

This is with reference to the consultation document titled Payment Aspects of Financial Inclusion that was made public a few days ago. Below are some of my comments regarding the report.

#### User-acceptance cycle:

Just like we have the concept of the 'Product-life cycle', similarly there seems to be a user-acceptance cycle for each financial inclusion (FI) or branchless banking (BB) product. There is a need to test the hypothesis that the repeat usage over a specific period of time helps the user to graduate to the next feature of the same product or to the next product in the BB suite.

The numerous data reports on FI show that the G2P and P2P (domestic remittances) users do not necessarily go on to use the saving facility of their mobile account. This is important for all FI service providers to understand that the savings feature will be the least used feature of the account. Nearly all new supply-side entrants into the FI sector irrespective of country, expect users to end up becoming savers shortly after the services' launch.

#### Tangibility and Trust:

To trust a mobile agent with a saved amount is a concept that on paper does not capture the true reality of the agent and user dynamic. The agent is usually a shopkeeper or owner in the same vicinity of the mobile account user. The threats that apply to the vicinity, and hence to the mobile account user will also apply to the agent. It's not just about whether the shopkeeper will run away with the money; if there is a natural disaster or political unrest then it affects the shop, its shopkeeper i.e. the agent and all those who have a mobile account with him.

The user also understands the cash management challenges of the shopkeeper who is likely to be more prone to theft and cash shortage. Furthermore, there is this idea of the tangibility of money. Money that is tucked in mattresses and kitchen jars are visible and touchable; once handed over a bank or an agent, the tangibility of the money disappears in an instant which at once is a risk and an alien concept to the mobile account user.

#### Innovative products and services:

There is no report on FI that does not have the recommendation of creating an 'innovative' product for the un-banked. Terms like "easy to use" "innovative products" have become jargon in the literature of FI and BB. There have been many such products designed and tested, but were not adopted by the target market.

There is room for better understanding of the liquidity needs of the poor which is essentially their biggest financial need. A sum of money stored in a pillow can be accessed for an emergency that arises late in the night; an agent could never provide such a service. It is the unpredictability of that cash requirement based on which the mobile account user does his risk assessment.

This indicates that the short period saving accounts or specified purpose saving schemes could be a better option to offer than the vague 'cash anytime' saving account offering. Save for a cow, or save for a 3-month period- there should products designed with a definite time period and/or a definite purpose.

There is enough research to show that the low-income groups are more prone to victims of violence and recipients of poor healthcare with limited sanitation options. In designing FI products and services, we tend to forget that the poor are far more aware of their mortality than we are.

#### Data and doubt:

Data does not tell the whole story. For example in Pakistan, most international and national reports says that roughly 14% of the population has a bank account. But that 14% figure does not explain how are there nearly 25 commercial banks operating in the country, along with MFBs and MFIs. These commercial banks have large marketing budgets through which their consumer products are advertised. More importantly if only 14% of the population is banked, then why is there a price competition between commercial banks over their term-

deposit accounts (for a fixed tenor) with highest rates as their USP. How is it that the deposit mobilization base of these banks is growing year-on-year and the banks are posting profits? Account density needs to be introduced as a key performance indicator for both formal bank services and branchless banking access.

Under-served and un-served are two different segments:

The Under-served are more likely to be aware of financial service offerings in their vicinity/country but lack access to them. In a country where there is a semi-robust banking sector, the low-balance account holders can be the first segment to be switched to mobile account service users (assuming that the FI services follows a band-led model).

In Pakistan, the Central Bank made it mandatory in the 1990s for banks to offer a Basic Banking Account for students and low-balance depositors. This account had no minimum balance maintenance requirement, offered an ATM card and a set number of withdrawals in a month from branches. This customer base and its data could have been easily converted into mobile account holders.

Women as Agents:

For women to become mobile account users, there is a need to develop a women-agent network model. It is only when there are sufficient women agents that we are likely to witness a critical mass for the women user base.

Regards

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