The MasterCard Foundation Symposium on Financial Inclusion:

Clients at the Center

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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 7: Rolling-out client-centric products and demonstrating the business case for providers.

Can we meet the savings needs of poor clients, and how so? How has product design based on client data resulted in effectively meeting the financial needs of the poor, while demonstrating business viability for financial service providers?

Moderator: Arjuna Costa – Investment Partner, Omidyar Network
Presenter: David Porteus – Managing Director, Bankable Frontier Associates
Panelists: Andrew Wakahiu – General Manager Agency Banking and Merchant Acquiring, Equity Bank
Stephen Peachey – Senior Technical Advisor, World Savings Banks Institute

Arjuna Costa

A lot of what I know about microfinance, I learned from Bob, running around little markets behind the offices in Mali or in Zambia, walking down the street with Bob, and Bob going, "Hmm, there are 200 businesses; we could lend to about 150 of them. They need an average of $200 working capital." And it was just that visceral to him. So thank you, Bob. It's great to be here.

We have the slightly unenviable task of trying to bring together a day and a half of wisdom and insight that you got from the six panels that preceded this. Yesterday, we focused on the "why" of financial inclusion, and why we wanted to take a client-centric approach. And we started with Claudio and Tilman's urgency of now. The conversation today evolved towards more of the "how" of putting clients first. We heard from Michael in the microinsurance group about how you innovate around products, and I think we had a really thought-provoking session just before this around how you can use data to inform that journey to putting your client first as a service provider.

In this session, we're going to try and integrate the key three themes that have come out throughout the last day and a half: Developing and understanding of clients' needs, wants, and aspirations; reflecting that in how you design products and services for that client base; and then building the appropriate service proposition and the distribution channel to reach them. And most critically, how do you bring that all together in creating a sustainable business case for the service provider. And we're going to do this through the lens of a savings product. It's a critical component of the suite of financial services that our target client base needs, and it's also one of the most challenging ones.

I'm very lucky not to have to say much. I'll introduce the three panelists I have with me. David Porteous to my right is the founder and Managing Director of Bankable Frontier Associates. Over the past two decades, David has built a stellar reputation as one of the most trusted advisors providing research policy and strategy insight to a variety of stakeholders across this financial inclusion community that we are lucky to be a part of. Andrew Wakahiu to my left runs the Agent Banking and Merchant Acquisition business within Equity Bank, the fabulous success story that we were lucky enough to have Marguerite Robinson give us a little bit of insight into yesterday evening. And what's also really interesting with Andrew's experience is before joining Equity Bank three years ago, he led the team that built M-Pesa's agent network for Safaricom. So this is somebody who has deep, deep insight into what it takes to build an alternative channel at a lower cost to reach a target client. And Stephen Peachey, to his left, is the Senior Technical Advisor to the World Savings Banks Institute, where he's working with a number of organizations across geographies to try and double the penetration of savings accounts in that target markets. Wonderful set of perspectives.

Here's how it's going to play out. David is going to provide us with a framework within which to think about this journey towards financial inclusion, and client-centric approach. Andrew will then bring us the practitioner's view, and Stephen will then comment from a variety of practitioner standpoints. David?

David Porteous

Thank you, and thank you to Boulder, and to The MasterCard Foundation for the chance to share with you some of the journey that we've been on over the last few years working with eight banks in different parts of the world—Latin America, Africa, and Asia. And of those eight banks, I must tell you five are large private commercial banks. These are banks which are often the number one or number two retail bank in their respective market, banks that have as many as five million accounts of the type that we're talking about today, these entry level bank accounts, which are the workhorse of the banking industry. I'm very happy that Andrew is here, because Andrew is from one of those banks, Equity Bank, from which you've heard a lot. But his perspective on this journey, I think helps enrich it enormously and has helped shape us as we start to understand what the banks are doing together.

So that's where we're drawing the information from that I'll be speaking to you about. We're using this word "proposition" very deliberately because to me a proposition is so much more than talking about product. It's about that cluster of products with channel, together with the marketing features that together enable successful outreach to the client. It's not only about product. In fact, we'll talk quite a lot about channel. But it's about how those things come together. Now, to summarize three years of work in 15 minutes, which is what I have, is just impossible. So I'm not going to try that. Instead, I'm happy to say that a lot of what I'll be talking to you about has already been published. It's available on the website of one of the projects from which this came, Gatewaytosavings.org. It's available on our own firm website, some of it, but we also want to take it further in the discussion today. And all I can really achieve in the 15 minutes is to give you an overview of this journey in bank savings as we see it, and then really just talk about two lenses that help connect this discussion with the preceding panels earlier today.

Let's start with that overview. So, the world as banks know it today with respect to savings accounts, we would call Proposition 1.0. I bet you have accounts in Proposition 1.0 because that's where most banks are today. These are, as I said, the workhorse of the banking industry, held by the million by large commercial banks, and yet we would argue that that workhorse today is looking a bit more like a nag, a bit tired, a bit flea-bitten perhaps, for reasons that we need to understand and talk about. And that's been a big part of this journey with banks from their 1.0 starting place.

So what's wrong with 1.0? Well, it doesn't work well for the bank on average, or well for the customer on average. On the bank side, we've spent quite a lot of time and energy involved in costing exercises, looking at the account level, at all the different types of costs, acquisition, fixed transactional costs that go into that product. And on average across our banks, averages of course are always very misleading, but on average across these banks they lose something like two dollars a month per account in this category. Now, when you have five million accounts, that starts to hurt. But of course I said on average, because what's interesting about Proposition 1.0 is that it's an 80/20 proposition. In fact, actually 90/10 in many cases. So an analog to what you heard Seema Desai say about the mobile operators in the previous session. So the 80/20 looks like this. Twenty percent of the account holders hold 80% and more of the value in most cases. And because the business model is driven by float for most of the banks, the interest the banks earn on those deposits, it just doesn't add up for the average account holder. It certainly doesn't add up if you talk about going down market into more inclusive market space where you can't expect to have average balances of 200, 300, 400 dollars if not higher, which are common in this space.

So from the bank side, the Proposition 1.0 may work on average because of that lucrative 20% of customers, more like 15 actually on average, on whom you can make money at the account level, but it certainly doesn't give you much energy to push down market if you look at the account level alone.

What's wrong on the customer side? Well, we've heard some of the evidence already about that. We've heard yesterday about high dormancy rates among these accounts. That's true. Among the banks with which we work, the rates of dormancy in these categories of accounts range from 20% at the low end to 90%. Clearly, those customers don't see a good reason to continue to use those accounts. Something is wrong in the product design with those high levels of dropout which have been experienced over prolonged periods of time. In addition, we know that this workhorse, because it is in some ways so basic, doesn't really cater for all those features which we've been learning from the informal product world and from elsewhere that people look for. The mental accounting that says we can create subaccounts or ways of dividing up our savings, for example, ways of reinforcing our behavior, changing our liquidity preferences. Those features just don't exist in the 1.0. So why should customers get excited about them?

So that's where we start from, and that's where most of the banks are today. We thought we'd be on a journey which talked about product first in the last three years, and we were wrong. Because the journey, to what I'll describe as Proposition 1.5, has ended up being very channel focused. So with all the big banks with which we work, all those five, and in fact more, the last three years have been intensively spent on rolling out large scale agent networks. And it's an amazing phenomenon to see. These banks in many cases, and Andrew will talk about Equity, but they've gone from having no agents able to take deposits or manage withdrawals, none three years ago, to having thousands today. And their ambitions are to double or triple that network over the next two to three years. Now that's not easy to do, and many continue to struggle with doing that. Equity will talk to some of the success that it has had, which is in many ways remarkable in this time frame.

But what does Proposition 1.5 do to the underlying proposition to the bank and to the customer? Well, on the bank side, agents are cheaper than branches. It could be as much as a third cheaper sometimes, a bit more; it depends whether you're talking Latin America or Asia for example. But let's also be clear about this. Agents are not cheap. They're not cheap, for example, when you compare them to ATMs. They're just different. ATMs have a high fixed cost structure, so if you utilize them a lot, the costs per ATM transaction could in fact be cheaper fully loaded than an agent transaction, depending on what you have to pay in the form of agent commissions. So it can help for getting people out of your branches, and it's certainly nicer to get people into a low cost, lower cost channel to deal with them. That doesn't make you money in and of itself, and we've seen examples of some of these banks as they have gone agent channel dominant that that customer segment loses them more money than some of the existing segments that they have. Why? The balances are lower, and the clients transact more frequently as you'd expect. And if you don't make money per transaction, that's called a worse situation, at least in the medium run, for the bank's business case.

On the client side, there's no question that this can help improve the proposition as long as the network is rolled out well. That's a big "as long as"-- it's not easy to do that. But for customers, the benefits of accessibility that we heard about yesterday as a barrier, agents have shown, they really do help tackle the barrier of bank branch opening hours, or bank branch queues in many parts of the world, quite apart from the cost side issues.

So 1.5 is a big improvement, and it's the place to which we see leading commercial banks around the world moving. I say moving because there are struggles in doing that, and I don't want to make it sound as if that journey is over for all. You'll hear Equity's particular take on it in a moment. But as you've heard me say, 1.5 is called that because the product hasn't changed. The same workhorse product is there run over these agent rails at 1.5, and that does not solve the proposition for the customer or the bank fully.

So how do we get to the 2.0? Well, we're starting to see glimmers on the horizon from some banks of what we could frame as being 2.0. And the differences there that it certainly rides on those agent rails. That's a necessary condition, but the banks are able to offer a flexible product platform on which it's possible to build in the types of features for which customers are looking for—the sub wallets; the ability to impose liquidity constraints or remove them when emergencies strike and there's a need to access savings, for example; the ability to put in reminders by SMS or otherwise that help reinforce the messaging; and above all, as you heard about in the last session, the ability to segment the customer base so that this broad net proposition of Proposition 1.0 starts to become more targeted, or at very least, some of those holes in the broad net can be repaired.

So that's the journey that we see banks on, and the very leading ones are just starting to embark on that second piece of red ink there. Lots of red ink being spilled in some cases, experimenting with it. But it's a journey which can get us ultimately we believe, to where we need to be, where the customer value proposition and the bank's proposition align.

Now, we talk value proposition, but for the bank of course, it boils down eventually to business case. So of the two lenses, I want to just introduce to you, the first is about business case. We found enormous diversity in how banks use that term. If you think that big banks are all enormously rigorous about it, think again. They're enormously different, and that term means different things to different people. One of the things that we tried to do is to standardize the language a little bit, so at least we can have a meaningful discussion. So when I tell you these accounts lose two dollars a month on average, what am I talking about? And this is what I'm talking about.

We characterize the business case in terms of five levels starting with the account level, the level of the revenues and costs attached to that individual account. That's the level at which the two dollars on average, $2.20 a month is lost. The next level up is the client level, which is about saying with multiple accounts and probably, preferably multiple product structures, what's the profitability. We know one bank in the world that works that out on a monthly basis across all, that consolidates across all product types. But commercial banks are not yet very good at that cross sell, measuring it, or even doing it we find. The portfolio level, level three, is about consolidating clients in particular ways into portfolios and saying, “Consolidated, though some of the underlying clients may be unprofitable, together, this segment works for us.” The fourth level, we call the strategic business case, and that’s the bank that says, “Well, we may not make money on this segment. In fact, we may even be willing to lose money because we make money elsewhere. From government business, for example, if we do this low-income stuff, we may not like it, but the government gives us lucrative contracts that we do make money on.” And then finally, the mandate level. Some would say this is not a business case, but we would argue it is. This is a country which either explicitly or implicitly imposes by regulation on banks the requirement to serve particular segments, and it says, “You can’t be a bank here unless you do this.” So in some sense, all of the rest of the bank’s activities have to cross-subsidize what goes on, if it’s loss-making elsewhere.

So that’s how we start to talk about it among the banks we work with, and as I put them up, and I can’t name them here directly, we find that they’re all over the map literally as to where they frame the business case for small savings. You’ll notice not many frame the business case at level one, the account level. They might be happy to make a loss on that account as long as more commonly at the client level, level two, or the portfolio level, level three, they can make it up. And you can see there that not only are banks different in their levels, but they have multiple ways in which they think about framing the business case. And as we have that discussion about going to 2.0, we need to be very clear about at which level it can work. I would put it to you at the client level certainly, possibly even at the account level.

So second and last lens, really just to connect with some of the stories you’ve already heard this morning about segmentation. I’ve made the case that to get from 1.5 to 2.0 that big gap requires better segmentation, better knowledge of the clients. So how do we do that as banks?

Well, we’ve heard some really interesting ideas out of the mobile sector and elsewhere already today. One of the things that we’ve been trying to do is work with bank data, datasets across these big banks. This is big data involved, and to say, how do we know savings behavior when we see it, and what if it’s differentiated? So on the screen there, you see some profiles which have been translated into algorithms for three different types of savings behavior that we see manifest across these banks’ portfolios. And you know, each of those actually ties up to a different account level business case. Different bottom line, depending on which behavior exists out there. So part of the exercise with the banks has been to say, “If we can induce that from their data, the analog to what Seema Desai described looking at the MNO data and saying, what do we know based on the calling records and their mobile money records? If we can tie that with survey data that enriches what is fundamentally pretty thin file data on the whole, and says, women are more likely to be type A, for example, in this country, in this place. Then it becomes possible to increase that 80/20 hit rate, maybe make it 70/30, by looking intentionally on the new client side, and even by allowing for transitioning of existing customers from one type to another type of behaviour. So there’s clearly a lot more that could be said there, but for now I’ll leave it at that’s an example of how one can use segmentation to frame the journey.

So there’s the journey, the journey from where most banks are today to a place they must get to, where they have a new channel which is lower cost, and which can work. Not an insignificant leap. And ultimately through to a Proposition 2.0 world which in some ways you could say is the analog to what in mainstream banking has happened in the credit card business over 30 years. While we’ve been talking microfinance in one room, credit cards have become enormously effective at segmenting, running off a common product platform, with a propositional base. In a sense, what’s the analog on the liability side in the savings and transactional products today, where we can reintegrate the credit proposition, but from a solid savings and transactional backbone. That's what Proposition 2.0 is about. Not more products, but stronger propositions to clients. Thank you. (Applause)

Arjuna Costa

Thank you, David. We're very fortunate to have somebody who's actually implementing a lot of the frameworks that David just described. I'd like to touch on the three different themes and lenses that David brought up. And let's start with the motivation. He gave you four or five different reasons why a variety of banks are doing this. What drove Equity Bank to start going down market and focusing on this client set?

Andrew Wakahiu

Thank you, Arjuna. Thank you, David. Equity Bank, as it was clearly laid out yesterday by Marguerite, there's a very deep rooted belief that we can change the lives of people, that we can transform people economically from being poor to being self-sustaining, and we realize that irrespective of how much we invested in the brick and mortar branch network, it was not going to be sufficient. Secondly, Equity Bank differentiated between access and rich. Equity Bank would define the access as physical, the geographical distance between where our savers are or our potential savers are, and where the infrastructure is for them to save. Reach, we define it as psychological. We have customers who live and who work right outside a branch, but have never walked into the branch because psychologically they feel the branch is too big for them. But the place where they do their everyday purchases for their groceries, the pharmacies, this was appealing to them to do their financial transactions. So the combination of this then gave us the biggest case for inclusion of the people whom we felt were not able.

In Kenya today, the biggest competitor to Equity Bank is not any other bank. It's an account we call the mattress account. There is more money under mattresses in Kenya than there is in all financial institutions put together. And we felt that this money is not serving these customers. With the kind of partnership that we have built over time, for example, with the MasterCard Foundation in financial literacy, we saw a huge demand for the small business people to take their money out of the mattresses and save it in a formal way, and we have to provide the infrastructure for that. So for us, the agency model was simply an answer to the needs of the kind of clientele that we serve. Of course, well thought out, very well researched. I mean, you really have to invest in good models and proper research. But it was purely a result of demand from the clientele that we serve.

Costa: It's interesting, Andrew, because you started with this conviction and the mission, but you very quickly went to customer behaviour that you were observing. You went from they were living in front of a branch, but they weren't transacting there. So what was it? You started asking those questions. You've built from that to now what is by all estimations a powerful agent network. So you're on this journey from Proposition 1.0 to 2.0 as David framed it. Give us a sense of where you are on that journey. I think the audience would appreciate real numbers just to see how much you've achieved, what kind of transaction volumes, engagement from the client base.

Wakahiu: I think our figures speak for themselves. Currently, we have about 8,000 agents in Kenya, about 3,000 in Rwanda, and about 1,000 or so coming up in Tanzania. Now, the Kenyan side, we're currently mobilizing net savings of about $3 million dollars every day through the 8,000 agents that we have, and this is not necessarily the deposits that are coming in because people deposit some money in the morning, withdraw some money in the course of the day, but what they let stay in the accounts for a while, on average of about $3 million every day. It's also an acquisition strategy for the bank. We open roughly about 2,000 new accounts every day through the agents. And to date, we have almost two million customers who are transacting exclusively through the agent channel. It has become a very important channel for the bank. Indeed, about 40% of all the transactions that are done in the bank today are done across the agent channel.

Costa: Andrew, remind me, but you started this in 2010? So this is an initiative that is two and a half years old?

Wakahiu: Yes, we're two and a half years old.

Costa: And now, how are you starting to think about the move from Proposition 1.5 to 2.0? I know you've started thinking very deeply about how do you originate clients, how do you service the clients, what's the role of the branch, what's the role of the agent? Can you give us some insights into how the bank is thinking about this?

Wakahiu: In the beginning, as we heard yesterday, microfinance was initially about microcredit. After a while, the microfinance movement started considering more about microsavings. Now, the talk is about microinsurance and their payments. At Equity Bank, we already at that level where we are thinking about microinsurance, and the next thing that we are now working on is microinvestments. Who says that poor people can't invest? Who says that the poor people cannot participate in the capital markets? So through our agent model, we are thinking of, we are now doing experiments on microcredit where customers will be able to go and access credit products through the agent network. Customers will be able to access microinsurance through the agency network. Also, we have come up with very specialized products like the school fees account. The school fees account is a product where the customer can access the product through the agent, and service it through the agent. We have "Jijenge" where the customer originates it from the branch, but services it through the agent. So we differentiate the needs of the customers, and the kinds of products that we give, either the products that will be accessed through the branch and serviced through the branch, or accessed through the branch and serviced through the agents, or you can access them through the agent and service them through the agents. Initially, Equity Bank some two years ago, we had a suite of almost 90 savings products, half of which not even our staff understood. So with research and we had a lot of input from people like MicroSave, we have reduced this to less than ten because we realized that many of them were just responses to an individual customer. So we have an account for milk farmers, we have a product for coffee farmers, we have a product for tea farmers, but then we realized that all these are just farmers. So we tried to consolidate a lot of this. But this came in as a result of careful research.

Once again, I say, it's critical that in the process of trying to develop products, in the process of trying to develop channels, resources and time must be spent on research. And in this case, it's important that as you do the research is an expensive affair so you need to know where to look at costs to. If David has done research in Kenya, I don't see why I should pay David again to do that research because it's for me. And this is where I think we are really getting it wrong. I saw a comment yesterday that it's expensive. Yes, it is expensive, but it has been done. Don't invent the wheel. Just add another spoke on to the existing one.

Costa: Just a couple of key takeaways, Andrew, from what you said. One that there's a balance between still being high touch, yet trying to drive costs down. So when you're doing something more sophisticated, you might invest branch level resources, but then choose to service it at the lower cost agent channel. And getting that balance right is always a tough proposition. And I think yesterday when we heard from the speakers around still thinking about keeping clients at the center, we didn't want to create too much of a distance and an informality, but we wanted to still treat them with the dignity they deserved. The second thing I think is a really important cautionary note, which is client segmentation and user driven research does not equal a proliferation of products, that even the bank doesn't understand, and I'm sure your IT system is struggling to keep up with. It's more around getting, as David said, this proposition right around need, product, service proposition and bringing that together in a meaningful way on behalf of the clients.

Stephen, you've been patiently watching the three of us speak and monopolize the first half of this panel. Stephen has a wealth of experience across the world working with similar savings propositions, and has a short presentation that will spark even more conversation.

Stephen Peachey

Hello, ladies and gentlemen. Thank you very much, Arjuna, thank you very much to The MasterCard Foundation and to Boulder Institute for giving me this chance. As Arjuna explained, I'm the Technical Advisor on a World Savings Bank Institute project to work with ten member banks to double the number of accounts in the hands of the poor. This was funded generously by another foundation, whose name slipped me at the moment. But we call this a world of experience in ten projects. And the interesting thing is I hear, I find resonances in what David has said in all of the ten countries. But we span the world, ten countries, Central America, seven in Africa, two in East Asia. In some countries, only one in six households is reached by bank accounts. And yet in other countries, we're trying to do the same sort of project where only one in six households is still unbanked. In some countries, half of the population is safely out of any of the UN definitions of poor or near poor, but in other countries, I face 95% of the population being poor or near poor. And yet, as I say, I still feel resonances as to what David has talked about in all of those ten countries.

Now, the biggest resonance is what David started with, what he called Proposition 1.0. The limited usability of the traditional savings account just doesn't work for people anymore. I think Robert Annibale's comment this morning that we're trying to take a 20-30 year old product and repackage it, and just because we put the savings account on a card and take it to the poor, it's not become any more usable. It’s still the basic savings account. It doesn’t meet their needs. We have stopped talking about product. We have separated it. We talk about needs, not in terms of you need a transactional account, you need a savings account. We talk in terms of sending money to family and friends, getting the surplus out of the pocket before it can be spent today on something you’re going to regret next week. We talk about turning the small surpluses into usable lump sums. We talk about locking the lump sums away or letting them accumulate. We then talk separately, not about our IT platform or our product modules, we talk about our capacities. Can we do P2P on the way in? Can we do it electronically? Can we obviously do over-the-counter cash, but also can we let people access their cash and move it around before they actually turn it into physical cash? Can that be done remotely? Can people move money from their transactional float into their longer term savings account? It’s as important to get an incoming grant parceled up and put into the buckets that the customer wants as it is to get cash out, over the counter, and into something that will keep it safe.

So we now really try and take a needs-led approach to our product development. Obviously, I think probably we invented the concept of dormancy and the rest of you have just copied it. I have a bank with 80% dormancy in my projects. Interestingly, we have found that just adding agents without getting the product right, or the proposition right doesn’t add much customer business. It makes life easier for people, but it doesn’t add huge numbers of customers. You don’t get breakthrough that way.

Now, one of the critical things we’ve had to talk about is all of our members, they are mandate banks. I really like David’s slide about, you have a mandate to do something, and we manage on a portfolio basis. Our roles are actually 90/10 to get rid of the wholesale business that comes in, and then 80/20 to get down to our genuine mass retail base. Those accounts across the globe have typically less than $25. Our median balance is less than $25, all the way from El Salvador through to Tanzania and out into Asia. That obviously poses us challenges, but we have to manage within that. Savings Banks want to bank the poor. They really, it’s in their mandate, they need to do it, but quite rightly they are scars. If you’re going to ask us if we’re going to double these really small balance accounts, who are we really dealing with? The slide I have put up here actually comes back to a point Olga made this morning, and a very profound point that Daryl made yesterday. Let’s not overburden ourselves in terms of the business case we have to make before we do the right thing.

So this takes World Bank open data, which is really very, very good quality now for almost all of the developing countries. You can see from their poverty and inequality database how much of consumer spending is being spent by the top 20%, the next 20%, all the way down to the bottom 10%. You can also see really quite good quality estimates as to how many people are living the $1.25 or less lifestyle, living $2.50 or less, $4.00 or less. So you can actually take virtually any country now and profile it in terms of how many dollars are people handling. How many dollars makes poor? Obviously, in the poorest countries we work in like Uganda and Tanzania, we are talking about 80-90% of the people actually living on less than $1.25. You know, that is—I think Lorenzo used it this morning. I too am a great fan of the mass middle market. That is the mass middle market. You have to price to that market. You have to think about people who have only got that amount of money going through their pocket day in and day out. I come to a point that Tilman made yesterday at the top of his slide. We now know sustainability is not a necessary condition for breakthrough. It’s a necessary condition, but not a sufficient one for breakthrough. Yes, it is necessary. The banks I work with don’t get capital from anyone apart from the occasional generous foundation. They certainly don’t get it from their stakeholders. So they have to be break even on the whole portfolio, otherwise they’re in trouble. So you have to work with your mass market.

As you move up the country spectrum, what you see is the mass middle starts to move up the axis, the dollars rise. When you get to the better off countries like El Salvador and South Africa, you're actually talking about countries where the poor are a long low extension of a very wide economic spectrum. So you need different strategies for them. As I say, using the World Bank open data, you can now tell how many dollars extreme poor means. So in Uganda and Tanzania, it's literally 25-50 cents, maybe 75 cents a day. And that can be 80% of your market living on below a cash dollar a day. By the time you're up the income spectrum, you're talking about small percentages living actually on more dollars. The $1.25 lifestyle in South Africa needs at least $1.25, maybe even $2.50. In Tanzania $2.50 -- in Uganda, is getting you off the spectrum. You're out of poverty.

Now this is maybe the more controversial, but if your mass market is poor, what happens if you don't quite know what pricing works, but you know for example that in Uganda and Tanzania banking is getting down to the near poor, but probably not reaching the real poor. What this chart does is that you grade, you say, okay, what if banking works at $1.50 in Uganda or Tanzania? What if I cut the price by 16%, so that whatever proportion that price is of the $1.50, it becomes the same proportion of $1.25? Do I get enough extra business in the door, are there enough extra people out there for me to be reasonably comfortable I'll actually get more revenue? This is called going on to the elastic part of the demand curve, where you cut your price by 10%, but you get 20% more business. So you actually increase your revenue. And that's really important for fixed cost banks. In all our modeling, our banks are 85% fixed cost, and only 15% genuinely variable. So if all your costs are there, why not take a risk of getting the pricing down because you're going to get more revenue.

Now, the thing that strikes me as really interesting on this chart is for poor countries, because the poor are the mass middle market, you can get right down into the extreme poor and be fairly sure that if you reduce your pricing to match their budget, there are more than enough of them out there to actually increase the revenue that could come into the banking system. It becomes much more challenging in the better off countries where in effect because the poor are small extensions further and further down the income scale, as you reduce the prices, you don't open up the market to so many. So there you need really nuanced tiered pricing that says, "I'll do small transactions at a lower price than big transactions." But I would argue very strongly that you don't see that in the countries where the poor are the mass middle market, which is getting up still towards countries where on a PPP basis—purchasing power parity—comparable basis, you'll see people live on roughly $3,000 a year.

Now, this is theoretical, but it's using easily an open data—that's why World Bank calls it open data—it's using open data to see whether you have a prima facie case for pushing the price button. Now, of course, you might then need to go and do some market research, but I would argue, don't overburden the business case before you try.

The other thing that I'll just finish on is I think savings … I know the credit industry has had long hard discussions about pricing, but I think savings is different. You know, savings is the customer giving you their money. You're supposed to look after it and give it back to them when they want it. If you charge fees that are more than the interest and they get less back, or if you charge ledger fees to maintain an account that's not actually creating you work, then you're taking the customer's money, and therefore, you're not meeting their savings need. Because their savings need was not to have a savings account, it was to move the money through time and get it back when they most needed it.

And interestingly, we have three projects where we're beginning to see the signs of real take-off in a new proposition. One of them is our free account being offered in Indonesia. We also have the first signs of adding mobile, and potentially going viral, with more take-up in Morocco in just 12 branches than we get in 150 outlet network in the whole of Tanzania. So some of these things we're just seeing the first signs of real take-up, and that I think is because we're beginning to move beyond Proposition 1.0 and 1.5 and beginning to get real usability into the account.

Costa: Thank you for that, that was a really interesting lens in trying to understand population distribution across markets, and even within markets, and how to start to think about segmenting clients just based on publicly available data. And we keep coming back to this sort of challenge of the cost of market research. But there are tools and there's public information out there that can get you started. I would like to pick up on a couple of things you said. Just first, Andrew, your reaction to his numbers around dormancy and average account sizes, and if you could talk about that. He threw some general benchmarks out, and I wonder if with the high touch model and the agency banking model like you've created, you're able to shift out of this 80/20 model into something that's a greater engagement from your client base.

Wakahiu: Thank you, and thank you for a wonderful presentation, Steve. My thoughts are that agency channel does not necessarily have to be a contributor to dormant accounts. However, if not well executed or well thought out, they will definitely not just be adding to dormancy, but will be more multiplying it exponentially. For Equity Bank, we used the agency model to actually reduce dormancy in the bank, because what happened was that we had several customers who had accounts, at some point before we started the model. But because of the geographical distance to get to the branch to get served, their accounts went dormant. And when we opened up the agents, when these customers came, the technical system that we had was such that if this customer had an existing account, then the option they had was to re-activate the account. And this reduced dormancy in the bank from about 68% in 2010 to less than 19% where it is today. Over the last two years, we have activated about three and a half million accounts, and these are accounts that are continuing to transact on a continuous basis. So then it says that the reasons why these accounts went dormant surely was because they could not access the service. Of course, again, there is a very big correlation between client empowerment through things like financial training, financial literacy. There's a very big correlation between that and dormancy because many people open a bank account because, especially in the developing countries, they open a bank account because they feel that by having an account I am joining some exclusive entity, some exclusive body of people who have bank accounts. It is stylish to flash out a debit card, whether they use it or not. But those people do not open bank accounts because they have a desire to save. They're not going for financial services because of the urge to save. Through literacy programs, financial literacy programs, customers now come to the bank because they want to save, not because they want to have a bank account. Therefore, this person will be unlikely to go dormant because they came to transact, not to have a bank account. We need to differentiate between the two.

Costa: And I have to pick up on this, pushing the pricing button, Stephen. David, any reactions to … you've now worked very closely with eight banks thinking about client segmentation, costing within the bank, how do you think about getting clients to profitability? Stephen had a very different proposition which is elastic demand.

Porteous: Well, again, I think banks are not very good at pushing pricing buttons. Typically, the banks we work with have enormously complicated pricing menus, very difficult to understand, it's a big haggle every year of adjusting them. There may even be regulatory or publicity issues that relates to changing that very static menu of pricing. So I'm interested in what Stephen says about the differentiation across markets. I think that could be true, but I would push it further. I would like to see banks where we can actually not say how low can we take the fee, but let's take certain fees out—cash-in fees. Right? That's one of the reasons attributed to M-Pesa's success is the absence of cash-in fees to the customer. Now, of course, someone has to pay for that. The only way we're going to be able to pay for that as commercial banks going forward is by looking at adjacencies. It's not going to come from float. It's not going to come primarily from transaction income because as Stephen's graph shows us, people can't afford to pay that. It's going to come from adjacency. So who's got the adjacencies? Merchants, retailers, MNOs. That's where I think the pricing lessons for banks can be learned. Retailers who do that best, the bundling of products and the creation of different type of pricing formulae, not simply taking your cash-in fee from one dollar to 50 cents. I don't think that's going to cut it. It's a whole lot more than that.

Peachey: I agree, absolutely. It has to be part of what you call the proposition, and I would like to build on that a little bit. As you said, a proposition is part of what you call physical access, but it's also partly empowerment, and we call it closing the mindset gap. You call it reach. We have different words. One thing that would be really useful coming out of this is gradually over the five years, if you build up a new language for this, because we're here on the panel and our words have coalesced quite a lot. I bet you within the bank, you have problems with language. You can imagine what it's like within ten projects, let alone then going to the WSBI membership with 84 countries. I'm not allowed in Germany to use the phrase, "mass retail bank," because that's somehow not the right word. So if we get new language. That would really help. But it is about the proposition, and that the individual price doesn't matter quite so much. But I think you really do have to think that the customer has no more than about a dollar a month to spend on fees if you're going to address mass middle market in Uganda and Tanzania, and you're going to have to share that with other players. As you say, with retail, and with mobile. So you can't say, "Oh, maybe they spend a dollar every month on mobile and informal, and I can have all of that." Dream on. It's just not going to happen.

I think coming back to Tilman's point, if you think that just having sustainability is going to achieve breakthrough, it's like designing the cart, to sort of borrow your horse analogy, designing the cart, backing the horse in, and saying, "Oh, evolution is a bit slow. The horse doesn't fit the cart anymore." It's no good having a business model that's sustainable if it is utterly unaffordable. And affordability, usability, proximity are all parts of a proposition which says I'm actually here to make your life easier. And customers don't … they're not users, and Claudio said it. They don't use us for what we do. They use us for what our capacities enable them to do. And I think that's where you've got it right, and unfortunately, as mandate banks, we have huge mindset gap to close because we somehow think we're there to foster national and personal saving, and therefore we will tell people how to save. That's rubbish. You know, where is the empowerment part of it? It's what actually gets people thinking, "Wow, these people can help me make things happen."

Wakahiu: In addition to what Steve says, I think I agree with David. When you're pushing the cost button, you have to make tough decisions as to who bears what cost. The bank will bear this cost. This cost will be borne by the agent. This cost will be borne by the customer. This cost will be borne by the government. I will sell it to … so, there has to be very tough decisions as to who bears what costs. And reducing the pricing does not necessarily mean bundling the institution. Somebody must pay for it. So, you really need to make that delicate balance of who pays for what costs.

Peachey: Remember, when you have an enormous amount of dormancy, and you have tellers working at every five, ten minutes, unlike your tellers, who I know work every minute or two. When you have an enormous amount of dormancy, if we reduce our pricing, and we suddenly get people coming into the branches, actually it doesn't matter, all that happens is we take up the unused slack. So we are trying to turn one of our biggest weaknesses into an opportunity, but it's still a big ask for bank managers to let go of the top end of the demand curve, where the prices are high, but the volumes are low. And it comes back to Marguerite's point, the democratization is about high volume, low margin.

Costa: It's my tricky task to actually bring this conversation to a close. But I think between democratization and empowerment, we're leaving you with the right themes. A common thread over the last two days has been this idea of innovation technology data, and I'm just going to leave you with a couple of thoughts. We talked about the challenge of finding the prospective customer that's really going to engage with the banking system. Can technology play a role here? One of Stephen's partner institutions, the Bank of Ghana, has hired a company that takes all of the data that people leave behind when they use their cell phone, and is trying to figure out if they can predict user behaviour for a savings account based on that pattern. This could change the dynamics of finding and targeting and acquiring subscribers.

Next step, you've got to get to customer to engage with you. And I'd like to take us back to Bob's story yesterday. Picture Nelson, the aspiring auto mechanic in Kenya, he could save a dollar a day potentially if he really struggled. And he had to do this for 230 consecutive days in the face of a number of challenges in his life, potentially the family that was dependent on him. It's very hard when you're getting that one dollar in deposits to engage in a meaningful way with that customer. It just doesn't make sense from everything that we've heard from the clients here. But again, is there a way that you can use smart technology to actually deepen that engagement?

And there are companies that are building responsive platforms that help people, with SMS interfaces, to start to tell their story, and engage with technology and their service provider, and use this constant dialogue back and forth to start to act on those aspirations. Tying back to Alexia's point of how do you go from aspiration to behaviour, and is there a low cost way to do that using technology, I think we're just starting to see some of these innovations proliferate, and as we see technology take-up go further down market and into the client bases that we really care about. So I think that a year from now when we have similar conversations, I think we'll have a lot more to be able to say with concrete evidence. I see a big red sign on one of these television monitors which means I'm over time.

So, Bob started off the symposium by encouraging us all to relentlessly focus on the client. And Equity Bank is a fabulous example of that. If you do that, you can actually make the value proposition work both for you and for the client. I think it's realistic, and it's achievable for all of our organizations. So I'd like you to join me in thanking our fabulous panelists. (Applause)