



Developing your branchless banking strategy

April 2014

Mobile Money for the Poor in Lao PDR

FACTS & FIGURES

From Strategy to Pilot

by Akhand Tiwari (*MicroSave*) and Francois Coupienne (MM4P)

The Lao People's Democratic Republic (Lao PDR) is a country with more than **65 percent of the population living in rural areas**. Although the country is small, the abundance of remote areas and ethnic and linguistic diversity make it a challenging environment for financial inclusion. While only **27 percent of adults have bank accounts**, more than **90 percent of the population have mobile phones**. This comparison makes a strong case for using mobile financial services to overcome the low level of financial inclusion.

Lao PDR is one of a shrinking number of countries **without branchless banking (BB) and mobile financial services (MFS) from either a mobile network operator (MNO) or a bank**. Mobile Money for the Poor (MM4P) has been supporting the UNCDF programme Making Access to Finance More Inclusive for Poor People (MAFIPP) in Lao PDR to help introduce BB and MFS, considering both mobile and other channels. For the past year, MAFIPP and MM4P have been laying the groundwork for one or more Lao providers to fill the gap working closely with Bank of the Lao PDR to increase their awareness and understanding of the risks and market potential in the country.

Bank of the Lao PDR announced its intent to accept applications from banks, non-banks and MNOs for BB and MFS pilots in

2014. After visits to Cambodia, Kenya and the Philippines, Bank of the Lao PDR met with several potential providers to discuss plans for pilots. *MicroSave* assisted MAFIPP in conducting a **BB and MFS strategy workshop** with four banks and four MNOs that expressed interest in receiving support.

This briefing note provides an overview of the outcomes and exchanges of that workshop.

Designing a strategy is the first step for any institution interested in engaging in BB and MFS. Participants were challenged during the workshop to complete the main steps to design a strategy and to launch a pilot:

- 1) Answer **key strategic questions** within your institution and assess if BB and MFS are really a priority for your institution
- 2) Define a **customer value proposition** for the customer segments you would like to reach
- 3) Develop a detailed **business model**, including key elements such as value proposition for all stakeholders; products and pricing; agent network strategy and management; and, marketing, promotion and customer service strategy
- 4) Prepare an **application for Bank of the Lao PDR** to obtain a letter of no objection to launch a pilot
- 5) Prepare for the **pilot**

6.6 million

Total population of Lao PDR

5.6 million

Number of mobile phone users

27%

Percentage of adults (age 15+) with bank accounts

0

Number of agents

Check out our website
WWW.UNCDF.ORG/MM4P

and LinkedIn group, MOBILE MONEY FOR THE POOR



Debating key elements of a value proposition

In Lao PDR, the main competitor for BB and MFS is cash. Cash (including the Lao kip, Thai baht and US dollar) is universally accepted, free to use, easy to convert and understood by everyone. Workshop participants discussed how, when and to whom BB and MFS could offer more benefits than cash, considering accessibility, convenience, security and opportunity cost.

Customer segments and products

Products for the unbanked should be tailored to the needs of Lao customers. Participants identified some groups as potential customer segments and linked them to products they might need: **students** (prepaid cards, school-fee accounts, airtime top-ups), **government factory workers** (salary payments, money transfers to families), **employees and civil servants, farmers outside population centres** (financial transfers in the agribusiness value chain) and **company employees** (salary payments, money transfers, airtime top-ups).

Agents

Aside from managing cash-in/cash-out transactions, agents are the daily interface for customers. As such, they have an opportunity to recruit, register, activate and educate customers. In Lao PDR, **there are virtually no national retail chains.** Considering that, participants discussed the following potential agents: pharmacies, airtime retailers, retailers in remote rural areas (if they have sufficient funds), petrol stations, microfinance institutions, current Western Union and MoneyGram agents, schools, hospitals, transport companies, post offices (present in every district), mini-markets, guest houses, hotels, bank branches and service units, restaurants, and village communities.

Customer interface

The choice of front-end technology for BB and MFS is critical to ensure adoption and usage. The main usage hurdle in Lao PDR is that most Lao use low-cost handsets and most mobile technologies do not support the Lao language. Participants discussed how important it would be for the technology to be easily accessible and understood in order to reach rural customers.

Participants also discussed the need to assist customers with their transactions and to potentially use agent-assisted transactions or over-the-counter transactions as a means to overcome the technology barrier.

Regulation

Bank of the Lao PDR is ready to consider plans from providers in the interest of reaching the three-quarters of the population that remains unbanked. While there is regulation in place at Bank of the Lao PDR for e-banking and internet banking, there is **no regulation in place for BB or MFS** (for example, regulations regarding e-money, agents, know your customer for the unbanked, customer protection). In this context, **Bank of the Lao PDR will consider applications from banks, MNOs and other providers** on a no-objection basis after a thorough analysis of the plans.

Next steps

MAFIPP and MM4P have placed a full-time expert from *MicroSave* in Lao PDR to continue work with providers to develop business plans. In addition, MAFIPP will do the following:

- Conduct client research to better segment customers and identify appropriate agent locations
- Investigate how several high-volume payment streams could be converted to digital format
- Work with Bank of the Lao PDR to review applications and develop draft guidelines for BB and MFS

For more information and to receive the presentations from the workshop, contact Cedric Javary, UNCDF Technical Advisor in Lao PDR, at cedric.javary@uncdf.org.

MAFIPP (Making Access to Finance More Inclusive for Poor People) is a UNCDF sector support programme, in partnership with Bank of the Lao PDR, funded by the Australian Government. MAFIPP provides support and technical assistance to all stakeholders in the ecosystem to develop an enabling environment for BB and MFS to flourish.

The views expressed in this publication are those of the author(s) and do not necessarily represent those of the United Nations, including UNCDF, or their Member States.

CHECKLIST

✓ Understand customer needs

Base your new product on a strong understanding of customer needs, realities and constraints. Avoid only slightly modifying a version of an existing product.

✓ Define value proposition

Build a well-defined and understandable value proposition for all stakeholders involved, such as agents, technology service providers and customers.

✓ Understand key activities

While technology is important to BB and MFS, do not underestimate the importance of other critical areas such as agent network management, marketing and promotion, and customer service.

✓ Analyze strengths and weaknesses

Base your new initiative on a solid understanding of your institution's strengths and weaknesses. Among other things, it will help you make sound decisions about which of the activities could be managed in-house and which need to be outsourced.

✓ Develop partnerships

Ensure partners are capable and committed and share the same understanding as you of the key elements of the business case. Having an incompatible partner can result in substantial losses and prove to be simply fatal for your BB and MFS initiative.

This briefing note is brought to you by MM4P, a UNCDF programme funded by



April 2014
Copyright © UN Capital Development Fund
All rights reserved.