The MasterCard Foundation Symposium on Financial Inclusion:

Clients at the Center

July 19 – 20, 2013
Turin, Italy

This document presents transcripts from the plenary conversations and presentations during The MasterCard Foundation Symposium on Financial Inclusion: Clients at the Center 2013. The statements made and views expressed are solely those of the authors and do not necessarily reflect the views of The MasterCard Foundation, the Boulder Institute of Microfinance or the symposium participants. Some have undergone minor adjustments, but in general we preserved the tone of the panels and presentations to provide the reader with the content of the symposium.

Session 3: What do clients want from their formal financial services?

What are the core characteristics that clients want from their formal financial services that we need to keep in mind when we think about the future?

Moderator: Alexia Latortue – Deputy CEO, Consultative Group to Assist the Poor (CGAP)
Panelists: Daryl Collins – Director, Bankable Frontiers
Jenny C. Aker – Assistant Professor of Economics, Fletcher School and Department of Economics at Tufts University
Nathanael Goldberg - Senior Director, Policy Innovations for Poverty Action (IPA)

Alexia Latortue

Great. Good afternoon, everybody. My name is Alexia Latortue, as Bob said, and I work with CGAP, and I'm delighted to be moderating this session on, what do clients want from formal financial services. I'm really thrilled to be part of this symposium. CGAP has been working on building a community of practice around clients at the center for some time now, and it's pretty amazing to see the momentum here today, and particularly to have this conversation on client issues, and really delivering well for clients with so many practitioners. Because you, the providers, the practitioners, are the ones in the front line of delivery. You're the ones closest to the clients, and so that's really wonderful.

And I believe, and I'm working with many of you to try and build the data evidence for, the fact that a focus on clients truly has the potential to exponentially advance financial inclusion. But, having said this, I sometimes worry that the term or the concept "clients at the center" is not concrete enough, is not actionable enough. If we have a call to action, lower transaction costs, that's super clear. We may not have all the answers, but we know what we're trying to solve. Clients at the center encompasses something much more complex, and so part of what we hope to do throughout the symposium, and with this session is to try and become more concrete about what it takes to be client centric. And I was actually really thrilled to see your responses to the voting questions this morning where there actually was a fair bit of consensus around what it means to focus on clients. And that consensus was around first deeply understanding clients, but in order to deliver better for them. And that clarity was remarkable to me, and very much in line with the way CGAP thinks about clients at the center and client centricity, where we really believe there are three important, intertwining priorities needed for providers to become more client centric.

The first one is understanding customers, developing a deeper understanding of customers. And I agree with Claudio. It's not learning about customers, I would say it's learning from, but also with, because sometimes the customers don't even know themselves. We as human beings don't always know what we need. So learning with customers, and not doing this once, but doing this continuously on an ongoing basis.

The second priority to becoming client centric is about designing effective delivery. And that theme has come up throughout the day. Having insights if we can't act on them won't go very far. And I think acting on them is not just about better products because products don't exist in a vacuum. It's about delivery, pricing, staffing, the customer care needed.

And third priority is really about making the economics work, making the business case work, because we need value for clients, absolutely, but there needs to be value for the financial risk providers as well. We need profitability, sustainability, if we are to have impact at scale over time.

And so I really do believe that the journey, that client centricity is really about a journey. And that journey can be long, the path can be winding, but it is one well worth taking. And we've heard about a fantastic journey this morning with bKash in Bangladesh. We heard about the exciting innovations that the supply side can come up with, and now we end this day with a focus again on the clients with this session, and then Marguerite's talk at the end.

Now, the topic is really broad. You know, what do clients want from formal financial services? So we've agreed as panelists to actually focus in on three key themes within this broad topic. The first one is very much leading to what Claudio was saying earlier. He said informal services will not be enough. We need formal financial services. And so we're going to debate a little bit this issue of formal/informal, and how does that work. That's our first topic. The second topic is linked to something that Tilman said when he showed the slide of Alberto. He said there's not a product on this slide. It's all about needs and aspirations and wants. And so we're going to explore these words, "needs, wants, aspirations, behaviors." Are they the same thing? If not, how are they different, and how do we learn about them. The third topic we will explore is linked to the quote that Claudio made from Amartya Sen: "Human beings are fundamentally diverse." And so if we're fundamentally diverse, we can't think about the "low-income people," the poor, but we need to look at segmentation and what does that look like. So segmentation will be our third topic.

And our panel is composed of researchers because I believe when research does its work well, research can be a powerful ally to those of us that want to better understand clients and deliver for them. We'll spend 15 minutes on each of the three themes that I outlined, and this is designed as a conversation. No Power Points, so please lean in and listen to the conversation, and I look forward to your comments afterwards during breaks.

Okay, so let's get started. Our first topic, as I said, is really about looking at the value, the basic value of formal financial services, also in contrast to informal financial services. And I'd like to start with you, Jenny. Jenny is an assistant professor of economics at Fletcher, at Tufts University. She really has been looking at the use of mobile for development more broadly, and then recently has been focusing on customer adaptation of mobile technology, and really what determines demand.

So Jenny, a key assumption of many people, and I would say particularly of regulators, is that the transition from informal services to formal services is very important; and that formal services, when delivered responsibly, will beat informal services from a scale, a security, a reliability perspective. Is that the right way to think about this informal versus formal? What are the advantage of formal financial services? What are the advantages of informal financial services, Jenny?

Jenny C. Aker

We heard a lot this afternoon that very few people in developing countries have access to formal financial services. At the same time, we saw that people have very high access to informal financial services in many developing countries. Poor clients are using a variety of different mechanisms to help them save, borrow, invest, and transact, and they've been using these systems for centuries. Now, kind of an underlying assumption through this discussion is that maybe financial inclusion is really formal financial inclusion, that really it's using these formal financial products because they might be safer, they might be more reliable, they might meet some of this unmet demand.

I would make a little bit of the argument, that kind of this debate of formal versus informal is going to be a little bit of a red herring, in the sense that we know that it would make it very easy to define financial inclusion as being formal financial inclusion because then we could say when you move from using an informal product to a formal product, you're financially included. However, at the same time, financial inclusion broadly defined is people having access to appropriate financial services and products. And so if we think about it that way, then we need to step back and ask ourselves the question, who are our clients, and what are the financial goals of those clients? What do and don't we know about their financial goals. Secondly, what types of financial services do they really need to achieve those financial goals? And thirdly, how do formal and informal really stack up? And if there are some weaknesses, how can we improve upon them?

I'd like to really briefly go back to the first question looking at the financial goals, knowing that it's not just going to be one group, and we want to talk about segmentation. But this is where I think that Daryl's work in terms of the Financial Diaries has given us some important insights, and we talked about this earlier today, the fact that many poor households have very low incomes. They're living on less than two dollars a day. Very high seasonal variation. They're facing a lot of different emergencies. And because of that, their goals are probably not so different from ours in the sense that they want to be able to meet their basic needs, cope with these emergencies, and invest in their family's physical, human, and social capital.

How are they doing that? Well, in many cases, they're doing it through informal financial services. They're saving under the mattress or with a savings club or with a goat. They're borrowing from the money lender or from that same savings club. They're receiving money from the bus or from friends and family members, maybe via money gram. And if we go to the client's perspective, these informal services offer some really important advantages. They're familiar because your friends and your family members actually use them. They're useful because you can get savings and credit when and where you actually need it. They're fair because you know exactly what you're paying for and why you're paying for it. They're safe in the sense that you know where your money is at all times. It's not necessarily in a nameless, faceless institution, and they're legible. You understand actually how to use them.

Now, an interesting thing that we've seen is that people have started using more formal financial products in developing countries over the course of the past ten years. But as they've started using more of these formal financial products, they haven't necessarily been replacing these informal counterparts, which is really interesting, because it suggests that there's a niche for both of these. And I'd like to break it down a little bit more if we talk about the very specific example in terms of savings.

You know, take the savings club. About 50% of the population in Sub-Saharan Africa belongs to at least one savings club. Again, from this client's perspective, they can have very important advantages because your friends and family are using it, so it's familiar to you, you know that it's in a lockbox, and three different people are holding the key. So it's going to be relatively safe. It allows you to save in an accessible place, and get it out of the house, so it can be quite useful. You understand the rules of it. So it's legible. And then fees are actually negligible if you want to borrow money. So it's quite fair. And some work that's been done by Care and Freedom From Hunger and Oxfam savings groups in Sub-

Saharan Africa has actually shown that those who are members of these savings groups are saving about $30 a year. They are borrowing about $20 a year. And because of their saving and borrowing, they're able to smooth their food consumption over the year, which is really important if you think about how important the hungry season is in West Africa, and it allows them to invest in livestock.

Now, what these savings clubs weren't able to do is impact household's kind of investment in their firms or in their small businesses, and it didn't have any impact on incomes, which is something that we think is going to be important for financial inclusion. And the question really is why. And I would argue that there might be four reasons, which first of all, kind of, savings clubs are going to be potentially financially shallow in the sense that you can only save and borrow as much as, kind of the capacity of your members. So if you can all only save about 50 cents a week, that's going to naturally constrain what you can actually save and borrow. Secondly, while it might have an emergency pot and allow you to respond to some emergencies, if you have a really big medical crisis or everyone in your savings club is affected by a drought, it's not going to be able to help you too much. Thirdly, we've seen some examples where in certain savings club in South Africa, there has been some theft, right near the time of the share-out. So this raises concerns over trust. And finally, while the savings club really allows you some privacy because it gets that money out of your house, it's not private from other members of the community. And if we think about social pressures of borrowing and lending, that can be quite important.

Let's compare that for a second to what we actually know about savings accounts. And so there's been some interesting research done about savings accounts in Kenya and Nepal, where they kind of tried to introduce savings accounts either for free or at a subsidized price. And what they basically found is that when they offered these savings accounts, interest was really high, about 60% of the people opened it, 40% of market women opened it, and when they were actually using it, they were investing 50% more in their business expenditures and increasing their food expenditures. In Nepal, when they did a similar type of experiment, they found that households were actually increasing their assets, but they weren't crowding out other savings. So they were still using that informal saving mechanism. And what this suggests though is that we didn't see any kind of impacts on firm size or firm productivity, again things that we think are going to be associated with the ability to kind of use a saving account. Why? Well, in these cases, we saw that the interest rate on the account was actually negative because you had to have a minimum balance in your account, and there were very heavy withdraw fees. There was some mistrust about some of these savings accounts because even though the accounts were actually safe, people had seen the failure of banking systems in nearby countries. And finally, the transaction costs were quite high in terms of actually getting to the actual bank.

With these things in mind, I just kind of wanted to propose to you three types of thoughts, and then I think Daryl will add some additional things. First, I think we want to figure out who our customers are, and what we really need to know about their financial goals. And as we mentioned earlier, these financial goals can be quite local and quite context specific, even though I was very generalizing at the beginning. And the challenge for us is that while we've kind of gained a lot of depth and insight from the Financial Diaries, this is in a few countries with a very small population, it can be quite intensive, and I think there are challenges. How can we find out about the needs of our clients, but with a lighter touch, and also respecting the fact that a lot of this financial information is something that's quite sensitive to people. How would you feel if someone came into you and asked you about all of your savings and borrowing over the course of the past week? I wouldn't feel so great.

Secondly, I think that we want to be thinking about formal and informal financial services as being complements and not substitutes. We're always going to have a need, I believe, for informal financial services. The question is, how can we actually kind of improve upon them? And formal products can actually potentially provide different types of options and different types of services that maybe informal can't. And what we've heard earlier this afternoon is that they might have a comparative advantage in one of three areas—the area of insurance, the area of large sum savings and borrowing, and the area of money transfers or areas where you might be naturally constrained by your informal network.

And I think the third area is really going to be kind of the use of technology. So we've seen these figures about the growth of mobile phone technology. And I do think that mobile phone technology affords interesting opportunities to strengthen, enhance, improve, and in some cases even replace some of these informal and formal systems as a communication, a savings, as a transfer device. We've seen lots of examples of people picking up the phone and calling their friends and family members to say, "I need help." So they're able to get their money more quickly, which is improving this informal financial service.

We've also seen that it reduces the costs of transferring money, which again improves the quality of an informal financial service. But you could also potentially think of a savings group using mobile money to transfer it into a local bank account.

And then finally, you could think about kind of saving money on your mobile phone because it's PIN protected, even if you might know your PIN. It's going to be kind of safer than under the mattress, and maybe a little bit more accessible than in a savings group. But technology in and of itself increases or adds an entire other level about kind of flexibility and fairness and legibility that we need to really be thinking about.

Alexia Latortue

Daryl, I want to turn to you now because you know both the informal and the formal space fairly well. You worked for a New York investment firm, that sadly is no longer with us, in the past, and you've also obviously conducted the Financial Diaries work as part of your work with Bankable Frontiers and do a lot of client research there. So I'd like for you to react to anything that Jenny said, but also specifically to talk about the risks that poor people might face as they transition from informal to formal financial services. The Financial Diaries show the poor are savvy managers, and does that savviness translate well into the formal space?

Daryl Collins

Well, thanks very much for this opportunity to talk about this particular topic because, ironically, Jenny and I were involved in a debate not too long ago at Tufts where we were arguing that informal is better while another side argued that formal is better. Well, the truth is going to come out tonight, because Jenny and I think very similarly. So if I can just emphasize some of the points that she made. We really don't see people sort of growing out of informal services into formal services. I mean, you don't grow up and get a bank account and abandon your childish savings club. You keep both. So what I think the opportunity to engage in the formal sector provides the poor is a broadening of their portfolio. And as Jenny said, a lot of times these instruments act as complements, not as competition. It's helpful to know what the poor have in their portfolio already so that you can figure out where you can plug in the gaps, and let me give you a couple of examples.

Most of you with MFIs, you're thinking about credit. Well, oftentimes, we compare, for example, interest rates of MFIs to money lenders. But they're not really the same instrument. I mean, you only get a very small amount of money usually from a money lender, and then you tend to pay it back very quickly. That's the evidence that we found in Financial Diaries all over the world, and in South Africa, in India, in Kenya, in Mexico. We find that money lender loans are completely different. They tend to be emergency loans, they have very short duration, and they have very small size. So what MFIs are providing for clients is an increase in size, and an increase in duration in their debt portfolios.

But likewise, we can see the same type of effect on an insurance portfolio, for example. In South Africa, funeral insurance is incredibly important. Everybody has funeral insurance. But they have both informal burial societies, and oftentimes they have formal funeral insurance that's offered by a local bank and a local insurer. Now, the reason why they take on this formal insurance is because, frankly, it can offer much better value to them. So the amount you pay every month gives you a much higher payout compared to the burial society where you're paying a very small amount, but you also have a very small payout. The insurers are able to combine risk and offer better value for the client. Now, in that situation, people will have their burial society for the social and literally the labor that neighbors will provide for the funeral, but they will really get better value from the formal product. They're complementary.

And lastly, as Jenny pointed out with savings groups, I mean, just to add to her list of things that savings groups don't do—I mean, what they *do* do is they really are fantastic savings mechanism. I find that it makes a huge difference when people have access to well-functioning, informal savings groups. In fact, I noticed in the Findex numbers that there really, even that high, high level view shows that in Africa, you have a much greater usage of savings groups, and therefore a higher savings rate. And that's interesting. Savings groups really work well, informal and semi-formal.

But what they don't do is they don't allow you to save past a year. So once again, you need a formal variety to come in and allow you to expand the duration and size of your portfolio because there are times that you need a lump sum that is more than what you can save in a year, and that is more than you can borrow from a money lender. And it's an expansion of the portfolios.

And if we're going to go to the next level, and all of you have said that where we want to go is to be able to provide all types of financial services, if we want to do that, then really what we're talking about is an expansion of duration and size of the types of money flows that the poor can get. Now the risk in all this, of course, is that there's a whole different language in the formal sector. There's a whole different language even in terms of talking about interest rates. When you talk to the poor, they tend to express interest rates as $10 on a $100. They can perfectly well calculate the ratio, but the language is different. They don't tend to talk in terms of interest rates. So even just those terms need explaining. And the terms of a loan, knowing what's going to happen if you default, knowing what the fees are and what to call them and why they are charged. There is this whole language and terms that's completely new, and if we really want to talk about where financial literacy can play a role, I think it's in introducing and getting low-income people who are first using formal financial services used to those terms and the rules of the road, so to speak.

But there's another risk. You know, what I found in talking to poor people around the world is that they're very, very astute judges of character. You often talk about people as a hard worker or another person as very trustworthy, and the kids are brought up with impeccable manners. Your social standing in your social circle is incredibly important. You're judged. Now, how the heck are you supposed to judge an institution in the same way? So suddenly you have this impersonal institution.

As Claudio says, MFIs have broken a real mold because you are treating customers different. You're treating them in terms of their whole self, their personality, their trustworthiness, and not just simply their credit score. Well, likewise, clients are going to be looking at institutions and trying to judge them in the same way, trying to judge them on their ethics. Can they play the rules of the road? Are they going to pay me back if I pay them month after month after month? Are they actually going to pay me out when I need that insurance payout?

So again, as we broaden our set of financial tools, we've got to remember that when people start to engage with formal financial institutions that they're looking for signals—how can I trust you? How can I trust *you*? And all the signals that they're used to seeing, they're not there. So we need to create a new way of branding trust, and I think that really starts with clarity, clarity, clarity, and then consistency, consistency, consistency.

Alexia Latortue

Thanks, Daryl. So I think clearly from the stage right now, a strong case for the complementarity … (applause) … oh good. Great. A strong case appreciated about the complementarity of informal, but I stress also on being very clear about what the value add is of formal, and you've hinted at some of that. And I think this is a good s to get to our second topic, which really touches on what seems like a vocabulary exercise, but I think it's actually really profound—a need, a want, an aspiration, a behavior. Tilman used those words at some points almost interchangeably. Does it matter? Are they actually all getting to the same thing, Jenny, or are there fundamental differences in these words, and is it important to understand these differences when we think about having a high value added service for clients?

Jenny C. Aker

Yes, we talked about this a little bit earlier one of our sessions, and Daryl alluded to this as well. It's going to be more than kind of just a semantic exercise. I mean, there's a rich literature on this in terms of anthropology and economics and psychology, and I'm not going to go into it. But they're important because it helps us to understand what kind of our clients' financial goals are, what types of products do they want to use, and then how do they transfer those financial products into potential improvements in well-being. And we often think of needs as being things that you need to survive. I need food, water, and shelter, and if I don't have access to them, then I'm not going to survive. Wants are a little bit different in the sense that I would really like to have a phone or I would really potentially like to invest more in my business, but if I don't get that, I can still survive.

Now, the distinction between wants and aspirations is a little bit different, and this is where it becomes a little bit trickier in the sense that an aspiration is usually some type of aim or target that you have, that you're thinking in the future, you have some type of goal that you set for yourself. And the way that a lot of people talk about this is that a want is something that's individual to you. It's going to be influenced, of course, by your society, by your culture, about those who are around you. But an aspiration is also influenced by those around you, but it's also very much rooted in kind of your social esteem. And the way that I would think about this is that we do a lot of work in Niger, and when we talk to people about kind of after the Muslim holiday of Ramadan, you know, about two months later, you have the holiday of Tabaski where traditionally you would buy and slaughter a goat, and it's really an aspiration for many people to be able to buy and slaughter that goat. Not so much because of their religious obligations, although that's very important, but because of their social obligation, because it gives them a sense of standing within the community, and so they get a sense of kind of wellbeing and happiness from that standing.

Now, this still might seem a little bit theoretical, but I think this is going to be kind of important when you think about the financial goals, and I want to bring it back to something that Daryl said. You know, we can think about with a need, if I need food, I don't have any other options. So I'm going to go to a money lender, and I'm going to be willing to take a loan with an astronomical interest rate for that food because I need it.

At the same point in time, if I have a want like a phone, I probably won't be willing to pay that same interest rate, and it would be very difficult for me to actually find a money lender who would give me a loan for that purpose. And in Niger, in fact, money lenders will very clearly say we will only provide loans for needs, not for wants, which I think is very interesting. If you think about aspirations, why this is interesting for us is that then we get a sense of how much are we really oriented towards the future? How patient are we willing to be? How willing am I to kind of put my money in my savings club, not just for one year, but for multiple years, or in a savings account for multiple years as well if I really want to think about my future and think about my kind of retirement?

The big question for us is how do we identify what people's needs, wants, and aspirations are, and maybe wants and aspirations are a little bit more difficult because I think our needs are common? And then what does that really mean for behavior? And behavior for us is really, you know, what types of financial tools are people using, how are they using those financial tools, and how are they transferring those financial tools into kind of improvements in wellbeing. And so if we think about that, you know, a little bit, I would really like to stop eating chocolate every single day, but I still eat chocolate every single day. And why is that the case? Well, that's the case because there are some kind of internal factors. There are things internal to me. Maybe I don't have willpower, maybe I just don't have the stamina, maybe I forget that I told myself that I kind of want to forget to eat chocolate. And then there are external factors as well that are going to be affecting my decision-making process.

And if you focused on that for a very particular example in terms of kind of financial institutions, let's look at kind of a savings club. Well, the work that's been done with Care and Oxfam and others, when they've gone into villages, they've offered people the opportunity to join a savings club. Forty percent of people on average have joined the savings club. That means that 60% of people in a village aren't joining a savings club. Why? Is it because the savings club wouldn't necessarily meet their needs and wants? Not necessarily. There might be other internal and external factors that are affecting their behavior, and in this case, their behavior is, are they really joining a savings club? And that might be 'maybe I don't have the income where I feel that I can actually put that money aside every single week.' Or, 'maybe my spouse or other family members don't feel comfortable with me joining a savings club.' Or maybe 'I don't feel necessarily comfortable or have the self-confidence or know other people in the community who really I can join with.'

I think that understanding the challenge for us is really how do we identify those needs, wants, and behaviors. And even if we do identify them and develop appropriate informal and formal financial products, how do we really ensure that we're understanding how people are using them and how are they translating into better wellbeing.

Alexia Latortue

Great, thanks a lot Jenny. And so we now will get to the male on the panel. Hearing the importance of actually understanding the different facets of clients' lives and realities, Nate, you work with Innovations for Poverty Action, an institution that does a lot of rigorous evaluations around access to finance for households and for enterprises. And it would be helpful to hear from you, what are you learning through this research? What findings are emerging about people's or households' wants, needs, preferences, behaviors that actually can help us then improve service delivery?

Nathanael Goldberg

I'll start with the approach that we take to understanding that, and it's kind of a three part approach. The first is to understand market failures. Market failures is economic speak for basically a product or a service that probably should exist, but it doesn't. And it could be a product, or it could be a type of a product. It could be just like a change or a tweak on a product. And then, we use knowledge from economics and psychology to try to develop solutions for where we see those market failures. And then the third part of our approach is to test and scale these products. And at Innovations for Poverty Action, when we talk about testing and scaling, especially testing, we use randomized control trials. For us, it's a really reliable, and actually simple way to understand the impact that a product or that a product tweak can have just by comparing people who get it to those who don't.

I'll share a few findings, and this is really just a few out of quite a long list of studies that we have, but these are some that I thought you might find interesting. And the first is on commitment savings. So we first did this in the Philippines and Tilman mentioned one of these studies in Malawi that I'll talk about in a second, and I think I saw this seed from the Philippines product on the slide as well.

B doing a randomized trial, we took people who were in this case walking into a bank branch, and we would randomly select some of them and ask them if they would like to participate in a commitment savings account. And there were a couple of different types of commitments that they could have. One would be to reach a certain savings goal. So they would say, "Well, I know I need this much money for school fees. My money is locked away until I've reached that goal." And it would help them to reach that because they really truly couldn't take the money out until that point unless they had like a medical emergency or something like that. And the other could be a time commitment where they just said, "Okay, so there will be some Christmas festivities coming around in December, and I want to be ready for that, so lock the money away until that time." So in this case, everybody who was even offered the chance to open up this account compared to those who just walked into the bank branch increased their savings balances by an average of 80%. That's huge. Those who actually opened the account increased their savings balances by over 300 percent.

Then there was the Malawi study, and we've already seen the results from that, where you see that people are investing more in fertilizer and they have more crop yields, and then they're consuming more. So that's great. But there's a behavioral puzzle here which is that people know that the next season is going to come up, and they know that they're going to need to spend money on inputs like fertilizer, except it's not really a puzzle at all, because you know that when you get money at harvest time, you've got to make that last for nine months until the next planting time. Unlikely that you're going to make it there with all the intervening necessities that come along the way. So commitment savings account has really helped people to achieve that. And then they're able to consume more down the road.

The second one is on savings reminders. So, one of the differences between credit and savings is, with credit you know when your payment is due because it's salient, it's there. Savings, when it's time to make a deposit? When you have some money, is it the first thing that comes into your mind? It's not like I know my money is due at the bank on the first. So we try to help people out with that by sending them an SMS. We'd send them a text saying, "Hey, it's time to make a deposit." And just by doing this, we can increase savings balances by six percent on average. Now, six percent, it's not the 80 or 300 percent we saw before, but this is like almost costless.

So, all of you financial service providers working with people who are mobile enabled, and we're learning that's kind of most people at this point, can go back and implement this and increase people's savings balances by six percent. And then, within there, we can do some of these tweaks. And in Peru we had people refer to a specific savings goal, and they were able to increase their savings balances by 16 percent. So that's pretty impressive.

A third, pretty similar in nature, is account labeling. So in Ghana, some of our researchers allow people working with a rural bank to open up parallel savings accounts. It's the exact same product features as the savings accounts they already have, but this is mental accounting. They had a separate account, and they'd say, oh that's the education one, or that's the home repair one. And their savings balances, just by being offered the chance to do this, increased by 31 percent. And the greatest increases there were for the education label.

I won't go through other examples in detail, but I do just want to, if Alexia will let me, just a quick list of some of the other types of studies that we have. So if you're interested in them, then come up to me after and I'll share the results from them. We have experiments on different loan terms. We have grace periods before the first loan payments are due allowing people to potentially invest more in their businesses; types of marketing, including insurance marketing; pricing, how do you price products. We've learned that by just going out and trying different prices and seeing how many more people you get in. We've done that for both credit and for savings. Financial literacy, and Jenny mentioned the VSLA study. That is just kind of a subset of a much larger set of studies that we have.

Alexia Latortue

Thanks so much, Nate. It's interesting, earlier today, all of you said that designing new products is fundamental for our immediate future, and we are actively doing so. And I think what's interesting about many of the examples that Nate just shared with us, is that they were actually not necessarily about brand new product offerings. They were often about a tweak or a certain feature or an element that, at least in those cases that were studied, really made a pretty big difference to uptake. I think that's actually quite exciting news. But I think we also see that it's sometimes hard to implement these findings of the type that Nate just shared with us. And so, Daryl, you do a lot of hands on work with providers, and I'd like to hear your thoughts on, as the research base is growing and we have these findings that could potentially really radically help improve uptake and value for clients, why is it so difficult sometimes for providers to integrate these research findings into their operations? But also when it works, why does it work?

Daryl Collins

Well, Alexia, we were talking actually about one of the results from the clickers, about how a lot of you said, “Well, we know that we want to learn about clients, but we’re inhibited by the cost.” And I think one point that I wanted to draw out, and I think the panel would agree, is that we need to be very careful about the burden of proof that we’re trying to aim for sometimes. And we don’t always need the burden of proof of an RCT or a major survey, or anything, or Financial Diaries. We do not need Financial Diaries every time you turn around or even for every country. It’s pretty big engaged stuff, some of these major surveys. And I think one thing we need to remember, that a lot of the research that we are engaged in, what we are trying do is provide ideas that will be able to be shared out by everyone, and we’re trying to totally change how the world might view things. So I mean, these guys as academics, they’re really trying to rewrite the way we’re thinking about economic transactions. So their burden of proof when they want to submit something into a peer reviewed journal is extremely high because it’s going to stick so hard.

When you’re designing a product, you can have an idea, you can get some feedback from a client, and you can implement it, and it does not necessarily have to be based on your own research. So for example, Jenny and I were talking yesterday about a new product in Rwanda called “Pay it Forward,” and people are paying themselves into the future, and it’s a way, it’s kind of a riff on this commitment savings idea. Now, they didn’t necessarily go out and prove to themselves that their Rwandan customer base would value some sort of commitment device. We know that. We’ve seen enough research to know that people often want to tie their hands. So you can certainly leverage ideas that you get elsewhere.

But here’s the other thing that I think we can be really concerned about. The tweaks matter, as Alexia said. When you invest a lot of money into launching a new product, maybe you’ve done research anyways, I think one of the most important things is listen to the clients that you have because you may need to tweak the product, and tweaking the product may make all the difference. What I’ve seen in working with larger commercial institutions is that many of them are really designing their products around the limitations of their core banking system. Their technology and their operations are so inflexible that they can’t incorporate these tweaks. So I think when we get intimidated by the cost of doing client research, I think what we need to think about a little bit more is how do we make our operations and our technology more flexible so that we can be listening to what our clients are already saying, and we can tweak products appropriately.

Alexia Latortue

Thank you. I now want to shift to our third topic, which I think has been coming up throughout this conversation, and that’s the segmentation, segmentation, segmentation. Sort of the new mantra in our field. You know, you prioritized some client segments in the earlier voting exercise to Sam’s dismay because the world is becoming more urban, but we’re prioritizing the small holders. We need to meet people’s, not only their needs and the needs might be universal, but the aspirations might be very individual. So I want to explore now firstly how important is segmentation at the stage of where we are in financial inclusion with, and we saw the data, the exclusion challenges that remain. Is this the moment to go deep into segmentation, to try and develop more and more tailored responses? Or, on the contrary, should we say no, there are a bunch of universal needs that are not met at all. Let's focus on that, doing too much segmentation is frankly going to be too hard, too distracting. We have some lower hanging fruit. So if you can touch on that, and to the extent that you think, Daryl, that segmentation is important, can you help us think through what segmentation lenses are actually the most powerful?

Daryl Collins

Well, I think just to sort of harp on my last point about learning from your own clients, my colleague David Porteous will talk a lot about a new type of segmentation that we're doing using big data based on clients' actual transaction and balance behavior. One of the ways that we found very fruitful to look at segmentation is by the client's actual behavior. Because take a basic bank account, you're not going to have the same behavior across all accounts, even though the account is exactly the same, and even though it might be marketed to low-income clients. Some are going to use it to receive a payment and pull it right out. Others are going to use it to park money. Others are going to use it to save and slowly draw down. Now, we've found that some of these segmentation behaviors, if you tie them to the business case, you can look at your own clients and say, you know what, those guys are making us money. These guys are really costing us money. And that already brings a strategic view into how do you understand the clients that are making you money and the ones that aren't making you money, and how do you shift them over to have an increase in the ones who are actually making you more sustainable?

So that's one way of using the data that you already have and segmenting by behavior. If you're just going to go and think about sort of green fields and think about new clients, then Tilman already pointed, obviously, to one of them, which we asked about in the clicker session, where we think about people's livelihoods, their pattern of income. We can also think about another option in that clicker session which is the pattern of outflows. But, I think both of those are incredibly important because, from doing Financial Diaries, you can usually find the financial instruments if you trace those big incomes and big outflows.

But here's the reason why segmentation I think is really important right now. Here's the reason why you want to do segmentation. One of the most expensive things that financial institutions engage in is client acquisition, yet we find that a lot of larger financial institutions, they go through all the trouble of trying to understand the client designing the product, and actually acquiring the client, yet you find that savings accounts become dormant. They don't use them any longer. I mean, a lot of the banks that we've worked with have rates of 50 percent and up to 90 percent dormancy. That costs you because you've invested all this client acquisition. And same thing for insurance companies. Huge problem with persistency where people start paying premiums and then stop, and nobody really knows why. Well, the reason why it's so important to engage in segmentation beforehand is that we've got to have a better hit rate, because otherwise, moving to the next level of products—savings, insurance, etc.—moving as Tilman says beyond payments as a base, we need to have a better hit rate. Otherwise, these things are just not going to be profitable. We're not going to be able to sustain it. So we do need to do a little bit more homework beforehand because we need to target people who might have similar cash flow patterns, or similar outflow needs, to make sure that we're increasing our usage rates and not just our take-up rates. Let me stop there.

Alexia Latortue

So you made a case for, an economic case as well, for investing in segmentation now. I know that Nate, in some of the work that you've done, you've actually gone pretty deeply into trying to better understand different client segments whether it's women by gender, the extreme poor. Can you tell us a little bit about what differences your research is showing in terms of the needs, behaviors of these different client segments?

Nathanael Goldberg

Yes, we agree that segmentation is critical, and we have a couple of different approaches to it. So, one is just doing targeted studies, so we can do a study for farmers, and do a study for urban individuals, and see what we're finding with the two. The other that we do is called subgroup analysis, and when we're doing these randomized trials, typically, we have quite a large dataset. We could have hundreds of people, if not thousands of people in a dataset, which means we're going to have a lot of different types of people. And we could slice up the data and try to learn something that way. So for example, Jenny mentioned the study on savings accounts, and this was in western Kenya, and there we see that women were saving more, investing more, and then they were consuming more. That's really nice. Men? Nothing. So, we've got to think very carefully about what we're then telling people to go and do. We can't just go and say, "Hey, do a savings account for everybody," because we're getting a really imprecise picture of what's happening. So some of the types of categories that we would look at, certainly gender, we would look at income levels, we want to know about the better off, and we might not always have wealthy and extreme poor in the same study, but we can look at certainly above median income and below and see how people do. We can look at education levels and experience with business or formal financial experience.

One of the sets of studies that to me is really powerful is studies on returns to capital. These are done by a number of people including David McKenzie at the World Bank, and Chris Woodruff. So they did a study in Ghana where they're looking at what we call capital drops. So this is like the fundamental underpinnings of microcredit. Microcredit is based on the premise that you give people a loan, and they invest in their business, and then they make money and the bank makes money, and everybody is happy. So here instead of going out and signing people up to borrow, there's the even more fundamental questions, does investment into these businesses pay off? So these researchers would go out and just give people assets. They would either give them an in-kind asset like a sewing machine for a tailor. They would give people cash, like $200, to invest in their business, and they would see what happened. And so here too, we see overall massive returns to capital. We see 15 percent per month I think it was, which is enormous. If you're a service provider, 15 percent, that means that we can really split this thing. I can charge you five percent, say, and you're making 10 percent per month, that's huge impact for you. Win/win.

But when we look at the client segmentation here, and here it's a gender story, but there's another segmentation, which is a product tweak. The gender story shows that women are not doing so well. So the returns are really only for men. But what the researchers did is the in-kind versus the cash investments, they see that when the women get cash, they're not making any return. And what we're thinking is that, well, okay so that's money, and I can use that for things like the school fees and feeding the family which is maybe not going to turn into returns down the road. When you actually force their hand, and gave them in-kind assets like that sewing machine, the women were doing really well. So that's kind of promising and suggests that maybe some way to design products that could work within the way maybe women work, and maybe forcing their hand is the right thing to do. I don't know. But then there's more, there's cause for concern still because looking at the above and below median women in the sample, so like in profits at the beginning of their businesses before the study, it's the better off ones who were really earning the returns.

And this kind of resonates with other findings that we're seeing. That was return to capital, and now just credits. We're going out and randomly choosing people to be offered credit. So a study that we did in Manila in the Philippines shows that it's the men who are earning the increases in profits, and among those, it's the wealthier who were doing better. We see in Mexico now that it's the higher income entrepreneurs who are doing better in that sample as well, and also those with prior business experience and formal financial experience. In India and Morocco, with credit, and this is group lending here, dividing the sample out into the entrepreneurs and the non-entrepreneurs, we see it's the entrepreneurs who are investing in durable assets for their businesses. And the non-entrepreneurs are using these like consumer loans. So they're consumption is moving, but actually in neither case are we really seeing that turn into increase in consumption for the households.

And sometimes we do see some people at the lower end of the distribution who are doing better. A study in Mongolia, which shows that those with less education are actually earning higher profits. And then quite a lot of the time, of course, we see really no difference between the samples that we're splicing. So example from Mexico showing this is of pricing and credit, and there's no difference between old and new clients; there's no difference between those with lower or higher income, or lower or higher education.

Alexia Latortue

I think just to wrap this third topic up, I actually would love Daryl, if you can give us one or two, very quickly, examples of a provider that you've worked with, that has implemented a segmentation approach, and how they either changed, improved, tweaked their actual service offering based on the results to that segmentation exercise.

Daryl Collins

I think an important point to make is that I think when you think about these segmentations and a provider who used the segmentation approach, we need to be careful. A colleague last night at a dinner happened to mention this idea of really trying to tailor financial services for every individual person. And I can imagine that some of you may be listening to this are thinking, oh my God, you mean I need to make up a product for women who are business people, women who are formal services, women who are informal services, men who do this, you know, women who are jockeys, etc. How far does this have to go? I mean, does everybody need a completely bespoke product? And if we can just back away from that specter of fear, I think it's really, no, no, no. It's there are a couple of important segmentations that might work, and it behooves us to think about, when they leap out at us, it behooves us to style a product and focus that marketing in on that particular client segment.

Let me give you an example. Standard Bank, we worked with them in the last two years. We happened to notice, as Jenny mentioned, that low-income women who were receiving child support grants from the government, they weren't belonging to savings groups when everybody else in the population tended to belong to a savings group. And it occurred to us, oh, well they're actually too poor to meet sort of the monthly contribution. So Standard Bank targeted a savings product towards them. Let me also give a shout out to Marguerite Robinson who worked with Equity Bank, and happened to suggest to James Mwangi, you know, I've been talking to clients and they're really concerned about school fees. And so Equity Bank has recently launched a school fee account. And if I could give another shout out to MicroSave. MicroSave does enormous talking to clients, and out of that, doing product design. They happened to bring up a long time ago, and it's recently been re-launched, the Jijenge account with Equity Bank, which seizes upon the idea that actually the poor, often if they manage to build up a lump sum of savings, they don't like to use it too easily. They actually like to borrow from their savings. And the Jijenge account allows them to do that type of process.

It's a matter of seizing upon the ones that are totally, that really jump out at you, those big events. Every culture in society has a big life cycle event. Every culture in society has different types of livelihood patterns. The ones that you can target and therefore improve your hit rate and your usage rate, that's where it does behoove this industry to put in a bit more up front work so that we can make sure that the services that we actually offer get used, because otherwise, frankly, they cost too much for the institution.

Alexia Latortue

And a lot of up front work has been done. I hope that it has come through in this panel that there is actually a lot of knowledge already out there, and I think the challenge sometimes is using that knowledge to be able to actually improve delivery. This being said, I do want the last word from each of my panelists to be, if there is one issue around clients where you believe actually we really are far from knowing enough, and much more investment is needed in terms of actually understanding a particular client issue, what is that? In 45 seconds, and we're going to start with Nate. One issue that you think needs more research.

Nathanael Goldberg

Maybe because it's on my mind from what I've just been talking about, but I would go to the segmentation, in particular gender, and if I were a lender working with women, working with the very poor based on the results that we're seeing from rigorous evaluations, I would frankly be nervous. That said, the case is absolutely far from closed. So when I say we're flying blind, we don't have the evidence. I'm not saying it's not working, I'm saying that I find the evidence that's coming out a little bit unnerving, and there could be opportunities there to either do a product tweak or kind of prove that this can create impact for women and for the very poor. And then if I can just give a quick … this is a little unrelated, but a quick pitch just in terms of getting more research and not flying blind.

We are looking for partners for doing research, and if any of you would be interested, I would love to talk to you. In particular, we've got kind of projects and researchers and money lined up to do studies around commitment savings, figuring out what are the right features or commitments to be doing, around reminders that I talked about, about figuring out the technology and setting goals, and offset savings accounts. So this is like a combined account where people will borrow, but as they build up savings, that kind of offsets that initial balance, and it's kind of a declining balance.

Alexia Latortue

Thanks for your one issue around gender segmentation, and also a call that I would encourage you to take for working with the researchers on some of the questions. I think if we want research to be pragmatic, working with you is the best chance we have to get research to be pragmatic. Daryl, one client issue that we may be flying blind on.

Daryl Collins

I think we're really flying blind on client perceptions, just to come back to that issue. I don't know how many clients I've met in relationship to products or to financial institutions where the client actually has no idea who they're dealing with. They think that they're dealing with the government, but actually they're dealing with the bank. They think that they're dealing with the cell phone company, but they have no idea that they're actually dealing with an insurer. They think that they're dealing with an MFI, but actually they're dealing with a bank and their savings is at the bank. And I think that we dramatically underestimate this problem of clients not being entirely clear what institution they're dealing with, what their perceptions are of that institution, what are their perceptions of fair, what is their perception of what is safe, and we need to really unpack that especially as we're talking about lighter touch engagement with clients. We need to find the right signals to signal fair, trustworthy, and especially as we move away from credit which is where you give money to the client, they're pretty comfortable with that. The client giving money to you? Client giving money to you month after month after month, and not having any proof that it's going to come back to you, such as the case of insurance? It's a whole different ballgame, and we need to find out exactly what those signals are of fairness and of trust.

Alexia Latortue

The perception of trust as you move into formal financial services, absolutely key. Flying blind, one issue, Jenny.

Jenny C. Aker

I'm just going to agree with Daryl. I just wanted to piggyback on that and say that I think we really need to know a lot more about clients' perceptions of these products, and at the same time understand how their perception and usage of these products affects their use of these informal financial products as well. Because if we're thinking about financial inclusion as being access to these appropriate financial services and products, we need to know how people are using these new products, and these old products, and what does that mean for them in terms of their financial wellbeing and their incomes. Because we want financial inclusion to increase income as a means to an end, not just a mean, or an end in and of itself. So thanks.

Alexia Latortue

Great. Thank you so much to the panelists. I will have two things to say in closing, and then we will close. But two things to say. The first one may be a little bit controversial, I don't know, but I welcome your feedback. When we talk about informal versus formal, we've often said, we should be learning from informal, we should be mimicking what's happening in informal as we offer formal financial services. And I'd actually argue, yes, but we should also be focusing on what's missing, what's not working in terms of informal, so that the formal financial services can really be additive, can be complementary, can add new value. So I think it's not good enough to say let's learn and then scale up from informal.

My second point goes back to something that Claudio said that I thought was really important earlier today, which is as you innovate with almost any innovation, there will be winners and there may be some losers. And I think as an individual provider, as you make choices around, am I responding to a want, a core need; am I responding to a major aspiration; what client segment am I focusing on—there are choices that have to be made. I think all of what we've discussed for an individual provider might be overwhelming to do. For an ecosystem of providers, I think it's completely achievable. And so the message is, as an ecosystem of providers, we need to be able to be responsive to all these different wants, needs, aspirations of clients. As individual providers, to do that effectively, in a way that makes business sense, we probably do need to make choices and do what we do very well. With that, I say thank you so much to our panelists, and to you for your attention. (Applause)