NEAT MOBILE FINANCIAL SERVICES SUMMIT REPORT

NEPAL, ECONOMIC, AGRICULTURE, AND TRADE ACTIVITY

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OVERVIEW AND KEY OUTCOMES

On June 20-21, 2012, NEAT hosted a Mobile Financial Services Summit in Kathmandu to introduce local stakeholders to best practices as related by financial institutions, mobile network operators, and technology firms from around the world

The Summit was well attended, with more than 140 participants, most of whom were from the Nepalese financial services, telecom, and regulatory sectors. Although a few institutions, such as Laxmi, Siddhartha, and Mega banks, have introduced branchless and mobile banking services, the deployments have been more akin to pilots. This is in part due to regulatory and market uncertainty. Preparations for the MFS Summit provided the needed impetus to accelerate some developments that have been underway for months, if not years.

First, and foremost, the much anticipated E-Banking Directive was finalized and posted on the website of Nepal Rastra Bank the week of the conference. The completion of the regulation was announced the first morning of the Summit. Although the directive leaves much to be desired, formalizing the current thinking of the regulators was a critical step.

Equally, and perhaps even more important, was the announcement that FinAccess had signed a memorandum of understanding (MoU) with five financial institutions. Together these organizations - Laxmi Bank, Bank of Kathmandu, Siddartha Bank, Commerce & Trust Bank, and the International Leasing & Finance Company – will work with FinAccess to develop and deploy the products and infrastructure required to deliver e-banking services. This is a very significant outcome because it suggests that after years of discussion, the banks are finally recognizing that they will best serve the market – and their bottom lines - through a collaborated effort. In the days since the conference, Nirdhan Bank, the country’s largest microfinance institution, has also joined the consortium. Calls have been coming in from other banks that are now also interested in the partnership.

COMMENTS ON SUMMIT PRESENTATIONS

Regulations

While addressing some issues, the e-money directive released during the Summit continues to have areas of significant ambiguity. In addition, it reflects a regulatory that is both unfamiliar with mobile financial services and cautious in regard to customer protection. This has resulted in some unnecessary and overly restrictive conditions that may make it difficult for market participants to rapidly achieve scale.

Nepal Rastra Bank (NRB) claims that they see the directive as a first step, and express a willingness to remain open to comments and inputs from market players. This flexibility is welcome and required. However, those in the industry say that even though the regulator says they are willing to listen to market-based input, advice and suggestions that have been delivered in the past have rarely made it into final documents. Thus the level of influence from mobile financial service providers, donors, or other stakeholders is questionable.

The International Finance Corporation (IFC), through its association with the World Bank, is planning to work closely with the regulators on issues across the payments space. Microfinance Services (MFS) will be part of that effort. An MoU describing the partnership sits with the NRB, and IFC is waiting for final agreement. Hopefully, the IFC and World Bank will be able to bring the regulator to a more appropriate set of directives. Based on prior experience though, this is by no means guaranteed.

Market players have decided that they will move forward regardless and will seek approval from the NRB on an as needed basis.

Customer Demand

The research conducted by NEAT was well presented and appreciated by the audience. The most important message was that products need to respond to the needs of a population with irregular incomes. Banking as usual will not work for the mass market. Rather the nuances inherent in the financial behaviors and aspirations of this group need to be understood and products should be appropriated designed. This requires ongoing market analysis, product design, testing, and redesign. It cannot be assumed that this will be a quick or easy process, or that a “killer application” will be able to easily draw this market to mobile financial services.

Suggestions were made about products such as short-term liquid savings, savings plans, line of credit, tailored products for agriculture, and tailored products for small and medium enterprises (SMEs) (ie, lease to buy).

Interoperability

A robust conversation took place about the potential of interoperability in a market like Nepal. It was suggested by one international speaker that the overall pie could be increased by 600% when silo-ed solutions are replaced by interoperable financial services. The audience was also reminded that the financial industry has faced similar challenges during the introduction of ATMs and POS terminals. In all cases, a level of interoperability ultimately won out. In the MFS space, collaboration enables joint technology, agent networks, and customer awareness campaigns – all of which can be extremely expensive for any one institution alone, particularly in a country where no bank controls more than 10% of the market. The banks just do not have deep enough pockets alone to underwrite the expenses.

Abbas Sikander, a co-founder of Tameer Bank in Pakistan, said that after his involvement in establishing Tameer Bank as well as the noted Telenor/Tameer Easy Paisa product, he is firmly convinced that a shared platform will be the only way to true financial success in most markets. As a result, he has left Tameer Bank and is now starting a new business to deliver such a service in the Pakistan market.

Transaction Volume Drivers

The morning of the second day of the conference focused on products and services that are driving the uptake of mobile financial services in other markets. These included international remittances, government payments, and agricultural linkages. Echoing the results of the NEAT market survey, these presenters spoke about the need for innovation and the fact that MFS are a game changer. If financial institutions consider MFS as an add-on to their existing business, they are not likely to be successful. These services are fundamentally different across the board from their existing products. Market segments, product requirements, delivery channels, messaging, operations – all of these aspects are different.

Operations

From an operations perspective, the most important element for MFS success is leadership. This cannot be over emphasized. Without strong and consistent, leadership from the very top of the organization that translates into a willingness to commit financial and human resources over a period of many years, the venture is unlikely to succeed. The leader cannot simply put the wheels in motion, but needs to stay personally committed to ensuring a successful outcome. From a donor perspective, this metric should be assessed prior to engagement with sector players.

Other key operational considerations are (a) finding a balance between risk and innovation, (b) ensuring appropriate agent compensation, (c) applying a disciplined approach to agent build-out and management, and (d) creating partnerships. Michael Joyce, former operations manager for WING, a mobile phone enabled payment service provider in Cambodia, reminded the audience that they will need to "unlearn many of their established practices."

Donor Opportunities

As mentioned earlier, the IFC and the World Bank are planning to work broadly with the regulators. Ideas about other regulatory interventions were discussed with market players after the conference. Based on their prior experience with unheeded inputs, it does not seem that additional regulatory support would be beneficial. Funds so spent might not result in a high degree of influence or change.

Following NEAT's lead with customer market research, the IFC is undertaking an assessment of potential distribution partners and opportunities in the market. Combined, these efforts will deliver the baseline information regarded by the market. Additional work in this area may not be required for some time.

In meetings after the conference, it became clear that the most important contributions the donor community could make would be to support the build-out of agent networks and increase customer education. The latter is particularly key and something that would benefit greatly from the financial support, as well as knowledge, donors could bring to poor customers.

As market players begin to develop the agent ecosystem and deliver initial products to the market, there will likely be an opportunity to work with market leaders to develop innovative and high-volume products to bring more customers to the MFS platforms and to increase customer uptake and usage.

The United Nations Capital Development Fund (UNCDF) is working with the Ministry of Local Development to pilot the delivery of education subsidies through branchless and mobile banking. An expression of interest (EOI) will be submitted to the industry within the next few months. In addition, UNCDF will likely engage in the market through their new Mobile Money for the Poor (MM4P) initiative. It is not clear what activities they will support, but based on their prior track record, they are likely to try to help MFS providers accelerate their ecosystem development and product delivery.

Customer education remains one of the most important and potentially least supported aspects of the business. Without sustainable customer uptake and usage, MFS solutions will not reach sustainability. Getting customers to shift their behavior from current cash-based activities is not easy. It is likely that this will become an increasingly vital form of donor support in the months ahead.