CFI Report Highlights Technological Opportunities and Challenges for Inclusive Mobile Financial Services

- For mobile financial services to benefit underserved populations, it is important to continue to support feature phones operating over USSD and STK platforms and 2G mobile networks.
- Realizing the promise of smartphones for mobile financial services requires improving their technical specifications, as well as the presence of high-speed (3G+) networks.
- Costs, for both consumers and providers, are the source of many of the barriers to smartphone mobile financial services adoption. Security threats are also an important challenge.
- Report recommends continued investment in legacy mobile financial services infrastructure to enable financial inclusion.

Washington, D.C., May 11, 2017—The Center for Financial Inclusion at Accion (CFI) released a report, Technology Inequality: Opportunities and Challenges for Mobile Financial Services, which evaluates the enormous potential of mobile financial services (MFS) to provide millions of underserved customers with access to formal financial services. The report sheds light on the numerous technical, cost, competition, capacity, security, and access challenges that remain significant obstacles to more inclusive MFS growth.

The smartphone MFS market still faces numerous growing pains that must be overcome before it can replace the feature phone market. “If mobile financial services are to be a force for financial inclusion, MFS providers and policymakers must not prematurely rush toward a smartphone-only future if that means neglecting the feature phone present,” said Elisabeth Rhyne, managing director, CFI. “Doing so would leave millions of consumers behind.”

In this report, author and CFI Research Fellow Leon Perlman provides a primer on the evolving technologies involved in providing MFS, including mobile data “bearer” technologies, access platforms, and user devices. The backbone of MFS in developing countries to date has been the combination of feature phones using Unstructured Supplementary Service Data (USSD) or SIM Application Toolkit (STK) platforms. These combinations are well-adapted to low-tech conditions, especially in rural areas in developing countries, because they operate reliably with inexpensive phones in areas with poor (e.g., 2G) connectivity.

“The widespread coverage, low cost, and reliability of older-generation MFS systems make them essential for reaching underserved populations,” according to Perlman, an independent consultant and faculty member at Columbia University. “Until high-speed mobile data service gaps are filled, basic and feature phones are likely to predominate in the developing world, resulting in less availability of richer MFS products.”
On the other hand, the smartphone revolution is not yet mature. Gaps in geographic coverage of high-speed data transmission, relatively expensive smartphone handsets that use substandard components, and numerous compatibility issues with smartphone apps all contribute to system fragility. Even though smartphones are penetrating additional markets, the handset capabilities, data transmission speeds and fraud protection will all need to improve before the standards needed for inclusive MFS are consistently met. At the same time, feature phone handsets are getting better, cheaper and smarter and sales are rising.

While there is reason to be optimistic about the future of smartphone-enabled MFS, the report urges regulators and technology providers to continue supporting MFS based on feature phones, even as they work to create paths for newer-generation services. Additionally, policymakers must address competition and security issues that affect MFS provision and adoption.

The CFI Fellows Program is designed to generate research on some of the most pressing questions facing the financial inclusion industry. Launched in July 2015, the purpose of the program is to encourage independent researchers and analysts to systematically examine some of the most important challenges in financial inclusion. Each fellow conducts research, analysis, or writing on a topic of high importance to financial inclusion and produces a paper to be published and disseminated by CFI.

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About the Center for Financial Inclusion at Accion
The Center for Financial Inclusion at Accion (CFI) is an action-oriented think tank that engages and challenges the industry to better serve, protect and empower clients. We develop insights, advocate on behalf of clients and collaborate with stakeholders to achieve a comprehensive vision for financial inclusion. We are dedicated to enabling 3 billion people underserved by the current financial sector to improve their lives.

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