Catching the Technology Wave: Mobile Phone Banking and Text-a-Payment in the Philippines

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Why Mobile Phone Banking and Text-a-Payment?

Mobile phone banking has the potential to extend financial services through virtual accounts to millions of poor people globally. Utilizing mobile phone technology for microfinance significantly lowers transaction costs, while expanding outreach to rural areas. Change is being driven by falling costs of mobile phones including airtime, by competition and by the ability of electronic banking solutions to offer customers an enhanced range of services at a very low cost[1]. Text-a-payment (TAP) builds upon the familiarity and comfort that people around the world have with sending text messages (or SMS) via their mobile phone. Instead of traveling to the bank to make their loan payment, clients can now text their loan payment directly to the bank; saving them both travel time and money. This is also beneficial for the bank, since it can increase its outreach to rural areas while reducing its costs.

Overview of the RBAP-MABS Program in the Philippines

In 1998, the United States Agency for International Development (USAID) launched the Rural Bankers Association of the Philippines Microenterprise Access to Banking Services (RBAP-MABS) program with technical assistance in the implementation of the program being provided by Chemonics International. This is an initiative designed to accelerate national economic transformation by encouraging the Philippine rural banking industry to significantly expand microenterprise access to microfinance services. To do so, the RBAP-MABS Program provides training and technical assistance to participating rural banks in the Philippines to develop their capacity to profitably provide financial services, including loans, deposits, and money transfer services, to microenterprises in the Philippines.

Significantly, there are over 780 rural banks covering over 85 percent of the municipalities and cities of the Philippines. Since its inception in 1998, the MABS Program has helped more than 260 rural banks/branches throughout the Philippines, including Mindanao. RBAP-MABS program has been truly innovative in expanding the outreach of rural banks. It recently launched new products and services including micro-agricultural loans and mobile phone banking services for microenterprises and low income clients. Chemonics has provided technical assistance and program management since 1998.

Advent of Mobile Commerce in the Philippines

The Philippines has been consistently referred to as the texting capital of the world, with an estimated 200 million text messages sent a day in the country![2] Short message service (SMS) technology has particularly taken root in the Philippines because of the relatively low cost of purchasing a mobile phone, low cost of sending an SMS (about US$.02 cents per text), the limited availability of landlines, and new government policies that have supported the expansion of the telecommunications sector.

[1] David Cracknell, Electronic Banking for the Poor, 2004.
[2] Angelo Juan O. Ramos, M.D., The Viability of Mobile SMS Technologies For Non-Formal Distance Learning In Asia, October 2005.

Currently about 40 percent of the population (about 33 million people) have a cell phone. Most of these are low cost "pre-paid" accounts that allow users to "load" airtime for as little as US$0.20.

In the Philippines, mobile commerce (m-commerce) started in the year 2000 when mobile banking was introduced[3]. M-commerce is the buying and selling of goods and services using "electronic currency" through wireless handheld devices, such as mobile phones. There are two major m-commerce service providers in the country, namely, Globe Telecom and SMART Communications. Despite six licenses and five active mobile brands, Globe (with a 36 percent market share in 2005) and SMART (59 percent) control most of the cellular market in the Philippines[4].

Globe G-Cash

In October 2004, Globe launched its innovative G-Cash product. Globe's G-Cash product is an SMS-based technology that turns a cell phone into an electronic wallet. With G-Cash, Globe subscribers can easily and conveniently send and receive cash and make payments through SMS. G-Cash offers payments, phone to phone fund transfer, domestic money transfer and international remittance all via SMS. Globe has partnered with various companies and banks, including rural banks, for money transfers and remittances with merchant stores nationwide.

As of March 2006, there are approximately 1.3 million G-Cash registered users. With the G-Cash system handling about US$100 million per day In addition, there is now a vast distribution network of 700,000 airtime loading retailers throughout the country – larger than Coca-Cola's distribution chain[5] - and many of these will soon be able to provide G-Cash to clients.

SMART Money

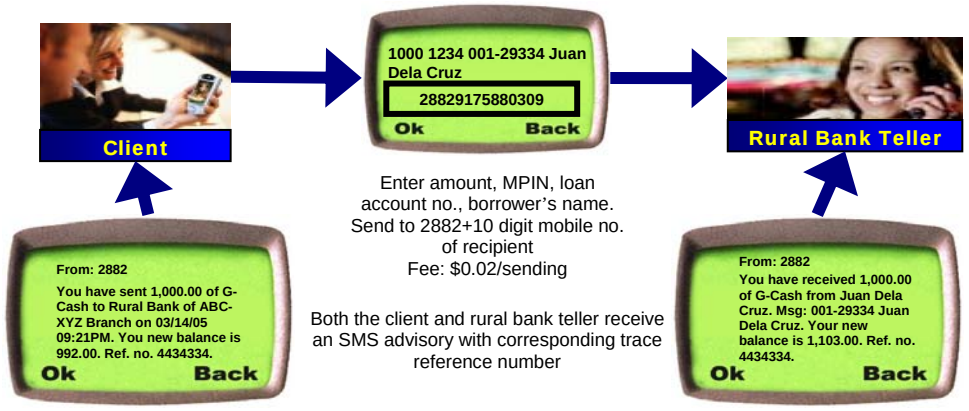
In 2000, SMART launched SMART Money, which is essentially a mechanism for linking the user's phone to a cash account at Banco de Oro (a large commercial bank in the Philippines). Users must register their SMART Money account via text and can purchase a "SMART card" issued under MasterCard. SMART Money offers many of the same features as G-Cash, but its most popular feature is SMART Padala ("send"), launched in 2003, which is being used by over 1 million Filipino overseas workers to

[3] Alex Ibasco, "mCommerce, eCommerce: A Winning Combination," Head of SMART Mobile Commerce; presented at The 3rd National E-Commerce Congress, 18 November 2004.
[4] Robin Simpson, Globe Telecom's G-Cash a Mobile Commerce Success Story, Gartner, March 2005.
[5] Interview with Joey Mendoza, former head of GXchange, Globe Telecom, March 2006.

transfer almost US$50 million per month to their relatives in the Philippines[6]. SMART currently has about 3 million SMART Money subscribers.

Text-A-Payment and Mobile Phone Banking Applications for Microfinance

Text-A-Payment is an innovative mobile technology product that uses the SMS technology of Globe Telecom to pay for microfinance loan payments of borrowers. TAP seeks to bring in new and low cost technology tools to improve efficiency and outreach. Small borrowers can utilize the service for payments of their microfinance loans. A pilot test was launched on February 2005 with four RBAP-MABS participating banks. Below is an illustration of the actual transaction messages that would be seen on the mobile phones using TAP, which show the amount and reference numbers provided.



However, TAP is just one of many possible applications for microfinance powered by G-Cash. The other applications are: using TAP for remote deposit taking, cash withdrawal, international and domestic remittances, purchases and bills payment.

How It Works – Partners' Roles and Responsibilities

Globe Telecom plays a pivotal role in this system. Globe (through its subsidiary, GXchange) is not only responsible for its 12 million mobile customers, but also provides the technology, sales expertise and customer service that serves as the backbone for G-Cash. Globe also works to develop the "ecosystem" of retailers, clients and outlets.

RBAP-MABS serves as the bridge between the rural banks, Globe and BSP (Central Bank). It provides technical assistance, training and banking compliance expertise to the banks offering TAP and other mobile phone banking applications. RBAP-MABS staff members have developed manuals and conducted trainings for over 200 rural banks on issues related to electronic banking utilizing the G-Cash service with an emphasis on internal controls, compliance, and internal processes. RBAP-MABS also

[6] IFC Infodev Report, Micro-Payment Systems and their application to mobile networks, January 2006.

serves as a liaison with Globe and BSP on any issues raised by the banks. It pre-screens banks wishing to offer G-Cash/TAP and assists in fast-tracking their Bangko Sentral ng Pilipinas (BSP) approval.

BSP (Central Bank) is responsible for approving all banks offering electronic banking applications including the use of G-Cash by rural banks. In compliance with the Anti-Money Laundering Act (AMLA), BSP has set transaction limits and "Know Your Client" procedures. BSP recently created the Core Information Technology Supervisory Unit (CITSU) to regulate and monitor all aspects of electronic banking. In 2005, RBAP-MABS was able to get approval to extend the G-Cash service to all interested and qualified rural banks that meet the standards set in BSP circulars 240 and 269 and complete a one day orientation course developed by the RBAP-MABS program on compliance with electronic banking risk management, security procedures, internal procedures, contingency planning and internal controls. Likewise all banks are oriented on the AMLA requirements and must comply with a User Acceptance Test of G-Cash Cash-in/Cash-out services prior to offering the service to the public.

Rural Banks will offer G-Cash in/out services, TAP, domestic and international remittances and bills payment services to their clients. Together with Globe and with the assistance of RBAP-MABS, the rural banks are responsible for marketing TAP and mobile banking services that utilize Globe's G-Cash services to their clients.

Potential Impact of Mobile Phone Banking

The potential impact of mobile phone banking is impressive. There are numerous applications available which are both valuable for the client as well the bank, including remittances – both domestic and international, deposits, withdrawals, bill payment, cash in/out, and TAP. Remittances, both domestic and international, offer a large market given the large volume in the Philippines and relative low cost of using SMS-based mobile phone banking applications as compared to the high cost of current banking and remittance company alternatives.

Rural banks that are beginning to offer this new mobile phone banking service see the opportunities to service clients in more rural areas, help improve operational efficiency and reduce risks associated with the collection and transfer of money in the field (i.e. theft/robbery). This service will also help build client loyalty since the technology makes it cheaper and more convenient for clients to access banking services.

"We are receiving positive feedback from our clients using TAP. This is very exciting!" – Reggie Ocampo, President, First Macro Bank

Studies have shown that banks offering this information will be able to improve efficiency and reduce costs[7]. Instead of traveling to visit clients, loan officers could spend time increasing the quality and size of their loan portfolios. This saves the bank

[7] MABS, February 2006.

both valuable staff time as well as travel costs. As a result, banks are able to offer lower interest rates and service charges to the clients that utilize the TAP service to pay their loans.

Clients also benefit greatly from mobile phone banking services. Clients using the TAP service noted that the service is "convenient, easy (since they are familiar with sending text), and fast". Borrowers remarked that since they don't have to travel to the bank, they can devote more time to their business.

> *"G-Cash is great! It's much easier to pay since I just have to walk across the street to my G-Cash retailer". – Gemma Paho, TAP client, Green Bank of Caraga*
>
> *"We don't have to waste our time and money going to the bank anymore. Just one text and we're done!"* – Gloria Baguisa*, TAP client, Green Bank of Caraga*

Challenges and Recommendations for TAP and Mobile Phone Banking

Certain challenges remain for the acceptance and success of mobile phone banking applications utilizing G-Cash. One of the primary challenges is building the "ecosystem" of retailers, clients and outlets that accept and sell G-Cash. Another major challenge is launching an aggressive marketing campaign that is geared for all types of users in order to encourage public use and acceptance of G-Cash. The third major challenge is incentivizing retailers to sell G-Cash, since commissions for providing G-Cash cash-in services cannot compete with the 10-15 percent commissions earned for loading airtime.

Conclusions

Can this technology be replicated in other countries? There are certain success factors in this Philippine example– a large number of cell phone users including low income households who are familiar with text messaging, a strong relationship between "champions" at Globe and RBAP-MABS, the willingness of Globe and the rural banks to try something new and innovate, the existence of the "ecosystem" of merchants, clients and outlets, and most importantly, the willingness of the Central Bank to support innovation in the banking industry.

Using technology to empower citizens from below, as mobile phones do, is a far better way to promote development, according to Iqbal Quadir, founder of GrameenPhone in Bangladesh[8]. Thus mobile phone banking is good not only for banks, clients and the microfinance sector, but entire economies.

For more information, please contact Chemonics International. A full report on mobile phone banking by rural banks in the Philippines will be available shortly at www.chemonics.com.

[8] The Economist, "Power to the People" (pg. 27), March 11, 2006.