



document 1 of 1
Full Text | Trade Journal

FT.com site : Mobile users branch out

Reed, John. **FT.com; London** (Oct 6, 2005): 1.

Find a copy

http://tm9qt7lg9g.search.serialssolutions.com/directLink?&atitle=FT.com+site+%3A+Mobile+users+branch+out&author=Reed%2C+John&issn=&title=FT.com&volume=&issue=&date=2005-10-06&spage=1&id=doi:&sid=ProQ_ss&genre=article

Abstract

None available.

Full Text

Barely half of adults or 13.5m people in South Africa have bank accounts in a country of 45m people. However, more than 20m people possess a mobile phone, a device that has revolutionised everyday life for Africa's poor.

A new mobile phone banking venture, launched in August, shows how smart companies can profit from this anomaly. MTN Banking, a 50:50 joint venture between South Africa's Standard Bank and MTN, the continent's biggest cellular provider by sales, offers customers full-service banking from their mobile phones.

Customers collect a starter pack at MTN outlets containing a Mobile Money bank card and instructions on how to download banking software to their phones. Within 15 minutes they can begin to transfer money, pay bills or buy prepaid mobile airtime on their handsets. Starting next year, the banking-services menu will be embedded on all SIM cards offered by MTN, including the prepaid SIM cards most South Africans use.

Banking via mobile phone is not new. Many banks offer call centre services or individual banking functions accessible through the wireless application protocol or text messaging systems.

However, while other mobile offerings require users to send a soup of characters to transact banking, the MTN system allows users to scroll through a simple menu. MTN Banking is its investors claim the world's first stand-alone mobile-phone bank to be established in partnership between a bank and a mobile-phone provider. And it is aimed squarely at South Africa's "mass market" customers, most of whom will never have so much as entered a bank.

"The concept we have to think about is cellphone-centric banking rather than banking via cellphone," says Herman Singh, Standard Bank's director responsible for technology engineering.

The venture gives Standard Bank access to MTN's coveted client base, and MTN an additional money-making service to offer its customers. It is a singularly South African product in that it exploits state-of-the-art technology to target under-served but promising clients. "South Africa has an amazing juxtaposition between first-world skills and infrastructure, and the third world sitting on your doorstep," says Jenny Hoffmann, chief executive of MTN Banking.

The apartheid era left South Africa's black-led government with a legacy of one of the world's most skewed social structures. With a small and largely white middle and upper class sitting atop the economy, millions of poor blacks live without basic services, including banking, in remote rural "bantustans" or slums surrounding cities.

Because of its former economic isolation and a brain drain of skilled professionals, South Africa has lagged many of its global peers in innovation. After apartheid, however, South African businesses have grown resourceful at finding opportunities in the country's stark social contrasts. When Absa, a Standard Bank rival, made a big push into the mass market, the move became a key factor in a decision by Barclays, the British bank, to pay nearly \$5bn for control of the bank earlier this year.

Mobile phone companies, too, have prospered. The mass market much of which lacked fixed-line phones has been the fastest-growing customer segment. Pre-paid airtime was pioneered in South Africa in the 1990s as a way of selling services to millions of clients lacking bank accounts, credit histories or, in many cases, jobs.

Both MTN and its rival Vodacom have deployed business practices honed at home northward into Africa, where South African companies have been the leading foreign investors since the end of apartheid. MTN and Standard Bank have similar continental ambitions for their banking joint venture. Standard Bank has operations in 16 African companies outside South Africa, and MTN in seven. The vast majority of Africa's roughly 750m people do not have bank accounts. Uganda, with 27m people, has fewer than 100 automatic teller machines, Mr Singh points out.

"It is easier to do this than it is to build branches," says Peter Wharton-Hood, Standard Bank's head of retail banking. He adds: "This could speed up our reach."

Rival banks and cellular operators are regarding the experiment coolly, but with some apparent curiosity. "We don't want to be a bank as such because that simply means we're in competition and we don't know how to do banks," says Alan Knott-Craig, chief executive of Vodacom, which already offers banking services via arrangements with Absa, First National Bank and Standard Bank itself. However, he adds: "If it turns out to be very successful, we might just look at it."

It also remains to be seen whether mobile-phone banking will catch on in a population with little first-hand experience of financial services. MTN Banking's backers assert that unbanked customers may be more open to the novelty of mobile banking than their richer counterparts. The product's unique features, they add, will make it a must-have for poor customers.

Through an agreement with Eskom, the state-owned utility, for example, MTN Banking customers will be able to pay for household electricity online. Most South Africans pay in advance for their power, which requires the time and expense of a taxi ride into town. Using a free short message, MTN Banking's customers will also be able to top up their phones with airtime, another South African first.

Mobile-phone banking will allow a construction contractor to pay workers via their phones, obviating the need to keep cash on-site. City workers will be able to wire money to relatives in remote areas, who can pick up the money at an automatic teller machine or payment port of Easy Pay, South Africa's main payment aggregator. "There is a huge viral component in this," argues Standard Bank's Mr Singh.

In a country with notoriously high bank charges, the joint venture hopes to compete on its low fees. Accounts have no minimum balance or monthly service fee. MTN Banking will make most of its revenues on modest transaction fees and the margins it earns on "virtual top-ups" of airtime.

Significantly, it is also pitching its products to the government, by far the biggest transactor of financial services for poor people. Millions of South Africans receive state aid grants or pensions, and fraudulent claims often on behalf of deceased people cost the state budget billions of rands annually.

Standard Bank executives this week met with government officials in an attempt to interest them in their mobile-banking offering. One of their key selling points was the service's high level of security: customers are required to supply voice samples for sensitive transactions.

Initially, MTN Banking will be marketed to wealthier South Africans. "We are still targeting the more affluent people opening accounts for their student children or gardeners," says Ms Hoffmann. "We want it to be an aspirational product, otherwise people will say, 'This is for the poor.'?"

Next year the company plans to widen its marketing efforts to the mass market. It aims to distribute 300,000 starter packs a month, beginning in February.

The joint venture will break even with 400,000 customers, which Ms Hoffmann says it aims to reach by mid-2006. "Our lack of infrastructure makes us leap for everything," she says. "It's incredibly visionary of Standard Bank to do this they saw it was the next big thing."

COMPETITION IS THE MOTHER OF INVENTION

South Africa has a healthy share of creative businesspeople. However, it lags most of the developed world in producing patented devices and processes, mainly due to apartheid, which isolated the economy and drove skilled people to emigrate.

With few innovations, venture capital was slow to develop. Richard Doyle, manager of a start-up company that matches new technology with market opportunities, believes that state ownership of big companies, such as Telkom, plays a role: whereas the UK's BT Group has registered about 14,000 patents, he says, Telkom has just three.

However, he adds that growing competition could spark more innovation, as could a new attitude towards research. "Universities and research institutions are just starting to put in incentives for academics to patent, rather than publish, their inventions," he says.

(Copyright Financial Times Ltd. 2005. All rights reserved.)

Subject	Customer services; Banking industry; Bank accounts; Financial services; State budgets; Retail banking; Innovations; Cellular telephones; Apartheid
Business indexing term	Subject: Customer services; Banking industry; Bank accounts; Financial services; State budgets; Retail banking
People	Industry: 52212: Savings Institutions
Company	Singh, Herman; Hoffmann, Jenny
Classification	MTN Banking; Standard Bank
Title	52212: Savings Institutions
Author	FT.com site : Mobile users branch out
Publication title	Reed, John
Pages	FT.com; London
Number of pages	1
Publication year	0
Publication date	2005
Publisher	Oct 6, 2005
Place of publication	The Financial Times Limited
Country of publication	London
Publication subject	United Kingdom, London
Source type	Business And Economics
Language of publication	Trade Journal
Document type	English
ProQuest document ID	PERIODICAL
Document URL	228910949
Copyright	http://ezproxy.nypl.org/login?url=https://www.proquest.com/trade-journals/ft-com-site-mobile-users-branch-out/docview/228910949/se-2?accountid=35635
Last updated	(Copyright Financial Times Ltd. 2005. All rights reserved.)
Database	2021-09-23 Research Library

Database copyright © 2022 ProQuest LLC. All rights reserved. Terms and Conditions