Mobile Money for the Unbanked

Extending reach: Mobile money in rural areas

Findings based on the State of the Industry Report

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In many emerging markets, the majority of the population lives outside urban centres without easy access to infrastructure like banking, transport, electricity, and roads.[1] This represents a huge potential customer base in communities where mobile money is the only real competitor to cash. Extensive market research in other industries suggests that rural customers tend to have stronger brand loyalty than their urban counterparts,[2] making them a valuable market segment.

Despite the potential size and loyalty of the rural market, evidence suggests most mobile money service providers have yet to expand their services beyond urban centres.[3] Delivering commercially sustainable services to rural areas poses several challenges, which are more or less acute in different markets: more widely dispersed populations, lower literacy levels, less access to basic infrastructure, and lower and often sporadic household incomes. Understanding the scope and magnitude of the challenges will help providers be more strategic about extending the reach of their mobile money services and adapt their approach to the specific market context.

The expansion of mobile money into non-urban areas has thus far tended to be a gradual diffusion of services beyond urban centres, rather than a strategic effort by providers to tailor services to meet the needs of rural customers. A more strategic approach could help providers extend services both in advanced mobile money markets, where growth in saturated urban areas is stagnant, and in markets with limited urban market potential where commercial success is dependent upon expansion into rural areas.

This publication is part of a series of deeper insights into selected topics based on the findings of the 2013 State of the Industry Report on Mobile Financial Services.[4] Using data from the report, MMU identified nine mobile money service providers with a strong presence in rural areas of their respective markets. Interviews with these diverse global providers captured key insights into how they have successfully expanded mobile financial services into hard-to-reach areas, and illuminated some of the common challenges providers face in addressing the needs of rural and remote customers.

SUMMARY

This publication provides a snapshot of service providers that have crafted tailored strategies to drive uptake of their services in rural areas and tackle uniquely rural challenges. From Papua New Guinea to Somaliland, providers are reaching new customers with innovative technological, regulatory, and logistical solutions to weak infrastructure, low literacy levels, lack of formal identification documents, and unique financial needs and habits. As these examples reveal, creating a compelling value proposition for rural customers and lowering barriers to adoption demands a fresh and considered approach.

1. Rural population (% of total population), The World Bank DataBank, http://data.worldbank.org/indicator/SP. RUR.TOTL.ZS
2. Ratan Malli, JWT, 2009, “Why the Rural Market is Different”, http://www.wpp.com/wpp/marketing/ marketing/why-the-rural-market-is-different/
3. InterMedia, 2013, “Mobile Money in Tanzania: Use, Barriers and Opportunities”, http://www.intermedia.org/mobile-money-in-tanzania-use-barriers-opportunity-2/
4. Claire Pénicaud and Arunjay Katakam, 2014, “2013 State of the Industry: Mobile Financial Services for the Unbanked”, http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2014/02/SOTIR_2013.pdf

BOX 1

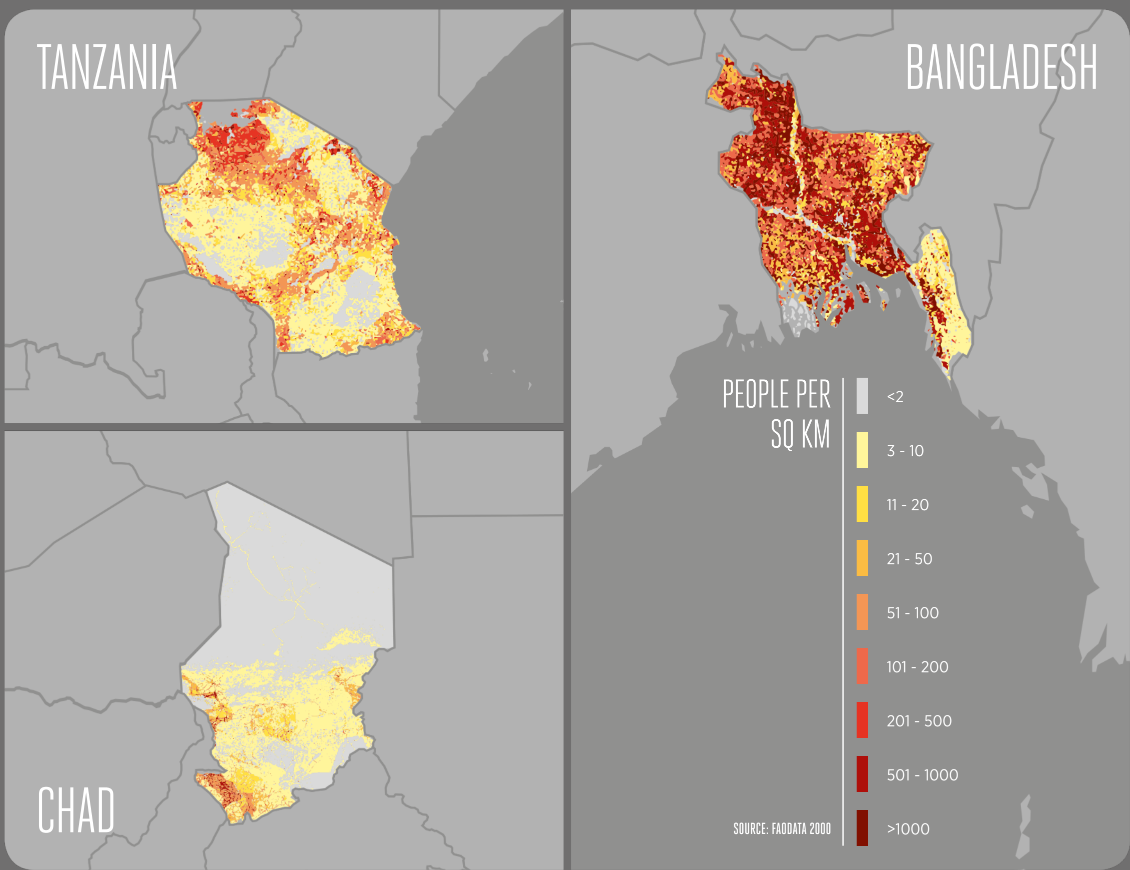
EXTENDING 'REACH', RATHER THAN 'RURAL REACH', MAY BE A BETTER WAY FOR THE INDUSTRY TO DEFINE ITS STRATEGIC CHALLENGE.

Responses from the 2013 Global Mobile Money Adoption Survey highlighted that there is no standardised definition of 'rural', making the size of this market segment challenging to quantify. Only 23% of survey respondents reported knowing what proportion of their customer base resides in 'rural' areas, and only 41% reported the percentage of their agents operating in rural areas. Of these, 75% of respondents defined a rural area as an area outside of the major cities in their country, or in some cases, anywhere outside the capital. Just a handful of respondents were using more nuanced definitions of 'rural', based on parameters such as access to bank branches and basic infrastructure. Such diversity of definition suggests that each market may require a different approach to understanding its 'hard-to-reach' customers.

Even when similar criteria is used to identify 'rural' segments of a population, variations in geography, terrain and population density across different markets mean that these segments may indeed face vastly different challenges in terms of access to services and infrastructure. For example, according to the World Bank, Bangladesh, Tanzania and Chad are markets where over 70% of the population lives in 'rural' areas.[20] Yet the diagrams below show a significant variance in population density across these three markets. This highlights the need for industry players to study the unique context of their rural market and come to their own understanding of how to reach these potential customers.

FIGURE 1

POPULATION DENSITY PER KM^2 IN TANZANIA, BANGLADESH, AND CHAD[21]



5. World Development Indicators, 2013, World Bank definition of "rural": "Rural population refers to people living in rural areas as defined by national statistical offices. It is calculated as the difference between total population and urban population."

6. FAO 2013, Population Maps, Tanzania, Bangladesh, Chad, http://www.fao.org/countryprofiles/maps/map/en/?iso3=TZA&mapID=610

Key challenges in reaching rural customers and how providers are overcoming them

Interviews with providers revealed four key challenges to reaching rural customers:

1. Lack of infrastructure in rural areas creates logistical challenges for agent and cash management.

2. Rural customers have specific financial needs, so an effective value proposition must be tailored to meet these needs.

3. Rural customers tend to have lower literacy levels, which means the service will require a suitably user-friendly interface to enable access.

4. Lack of formal identification documents among rural customers will require regulatory solutions that facilitate customer adoption in rural areas.

Overcoming logistics and delivery challenges

Lack of infrastructure in hard-to-reach areas makes agent management and cash distribution more challenging. Providers can leverage data, partnerships, and liquidity management tactics to address these challenges.

Reviewing mobile customer usage data can shed light on market activity and opportunities. For example, in a rural area of Chad, with no formal banking infrastructure, where Tigo has more than 90% GSM market share they started heavily promoting their wallet to their existing customers. It was later discovered that this area had an existing marketplace and trading centre that was driving customer uptake of mobile wallets and transactions. Tigo has become the financial infrastructure in the area. Providers can use analytics to better understand customer usage patterns across regions and market segments, as well as measure the effectiveness of the tactics used to drive customer activity.

Forming distribution partnerships is a tactic commonly used in the Fast-Moving Consumer Goods (FMCG) industry to reduce costs and speed up delivery. Between 2000 and 2004, Hindustan Lever Limited, an Indian FMCG owned by Unilever, partnered with female self-help groups in villages with less than 2,000 inhabitants through Project Shakti, inviting group members to become direct-to-consumer sales distributors. Through this partnership, Hindustan Lever was able to reach 70 million new rural consumers.[7]

Following a similar partnership strategy, Vodacom Tanzania has partnered with MFIs and cooperatives to leverage local knowledge, existing trust networks and liquidity channels, which is helping to extend its rural mobile money distribution network. Partnerships can be an effective way to extend the distribution network, but service providers need to carefully consider brand integrity, profitability structure, quality of service and asset sharing.

Liquidity management is a major challenge in remote areas where banking infrastructure is lacking. Traditional master- and super-agent models are less successful in rural areas given lack of access to bank branches and geographic distance between agent locations. Rebalancing float represents a high opportunity cost for rural agents since they lose both time and business when having to travel longer distances to the bank. Zoona, a mobile money provider in Zambia with high agent activity rates, has addressed the liquidity burden of its agents by advancing credit to them in the form of electronic float. This credit option has been particularly popular amongst Zoona's rural agents.

Zoona acknowledges that this tactic has been successful due to its strong relationships with its agents, its ability to carefully credit score individuals and manage default risks. Many providers would consider credit risk outside their core competences and may be unwilling to take on the associated risks. As an alternative to addressing working capital, service providers can focus on reducing agent's rebalancing time. Providers may look internally to ensure that rebalancing processes are streamlined and straightforward, and/or actively seek rural based institutions to act as super agents.

7. Unilever's Project Shakti: http://www.unilever.com/images/es_Project_Shakti_tcm13-141088.pdf.

Identifying and communicating a compelling value proposition

To develop and communicate a compelling value proposition for the rural market segment, mobile money service providers need to understand the nuances of how rural consumers earn, save, and spend their money.

A prevailing perception in the industry is that rural mobile money users are strictly cash-out customers. Yet, mobile money market segmentation research from Tanzania reports that, whereas rural customers may be net recipients, many do not cash out the e-money immediately.[8] This suggests that rural customers are holding balances on their wallets for future use and may indeed be potentially valuable customers of other mobile money products.

In order to develop relevant, secure and accessible financial products for rural customers, service providers need to understand how rural consumers earn, save, and spend their money. By examining rural customer behaviours and use cases, providers can offer tailored products to cater for their unique needs. The agricultural sector has often been cited as an opportunity for providers to develop new services, such as bundled VAS and agricultural finance products.[9] However, limiting products only to the agricultural sector could be a missed opportunity for providers to offer other relevant ecosystem products to rural users.

For example, Nationwide Microbank in Papua New Guinea noticed that its rural customers were using MiCash primarily as a savings product. Nationwide believes this is because rural users have less access to secure financial savings options and so were turning to the mobile money wallet to provide this function. In Sri Lanka, where the majority of households are connected to the electricity grid, Dialog experienced significant uptake of its electricity bill payment product in rural areas. Using Dialog's eZ cash wallet to pay bills reduces both travel time and costs for rural customers, demonstrating another appealing value proposition that mobile money offers to remote users.

Cross-industry research suggests that rural customers are traditionally slower to adopt new products.[10] Communicating the value proposition to this market segment is therefore crucial. Rural customers typically require in-depth product education and demonstration, as well as testimonials from peers or local opinion leaders.[9] Leveraging existing trust networks through partnerships with local MFIs may help to communicate the value proposition to users. MFI partnerships may be particularly effective given that staff is already trained to provide financial and technical literacy education. Mobile money service providers should however ensure there is prior agreement on brand visibility, customer ownership, and the profit-sharing structure.

Creating a user-friendly service and accessible interface

While there are limitations to the flexibility of technology, providers can use innovative approaches to simplify the customer interface and overcome the challenge of lower literacy levels.

IVR messages that are short, simple, and in local languages may help to serve rural customers with low literacy levels. Nevertheless, providers have had varying degrees of success with IVR, suggesting a more rigorous approach may be needed to determine whether it is suitable for particular markets. Beam India launched an IVR service hoping to attract rural users to its mobile wallet, but soon realised it was unsuited to its primary target market: tech-savvy 18- to 24-year olds who found IVR time-consuming.

For an IVR service to have strong uptake amongst the less literate, it must be suitably user-friendly and accessible. This is a particular challenge in markets with a high number of languages or dialects. Therefore, monitoring IVR usage and drop-off rates—by analysing CDR records and refining the IVR system through an iterative development process—is needed to make the service as effective as possible.[11]

8. GSMA Mobile for Development, 2013, "Mobile money and mobile agriculture are converging: How can operators leverage this opportunity?", http://www.gsma.com/mobilefordevelopment/mobile-money-and-mobile-agriculture-are-converging-how-can-operators-leverage-this-opportunity.
9. Ibid.
10. Ratan Malli, 2009, "Why the rural market is different", JWT, http://www.wpp.com/wpp/marketing/ marketing/why-the-rural-market-is-different/.
11. For further analysis on the relative value of voice vs. SMS solutions in developing markets, see: Barbara Lucini, 2014, "Value of Voice - an unsung opportunity", https://mobiledevelopmentintelligence.com/insight/Value_of_Voice_-_an_unsung_opportunity.

Offering over-the-counter (OTC) transactions is another way of making a mobile money service more accessible to communities with lower technical and financial literacy. OTC can also help address a lack of confidence amongst customers who are hesitant to use mobile money to perform transactions themselves. Zoona is using an OTC approach to help lower the barriers to adoption and extend the reach of their service into remote areas. Although this may be a solution in the short term, providers need to carefully consider the longer-term implications for their business model. Many service providers, including Zoona itself, are recognising that as the industry grows, ecosystem development for OTC services will be limited. Zoona has a strategy in place to migrate customers from OTC to wallet as they become more literate and as mobile penetration in remote areas deepens. MMU's in-depth case study on Easypaisa in Pakistan highlights the challenges of converting primarily OTC customers into mobile wallet-based customers.[12]

Greater investment in education campaigns can also help make a mobile money service more accessible to those with lower technical and financial literacy. Broad cross-industry research on marketing to rural customers suggests they typically require more education and benefit from trialling the product.[13] Hiring field staff to register customers, educate them about the value of the service, help facilitate product trials, and, crucially, move them along the customer journey,[14] may be a key tool in remote regions. However, where field staff commissions are tied wholly to customer registration, customer education tends to receive little attention; this is a common industry challenge.[15]

Finding solutions to the lack of formal identification documents

The absence of compulsory population registration and identification is a common barrier to wide scale adoption of mobile financial services, but it is even more prevalent in rural areas. This is less of an operational challenge for mobile money providers, and has more to do with the regulatory KYC environment in which they operate. Here, regulation plays an important role in extending the reach of mobile money and increasing financial inclusion.

Tiered KYC procedures can be an effective way of accelerating customer adoption, particularly amongst groups who lack official identification documents. Since customers holding low deposit and transaction values have a lower risk profile, they may undergo a less rigorous Customer Due Diligence (CDD) process.[16] In many markets, regulators have sought to balance the objectives of financial inclusion and integrity by adopting proportional risk-based CDD procedures in the form of tiered KYC.[17] Mobile money service providers can use this option to their advantage to ease the customer registration process.

In a few markets, mobile money service providers have worked with regulators to adjust acceptable KYC documentation to meet market needs. For example, since 80% of the population in Papua New Guinea does not have a formal national identification document, Nationwide Microbank accepts letters from village leaders as a form of identification to open a MiCash mobile wallet. Telesom ZAAD employs a similar approach in Somaliland, accepting letters of reference, reputable employer ID and voter ID (as well as formal national ID-like passports and driver's licenses) for customer registration.

12. M. Yasmina McCarty and Roar Bjaerum, 2013, "Easypaisa: Mobile money innovation in Pakistan", http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/07/Telenor-Pakistan.pdf.
13. Ratan Malli, 2009, "Why the rural market is different", JWT, http://www.wpp.com/wpp/marketing/ marketing/why-the-rural-market-is-different/.
14. Philip Levin, 2013, "The customer journey to regular mobile money usage: Longer than expected", http://www.gsma.com/mobilefordevelopment/the-customer-journey-to-regular-mobile-money-usage-longer-than-expected.
15. Hege Aschim, 2014, "How to improve agent performance with incentives", http://www.gsma.com/ mobilefordevelopment/how-to-improve-agent-performance-with-incentives.
16. Simone di Castri, 2013, "Tiered risk-based KYC: M-Shwari successful customer due diligence", http://www.gsma.com/mobilefordevelopment/tiered-risk-based-kyc-m-shwari-successful-customer-due-diligence
17. Simone di Castri and Lara Gidvani, 2014, "Enabling mobile money policies in Tanzania: A "test and learn" approach to digital financial services", http://www.gsma.com/mobilefordevelopment/wp-content/uploads/ 2014/03/Tanzania-Enabling-Mobile-Money-Policies.pdf

Conclusion

Mobile money service providers can continue to grow by extending the reach of their service beyond urban centres and on-boarding potentially valuable rural customers. Some providers are beginning to track rural customer behaviour to glean market insights, which is helping them to build a tailored rural strategy and accelerate growth. Instead of relying on natural progression to expand their services, leading service providers have thought critically about delivery and logistics, the value proposition for rural customers, accessible and user-friendly mobile money interfaces, as well as regulatory and other solutions to meeting KYC requirements for customers without formal IDs.

The innovative examples presented in this paper are intended to inspire, but they are unique, market-specific solutions that cannot be directly replicated in other markets. Ultimately, developing a strategy to reach rural customers will require providers to adopt a targeted, country-specific approach, guided by the particular financial needs and challenges of these customers.

This short piece is just scraping the surface of the complexity of expanding mobile money into new and harder-to-reach areas. With industry maturity, mobile money service providers will create new and innovative approaches to extending reach, accelerating the uptake of mobile money services among new customer segments.

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