SOCIO-ECONOMIC IMPACT OF MOBILE FINANCIAL SERVICES

by Telenor and Boston Consulting Group (BCG)

2011
Today, more than 2.5 billion adults in the developing world are considered “financially excluded”. This means that they do not have access to basic financial services, such as bank accounts, bill payment, credit or saving and insurance products. However, most of these 2.5 billion adults own or have access to a mobile phone.

Telenor Group wanted to explore the impact of mobile-based financial services in emerging economies, looking at how having bank accounts and access to credit, for example, will change the way people live, work and develop over the next decade. To conduct this study, Telenor commissioned the Boston Consulting Group (BCG) to study financial services’ overall impact, as well as look into the specific effects in Telenor’s Asian markets (Pakistan, Bangladesh, Malaysia and India) and Serbia.

WHAT ARE THE CAUSES OF FINANCIAL EXCLUSION?

The unbanked have an urgent need for formal financial services, but they lack access for a variety of reasons, and make use of informal channels instead. For instance, out of a need to manage the short-term volatility of cash flows, they often borrow money from, or save money with, friends and relatives. To manage low-frequency but high-cost risks, they obtain short-term credit from landlords, shopkeepers, or employers, depending on the situation. When they need a significant lump sum of cash, they sometimes participate in informal savings clubs or will use illegal moneylenders. And to receive money transfers from family working elsewhere, for instance, they may seek out informal remittance channels.

The informal financial services prevalent among the unbanked are often costly, intransparent, and risky.
Populations are without formal financial inclusion for a variety of reasons. Overall, an estimated 15 percent to 30 percent of the unbanked fall into one of these four categories:

- There is no perceived need for financial services.
- Cultural or religious reasons keep them from seeking out services, or they have no direct access to a bank branch.
- An informational or contractual framework puts banking services out of reach.
- They face (real or perceived) discrimination.
A larger proportion, an estimated 70 percent to 85 percent, are unbanked for any of the following reasons:

- The cost of services is too high.
- The products offered do not suit their needs.
- Financial institutions see their low income as too great a risk.

Another reason for low financial inclusion is that banks tend to ignore the “long-tail” customers, who they are unable to serve profitably. For banks, the top 20 percent of customers can contribute up to 80 percent of the profits, hence there is little economic incentive to bank the unbanked.

In this report, we define “mobile financial services” by including two broad categories: branchless banking via mobile phones and mobile banking as a channel for financial services. With branchless banking, users can take advantage of services allowing them to make basic payments—utilities and other bills—and domestic and international remittances. These transactions become fast, easy, and cost-effective through Mobile Financial Services. Users can also participate in savings, credit, and insurance programs. Such services drive the financial inclusion of the unbanked through m-wallet solutions, micro-loans, and micro health and crop-failure insurance.

The other side of MFS provides existing banking customers with a highly accessible portal for financial services, increasing convenience. The frequency of interactions

**MOBILE FINANCIAL SERVICES IMPACT BY 2020**

While it is widely agreed that mobile financial services are positively affecting emerging economies already, Telenor and BCG explored what the picture will look by the year 2020. According to BCG estimates, mobile financial services may result in a 5 – 20 percent reduction of financial exclusion by 2020. In Pakistan alone, the reduction may be as much as 20 percent.
BCG estimates that mobile financial services have the power to increase gross domestic product (GDP) by up to five percent by 2020. This GDP growth may be stimulated by increased access to credit, which prompts new business creation, as well the benefits of formal remittances and increased savings.

**A TOOL FOR SOCIETAL CHANGE**

With mobile financial services reaching a potential 341 million people, in the five studied Telenor markets, by 2020, there is bound to be significant social impact as well.

BCG specifically explored the financial burdens experienced by families during times of disaster, looking into how mobile financial services could provide some relief. They found that mobile financial services serve as an important tool for responding and preparing for natural disasters. A solution such as Telenor Pakistan and Tameer Bank’s Easypaisa can be used as a means to solicit and distribute donations, for example.

“While BCG’s perspective on mobile financial services is promising, we must also be ready to face a few hurdles along our way to a financially inclusive 2020,” said Baksaas. “The consumers must be educated, a distribution network and business model must be in place and the approval of the regulators must be gained. These steps are vital for the successful spread of financial services, and Telenor will continue to face these challenges and create more services that improve quality of life for our customers.”