

Emerging trends and good practices in financial inclusion worldwide



DAVID PORTEOUS
EFINA A2F Launch, Lagos
2 December 2014

Financial inclusion has mainstreamed during the past decade

The Economist

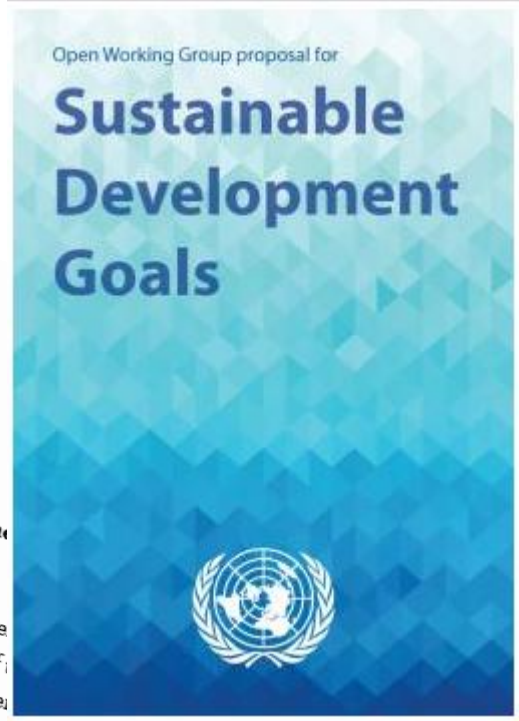
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Financial inclusion A phoneful of dollars

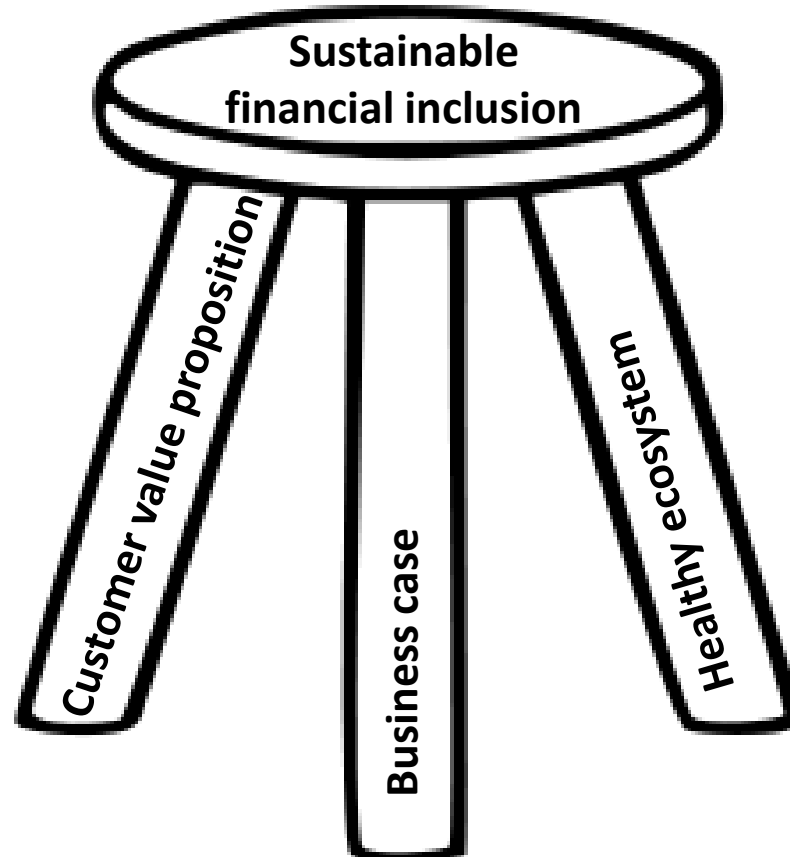
Nov 15th 2014 | HOUSTON, JOHANNESBURG AND MUMBAI | From the print edition

PEOPLE stream in as the doors to a massive stone building open. Guards in khaki uniforms wield ancient British rifles as men and women in colourful saris direct the flow of customers toward the 14,000 people who work here, at the Mumbai branch of Gold-buyers go to the left where they are offered certified coins or ingots that come in sealed plastic cases. A dozen naval officers' salaries, like those of many state employees, are paid through the bank. At a counter upstairs, tellers help illiterate Nepalese migrant workers to send money home.

That is one way to provide financial services: have a bank do it. Defenders of this approach say that it brings the unbanked into the financial mainstream by getting them accustomed to using banks rather than informal services. But it is both expensive—bank branches cost a lot to build and off—and inefficient. In India only a rich minority of citizens have bank accounts, and two-thirds of adults—many of them rural and poor—have no access to financial services at all. Why should they have to spend time, effort and money to travel to a bank branch?



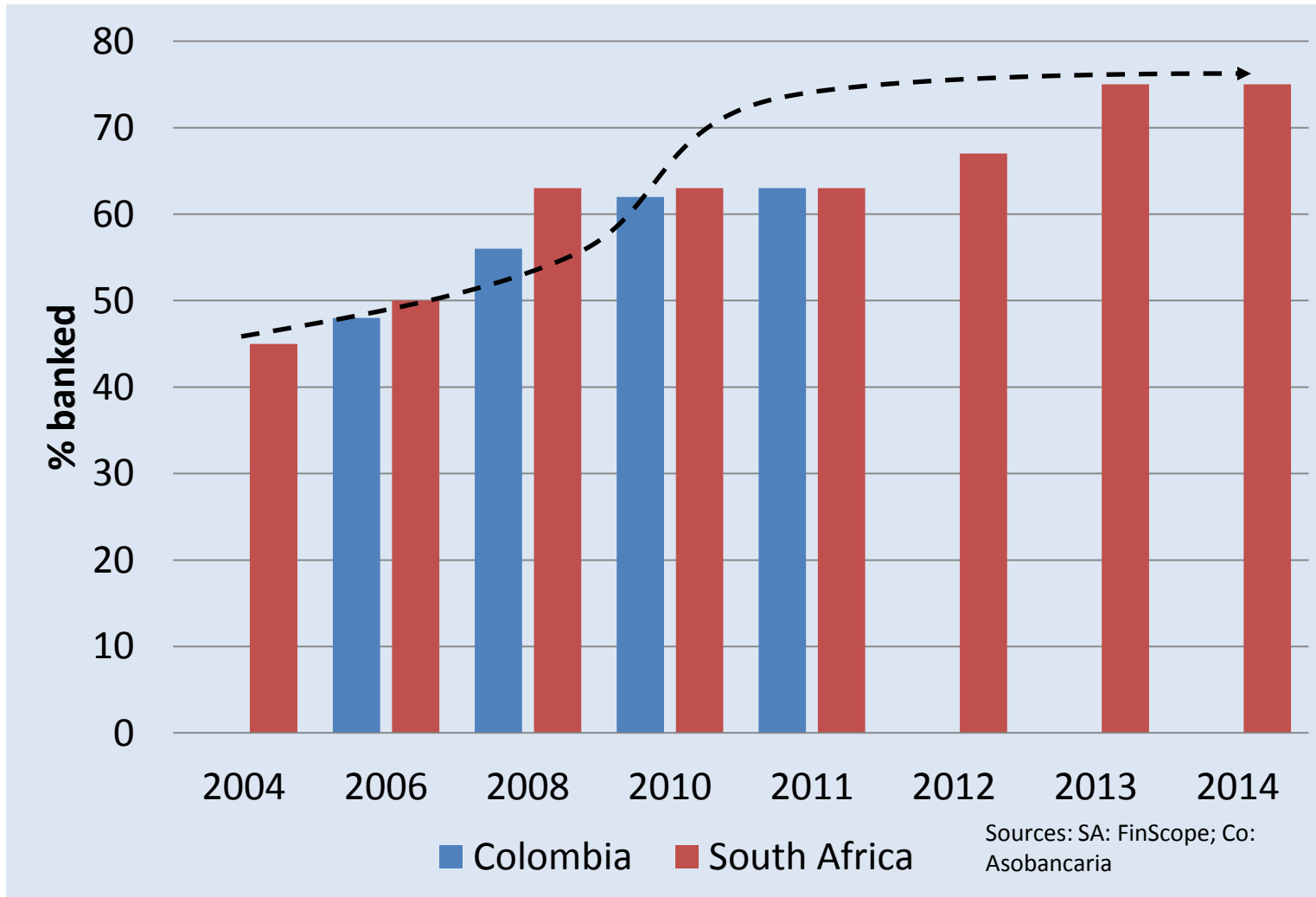
The three legs remain essential for sustainable long term inclusion



Three propositions

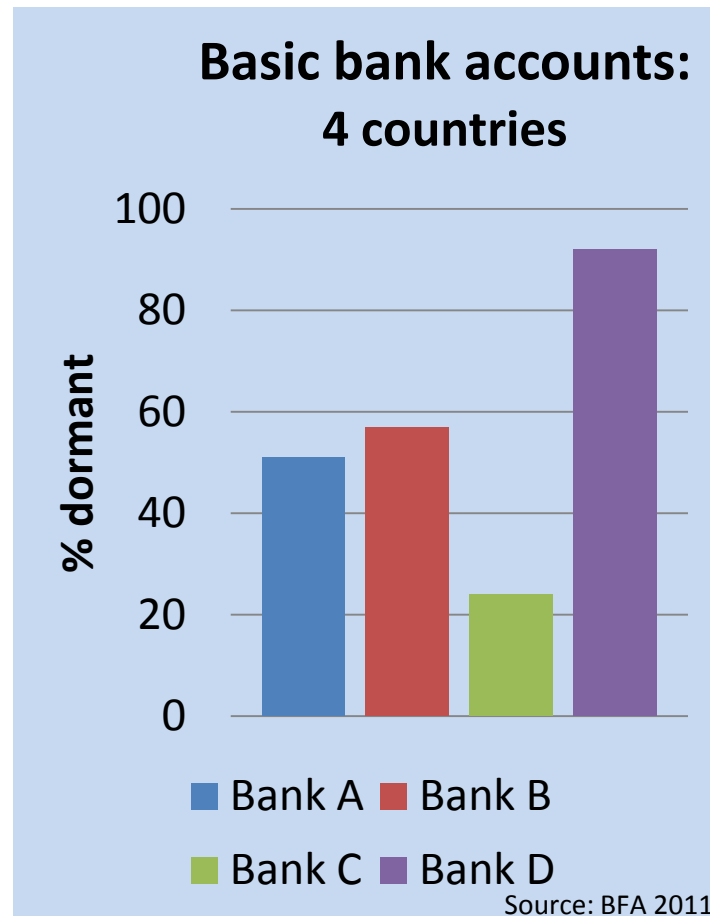
- 1. Customer proposition:** *rising level but 'leaky bucket'.*
- 2. Business case**
- 3. Ecosystem**

Headline % banked has risen steadily in MICs, but is levelling off





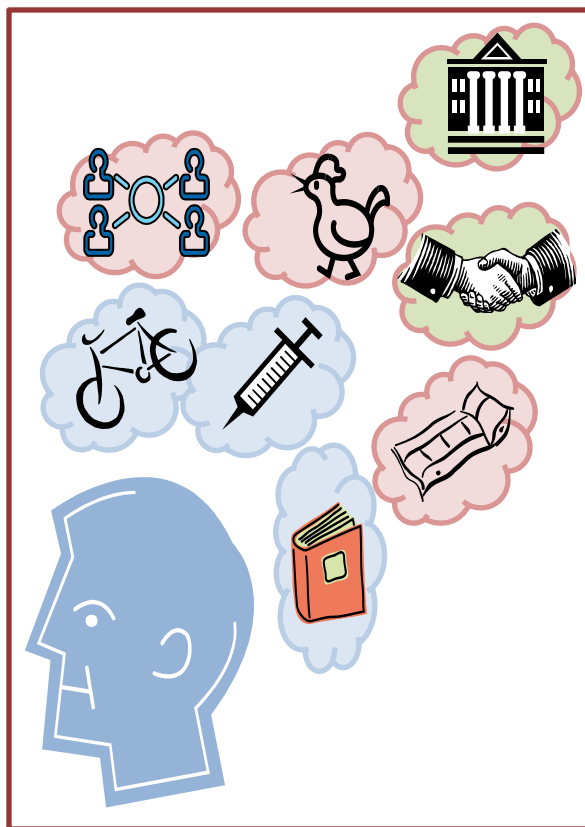
But the 'bucket' is leaky!



Mobile money
70% of registered mobile money accounts worldwide not 90 day active (GSMA Tracker, 2014)

Large insurance group (2011):
80% of clients were formerly uninsured; but 40% of all new policies sold in mass market lapse

What to do about this? Pull vs push: connect to mental models & stories



Source: Ignacio Mas (2012,4)

- Conventional financial services just don't fit the way many people think about financial products, especially unbanked
- Example of savings and G2P
 - Link to stories people tell themselves
 - Allow them to calibrate the degree of liquidity and access

Three propositions

1. **Customer proposition:** *rising level but leaky bucket.*
2. **Business case:** *where's the 'rocket fuel'?*
3. **Ecosystem**

Recent publication on experience of 5 large banks

Full report downloadable at
www.gafis.net



Basic bank accounts lose money

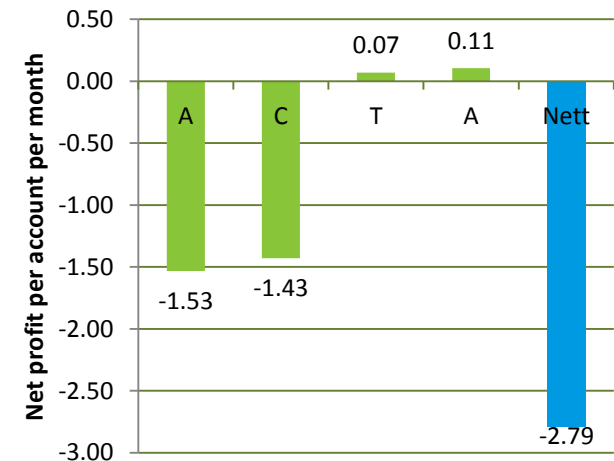
Profitability is Calculated in 4 “Buckets”

Acc't Handling
 Cash Handling
 Transactions
 Adjacencies

Source: Fighting poverty through payments (Gates Foundation 2013)

- Most GAFIS banks have ‘TA’ model; some ‘CTA’ if they can charge adequately for branch and ATM transactions
- However, revenues do not outweigh high account-related costs of dormancy and opening

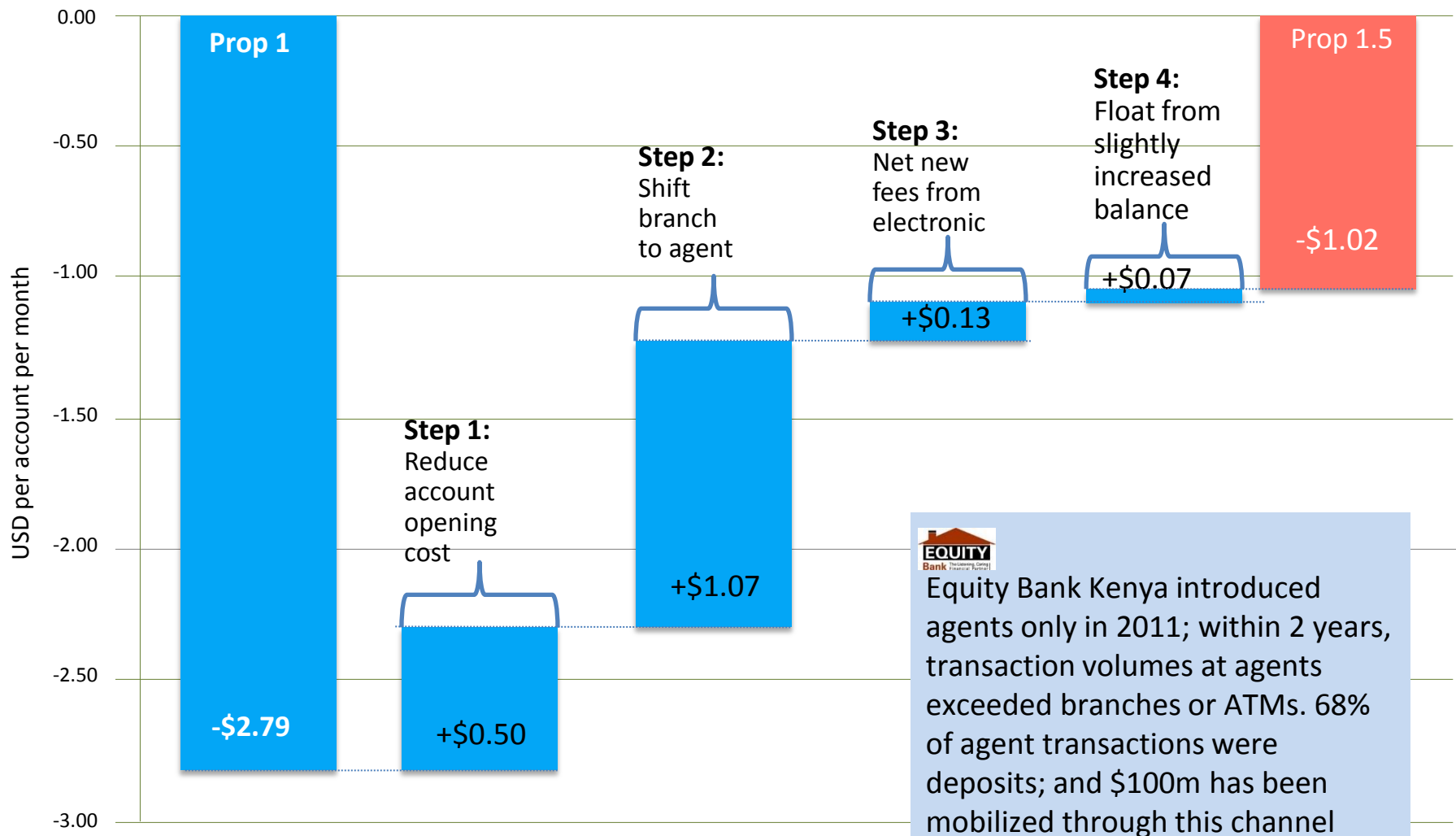
Proposition 1.0 account



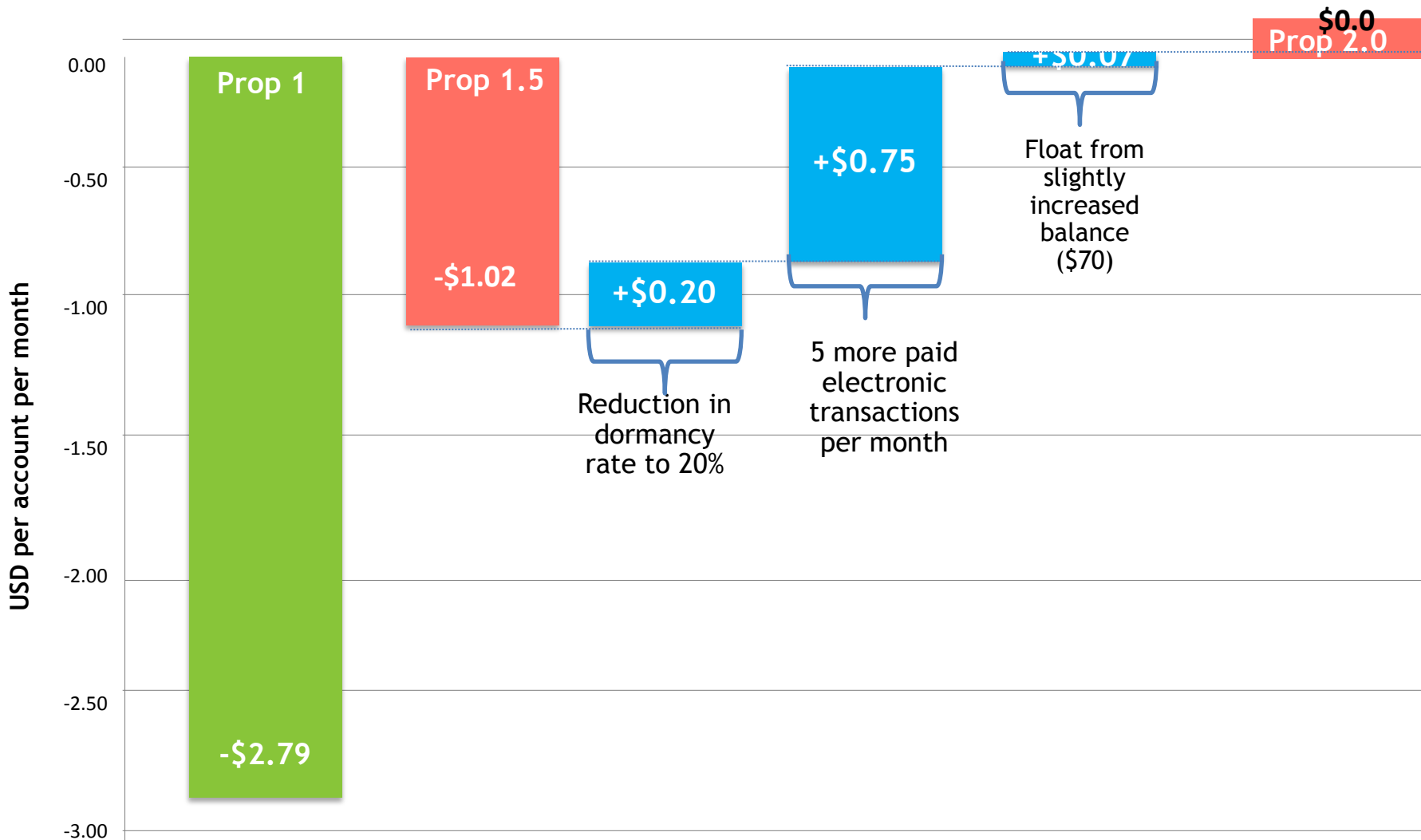
Assumptions

- Average balance \$30
- Dormancy: 50%
- Net interest rate: 4.25%
- Each month:
 - 1 branch transaction
 - 1.7 withdrawals total
 - 0.5 electronic credits/debits

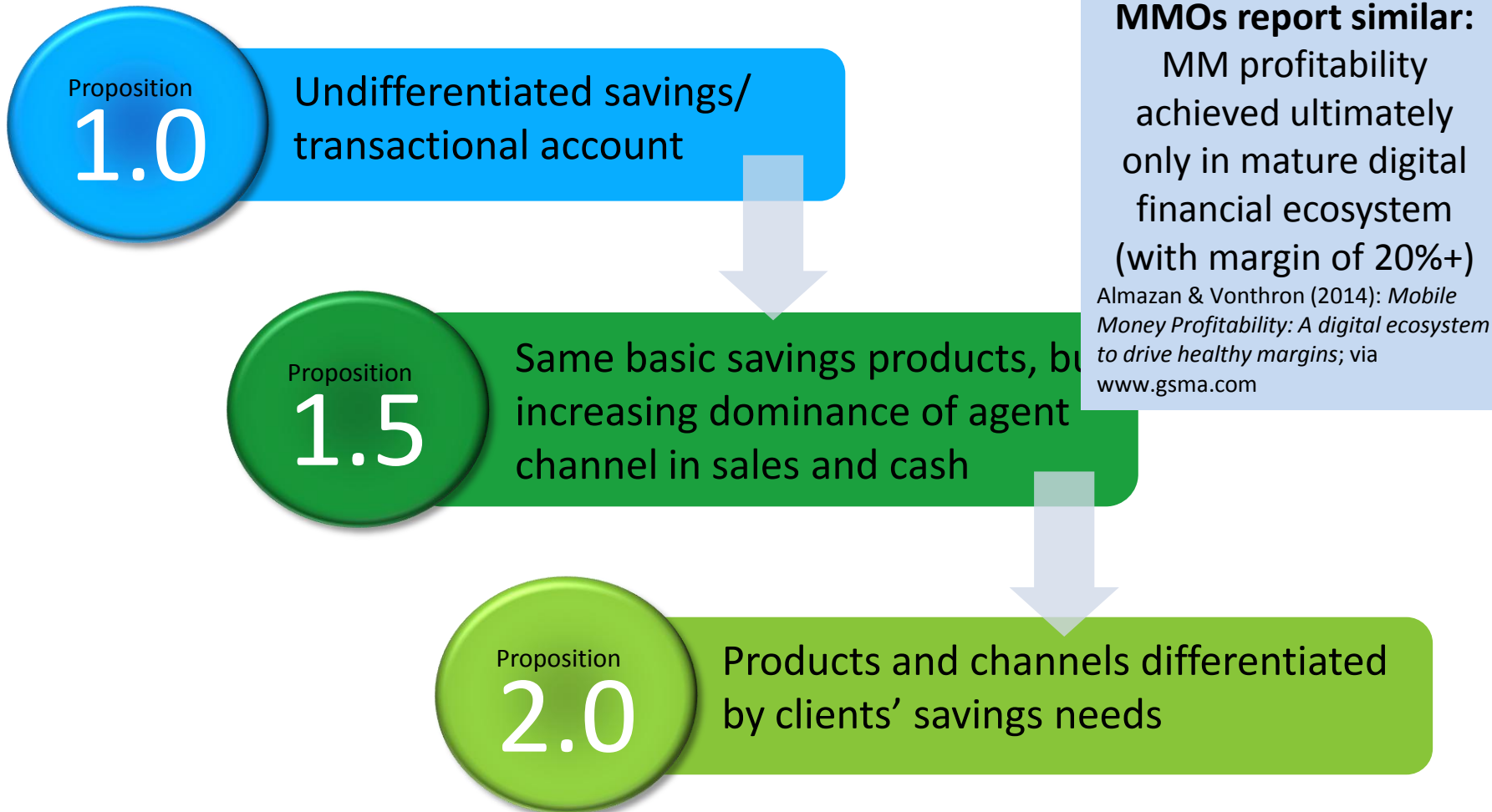
What to do? Using agents reduces losses but does not alone lead to profitability



Ultimately, getting to breakeven on account requires move beyond cash; and then cross sell for client profitability



The GAFIS bank journey to profitability



Three propositions

- 1. Customer proposition:** *rising level but leaky bucket.*
- 2. Business case:** *where's the 'rocket fuel'?*
- 3. Ecosystem:** *waiting for smartphones*

The spread of smart phones

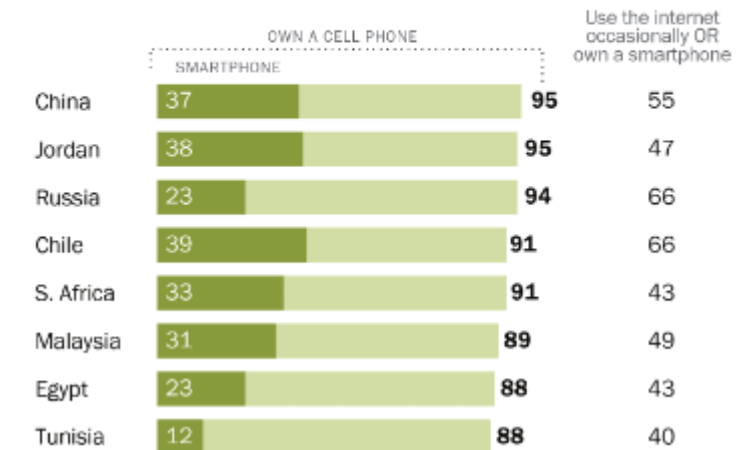


Smart phone subscriptions will rise 20% in 2015 to 2.4 billion of 7 billion mobile subscribers worldwide

(The Economist: The World In 2015, 124)

Cell Phone, Smartphone Ownership and Internet Access

% who ...



Source: <http://www.pewglobal.org/2014/02/13/emerging-nations-embrace-internet-mobile-technology/>

This matters because:



Photo: Julie Zollmann, 2014, in Vihiga rural Kenya

- The customer proposition is vastly enhanced in terms of interface and functionality
- Cost is reduced for providers
- Access to internet channel is harder for any channel provider to control
- Data collection opportunities are enhanced, reducing exclusion from no information

What to do? Understand different digital pathways which lead to financial inclusion

1. “Big data”

- Large new entrants with ability to collect and use data win to manage credit

2. Local business route

- Local businesses see other benefits to digitization

3. Social networks

- Financial services energize and extend social network

Source: Mas and Porteous (2014, forthcoming) **Pathways to smarter digital financial inclusion**

Conclusion

- A decade on, there is reason to celebrate the progress in financial inclusion worldwide, but not too much yet.
- Financial inclusion may have been mainstreamed, but the core goal remains unsolved: connecting everyone, everywhere to robust financial services they will use and benefit from using.