

P E R S P E C T I V E

Financial Inclusion Strategy to
Bank the Unbanked



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Saturation of prime markets is forcing banks to look elsewhere for growth. Hence, in recent years, the world's unbanked population has been at the receiving end of much attention from the financial community. And why not? Estimated at 2.5 billion adults located mainly in East Asia, South Asia and Sub-Saharan Africa, the financially excluded significantly outnumber those with banking access and represent a hard to ignore growth opportunity, at least in theory.

As nations went down different paths to bring more of their unbanked within the financial net, the reputation of several financial inclusion (FI) programmes exceeded their outreach to spread to other parts of the world. M-PESA's 10 million customers-strong mobile wallet service inspired many similar offerings outside of Kenya. Bangladesh's Grameen Village Phone scheme heralded an era of micro-lending to sustain tiny rural businesses. And in South Africa, the partnership between Standard Bank and MTN pioneered the use of the mobile channel to spread outreach banking.

However, these stellar initiatives have only met with limited success on account of various reasons, some beyond the institutions' control. Suffice to say that FI programs are yet to make serious inroads into the underserved market.

Could a more versatile inclusion strategy produce better results? Does the industry need to change its mindset, from one of 'fulfilling social responsibility' to that of pursuing a viable business opportunity? Can the pursuit of financial inclusion turn out to be an innovative way of market expansion, customer diversity management and lifestyle enablement for the masses? I share my thoughts in this paper.

Before taking a look at the vital components of an effective FI strategy, let us consider the hurdles it must overcome.

Elusive business case: The viability of the FI business is under question, because while banks and their delivery partners continue to make investments, they haven't seen commensurate returns. In markets like India, most programs are focused on customer on-boarding, an expensive process involving the issuance of smart cards. However, large-scale customer acquisition hasn't

translated into large-scale business, with many accounts lying dormant and therefore yielding no return on the banks' investment. For the same reason, Business Correspondent Agents who constitute the primary channel for financial inclusion are unable to pursue this activity as a full-time job.

Delayed on-boarding: The customer on-boarding process suffers from latency and could take as long as two weeks from the submission of documents by the applicant, by which time the initial enthusiasm may have waned.

Limited offering: Delivery partners lack the knowledge and skill to propose anything other than the most basic financial products to customers, and hence do not serve their banks' goal of expanding the offering in these markets. On their part, customers see little value in a mere cash-in, cash-out facility.

Not 100% security: There are many concerns regarding data validity and fraud prevention.

Under leveraged distribution: Although the mobile phone has made its way into the hands of the poorest sections of society, banks have been unable to leverage its distribution to the fullest, with both telecom and financial firms existing on two different planes in the FI ecosystem.

For an inclusion strategy to work, it must address the above challenges as far as possible by taking into consideration any or all of the following elements:

[Customer segments, needs and behaviour](#)

Contrary to perception, the inclusion segment is not a singular impoverished, undifferentiated mass, and it is important to navigate its diversity to identify the right target customers for various programs. Rural markets do have their share of moneyed constituents who do not use banking services simply because they are inconvenient to access or have low perceived value. At the same time, urban markets, despite a high branch density, have multitudes of low wage earners outside the financial net. The underserved market has two broad components – one, those below the poverty line, earning less than US\$ 100 per

month and two, mass market customers subsisting on a monthly salary between US\$ 100 and 350. The former have virtually no access to banking, and even if they did, would not be able to afford even basic banking fees. Mass market customers have limited financial access, and possibly the funds to maintain a bank account, but are deterred by the charges.

There are non-financial barriers as well

Branch timings rarely coincide with the off-work hours of the labour class. If their branch is located at a distance, apart from the logistical hassle, they run a security risk in carrying cash to and from the bank. Perhaps most important of all, these people believe in a culture of cash, and are wary of placing their money in a bank. And they see little attraction in cash deposit and withdrawal, which is the basic premise of most inclusion programs.

Given that current banking models are set up to serve the high-value, low volume transactions of the middle and higher classes, both inclusion groups are of little interest from a 'normal banking' perspective. Where is the common ground which is relevant to both banks and their target customers?

Products which are packaged and priced right

A possible solution may be found in the consumer goods industry which changed product packaging and pricing to make erstwhile 'luxuries' universally affordable in sachets. More recently, a telecom firm launched a campaign which talked of how many services they packed into a few cents. Creating affordability through these and other means is crucial to tapping the unbanked market. No doubt pricing is a tool, but banks also need to be innovative in right-sizing their proposition to convince customers that they can derive big value even from small amounts. One way of doing this is to show the target audience that a bank account is actually a lifestyle enabler, a convenient and safe means to send money to family, top-up airtime or make a variety of purchases. Once banks succeed in hooking customers with this value proposition, they must sustain their interest by providing convenience – this presupposes a simple and intuitive user application, ubiquitous access over mobile and other touch points, and a banking

mechanism which is not only secure, but reassuring to the customer.

Business model alternatives

Since these services have to be provided at zero or minimal charge to the customer, the banks need to lower their own cost of customer acquisition and maintenance. Paperwork-heavy brick and mortar branches cost plenty to run, and are obviously unviable in these areas. Which low-cost digital channels can take their place?

It is clear from the above argument that financial inclusion calls for a very different business model from normal banking. At razor thin margins, such a model becomes viable only when it achieves massive scale. This demands three-pronged action: tapping unexplored segments to increase the customer base; leveraging technology and alternate delivery channels to reduce cost of servicing and; offering a wider variety of transactions to increase their volume.

Service delivery strategy is a crucial component of this agenda. As in the case of normal banking, many channel choices are open to inclusive banking, including microfinance institution (MFI) networks, mobile, agency and merchant banking. Some of these are innovative concepts - for example, that of MFI banking, which gets a member of a rural supply chain to fund its other parts. In India and Kenya which follow the agency banking model, a network of business correspondents drawn from the local community forms the backbone of most FI initiatives. Merchant banking is a variation of this strategy wherein retail companies with a large presence in outreach markets constitute and facilitate the banking supply chain, offering banking services at each of their outlets.

Integrating the supply chain using the banking network could bring many benefits to financially excluded markets, not the least of which is plugging the leakage of funds passing through the hands of multiple intermediaries in a cash and carry system. Moving money through the banking system also ensures that recipients of business income or government payouts get their dues without delay.

Another change to the business model could stem from the way banks view competition.

Cross-industry players with an established supply chain in far flung areas need not be viewed as rivals but as potential collaboration partners. Although this thinking is yet to gather momentum, the likes of Kenya's Equity Bank have shown the way by joining hands with M-PESA to offer a savings product, replete with bank account and other benefits, over Safaricom's network. The key to wider acceptance of co-opetitive arrangements lies in making sure that the lines are clearly drawn between the financial and supply chain territories, with each partner retaining firm control over their domain.

Promotions which educate and incentivise

Today, most of those lacking a bank account believe they can do without one. Therefore, the challenge facing banks is to convince and incentivise these people to adopt their services. This is easier said than done because banks must dismantle several cultural barriers within the target group before they can propagate the benefits of financial access to them.

The answer to this lies in the point made earlier about positioning banking services as something that improves the lifestyle of users. It is equally important to educate the constituents of the supply channel including MFI agents, correspondents etc., to spread the good word at the grassroots level, on their banks' behalf.

Risks and their mitigation

Since the FI business yields slim pickings, its survival depends upon eking optimum performance out of the portfolio. Banks resort to several judicious practices such as restricting the size of the loan, inculcating a repayment culture by giving out a fresh loan only when the old one is cleared, exerting peer pressure through self-help groups and assigning an officer to monitor debts. Another creative practice is to reduce risk by not lending own funds, but rather facilitating social lending 'auction-style' by enabling an interested individual lender from the community to quote a desired lending rate of interest against which borrowers can place bids.

Regulatory restrictions and allowances

It is a huge challenge for banks to comply with KYC requirements to on-board customers who

have no documents to speak of. Although these norms have been relaxed in several markets in the interest of inclusivity, banks need to be proactive and liaise with the authorities on instituting a supportive framework, for instance, ushering in digital documentation or routing all Government subsidies and payments through a formal banking network.

Technology 'must-have' capabilities

Technology is the final element of financial inclusion strategy and an enabler of all the others. The choice of technology is therefore a crucial decision, which could make or mar the agenda. Of the various selection criteria, cost is perhaps the most important. This certainly does not mean buying the cheapest package, but rather choosing that solution which by scaling transactions to huge volumes reduces per unit operating cost and renders the business case viable. The platform must be self-sustaining and capable of supporting the necessary functionality on its own; while it must co-exist with other applications, it must not necessitate integration with the core and other systems, nor call for additional infrastructure. In fact, one way of bringing down the cost of implementation is to leverage existing resources to the fullest - by using the local delivery eco-system comprising the postal network and farm produce supply chain to improve outreach; powering the program on available hardware, computers and mobile phones; or using an existing access mode like SMS or USSD which customers are familiar with, to minimise the cost of training them. Also, an externally hosted cloud-based solution which curtails banks' initial expenditure is more affordable.

Challenges of implementation

The implementation of a technology-led assisted delivery channel could come up against several challenges in outreach markets. The low level of customer literacy necessitates a biometric authentication mechanism. Since agents also have limited exposure to technology, they need to be presented with a simple user interface to service customers. With rural areas having little or no connectivity, data is mostly stored offline during field operations; hence, ensuring the security of the data store becomes paramount.

In Summary

Financial inclusion is not only a social compulsion of governments, but an emerging priority for banks that have nowhere else to go to achieve business growth. Although many programs are held up as shining examples, the financial inclusion intentions of most have so far met with limited success. There are several reasons behind this, not the least of which is the fact that current inclusion models are cost intensive and earn precious little by way of returns. Maybe it is time that banks took a comprehensive view of inclusion strategy and all its elements

from customers to products to technology, and arrived at an optimal mix to drive their agenda in the future. Implemented right, financial inclusion programs could no doubt offer banks an innovative means of market expansion, customer diversity management and mass-market lifestyle enablement.

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