Mobile Financial Services for Microfinance Institutions: mBank in the Philippines

Vanessa Vizcarra and Minakshi Ramji
Table of Contents

List of Acronyms .................................................................................................................................................. v
Acknowledgements ................................................................................................................................................ vii

CHAPTER 1: Overview of the Philippine Financial Sector .................................................................................. 1
  Introduction.................................................................................................................................................................. 1
  Mobile infrastructure ................................................................................................................................................ 2
  Lack of Access & Unmet demand .......................................................................................................................... 2
  Regulation of Mobile Financial Services .............................................................................................................. 3

CHAPTER 2: Introducing mBank .......................................................................................................................... 5
  Overview of mBank Operations ............................................................................................................................ 5
    MFS Business Model and Strategy ...................................................................................................................... 6
  Partnership management ........................................................................................................................................ 7
  How the MFS model works ................................................................................................................................. 8
  Revenues, Commissions and Fees....................................................................................................................... 8
  Strategic Fit and Future Plans ............................................................................................................................. 8
  MFS Channel Operations .................................................................................................................................. 9
    IT Platform ......................................................................................................................................................... 9
    mBank Network Management ........................................................................................................................ 9
    Marketing and Promotion ............................................................................................................................... 9
    Risk Management .......................................................................................................................................... 9
  Performance of the model: Cost and Benefit Analysis..................................................................................... 10
    Performance of FAs ........................................................................................................................................ 10
    CRC Costs ..................................................................................................................................................... 10
  Benefits for mBank ........................................................................................................................................... 10
  Challenges ......................................................................................................................................................... 10
  Lessons Learned ............................................................................................................................................... 11
List of Tables
Table 1: Loan Repayment Sample Table.................................................................................................................................................................. 6

List of Figures
Figure 1: Smart and mBank Distribution Structures........................................................................................................................................ 6
Figure 2: Number of mBank Borrowers............................................................................................................................................................ 7
Figure 3: mBank Client Sign Up Process ......................................................................................................................................................... 8
Figure 4: Number of mBank CRCs and Loading Stations.......................................................................................................................... 9
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASP</td>
<td>Active Server Pages</td>
</tr>
<tr>
<td>BSP</td>
<td>Bangko Sentral ng Pilipinas or Central Bank of Philippines</td>
</tr>
<tr>
<td>CRC</td>
<td>Customer Relationship Center</td>
</tr>
<tr>
<td>DSP</td>
<td>Distributor Sales Person</td>
</tr>
<tr>
<td>FMO</td>
<td>The Netherlands Development Finance Company</td>
</tr>
<tr>
<td>IP address</td>
<td>Internet Protocol Address</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>KYC</td>
<td>Know Your Customer</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
</tr>
<tr>
<td>MFS</td>
<td>Mobile Financial Services</td>
</tr>
<tr>
<td>MMS</td>
<td>Multimedia Messaging Services</td>
</tr>
<tr>
<td>MNO</td>
<td>Mobile Network Operator</td>
</tr>
<tr>
<td>OTC</td>
<td>Over the counter</td>
</tr>
<tr>
<td>PD</td>
<td>Provincial Distributor</td>
</tr>
<tr>
<td>PHP</td>
<td>Philippines Peso</td>
</tr>
<tr>
<td>SMS</td>
<td>Short Message Service</td>
</tr>
<tr>
<td>USSD</td>
<td>Unstructured Supplementary Service Data</td>
</tr>
</tbody>
</table>
The authors wish to recognize the exemplary support received from mBank Philippines during the preparation of this case study. Without their willingness to share their experiences, this case study would not have been possible. In particular, we would like to thank the following people at mBank for their support and patience in answering our questions: Arnaud Ventura, Founder and Board Member; Arnaud de Lavalette, CEO of mBank; Andrew Tolentino, Financial Controller; and Joshua Deomano, Head of Sales.
Overview of the Filipino Financial Sector

This report is part of a series of four case studies conducted under IFC’s “Business Case for Mobile Financial Service (MFS) Channels in Microfinance Institutions (MFI)” project. The purpose is to analyze how MFIs can implement MFS channels to achieve profitable growth while extracting lessons to help different stakeholders in the microfinance industry design better targeted and successful m-banking projects.

IFC selected a variety of organizations as case study subjects, spread over different regions with each implementing different business models. mBank was chosen for its unique model which relies wholly on the mobile channel to deliver financial services. Additionally, it has an innovative partnership with its telecom partner for expansion. Finally, mBank uses an automated credit appraisal method to set loan amounts for borrowers.

The focus in this particular case is mBank’s operations in the Philippines. As of December 2013, the organization had reached three out of 17 regions in the country through its 30 branches or customer relationship centers, garnering 10,212 clients. A unique feature is the bank’s offering of its services via the mobile channel with the help of its mobile network operator (MNO) partner, Smart.

The mBank case study was conducted in January 2014. The team relied on secondary research and visits to the organization to collect and analyze data, and interview MFI staff along with users and agents of the mobile financial service.

The study concluded that the institution was able to successfully extend outreach to many geographic areas over a relatively short period of time, using innovative technology and business model, and leveraging the right partnerships. While the set up costs for the mobile channel were relatively high, the cost of operations was relatively low. The quick ramp up of operations is attributable to the strong partnership that the institution was able to engender with a major mobile network operator and its dealer network, the scalable business model and the full automation of the credit appraisal.

INTRODUCTION

The Philippines has a comprehensive financial system encompassing various types of banks, from large universal banks to small rural banks and even non-banks. As of March 31, 2011 there were 19 universal banks, 19 commercial banks, 73 thrift banks, 595 rural banks, 40 credit unions and 15 non-banks with quasi-banking functions, all licensed with the Bangko Sentral ng Pilipinas (Central Bank of the Philippines, BSP).

According to MixMarket, there are 4 million borrowers and 4.8 million depositors in the Filipino microfinance sector, compared to an adult population of approximately 69.8 million1. There is a wide diversity of products and services available to microfinance clients. MFIs offer products to corporate clients, medium—small—and micro-businesses, consumer loans and mortgages. Savings products include term deposits, recurring deposits and demand deposits among others. Only a few organizations offer micro-insurance products. Some of the other services

1 CIA World Factbook (the Philippines), accessed on June 17, 2014.
MOBILE FINANCIAL SERVICES FOR MICROFINANCE INSTITUTIONS: MBANK IN THE PHILIPPINES

offered by MFIs include: remittances, bill payments, foreign exchange, and interbank transfers.

The Philippines central bank has played a positive role in creating an enabling environment for microfinance in the country. In fact, for every year since 2009, the policy and regulatory framework for microfinance in Philippines has been ranked number one by the Economist Intelligence Unit in a global survey of microfinance. Funding in the sector comes primarily from domestic sources, in particular from deposits.

MOBILE INFRASTRUCTURE

As of 2012, there were 107 mobile subscriptions for every 100 inhabitants. Thus, mobile penetration is virtually ubiquitous in the Philippines. The country is also the global capital of texting. In 2011, the average Filipino mobile phone user sent and received about 400 text messages per month, although there is evidence that texting is declining over time with the advent of messaging applications. In all, Filipinos send two billion SMS messages on a daily basis.

Currently, there are 3 telecom operators in the country, Smart PLDT with 53% of the market share, Globe (30%), and Cure (1%)³. With falling revenues and fears around increasingly higher churn rates, the competition between the two big players is heating up as they seek newer and more innovative ways to encourage customer loyalty.

There are two major mobile money initiatives launched by the two primary MNOs. SMART Money was launched by SMART communications in partnership with Banco de Oro. Operational for over a decade, customers could send and receive domestic payments, purchase airtime, and avail of a pre-paid card through this service. Although SMART telecom has close to a million loading stations, customer activity in SMART Money has been low. A few years later, Globe launched GCASH which allows clients to send and receive domestic payments, buy airtime, make merchant payments, etc. Of the current 1.8 million wallets, about 300,000 are active⁴.

Philippines has an enabling environment for mobile payments as evidenced by high literacy rates, popularity of SMS, ubiquity of mobile phone, and low access to financial services. In spite of the mobile money solutions in the market, the World Bank’s Findex database revealed 2 percent of adults used their mobile phone to pay bills; 12.5 percent of adults received and 7.3 percent sent money on their mobile phone⁵.

LACK OF ACCESS & UNMET DEMAND

The Philippines is a densely populated country with very little access to financial services. The percentage of population with an account at a formal financial institution stands relatively low (27%). Population with access to a debit card (13%) is even lower. As of 2012, for every 100,000 adults, there were 8.13 commercial bank branches and 19.31 ATMs.

Since the Philippines is composed of islands, many areas are remote and difficult to reach. There are only 17.26 commercial bank branches for every 1,000 square kilometers⁶ and much of the banking infrastructure is concentrated around the national capital region (NCR). Forty six percent of commercial and universal bank offices and 30% of thrift bank offices are located in the NCR. In contrast, only 3% of rural and cooperative bank offices are located in the NCR⁷.

---

² Philippines—Telecoms, Mobile, Broadband and Forecasts, accessed on 17 June 2014.
⁴ Interview with Globe staff.
⁵ Global Financial Inclusion Database (2011), accessed on 17 June 2014.
REGULATION OF MOBILE FINANCIAL SERVICES

The BSP has a strong financial inclusion mindset and has tended to adopt a ‘Test and See’ approach to mobile money regulation. In other words, they have allowed non-financial entities such as MNOs to operate mobile money pilots with sufficient risk mitigants in place. Regulations are developed based on market reaction to the pilots. BSP has also ruled that non-bank agents may provide cash in/ cash out services, which allow MNOs to leverage their network of agents, network of pawnshops, and mom and pop stores around the country. However, agents cannot be used for any ‘inherent’ banking activity related to deposit accounts; implying agents cannot handle cash for bank accounts. Smart is able to offer a pre-paid account rather than a deposit account and is able to get around this regulation.
mBank is a thrift bank that provides microfinance services (currently loans with a savings product planned) through mobile banking, the prime beneficiary being Smart air-time resellers. It is registered with the country’s Securities & Exchange Commission and approved by the Banko Sentral ng Pilipinas.

mBank began with the goal of improving financial inclusion by delivering financial services to unbanked and under-banked users through a technologically-enabled platform. In the late 2000s, buoyed by the success of Safari.com in Kenya and Smart in the Philippines, PlaNet Finance began to look at ways to improve financial inclusion by leveraging mobile money solutions. To this end, mBank and Smart piloted a small initiative to assess the viability of launching a 100 percent branchless bank which would offer mobile financial services in partnership with Smart money. This proved successful and demonstrated high customer take-up.

As a result, in 2011, FMO, the Dutch development bank and Finnfund, Finland’s development finance company, partnered with the PlaNet Finance Group to establish mBank Holdings—to establish banks driven by mobile money solutions. The Philippines was identified as having a suitable environment for such an initiative. Thus, mBank Holdings was founded with the following shareholders: mBank Holdings (40 percent share participation), FMO (10 percent), Finnfund (10 percent) and PLDT Smart Foundation (Smart’s independent foundation arm). This marked the first operational deployment of mBank Holdings in the country. The initial capital was $5.6 million or 250 million Philippine pesos. In 2012, mBank Philippines began operations in the province of Tacloban, one of the areas later devastated by typhoon Haiyan in 2013.

**OVERVIEW OF MBANK OPERATIONS**

Although mBank’s license also covers savings and micro-insurance products, mBank only offers loans to clients. Still early into its operations, the organization reports approximately 10,212 loans through 30 client relationship centers (CRCs) in three regions of the Philippines. These are the result of the efforts of 141 personnel.

Meanwhile, mBank’s portfolio has grown steadily since its inception. Its 2013 aggregate portfolio value was pegged at $981,000 (or 39,394,000 Philippine pesos). The average amount loaned is about $96. The vast majority (86 percent) of mBank clients are women.

mBank loans are a form of revolving credit facility. Individual credit extended ranges from 5,000 to 25,000 Philippine pesos ($125–$625). Withdrawals are at the client’s discretion based on their needs. For example, if a client is approved with a 5,000 pesos credit limit, the client can draw down 3,000 pesos during the first week, and 2,000 pesos the second week, and so on, up to 5,000 pesos.

Loans can be repaid in full or in part at any time, at no cost. At each loan amount level, the client has four installment options; she, or he, can choose the option that best fits their cash flow situation and convenience. A higher installment leads to shorter repayment tenures. Likewise, small installments lead to longer repayment tenures. Importantly, however, the weekly repayment installment may not be changed once set.

In order to be eligible for a larger loan, the client must be paying at least the minimum amount required on the larger loan. For example, as shown in the figures below, a client currently accessing a 2,500 pesos loan can...
be approved for a 5,000 pesos loan only if her or his current installment is at least 200 pesos. Additionally, to be qualified for the next level, the client must also have been diligently paying the regular installment reimbursements chosen, with no late payments. Over time, good clients are granted loan increases, and notified by SMS when they are eligible.

**MFS Business Model and Strategy**

mBank offers its services through its main partnership with the MNO, Smart and also via individual agreements with Smart’s distribution network in the provinces. Smart introduces mBank to its provincial distributors (PDs) and mBank establishes individual partnerships with the PDs, who are in charge of selling airtime in a specific area.

At each PD office, mBank co-locates a branch or client relationship center (CRC). This is a type of satellite office in the PD’s back office space. CRC staff is responsible for sourcing loans, while PD staff is responsible for cash-ins and cash-outs. When mBank has reached an agreement with an individual PD, it activates mWallet accounts for its region. This means that mWallet accounts are eligible for cash out services at their respective PD.

An example of both companies’ respective structures is shown in the figures below.

**TABLE 1: Loan Repayment Sample Table**

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Weekly Repayment</th>
<th>No. Weeks</th>
<th>Total Interests</th>
<th>Total Repayment</th>
<th>Loan Size</th>
<th>Weekly Repayment</th>
<th>No. Weeks</th>
<th>Total Interests</th>
<th>Total Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,500</td>
<td>100</td>
<td>30</td>
<td>462</td>
<td>2,962</td>
<td>7,500</td>
<td>300</td>
<td>30</td>
<td>1,386</td>
<td>8,886</td>
</tr>
<tr>
<td>200</td>
<td>14</td>
<td>214</td>
<td>2,714</td>
<td></td>
<td>400</td>
<td>22</td>
<td>991</td>
<td>8,491</td>
<td></td>
</tr>
<tr>
<td>250</td>
<td>11</td>
<td>171</td>
<td>2,671</td>
<td></td>
<td>600</td>
<td>14</td>
<td>641</td>
<td>8,141</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>750</td>
<td>11</td>
<td>512</td>
<td>8,012</td>
<td></td>
</tr>
<tr>
<td>5,000</td>
<td>200</td>
<td>30</td>
<td>924</td>
<td>5,924</td>
<td>10,000</td>
<td>400</td>
<td>30</td>
<td>1,848</td>
<td>11,848</td>
</tr>
<tr>
<td>300</td>
<td>19</td>
<td>580</td>
<td>5,580</td>
<td></td>
<td>500</td>
<td>23</td>
<td>1,422</td>
<td>11,422</td>
<td></td>
</tr>
<tr>
<td>400</td>
<td>14</td>
<td>427</td>
<td>5,427</td>
<td></td>
<td>800</td>
<td>14</td>
<td>855</td>
<td>10,855</td>
<td></td>
</tr>
<tr>
<td>500</td>
<td>11</td>
<td>341</td>
<td>5,341</td>
<td></td>
<td>1,000</td>
<td>11</td>
<td>682</td>
<td>10,682</td>
<td></td>
</tr>
</tbody>
</table>

**FIGURE 1: Smart and mBank Distribution Structures**

Source: Interviews with mBank Philippines operational staff.
mBank supports loan delivery through two networks: CRC staff and the Smart PD network. The CRC staff—who are employees of mBank—are tasked with sourcing and monitoring loans and addressing client grievances. The CRC staff includes CRC Manager, clerk officer (CO), and field agents (FAs); they are complemented by the Smart PD network whose staff (called Distributor Sales People or DSPs) are responsible for cash-ins and cash-outs.

MFS transactions available through mBank are loan disbursements (cash-out) and loan repayments (cash-in, although the cash is collected manually by DSPs, not by the PD outlets). In 2013, banking agents conducted 1,233,769 cash-in and cash-out transactions, representing a total volume of $5,228,225.

At present all of mBank’s clients are Smart telecom airtime resellers, associated with their respective PDs. mBank offers resellers the option of receiving loans either as cash or electronic load or a combination of the two. For resellers, this loan is an important source of working capital. When purchased as e-load, it frees the client’s capital for investment into other businesses in which she or he may have an interest.

**PARTNERSHIP MANAGEMENT**

The Smart-mBank agreement mandates collaboration between the two companies in providing financial services to the Smart customer base under the mBank model, which leverages Smart’s airtime distribution network and mobile banking technology. These partnerships are critical for the success of the initiative. In this regard, Smart has committed to provide to mBank with Smart’s subscriber, dealer, and airtime reseller data, as associated with their respective PDs. Smart also provides a full time program manager for the entire duration of the partnership whose salary is paid for by mBank. This team member helps mBank establish relationships with regional PDs. Having a Smart sales team member involved in the marketing the channel to the PDs is crucial to the initiative’s success. As PDs and regional team members note, Smart’s involvement has engendered trust among PDs. And that has translated into airtime resellers trusting the channel.

Each PD decides whether the partnership is attractive for them and enters into individual contracts with mBank. Through such contracts, PDs and mBank agree to tap into Smart’s airtime reseller network, facilitating market penetration by introducing resellers to mBank’s products and services. mBank clients can cash-in their loan repayments at least on a weekly basis with DSPs. PSDs agree to facilitate loan repayment collection via DSPs on a weekly basis. The repayment collection conforms to their existing routes, so no special routes are required.

This agreement delivers important benefits for both partners. In Smart’s case, assuring its airtime resellers have access to a working capital loan guarantees their loyalty. As well, for individual PDs, it boosts airtime sales for those PDs—by as much as 10 percent per DSP enrolled. And this, in turn, increases commissions for PD and DSP alike. It also helps PDs achieve sales targets set by Smart, which leads to even higher commissions. For mBank, having a member of Smart’s sales team involved in the marketing

---

8 With a pre-paid mobile phone, topping-up or reloading is needed to enjoy the services offered by the operator. The most popular option to do this is to purchase a prepaid card; but for security reasons, electronic reloading was developed. Electronic reloading technology was first introduced in the Philippines by Smart Communications, which branded the service as SmartLoad. It is considered the world’s first electronic reloading service. It is now commonly used by other service providers. From Wikipedia: [http://en.wikipedia.org/wiki/Electronic_reloading](http://en.wikipedia.org/wiki/Electronic_reloading), accessed on June 18, 2014.
the channel to the PDs is extremely important for the success of the initiative. *As the PDs and regional team members say, Smart’s involvement helped to foster trust in the minds of the PDs. The PD and the PD staff involvement in turn allowed airtime resellers to trust the channel.*

**HOW THE MFS MODEL WORKS**

The typical process for a loan involves client enrollment and follows a procedure which can be paraphrased as “Introduce, Visit, Know Your Customer, and Credit facility”. The main steps of this process are represented in the figure below.

In the introductory phase, field agents (FAs) accompany DSPs in their daily routes, carrying a register of client names and phone numbers. Sourcing loans begins with DSPs introducing mBank FAs to potential clients. FAs query clients regarding their interest in a loan and leave general mBank material with retailer (a “welcome” leaflet). If the introduction goes well, the FA arranges an individual visit.

During this subsequent visit, FAs provide further detail about the credit facility. Then an application form is filled out, and a photograph of the key supporting documents is taken and transferred electronically to mBank by the mobile phone application.

Once information arrives in the mBank platform, the clerk officer of the corresponding CRC performs some initial checks and if ok enters the applicant information into the system. The latter, using an automated credit appraisal system, will either accept or reject the applicant for a specific loan amount. The credit appraisal is based on a set of policy rules, segmentations and credit scoring.

With the applicant enrolled in the system, a credit facility is simultaneously created, which can be cashed-out. Cash-outs can happen in three ways: all cash, all e-load, or some cash and some e-load. The third is the most common method used. The borrower is able to withdraw the cash amount at her/his PD, or at an assigned loading station belonging to his PD. A loading station is simply a smaller kiosk of the PD which sells airtime to resellers. If the reseller chooses e-load, then she/he can indicate through their mobile how much e-load she or he requires. When the DSP receives this SMS, she or he transfers the e-load to the borrower.

Cash-ins or loan repayments typically happen at the retailer’s shop since DSPs are often ambulant, meeting with retailers and selling airtime. On a set day in the week they collect mBank loan repayments. For any given borrower, the DSP accepts a cash repayment from the borrower and simultaneously transfers e-money to his/her account. This e-money is automatically withdrawn from the account as a repayment at the end of the day.

**REVENUES, COMMISSIONS AND FEES**

There are two types of commissions paid to the PD and its personnel:

- **Cash out Fee:** For every cash-out made by an mBank client at a loading station, the PD gets a commission.
- **Performance Fee:** Additionally, at the end of each month, the mBank system computes the loan book quality for each PD and is certain KPIs are met, based on volumes and portfolio quality, additional bonuses are awarded.

**STRATEGIC FIT AND FUTURE PLANS**

mBank has shown strong growth during its first year (85 percent). This underscores that its initial strategy of partnering with Smart clients has proved successful. Repeat loans are pervasive since working capital loans are in high demand. However, mBank management is aware that
future growth will require serving Smart subscribers. This will require different/additional financial products, stronger branding, and a large network of agents, to be recruited among the base of retailers who has successfully used mBank’s products.

Thus, once the roll out to Smart retailers is completed, mBank plans to move to the subscriber market and reach millions of customers.

MFS CHANNEL OPERATIONS

IT Platform

mBank’s mobile platform is provided by Experian Microanalytics. This provider has allowed a full automation of the initial loan appraisal and the subsequent loan renewals.

Client communication is via a mix of SMS and USSD, including “welcome” messages, cash-in notifications, notifications of qualifying for a higher loan et al.

mBank Network Management

CRC management depends exclusively on mBank CRC managers. The PD outlets support any client cash-out activity. Client cash out activity happens at the PD main office or at loading stations.

Marketing and Promotion

Given the captive nature of mBank’s clients (Smart airtime resellers), little marketing was required thus far since these resellers know the Smart PD in the area very well, and trust the Smart brand. Since mBank has been introduced through this channel, the bank’s credibility was swiftly established. To add to this initial thrust, mBank chose to lead with small loans. This was a key selling point for these resellers who are essentially small entrepreneurs running mom and pop stores. Because a working capital loan is a critical need for them, not much marketing was necessary to convince them to take up the loan.

The bank has found that the most effective marketing strategy is word of mouth (locally known as: “mouth to ear”). mBank has learned that people can be easily convinced to use the service if someone they know recommends it to them.

Risk Management

mBank, along with their technology provider and Smart, has devised an automatic credit appraisal algorithm to determine eligibility and appropriate credit amounts. This system uses a combination of classic and alternative data, such as airtime usage and airtime sales of the reseller. This has led to producing a credit scoring system with a high level of predictive power, allowing therefore to effectively detect future defaulters.

When field agents (FAs) collect pictures of “Know Your Client” documents from potential borrowers, these are transmitted automatically to the mBank central system, ensuring that no time is lost in the transportation or copying of documents and that each step of the credit approval process is time stamped and digitized.
PERFORMANCE OF THE MODEL: COST AND BENEFIT ANALYSIS

Performance of FAs

The target client base for the initial stage of mBank operations is the Smart airtime resellers. Key performance indicators for FAs are measured on a weekly basis and include number of visits, number of KYCs and number of cash outs (disbursements).

CRC Costs

Setting up a CRC costs approximately $2,500 (in furniture, IT and communications expenses). Thus the total investment for mBank’s 30 CRCs has been around $75,000. Maintaining each of them, including personnel, marketing materials and connectivity, requires about $1,307 on a monthly basis.

BENEFITS FOR MBANK

Following are the benefits accruing to mBank from pursuing their MFS channel strategy:

i. **Increased number of service points in more geographic areas:**
mBank exists in 30 PDs across the Philippines.

ii. **High ramp-up attributable to partnership management:**
By partnering with Smart and leveraging their distribution network, mBank has been able to expand very quickly, garnering 10,000 clients by the end of their first year of operations. Similarly, the strong trust that clients have in mBank is a function of the firm’s partnerships with individual PDs, all of whom are well-known to Smart airtime resellers.

iii. **Leading with loans, a highly in-demand product:**
mBank started its business with loans, which are much in demand among its client base. In particular, mBank has targeted airtime resellers, all of whom are small entrepreneurs needing to access working capital loans. Loans are a good way to build client loyalty, the expectation being to ultimately leverage this customer relationship into other financial services and products.

iv. **Partners are adequately rewarded:**
Each of the partnership stakeholders benefits from the initiative, which boosts their incentive to continue working for the success of the partnership. For Smart, it amounts to an excellent way to increase their PD’s business and thereby keep them satisfied. For the PDs, the increased sales in e-load imply increased commissions for them.

v. **Repeat customers:**
At the moment, 30 percent of the partnership client base consists of repeat customers. Since working capital will always be a need for these retailers, it can safely be assumed that there will be sustained demand for mBank loans.

vi. **The importance of data analytics when evaluating a client:**
The speed disbursing the loans is due to the ability of the system to take the client information and analyze it. In places where information about clients is scarce, data analytics is a powerful tool that supports the swiftness and accuracy of the client information.

CHALLENGES

i. Operational fraud, while limited, is still a risk, mainly due to the lack of understanding from some clients of the need to perform a cash-in transaction when the cash is handed to the DSP for the repayment. mBank performs a daily cash reconciliation with all the DSPs but some fraudulent behaviors are still present but quickly detected on the collections process, where a client is contacted because he/she is overdue, but claims to have performed the payment to the DPS. This triggers an immediate check with all the clients served by that DSP and a few fraudulent behaviors have been detected, which led to the immediate dismissal of the DSP and the reimbursement of the funds to the client.
Introduction to MBank

ii. Repayments only happen weekly on a pre-assigned day. This creates significant risk. If this is well known throughout the region, it makes it much easier for any miscreant to plan a robbery of the DSP. It may also imply physical danger for the DSP to have so much cash on his person.

iii. MBank is very dependent on Smart’s network for its expansion, so a close cooperation with each individual PD is required, which take time to create and maintain.

iv. MBank incurred significant losses as a consequence of typhoon Haiyan in November 2013. Up to 20 percent of their portfolio had to written off because of its direct impact on one of their oldest and biggest CRCs.

v. Out of the 50+ CRCs deployed by MBank, very few have reached sustainability, which is expected about 12 months from the launch of the CRC operations.

Lessons Learned

i. Finding the right partners and creating the right set of incentives is critical in getting a strong start. Partnerships can make or break MFSs implemented by an MFI. Managing the over 100 PDs of Smart has revealed to be more challenging than previously expected, but possible with the right dedication, structure and incentive plan.

ii. For mobile money, “fake cash-in” are a clear fraud opportunity and need to be closely monitored. Constant training to the client to understand the cash-in process is required to minimize these fraud opportunities.