

• **Equity**

- Direct equity investments (up to 20%)
- Private equity funds

• **Trade Finance**

- Guarantee of trade-related payment obligations of approved financial institutions

• **Syndications**

- Capital mobilization to serve developmental needs with over 60 co-financiers:

• **Structured Finance**

- Incl. credit guarantees, liquidity facilities, portfolio risk transfer, securitizations, and Islamic finance

• **Risk Management**

- Derivative products to hedge interest rate, currency, or commodity-price exposures of IFC clients

• **Blended Finance**

- Combination of concessional funds with IFC resources to finance initiatives & achieve impact that would otherwise be unattainable

• **COMPLETE**

• **Full suite of investment products and advisory services,**

• **PRESENT**

• **Largest Footprint of any Investment House**



• 100 offices in 86 countries 3,354 staff

• Owned by 182 countries

• Additional joint special programs with such countries

• 50+ years of immaculate brand

• Aligned with countries' development agenda

• Benefit from WB brand

• Preferred funder in multiple industries

• Domain savvy investor

• Transparent commercial and development agenda

• Consistently good commercial returns

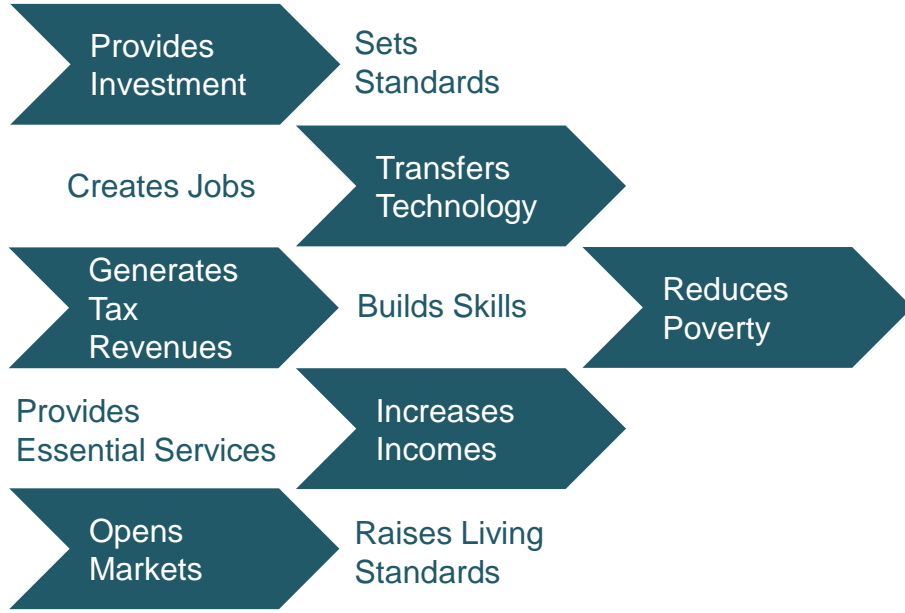
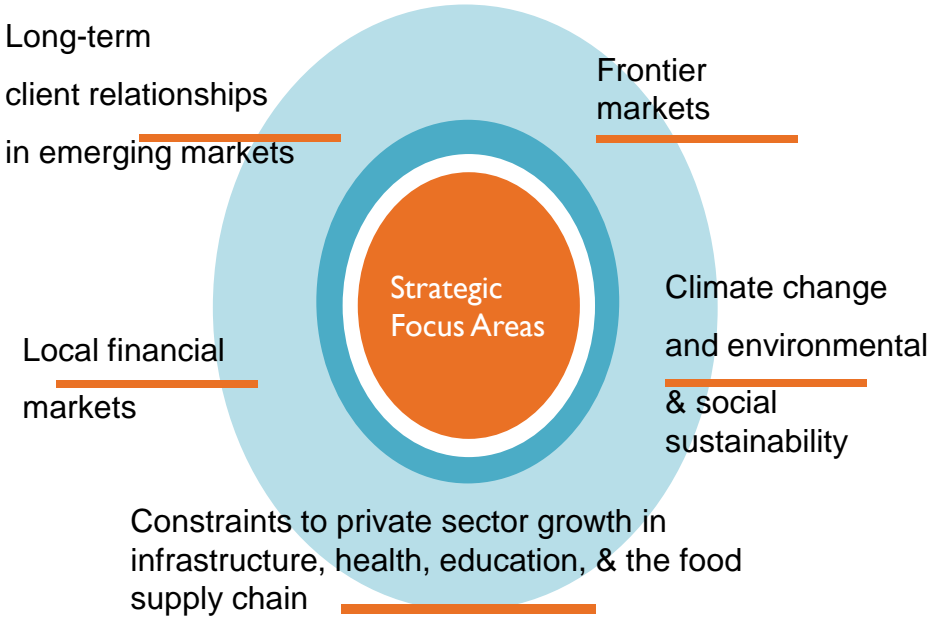
• Proponent of good governance, long term thinking

• **TRUSTED**

• **Trusted by gov'ts, regulators and private companies alike**

IFC's Priorities

A Force for Transformation



How will Alternative Delivery Channels Expand Financial Inclusion and Access?

New Markets

- M-Banking will allow vast numbers of new customers in untapped geographic areas and client segments to access banking services in a cost-effective manner. IFC targets to reach 150-250 million new clients through e-channels.

Cost Reduction

- M-Banking reduces transaction costs and helps to reach unserved and high cost clients with products and services they can afford. A mobile banking transaction can be done at 10-15% of the branch banking cost.

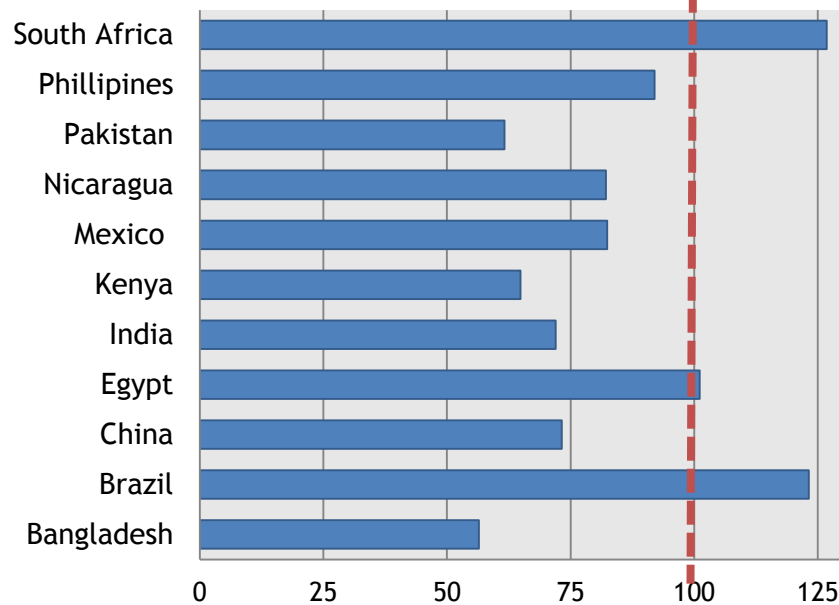
Product Diversification

- M-Banking channels provide better service to existing and new customers by expanding the range of financial products and services (including credit, savings, insurance, social services and market facilitation) offered to them.

Mobile is being applied more broadly in retail banking

- There are 5.9 billion mobile phone subscriptions in the world. 75% of the world has access to a mobile phone
- In emerging markets, mobile penetration is growing faster than banking penetration.
- At the same time, mobile is being applied more broadly in retail banking.

Mobile Penetration (in %)



Varieties of the Mobile Experience

non-bank payment & agent banking models



Shop and pay on-line via mobile

Transfers and bill payment solutions



Virtual Cards on mobile



Mobile transaction security



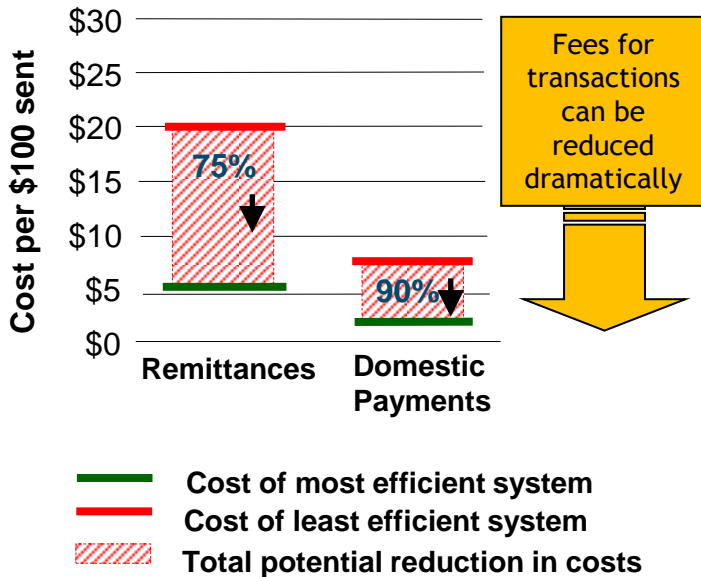
Mobile marketing



Mobile banking channels

M-Banking Reduces Costs for FIs and Customers

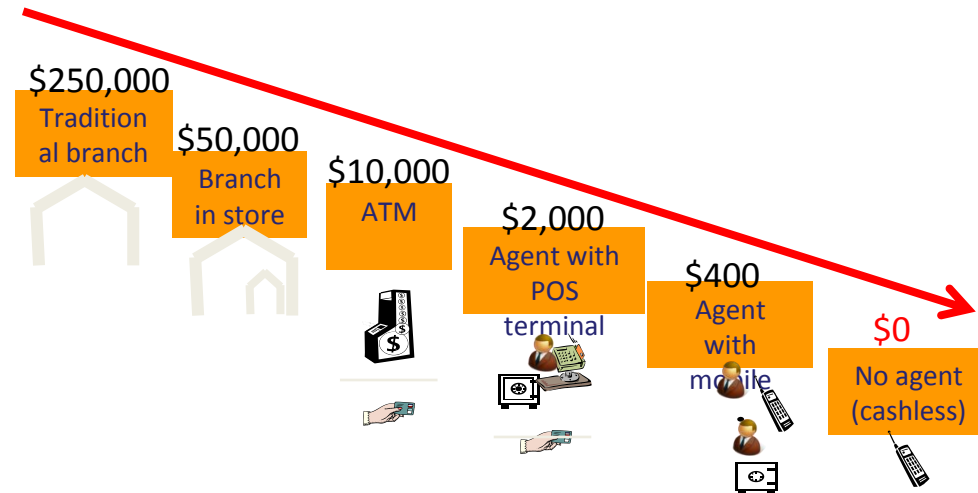
For Customer



- Reduced fees and increased security compared to informal services
- Reduced transaction costs through saved travel costs & time compared to branch access
- Save waiting time and increased convenience

For Banks and other FIs

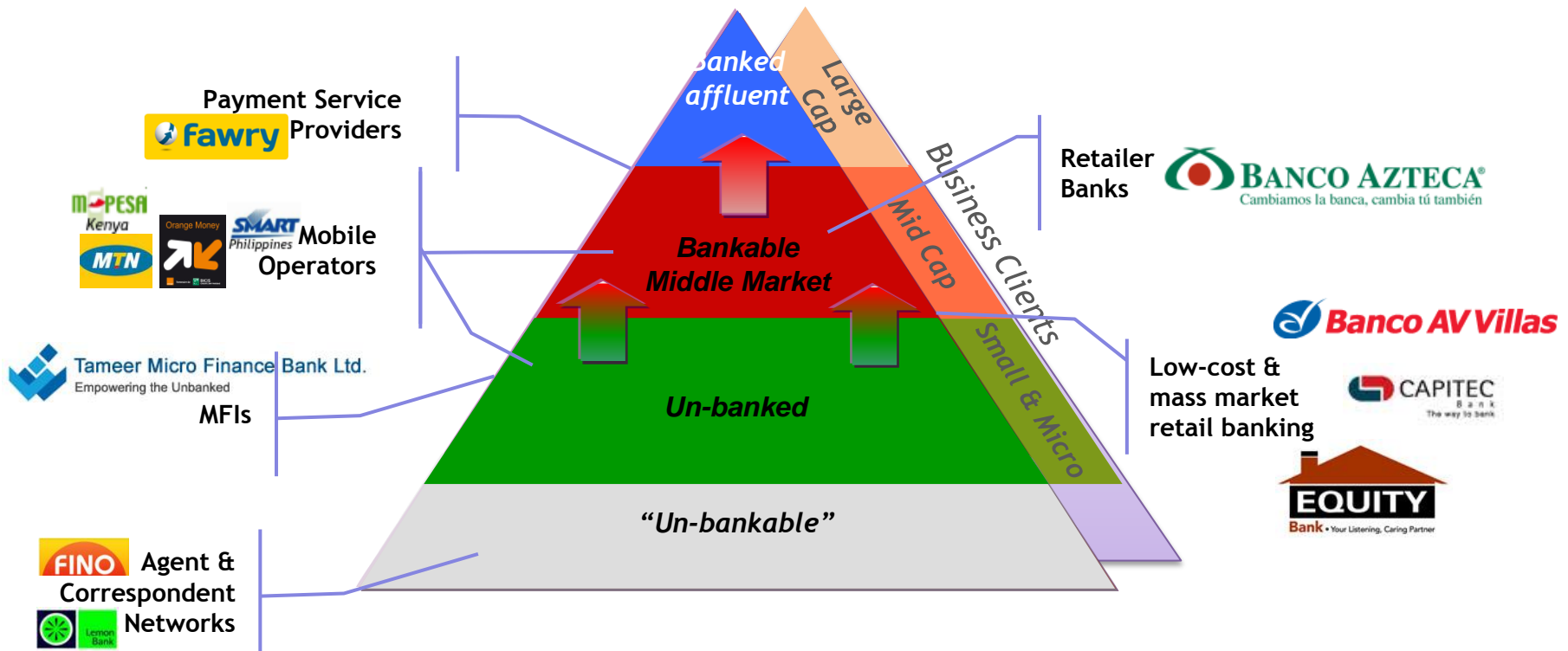
- Reduced cost of serving remote customers by eliminating the need for branch infrastructure
- Ability to offer multiple products to remote customers
- Increased customer acquisition



Simultaneously, Banks Are Innovating to Increase Outreach

- Today, supply side innovations, new competitors and non-banks' innovations are accelerating penetration of retail financial & payment services in lower segments

Selected examples from international markets



Extension of access down the pyramid is being supported by innovation in products & distribution as well as overall business models

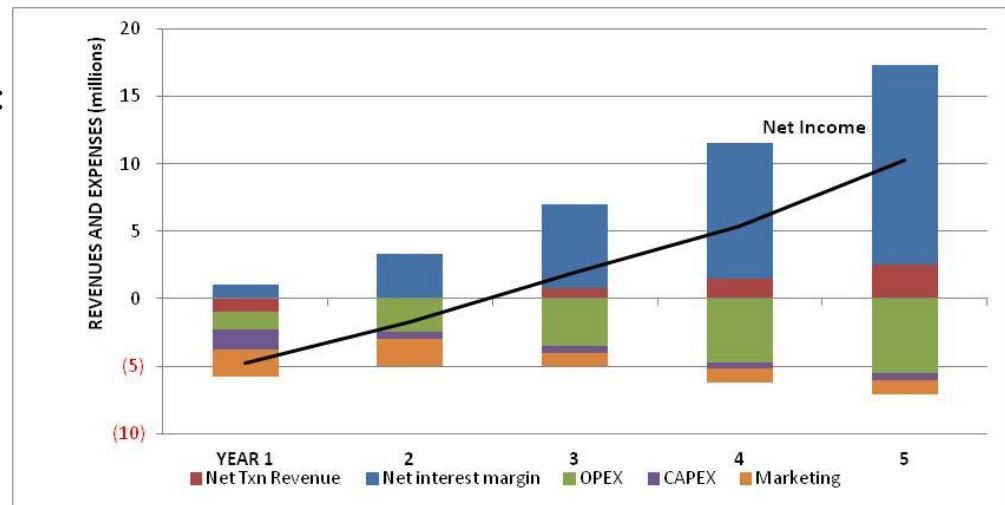
M-Banking: A Sustainable Way to Achieve Financial Inclusion

- The costs related to M-Banking include: (i) operating costs of **staff recruitment/training, product design and network buildout**, (ii) CAPEX costs covering the **IT platform**, and (iii) **marketing**. Upfront fixed IT costs range from US\$1.5-2.0 million with modest ongoing investments to adapt the system to new products and client demand. Marketing costs will vary based on a bank's existing mass market penetration, reach targets, and agent network.
- The main revenues from M-Banking include: (i) **net interest margin** from intermediating account balances; and (ii) **transaction revenues**.
- Operating costs for M-Banking are about **15% of branch banking costs** thus making M-Banking an attractive proposition.
- Upfront investments result in **negative cashflows until year 3 or 4** after which the M-Banking platform becomes profitable.
- IFC intends to **model the feasibility** of M-Banking for select mass market banks. It is expected that **ramp up will be slow** until IFC has helped to create demonstration cases.

• The graph provides an example of M-Banking using the assumptions below (over a period of 5 yrs):

- (i) Number of new clients reached: 2.5 million;
- (ii) Average account balances of about US\$35;
- (iii) Net interest margin of 16% of assets;
- (iv) Operating costs declining from 20% to 6%;
- (v) Marketing costs decline to 1% by year 5; and
- (vi) IT costs of US\$1.5m upfront, \$500k thereafter.

Revenue and cost ratios will maintain the projected levels at much larger scale.



Case Study: Bank South Pacific, Papua New Guinea



- Largest PNG Bank by customers, branches, e-channels
- BSP Rural Established May 2010 to retain core brand
 - More significant innovation
 - Rural Kundu Account for the Rural Market
 - “One-Touch Process” for Acquisition
 - Support by IFC
- Mobile Banking
 - Launched as basic SMS Banking offering in 2009
 - 2012 enabled Cash Agents and Payments
 - Using USSD and Galaxy Tablets to open accounts in the field and deliver services
 - A cash management solution for Cocoa buyers
 - Integrated to eftPOS and the bank network
 - Able to alleviate pressure on other bank channels
 - A better customer experience which encourages banking and savings among the rural mass market

Mobile Banking Activity

2013

Mobile Banking Registrations

321,644

Unique Users Monthly

107,255

Total Transactions

6,813,610

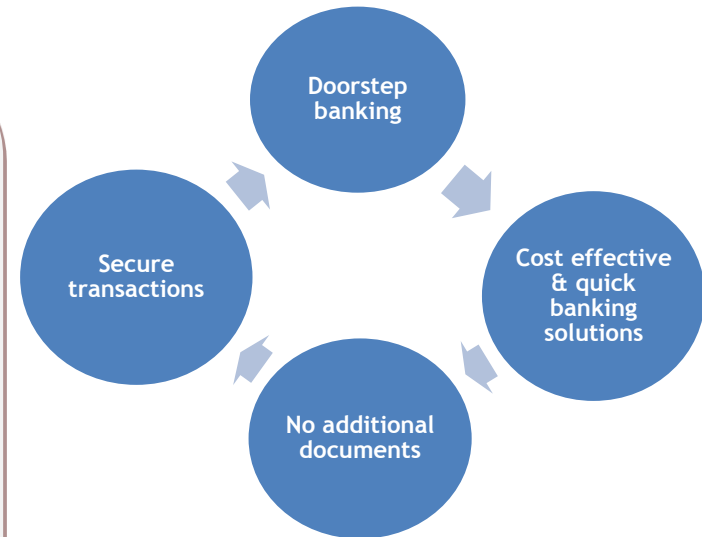
Case Study - FINO, India

FINO

Enabling Financial Inclusion

THE FINO MODEL

- Objective of “building technologies to enable financial institutions to serve the underserved”
- Provides services through biometric smart card and POS terminal
- Is able to enroll people with limited identity & address proofs since RBI relaxed Know Your Customer guidelines for banks & BCs
- Uses biometric products for enrolment, storage & verification of client data
- Undertakes client transactions through biometric Smart Cards, hand held devices, backend switches & Micro Deposit Machines
- On-the-ground transactions carried out by specialized Business Correspondents with technology & cash management ability



Total # of customers: 43.9 million
Total # of transactions: 4.4 million (in December, 2011)
Total # of cash agents: 22,000
Total # of Districts covered: 399
Total # of States covered: 25

IFC provides FINO both Advisory and Investment support:

1. **INVESTMENT:** IFC provided \$ 6.8 million equity investment in 2007.
2. **ADVISORY:** Focused on developing a BC model that uses biometric smart card based solution to enable delivery of financial services.
3. **ADVISORY:** The second phase links other financial products such as deposits, insurance and remittances to the existing payment platform, capacity building agents and financial awareness campaign

Case Study Banco AV Villas, Colombia

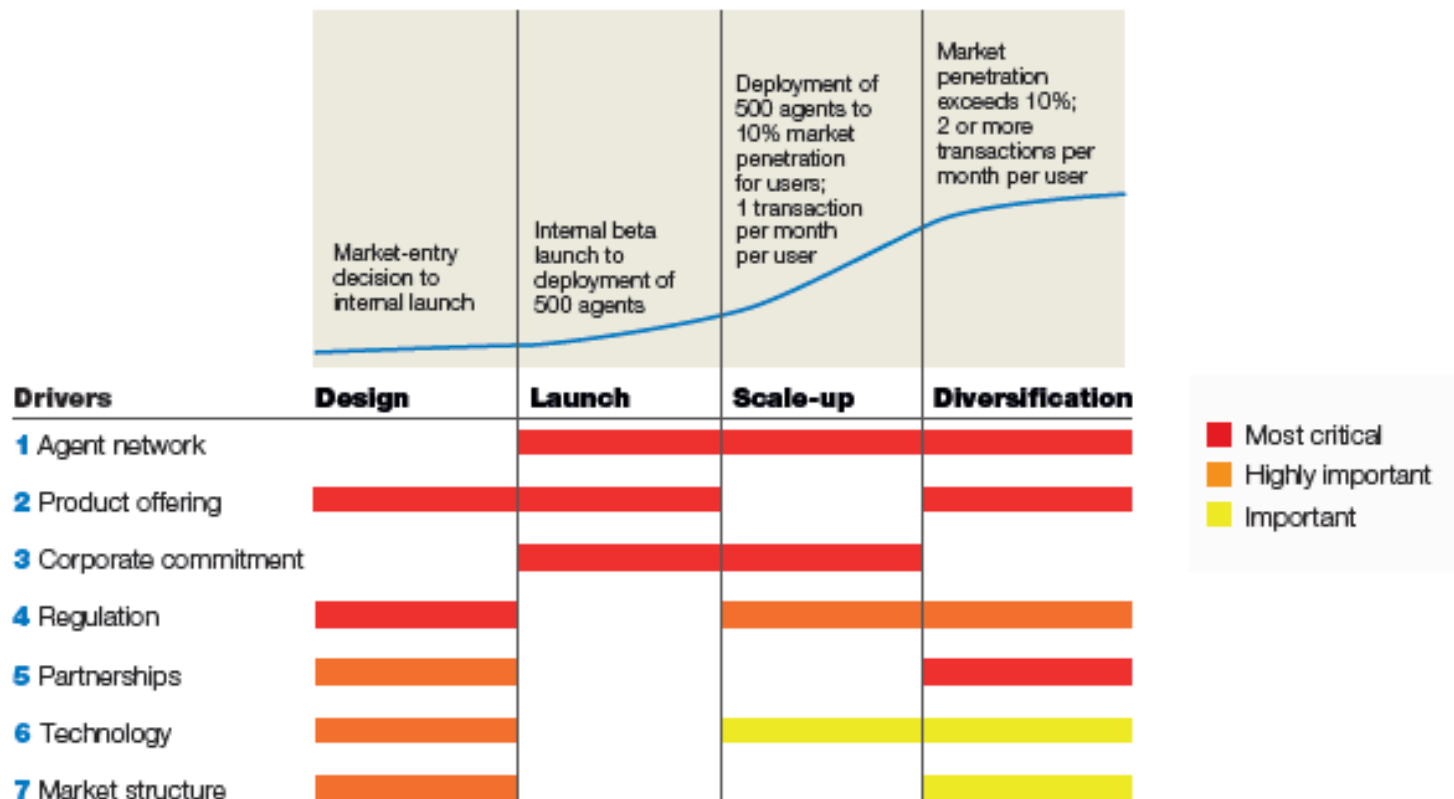
- **ADVISORY SUPPORT:** Development of products for the unbanked: Micro Savings, Small loans, and Micro Insurance
- Banco AV Villas wants to create a transactional environment and an eco-system where mobile payments and agent-based banking can become an important access point for customers.



Success Factors for M-Banking

- The exact mix of success factors and their relative importance is a function of the strategy adopted and the stage of the m-banking initiative

Mobile money life-cycle curve
% of mobile users active in mobile money



ADC can help expand Financial Inclusion and Access

Benefits To Banks

Branchless Banking

Non-bank retail outlets



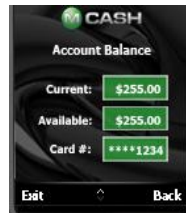
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Technology



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Electronic stored value account



Benefits to banks

- Increase outreach and presence in new geographic areas.
- Serve new customer segments (low-income clients) profitably.
- Increase customer value with specifically designed services.
- Lower cost of funds by mobilizing lower cost deposits.
- Less costly and more flexible than for traditional bank branches.

ADC can help expand Financial Inclusion and Access

Benefits To Customers

Branchless Banking

Non-bank retail outlets



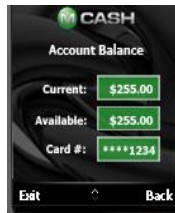
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Technology



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Electronic stored value account



Benefits to customers

- Access to the formal financial system and building financial history.
- Easy way to undertake the transactions that they need as well as access to a broad range of services.
- Significant opportunity to reduce transaction costs for clients.
- Price transparency, market information and safe alternative to cash.
- Time saving.

Lessons Learned So Far

Business Model Development: A clear value proposition for each player in a diverse value chain and strong partnerships are crucial.

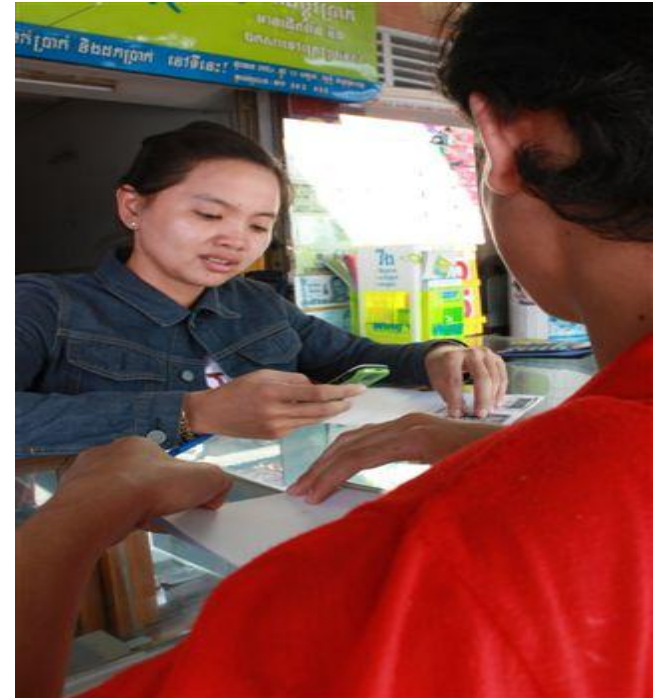
Product Design: Conducting intensive market research and designing a product that satisfies demand is fundamental to the success.

Investment Needs: Significant up-front investment in systems, agent network, and marketing is required to make it reach scale.

Agent networks: Building an agent network requires up-front investment in recruitment and training, as well as on-going liquidity and quality management.

Customer Uptake: Investments in advertising and customer education paramount to success.

Regulatory Uncertainty: A lack of clarity inhibits operators from investing the significant sums required up front to make transformational mobile money viable.



THANK YOU FOR YOUR ATTENTION

Questions? Contact:

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