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Pocket Banking through Mobile Phones in Rural China

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Some weeks ago I attended the [12th Annual Cards & Payments Asia Conference](#) in Singapore. To me, this massive event implicitly heralded a strong wave towards convergence. Whereas a couple of years ago such a conference would be mainly knitted around what is happening with credit/debit cards, this year's event covered in addition NFC (Near Field Communication) developments in cards and mobile devices, biometric applications, electronic wallets, mobile (phone) payments as well as entirely new payment business models built around the mobile phone.

Of such models, the telecom company operated [G-Cash](#) in the Philippines is widely acknowledged as a best practice. [McKinsey recently](#) even went so far to suggest such an SMS based money transferring would be a viable business model to reach out to the rural unbanked in China.

However, in spite of all the praise, SMS money transferring is not 'banking' and G-Cash is a relatively complex environment of registered merchants with designated cash-in and cash-out locations; even somewhat 'difficult' to people without a Globe Telecom account.

It is of course understandable that telecom companies are embracing the fact that they can fulfill needs that banks at times have not addressed well enough. G-Cash, with the cost and simplicity of just sending an SMS, has empowered thousands of people in remote areas who do not need to travel to bank branches or ATMs for costly transactions – that is, if they would have a bank account at all.

Another model that is geared towards leveraging the large penetration rate of mobile phones is a telecom-bank model. As G-Cash is in the business of money transferring, a telecom-bank model could add extra services for which a banking license would be required.

[Thumbpay](#) in Bangladesh, [MTN Banking](#) in South Africa or [M2U](#) in Malaysia are such initiatives. M2U requires smart mobile phones and as such empowers just a segment of the Maybank-Celcom customer base, and a fraction of the total market. Thumbpay (Bank Asia and Aktel and [Grameen Phone](#)) and MTN Banking (Standard Bank and MTN) are more like G-Cash when it comes to serving the under- and unbanked.

To me, though, it is not entirely clear if the sum of the advantages of a telco-bank model is larger than the separate parts. It seems intuitive to leverage the strengths of a bank (products) with the reach and customer database of a telco. But G-Cash works well for a telco and from bank perspective; does it really need a telco to convert a mobile phone into a bank?

Maybe [WIZZIT](#)

can provide an answer. WIZZIT in South Africa is one of the very few (the only one I know) that is independent from telco and bank. Sure, WIZZIT is a division of the South Africa Bank of Athens, but that is because they need a bank license in South Africa for their services that reach well beyond money transferring. Their piggybacking on this license makes them different from their local 'real bank' competitors MTN Banking and FNB who entered the mobile banking space *because* they have a license.

Although Vodacom has announced themselves to be an alliance, whatever that exactly might be, it does not affect WIZZIT's independency. WIZZIT is telco independent and therefore also work on pay-as-you-go mobile phones, across all networks, all phone types and on any SIM card. The technology used is [USSD](#) which also works on the early generation models, and as USSD is very much a continuous online session (compared to SMS where time delays are possible) you know a transaction is completed at the time of the transaction, with MasterCard certifying all transactions. Through the WIZZIT Maestro debit card customers have access to all hundred thousands of ATMs worldwide carrying that sign.

However, that reach is not an important feature to people who actually do not bank or are so poorly banked that they travel each end of month to get their salaries out of a far away ATM and stick to cash transactions from below their mattresses. Easiness of doing business is more important. A WIZZIT account can be opened in a couple of minutes and apart from an ID nothing else is needed, no good credit line, no employment letter; with WIZZIT there are really no barriers to start, let's call it, **pocket banking**.

The McKinsey report on developing a rural payment system in China finds that merchants would benefit from **pocket banking**. Banks and telcos would also benefit. Yet, I fear that if too many commercial parties celebrate profits on a model this will happen at cost of benefits to the end customers, the people in rural areas and immigrant workers who care less if after the "send" button banks or telcos are doing the transaction. Instead of banks working together with telcos, competition amongst each other might result in more attractive business propositions to end customers.

China-Cash or ChinaZZIT? Punch 1234*BET to place your bets ...

David Garceran Nieuwenburg

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1. [1 MP](#) [May 16th, 2007 at 7:35 pm](#)

Interesting typology of the various m-banking services out there. A couple comments:

* Is it worth pointing out that what GCash does is e-money issuance by a nonbank and wouldn't be permitted by banking regulators in a number of the other countries you mentioned? Kind of affects the business model if your local regulator isn't willing to license the idea.

* MTN Banking switched gears and management about a year ago and is now largely run by the Standard Bank side of the biz. Both sides got their fingers a little singed in a slower than hoped for launch that had a lot to do with regulation (again) of remote account opening, along with choice of a sim tool kit tech

that many people in the market weren't ready for.

* Would also add to your mix Smart Money in the Philippines, which is a telco-owned brand but a bank-led model with a cardholder agreement b/w the Smart Telecom customer and a bank issuing a pre-paid Mastercard branded debit card that's booked as an AP on the bank's balance sheet. Many of the functions in the value chain are outsourced to Smart, including marketing and data management.

2. [2 John May 16th, 2007 at 10:34 pm](#)

Interesting observation about the G-Cash platform. While I agree that the mobile payment platform created by Globe Telecom, G-Cash, is not a banking service, when utilized by banks, it can be used to provide mobile phone banking services. Rural banks in the Philippines have partnered with Globe to develop their own mobile phone banking services that utilize the G-Cash platform to facilitate banking services including loan disbursements, payments, remittances, payroll services, deposits, and (soon) withdrawals. These services are much easier for banks to offer without having to enter into arrangements with traditional credit card companies and without spending on the deployment of extensive ATM networks.

For more on the mobile phone banking services being offered by rural banks, check out the video at <http://youtube.com/watch?v=wz4HFSNgvuw>.

3. [3 davidgn May 18th, 2007 at 9:25 am](#)

MP, thanks for the additions. A couple of days ago PayPal announced they had a banking license now for EU - before that they were in 103 countries without banking license with a model close to that of G-Cash: money transmitter. So I wonder if indeed a global G-Cash roll-out would be hindered by local bank authorities?

John, yes, rural banks in the Philippines now are into G-Cash and that initiative was presented as a best practice of microfinance in Barcelona some months ago on a global GSM conference, as it was by the Asian Development Bank around that same time. No doubt that parties (bank telco) can join together with a win-win business proposition. What I tried to raise was that perhaps there is also a 'winner takes it all' scenario - if so, which one would be better for the end customer?

4. [4 John May 18th, 2007 at 2:50 pm](#)

David, at the end of the day you still need a bank involved since only banks can offer a full range of banking services. A teleco cannot provide loans/credit (or shouldn't) nor can they provide true deposit and withdrawal services. An interesting model is now being used in Thailand through a company called mobile payment club <http://www.mobilepaymentclub.net/th/index.aspx> In this model, banks are the ones offering the service instead of mobile carriers.

Systems like G-Cash are still important and do provide a useful mobile phone payment platform and a type of pre-paid debit card service but you still need a bank to settle large transactions and offer traditional mobile phone banking services. By the way, I noted that the link to our video was not working, so here it is again: <http://youtube.com/watch?v=wz4HFSNgvuw>

5. [5 davidgn May 22nd, 2007 at 11:23 am](#)

On a very useful [overview](#) on [Visible Banking](#) I came across more conversations around mobile and cell banking. According to an [article in Business Week](#)

[Obopay](#) is providing to the US market what we have talked about as **pocket banking**.

Obopay seems to be more comprehensive than any other example so far as it allows you to transact money via SMS, via the internet browser on a mobile phone (WAP), via an application that can be downloaded to the mobile phone and ... yes, straight from their website – the good old Internet. And to stay in touch with the brick and mortar dimensions of life Obopay customers can use an Obopay Prepaid MasterCard for cash transactions on millions of MasterCard point of sales and ATMs worldwide.

The interesting thing about Obopay, founded in 2005, is that the founder, Carol Realini, gave birth to her brainchild while doing volunteer work in Africa, a continent in which mobile phones outnumber landlines with a factor 20 - a situation ripe for new business models. Now in the USA mobile phone users can send money within the USA for 10c compared to over 10% costs as charged by the older business models. We live in changing times.

6. [6 Allie May 22nd, 2007 at 3:09 pm](#)

Pocket Banking may work in bigger countries like China and US but in a country like Singapore (SG), I do have my doubts. Even though the penetration of mobile phone users in the market is more than 90% in SG, the adoption rate for mobile banking is still very weak. Currently, there is only 1 local bank that is offering mobile banking service. And a few years back, most banks offered the service but had to discontinue their offerings due to low usage and high cost in maintenance (testing smart/mobile phones for compatibility).

However, I personally feel that mobile payments will start to take up speed in this part of the world in the next couple of years. Especially when the consumers here seem to be more ready to pay their bills via the Internet instead of issuing cheques. There's a definite change in behaviour.

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