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.

Opening remarks day two: putting clients first, a three dimensional approach.

Speaker: Monique Cohen - President Emeritus, Microfinance Opportunities

Monique Cohen

Good morning, everybody. I'm delighted to be here. I want to thank The MasterCard Foundation and Boulder. I've been one who's been a regular at Boulder, so it's nice to come back in a different capacity here. What I'm really going to talk about is a different way of thinking. The big question that I think is on everybody's mind is how do we take all this information that we heard yesterday and begin to translate it into action, and how do you move from evidence and insight into action that you can implement and achieve results?

As a background, everybody here probably does product development, and what they tend to do is we identify a need, and then we go out and do focus groups and try to figure out what the attributes are going to be. And this worked fairly well, and many people have been trained in microsave focus groups and PRAs, but what kind of seems to have upset the apple cart a bit is that it worked well when there's a limited range of products. But we've bombarded people with lots of products, new delivery systems, competing institutions, and we're finding that we have to think in a more complex manner, and think about how we can do this.

We've also been in a situation where when things haven't worked formerly, we used to blame the clients. I remember when we all talked about why our retention rate is so low. "Oh, the clients were sick, the clients borrowed from Peter to pay Paul"—it was always their fault. And I think it's time for us to think about what our responsibilities are. And in the process, I think formerly we missed the kind of overriding message to clients, which is the gap between what the clients were being offered and what they really wanted and needed has not been closed. It needs to be corrected, and I think this new initiative is about doing this correction.

This isn't the first time I've been involved with seeing clients rise to the upper part of the agenda. When I was putting this together, I remembered, and I'll tell you what I remember, that in 2002 I published an article that was called, "Making Microfinance More Client-Led." So the topic's been around a long time, but it hasn't gained much traction for a long time. I think part of the reason is that the agenda at that time was much narrower, and the focus was on growth, but today I think it's changed, and I hope it's going to survive. The drivers seem to be more macro issues like financial inclusion, over-indebtedness, the crisis in India, and consumer protection. That seems to me to be driving a lot more, and more broadly, an interest in clients. So the other thing that was probably different was before we looked at clients as passive statistics, unlimited numbers waiting to be served. And today I hope that we're looking at the industry and focused on how we can better serve the clients.

So what does putting clients first mean? That's what I'm really going to talk about. And product development and microfinance has tended to be one dimensional and rather static. And it's time to come to broaden this, to really apply a three dimensional view of product development.

The objective here is I'd like to see us introduce some dynamism into thinking about product development so we can operate reflecting changes, and the preference of clients as they age, different needs of people in different sectors, as well as the coexistence of old and new delivery systems in the client's portfolio of financial services.

So the first dimension I call static and functional.

It covers what most people are doing now. It's influenced; it's very strongly influenced by the sector's goal, [the] original goal of enterprise development. We're moving slowly, but we're gradually moving out of that, and slowly into the provision of more dynamic … we're moving beyond working capital loans and credit life insurance with loans. This dimension, this approach tends to view products as separate from financial behaviors and the needs of the user, and what I view as a central driver of demand, risk mitigation, and risk management. I think Martin mentioned yesterday, I was very pleased to hear, I think that managing risk is a key driver of how people use financial services. The reality for most people is life is one long risk, and reducing one's vulnerability is the priority. His or her financial behaviors, and money management strategies are strongly influenced by the daily challenge of matching cash in-flows with out-flows, and successfully contending with irregular and random shocks without drawing down one's hard-earned gains. One should never forget, for everybody, but particularly the poor, it's quicker to run down your assets and fall back down to poverty than to climb right back out. That takes much longer.

Some in the industry have paid attention to these financial pressures and have responded with new products aimed at asset building, asset protection, emergency financing. Both SEWA Bank and Grameen have introduced ten-year term deposits known as micro pensions. They address something that we are becoming aware of. People are aging, they need retirement funds, and this is a way of helping them save for old age, which is getting further down the line as we go.

But I have to tell you that I was at SEWA Bank one day when all the organizers came rushing into the director's office and said, "We want insurance, we want some product that will cover us in our old age." And what they were really saying is, "We're married to men who are at least ten years our senior, and we're facing the daunting task of widowhood, and we need some money and some financial service to cover that." You have to keep in mind when you think about this, because it's important to clients, that SEWA Bank does spend a lot of time teaching people how to voice their opinions.

So this first dimension rested on the kind of assumption that was untested and unfounded, that clients understood all their options, and how to assess them, singularly and in relation to one another – product experts, many of them who worked in product silos. So people work on insurance, they work on savings, they work on different products, and they tend to see them in isolation from other products. But from the point of view of the client, the world is one and decisions are trade-offs, and they do not see the world separately through different silos, and I think we're going to hear more about that later.

The other problem with this approach is we have to remember that most clients can't afford a full array of services, and so they have to keep making trade-offs. So the choice of what finance to use at any given moment by a client is: what is needed, what is available, what does it cost, and the sequence of transactions that preceded it. For poor people who seek to better cope with shock-heavy environments, timeliness and flexibility rank very high, and I think we heard that yesterday. Within this first dimension, product expansion has been fairly limited, and the dominant view was one product fits all. However, financial needs aren't static - they naturally evolve over time.

And the second dimension I want to talk about moves us into the dynamics of demand.

Yesterday, people referred to life cycle needs and how we have to cater to them, and what I was struck by was they talked about it, the way I heard it was individual products. To me, what I think is really important is to take that phrase and think again, and think about how do we grow with our clients? Life cycle products are about growing with your clients, and most people just look at products as individual things, they don't do this. When I teach here, I always ask people the average age of their clients, and they're about between 30 and 45. So, if you're going to grow with your clients, you're going to have to think about retirement, old age, all the things that you're going to need, cataracts in your old age. There was a lot of discussion about segmentation, and I kind of concluded you still have a long way to go. But if we segment by age and cohort, we kind of see that we're not very relevant to our clients as they move on. We don't face the dynamics of change.

And it's obvious to anybody who works on youth that working capital loans designed for traders do not work for young people. Parents needing finance for a wedding, that doesn't work either. And the smallholder who needs a lump sum at the beginning of harvest time, working capital loans don't really work for them. So what do people do? They don't have much choice. They just take what's on offer and adapt it. Growing with one's clients is more than growing with a market segment. It also involves applying the insights garnered from temporal and spatial transactions data that's becoming increasingly available. The data can tell us about the volume and the value of money flows in real time.

And I've been involved in some financial diaries work, and, for me, the real value of the financial diaries is the insights that you get from transactional data in real time and across space. You get the temporal information, and you get spatial information. We worked the diaries with about 200 people over 18 months, just under 18 months, in Malawi, and out of that opportunity, International Bank figured out where there was a product opportunity. The data showed that people received income in the hungry season before Christmas, and the general view had been no money comes in. But once they saw that money came in, they decided to adapt a Christmas savings product to the informal sector. Previous to that, it had only been for salaried workers.

The other thing we did was we geo-coded all the transactions, and so we could see how far people have to travel to make a transaction, and what distance does e-money move? And in the work that we did with M-Pesa, we found that, yes, the data confirmed the importance of sending money home, but the relative weakness of M-Pesa as an instrument for long distance business transactions. And as we dug deeper, we also saw the importance of social networks in giving people confidence to do e-money transactions, and that proved to be an important thing in verifying what was a risky proposition for most poor people. You know, they often say to me, "We could lose money on this." And this is an important issue.

The tendency to view delivery channels, from the institutional point of view, it's a given. This is our distribution channel, and this is the one we use. But I would argue that this doesn't make sense anymore because we've got a lot of different institutional delivery channels, a lot of different ones. And maybe it's become time that we think about the product, the target population, and the distribution channel, and match the three up, rather than fixing on we do it this way, and we're going to serve the clients. So I think we have to open our minds to a little bit more flexibility in understanding that there are lots of channels.

So the other thing about looking at distribution channels and various ways they can be used is to also think a little bit about how they are being used for identifying new market opportunities, and this means going beyond talking to clients about how to tweak things, but really are there products that we could introduce to new markets that could enter into the system that aren't being served. And I wanted to share with you. In the work that we did on diaries in Malawi and in Kenya, we found that there are a lot of, and East Africans will agree with us, there are a lot of interpersonal exchanges that are very frequent, and very small. And the number in Malawi to give you an idea, there are seven times more cash gifts going intra-household and inter-household than the number of transactions in all commercial banks, and over a 73-week period, there were 34 transactions per individual. That's a lot of transactions. But they were small, and they were too expensive for bricks and mortar delivery systems. So we kind of thought about it and said, "But this lends itself to agent banking, and mobile banking, because they're small, they can take place immediately, and assuming the price is right, why not?" So, you need to look at products, target group, what they're doing, and think of new opportunities to deliver the services.

The other issue I want to talk about, and I don't have much time, but I'm going to try, is there's been a lot of mention of trust yesterday. And I find that's kind of the new issue that seems to be emerging. At least people are openly talking about it. So we have received some money from The MasterCard Foundation, and we've been looking at what could be the role of financial education and increase uptake of branchless banking. And what's been interesting about this study is we began with thinking about traditional financial education, and really found that the big issues are trust and confidence, that the trust of the client in the institution, and the confidence of the client in building and conducting the transaction. And we found that these were the two variables that seemed to come up time and again in constraining people in the use of branchless banking. So, how do you translate trust and confidence into action? Because that's what we're all about.

And so we studied this and found two things: that you have to use the interface with the client, interface with the institution, which is essentially the front line staff; and, that you have to think about what type of tools will be suitable for both. You have to keep in mind that agents, which we often forget are about as financially illiterate as many of their clients, so you really have to bring them up to help them. And you have to have a tool that is easy to use for clients, for agents, and sends a consistent message across the institution. And for this purpose, we developed these flipbooks, which I don't know if I can do it here. So have the issue on one side in pictures, and the storyline on the other side for the agent to use. And you have to be mindful that you have to produce a product that's easy to use, and can be used in a short amount of time, because time is very valuable and very necessary.

So building trust and confidence is also important for a different reason. It gives clients voice, and as such, empowers them to become more active in seeking the delivery of appropriate products, and in exercising their roles and responsibilities. This is a central ingredient of consumer protection, and it is something that can result in what I think is important, leveling the playing field between clients and service providers, and could become a win/win, and it can lead to a great deal of respect which often is not present by the provider and the client for each other.

Let me conclude with an observation. This is a big challenge to really how do we do this, how do we really put clients back in the center? And as I was doing this, I kept thinking, what can I use, what do I know? And I came across an article written by some people from the Harvard Business School, in the Harvard Business Review, and it gives us a framework for adapting the three dimensional approach by looking at clients at the center, but they are interested in marketing. So how would that apply to product development? So they replaced the four P's of marketing—price, product, place, and promotion.

And here are the suggestions: Instead of products, we should focus on solutions that address the problems and meet the needs of poor people. Instead of place, we should focus on access in facilitating the customer's purchase journey. Instead of price, we should focus on value, in particular the benefits relative to price viewed from the context in which poor people live. And lastly, instead of promotion, we should focus on education, providing information relevant to the customer's needs at each point in the purchase circle.

So with that, I'd like to end, and I think this new agenda will require a lot of service providers to take a look at their products, the processes from the perspective of the user. Maybe they ought to walk in the shoes of the consumer, and see what it looks like from the user's point of view. Putting clients first means building on the behaviors that we see rather than displacing them, and the arrival of branchless banking offers a new dimension to diversification, the opportunity to consider different target populations, their needs, their products, and how they can be best delivered on time. My hope is that in ten years these ideas will have gained traction and I won't find myself echoing my ideas from ten years earlier. Thank you.