

Chapter 6

Mobile Financial Sectoral System of Innovation: What Latin America Can Learn from India

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ABSTRACT

With the increase of economic growth in Latin America, the mobile finance (m-finance) sectoral system of innovation model is applied as an analytical framework in order to focus in on the technological infrastructure and regulatory structure. The SSI approach links innovation to the interactions of the different actors in the system. Innovation is either the process of creating or the recombining of knowledge for some new use to become an outcome of that process. Innovation does not sit within the boundaries of an organization nor does it sit neatly at one level, but instead it is a multifaceted construct. Therefore, this chapter presents aspects of the sectoral system of innovation (SSI) of mobile finances within the Latin America region.

1. INTRODUCTION

Financial services are one of the most rapidly growing industries worldwide, specifically mobile finance (m-finance) services. M-finance, which includes mobile payment (m-payment), mobile banking (m-banking) and mobile wallet (m-wallet), have generated a lot of hype, yet not all supportive infrastructures are in place where

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one company's service can be applied globally. Technology has provoked major changes in this industry with how companies operate and innovate as well as how they adapt their strategy. Additionally, how mobile services expand into and understanding the ways new services are developed in different countries are becoming increasingly relevant especially in regards of regulation. Thus, m-finance is part of a system of innovation.

This chapter evaluates the m-finance sectoral system of innovation (SSI) in the Latin American region. The SSI framework is usable by policy-makers, and especially companies exploring their value or service chain positioning. Though Breschi and Malerba (1997) define SSI as a supply side technological system, Geels (2004) develops the notion of SSI composing of both supply and demand institutions with social and technical parameters such as markets, user-stakeholders, university-industry links and sources of risk capital. Thus, SSI is a useable framework for observing the evolution of m-finance.

According to the World Bank (2014), 60% or around 250 million people, lack access to basic banking services in Latin America. Mobile devices are widely available as normal, everyday items. For this reason, it creates a perfect opportunity for banks, financial institutions and other m-payment providers to offer mobile services. Cash is still seen as the most common durable commodity, and where some even see cash as being more trustworthy than any kind of electronic forms of payments. Therefore, introducing an innovative payment requires a coordinated approach of consumers, retailers, merchants, banks and telecommunications networks, or a system of interoperability and innovation.

Historically, for financial services in developed countries, banks competed for customers primarily on the basis of branch location and customer service. Therefore, the branch location was key for customers to build their trust with the bank. Banks, at the time, were beginning to invest in innovative mainframe computing and automated record keeping. Additionally, the more branches a bank had, the better a competitive advantage they could create as well as trust with their customers. Trust is needed to create the willingness for people/organization to transfer and receive resources, and different levels of trust affect companies' effectiveness in resource acquisition and value creation (de Wever et al, 2005). Within an m-finance SSI, trust is important in order to implement these services, especially in developing countries. Therefore, relationships with businesses can be influenced by trust and longstanding personal connections. In addition, when two companies trust each other, they are willing to share resources without worrying that the other party will act opportunistically (Mayer et al, 1995), and thus can create a system of innovation as well as knowledge exchange.

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