Financial Inclusion - Banking the Unbanked

➢ Research Findings & Prospects for Mobile Financial Services

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Perspectives on the “Unbanked”

• “Unbanked” - An individual who does not have access to affordable, convenient, secure financial services.
  – 2.7 billion unbanked adults worldwide (CGAP 2009),
• Beyond the developmental impact and social responsibility!) for driving financial inclusion, is this a legitimate, sustainable growth strategy?
• The microfinance industry has demonstrated that the extreme poor are *extremely* bankable
Local Research Findings

• A randomly-selected, nationally representative sample of two thousand four hundred and seventy six (2476) respondents from all 14 parishes was surveyed using proportionate

Source: Elliot, Dawn, 2011)
A randomly-selected, nationally representative sample of two thousand four hundred and seventy six (2476) respondents from all 14 parishes was surveyed using proportionate
Types of Account Ownership

Type of Bank Account

- Chequing account: 5%
- Savings account: 64%
- Credit Card: 11%
- Mortgage House-note: 5%
- Car Loan: 4%
- Microfinance Loan: 2%
- Retirement or Pension account: 9%
- Stocks for example on the Jamaica...: 1%
- I have never owned an account: 20%
- I do not own one, but have in the past: 14%
## Barriers to Adoption

Unbanked = \( f(\text{Literacy, Fees, Trust, Relevance, Financial Standing, Lack Paper Work}) \)

<table>
<thead>
<tr>
<th>I do not have accounts because...</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>I do not have some of the paper work such as TRN Number</td>
<td>25.8%</td>
<td>74.2%</td>
</tr>
<tr>
<td>I live/work too far from the bank/atm</td>
<td>7.2%</td>
<td>92.8%</td>
</tr>
<tr>
<td>of bank fees; atm; overdraft; interest cost; check processing</td>
<td>13.8%</td>
<td>86.2%</td>
</tr>
<tr>
<td>of the amount of money I have</td>
<td>59.4%</td>
<td>40.6%</td>
</tr>
<tr>
<td>I have no need for cheques</td>
<td>3.6%</td>
<td>96.4%</td>
</tr>
<tr>
<td>I do not need a bank to save</td>
<td>18.4%</td>
<td>81.7%</td>
</tr>
<tr>
<td>It is more work than it is worth to me</td>
<td>5.9%</td>
<td>94.1%</td>
</tr>
<tr>
<td>I do not trust banks</td>
<td>17.0%</td>
<td>83%</td>
</tr>
<tr>
<td>of record keeping</td>
<td>17.0%</td>
<td>83%</td>
</tr>
<tr>
<td>of the need to read and understand bank documents</td>
<td>7.9%</td>
<td>92.1%</td>
</tr>
</tbody>
</table>
Unbanked Population and Mobile Financial Services

Jamaica
Unbanked ~ 35%?
Mobile ~ 120%

Mexico

Pakistan

Philippines

Kenya

South Africa

Sources:

% unbanked Population
- 20% - 40%
- 40% - 60%
- 60% - 80%
- > 80%
MOBILE PAYMENTS AND GDP

• Mobile money is the intersection between mobile telephony and digital currency (electronic payment systems)

• Studies have shown that mobile telephony leads to a rise in GDP. Similarly, digital currency (electronic payments), as a replacement for cash, is recognized to have the same effect

• A number of studies done concluded that a 10% rise in mobile subscribers in emerging markets will lead to a .6% to 1.2% increase in GDP in those markets due to the productivity gains associated with communication as well as new jobs*

M-PESA – A Synopsis

- A mobile phone-based payment and money transfer service, launched by Safaricom in March 2007
- Average new registrations per day exceeded 5,000 in Aug 2007, and reached nearly 10,000 in Dec 2007
- After 2 years, 7.7 million M-PESA accounts, 23,000 agents, and presence in more than two-thirds of Kenyan households
- 50% of M-PESA users are Banked
- It is fundamentally a utility for delivery of financial services, rather than the "Unbanked"
Prospects for Mobile Financial Services

Mobile Phone Use vs Banking Status

- Calls to family and friends
- Text Messages (SMS)
- To get information quicker
- For security for you and/or...
- To make business deals
- To make new business clients
- To receive money from...
- To pay bills
- To pay for purchases
- To send money to family and...

HighlyBanked
Banked
UnBanked

0% 20% 40% 60% 80% 100%
## Prospects for Mobile Financial Services

<table>
<thead>
<tr>
<th>Barriers to Adoption</th>
<th>Impact of Mobile Financial Services Delivery Channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial/Educational Literacy</td>
<td>Program of building consumer awareness and confidence; Using the mobile phone as an informational channel</td>
</tr>
<tr>
<td>Fees</td>
<td>Significantly lower transaction fees (order of magnitude)</td>
</tr>
<tr>
<td>Trust</td>
<td>Engagement, security, low transaction fees</td>
</tr>
<tr>
<td>Relevance</td>
<td>Financial service offerings tailored to low-income clients</td>
</tr>
<tr>
<td>Financial Standing</td>
<td></td>
</tr>
<tr>
<td>Paper Work enrollment requirements</td>
<td>Over the air enrollment (conditional); Proportional KYC</td>
</tr>
</tbody>
</table>
The Big Picture...

Maximize Macro-Economic Development Opportunity

Financial Inclusion
More Efficient Commerce
Jobs & Innovation

Research “Economic Implications”

Technical Architecture

Research “Unbanked”

Business Model

Regulatory Framework
Policy Framework

Int’l Benchmarking, lessons learned
Local consultation
National payments infrastructure

Build, Own, Operate?

Who bells the cat?
Alternative *PATH* to Financial Inclusion?

• About PATH
  – A Conditional Cash Transfer (CCT) Program
  – Payments to the poor on the condition that recipients make social investments in health and education
  – Bi-monthly disbursements to 377,709 beneficiaries using cheques (91%) and magnetic Debit cards (9%)

• Intuition/Evidence suggests high volume G2P micro-payments
  – significantly reduce Government operational costs
  – provide a catalyst for extending banking services to the poor (financial inclusion)
Consumer readiness is a critical success factor. The most advanced infrastructures in the world, with responsive legal systems, mature economies, and sophisticated technology networks, may be fertile ground, but until consumers embrace mobile payments, that ground will remain fallow.

Consumer familiarity, willingness, and actual usage are necessary conditions for mobile payments to take off.

*(Mastercard Worldwide; 2012)*
What PATH Beneficiaries Say

**Expected Benefits of Mobile Payments**

- Getting the money quicker
- No need to pick-up cheque at post office
- No need to visit bank for monthly cheque
- Less theft and fraud
- Funds on mobile ready to pay bills
- Lower administrative costs to government
- Safe way of storing data and money

[Bar chart showing the percentage of importance and unimportance for each benefit]
What PATH Beneficiaries Say

Attitude towards Receiving PATH payments by phone

- 54% Positive Anticipation
- 25% Negative - Afraid to have money on the phone
- 21% Irrelevant - Would make no difference
Research Insights – Mobile PATH

- The current process of receipt of payments via check is a tedious process and one that often negatively impacts the self-esteem of beneficiaries;
- With respect to the electronic card method of payment, the adoption rate was 9% in the five years since its introduction. Poor communications and lack of awareness and understanding of the merits have impeded adoption;
- The mobile phone is an essential, versatile and highly regarded tool by most respondents. The average user is very comfortable and proficient with the use of SMS text, which suggests that the learning curve to accessing financial transactions using SMS would not be a difficult barrier;
- Most respondents were very responsive to the idea of using the mobile phone for the receipt of payments, once the options and the instructions for use were clear and not complex.