

TRANSFORMING RURAL ECONOMIES THROUGH MOBILE BANKING IN NEPAL

More than 70 percent of Nepali households are unbanked, but with new, innovative services launched with support from USAID's Nepal Economic Agriculture and Trade (NEAT) project, mobile financial services could be available nationwide within five years.

Nepal is renowned for its diverse terrain, from lowland jungles to the world's highest mountain peak. Unfortunately, in many areas of this still developing nation, infrastructure is poor. Many households, especially in hill and mountain regions, lack access to financial services, and thus walk hours if not days to reach a bank branch. As a result, over 70 percent of Nepalis are disconnected from the formal financial sector. For banks, thriving in rural areas with limited infrastructure has proven difficult and costly. As a result, they are centralized in and around cities, leaving the majority of Nepalis without easy access to finance.

Without formal financial services, households pay more for monetary transactions and cash payments are less secure. Just ask Tulasi Khadka from Kuntabesi Nepal. Tulasi and her husband wanted to give their children a brighter future. He migrated to Dubai for work and she worked in a restaurant so they could send their children to school in Kathmandu. Unfortunately, Tulasi had to travel to Kathmandu many times a year to pay her children's school fees. Every trip to Kathmandu meant missing work, paying costly travel expenses, and carrying all of their savings in cash.

USAID's NEAT project recognized the potential of mobile financial services to reach unbanked households. Mobile financial services can include many types of financial transactions, including mobile phone payments, loan disbursements and repayments, savings deposits and withdrawals, and money transfers, among others. In spring 2012, USAID NEAT organized Nepal's first Mobile Financial Services Summit. The Summit generated momentum in the sector and led to increased interest, enthusiasm, and action among bankers, regulators, platform providers and telecoms. Many ideas that had been discussed for years, but shelved due to the risks involved, soon came to life. A group of banks decided to come together to roll out a shared national platform. NCell, Nepal's leading mobile service provider and FinAccess, a mobile platform provider, signed an agreement to begin providing mobile money services through input distributors nationwide. Nepal Rastra Bank, the country's central bank, also released mobile banking regulations and announced its willingness to revisit and improve them as the banks and regulators gain more experience with mobile financial services.

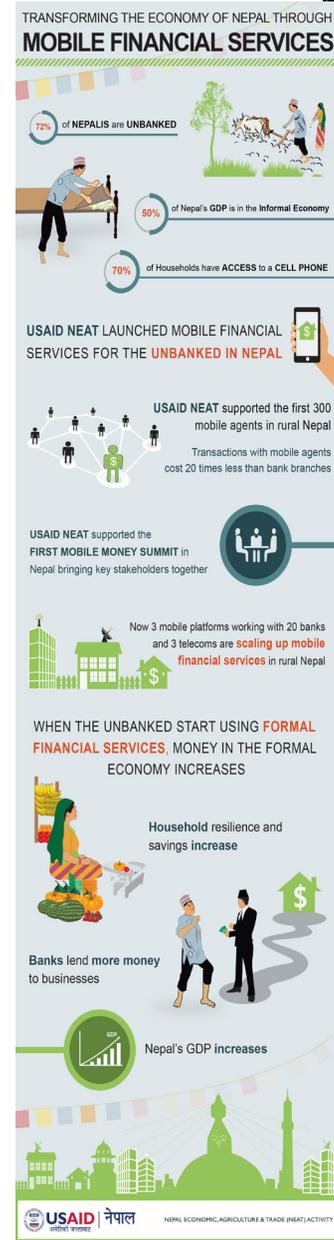
Since 2011, USAID NEAT has partnered with Mega Bank, a Nepali commercial bank, to support the establishment of branchless banking outlets, and with Laxmi Bank, another

Nepali commercial bank, to support the rollout of mobile banking—its Mobile Khatta service—using FinAccess's Hello Paisa shared technology platform. As a result of USAID's support, over 300 mobile financial services agents in 16 districts are operational in Nepal today. These agents are serving clients like Tulasi Khadka and will reach more than 15,000 clients this year alone. Tulasi Khadka now makes her children's school fee payments by mobile phone instead of carrying cash to Kathmandu. "This is completely reliable," confirms Khadka. Mobile agents play a critical role in helping banks expand beyond the boundaries of their existing branches. They market bank services and help enroll new bank customers, but at a fraction of the cost of brick and mortar branches. Banks report that transactions conducted through a mobile agent cost less than 1/20th of those conducted through a bank branch. And reducing the outreach cost is critical to getting financial services to the large rural, unbanked population.

USAID NEAT played a catalytic role in launching mobile financial services in the marketplace. Today, a number of banks are gaining experience and refining their strategies, products and pricing to ensure the success and growth of this innovative service. There are now three technology platforms competing for banking partners with which to offer mobile financial services. As FinAccess founder and Nepali mobile financial services visionary Sanjay Shah notes, "Technology is not the innovation here in Nepal; the business model is the innovation." FinAccess is the centerpiece of a consortium of six financial institutions using the same service, Hello Paisa. However, each bank brands its products to meet the needs of its customers. In Nepal, where banking is fragmented, this innovation—whereby banks collaborate to expand the customer base yet compete on services—has the potential to fuel a very rapid expansion of mobile financial services in the country.

Approximately 50 percent of Nepal's Gross Domestic Product (GDP) is outside the formal sector. In addition, many of the 70 percent of households without access to financial services save their money "under the mattress." An expansion of mobile financial services will draw more cash into the formal economy and increase the national savings rate. Banks will have more money to lend to businesses, giving a boost to overall GDP.

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Transforming economies through mobile banking in Nepal - an infographic prepared by NEAT.



“USAID did not just help Laxmi Bank launch its Mobile Banking services, but also fostered the overall industry toward this direction.”

Interview with Nikesh Ghimire, Manager 2.0, Laxmi Bank

What was USAID NEAT's role in helping Nepali banks kick-start mobile banking?
NG: The project helped Laxmi Bank launch its Mobile Banking product in seven districts in the first phase.

This not only helped the Bank finally launch a product it had envisioned for years, but also served as the first real field-experience for the entire banking industry on how Mobile Banking could work. Our experience created sufficient impetus for other banks to come on board with Mobile Banking. The significance of NEAT's support is in two folds. First, the grant from NEAT helped us invest in 'below the line' activities that are typically not an investment area for commercial banks. Laxmi Bank was able to conduct a series of trainings, workshops and other community intervention activities that helped lay a strong foundation for future growth of the program. Second, Laxmi Bank's launch experience, along with a study tour to Pakistan for stakeholders and the first-ever Mobile Summit organized in Kathmandu were three key factors that shaped the decisions of several banks to invest in Mobile Banking. Meaning, support from USAID did not just help Laxmi Bank launch its Mobile Banking services, but also fostered the overall industry towards this direction.

In Laxmi Bank's perspective, what are the key impacts of mobile banking in the lives of rural Nepalis previously disconnected from the formal financial sector?

NG: Rural Nepali population now has a system that connects them to the national financial grid right from their village. This means, they can financially transact with their family, business associates, etc. from anywhere in the country. This allows them to manage their funds in a lower risk environment and in a much cheaper and convenient way. Nepal's geographic limitations were until now one of the key factors limiting rural population's access to finance. With Mobile Banking, this challenge can be easily overcome.

Can you explain the key hurdles and what it will take to fully unleash the potential of mobile banking in Nepal?

NG: Mobile Banking is essentially an innovative way to reach Nepal's largely rural population disconnected from the formal financial grid at a faster and a cheaper price. However, the main challenge for us is to convince consumers to accept the new definition of 'money' that mobile banking has introduced them to. This behavioral change requires that the mass be sensitized at several dimensions of trust, confidence, convenience, mass acceptance, etc. in order to establish the whole eco system.



This is a fairly long and expensive process with investments fetching returns only in the long-run. And this is what limits the investment appetite of banks, restraining them from getting as aggressive with Mobile Banking as needed to foster rapid expansion of the service nation-wide.

Based on Laxmi Bank's experience so far, how do you think mobile banking will roll-out in the future? Can you talk about its potential?

NG: Laxmi Bank's vision for Mobile Banking is to link the urban population with the rural population through one common financial grid. This means, a rural resident can easily avail all basic banking services from the vicinity of his/her home at a price that is cheaper than any other financial instrument in the industry. The rate at which it is gaining market acceptance at present, the future of Mobile Banking in Nepal looks very promising. ■

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