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MASS RETAIL BANKING: HOW SAVINGS BANKS IN AFRICA, ASIA AND LATIN AMERICA CAN PROVIDE USABLE SERVICES TO THE POOR

Working with savings banks to double the number of savings accounts for the poor
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MASS RETAIL BANKING: HOW SAVINGS BANKS IN AFRICA, ASIA AND LATIN AMERICA CAN PROVIDE USABLE SERVICES TO THE POOR

Working with savings banks to double the number of savings accounts for the poor

Most elements of a pro-poor service are probably embedded in existing product ranges and it looks possible to make them affordable but they need to be offered in ways relevant to the needs of the poor. Allowing the poor to transfer money and make payments via electronic means, particularly mobile phones, is the single most important quick win open to members.

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Context for the paper: The background to this assignment is the WSBI Programme "Working with savings banks in order to double the number of savings accounts in the hands of the poor". This specific study relates to sharing lessons under the programme. This Programme is funded by the Bill & Melinda Gates Foundation.

Participating partner banks: KPOSB Kenya, LPB Lesotho, PBU Uganda. SAPB South Africa, Sistema Fedecredito El Salvador, Sonapost Burkina Faso, TPB Tanzania, VPSC Vietnam.

The authors would like to thank the participating banks for their active contributions in completing two substantial questionnaires and answering subsequent questions. This paper is the second version and has benefitted from comments from members participating in the study and is now ready for wider circulation. Other members are very welcome to comment as the paper has a relevance beyond just the issue of reaching the poor.

WSBI

PRODUCT MAPPING FOR PRO-POOR SERVICE DELIVERY **KEY MESSAGES**

All projects under the WSBI Programme included commitments that there would be demonstrable improvements in the usability of products for the poor by the end of this year and progress on this has generally been limited. This study was set up to look at what the poor really do with their money and see what potential there is within existing product ranges to meet their needs.

The positive message coming out of the study is that the poor are not so different in their needs than the mass market of which they constitute the largest part, so the mass retail banking model to which most WSBI members aspire should be able to meet their needs. Even more encouraging, investments made under the WSBI Programme are closing gaps in capacity to offer a genuinely mass retail product and service package, particularly in the area of customer-initiated transfers that matter so much to the poor. Moreover, we are finding a more pro-poor bias in existing customer bases than we ever expected (at least half of client activity is taking place across accounts with average daily balances of less than $25).

The paper makes a bold assertion that universal banking is pro-poor but this will only be accepted when savings banks demonstrate growing use of their products and services by the poor. Here the picture is much more disappointing, with slow take-up of new accounts through new "pro-poor" distribution channels. This is partly because it is too early to tell for most projects, so the paper has to look for evidence of the potential to reach the poor and for obvious obstacles likely to stop that potential becoming a day-to-day reality. This brings up a number of fundamental questions. What is the difference, if any, in the demand that needs to be met across the whole mass retail spectrum and the poorer end of that spectrum? If there is no fundamental difference in the needs to be addressed, how do we configure those packages so as not to discourage potential demand for services coming from the poor and push it back towards the informal/cash economy? And, if we know those packages can meet the needs of the poor, how do members communicate this to the poor so they start using what is available?

Research done specifically for this paper shows most elements of a pro-poor service package are in place or being added to existing product and service ranges. Background market analysis suggests pricing for growth will have to be at levels that the rural poor can afford because the only real open market space for partner banks is towards the bottom end of the socio-economic spectrum; better off households, earning much above $3-5/day (depending on country income levels), are already well penetrated. The study shows what a challenge this is but suggests affordability to the client can be achieved even when clients are poor rural householders, but only by shifting the transaction mix from cash to electronic. If members can make themselves relevant to this most challenging part of the market they will also make themselves more competitive in segments where customers have more money: one of the strengths of the mass retail model.

There is a clear sequence of how the mass retail banking model builds successfully, namely market penetration through addressing immediate payment and transfer needs before building sustainability through savings accumulation and ultimately consolidating into a full mass retail product range with appropriate lending and insurance services. Not all of the banks covered by this study are allowed to follow the whole sequence at the moment, but there seems to be enough potential with the capacities that are being made available by the projects to dramatically improve service levels for the poor.

Mass retail banking is characterised by a clear internal uniformity but also by an external presentation that speaks to needs across the whole mass retail financial market. Presentation is, however, an area where more work needs to be done under the WSBI Programme – what mechanisms are used by mass retail banks (market research, analysis of transactions, focus group discussions, etc.) to understand who is using or not using their product and service range; what improvements can make the customer experience less onerous and more satisfying? In essence, how does a mass retail bank that needs to cover as broad a spectrum of the market as possible let the poorer end of that potential customer base realise that the bank is there as much for them as for the middle and better off parts of the market?

It is for each bank in the programme to decide how to use the information in this study, but the general conclusion is that gaps in product and service ranges and quality of sustainable delivery can be addressed with means that should now be at the disposal of those banks, and that pricing for affordability is also possible. Banks now need to decide whether the products they have designated as pro-poor really do offer the usability that the poor need and that is necessary for rapid uptake.

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ABBREVIATIONS

Ac / ac	Account to account transfer (usually between accounts owned by same person)
ATM	Automated Teller Machine
B2P	Business to Person
CGAP	Consultative Group to Assist the Poor
G2P	Government to Person
GSMA	Groupe Speciale Mobile Association
IRO	International Remittance Operator
KYC	Know Your Customer
MFI	Microfinance Institution
MMO	Mobile Money Operator
MNO	Mobile Network Operator
MRB	Mass Retail Bank
P2B	Person to Business
PoS	Point of Sale
PPP	Purchasing Power Parity
WSBI	World Savings Banks Institute

1. POSITIONING SAVINGS BANKS AS "MASS RETAIL BANKS"

Servicing the mass retail financial sector has always been the main core activity of WSBI member banks. As well as doing this through their own outlets, they were pioneers in using other networks as a way of reaching out to unserved communities using third party (often postal) agents and now increasingly mobile operators. In servicing the whole sector they almost always include the poor. The product and service packages they use for this are better defined as "mass retail" because savings banks are not specialist "banks for the poor". That said, pro-poor is implicit in the common values embedded in WSBI's "3-Rs" mantra – **Regional** (i.e. working in all regions of a country, whether favoured or disadvantaged), **Retail** (working with households, individuals and the businesses and public agencies that interface with them) and **Responsible** (in a way that fosters social cohesion in the societies they serve). By definition this should make them as relevant to the poor as any other member of the ordinary public in their home market.

1.1. Mass Retail – a business model under continuous development

The business model for mass retail financial services delivery is currently the subject of rapid development, because of

- worldwide attention on improving the access to financial services for the poor via a broad range of institutions and suppliers in the mass retail financial services supply chain;
- improved insights on financial behaviour of the poor, particularly as a result of the financial diary studies originally pioneered by Stuart Rutherford[(i)];
- enlightened policymakers and regulators willing to permit use of innovative and cost-reducing delivery channels such as cheaper branches, agents, mobile phones, etc.;
- wider take-up of technology (especially mobile phones) and reducing costs and improving technical potential for data capture, storage and analysis.

In the 2011 Annual Report of the Mobile Money for the Unbanked Program, Ignacio Mas noted that there is a need to experiment with different business approaches to learn how each performs in different market circumstances.[(ii)] This will turn out to be a crucial strand of this paper.

Another important signal was given by the World Economic Forum in Davos in 2011 by a "strong confirmation of inclusive growth through mobile banking, but . . . an undercurrent of fragmentation with too many players thinking they can do this as an independent provider, and not being part of a larger ecosystem. This hampers growth and stunts value. It won't be visible in the first wave, but the ceiling will exist because market fragmentation lowers value and creates market confusion."

1.2. The general approach of the Mass Retail Bank (MRB) model

The MRB model combines a general approach of maximum gearing of relatively simple and standardised core IT systems and business processes with very structured frameworks that feed these to all business areas of the bank and its supply chain partners. Standardisation is needed to deliver low costs but must not come in a way that makes different business areas look as if they cannot meet the needs of their particular customers. The important point is to avoid proliferating tailored solutions so core systems and overheads are amortised over the broadest possible customer base. Then more marginal groups that do not need the full overhead can be addressed on a marginal cost basis. Caixa Economica Federal of Brazil is a good example of this. It sets up small cash microloans (ideal for keeping its clients away from moneylenders) as part of the contractual arrangements for a basic bank account that is also designed to receive batch-processed G2P (Government to Person) social transfers and handle P2B (Person to Business) utility payments.

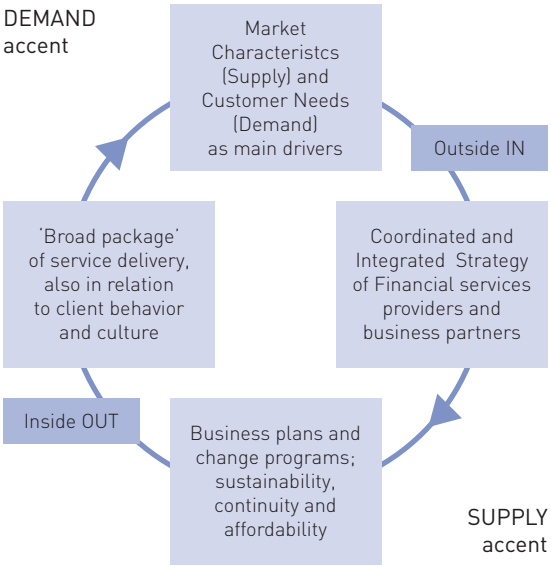
The business impact of combining services in this way is obvious from looking at the way core systems can be amortised and spread over an increasing customer base to deliver economies of scale. Provided core systems costs are recovered out of charges for the basic money-in/cash-out process that all basic bank accounts include, account to account transfers and payments can be offered for not much more than the third party channel costs (ATM, PoS, mobile, etc.) that the transfers trigger. By actively differentiating the price by transaction type to encourage more use, the whole package becomes more attractive. If government, employers and utilities then start paying for G2P, B2P, P2B, etc., it is possible to make the basic service even cheaper (sometimes free) and still break even.

This is what tends to happen in better off developing countries, and the MRB model is standard across both developed and developing economies, particularly in Latin America and East Asia. It has, however, never really got as well established in sub-Saharan Africa, where it has been harder for the model not to price itself out of the mass market (and therefore become somewhat self-defeating). To work, the approach has to encompass both demand and supply sides of the mass retail financial services model and deploy international systems and processes in a way that works in the local environment. The main characteristics of this approach are:

a. "driven" by market research of local supply and demand characteristics so that the best routes to different customer segments can be identified;
b. translated into an integrated "supply" strategy based on a mass retail model with other supply chain partners in the mix but bank-led and ensuring sustainability of all partners;
c. augmented by "stakeholder" plans that focus on servicing the total market including "bottom of pyramid"/pro-poor service delivery);
d. and daily delivery of financial services that responds to as well as shapes client behaviour and culture and through this interaction feeds back new ideas that further develop the composition of mass retail and also pro-poor service delivery of the MRB.

This integrated approach is fundamental to the overall model and imposes the following business disciplines and characteristics on an MRB:

Characteristics of an Integrated approach of developing and maintaining 'mass' retail financial services delivery for the BOP



Also very relevant to this integrated approach is how you build retention of different individual client segments, especially as clusters of clients move out of poverty. Mobilising savings for both individual and national development is after all the mandate often given to savings banks. The prospect of elevating clients from poverty is therefore a major reason for improving the usability of their pro-poor product offer.

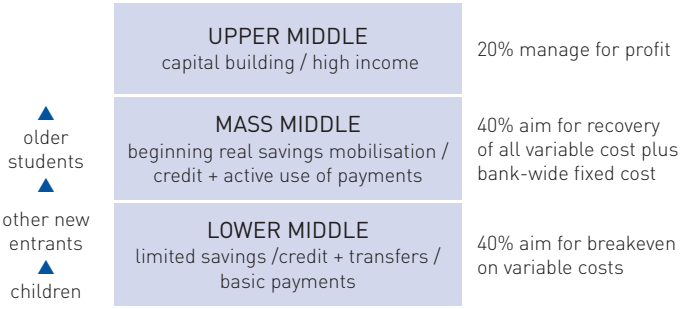
1. UNDERSTAND AND FULFIL LOCAL DEMAND	
a. distance is money	proximity via effective and affordable distribution infrastructure accessible and available to all clients, including the rural and low-income client segments
b. pricing	affordability, availability of cost-efficient alternatives and opportunity costs
c. product development	services according to investigated wider local market and bottom of the pyramid needs
d. promotion	increase financial literacy and trust
e. culture	welcoming, efficient, easy and pleasant customer interface, irrespective of customer's language, skills, dress and class
2. IMPROVE MASS RETAIL SUPPLY CHAIN CONTINUITY	
f. low cost	efficiency in whole supply chain through integrated approach and economies of scale in front, middle and back offices
g. transfer pricing, tariff charged to clients	sustainability for all stakeholders in supply chain
3. MATCH DEMAND AND SUPPLY IN "ON-GOING" BUSINESS AND IN CHANGE PROJECTS	
h. diminish fragmentation, core activity driven	service integration, interoperability, "guest use" in distribution channels and service centres
i. improve "change" effectiveness/efficiency	"integrated" projects with proven solutions

In the segmentation graphic on the right, the client base of a typical MRB is built from the poor right up to the highest value segments. Cost control is crucial to getting any value out of the bottom of the base because most new entrants and poor clients can afford to make very little contribution to fixed overheads at all – they may grow to be more valuable but initial cost allocations cannot anticipate this; much safer to meet their needs by stretching the productivity of existing capacity than expanding it specifically for them. This leaves the mass middle portion of the customer base to carry the largest part of the main fixed cost base of the bank. Paradoxically, top-end customers are a bit like the poor despite generating more income. If they can be serviced off the same infrastructure as the mass middle then they create the bank's profit, but too many special systems and processes will raise the marginal cost-income ratio of serving them and profit for the bank as a whole declines. It is also important to understand that this model is not a static one; most clients, even poor ones, will progress over time to higher levels once they break out of the poverty trap.

It is absolutely fundamental to a successful MRB that it is able to operate further down the socioeconomic spectrum than its competitors because that is how it secures the customer numbers needed to achieve the economies of scale and scope that are fundamental to its business model. This in turn means pricing its product and service package so that ordinary people's wants and needs turn into effective demand for which they can pay a fair price. This means aiming for thin margins over millions or many millions of customers in contrast to the high-margin/high-value/low-volume strategy typical of most purely commercial banks. To do this requires ruthless efficiency and a high degree of standardisation and often means working with other players in the same retail market space if they offer better routes to marginal clients.

Partnership has always had a potential role to play in mass retail banking. For savings banks this has mostly been with postal services or networks of local credit institutions. This is still a widespread model but now mobile network operators are also being looked at as possible partners, as are microfinance institutions. That said, partnership is not an easy model to make work. The efficiency and standardisation required by the MRB model are hard enough to engineer internally and become even more difficult across different entities. Each partner must be able to preserve areas of their own competitive advantage (and the profit coming from those advantages) but each of them must also be willing to surrender elements of delivery of the product and service

Typical MRB segmentation of individual customer base



package because that is the price of "guest space" in each others' market place.[1] Interestingly, there seem to be more tensions over who "owns" the customer with potential new partners than with the more traditional ones (where there have traditionally been much greater problems with who owns the cash).

To conclude this general characterisation, the first golden rule of Mass Retail Banking is that it only really works across a broad range of customers, meeting a broad range of needs in a fairly standardised way. Without this it will not achieve the economies of scale that underpin profitability in mass retail markets. The second golden rule is that those needs must be addressed in a continuous and coherent way otherwise customers start to pick the package apart and economies of scope are lost. The third golden rule is to price to encourage customers to buy the whole package and not pick it apart; if pricing is too high demand ends up being pushed back into the informal and cash economy and the MRB will be left with too small a share of consumer demand to achieve economies of either scale or scope.

1.3. Judging usability in the mass retail market

Ultimately, use is crucial to the mass retail model – success is judged in terms of how many people are reached and how often they take the products and services on offer. This is especially true for mass retail banking because banking is a high fixed cost business. Some banks and microfinance institutions have the option of recovering their costs by doing high-touch, high-value business with relatively few customers, but this is not an option for a mass retail bank; having only half the customer base using the infrastructure for one fee-paying transaction per quarter – as happens at some of the members participating in the WSBI Programme – just forces up the yield to be extracted per transaction by a factor of six compared to having all the customers doing one low-price fee-paying transaction a month.

1 This is not entirely different from the cooperation most MRBs have with "infrastructure" suppliers such as third party ATM and PoS network management entities (sometimes "under" the central bank or collectively owned as a service entity for all banks), but in these cases there is never any sense that the partner could supplant the bank as the producer of the products and services that get delivered over the infrastructure.

The survey evidence underpinning this study

Eight WSBI members have participated in the study. All but one has postal roots, but the eight now represent a real spectrum of distribution strategies. This ranges from pure postal (Burkina Faso and South Africa) and mixed branch and postal (Tanzania and Vietnam plus, to a lesser degree, Kenya) to renting space in post offices but not using postal staff (Lesotho) and having a postal banking brand but no meaningful links with the post office (Uganda). The one entirely non-postal participant (El Salvador) is a federation of municipal credit institutions and workers' banks.

Some cannot provide credit (Burkina Faso, South Africa and Kenya) whereas others are credit-led (for example, El Salvador) and while half have products explicitly for small and medium enterprises, the other half do not. The table below gives the highest level overview of this eclectic group's business.

	TOTAL PAYMENT AND SAVINGS ACCOUNTS	ACCOUNTS PER THOUSAND ADULTS	AVERAGE DEPOSIT 2010 (US$)	AVERAGE DEPOSIT AS % PER CAPITA GDP
Burkina Faso	0.4 million	50	450	87%
South Africa	6.2 million	185	83	1%
Vietnam	0.4 million	5	884	86%
Tanzania	0.6 million	25	n/a	n/a
Kenya	1.0 million	45	163	22%
Lesotho	0.1 million	85	253	33%
Uganda	0.4 million	25	73	14%

The starting point for this study was to survey this eclectic group, mapping them against:

i) the kind of client segments serviced (individuals, groups, large businesses and public entities plus small/medium- and micro-enterprises);
ii) and the mass retail financial services needs they meet (differentiated by segment).

A fuller description of the survey process is available at www.savings-banks.com. Results shown in summary here broken down into much more detail.

	NUMBER OF SEPARATE PRODUCTS ON OFFER						SAVINGS BUSINESS AS % OF OVERALL ACTIVITY	
	BY CLIENT SEGMENT			BY BROAD NEED MET				
	INDIVID'L	GROUP	SME	PAYMENT	SAVING	CREDIT	BY A/C #	BY BALANCE
Burkina Faso	4	0	0	1	3	0	99%	100%
South Africa	5	1	0	3	3	0	18%	60%
Vietnam	5	0	0	1	4	0	72%	98%
Tanzania	10	2	1	5	7	2		
Kenya	9	10	7	4	22	0	89%	93%
Lesotho	5	4	5	0	9	5	99%	97%
Uganda	21	4	9	8	10	16	16%	26%

For the rest of this paper, however, the focus is only on business with individuals. Large corporate/public needs for retail services can be seen as the mirror image of the needs of individuals dealing with them. Similarly, group/microenterprise needs are seen as so fungible with individual needs that they too can be seen as being a subset of individual needs. Small and medium-sized enterprises present a different challenge. They are explicitly not the focus of the WSBI Programme but are fundamental to the business model of all WSBI's most obviously successful mass retail banks. These banks are in turn generally also WSBI's best examples of pro-poor outreach, and research into how products and services for SMEs could be better structured and delivered is an area where further work would actually help the pro-poor agenda.[2]

2 One easy way to think about this is to look at a payments switch run by an MRB. This becomes massively more usable if it is being amortised over a merchant network as well as over the individual cardholders themselves. This not only spreads costs wider and therefore more thinly but also opens up possibilities of easy cashing out at the point of sale – i.e. when the merchant is using the PoS terminal to take payment for their own sales, they process the cash withdrawal as an extra amount added to a customer's bill and then taken electronically from their account. In effect, what would have been a separate "banking" operation becomes a slightly different button-pressing sequence and need not be charged for so highly. It is similar for bill payments. Indeed, it is very unlikely that the poor will ever migrate from cash to e-money unless they can do merchant payments over the same platform as they use for bill payments and transfers.

Therefore, while usability is not the same as use, we must judge usability in terms of whether it really is likely to result in use. This suggests we need a nuanced definition of usability built around:

- meeting known needs and wants of ordinary people at frequencies that reflect what we know they are already doing with their money with a mix of formal and informal mechanisms;
- this capacity being made available at pricing that makes use a realistic option for ordinary people with limited means and who typically look to fragmented informal or semi-formal alternatives or cash to meet their day-to-day financial needs;
- and a product and service package that is delivered in a way that encourages enough use and the right patterns of use for the resulting business to be sustainable from a supply-side perspective.

Each of these is taken in turn in the next three chapters as the paper develops a real benchmark against which demonstrable improvements in usability from both a demand-side and a supply-side perspective can be compared. As part of this the paper develops (a) a scoring mechanism for the composition of product and service packages on offer, (b) how much it should cost the customer to use a typical package and the MRB to supply it and (c) measures of the composition and intensity of actual use. Because differential regulation, market positioning and relative capital strength may mean the supply process is better spread over a number of players, the paper looks also at issues of continuity and sustainability of the business from the perspective of any and all partners in the supply chain.

2. MAKING SAVINGS BANKS TRULY MASS RETAIL AND RELEVANT TO THE POOR

A truly usable package will have somewhere within it all the features required to meet the needs of ordinary mass retail customers but only require those customers to use a relatively few entry level products to access the features they want. The focus of this chapter is therefore to see not what products members offer but what capacities they have to meet needs.

2.1. Potential availability and composition of members' product and service offer

The starting point for judging how well needs are met is the basic in/out service that allows any customer to get surplus liquidity stored safely until it can be better used. For a number of customers those surpluses may arise periodically as incoming salaries or grants (B2P or G2P), so an early component of extending usability is to allow this to happen electronically rather than have the customer bringing in cash income to deposit. The use to which stored surpluses in bank accounts are mostly put is the payment of significant bills because day-to-day living is still mostly in cash that never sees a bank account (or even a mobile phone). At its most basic that involves drawing out cash and paying it over to the entity that issued the bill, but this hardly counts as real usability. Therefore, the next level of usability is to allow over-the-counter triggering of many-to-one (P2B or P2G) electronic transfers that form the basis of modern bill payment.

Formal bill payments are, however, the smallest part of ordinary people's day-to-day financial needs, which irrespective of the level of economic development involve far more variable one-off transactions. These can be day-to-day retail payments but also inter-personal transfers, which are especially important in developing countries. At a minimum the same mechanism that allows bill payments (P2B) should also allow inter-personal (P2P) transfers, and to count as really usable these should be capable of being triggered remotely. The most obvious way of doing this is over a mobile phone but PoS terminals should not be dismissed out of hand; located in general retail outlets, terminals can also be configured to allow transfers to be made as well as allow the retailer to be paid for goods and services purchased.

Once remote electronic triggering of inter-personal transfers is possible, then – because this just moves money between accounts – by definition the potential is also in place for customers to start moving money between their own accounts. This allows them to manage their savings as a portfolio, shifting money into (and eventually out of) longer term savings products to meet mid- to long-term goals, without visiting the agent or branch for every transfer or transaction.

Taking all this together, a really usable mass retail product and service package radiates out from a basic cash-in/out capacity and over the counter access to ever more remote and electronic means of moving money in and out of accounts. Where we are on this is shown for all eight participating members below.

From this analysis it becomes clear that most of the members participating in this study either already have most of what is required in the mass retail market or that capacity is being developed. All but one of them can at least meet the full range of individual needs over the counter and six of them either can or will soon be able to handle this remotely via electronic platforms. For six of the eight members participating in this study clients will soon be able to receive money directly into their accounts as an electronic transfer and then have that receipt confirmed remotely; ultimately, they will be able to move those funds out of the receiving account (as an outgoing payment or transfer by phone or remote PoS terminal) without going into a traditional branch.

Services currently/potentially provided

	ELECTRONIC IN			CASH OVER THE COUNTER / VIA ATM				ELECTRONIC OUT		OTHER INDIVIDUAL	
Transaction type	Internat. Remit's	Domestic P2P	Domestic G/B2P	Cash deposit	Cash w'drawal	Paying out P/B/G2P	Collecting P2P/B/G	Payment P2B/G	Transfer P2P/ac → ac	Credit	Insure
Burkina Faso				●	●						
South Africa			●	●	●	●	●	●			
Vietnam		limited	●	●	●	●	●	limited	limited	coming	●
Tanzania	●	●	●	●	●	●	●	externally funded		●	coming
Kenya	●	●	●	●	●	●	●	coming	coming	coming	coming
Lesotho		coming	coming	●	●	coming	coming	coming	coming	●	
Uganda	●	●	●	●	●	●	●	coming	coming	●	
El Salvador	●	●	●	●	●	●	●	coming	coming	●	●

● service available

In this table, the core cash-in/out service is shaded as red (because it involves cash-in/out from the client's own account and requires effort by both client and bank to get cash into the right place at the right time and cannot therefore be described as easily usable. Then it shades through yellow as it becomes more electronic (which makes it easier for the bank and therefore potentially cheaper to the client) even though transactions go over the counter towards green when it is a purely electronic account to account transfer and can be triggered remotely. At this level bank-based money is becoming really easy to move around, cheaper to handle and as usable as cash in the pocket but safer. In this respect, adding credit and insurance should only really happen when the core payments, transfers and savings package is truly usable, because otherwise the MRB is not adding anything to cash-based microfinance.

For four of these six (the three East African and El Salvador) that increased capability is largely because of the support received over the last three years. For the other two out of the six (Vietnam and Lesotho) wider processes are at work, but WSBI Programme support is helping. The same point can be made for Morocco, where a WSBI member is participating in the WSBI Programme but is not in this study. This all suggests that for the three WSBI Programme participants (Burkina Faso, South Africa and Indonesia) where the capability is not yet fully in place, closing the gap should not prove insuperable.

2.2. Making the offer relevant to the poor

One of the most encouraging results of the call for proposals that started the programme to double savings accounts in the hands of the poor at selected partner savings banks was the response of developing country members – half of all developing countries where WSBI has a member put forward proposals.

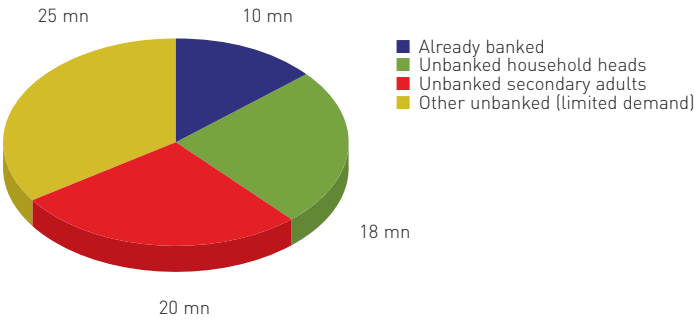
Clearly, the term pro-poor was not off-putting to them. Nor should it be – the poor are not somehow alien in the scope of their financial needs and are active consumers of financial services. It is now uncontested that the poor save; we can see it in our own data and we can see it in survey data. They move money through time, across geographical distances and around their social and business networks just like the rest of us. They save so their children can have a better future and they save so they can handle expected and unexpected events. The bars below capture what we can infer from their current use of financial services – formal and informal – about the needs they are trying to meet.

- ? Get periodic but irregular surpluses of money out of the pocket quickly
- ? Send and/or receive money from friends and family
- ? Accumulate or lock away larger lump sums for expected future events
- ? Turn spasmodic lump sums into periodic but not regular cash flow
- ? Limited interfacing with formal economy (without wasting time/money)
- ? Access credit as another way of protecting wealth and important spending from shocks

Why then do they not use us? First, that statement needs disputing – it is early on in the collection of comparable data from partner banks but in the ones that have submitted data we typically see at least half of active customers and about half of transaction activity taking place via accounts with an average daily balance of less than $25. Certainly, people with limited amounts of money do use our partner banks. The table below puts this actual performance into the wider context of what sort of savings balances are mobilised by community groups, specialist MFIs and commercial banks.

That said, there are still huge numbers of unbanked adults in relatively less well off households. In fact, they form the great open market space still available to penetrate. The pie chart below separates out adults in the poorest five partner locations (Burkina Faso, Kenya, Lesotho, Tanzania and Uganda) into those already banked, heads of unbanked households, unbanked secondary adults who are partners of household heads and tertiary adults (mostly very young, who have their own specific but rather limited needs). Unbanked households and unbanked lead adults (either heads of unbanked households or unbanked partners of banked householders) are then split by poverty level and location.

WSBI Programme Poorest Five Countries (72 million adults)



18 MILLION UNBANKED HOUSEHOLDS

extremely poor	economically fragile	better off
-40%	-60%	-0%

urban	rural
-28%	-72%

37 MILLION UNBANKED LEAD ADULTS

extremely poor	economically fragile	better off
-34%	-56%	-10%

urban	rural
-30%	-70%

MEDIAN COMPARATIVE BALANCE DATA FOR SIX OF THE PARTICIPATING MEMBERS	CALCULATED OVERALL SAVIX BENCHMARK: GROUP MEMBER SAVING BALANCES	ESTIMATED ACTIVE DAILY BALANCE AT MEMBER, EARLY 2011	CGAP FINANCIAL AV. DEPOSIT BALANCE AT MEMBER IN 2010	MIX BENCHMARK: REGIONAL MFIS SSA RURAL BANKS	ACCESS 2010 BENCHMARK: COMMERCIAL BANKS
Burkina Faso	$7.5	n/a	$450	$64 / $99	n/a
Vietnam	n/a	$80	$75-$884	$89 / $180	n/a
Kenya	$17	$12	$163	$64 / $99	$1150
Lesotho	n/a	$10	$253	$75 / $99	$1550
Uganda	$24	$12	$73	$64 / $99	$1075
South Africa	n/a	n/a	$83	$75 / $99	$9200

The chart for better off countries in the WSBI Programme (El Salvador, Indonesia, Morocco, South Africa and Vietnam) does not look greatly different, although the poverty labels are different and young third adults are a much more interesting target market.

The key message from all this is that people of limited means do find savings banks usable and constitute the bulk of their customer bases as well as the bulk of the open market space into which those banks can expand. What is different about the poor and economically fragile is the degree of irregularity in their income, how hard it is to match expenditure to this, how large shocks can be relative to typical incomes and how difficult it is to build up and sustain a cushion of long-term savings. For the best exposition of this see *The Poor and their Money* by Rutherford and Arora and *Portfolios of the Poor* by Collins et al.[iii]

All this increases their needs for financial services but those needs manifest themselves in odd ways, mostly informal and semi-formal. The six fundamental needs highlighted on the previous page for this target market is available in more detail at www.savings-banks.com.

They can also be mapped against the benchmark MRB product and service package developed earlier in this chapter. This is done in the table below and clearly confirms that any institution that really wants to address needs of the poor must make this part of a comprehensive, coherent and consistent mass retail offering of the sort described earlier.

2.3. Pro-poor product/service packages provided by participating members

Having established that the poor need broadly the same product and service package as any mass retail customer, and earlier having shown that that sort of package is increasingly on offer at the members participating in this study, the next issue to address is whether it is being offered to the poor. In a second stage questionnaire information was requested on product and services rendered explicitly for the poor. The pro-poor accounts described were expected to have some or all of the following features:

- no or low initial amount needed at account opening;
- low level or no minimum balance;
- possibility to deposit small irregular amounts, as often as needed;
- withdrawal of any amount at any convenient moment;
- ability to convert small sums into a lump sum over time, e.g. contractual savings;
- fees – low as a proportion of amounts transacted;
- fees charged per transaction rather than fixed monthly charges (e.g. ledger fees).
- KYC requirements for proof of residence, income and identity, which can also be met easily by people working in the informal, irregular employment/self-employment.

Service capacity required to meet needs of poor

	ELECTRONIC IN			CASH OVER THE COUNTER / VIA ATM				ELECTRONIC OUT	
Transaction type	Internat. Remit's	Domestic P2P	Domestic G/B2P	Cash deposit	Cash w'drawal	Paying out P/B/G2P	Collecting P2P/B/G	Payment P2B/G	Transfer P2P/ac → ac
1. Surpluses out the pocket[3]	●	●	●	●	●				
2. Send/receive (personal)[4]		●		●	●	●	●		●
3. Accumulate/lock away lump sums[4]									●
4. Lump sums to cash flow			●	●	●		●	●	●
5. Interface with formal			●	●	●	●	●	●	
6. Accessing credit				●	●				●

● required capacity

3 In this context avoiding incoming income turning into surplus cash in the pocket is as important as getting actual surplus cash out of the pocket (hence the inclusion of the first three electronic service elements in meeting this need as well as cash in). At the same time the spending power is not to be kept out of the pocket indefinitely, so cash-out is included as well.

4 Just in terms of need, transfers and savings include cash-in/out even though MRBs must try to migrate customers away from this.

Details of the questions posed and the responses given by each bank is available at www.savings-banks.com. In summary:

- Half the responses (Kenya, Lesotho and South Africa) pointed to specific pro-poor products already launched or under development; the other half (Burkina Faso, Uganda and Vietnam) pointed to their general product range as being appropriate for the poor.
- For all but one the minimum balance to open an account is already below $10, generally well below, and one is as low as $1.25. The exception (Burkina Faso, $20) is being reduced.
- At the time of the questionnaire, all but one (South Africa) offered unlimited free depositing and it had only introduced a very low deposit fee to allow it to drop its monthly ledger fee. Two still had a monthly fee (Burkina Faso and Uganda) but they compensated with free deposits and generally cheap or free withdrawals. Vietnam somehow combines no monthly fee with no transaction fees except for transfers, but its main business is fixed time deposits.
- In terms of withdrawal fees two do not charge (Burkina Faso and Vietnam), two were very low cost (Tanzania and Uganda at 20 US cents) and another fairly low cost on its pro-poor account (Kenya at 30 US cents). At the other extreme Lesotho and South Africa charge over a dollar.
- All but one ran regular savings plans but these were very much on the save-as-you-earn basis and not particularly pro-poor. Fixed term time deposits were available for small amounts (some even sub-$5) but probably loss-making at this level because there was no customer-initiated electronic means of moving money into these accounts.
- Only one (Lesotho) mentioned having a stripped down form of KYC and this was for customers with income below $600-$700.[5] Most saw regulation as a non-negotiable obstacle.

2.4. How close are we to potential usability?

Features alone do not make a usable product and service package, but the outcome of the analysis so far is that all the right building blocks are coming together, often directly as a result of WSBI Programme investments. The important point here is that for eight of the ten WSBI Programme projects, clients will soon be able to receive money directly into their accounts as an electronic transfer and then have that receipt confirmed remotely (via SMS to phone, mini statement over a remote PoS terminal, etc.). Ultimately, they will also be able to move those funds out of the receiving account (as a cash withdrawal, outgoing payment or transfer) by phone or remote PoS terminal and all without going into a traditional branch. This matters at least as much if not more to the unbanked poor than anyone else because they live mostly beyond the reach of traditional branch and even postal networks.

5 The threshold was described by Lesotho PostBank as being in terms of income but the authors were not clear as to whether this meant actual income or apparent income passing through an account.

3. WHAT IT MEANS TO BE AFFORDABLE TO THE POOR

Having the potential to meet needs is meaningless unless it is provided at prices that pull demand back from the cash and informal economy. The really difficult issue is how to get small amounts of surplus cash out of pockets and into accounts so easily that it makes saving a real alternative to spending. To be able to address this requires a real understanding of what sort of sums matter to the poor.

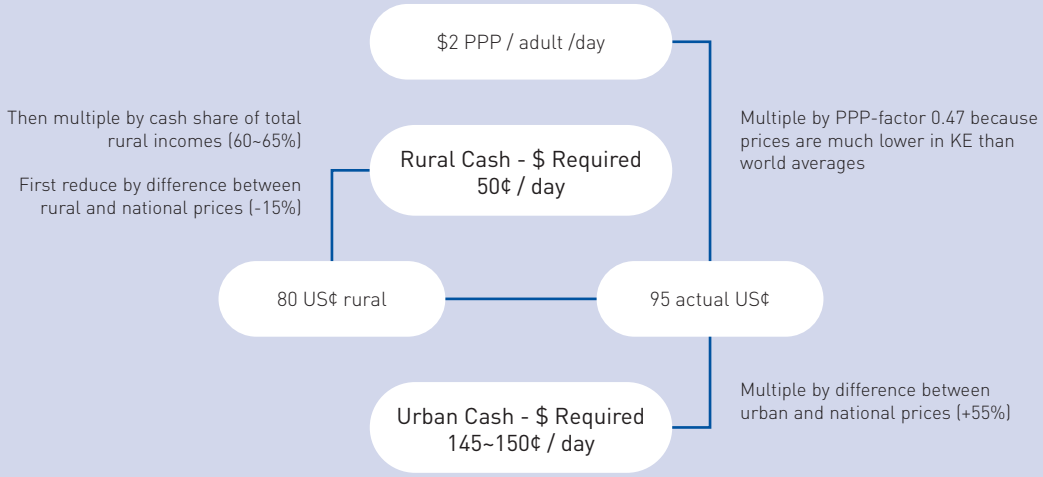
3.1. Scoping potential cash flow

The same calculations as shown in the box below have been done for all ten WSBI Programme countries. These show rural household cash flows in the poorer countries likely to be somewhere within $15 of a mid-point of $50 per month; in the better off countries they are probably somewhere just above $100 per month.

The distribution for urban households starts at the $100 per month level and rises to $175 per month. Which country appears where is governed less by national income levels (as seems true for rural households) and more by the huge variability in urban household sizes.

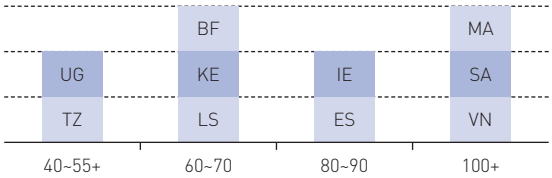
What $2 a day actually means in the countries where we work

First and foremost, it does not mean two cash dollars; the international definition always quoted is in PPP-adjusted dollars. Kenya is a good example, sitting as it does at the top of the group of the five poorest countries covered by the WSBI Programme and not so far behind the bottom end of the five better off countries. In Kenya PPP-$2 equals about 95 cents per day in actual dollars but urban prices are not the same as rural prices; back in 2006 the measured cost of basic needs was 86% higher in urban than rural areas. This means national prices were about 119% of rural prices (78% of the population paying rural prices plus the urban 22% paying 86% more). Put another way, rural prices were 85% of national prices, so in rural Kenya "two dollars a day" actually meant living on the Kenyan shilling equivalent of 80 actual cents. In urban Kenya it meant living on the equivalent of about 145-150 cents (being 186% of the rural level). Turning again to rural areas, not all the implied actual dollars would have been cash dollars because a lot of living is off non-cash resources (barter and consuming of own production). This is typically around a third or more of rural livelihoods, so 80 calculated cents is probably only 50 cash cents outside of Kenyan towns. For a typical rural family of three adults and two children this means a whole household, even at the top of the international poverty range, may well be living on just two cash dollars a day; a similar urban household on five dollars a day. Interestingly, this blends exactly to the calculated average income for a mix of peri-urban/rural income-earning adults in the Microfinance Opportunities diaries study quoted later in this chapter.[iv]

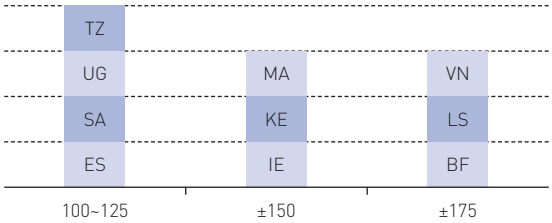


It is the rural household cash flows that matter most to this study because it is these households that dominate the target market for WSBI Programme participants. This then gives a reasonably clear focus – monthly household cash flow of $40-70 in poorer developing countries (per capita GDP typically $500-1000) and $80-120 in better off ones (per capita GDP above $1000). Worksheets on pro-poor household cash flow calculations by country are available at www.savings-banks.com.

Rural cash flows



Urban cash flows



$ per month per household

Obviously, not all household cash flow is available to save. Evidence from *Portfolios of the Poor* suggests no more than a third of household cash flows in poor developing countries passes first through some sort of financial instrument (savings or loan and mostly informal). As one gets up towards the top of the poorer developing country spectrum this might get closer to 50% and in relatively well off developing countries approaches 100%. *The Poor and Their Money* shows even higher percentages at the top end. Taking all this together, we can make a good guess that the total amount of financial activity taking place in target market households probably ranges from about $10-15 per month at the very bottom (e.g. in rural Tanzania) to $20-25 in the middle (in somewhere like rural Kenya) to around $100 at the top end (e.g. rural Morocco).

3.2. From household cash flow to potential fee streams

Having identified how much cash flow might be being pushed through various forms of mostly informal financial transformation by poor rural households, there are a number of routes to identifying how much the sort of customers that make up this target market will pay to manage this sort of cash flow via the available instruments (formal and informal):

- A major CGAP study in 2010 looked at what people actually pay to use various forms of remote access "banking" (either mobile money or bank correspondents/agents).[(v)] For a two-deposit/two-withdrawal package this shows an average across a wide range of countries of $3.9 per month but these are PPP dollars; the actual dollar equivalent would be somewhere between $1.50 and $2.25 for the WSBI Programme countries. CGAP also looked at the cost of what was then a typical M-PESA bundle of just over one deposit and 1.5 withdrawals/transfers per month (and an airtime top-up). This averaged out at $2.9 in PPP dollars which equates to a range of $1.15 and $1.65 actual dollars for the WSBI Programme countries. Overall, the two-in/two-out package was costing 10% of the benchmark cash flow of $40-PPP per month and the M-PESA bundle about 7.5% per month.
- There is a very useful and recent Boston Consulting Group study into Indian retail financial services that projects a total annual fee stream of $4.5 billion for mobile payments and retail banking (with cards and PoS as part of banking).[(vi)] The rural element of this projection is $1.35 billion spread over 150 million rural households or 75 US cents per household per month. These are households for whom $1.25-1.50 per day probably represents median daily cash flow in actual dollars.[6] So, very roughly every month the equivalent of half a day's cash flow is projected as needed to pay just for these moderately poor households' formalised use of financial services. On top of this, those households will themselves be paying in various visible and invisible ways for their use of informal services. It is very difficult to know exactly how overall costs bear on the individual households but it requires every reasonable assumption just to keep charges down to about 5-6% of cash flow likely to be pushed through financial instruments.[7]

6 The standard $2/day international threshold is in international (PPP-adjusted) dollars and expressed per adult but adjusting for purchasing power differences brings this down to 70 US cents at Indian prices nationally but rural prices are even lower and around a third of rural income tends to be non-cash so the actual cash equivalent of PPP-$2/day may be as low as 35 cash cents in rural India. For an average household of 3½ adults and 1½~2 children this implies total daily household cash flow of about 160 US cents but this is at the top end of the poverty spectrum whereas the population midpoint is a bit below this, hence the indication of $1¼~$1½ per day as typical for a median rural household.

7 If we apply an 80:20 rule, such that the top 20% of households pay 80% of the $1.35 billion total but the bottom 20% do nothing formal and contribute none of it, then the middle 60% of the market (which would all be poor or near-poor on international definitions) would be left paying an average 25 US cents each per month. At this level and a median household cash income of about $40 per month of which perhaps $10 gets pushed through financial instruments then holding charges equivalent to 4% of $10 would give a cap of 40 US cents, leaving something but not much for informal. Hence the suggestion that 5~6% of cash-flow as a more reasonable 'guesstimate' of the likely cost of mixed formal/informal use.

- We can guess what a typical bundle of activity traceable from the already cited MicroFinance Opportunities financial diaries study actually costs in Kenya. This involves about one and half cash gifts and/or savings group operations in the $3-6 range costing nothing in fees, an M-PESA transaction worth about $10 costing about 70 US cents end-to-end and half a bank transaction worth at least $20 and probably costing about 50 US cents. Adding up these visible charges plus a little bit for the expected loss on savings group activity suggests a total charge of about $1.30 in Kenya, which is about 5% of the total $25-30 of cash flow being pushed through financial instruments in the surveyed households.
- Finally, various CGAP country level savings assessments have suggested that daily savings collection in West Africa costs about 4% of the monthly amount collected and then returned. At the same time there is some evidence that rotating savings involves an expected loss rate on the amount saved of 1-2% but this is borne by only a quarter of savers and then not every cycle; that would seem enough to justify paying a premium for safety equal to 3-4% of the amount saved to avoid catastrophic loss within any one cycle but certainly not more than this.

This then gives us a working set of benchmarks against which we judge pricing for the sort of use that we would like to see the poor make of the pro-poor product and service package established earlier. The table below shows poor rural household monthly cash flow for all ten WSBI Programme countries and followed by the sort of actual monthly cash flow through financial instruments this is likely to create.

Then comes the range of what the hybrid charging mechanisms we see the poor already paying for mixed informal/semi-formal use (about 5% – see the BCG Digital India and MicroFinance Opportunities references in the second and third bullet points, respectively, on preceding page) but applied pro-rata to the likely cash flow through financial instruments. Finally, at the bottom is what actual charges that the relevant WSBI member would make for a five transaction bundle comprising a couple of electronic transfers in/out (with the out including the option of a bill payment) plus three cash operations (probably two in and one out).

The calculations of members' actual charges show that the current pro-poor offer is generally somewhere in the border zone between purely informal and the hybrid pricing the rural poor have already shown themselves willing to pay.

Quite deliberately all this analysis has been done in terms of rural affordability because to be able to supply within this constraint almost guarantees sustainability and indeed a much sharper competitive edge within an urban context (something most of the participating members would really benefit from).

But can members really deliver this sort of basic transaction bundle inside the affordability envelope and do so sustainably? That question is the focus of the next chapter.

The affordability envelope for basic payments and savings services in rural markets

COUNTRIES COVERED BY WSBI PROGRAMME	GROUP 1: TANZANIA, UGANDA	GROUP 2: BURKINA FASO, KENYA AND LESOTHO	GROUP 4: MOROCCO, S. AFRICA AND VIETNAM
Typical household total monthly cash flow	$40-50	$55-70	± $150
Likely amount of cash financially manipulated	$10-15	± $25	± $100
Likely limit on what is being paid for this	60-75 US¢	$1.25-1.50	not clear but ± $2-3
Members charge for five-transaction package	TZ = 60 ¢	KE/LS = up to $1.50	SA = $1.8 / VN = 30 ¢

Group 3 comprises El Salvador and Indonesia and these lie somewhere between Groups 2 and 4, except for charges which are comfortably inside the affordability envelope for El Salvador and zero for Indonesia.

4. BALANCING COST AND QUALITY – MAKING THE MODEL WORK FOR THE MEMBER

Crucial to the mass retail model is that demand conditions the way the capacity to supply must be presented but, just as important, that the practicalities of supply must be able to shape the way demand is actually satisfied. Put bluntly, the old state savings model no longer works if it does not also meet the basic need to move value across space as well as through time. Equally, the old branch-based model of taking in and paying out cash saving cannot be delivered both affordably and sustainably in the amounts that characterise the big open market space that the unbanked poor and low-income groups represent. That means moving customers towards electronic and remote means of accessing savings services, although of course a basic network of reliable cash-in/out points remains a vital reassurance to those we want ultimately to move away from cash. The big question is does a bank have to do this or can it work with other networked organisations.

4.1. The opportunity offered by technology

Throughout the discussion of usability from the demand-side perspective, the importance of remote access has been stressed but it is crucial also to fitting the cost of supply within what can be afforded by the customer. The pressures for banks generally to get out of branches and away from cash is shown well by the following chart from the already referenced Boston Consulting Group research into the Indian retail financial services market. This is further backed up on the cost side by work done by the Bill & Melinda Gates Foundation.

Monthly costs (US$) associated with an illustrative transactional savings account (2 deposits, 2 withdrawals, 1 transfer) from Veniard, Bill & Melinda Gates Foundation, November 2010. [vii]

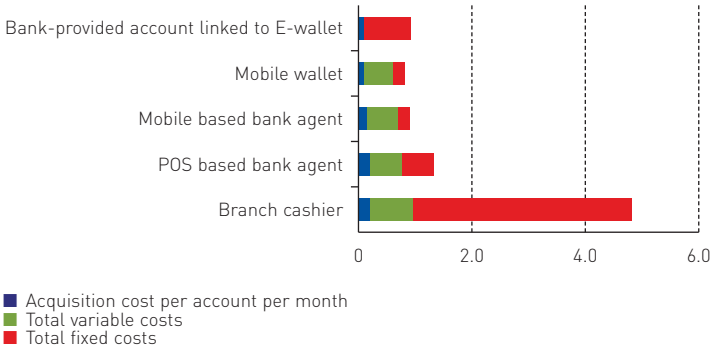
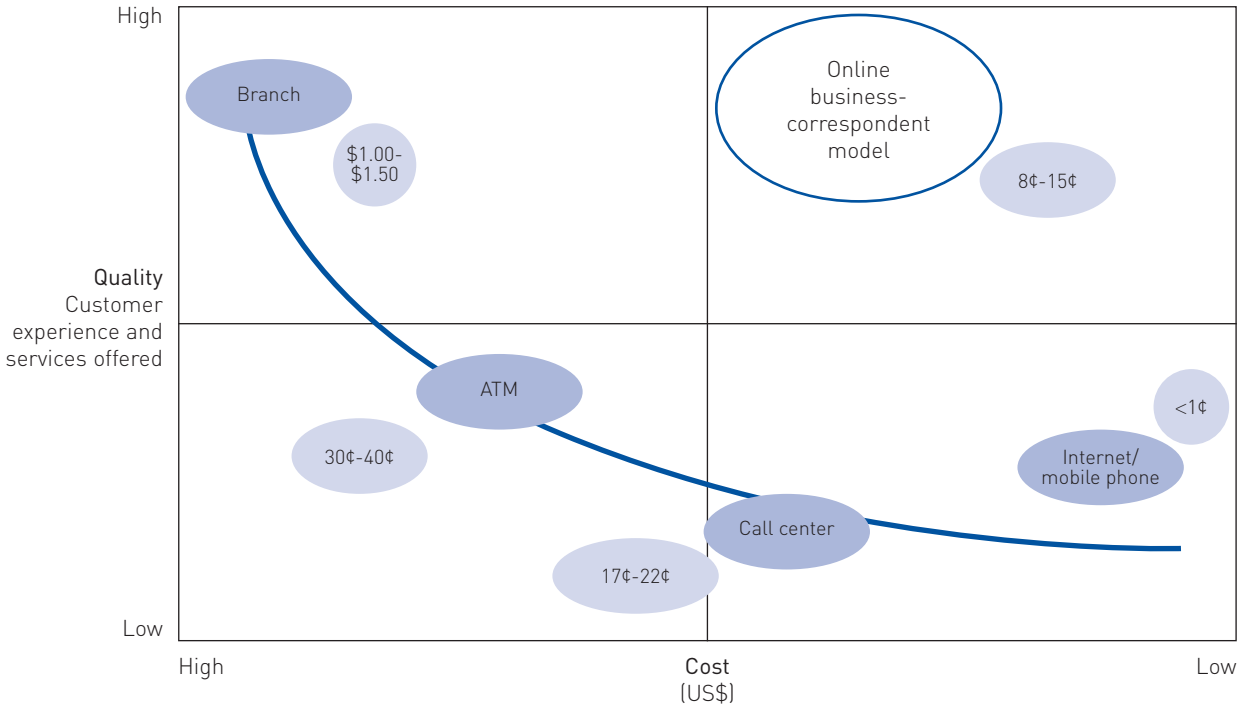


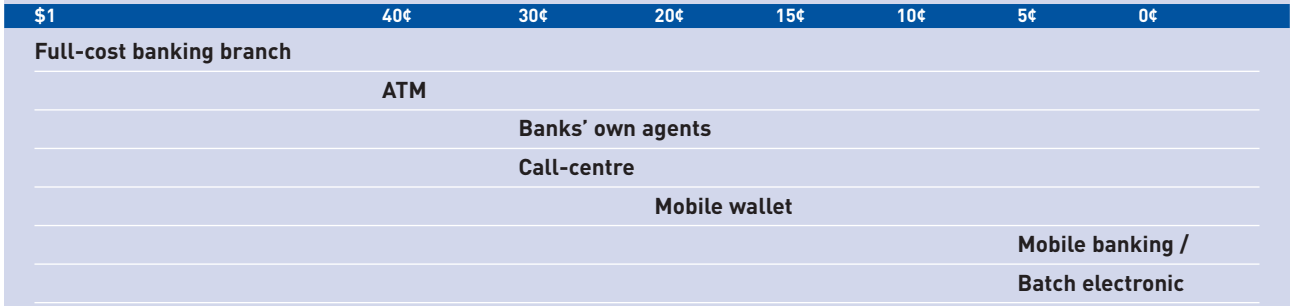
Exhibit 1: Technology can radically lower banking costs



These are stylised presentations of fairly common findings for retail financial institutions. Their direct applicability to participating members in the WSBI Programme is being tested now and with one important caveat the findings do broadly seem to apply. Using these stylised facts we can create a transaction cost to supply indicator:

Overall, therefore, the early signs are that members participating in this study should be able to position themselves to break even within the rural affordability envelope discussed in the previous chapter but only if they mix low-cost branch access with increasing levels of remote access.

Transaction cost indicator by supply channel



The relevance of this is that it offers the prospect of blending different approaches to support the targeted five-transaction bundle within the affordability envelope discussed in the previous chapter. Clearly, this cannot just be done with a branch-based model (although see below: there is an important caveat on this regarding savings banks). Even ATMs and bank agents are at the upper limit of what can be afforded and still cover costs, but they form a crucial part of delivering a quality cash-in/out interface and in this respect agents are generally a better and lower cost platform than ATMs. Then comes an interesting paradox: mobile and electronic banking backed by a call centre allows banks to offer what feels to them superior quality at lower costs than the costs network operators have to recover on mobile money. We know from M-PESA and other fast-growing mobile money operations that the sort of customers we are targeting see the mobile wallet as sufficient value for money to use it heavily for long-distance and emergency money transfer, but it has yet to morph into a meaningful way of making small value retail payments or building up low balance savings.

What this means for the WSBI Programme is that both sustainability and affordability are probably on-off features in the market for pro-poor access – hit the sweet-spot on pricing for a package that encourages electronic use but allows convenient cash-in/out, and the business should come flooding in. All researchers in the field say there is huge pent up demand for affordable and usable savings services. Here, for once, savings banks have an advantage over many commercial banks trying to get customers onto remoter forms of access.

This is because many savings banks should be able to contain branch transaction costs within the bottom half of the spectrum shown above. The attrition in active customer bases in recent years means their tellers are operating well below the technical capacity of the systems they use, so many members can take risks on pricing to tempt customers back into banking without worrying about banking halls becoming too full and without having to plan for increases in staffing or IT resources. A technical note on this is available at www.savings-banks.com.[8]

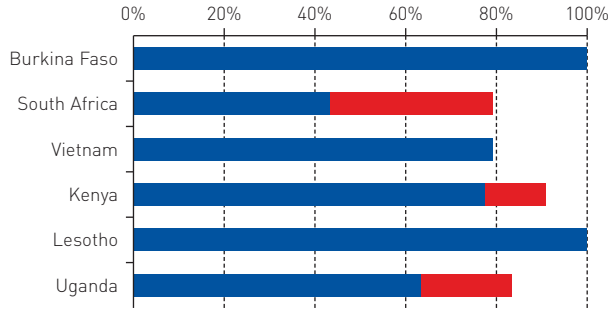
This is a hugely important conclusion if, as suggested, affordability is an on-off phenomenon in the market for mass retail financial services. The issue then is if the members' product and service offer is becoming increasingly usable and their pricing is hovering on the edge of affordability, what will it take to achieve rapid take-up?

4.2. The challenge of moving from cash to electronic and on to batch

Six participating members provided data on transactions mix and split out cash-in/out (which are shown as a percentage of total in the chart below), leaving the much smaller transfer and payments business to be shown in tabular format (alongside the chart). Transfers and payments are in turn split into (a) batch-processed (almost all incoming salaries and social grants), (b) over the counter outward (collection) transfers and bill-payments and cash into account plus (c) remote PoS transactions (which are mostly one-to-one P2B payments).

8 This is not to say members can close the access gap with more branches, but just that they are in a different position from other commercial banks.

Cash-in/out as a percentage of total transactions



Electronic transfers/payments (percentage of total)

BATCH	OVER THE COUNTER*	REMOTE POS
0%	0.0%	0.00%
21%	0.0%	0.00%
20%	0.6%	0.07%
8%	1.3%	0.06%
0%	0.0%	0.00%
3%	13.0%	0.07%

* includes a few form-initiated standing orders

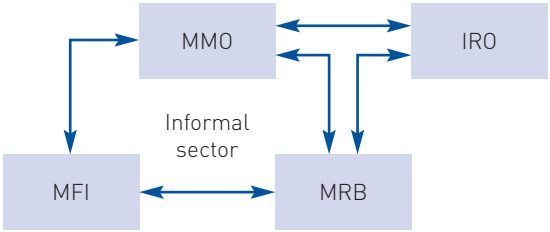
The dominance of cash is hardly surprising as the data shown relates to 2010 and only Kenya Post Office Savings Bank in this group was piloting remote access (through agents) and even for them this was very small scale (the main rollout is only just happening as this paper was being written and access over mobile phones is under development). Therefore, this chart should be seen as relating to the counterfactual of what would have happened if the WSBI Programme investments were not being made. The implication of the chart and table has to be that the old configuration was locking participating members into a very limited part of the mass retail banking spectrum. They were stuck primarily with cash over the counter (sometimes with ATMs as a back-up) plus a bit of batch processing of salaries and grants direct into accounts but only so they could then be withdrawn as cash. Where payments and transfers were possible they mostly had to be triggered over the counter and remote access was virtually impossible. The earlier conclusion that participating banks can offer a more usable product and service package needs therefore to be qualified by the fact that we do not yet have data to show this potential turning into actual use.

4.3. Partnership as part of mass retail service delivery

Although it is generally bank-led, the MRB model always has had the potential to incorporate partnership because the banks concerned gain by cooperating with others that have distribution networks that reach out to the whole population, especially more marginal communities. Traditionally, this has been about getting closer physically to where customers live and work than is possible with traditional branch networks and that is still a major driver of partnership.

Now, however, just as important is closing social and economic gaps. A well known early example of this was Caixa Economica's tie-up in Brazil with lottery shops. These were right in the unbanked communities where unbanked Brazilians lived and worked and were far more important to their day to day lives than banks ever were and operated at an economic level far more relevant to their budgets than traditional banking. The obvious new corollary in many African countries (but spreading wider than that) is mobile money: its agents go a level down from where banks reach; it clearly demonstrates an ability to operate at pricing even the poor afford and it markets itself in a way that communicates to the poor.

Other partnerships are also possible between local suppliers of financial services for the poor, depending on the local characteristics of the "mass" retail financial sector they operate in. In particular, it matters what different players are and are not allowed to do by regulators and what is and is not feasible on the cost front. The schematic below shows how potential players can link together to formalise the currently informal.



Microfinance institutions (MFIs) operate mostly at the high contact and very local end of the business spectrum and as such can offer tailored enterprise development and lending facilities further down the socioeconomic spectrum than a true MRB would ever find cost-effective and a mobile money operator (MMO) would, as a "division" of a mobile network operator, usually be barred from providing. Equally, very few MFIs ever get big enough to face the business model conflicts that affect MRBs and MMOs, which both compete for and potentially complement each other in the mass market. That said, MFIs often feel a very strong (not always warranted) sense of ownership of their small and carefully nurtured customer bases and are wary of "sharing" them with bigger players. International Remittances Operators (IRO) are also an increasingly important factor in the mass retail financial services market because of the large cross-border remittances inflow into poor communities and they can offer their infrastructure as a low-cost domestic remittance channel, provided they preserve their share of the cross-border business that pays for that infrastructure.

Not surprisingly, given how cellular technology has bypassed the old fixed-line model in connecting even poor communities, various international institutions and foundations (CGAP, Bill & Melinda Gates Foundation, The MasterCard Foundation, etc.) are now pushing mobile money as the breakthrough route to putting genuinely accessible financial services in front of the poor. International consulting groups like Boston Consulting Group[(viii)] are attracted to the field and the mobile operator apex body GSMA has set up its "Mobile Money for the Unbanked" programme. The partnership model proposed seems mostly to be based on third party agent networks handling cash-in/out, network operators handling a broad package of transfers (P2P, B/G2P and P2B) and banks as the place to park the monetary float that inevitably builds in any payments system (either as an aggregate balance in a single trust account or sometimes in individual accounts for each registered user). The end game seems to be an expansion of the individual element by letting mobile money users transfer money to and from financial products.

For any bank used to competing for the full range of its customers' needs and dealing with them face to face, the new focus on partnership and operating as part of a financial ecosystem is very challenging, but many savings banks have been doing this for decades, mostly with postal services but also with networks of local credit institutions. Interestingly, there seem to be more tensions over who "owns" the customer with potential new partners than with the more traditional ones, where there have traditionally been much greater problems with who owns the cash!

Who does what in a cooperative framework is partly determined by regulatory scope to expand their core competences and capital strength, but it is also a balancing act that lets each participating partner preserve areas of their own competitive advantage and the profit that comes from that advantage. Each of them must, however, be willing to surrender elements of delivery of their products and services so they add not only to the overall product and service package but also so partnership strengthens partners' product and service packages. This is the price of being allowed "guest space" in each others' distribution channels and agents.[9]

Crucial to this process is maintaining the continuity and consistency of the mass retail product and service package on offer. It is important to remember customers approach a partnership package in a number of different ways – in the case of a bank-MNO partnership some will see the phone as a way of accessing their bank account; others the possibility to save with the bank as part of their mobile package. This opens up a number of issues, such as who handles queries about the service, who puts right problems and, crucially, who pays for this work and how it is paid for. For this to work, a web of really focused business frameworks is needed, covering all commercial aspects (products, distribution, pricing, promotion and other marketing aspects), legal aspects (such as service level agreements for cooperation with agents and mobile operators), operations (organisation, HR, business, administrative and risk processes), financial aspects (including P&L and balance projections and financial business planning), IT, facilities used and security. None of this is easy within a single organisation, let alone dealt with contractually across multiple organisations.

9 This is not entirely different from the cooperation most MRBs have with "infrastructure" suppliers such as third party ATM and PoS network management entities (sometimes "under" the central bank or collectively owned as a service entity for all banks), but in these cases there is never any sense that the partner could supplant the bank as the producer of the products and services that get delivered over the infrastructure.

Within the WSBI Programme we do not yet have a genuinely working partnership model that goes much beyond the traditional one of using post offices. There are a number of possibilities for partnering grassroots village organisations that are becoming feasible once access via mobile phones is established, but working with mobile money operators has not yet proved practical. The biggest obstacle is a difference in business objectives – moving money around versus allowing it to accumulate in small amounts – and this makes pricing difficult to negotiate. If it costs much more than the cost of the messaging to move money from a phone to a bank account and back again, then the $5 time deposit or the $2 savings plan that savings banks need to offer to meet the need in many countries will end up paying back less than informal alternatives do. Equally, if the bank charges the same fee to reload savings onto a phone as it does to pay them out as cash and the MMO then charges the standard fee for the customer to spend them electronically or turn them into cash, then the customer will turn back to the cash and informal alternatives they already use (which seems to be the lesson of the M-KESHO tie up between M-PESA and Equity Bank in Kenya).

Partnership may well be an on-off phenomenon – get it right and all sorts of possibilities open up; get it slightly wrong and the continuity and consistency that underpin the mass retail model breaks down, leaving customers to pick apart the package such that the efficiencies of scale and scope that underpins it are lost.

5. SUMMARY AND CONCLUSIONS – MOVING FROM USABILITY TO ACTUAL USE

All the projects in the WSBI Programme share a common target of making a significant breakthrough in opening up usable, affordable and sustainable savings services to the poor. In its simplest form this has been characterised as doubling the number of savings accounts in the hands of the poor, but numbers alone were never going to be enough and the projects are not yet delivering them. More important at this stage are the issues of usability, affordability and sustainability – by now the projects should be positioned to deliver even if they are not yet showing significant take-up; indeed, in the descriptions laying out the scope of each approved project it was only demonstrable improvements in usability and early signs of take-up that were explicitly targeted for late-2011 (the time this paper was written). Taking each of these elements in turn, the paper suggests:

on product design and features

- the WSBI Programme investments have rounded out members' capacity to meet the needs of ordinary individuals and others in the mass retail market;
- that capacity (combined with improvements in proximity that are also key to most projects) makes members' product and service offer potentially much more relevant to the poor;
- it is, however, crucial to making this assertion that customers start initiating payments and transfers remotely by electronic means;

on affordability

- potential never turns into real demand unless product and service packages are made affordable, and the challenge this represents is a really tough one, particularly in rural areas;
- although some fine-tuning on pricing is needed, it does look as if savings banks are close now to the semi-/informal pricing the rural poor show themselves willing to pay;
- but, again, to do this sustainably savings banks need to shift the balance of their business away from cash-in/out and towards remotely triggered electronic activity;
- and even with this there remains one need that the poor would probably like to meet via cash (regular saving of a few cents a day), where only partnership will allow affordability;

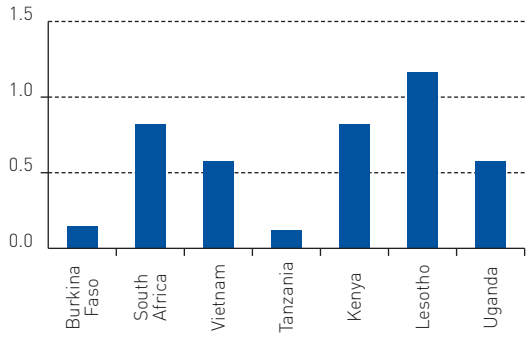
on transaction and platform mix

- the switch to non-cash is only just starting (half the surveyed members are locked into 100% cash-in/out and for the rest 80:20 looks good) but the potential is increasingly there;
- mobile-phones must be a part of this but at present network operators only seem willing to offer links to mobile money services at prices that make the overall offer unaffordable;
- but a number of the projects include direct mobile access and lessons from these for designing and negotiating mobile money partnerships may help.

Overall, a fair conclusion would seem to be that real progress is being made on the technical aspects of usability, but more needs to be done to turn potential into demonstrable reality. Part of that will be in terms of pricing, but members look as if they have the potential to make a breakthrough on this as well. The challenge as it has been laid out in this paper – to price a five-transaction bundle within what a rural $2/day household can afford per month – is the hardest one any mass retail bank could face. If members can do it, it will make them fundamentally more competitive across the whole market. That it appears possible is good news.

But this last conclusion brings out the real outstanding issue for members: how to turn usability into active use and therefore deliver the second promise, namely, real signs of early take-up? The benchmark for pricing is to deliver a five-transaction bundle monthly; most of the members participating in this study do not even process one transaction a month, as the chart below illustrates:

Client transactions per month



In some ways moving away from low intensity saving of money deliberately put away and then not touched and towards clients building up layers of protective savings out of day-to-day cash flow is the bigger challenge than just doubling the number of poor with a savings account. It is, however, only this that will really make saving with a savings bank one real step on the journey out of poverty. To ask the poor to put precious spending power aside as a form of dead money is to misunderstand how they work.

Chapter 3 of this paper started to look at what demonstrated and measured behaviour by the poor tells us about what they need from us as suppliers, but it still looked at those needs very much from a supplier perspective. The box below takes the customer perspective and starts with a different language, defining need in terms of dealing with shocks, reducing distress, improving ability to seize opportunity, etc.

Focus on Customer Acquisition or Customer Delight? – Getting the Package Right for Poor Customers

One-off financial services are of limited use to poor users. Effective ongoing access to appropriate and affordable financial services help poor families to

- deal with shocks that are internal (e.g. illness or death) or external (e.g. floods) to the household;
- reduce distress (going without food, emergency sale of assets, labour, crops, etc.) and improve their ability to manage uncertainty and stress caused by wide variations in cash in-flows and out-flows;
- improve their ability to actively seize economic opportunities to increase income and assets and improve economic security for their future.

It is now virtually uncontested that the vast majority of poor people use a portfolio of financial services and go to great lengths, in terms of both effort (e.g. in organising and participating in informal groups) and willingness to pay (e.g. interest paid to money lenders/susu collectors), to use such financial services. Organisations responding to such demand have witnessed transformative growth in diverse cultural and economic contexts.

However, it is not just about the features of financial products, e.g. how much cash has to be deposited or can be withdrawn and how frequently (for savings, loan, insurance, etc.), but also about whether the level of commitment expected from the poor customers fits within the size, frequency and certainty of cash flows for the households. Poor people not only have low incomes but high variations in the receipt of that income and therefore carefully assess what will happen when the family is unable to meet these commitments in terms of both costs/penalties and opportunities to restart financial transactions when short-term crisis ends.

This paper focuses on financial products but the study team is conscious of its linkages with other features of a genuinely pro-poor offer such as:

- price charged not only in absolute terms but also as a proportion of small transactions that poor people normally carry out – this is one of the key reasons for the widespread take-up of pay as you go arrangements and rejection of ledger charges;[ix]
- place/location of transaction which creates additional costs for the customer (e.g. direct costs such as transport and indirect costs such as labour and time lost or who will manage the business/ animals/children when the adult is away); however, there is an additional feature in terms of whether the transaction place (branch/ATM/agent/PoS) is welcoming, offers the customer's language and does not make the often illiterate, not smartly dressed customer feel small and stupid; while lot of attention has been focused on getting physically close to customer, not enough has yet been focused on getting the product, pricing and culture right even before wider distribution;
- entry barriers in terms of identity and other papers (address proof, utility bills, etc.) needed to meet "know your customer" requirements but also other conditions imposed directly by financial organisations (such as amount needed to open the account, minimum balance needed, etc.);
- communication and promotion comprise the other feature, but the value of "word of mouth" publicity and personal recommendations or the reputational damage caused by widely shared informal comments on painful experiences is often underestimated; this is directly linked to quality of customer service – are their easy and effective redress mechanisms for poor/uneducated customers when they don't understand the charges or what effective mechanisms are available to identify and address customer complaints?

If and when the financial organisations finally know their customers not only in terms of meeting the central bank guidelines but in terms of their context and financial behaviour, customer acquisition leads to widespread use of financial products and satisfied customers become the biggest brand ambassadors who repeatedly bring other customers and other financial needs to the same financial organisation.

The final conclusion is to recalibrate the usability challenge. Can members take what they think they can do for the poor and check whether it really can meet their needs? Chapter 4 gives a good idea what this should mean; if the existing products designated as "pro-poor" cannot meet the needs, what is there in the whole product range that would close the gap? Then, when the member is really confident that the need can be met technically, can it be offered affordably within what the rural poor show themselves willing to pay for a big enough bundle of useful transactions? Finally, once it's technically usable and affordable, can the pro-poor offer be presented not as a "savings product" but as a shock absorber, as relief in times of distress, as a little pot of stored opportunity? This is what the poor are in the market for; members supply it, but are they selling it? Problems with presentation really do now seem to be the outstanding obstacle to delivering our promises.

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(ix) As a Kenyan customer once said it brilliantly to Sukhwinder Arora, "I don't want an account which eats my money."

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