

# ***BANKING & THE LAST MILE***

Technology and the distribution of financial services  
in developing countries

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‘The last mile’ refers to access to a financial ‘touch point’ at which a consumer can withdraw or deposit cash

(Other services e.g. enquiries, origination may not need a physical touch point)



# 3 forthcoming papers

			
Date	2006	2006	2006
Authors	Kumar et al	Lyman et al	Porteous
Focus	Correspondent banking model	Risk based approach to branchless banking	Mobile payments and banking
Countries	Brazil	Brazil, India, Philippines, SA, Kenya	Africa—Kenya & SA
Questions answered	<i>How has correspondent banking affected access?</i>	<i>What new risks does agent-assisted branchless banking raise and how best to address them?</i>	<i>What is an enabling environment for mobile banking?</i>
Access via	<a href="http://www.worldbank.org">www.worldbank.org</a>	<a href="http://www.cgap.org">www.cgap.org</a>	<a href="http://www.dfid.gov.uk">www.dfid.gov.uk</a> <sub>3</sub>



# Questions

1. How is technology changing the last mile for banking?
2. Will this happen spontaneously?
3. Can developing countries leapfrog?

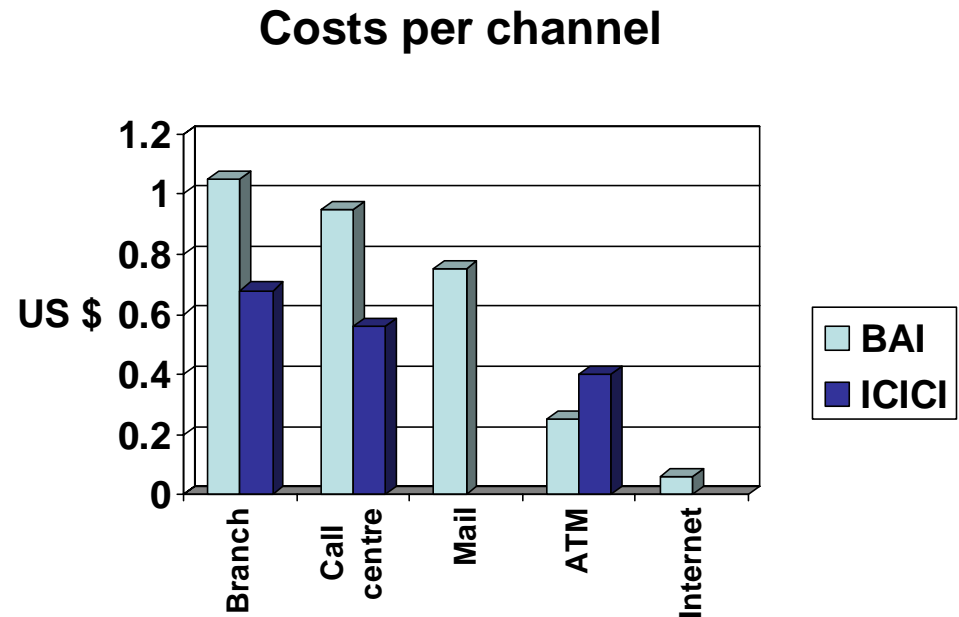


# 1. How is technology changing 'the last mile'?

- Disaggregating the value chain of traditional banking

Changing:

- Cost
- Geography



Source: Ivatury 2006

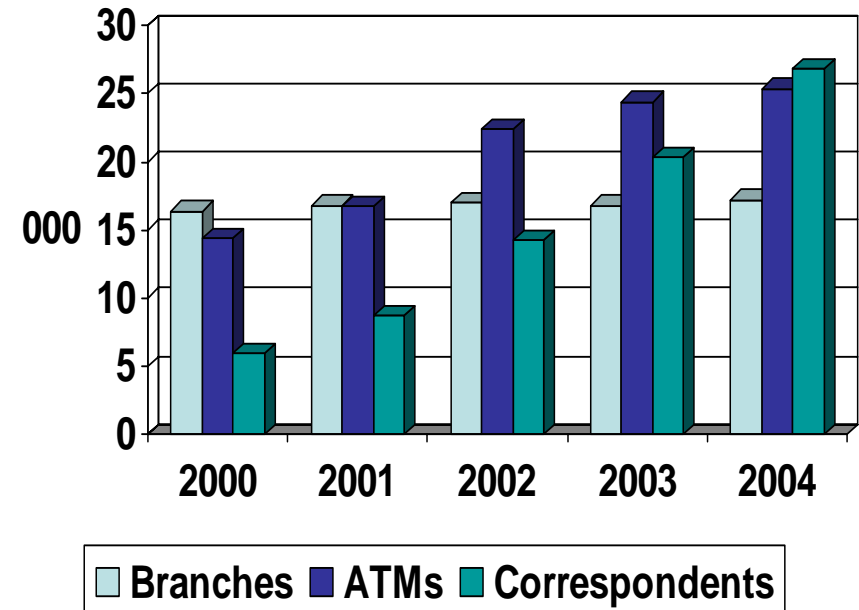




# Changing geography

- Municipalities without presence:
  - 2000: 29%
  - 2003: 0%
- Usage by poor
- Agent: 0.5% cost of branch

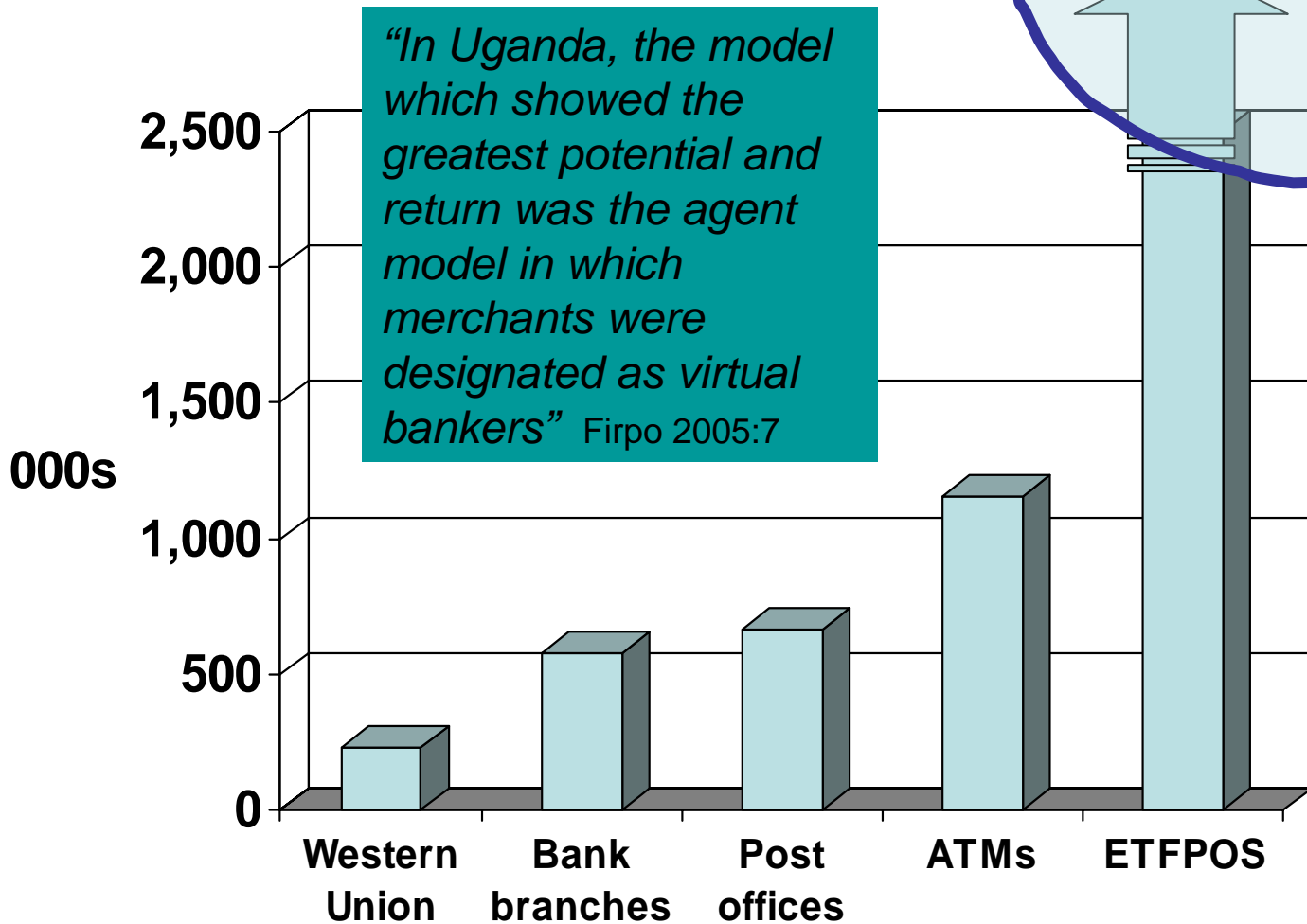
Brazil: bank access points



Source: Kumar et al (2006)



# Changing geography: New touch points



*“In Uganda, the model which showed the greatest potential and return was the agent model in which merchants were designated as virtual bankers” Firpo 2005:7*



# Mobile Banking: additive or transformative?



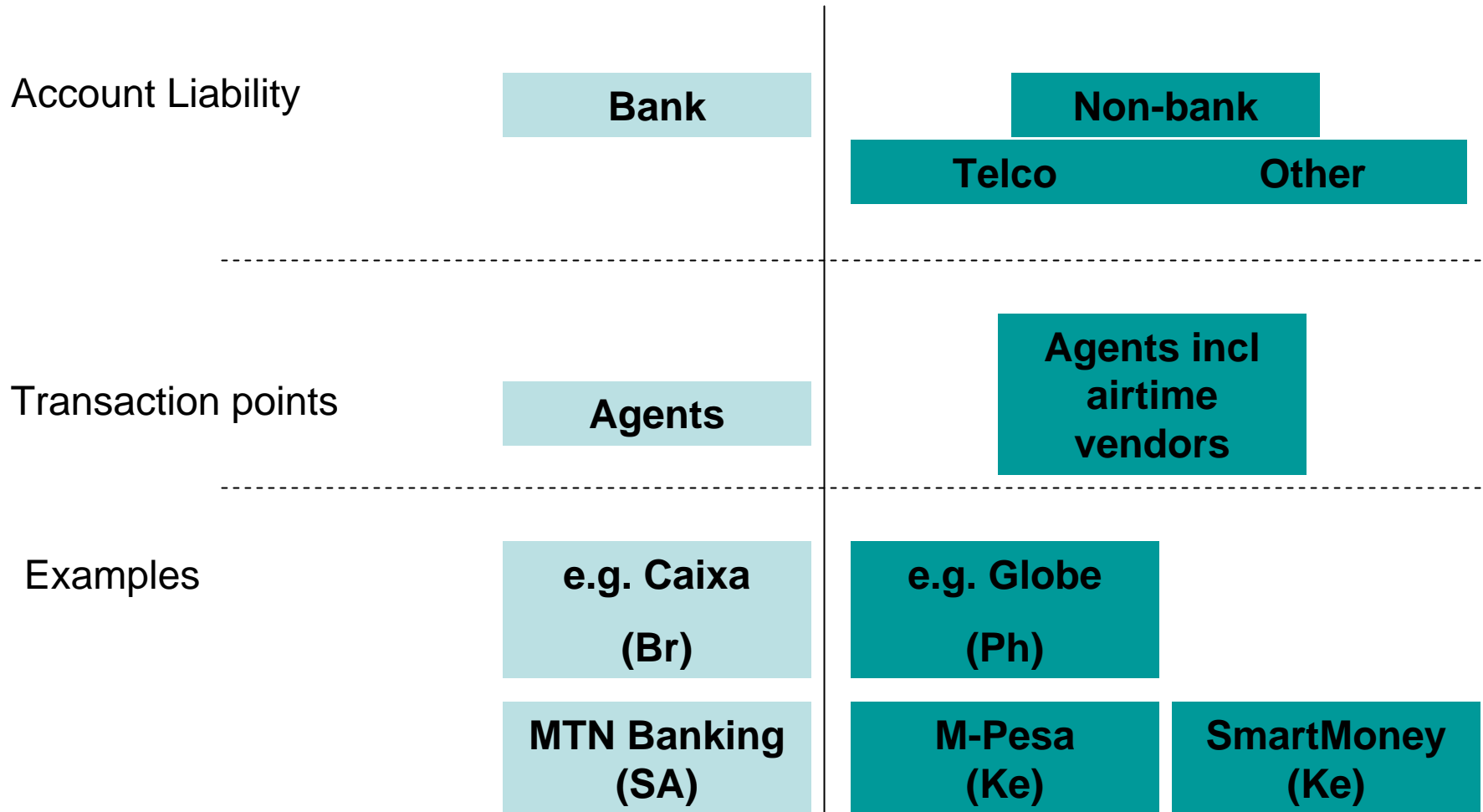
- Mobile banking most developed in Asia
  - Japan, Korea
- Developing country: Philippines most advanced
  - Smart (2000→):
    - 2.5m customers, with debit card, linked to bank
  - Globe (2004→)
    - 1.2m customers, with ‘virtual wallet’
    - Accessible via 3500 merchants
    - Initiatives to link rural banks



Source: Infodev 2006



# Emerging models



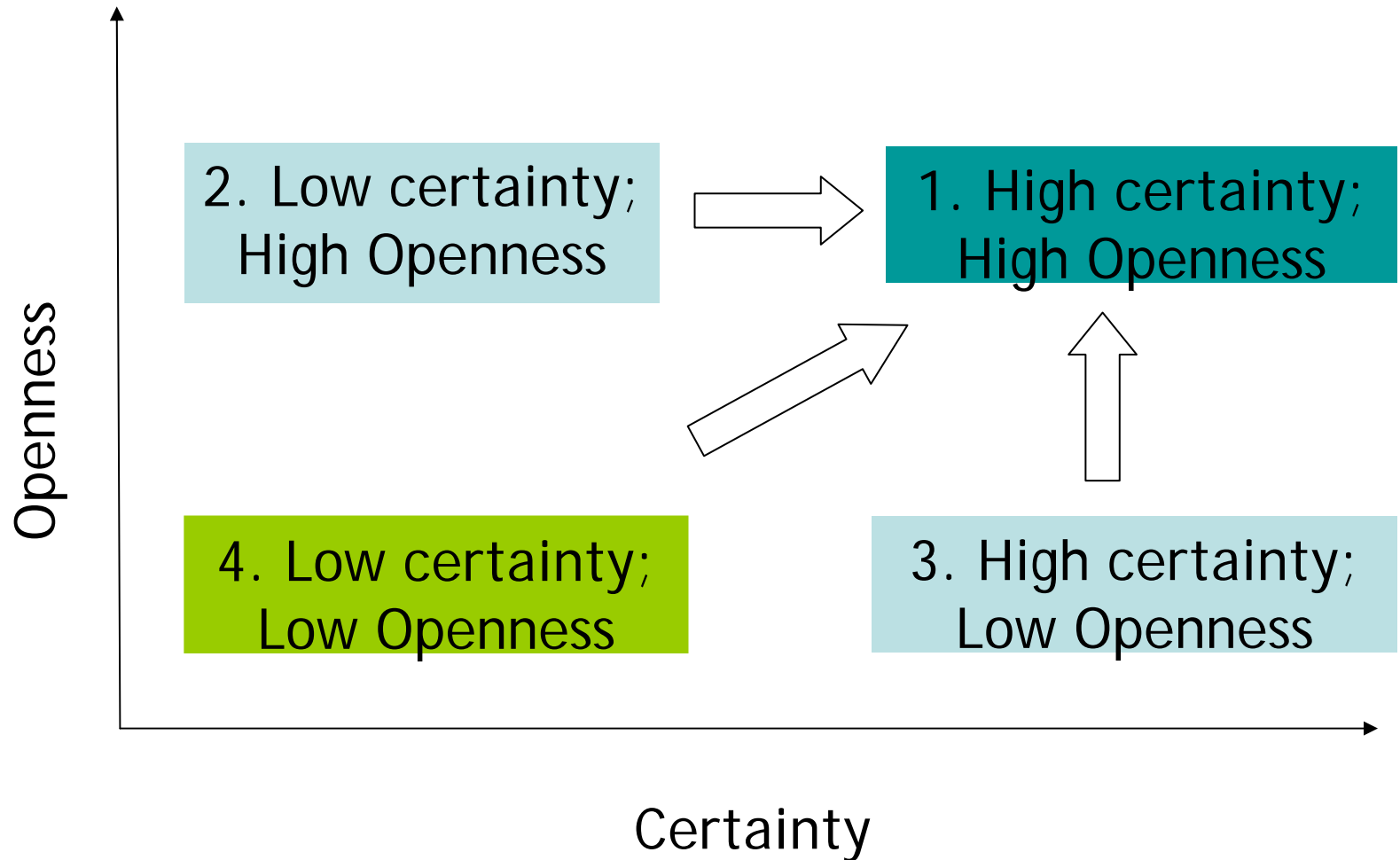
## 2. Will take-off of new approaches happen spontaneously?

Barriers to adoption:

- Business models
  - Customer proposition
    - Simple, trusted, convenient
  - Inter-operability (Europe)
    - To allow scale
- Regulatory constraints:
  - Prudential issues (e-money; payments)
  - Functional issues (agency issues in outsourcing of ‘teller function’)



# Enabling environment



# Creating openness & certainty

## *Enabling regulations*

### *Brazil 1999-* (see Kumar Appendix Table A1.3)

- *Resolution 2640 (1999) permitted correspondents of banks only if bank branches not available*
- *Restriction removed in 2000 by Res 2707*
- *Guidelines in Circular 2978—obligations and access*
- *Access to correspondents extended to non-banks in 2003*

### *India 2006-*

- *Circular 25 Jan 06 allows banks to appoint MFIs and postoffices as business correspondents for inter alia small deposit-taking*

### *E-Money Directive 2000*

- *Recently reviewed as not wholly achieved objective*



### 3. Can developing countries really leapfrog using these approaches?

- Cash back at point of sale is not leapfrogging unless displaces ATMs
- Main potential for leapfrogging: mobile
  - Displacing traditional EFTPOS?
  - Stronger role of mobile: telcos vs fragmented and weak retail banks in LICs
  - Risks of unregulated e-money issuance?



# (When) Can pre-paid Airtime be considered e-money?

*Veronique, an office worker, was separated from her daughter by the war (in Congo)..... Veronique called the obstructive officials and gave them her code numbers to recharge their own mobile phones. It took only minutes to send her bribe across the country—faster than a bank transfer, which would in any case have been impossible, since there is no proper banking system.*

*Economist 9<sup>th</sup> June 2005*

**Me2U** AirtimeTransfer



**Sambaza**

- Not interoperable across networks
- Airtime window expiry
- Large discount on cash out (commission and tax)
  - But is this different from any remittance?



# Conclusions

1. Technology enables new entrants & agency relationships which changes cost and geography of transaction banking
2. Appropriate enablement is required for sustainable business models to develop; risks of agency manageable
3. Leapfrogging may be possible: esp in LICs with openness and sufficient clarity, but risks of non-bank entrants must be managed

