

# The 4 R's of Mobile Banking

Use of the ubiquitous mobile phone for financial services, will be akin to e payments on steroids, says Probir Roy, co-founder and director of PayMate

By Probir Roy



From the time RBI's mobile banking guidelines came out in October 2008, more than 32 banks have started offering mobile banking or payment services to their customers. And since then, the annual value of transactions (for 2 to 3 million transactions) using the

mobile banking channel has reached Rs. 150 crore. Great show. But what do these numbers mean? Is this service seeing a significant penetration already?

This article tries to put these numbers in some perspective. It does take time from these approvals to actually get a service to

the market in any meaningful way. Didn't it take more than two decades for credit card penetration to hit just about 3 per cent of population, or about 30 million people? It is clearly still early days for this new, alternate channel. But, a quick litmus test indicates four things.

## 1. Run rate

Experience so far within a year or so of the mobile, prepaid and other concomitant directives is that the run rate for mobile transactions has grown by six times, whilst pure banking customer-related transactions in Nepal and India have grown ten times. The latter has grown by more than 100 per cent a month.

With the further policy fillip being constantly given to financial inclusion I see a 100 per cent growth by mid 2010 for the industry. It must be noted that whilst the base was obviously low (as this is a recent market space), and volumes still relatively low, the growth factor has been remarkable. Nonetheless, by mid this year the monthly run rate for all our

types of mobile-related transactions will exceed that of any well-established top travel portal in the mature travel market space.

As a benchmark, the State Bank of India, which has the largest number of active customers in m-banking, hopes to hit a million customers or so very soon. And with about 10,000 transactions a day, an integral strategy for banks is to move a large part of their hygiene banking transactions, over alternate channels – all electronic.

## 2. Risk

Clearly at the end of the day any financial product is about three key attributes—trust, faith and benefit and this is reflected in perceptions and actual risk undertaken while using this channel. Our experience indicates that the charge back rate is zero since February 2009 – which is a far cry from standard norms which apply for credit card transactions. The repudiation risk on a mobile is one-tenth of what it is on the Internet and probably many times lesser than other instruments. So, the overall perception of the risk of using a mobile is matched by its actual performance.

## 3.Reputation

Brand perception is important in any financial product or service. For a financial product, reputation is key to consumer connect. To facilitate re-use, the brand must leverage the felt benefit and must have some element of innovation to justify its use and velocity of usage.

## 4. Regulation

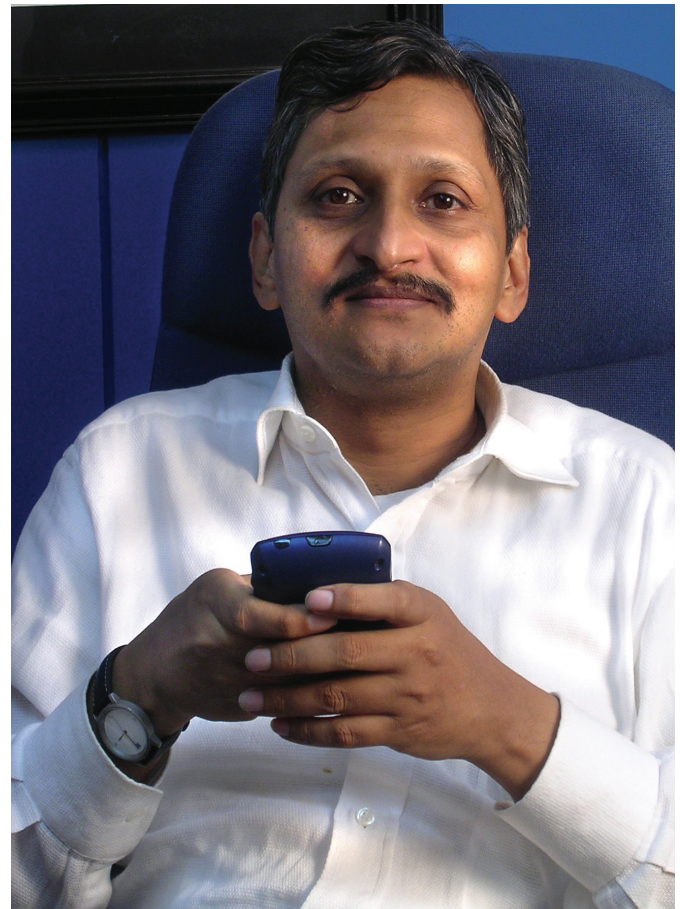
Regulation is often seen as a bane for any market space. Regulation tends to follow market creation and with 20/20 hindsight everyone claims to have got it right. When dealing with innovations around technology - which often create new market spaces, whether they be world wide web, google, twitter, facebook or the latest eavesdropping gizmos – the law always plays catch up. And even then remains ambiguous.

The advent of mobile payments is no exception. It is not on account of any forward looking framework, but, on the innovation and risk taking abilities of small firms to spot the opportunity inherent in using mobile for financial services, putting their shoulder to the wheel and money where their mouth is. What guidelines and directives do is to subsequently attempt to create an enabling environment, not a complicated jump through as many hoops approach. Other than the mobile banking guidelines, there have been the pre-paid guidelines and other directives, permissions and the likes related to security, definition of BC, cash –out, fund and money transfer and transaction limits. And arguably these have also given the necessary fillip.

Several more dispensations are certainly needed to create the proverbial hockey stick inflexion point (*a la mobile recharge*). But the intuitive appeal, ease of its use and logistical dispensation by telecom companies to allow mobile recharge (top-up) has created the lucrative top up market, which is more than 80 per cent of all telecom revenues.

## Conclusion

In summary, it is clear that the success of this electronic channel will depend on the 4 R's and this channel to exceed the Internet banking channel as the preferred



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option in a period far shorter than penetration time taken for credit card and Internet banking.

While e-commerce and payments are limited to PC users with an Internet connection and bank account, m-payments can use technologies as simple as SMS and IVR among other things therefore being available to the entire mobile carrying population. With mobile penetration at ten times that of the PC penetration and expected to become one billion by 2014 and the overall cards market growing at 30 per cent CAGR, it will not be long before India will become a very large player in the m-commerce space -- explaining why many people see m-commerce akin to e-commerce on steroids!