Build it – Will They Come?  
A Study of the Adoption of Mobile Financial Services by Low Income Clients in South Africa

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ABSTRACT

Globally, only a sixth of the approximately 3 billion impoverished people of working age currently have access to formal financial services, which translates to 17% coverage of the market, leaving 83% under-served. The growth of mobile telephony has been rapid and has extended access well beyond already connected customers in developing countries. This rapid growth offers a new low-cost alternative for financial institutions to make a profit while dealing with small money transfers and payments. Consumers also benefit because they no longer need time and financial resources to travel to distant banks. The successful deployment of financial services via mobile phones has shown willingness from financial service providers to develop and provide such products. However, there are major perceived and real obstacles in the willingness of consumers to adopt these products. Therefore, a need exists to understand customers' reasons behind adopting these services. In this paper, the author proposes a model that provides a framework to empirically test the attitudes of customers toward mobile financial services via a control group conducted in 2008 using Luarn and Lin's (2005) mobile banking adoption model.

Keywords: Customer Attitudes, Developing Countries, Financial Institutions, Mobile Financial Services, Mobile Phones

INTRODUCTION

Financial institutions help mobilise savings and provide payments services that facilitate the exchange of goods and services. Without inclusive financial systems, poor individuals and small enterprises need to rely on their personal wealth, internal resources or debilitating lines of credit to invest in their education, become entrepreneurs, or take advantage of promising growth opportunities. The bulk of the evidence, globally, suggests that improving access to finance is likely not only to accelerate economic growth, but also to reduce income inequality and poverty (Aghion et al., 2005).

According to research conducted in 2007 by Demirguc-Kunt, Beck, & Honohan of the World Bank, the majority of the population in the developing world does not have access to savings accounts, do not receive credit, and do not have any type of insurance and seldom make or receive payments through formal financial institutions. Globally, only about 25%
of the world’s population has an account with a financial institution.

The growth of mobile telephony has been rapid, and has extended access well beyond already connected customers in developing countries (Gray, 2007). In 2006, the mobile phone became the first communications technology to have more users in developing countries than in developed ones. More than 800 million mobile phones were sold in developing countries between 2005 and 2008. In the last two quarters of 2008, India added an average of 9 million new users per month and China added an average of 8.5 million users per month. This rapid growth of mobile phone users especially in developing countries offers a new low-cost alternative for firstly the financial institutions to still make a profit while dealing with small money transfers and payments (BAI, 2004; Booz Allen, 2003) and secondly consumers themselves to use since they no longer need to use scarce time and financial resources to travel to distant bank branches.

The development and successful deployment of financial services via mobile phones has shown willingness from financial service providers to develop and provide such products. However, there seems to be major perceived / real obstacles in the willingness of the consumer to adopt these products (Ivatury & Pickens, 2006). Therefore, the need to understand customer’s reasons behind adopting these services becomes obvious. The author will propose a model that provides a framework to empirically test the attitudes of customers (current and potential) towards mobile financial services. However, before that we provide a brief background on some basic concepts to situate the model.

**BACKGROUND**

This section offers a critical review of the current literature about the technologies currently used to reach out to the unbanked and the theories of technology adoption.

**Reaching Out**

Banks in many countries have created basic bank accounts with fewer Know Your Customer (KYC) requirements than a regular account. A few examples are the UK’s “Basic Bank Account” and the “Universal Bank Account”, India’s “No-Frills Account” and South Africa’s “Mzansi Account”. For each of these accounts, each bank has to reach out to the prospective customer through mass-marketing. Subsequently, each bank has to provide the means to operate the account – for example build a new branch or tie up with the post office network or provide mobile bank branches or use point-of-sale and other devices in retail outlets as “branchless banking” networks (a seminal example is Brazil’s Banking Correspondent network).

Pre-paid or stored-value cards are widely seen as another vehicle to reach out to the unbanked. Some countries have pilots to deploy cheap ATMs (Gramateller INDI), other machines designed to dispense and load prepaid cards with basic facilities like tracking account balances. Some organisations are using point of sale terminals and associated smart cards to reach out to the unbanked (Zipp card, etc.). These seem to be valuable to users but have had limited success since a card-based infrastructure (secure manufacturing and distribution and electricity at the point of service, etc.) is required in order to use these solutions.

An alternative is to use the mobile phone as the device to reach out to customers using a Mobile-Wallet (“m-wallet”). This has been done either by linking basic bank accounts to a mobile phone number (Wizzit, ABSA), linking a pre-paid card to a mobile phone number (SMART cash) or link a non-bank e-money account to a mobile phone number (M-Pesa, Globe, MobiPawa, LUUP, etc.). In its purest form, an m-wallet is essentially an aggregator of payment instruments on a mobile phone. It is a data repository that houses consumer data sufficient to facilitate a financial transaction from a mobile handset, and the applicable intelligence to translate an instruction from a consumer through a mobile handset/bearer/ap-
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