

Electronic Banking

A Country Perspective: Kenya

What Is Electronic Banking?



Automated Teller
Machines



Personal Digital
Assistants



Mobile
Branches



Interactive
Voice
Recognition



Internet
Banking



Point of Sale Devices



Cell phone
Banking

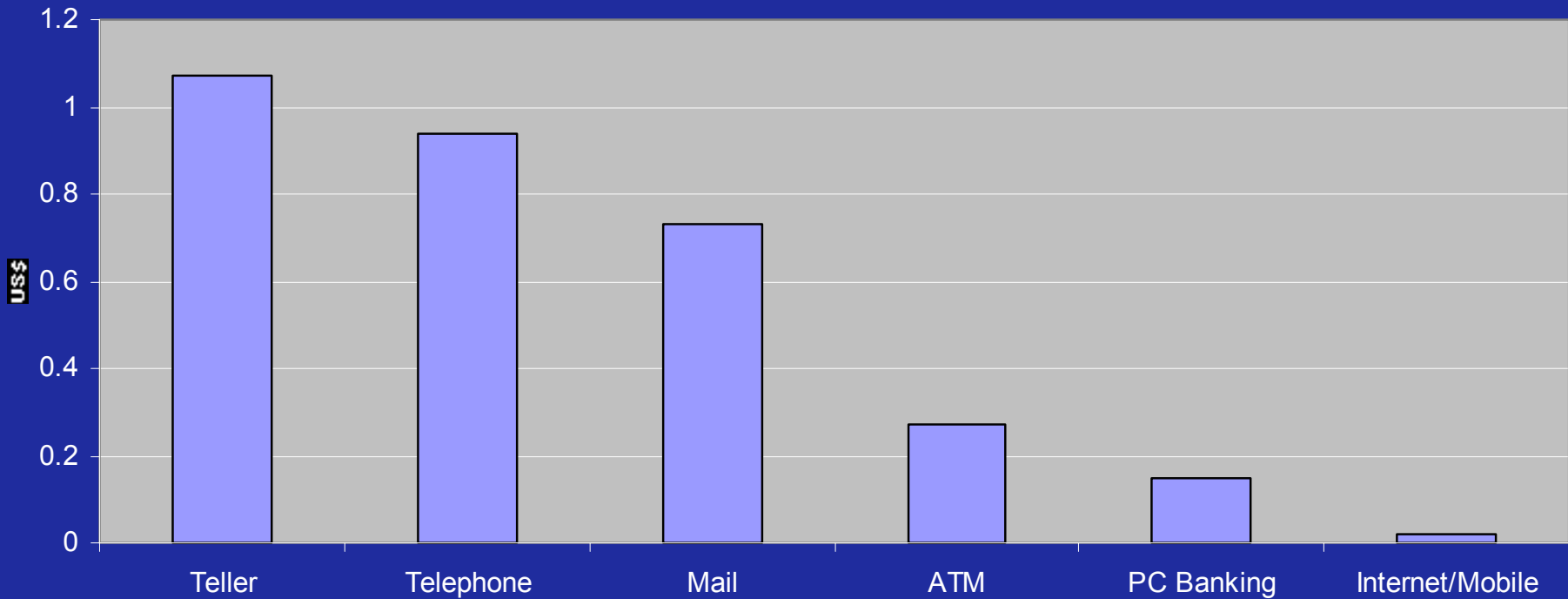
The Changing Marketplace

- Increased competition and the reduced cost of technology are rapidly changing financial markets.
- E-banking is likely to be a significant component of the product delivery and customer strategy of cutting-edge MFIs in the future... but it could increase competition from banks.
- *Does e-banking not offer the prospect of substantial, if not massive, progress in banking the poor, provided certain threshold conditions are met?*

-David Porteous, FinMark Trust

The Huge Potential of Technological Innovation (1)

TRANSACTION COST PER DISTRIBUTION CHANNEL



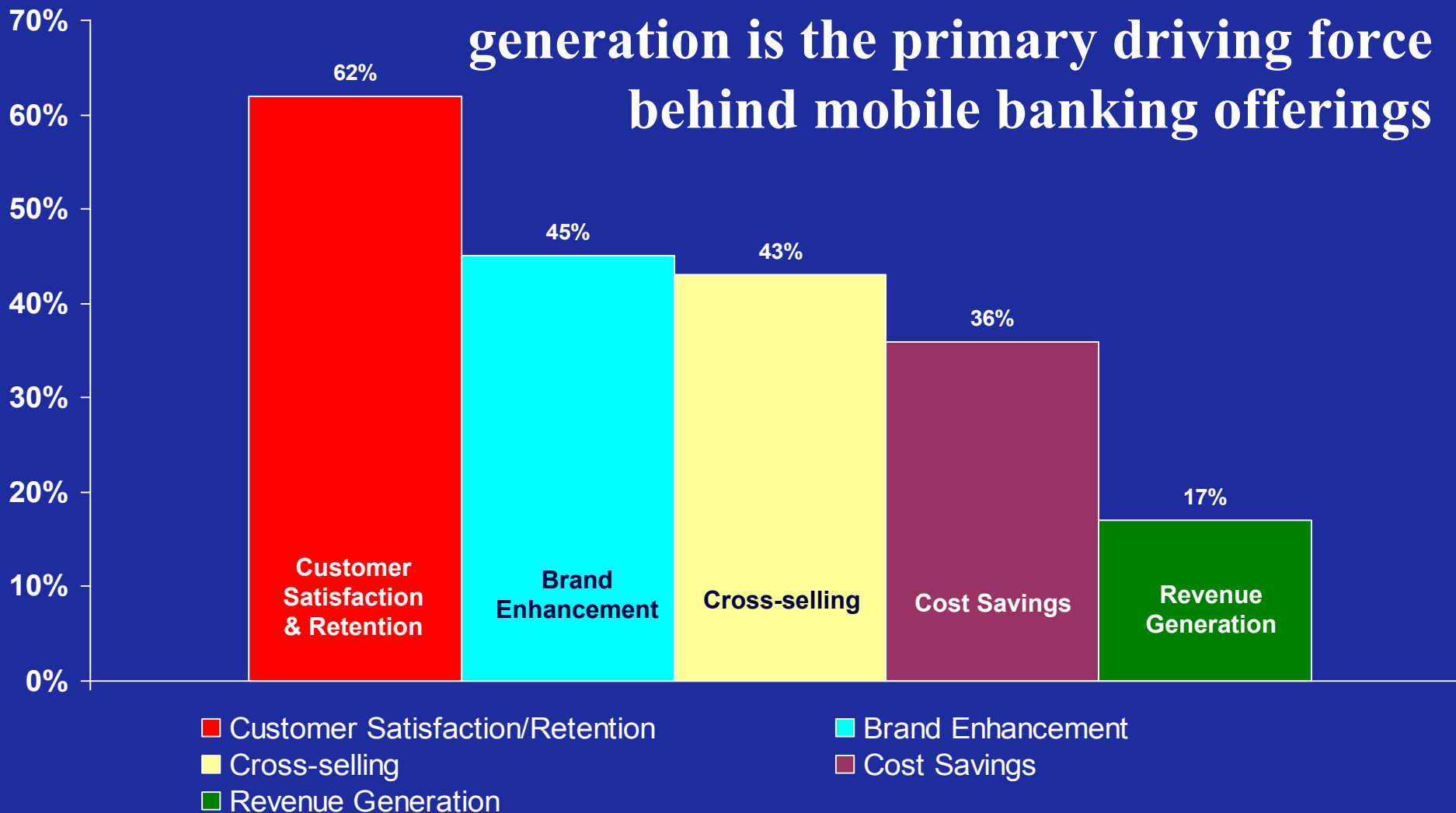
Source: BAI

The Huge Potential of Technological Innovation (2)

- Technology drastically reduces transaction costs, which can lead to:
 - Increased outreach – can serve more people and/or poorer people
 - Increased efficiency and productivity
 - Increased profits
- But that is only part of the picture...

Why Banks Offer Mobile Banking Solutions

Customer satisfaction, not revenue generation is the primary driving force behind mobile banking offerings



Making E-Banking Work

- *Customer Value Proposition*: Why should customers use the solution?
- *Business Case*: What is in it for the multiple partners of an initiative?
- *Regulatory and Retail Environment*: Does the regulatory and retail environment support e-banking?

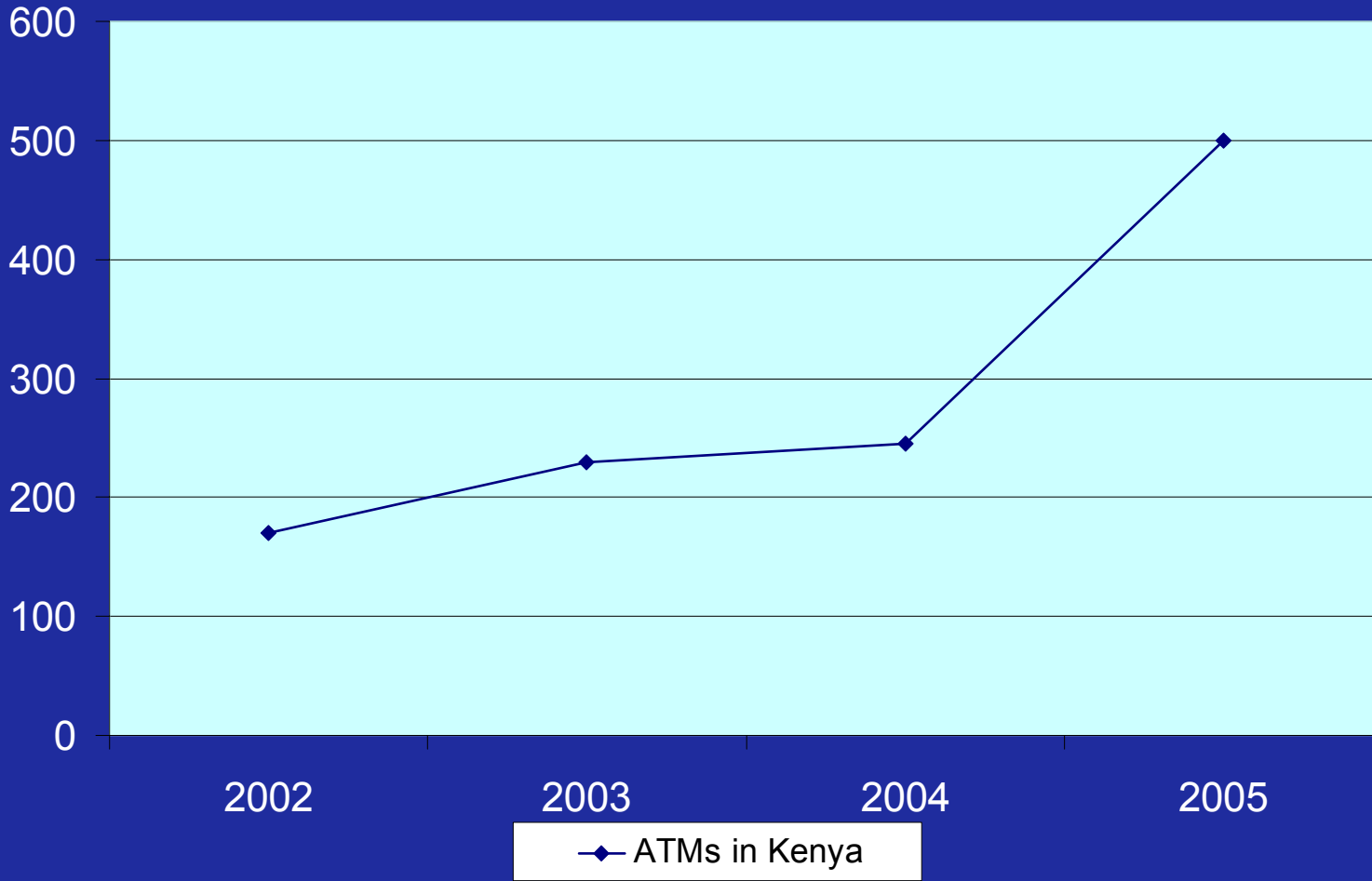
Look at Briefing Note # 31 “Electronic Banking for the Poor”

Kenyan Market

“One of the most promising markets in Africa” –
Visa International

Expansion of ATMs
Employer Based ATMs
ATM banking models
Mobile branches
Cell-phone banking

ATM Growth In Kenya



ATMs by the end of 2005

The larger networks:

- PesaPoint 120* (end 2005) Banks/SACCOs/MFIs
- Cooperative Bank 100* (end 2005)... SACCOs
- Barclays Bank 72 (actual)
- KCB 55 (actual)
- Standard Chartered Bank 60 (approximate actual)
- National Bank of Kenya 60 (approximate actual)
- Equity Bank 50* (end 2005)

And two of the smaller ones

- Kenswitch 16 (actual)
- NIC Move 13 (actual)

*Figures based on published aspirations, in the Nation or Standard

KenSwitch

- Started with a bang!... There are more than 20 members of KenSwitch, a national network of interconnected ATMs...
- But there are only 16 dedicated KenSwitch ATMs.
- Some banks in the KenSwitch network making plans to introduce their own ATM systems.
- Why?
 - Probably inter-bank politics... a limited incentive for banks with large networks to share their networks fees Ksh.250
 - Failure to invest in their own ATMs
 - Banking system development – more banking systems support modest ATM networks

PesaPoint

- PesaPoint is an outsourced solution operated by Paynet...
 - Paynet operates a complete back office solution which performs transactions in a secure environment and interfaces with financial institutions computer systems.
 - SACCOs and larger MFIs likely to be included
 - The initial network will consist of 120 ATMs
 - Charge is Ksh.22 per transaction if your customers use a PesaPoint ATM
 - Total cost over US\$ 8 million
 - Additional services are likely to be available – air time top up, bill payments etc.

PesaPoint ATMs

- Use a graphic user interface and sound in multiple languages to make PesaPoint ATMs as easy as possible to use.

Employer Based ATMs

- Either connected to a bank and situated in or near major employers' premises...
 - Cooperative Bank placing ATMs in Nairobi City Council
- Operated by the employer with back office support outsourced to Paynet, communications by GSM
 - Used in two flower farms in Naivasha
 - Employees using ATMs very regularly in the test farm...
 - Requires 500+ employees or more

Implications of ATM Growth...

- Following ATM growth... and card based growth it is anticipated that there will be a significant investment in Point of Sale machines which will allow
 - Cash back services
 - PoS based mini branches

Equity Mobile Branch



Equity's Mobile Branch

- Travels one day per week to remote locations
- Currently more than 50 locations are being served
- A unit typically operates from a branch with a timetable that follows local market days in local trading centers.
- It makes a small profit based on charging a slightly transaction fee for providing a remote service...
- Can use V-SAT for secure communications
- See *MicroSave* study on Equity's mobile branch

ATM Banking Models

- **NIC Bank created NIC Move!** ... customers pay a one off fee for access to a bank account operated through an ATM... with many additional features.
 - Problem is ... its expensive about Ksh.800 per month
- **Stanbic Bank operate E-Plan** which is a cut down service where the bank account only operates through ATMs.
 - Based on a very successful product with 3,000,000 customers
- Both solutions have dedicated staff at special outlets

Mobile Phone Banking

- Mobile phones offer tremendous promise in providing services without an expensive infrastructure.
- Uses ordinary cell-phones
- Many banks already use SMS to provide information to customers... rather than providing core banking services
- Safaricom, is beginning to test e-banking solutions with banks and MFIs and Celtel will once it has identified strategic partners

Steps to E-Banking

- Ensure basic operations are efficient and effective
- Invest in developing internal IT capacity
- Computerise and network...
- When investing in IT systems ... check whether they are compatible with ATMs etc.
- Read about and learn from other initiatives internationally to avoid their mistakes...

Problems

Most problems come back to:

- *Customer Value Proposition*: Insufficient value for customers
- *Business Case*: Insufficient validation of the business case.... difficult to support a business case on lending alone.
- *Environment*: Unsupportive environment