M-Banking Impact on Development of Developing and Developed Countries

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ABSTRACT

Rapid technological advancement and growing economies have revolutionised the methodologies of transactions. The same is reflected in the access to financial services through m-banking thereby replacing the traditional banking system. The concept has spread across the world and resultantly affected the economic, cultural and social system worldwide. This paper studies the birth of m-banking in developed and developing countries followed by its expansion and its contribution to their growth and development. A comparative analysis has been done in terms of degree of growth variation in various countries due to mobile banking and causes for the same being explored. Various case studies of different countries have been referred to so as to validate the financial and economic influences of mobile banking over the high and middle income group countries. Furthermore an attempt has been endeavoured to explore the financial, social and economic trends in developed and developing countries in the past years along with the future scope of growth has been assessed and the analysis indicate that the developed countries are far ahead in taking benefits from the concept of mobile banking in their day to day transactions whereas developing countries are having substantial potential to take benefit from m-banking and contribute in their financial and economic development.

Key Words: M-banking, Developed Countries, Developing Countries, Economic Development

1.1 Introduction

Mobile banking or m-banking is functionality of computing through mobile phone devices which provide customers with the facility to bank anywhere, anytime through a mobile handheld device and telecom services such as Short Message Service (SMS) or by any other mode using mobile phone (Madan, 2015 and Bångens L and Söderberg, 2008). Mobile banking facility overcomes the space and time constraints from banking activities such as visiting the bank and performing transactions or availing services like those of checking account balances or transferring funds from one account to another and thus saves time. Various services provided by m-banking are: access to balance enquiry and last 5 transactions, provision of immediate payment system, provides status of cheque and issue of new cheque book, enable customers to use secured mode of transactions by facilitating them with generation and change of MPIN and OTP (Madan, 2015). Mobile banking also leads to financial inclusion since, large part of population possesses a mobile phone which provides a great prospect to
banks in using it to enhance and widen their services. Subsequently, these services on mobile phone without the need of going to the banks can also provide an incentive to the customers of backward or rural areas to open their bank accounts and to access it anytime and anywhere. Another merit of mobile banking is that it is universal in application. It implies that mobile banking facility is available for each mobile phone. It can be used through different modes such as unstructured supplementary services data, wireless application protocol, APPLICATION BASED or SMS BASED and that too from any mobile set, let it be GSM or CDMA, having GSM or CDMA, having GPRS connection or not. It suits the need of every mobile phone user catering to all type of individuals (Madan, 2015).

The traces of mobile banking were found in the form of SMS services but with the introduction of internet enabled feature of mobile phones with WAP support in 1999, the Europeans banks initiated the service of mobile banking to its customers (Hannes, 2007). The European company: Pay Box backed by Deutsche Bank financially started mobile banking services in 1999 with short message service as its first feature (Hannes, 2007). Since in developed countries, almost every individual possess a mobile phone besides multiple cellular subscriptions with some consumers so it has enabled them to get access to financial services through mobiles. The market penetration in mobile market is 105% in the US and France and comparatively higher than 130% in United Kingdom and Germany. In 2006, Wachovia Bank introduced mobile banking in USA. Aite Group, 2007 projected that mobile banking users in USA would arrive at a figure of 1.6 million by the next fiscal year and within 3 years it would reach 35 million (Andrew, 2009).

Bain and Company, (2012) further reveals that South Korea had the higher number of users at 47% respondents who did mobile banking transactions followed by Hongkong at 41%, Singapore at 38%, Spain at 34%, US at 32%, Australia at 27%, France and UK at 26%, Canada at 22% and Germany at 16%. However, the scenario is in contrast with respect to developing countries. Although m-banking was introduced in developed countries such as those of India, Bangladesh, Pakistan, Nigeria, Kenya and Colombia in 21st century but the horizon of market penetration of mobile banking did not match with that of developed nations (Madan, 2015). The number of bank account holders is significantly low while a high market penetration of mobile phones is observed in developing countries. For instance, in Bangladesh there is an intense disproportionate between the population possessing mobile phones and the ones holding bank accounts i.e., 4:1. Likewise, India with a population of approximately 1.2 billion with only 250 million having bank accounts and 900 million possess mobile phones signify the uneven proportion of ownership of mobile phones with that of ownership of bank accounts. However among the developing economies, from the years 2007-2011, countries such as Tanzania, Kenya, Ghana and Philippines have high adoption rate of mobile financial services in comparison to countries such as Pakistan, Nigeria, Argentina, Colombia and Bangladesh (Gupta, 2013 and di Castri, 2013).

1.2 Aims and objectives

Owing to the development of m-banking in the international order, including developed and developing countries, the concerned study aims to explore the impact of m-banking on the development of developing and developed countries. Underlying the broader aim, are certain specific objectives:

a. To explore impacts of m-banking on development.

b. To review the difference in the degree of development in developed and developing countries.

1.3 Literature Review

1.3.1 Financial and economic development in developing and developed countries

Developing countries i.e. ones which are going through the initial levels of development with low per capita income and have not reached to the optimum utilisation of their resources like, China, India,
Kenya, Colombia, Thailand have projected some degrees of financial development, however limited. For instance, Research by Andrew (2009) revealed that the Kenyan government has well accepted the role played by the mobile phones and information and communication technologies in the economic development of the nation. Therefore, with a team of beneficiaries, stakeholders, development partners and, government officials, Kenyan governmental authority has stimulated the growth of telecommunication infrastructure like, communication commission of Kenya being envisaged in regulating the fixed line service providers, mobile service providers, and concerned service partners in improving the communication sector. At the same time the government has duly given importance to support and encourage the micro-enterprises as they are regarded seed bed of development and industrialisation. Similar development strategy of development and industrialisation has been observed in Latin America. Andrew (2009) revealed that Latin America has shown substantial inclination towards mobile services and the countries such as Mexico, Chile and Brazil have shown the highest adoption rate till date. Specifically Brazil has shown tremendous growth in subscription of mobile banking services at a rate of cent per cent per annum.

Study conducted by Gupta (2013) noted that Governments of emerging markets such as Tanzania, Uganda, Nigeria, Columbia and India see m-banking technology as a roadmap to accelerate economic growth and development especially enabling the rural and poor population to get access to financial services through mobile technology besides expanding the customer base of telecommunication and financial services providers. Services such as storage of money and conduction person to person transactions could be easily availed by the people through m-banking which merely requires a SIM connection and a mobile phone.

Probable reason behind emerging preference for mobile banking in emerging markets has been explained by Andrew (2009). According to them, mobile banking strikes a balance between locally available resources, basic facilities and technology available at a point of time. Mobile banking links all the sectors of economy and thus promotes cooperation between each one of them. This connectivity could open multifarious entrepreneurial opportunities for various industries. For instance, various financial institutions can advertise and promote their services via SMS rather than traditional methods and thus could save bucks by resorting to cheap advertisement through mobile phones. It would be easier for financial institutions to establish customer relationships through m-banking which would be more personalised and free from intermediaries. Donner and Tellez (2008) posited that many economists and policy makers have advocated the concept of mobile banking in reaching the unbanked in the developing economies. Moreover, Andrew (2009) concluded that low income households who can afford a mobile phone but are not having access to financial services would greatly benefit themselves through m-banking.

Financial and economic development in terms of developed world i.e. which have higher per capita income and people have higher standard of living and hold a strong economic influence like, Australia, Canada, USA, and Japan too shows considerable results. KPMG (2015) observed that banks in the US have begun to provide applications with innovative features that has made the mobile channel most sought after by the customers. Features like advanced login and account management themes have replaced alerts and remote deposit capture have enabled the US economy to become financially stronger and develop by providing advanced mobile banking facilities.

Further survey by KPMG (2015) on the European economy concluded that the current penetration of mobile banking services stands at 38% which has grown by the last year figure of 26%. However, there are some significant differences between specific countries in Europe like those of UK, Australia and USA. Penetration in UK is exactly the average of 38% of Europe whereas USA and Australia indicate fluctuations in adoption rates and vary both in qualitative and quantitative rates of adoption. Furthermore in a research conducted by KPMG (2015) showed that US consumers rank banks on the top in terms of digital satisfaction among 16 business segments surpassing even the online merchants.
Banks in US and other developed economies such as UK, Russia and Germany are using mobile applications to provide a revolutionised banking experience for consumers like depositing of cheque by clicking a picture. This indicates the robust development in financial sector by mobile banking.

Andrew (2009) suggests that mobile phones are cost efficient and easily accessible system of banking services in developing countries. Consequently, mobile communications cast a significant positive impact on economic growth and this impact is more visible in developing economies in comparison to developed ones.

1.3.2 Development of innovation and entrepreneurship through m-Banking

Andrew (2009) suggests that the support of non-governmental and global development establishments have assisted the innovation in mobile payment system. For example, the innovative feature through mobile banking— M-pesa system was developed by UK based development organization, which received an endowment of USD 6.5 million from Gates foundation. Similarly, the GSMA development fund and Gates Foundation initiated the mobile money for the unbanked program targeting people residing below US$2/day in Pakistan.

Agenyi (2013) posited that the vast network of consumer touch points of telecommunications can develop mobile banking. The concept of m-banking has boosted the entrepreneurship by providing a platform to potential entrepreneurs to open retail outlets in both organized and unorganized sectors that either cumulate or sell the recharge vouchers or do recharges by internet connection and provide talk time to the subscribers. This network of telecom is much broader than the penetration achieved achieved by formal banking system in these nations. Network operators now focus on rural areas which have high potential of absorption of subscribers. Therefore, provision of banking/financial services through this mode has evident scope for financial inclusion and thus, presents an opportunity for entrepreneurship in both telecom and financial sector.

Andrew (2009) stated noteworthy instances of innovative mobile transaction schemes which indicate radical transformation in financial transactions landscape. For instance Wizzit, Globe, M-pesa, Visa, Mastercard, Rupay, ATM pin money transfer and many more that have made the customer experience of availing financial services interesting and user friendly.

1.3.3 Alleviation of social exclusion in developing countries through m-banking

Social exclusion suggests that the marginal or disadvantaged sections of society are abandoned of various services and facilities. However, mobile banking is conceptualised in such a manner that alleviate social exclusion in developing countries by being easily accessible and affordable to all the section of society. The ease of m-banking which just requires a handset and connectivity has made the adoption easier in the developing countries and has given substantial aid to enjoy financial services and thus eliminated social exclusion.

Yan (2015) through their interpretive case study of the Benazir income support program in Pakistan analysed that m-banking was a huge success for poor and backward women where through government’s support they were able to avail the financial services and conduct person to person transactions easily.

Riquet (2009) identified that majority of Madagascar’s population practice agriculture and resides in rural and remote areas. Mobile banking holds immense potential for countries like Madagascar and therefore in the year 2010 three dominant telecom companies of Madagascar implemented the m-banking and was successful in capturing 51% of the market surpassing the tradition number of bank account subscribers.
Dobush (2015) and Cherry (2013) analysed that the local government of Quezon City of Philippines, has availed the facility of mobile banking in disbursement of salaries, funds, welfare aids and collection of fees so as to provide access of financial services to all the sections of society. Similarly, Libya, has established ‘a first of its kind mobile voter registration’ in 2014 so as to benefit the society at large. Besides, Pakistan along with local governments and a local mobile service provider designed ‘a mobile program’ which sends voice or text messages to its farmers about disease prevention, market access. This is done in order to promote social inclusion by helping the farmers which form a vital section of society. Similarly, Mozambique is also motivating its farmers in using mobile money to save during good harvest so that they can meet the expense of fertilizers when the next season starts thereby maximizing their revenues (Dobush, 2015 and Ellen, 2012).

1.4 Conclusion

The above reviews on literature suggest that mobile banking though initiated in 20th century has carved a niche worldwide and had caused serious impact on both developed as well as developing countries. The economic and financial system has been revolutionised and the power of conducting monetary transactions has submerged in single hand mobile devices eliminating the need of physical presence of financial institutions. In developed countries such as those of US, UK, Canada, Australia the mobile banking is not limited to just payment transfer but new applications such as remote deposit capture and advance login and account management features have also been devised for ease of transactions and supporting business and entrepreneurial activities. However in comparison to developed countries, mobile banking in developing countries such as Nigeria, Uganda, Philippines, Pakistan, India, Kenya, Colombia is at nascent stage due to lack of awareness and security issues and lower proportion of people having access to bank accounts. Kenya although, has performed fairly well in the mobile banking sector with its commonly used feature of M-pesa in boosting entrepreneurial activity. Also the mobile banking showed a visible growth in a country like Madagascar where majority of population is that of farmers de facto proves that social and financial inclusion could be well incorporated through m-banking. There is no denying the fact that m-banking has huge potential in the developing markets since a large population is left untapped. So this calls up for policy regulations of government that would promote financial inclusion first by way increased holders of bank accounts and subsequently strengthening the connectivity of banks with mobile network operators and welcoming the new players so as to boost innovation and entrepreneurship.

1.5 References

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