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Mobile Banking

Fast, convenient and easy: the holy trinity of marketing adjectives. Any product or service that can legitimately claim to be all three should sell itself, or at least catch on fast. This blend of attractive features underlies the enthusiasm around mobile banking. Plus it just seems cool—who doesn't like a story of technological leapfrogging?

The basic idea is that mobile banking, or m-banking, holds the potential to greatly expand financial access to the world's poor by lowering costs for both microfinance providers and their clients. The Asian Banker, a financial industry research group, estimates that a typical financial transaction in the Philippines would cost 80% less if carried out on a mobile phone instead of in a bank. Potential savings to clients, represented primarily by the convenience of m-banking, are also big. With the ability to make payments and transfers literally in the palms of their hands, clients no longer have to travel to the bank and wait in line when they get there to take care of financial needs.

But there are at least 3 challenges.

First, mobile phones have proven to be effective vehicles for transferring money. That can be tremendously valuable, but it's not "banking" in its full vision. Banking would entail using mobile devices to facilitate lending and deposit-taking. Not impossible, but the models aren't there yet. One promise is that m-banking will generate troves of digitized repayment data that can then be mined to implement (or refine) credit scoring models, fundamentally changing the lending equation. Changing the lending equation would come about by eliminating some of the face-to-face social aspects of financial transactions, and the great unknown is whether cutting back on social elements – dropping weekly group meetings say, or simply weakening the personal relationships between customers and loan officers – would undermine repayment rates.

Second, mobile banking isn't yet attracting the poor and unbanked. A CGAP study estimates that less than 10% of mobile banking customers in South Africa fall below the country's poverty line and didn't hold a bank account previously. [NOTE: The CGAP study refers to customers who (i) fall below the country's poverty line; (ii) didn't hold a bank account previously; and (iii) are using the accounts for "more than payments or transfers." While CGAP doesn't provide figures for those who only met the first two qualifications (poor and unbanked), one can assume that since the vast majority of transactions are payments and transfers, the percentage of poor and unbanked users who are using mobile banking for payments and transfers will be significantly higher than 10%.] The finding doesn't imply that the poor can't or won't use m-banking in large numbers, but, in much of Africa at least, the geography of mobile phone coverage and bank branch coverage today is largely overlapping—as are the populations served.

The third issue hinges on trust. Thomas Molony of the Centre of African Studies at the University of Edinburgh argues that the poor aren't lining up to use their cell phones for banking because they value face-to-face interaction when making business transactions. As one man explained (providing the article's title), "I don't trust the telephone; it always lies."

The good news is that new ideas are being developed. The Gates Foundation, for example, recently helped UC Irvine launch a research institute dedicated to the study of mobile banking.

The excitement so far has hinged on the explosive growth of mobile phone subscriptions in developing countries. From practically zero ten years ago, global subscriptions top 3 billion. That's the "m" part. Turning m-banking into a reality will now require getting serious about the banking part.

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