The MasterCard Foundation Symposium on Financial Inclusion:

Clients at the Center

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Session 2: Financial Inclusion in a rapidly changing world

What do we know about current coverage and where are the greatest opportunities to provide poor families with a full suite of formal financial services?

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Panelists: Leora Klapper - Development Research Group, The World Bank
Marten Leijon – Chief Executive, MIX

Samuel Munzele Maimbo

Good afternoon, and I'm delighted to have the opportunity to speak with you this afternoon. I have to admit though that I have a triple challenge this afternoon. One is that you've all just had coffee, and excellent food, so the temptation to sleep is very high. I won't be offended. My panelists might be. The second major challenge is that we've had two excellent panels, speakers that have just gone before us. I think Tilman is officially for the rest of the day the funniest German I know. And Claudio, the mad professor, well, no need to say anything about him. The third challenge is actually much more difficult for me, and that is the fact that I have to talk about data. Now, if you're like me or the vast majority of people, the minute you start talking about numbers and statistics, people's eyes sort of glaze over, and that is understandable. But I actually became a huge fan of data when I joined the World Bank about ten years, and I had this manager who always insisted that whenever we arrived in a new country, he'd always ask me the same question, "What's the population?" It didn't matter whether it was a city or a rural community, it was always the same question, "What's the population size?" On one occasion, when we arrived in this really remote community, he asked me the same question, and I have to admit I responded with some sense of irritation like, "How the hell am I supposed to know?" The mistake I did was then to say to him, "Why does it matter so much to you?" And in typical professorial—in fact, he reminds me a lot of Claudio—he said to me, "Well, if you haven't figured out that everything we do is about people, then you're in the wrong institution."

So since then, I have been a huge fan of population statistics, and I do like to invest some time in it because the world is changing, and it's changing rapidly. And when I was looking at the statistics of how the world is changing, I started off with thinking about numbers that would excite a crowd like this one. And I recall that right now we have about 4.2 billion mobile phones. But then Tilman came and spoiled it by having all these statistics on mobile phones. So it's an important number to remember, but I won't dwell on it. The other statistic, and given that Claudio was here, I was trying to find a really remote obscure statistic to play with, and that is the bandwidth that is available to Africa's one billion people. And the bandwidth during a specific period of time between 2008 and 2012, the bandwidth has expanded 20 times. And that's a significant number and has huge implications about what's happening to financial services.

But more importantly than the financial statistics, it's the population data that really has me going. Today, 50 percent of Africa's population is less than the age of 25. If you look at the country level data, 43 percent of Nigerians are under the age of 16. That's significant. The other data, and I have to smile when I look at the last answer you gave saying that the future of financial inclusion rests with farmers. Because when you look at the data about urbanization, by 2030, the vast majority of the population will be in urban centers. But the cause is not lost because of that urban population, 100 of the largest cities will be in the South. So looking at these numbers, you begin to realize that we do have significant things to think about as we think about putting the client first, and it's always important to look at population data and how it impacts our business model. And that's why Claudio's presentation was fantastic because he breaks down and throws up all these evolving models of finance, and this is important if we're going to reflect the world that we live in.

I'm very privileged today to have two colleagues that will help me untangle the current coverage of financial inclusion as we know it. This is critical because it helps us understand how much success we're having as well as defines the challenges we need to overcome. My first speaker is Leora Klapper who is with the World Bank, with the research group. They all sit on one floor, and we try and ignore them while they crunch their numbers away. But I do like Leora professionally because, unlike her colleagues, she actually steps out in the corridors and spends a lot of time with some of us who spend most of our time speaking to policymakers. So her ability to interpret data for its policy implications is always wonderful to listen to. And we also have Marten who is the CEO of Market Mix, which needs no introduction. He's been with them for the last three years, and I'll be very interested to see how his views have evolved over time.

Now, before I turn you over to the more interesting presentations, I would like to spend two minutes simply to summarize Claudio's 45 slides into one, and Tilman's many pictures about financial inclusion into the same slide, simply to put into context the challenge that we face today. If you look at everything that we've heard this morning, I would say really there are two parameters that we can look at how finances evolved. One is basic complexity of financial products, from the very basic need to keep money safe, to the much more complex products that many of you use. The other is just the basic financial product itself, in terms of the community, in terms of organizing people. You can do it yourself, you can do it with other people. Eventually, you can work with a bank. And of course, we have mobile technology and technology advancement in the many slides that Claudio used. I would say that in the 1980s-90s as many of you know, the focus was on credits. Give them credit, pump out as much credit as you can. Later in the 1990s, it was the access to finance agenda, it was microfinance. Everybody tried to put the word "micro" in front of everything. So it was microinsurance, microhousing. I was still a student then and all I wanted was a microwave, but never seemed to get one. (Laughter)

The 2000s were much easier to understand for me and many in the audience. The mobile phone pitched up. Safaricom, and these days I actually have a clock, and I wondered how long it would take before somebody mentioned Safaricom, and Tilman, it was one hour, 52 seconds before we mentioned that word. But mobile technology really made a big difference in terms of changing our perception of our ability to take finance out to the world. But our challenge for today, and this is where the focus of the data will be, is occupying that space, pushing the frontier of finance to make sure that we can deliver both complex products using the most of our technology that's available, and make it easier for a whole spectrum of individuals. And this is where the challenge comes in for the panel that we have today, that they spend a lot of time with data. We are an audience of people who engage with microfinance institutions and products. The real challenge is taking that data, analyzing it, and looking for specific insights that will make it easier for us to understand the options that we have. So I'll turn to the first presenter, Leora, and I'll say to her, you know, when you hear, is it 48 accounts issued for every thousand persons across the world, my question is, how much confidence should we have in those numbers? You can go ahead and think about the question while you make your presentation.

Leora Klapper

So how many people know what percentage of women in Sub-Saharan Africa, under the age of 30, who have a bank account only save in the ROSCA and informal savings? Neither did I. So we asked them, we asked over 150,000 adults in 148 countries, how they save, borrow, make payments, and manage risk. With generous funding and support from the Bill and Melinda Gates Foundation, we partnered with the Gallup World Poll to ask people around the world how they used financial services. And now we know the answer. Twenty-six percent of adults, I'm sorry, 26% of women in Sub-Saharan Africa, who are banked only save using a ROSCA. And so this potentially suggests market opportunities for the bank to exploit these under-banked women.

So the hope is that this data becomes useful both for policymakers to identify market segments that are unbanked, as well as for practitioners to tailor and design new products to service these markets. And so first, let me tell you the complete country and individual level data is available for free on the World Bank website. We hope you use it. Let me just a few minutes to present an overview of the financial landscape around the world.

Here's our map of the world. We find about 59% of adults are unbanked in developing economies, whereas only 11% of adults in high income economies lack a bank account. And so why do almost two and a half billion adults around the world lack an account? Again, we asked them. We asked the unbanked, "Why do you not have an account?" So the most common answer we received was, "I don't have enough money to use one." However, over 30% of adults told us it was because the cost to open and maintain an account is too costly, because the distance to a bank is too far, because documentation requirements are too arduous. For example, 43% of unbanked in Liberia say that documentation requirements are their barrier to having bank accounts. You also find strong regional differences. Compared to the unbanked in other regions, respondents in Europe and central Asia cite lack of trust in banks. In Latin America and Caribbean, they're mostly likely to cite the cost of banking. Whereas respondents in Sub-Saharan Africa are the most likely to cite distance to the nearest bank. So these barriers suggest that a key to expanding financial inclusion to narrowing the gap is provide affordable, accessible products such as bank agents, such as mobile banking, such as relaxed documentation requirements, particularly to the rural poor. In addition, the lack of trust in banks reported by almost 20% of adults might be a reaction to past episodes of government expropriation of banks, or economic crises, uncertainty, but also highlight the importance of financial literacy and education. We also find that women are far more likely than men to report not having an account because they use somebody else's in their family. Somebody else in the family has one. But again, this highlights s challenge a woman may encounter in account ownership and her household's financial decision making.

So we very carefully asked about personal or joint ownership of bank accounts, which gives us the power to splice the data by individual characteristics. And as shown in this figure, we find huge disparity that especially places in emerging markets the poor, women, and youth at a financial disadvantage. For instance, we find that the wealthiest 20% of earners are more than twice as likely as the poorest 20% of earners to have an account. In addition, we find a significant gender gap even after controlling for education and income and other characteristics. For example, in this figure, even among the wealthiest 20% of earners, there's a persistent nine percentage point gender gap between men and women in the use of ownership of bank accounts.

And so we also asked adults, have you saved or put aside money in the past 12 months. So globally, 31% of adults in developing economies reports saving in the past year, compared to 58% in high income economies. On average, we find that 56% of savers in developing economies save using a formal financial institution such as a bank or an MFI. Adults frequently use semiformal methods to save as an alternative or complement to formal savings. For example, community savings clubs, or ROSCAs are particularly important in Sub-Saharan Africa, where 48% of savers report using only community savings groups or ROSCAs to save. Interestingly, in Sub-Saharan Africa, we find that 53% of women report using a ROSCA, compared to 43% of men. Perhaps again, highlighting the demand by women, particularly in Sub-Saharan Africa for a safe place to keep their money. And this widespread use of community savings groups speaks of the popularity. But the downside is the risk of fraud and theft. The high use of these semi-formal products where users commit to regular savings might suggest a missed opportunity to produce safe, affordable alternative products to adults without and with formal accounts.

And so just to dig a little deeper within the African continent, we find that even within Africa, a large variation in both saving rates and the relative use of formal versus informal and semi-formal products.

Next we slice the data slightly a different way. We break down the data to examine the savings patterns of only account holders. So these are adults who report having a formal account, and we look at their saving behavior. We find that only 40% of account holders in developing economies use their accounts to save formally in the past year, although many saved using only informal saving mechanisms such as ROSCAs, community savings groups, or simply under the mattress. In other words, over 20% of account holders in many regions are saving, but only informally or semi-formally. This may suggest again a missed market opportunity to bring these savers into the formal sector.

And so finally, one can't present without showing the penetration of mobile money, mobile payments in Kenya. We show here the use of mobile phones to make payments has taken over 15% of the market in Sub-Saharan Africa where traditional banking has been hampered by transportation and other infrastructure problems. Importantly, this data includes both formal, mobile wallets, mobile money, as well as simple, informal transfers of airtime credit. In 2014, we'll be updating our complete Findex database, as well as adding an additional module on payments which will dig deeper into the modes and mechanisms people use to make mobile and other electronic payments. So stay tuned.

Importantly, 52% of adults in Sub-Saharan Africa who use mobile technology are otherwise unbanked. In Kenya, for example, where 68% of adults report using mobile money, 43% of the mobile money users do not have a formal account, suggesting that mobile money and mobile payments is still being used as an alternative to formal accounts. It's also important to note, and I'll end on, that the average use of mobile payments for all developing economies is still less than five percent. And so there are still barriers to the introduction of new technologies and great opportunities for innovation and growth. Thank you. (Applause)

Maimbo: Well, thank you very much. While Leora is getting herself prepared, that presentation focused a lot on the data that's been collected by the World Bank, the IFC, Market MIX and others. The question I have for you actually before you go up is, is there an over reliance on our part on the use of accounts to measure inclusion? Are we patting ourselves on the back for something that might look much better than it really is? And I ask this specifically because when I look at the work that we've done at the Bank and others have done in South Africa, for example, we find that 43% of account users use their account simply to receive their salary. Thirty-six percent is government payments. So it's an in and out transaction. Is that an ownership issue? Is it a usage issue? Does that qualify as increasing financial inclusion? I'd be very interested in both your views on that subject before Marten proceeds.

Leijon: I'd be happy to start. I think in some ways the account metric is, I think it's an imperfect proxy at best. And as we have to think about what it is we're using the number for, of course, and if we want to use the data to get smarter about the clients and how they use products, then we have to go beyond the account level, and I think that's the bottom line. The reality, of course, is that it is a real challenge to bridge that gap, but I think the commitment has to be there to go beyond account counts.

Klapper: I think two things. One is that counting the number of accounts is a very important supply side metrics that also it provides a timely data that can be tracked over time and across a wide range of countries. In fact, in Sub-Saharan Africa, we find the data very highly significantly correlated with the Findex data. The challenge becomes, as you mentioned, in more middle-income countries where there might be more dormant accounts or multiple accounts. If I have a savings, a checking, a money market, it would count three times. You also face problems, for example, you know, where we spoke to people in Georgia, for example, where the employer opens up accounts on behalf of their employees. Every time you switch jobs, you leave a dormant account behind. And so I think this leads nicely into your next question on the role of wage and government payments to expand financial inclusion.

Maimbo: Just before we leave the issue of accounts, let's get the numbers right. Has the increase in the use of mobile technology made it easier or more difficult to keep track of the rate at which financial inclusion is increasing? Because now, all of a sudden, mobile phones are used as accounts for savings. Are we capturing that data? Are we not?

Leijon: I think that there's a lot of work to be done on the mobile data side in terms of describing the market, describing the progress. There's a lot of really good work happening by the GSMA in describing usage versus deployments and so on. There is always a risk that we get mesmerized by the big numbers, and we lose track of what's really the reality behind them. And so there's no doubt that we need to do more, but I do think that it is the reality. That's where we're at right now in terms of the state of the data, and I think we have to make sure that we acknowledge that the universe of channels, of providers, is out there. And I'd rather make sure we understand what the limitations are of the data than not to use it at all.

Klapper: Complicated. Do we count? As I mentioned in my presentation on payments. Do we count only mobile money, or do we count airtime transfers? Interestingly, in our data, we found over 50% of adults in Sudan telling us they make mobile payments. So first of all, less than a quarter of those people say they even owned a cell phone, and there is no mobile money provider in Sudan, at least at the time that we surveyed. And so we got very nervous, and we went back and did focus groups. And what people were telling us was that they either used a friend's phone or paid somebody to send money to their parents' village where there was somebody with a phone who had received the money, cashed out the airtime credit, take a small commission, and then give it to the parent. And so in other words, the guy with the phone in the village is the new local banker. And clearly this is undocumented. This is unrecorded and we don't completely, I think, know quite how to measure this yet, which is why we're very excited in this new question we're developing to further understand how people are making these mobile payments, how people are using their mobile technology to save and make payments.

Maimbo: Thank you very much. Before we get too carried away on the issue of technology and data, perhaps, I could ask Marten to just take us back a little and sort of take us back into the industry, and give us a view of what data the industry is giving us in terms of the lay of the landscape, and importantly, how microfinance institutions and financial institutions are interpreting their relationship with clients. Just before this session started, there was a question about how to design products, whether we do it based on income, based on life cycles. And I found the response there very interesting, and I would like to come back to that issue of the relationship between income and financial products when you're done with your presentation.

Marten Leijon

I think we will be rewinding the tape here in a little bit. Quick, historical exposé, and then hopefully jump forward again very fast. So, and just one major point to make before I get started here is that as we look at financial inclusion in a rapidly changing world, we have to start by understanding the needs and understanding the needs of the clients. And that's one reason why demand side data, such as the Global Findex is so essential to this debate. But I would argue that there's also a role for the supply side information to help sharpen our understanding of what works and what doesn't in terms of business models, institutional types, and their success products and channels and so on.

Now, this landscape is changing very rapidly, as we've talked about. And I'd like to give some observations on the challenges and opportunities for the institutions that have traditionally been the most committed to the financial inclusion for the poor, namely the MFIs. My main point is this, that this is not a time for fine tuning the model. If MFIs want to play a significant role in closing the gap that remains out there, they have to continue to innovate and reimagine their products and delivery.

Just a first quick look at where MFIs are at today. The sector has come a long way. To look at this way, I figured we should draw on MIX's data. It's a group of roughly 120 or so MFIs.

At that time, the original cohort reached three million depositors, and six million borrowers. Now, ten years later, that same group—so it's the same group of institutions—have grown their footprint to 29 million depositors and 25 million active borrowers. And it's an annual growth rate of roughly on average 30% per year for ten years. Now, looking beyond that original cohort, and looking at all the different MFIs that report to MIX today, the footprint is much larger, and also reflects the growth of the sector as such, of course. New microfinance institutions launching and their growth, and that's been dramatic.

Just a small note here also. This is, obviously, not a complete catalogue of all the MFIs in the world, but it's relatively representative. Our estimate is that this represents roughly 90% of the known clients globally. And so it gives you a decent sense for this.

Also encouraging is that this growth is having benefits for clients beyond the access. On the right-hand side, the breakdowns of the drivers of the average yield, a rough measure of the average cost for clients. And this is drawn from a paper that was published earlier this week by CGAP, KfW, and with MIX data. It's perhaps no surprise here at first look. Operating expenses is still the main driver of the cost to the client. But the trend here is important. This is comparing to eight years earlier, to 2004, and not shown here is that the average yield, the average cost to the client I guess is one way to look at it, declined by roughly one-tenth in that time period despite a jump in the cost of funding thanks to the reductions in the operating expenses and cuts in the profit. In fact, if you go back eight years, the profit had a share of roughly one-fifth of the average yield, and today it's down to one-tenth of the average yield. But we still have a long way to go. And it's more important than ever for MFIs to innovate around a much broader context, and this is back to your point, Sam, as well.

The bottom line is this: that the landscape is much more diverse than before, and it's changing more rapidly than before as well. At the top of this slide, data on the client footprint for different provider types in Sub-Saharan Africa, aggregated as part of an effort that we're doing it, MIX, in partnership with The MasterCard Foundation to build a more complete view of the landscape for financial services. And describing this broader landscape is an essential priority for MIX going forward.

Now this is showing the client reach for different provider types, and it's indexed to NBFIs and NGOs, traditionally the institutional models for MFIs, of course. Now, remember that all these institutions still only reach a minority of the adults in Sub-Saharan Africa. We're talking about those who are actually being served here. It's not the larger majority that are not being served. But even so, it's an important point that the landscape here is becoming more and more diverse, and it requires a sharper strategy for any given provider.

And that diversity is growing at an accelerating pace. Perhaps no surprise at all if we look at an example of the growth in access points from Kenya here. Looking at just the last ten years or so, you can see the number of access points, MFI branches, bank branches, SACCOs that have come online in the past ten years. Pretty good growth in the yellow line that are the MFI branches, but still from a very low base.

Looking at the bigger picture though makes it more interesting if we compare across a 40-year time period and see the number of access points. That vertical line, or the M-Pesa agents and their growth just in the past couple of years. Bringing that historical perspective really tells us the transformation that's underway, the revolution that's underway here. And it fundamentally changes the context for innovation partnership, for that matter, and the client strategy.

Now, that page highlights the broader context on the institutional side, and the opportunity to innovate, partner, and collaborate. The next two pages will look at some of the examples of the risks and the opportunities from more of a client and a product perspective. First, if we look at the client view, looking at how supply and demand match up for a specific segment.

This is a snapshot of the presence of microfinance banks in Nigeria against the population in each state. The larger the circle here, the more microfinance banks there are in that state. And the darker the shade of the state, the larger the population in the state. Now, if you drill down, you'll see that there's significant geographic concentration of growth in microfinance banks, and that large parts of the country still have very little coverage. As a result, we get an imbalance in access, and exposure to risks in some submarkets so to speak.

When we look more closely at the data on poverty in particular, the story is also quite troublesome here. Now, we work with two important datasets here—location data for about 800 microfinance banks in Nigeria, and also a large dataset on living conditions in Nigeria that is available down to a detailed level, one level below the state level, at the level of Local Governance Areas or counties I guess is one way to look at it. There are 774 of those in Nigeria.

Now, in this case, we looked for a link between household income levels at the LGA level, and the access to microfinance banks. And you can think of the graph that I'll show in a moment in this way: If a population segment shows up on the left in this graph, you are less likely to find microfinance banks in areas where that population segment is large. If a population segment is on the right, you're more likely to find microfinance banks in those areas where that segment is large. So the top-to-bottom dimension, we don't need to worry that much about. It's showing the strength of this relationship from a statistical perspective. But looking at this in terms of areas where there's a large population that are the poorest households, we see that there's a low incidence, a low presence of microfinance banks. And what's interesting as we click through the different groups of income, it's essentially a straight line in terms of if you think about the horizontal axis. The more rich households in an area, the more likely that you will find a number of microfinance banks, and vice versa.

So, continuing to stamp out the formula here, without changing the economics, without thinking about innovation around products, distribution channels and so on, essentially, we'll just continue to drive growth in already high-penetrated markets. At least that's one way to look at this. So reaching the poor, what do we need to do to innovate a new product? And so I know that there's a session on this tomorrow. I think it will be an important question to ask as we look at that.

The second example for the need to innovate is to be more product-focused. In this example, we're looking at insurance using MIX data as it was analyzed in an ILO report that was published last year. Across the top of this table, a range of insurance products, and down the rows, the different regions. I've color-coded the percentage of MFIs that report offering a certain insurance product to keep it simple here. And you can remember this. If it's green, it's pretty good. We've got a decent penetration in terms of number of institutions that are actually providing this product. If it's anything less, if it's yellow, orange or red, it's probably at best emerging. As you can tell, credit life is really the only product that a majority of MFIs offer in any region, and that is consistent across the board here as you can see. There are some pockets of other products in some regions, but it's largely a wasteland.

We all know that one of the most important drivers of need for financial products is uncertainty, it's risk. So in fact, there are some indications out there that when clients are given a choice, and it's completely neutral and it's up to them, and they have the education to understand, insurance is near the top in terms of type of product that they're interested in. So the challenges are significant when it comes to innovation around the product, around distribution, around client service processes, around staff training and incentives. This is just one example of the opportunity and need for innovation, and I know we'll have a chance to look much more closely at insurance tomorrow as well for that matter.

So, continued innovation with a client focus is essential, but it is hard because it requires institutions to be much more precise in their strategies. Today, there are so many strategic choices in terms of what segments to serve, what products to offer, and channels to deploy. In the historical model, it was possible to have much more product- and channel-focused orientation. We had a limited set of choices along the threes axes that you see here.

In the new world, we have an explosion in the number of choices from a strategic perspective. How do I reach which clients with what product? In no way does this mean that any one institution should try to play across this full spectrum. It just means that the choices are much harder to make, and it essentially also means that this is no time to be tinkering with small adjustments to the model, but rather to really think about innovations. And it's clear that the client strategy has to be at the center for that innovation to be successful. Thank you. (Applause)

Maimbo: Thank you very much, Marten. I very much like the fact that you've ended up with a slide that talks about choices because when I meet with policymakers, they have to make choices. So when I go in there singing the World Bank's praise song about the benefits of financial inclusion, the minister will occasionally say to me, "Well, that's great. I think, I don't doubt for a second the value of financial inclusion, but I'm resource-constrained. How do I pick where to invest in terms of client profile? How do I pick which institutions to make the biggest difference?" And just to go back a couple of slides that you made reference to the issue of income, for example. Now, again, going back to the recent work that's been published by I think CGAP and the IFC on the study in South Africa, if you take the poorest 20% in the population, and then you take the richest 20% in the same population, 78% in this population have a bank account. In the lower segment, 35% have a bank account. So if I want to increase access, which segment do I focus on? Perhaps, I shouldn't be focusing on any of these segments. Perhaps the real issue is income. So if I'm a government minister, perhaps I should be investing in poverty-reducing initiatives, and let the financial sector follow the changes in income.

Now, faced with those choices on the issue of income itself, what has surprised you most when you've looked at the data so far as income is involved? You looked at the poverty data in Nigeria, for example. How important is this as a variable for a financial institution going into the microfinance space?

Leijon: I would say that the pattern that I highlighted here in this data is consistent across a number of markets where we've looked at the more granular level. And it's probably no huge surprise to most of the people in the audience, but it is a pretty stark reminder that we have a lot of work ahead of us, and for that matter, that there are limitations to some of the models that are out there today. So I think in many ways, if it comes down to a choice of where to aim various policy decisions and so on, I think in many ways it has to come down to first starting with an understanding of where the gaps are as you outlined, and then look at how to make sure that you can actually support innovation in a responsible way. Because I think that part of this is an organic story. There is no one silver bullet out there. We're talking about the complex relationships between many different types of providers, and driving that kind of healthy ecosystem is an essential part of the story. And I think that there is a question around whether it is about moving the middle, so to speak, or aiming at the ends of the distribution. I think the answer may be a little bit different by market, but that's at the heart of it.

Maimbo: Leora, are you going to help us out here on the issue of poverty, income, and financial institutions? I'm happy to take the official World Bank position, but I'd really be interested in your personal view as to whether this segment of the market is where we really should be focusing our resources?

Klapper: Well, not speaking on behalf of the World Bank or their executive directors. So in related research with my co-authors using the Findex data, we look explicitly at using some data, or nice data collected by CGAP, on whether governments implement various policies. So for example, relaxed documentation requirements for very small accounts, permitting bank agents to take money on behalf of banks, and to others. And interestingly, and again, this is simply for the metric of 'do you have a bank account,' we find the strongest significance of those between the 20th and 60th percent of income quintiles, which is saying for the very, very poor, they may not have the money to open an account. They need other financial products. But between that 20 to 60 percent, people who maybe for the first time have money they want to save in a safe place to accumulate assets for later purchases, etc., that's where we're seeing this marginal difference. And so if you were able to pull that, more the middle class so to speak, and provide them with the products, it appears that policies promoting financial inclusion are working for that market segment.

Maimbo: And both of you made reference to the ecosystem that's available to provide these financial services, both banks and non-bank financial institutions. I'm interested in your views on that because as we've seen post-crisis, everybody just shut down the taps on credit. And what's been interesting on more the banking side of the financial system is to see a whole new emergence of non-bank financial institutions come into this space, and get into credit, get into financial service provision. From the MIX Market data that you're looking at, are there any institutional changes that you've seen that first of all surprise you, and secondly, that you feel are an indicator of the type of institutions we will see occupying this space in the future?

Leijon: So it's interesting, when we looked at the ten-year review, so to speak, of that original cohort I referenced, we did see that there were some clear patterns there in terms of, and I think no surprise to the audience here, but a move from the NGOs into the NBFIs or even the formalized banks in some ways. And probably is no great surprise in terms of what we know, some of the trends, how the funding has evolved, and how the model has evolved overall.

I hesitate to say that there's one model that is stronger than any one model out there. I think NBFIs may have some benefits if they are able to, or some advantages if they're able to innovate with some more degrees of freedom in some markets than banks may have. But I would not want to say that that's the only right answer. I think it comes down to the fact that they have a nice complementarity between each other as well, and ultimately if we think about the responsible part of responsible financial services, we have to make sure that there's a clear link also to the policy and regulatory environment. And so, I think that there's some advantages there, but I think they also complement each other nicely from an innovation perspective.

Maimbo: Based on the discussion we've had so far, having mentioned income, having mentioned different types of delivery channels, in just a couple of seconds, as we begin to wind up, what's the, what are the two top areas where you see the most hope for this sector. Where you are the most optimistic in terms of this is where we're making the biggest difference? And what's the one area where you think we're falling behind and we're missing the boat? If I could start with Leora, and then come back to Marten.

Klapper: So in terms of greatest potential, and this is a relatively lower tech solution of the link by technology, is the use of local retailers and community members acting as agents on behalf of banks. There's a tremendous amount of trust in these local partners, and the growth of these local agents, both to collect deposits, provide cash withdrawals, as well as growing, moving into other areas such as credit appraisals, etc., is very exciting because, again, they have that soft information that's very valuable, and that these people may otherwise lack particularly in countries where there either isn't a credit bureau, or where certainly people don't necessarily touch the financial, formal financial system to have a credit history.

In terms of where we need to be more careful, I think a very exciting innovation is the move towards electronic government payments, both of subsidy from a transfer, as well as wages. But I think we need to really be careful at the design stage to make sure these are full service accounts, I guess providing individuals with a debit card, or an account where the money must be fully withdrawn, or it's difficult or costly to use the account for payments or savings, is losing the opportunity and the potential for true financial inclusion to grow from these accounts.

Leijon: My answers were actually quite similar. I think that the agent model is one that has a great potential here, and one that I would highlight. I think that there's a … if I look at a few other thoughts that came to mind, one is when it comes to the digitized financial services and the challenges there in terms of how do we make sure that money actually stays in the accounts, or the accounts are actually used for something other than just taking the money out and moving into the analog world? And I think that that's probably one of the biggest unanswered questions at this point in time.

If I were to highlight the greatest unmet need, in many ways I think it comes back to risk protection and insurance in many ways. And I think it seems to be by far one of the most difficult challenges to address from a product perspective.

Maimbo: Well thank you very much, both, for your insights on this discussion on data. I won't try to summarize this conversation because clearly, as you've heard, there's been a tremendous amount of progress that has been made over the last few years. There's a lot of data out there. But that data also highlights a number of challenges that we have. Some of these challenges are about definition. You know, what is an account? Other challenges are really about interpretation and implications of what the usage of these accounts really mean.

I would like to leave you with one story just to think about in terms of this conversation about accounts and inclusion. About five years ago, I was living in Mozambique and as was often the case, would drive into South Africa to get stuff, and then go back. On the way back, I stopped at this grocery store, to stop at an ATM to withdraw some cash. And as I was withdrawing this cash, this lady came and stood behind me. And each time (as I was taught, to make sure nobody was looking), I moved to block her view, she reached up further to try and see what I was doing. And so this went on for a little bit until I was done, and then as soon as I was done, she said to me, “Can you please help me? I need to get some money from this account.” And I felt really bad, because then I understood what she has been trying to do. So I said, “Of course, you have your card on you?” And she said, “Yeah, here’s my card, and here’s my PIN.” (Laughter)

I said, “Please stop, I don’t need to know your PIN.” And we spent about ten minutes having this conversation, all of it in local language. But it shocked one part of me, it was depressing in terms of just how much some people are really scared to interact with technology and for good reason. But what gave me hope was it was a simple lesson. You know, I showed her how to push in the card. I told her how to punch in the numbers. She absolutely refused to do it herself, so she gave me her number and I did it. And I said, “Please don’t tell anybody else.”

And so we go through this whole lesson, and as she gets her money, you can see the expression of joy on her face, which was really nice to see. And lo and behold, as I turned, there were like 15 other women who had just lined up. You know? And when I looked at the truck, it was a local farmer who had obviously done the right thing by making sure each of his workers had an account. But it’s really that final mile that makes a huge difference.

The two lessons I took away from that is number one, the work that we do does matter. Counting the number of accounts we have so we design specific products is really useful. But at the same time, don’t let the data scare you too much because at the end of the day, some of the products we need to make a huge difference are really quite simple. A debit card with a PIN number goes a long way.

So with those comments, I again would like to thank my panelists. I thank you for having given the opportunity to come out of their data dens to interact with you people and have this conversation. Thank you very much. (Applause)