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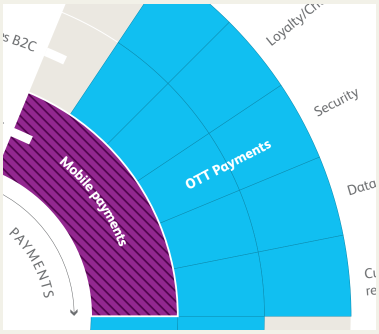
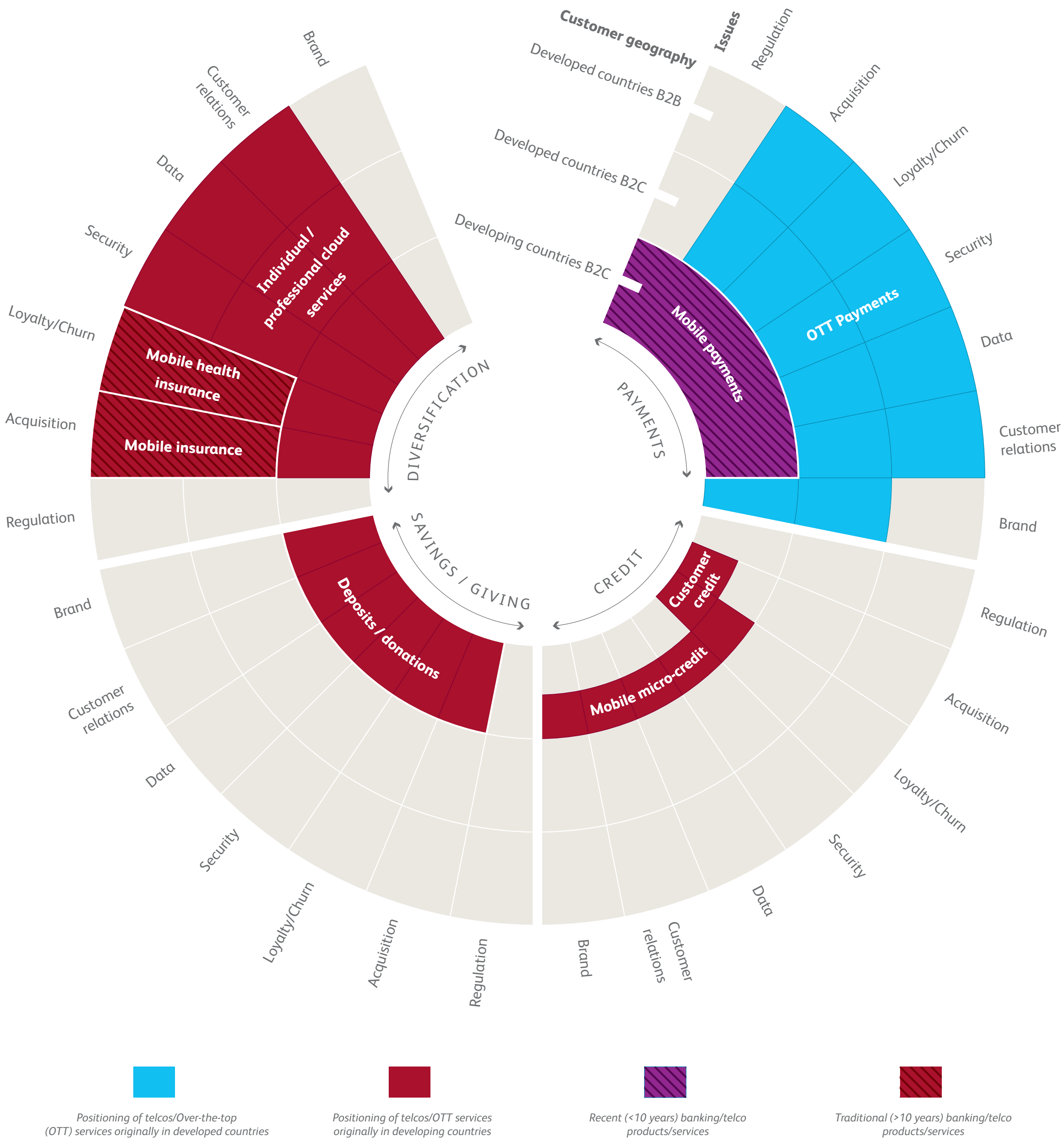


Can banks and telcos overcome their hang-ups?

Pioneered in developing countries, mobile banking is proving a disruptive force to providers of traditional banking services, as telcos, online providers and others create offerings of their own. Initially wary, many banks are now looking to partner with such organisations, blending complementary skills and operational models. In a relatively young market, banks must decide whether to lead or follow. Doing nothing is no longer an option.

Banks and telcos share the mobile financial services pie

While banks may be keen to protect traditional areas of financial services, the breadth of opportunity is increasing both in developing and developed countries for banks, telcos and providers of over-the-top (OTT) services alike; a growing spirit of partnership benefits both of the former groups, while reducing the risk of disintermediation by technology companies and OTT pure-plays



Source: BearingPoint Institute

Better connected: can banks and telcos overcome their hang-ups?

Mobile telecoms-based banking is gaining traction, especially in emerging markets; with a latent, currently untapped demand in developed countries, banks can no longer afford to overlook partnership with telcos

Whilst financial services have the potential to offer a new revenue source for telecommunications companies (telcos) globally, to date most success has been seen in emerging countries where mobile networks extend further, are more accessible and have significantly lower transaction costs than existing banking networks.

Whereas people living in rural areas may live several days' walk from a bank, a significant proportion now have access to a mobile phone, which can be used to agree terms and deal with financial aspects of a transaction. In 2011 for example, only 24% of the inhabitants of sub-Saharan Africa had a bank account, and only 33% in South Asia[1]; however 57% of the former region subscribed to a mobile contract in 2010[2].

It is therefore unsurprising that 245 initiatives and projects to enable 'unbanked' populations access to banking services were initiated in 2013, over half of which were in Africa. Banks initially saw these activities primarily as a threat, as they cut directly into their core business, and sought to block telcos from offering financial services. But telcos are not going to walk away from the opportunity – faced with increasing commoditisation of voice and data, value-added mobile money services provide a way to deliver competitive differentiation and future profitability.

IN 30 SECONDS

- Since telcos first started to deliver financial services, particularly in developing countries, banks have moved from a state of dispute to one of assessing the potential for partnership
- Partnerships make sense given the different, frequently complementary business models and value propositions of banks and telcos
- With the West still to adopt mobile financial services in any real capacity, a significant opportunity exists to address a latent market need
- To do so, education, security and the customer experience remain challenges

Banks may have greater ability to manage financial flows, but telcos have a broader reach when it comes to customer engagement and service delivery

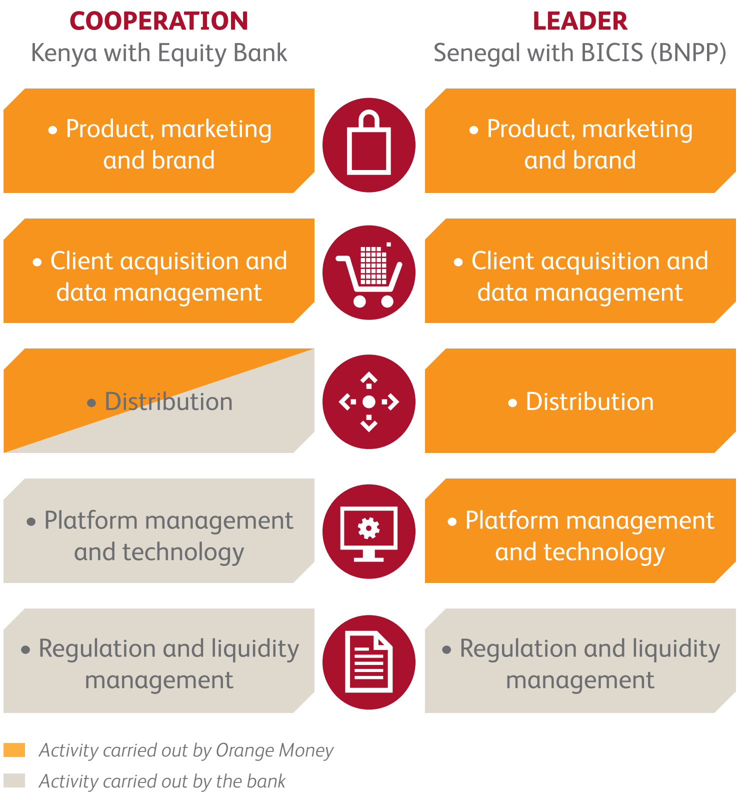
From protectionism to partnership

As the market for mobile financial services has matured, banks and telcos have passed through a period of uncomfortable stalemate and have started to form alliances. Given that both parties offer different value propositions, based on their heritages and business models, the key is to consider how these can work in a complementary way across the value chain. For example banks have a role in generating a culture of managing money; they collect deposits and sell a wide variety of financial services. Meanwhile telcos build brand loyalty and look to increase average revenues per client, building on basic voice/data services.

Operational models are also very different – whilst banks may have greater ability to manage financial flows, telcos have a broader reach when it comes to customer engagement and service delivery. As a consequence, profitable relationships can be formed, building on the strengths of all parties. For example, Orange Money has a number of ongoing relationships with banks: in Kenya, a cooperative partnership with Equity Bank[3]; and in Senegal, all but the management of financial flows are being handled by the telco[5] (see Figure 1).

It may be that mobile financial services will become de facto, but beyond such examples and commonly cited success stories, such as M-Pesa in Kenya and Tanzania, only limited progress has been made even in developing countries. The challenge is not just in growing the numbers of mobile accounts created, but also in getting people to use them. For example, of the 203 million mobile money accounts registered in developing countries as at June 2013, only 61 million (27%) had been used to perform a transaction in the preceding three months[4].

Figure 1: Banks can build profitable relationships with telcos
Partnership model: Orange Money and African banks

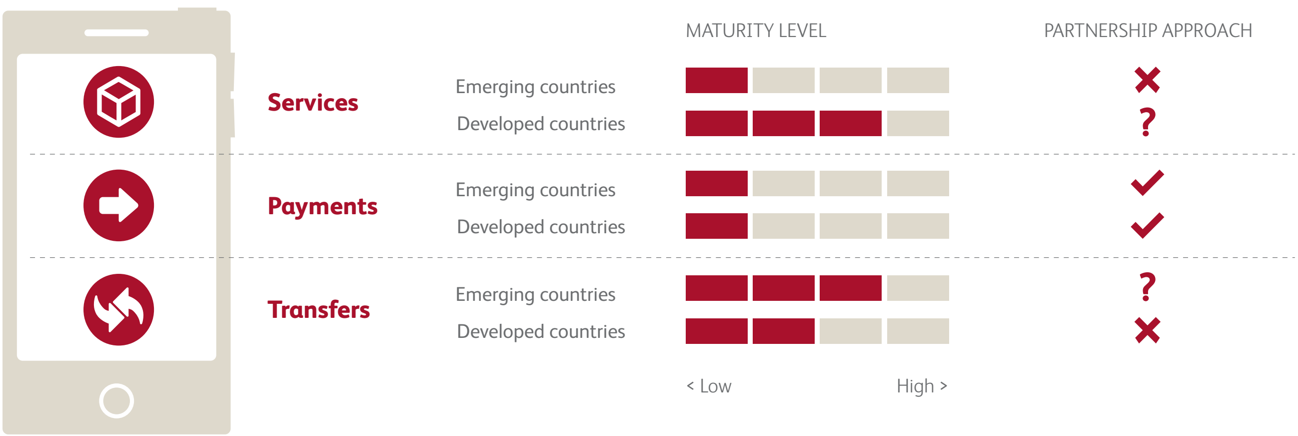


Source: BearingPoint Institute

Customers have different priorities and drivers towards using mobile banking services, such as simplicity of use, security and the customer experience

24% of the inhabitants of sub-Saharan Africa had a bank account in 2011[1]

Figure 2: Is mobile the future of the financial landscape?
Potential market for partnership services



Source: BearingPoint Institute

Raising awareness in developing markets

Significant market education is clearly still required, both in generating interest in simple and higher-value banking services (such as international transfers), and directly with new customers when accounts are opened – showing a new customer how simple it is to conduct a transaction has been shown to increase the likelihood of people using mobile money services. The background for such efforts is evolving, with demographic changes such as increasingly city-based populations and a growing middle class, coupled with an increased familiarity with technology that comes from greater access to it.

Education is also proving a challenge outside of the developing world as a latent, currently untapped demand exists for mobile banking services in developed countries. Uptake has been slow, due to a combination of factors. In general, access to banking services is already more straightforward, making the need for mobile banking less compelling. At the same time, individuals can be quite conservative about how they manage their money – despite the banking collapse, people still trust banks with their finances, or at least see them as the 'best worst' option.

As a consequence, customers have different priorities and drivers towards using mobile banking services, such as simplicity of use, security and the customer experience. A number of partnerships have emerged to respond to these drivers, such as Yaap in Spain – a collaboration between CaixaBank, Santander and Telefónica[8] – and the Soft Card mobile wallet[7] initiative in the US, driven by a number of banks, credit card companies and mobile operators.

Whilst the market is still nascent, such partnerships are seen as an inevitable part of the future financial services landscape – with mobile payments remaining the main focus (see Figure 2).

Any model for banks to deliver mobile financial services by themselves is difficult to justify if measured against banking criteria such as transaction value alone. Working in partnership with telcos, however, offers banks a route to market, and keeps new players out of core banking activities. Partnerships also limit potential brand erosion, not just from telcos but also internet players such as PayPal and Worldpay, and technology companies such as Google, Apple, all of whom are lining up to make the most of the opportunity.

Both telcos and banks can act as early movers, defining the standards and working at the front lines of development, ready to spring into action, or simply to follow where others lead

Assessing the opportunity for banks

Whilst these remain early days, additional competition looks set to come from over-the-top (OTT) players – providers that have no stake in the infrastructure involved in either financial services or telecommunications. Taking mobile payments as an example, the BearingPoint Institute's 2012 market analysis – 'Who will be the winners in the mobile payments battle?'[7] – reveals three probable scenarios for the impact of such organisations in different geographies:

- No short-term impact, due to slow acceptance by relevant target customer segments, insufficient standards and/or adoption by retailers, and aggressive protectionism from established financial institutions

- Coexistence of traditional (debit/credit) and mobile payments, with existing players making room for new players and forming an ecosystem that accepts their existence and spawns new intermediaries
- Total substitution of traditional payment methods (debit/credit) by mobile payment solutions, resulting in erosion of boundaries between banking, payments, communication and information technologies

Given that no one scenario is globally valid, both banks and telcos need to adopt strategies that take into account the markets they address, and consider the role they want to play. Companies on both sides can act as pioneers, defining the standards and working at the front lines of development, ready to spring into action once the opportunity arises as early adopters, or simply to follow where others lead.

Banks and telcos need active strategies to define their partnerships; banks, in particular, cannot afford to rest on their laurels. As telcos and OTT entrants look beyond their existing, increasingly commoditised service portfolios and sense the opportunity mobile financial services can bring, they will inevitably exert increasing pressure on the traditional supplier of such services – the banking community. Banks may remain unimpressed at the advent of mobile financial services, but acknowledge that they have no choice but to work with telcos as a channel to new markets. Given the immaturity of the market, they can take some comfort in the fact that they have not yet missed the boat.

Of 203 million mobile money accounts created in June 2013, 61 million (27%) registered a transaction in the preceding three months[4]

27%

KEY TAKE-AWAYS

- Whilst mobile access to banking services makes sense in principle, in practice uptake has been slow in emerging and developed economies
- In both cases, the answer lies with market education, both to generate interest and to help on-board new customers
- Banks and telcos are learning that joint propositions make a great deal of sense, as each party can build on its core strengths
- Partnering opportunities differ according to product type, geography and market maturity. The strongest proposition for partnership is mobile payments
- Beside banks and telcos, internet pure-plays and technology vendors are looking to take market share. Whilst incumbent providers currently benefit from a conservative market, time is not on their side
- Companies can choose – or be chosen – to be leaders, early adopters or laggards. Such a decision will depend on market forces and geographic coverage, but should not be left to chance

Both banks and telcos need to adopt strategies that take into account the markets they address, and consider the role they want to play

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