

THE RIGHT TOOLS FOR THE UNBANKED

As banks seek growth in segments of the world's population among whom penetration is low, Kris Gopalakrishnan explains how technology can help them achieve a return on their investments

People have talked about the markets in the developed world nearing saturation point and how challenging it has become for businesses to grow market share and achieve high top-line and bottom-line growth. The financial services industry has been no exception to this. Banks in the developed world face increasing challenges in sustaining growth in their domestic markets.

Having conquered niche areas such as new college graduates and baby boomer retirees, banks have turned to segments that some call the "final frontiers" – segments that are most difficult to penetrate because the return on investment is neither very obvious nor easy to achieve. These include large sections of the rural population in developing countries and some demographic groups in developed countries – lower-income and new immigrant groups.

Technology is an enabler

The prime reason for the lack of penetration is obvious: these segments of the population represent a higher risk and lower return on investment for banks and financial institutions. Lower unit transaction sizes are an added disincentive. However, technology will be a great enabler in giving banks a return on their investment and making it a risk worth taking. An effective leverage of technology can reduce the cost of transactions and there is a great opportunity for large financial institutions to participate in the development of these segments by creating a tailored range of products and services.

New business models such as peer-to-peer lending and microcredit, as well as innovative technologies such as mobile



WIZZIT does not require users to have a bank account and is compatible with early generation cell phones

banking, are providing the impetus to tap unbanked markets.

To serve the unbanked population cost effectively, banks need to innovate. Concepts such as microfinance, peer-to-peer lending, use of alternative credit data and mobile banking have opened up numerous possibilities for banks, including:

- *Non-traditional products.* Examples include low-fee cheque accounts, money orders, remittances, and payroll cards. For instance, Citibank's Suvidha Program has penetrated new segments in developing country markets in the past decade. The programme targets the emerging middle class in India and has a low minimum deposit requirement for opening new cheque accounts.

Citibank services such accounts well through localised cost structures.

- *New marketing channels.* To reach diverse segments, banks are concentrating on sponsoring or promoting their affiliations with local community organisations and through local publications. Wells Fargo has secured a growing base of US Hispanic clients thanks to a mix of non-traditional marketing and leveraging its popular money-transfer service InterCuenta Express. Wells Fargo promotes its services to these clients by relying on grassroots outreach to set the stage for traditional advertising. The bank employs about 100 community development officers who meet, greet and connect with Hispanic officials in their communities. The bank

has also revved up media buying on Hispanic-targeted media.

● **Remittances.** This service targets new immigrant populations that want to send money to relatives or acquaintances in their home countries. Banks can offer affordable remittance services as they do not have to treat each remittance as a standalone transaction and the costs appear even lower when the customer is converted into a cheque/savings account holder. Bank of America focused on the Hispanic segment of the US market, which is the leader in money remittances from the US to Mexico. It introduced a service called SafeSend in the form of a pre-loaded card, which could be used to transfer money securely from the US, with the ability to be withdrawn from designated ATMs in Mexico using a secure code. After the initial success of the service, the bank converted its SafeSend customers to regular account holders.

● **Mobile banking.** According to mobile phone maker Nokia, there are about three billion mobile subscriptions worldwide today and this will grow to five billion by 2015, when two-thirds of the world population will have a mobile phone. Partnering with mobile service operators provides banks with the best chance to penetrate remote areas. The ability to leverage an existing infrastructure relieves the pressure on squeezing more out of each transaction and thus enables small-value transactions. WIZZIT, a recent start-up, is a cell phone-based banking facility that targets an estimated 16 million unbanked or underbanked South Africans – about 60% of the country's population. WIZZIT does not require users to have a bank account and is compatible with early generation cell phones that are popular in low-income communities.

● **Micro-finance.** This enables banks to offer financial services, such as microcredit, micro-savings and microinsurance, to impoverished people in the developing world.

● **Alternative credit data.** Banks can evaluate the creditworthiness of customers that they previously declined due to lack of credit history by using non-traditional data. A history of recurring payment obligations, such as utility payments, rent, insurance and telecommunications payments, that



**BRINGING
UNBANKED
PEOPLE INTO
THE
MAINSTREAM
HAS BEEN AN
IMPORTANT
SOCIAL GOAL**

resemble credit transactions can be considered as alternative indicators of creditworthiness.

● **Peer-to-peer lending.** Enabled by the internet, borrowers and lenders can enter into credit transactions without banks intermediating. With the growing popularity of peer-to-peer sites such as Prosper.com, peer reviews are expected to replace formal credit scores as an indicator of creditworthiness. Banks have the opportunity to 're-intermediate' and blend data from sources such as utility companies with peer review scores to compute the creditworthiness of potential borrowers for possible lenders.

Tapping remote areas

Besides mobile telephony, there are technology innovations that can potentially help tap remote unbanked markets in the developing world. These include point-of-sale (PoS) terminals, smart cards and biometrics.

Hardware commoditisation, coupled with new software paradigms and advancements in mobile telephony, will make PoS terminals economically viable and convenient. The One Laptop Per Child initiative launched by the faculty of MIT Media Lab has demonstrated that laptops for educational purposes can be built for less than \$100. If computing technology can be mass produced at such low cost, banking software delivered over the internet in software-as-a-service models, and reliable internet connectivity made available through the mobile infrastructure, every village and hamlet can be equipped with a mobile banking station.

Smart cards will supplant cash as they provide a relatively secure mode of transaction due to low risk of loss and fraud, and obviate the need for banks to establish bricks-and-mortar branches with safe deposit vaults in remote areas. Biometric characteristics, such as fingerprints, will serve as useful means for authentication and identification of a customer base that may not be literate.

Minimising costs

The costs of implementing these technologies can be minimised by employing an economically optimal global sourcing model and sharing infrastructure across transactions, financial and non-financial (filing taxes, registering land titles, etc) through the creation of open-source standards.

The day is not far off when farmers in India equipped with mobile phones and smart cards obtain a loan through a microcredit scheme, buy seeds and fertilizer by making payments via mobile phones, sell their crop and receive a payment into their bank accounts, update their balances on their smart cards at PoS terminals, and file their taxes through the PoS terminals, facilitated by agents.

Bringing unbanked people into the mainstream has been an important social goal of responsible banking. However, banks have struggled to balance this social goal with their pursuit of business goals to meet shareholder demands. A combination of disruptive business and technology innovations is enabling banks to attain these goals without making compromises. **TE**

Kris Gopalakrishnan is CEO and managing director at Infosys Technologies



POWERED BY INTELLECT
DRIVEN BY VALUES

Infosys Technologies Ltd (NASDAQ: INFY) defines, designs and delivers IT-enabled business solutions that help Global 2000 companies win in a flat world. These solutions focus on providing strategic differentiation and operational superiority to clients. Infosys creates these solutions for its clients by leveraging its domain and business expertise along with a complete range of services. With Infosys, clients are assured of a transparent business partner, world-class processes, speed of execution and the power to stretch their IT budget by leveraging the Global Delivery Model that Infosys pioneered.