

# Within Reach

How banks in emerging economies can grow profitably by being more inclusive



## FROM ACCENTURE LEADERSHIP

Shifting demographics, evolving customer behaviors and accelerating needs for positive social change make the world's emerging economies increasingly attractive to profit-minded financial services institutions. Concurrently, digital technology innovation is enabling new business models with the power to beckon underbanked citizens into the formal economy in ways previously hard to imagine. It is making available more creative and sizable commercial opportunities at lower cost in emerging countries—a coming together of the development and commercial sectors that banks cannot afford to miss.

Accenture has spoken about the convergence of issues and interests between the sectors for more than five years now. We continue to see it gathering pace. The development sector has long recognized the benefits of collaboration with the private sector to bring about transformational, rather than incremental, change. As such, we are pleased to have conducted this study together with CARE International, which has a long track record of engaging with the commercial sector.

From Accenture's work within the financial services industry we know that banks are increasingly looking to differentiate their brands and reach new market segments, particularly in developing economies. Additionally, having a positive social impact is increasingly important and often legally mandated in these economies—effectively making social impact and commercial growth mutually reinforcing. However, we also know that understanding how best to address low-income markets can often be challenging for banks. There are many complex hurdles to overcome and new competitors to face.

Accenture is excited to be part of a pioneering project, which we believe provides a unique perspective on the practical steps banks can take to achieve financial inclusion. In many cases, making the opportunities attractive from a purely commercial standpoint requires a different model. Non-governmental organizations (NGOs) provide both experience and insights critical to building momentum in private sector investments. Accenture Development Partnerships has a long-term relationship with CARE International and believe that this report highlights the continued importance of NGOs in spurring and supporting action by the private sector to serve low-income customers.

Simon Whitehouse  
Senior Managing Director  
Financial Services  
Accenture

Louise C. James  
Managing Director  
Accenture Development  
Partnerships

## FROM CARE INTERNATIONAL

Access to savings and credit is one of the most important means by which women can achieve greater control of their lives and increase their own—and their family's—opportunities, income and wellbeing. The recently agreed United Nations Sustainable Development Goals, which provide the key framework for development efforts in coming years, highlight the importance of financial inclusion to women's empowerment and broader development outcomes. CARE will therefore continue to champion financial inclusion as a key step towards achieving women's economic empowerment, as we have done for over 20 years. We are committed to ensuring far more women have access to mainstream banks which provide secure, cost-effective and responsible services. And we have been convinced for some time that much wider access to formal financial services represents a very large and growing business opportunity—now quantified as being worth up to \$380 billion.

We are therefore delighted to bring our experience of working with communities together with Accenture's expertise in the formal financial sector, and their commitment to development, to start to measure banks' capabilities and strategies for addressing the financial inclusion market. The results set out in this report confirm our belief that providing financial services to low-income customers is a major opportunity for mainstream banks, and one which we believe they can take up responsibly and profitably—especially when executed through the cost-effective approach of working with savings and loan groups.

We would like to thank those banks that are our partners who have helped in this research, and the many other banks which have participated. We hope that senior banking executives will heed the report's core message of the need to act now in bringing their services to the billion people who remain unbanked. We believe the insights provided here will enable them to do so in a way that brings benefits not just to banks, but to poor and marginalised people—particularly women and young people—and to the developing countries in which they live.

Laurie Lee  
Chief Executive  
CARE International UK



# TABLE OF CONTENTS

Introduction: Financial inclusion—a \$380 billion opportunity	4
Where are banks today in capturing the opportunity? Our capability assessment	8
Insight 1: Invest now or be left behind	10
Insight 2: Get the products right by taking a new view on customer segments	12
Insight 3: Start with payments and savings, then consider extending to credit	14
Insight 4: Use saving and loan groups as an entry strategy	17
Insight 5: Find the right balance between physical and digital channel capabilities	20
Insight 6: Align the operating model to a financial inclusion strategy	23
Conclusion: Make financial inclusion a core strategy	25



## INTRODUCTION

# Financial inclusion—a \$380 billion opportunity

Many banks have opted out of targeting and serving underbanked consumers in developing and emerging countries. Three key market changes today should compel banks to rethink their position.

First, economies in developing countries are growing rapidly and becoming more efficient and vibrant. India, for example, is expected to experience seven percent per annum growth by 2017—the fastest among the world's 50 largest economies, according to World Bank projections.<sup>1</sup> Globally, Accenture estimates that this growth will give rise to a US\$380 billion revenue potential from banking underbanked individuals and micro-enterprises.

Secondly, digital technology is enabling new forms of financial services access and value propositions with lower transaction costs. It is increasingly catalyzing regulators and policymakers to encourage and, in some countries, mandate banks to address underbanked consumers. At the same time, digital is also a disruptive threat. Banks must lead with digital or risk becoming irrelevant.

Lastly, there is no status quo. Hungry bank and non-bank competitors who recognize the unprecedented opportunity are already moving to capture the underbanked market. Mainstream banks in many countries are already under considerable threat from mobile network operators (MNOs), like the well-known M-Pesa in Kenya and more recent examples, such as Airtel Money and Tigo Pesa in Tanzania, that provide mobile wallets. Some banks (such as Equity Bank in Kenya) are promoting loan products much further down the micro- and small-business pyramid, thus growing market share rapidly and building a powerful brand. The winning banks will be those that can make the right

investments to reach the largest number of customers. Doing nothing equates to lost market share, foregone revenue and missed opportunity.

To help banks better understand the nuances of the strategies and capabilities that can effect financial inclusion, CARE and Accenture joined forces to study the current capabilities and strategies of 30 leading banks across 12 developing and emerging countries. We selected the study countries based on our view of the scope for inclusive banking and the reach of our respective organizations. The outcome of this important research offers insights on how banks can best meet the financial needs of underbanked consumers.

Many banks in emerging regions already have a good starting point for developing their core strategies and business models toward financial inclusion. They have the capital, potentially the brands, some of the knowledge, and many of the capabilities. They are well versed in the financial solutions that could meet the needs of underbanked consumers—from payments and safe money stores to credit and investment possibilities.

Still, the conditions for successfully and responsibly addressing underbanked consumers are different from those banks typically experience. For example, underbanked consumers generally are geographically dispersed, have low levels of awareness of formal financial services, lack credit history, have fluctuating income levels, and often distrust banks. Additionally,

administration burdens, delivery channels, cost structures, institutional mind-set, and regulatory mandates influence how banks can effectively and profitably address the market in terms of customer engagement, product relevance, product availability, channels to market, pricing and commercial planning.

This report highlights the opportunity for banks to unlock the rewards of responsible financial services as well as identifies key insights on how banks can grow profitably by being more inclusive.

Drawing on our study examples and interviews, we highlight in this report six key insights on how banks can grow profitably by being more inclusive:

- Invest now or be left behind.
- Get the products right by taking a new view on customer segments.
- Start with payments and savings, then consider extending to credit.
- Use savings and loan groups as an entry strategy.
- Find the right balance between physical and digital channel capabilities.
- Align the operating model to a financial inclusion strategy.

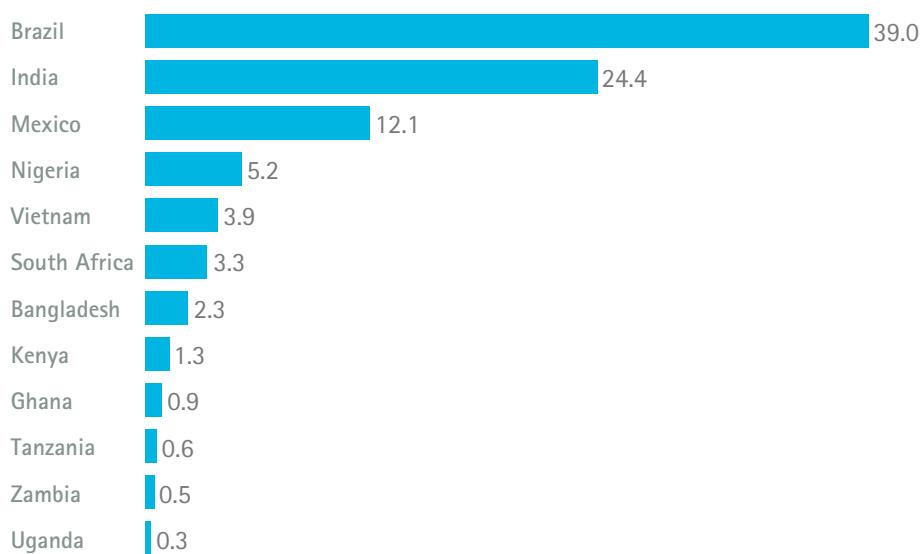
# Financial inclusion revenue potential by country

Globally, Accenture estimates that banks could generate nearly \$380 billion in annual revenues by 2020 within emerging markets alone by:

- Closing the small business credit gap at average lending spreads and conservative estimates of fee-based services which could generate \$268 to 270 billion.
- Including unbanked adults into the formal financial system, and raising their financial services spending levels on average to that of lower middle income countries which could generate another \$110 billion.

Across the twelve developing countries in scope for this study, the share of the total opportunity is more than US\$90 billion, as shown in Figure 1. To learn more about these estimates, read the recent Accenture report **"Billion Reasons to Bank Inclusively."**

FIGURE 1. Estimated revenue potential for each of the twelve countries included in this study, in USD billion



Estimated revenue potential across individual customers and Micro, Small and Medium Enterprises (MSME) Individual banking estimates consider an increase in financial services consumption expenditure by adults who earn less than \$23 a day in low- and middle-income countries.

MSME estimates on lending income from closing the credit gap to MSMEs and conservative estimates of fee income from providing financial services to the same base of MSMEs in low- and middle-income countries. Please refer to the source report for further details on the methodology.

Source: Accenture "Billion Reasons to Bank Inclusively," 2015

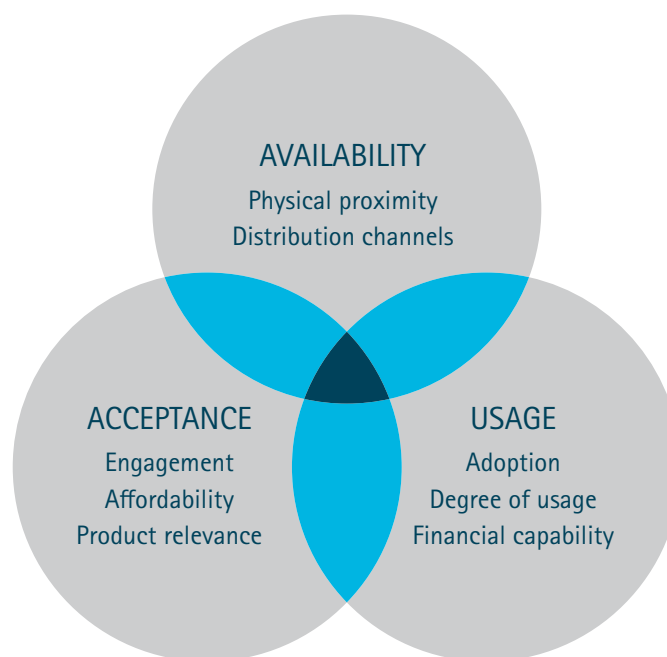


# Defining Financial Inclusion

CARE and Accenture define financial inclusion as universal access to and use of affordable, quality financial services, provided responsibly. Banks need to drive financial inclusion in ways that are sustainable commercially for the industry. As shown in Figure 2, key success measures of financial inclusion are availability, acceptance and usage of financial services.

Underbanked individuals can be found across the mass market (incomes of US\$3,000 to US\$8,400 per year), the low-income segment (incomes of US\$1,000 to US\$3,000 per year), the lowest-income segment (incomes of US\$500 to US\$1,000 per year) and the micro segment (incomes less than US\$500 per year). Some of these consumers are unbanked; others have accounts but, for various reasons, still rely predominantly on informal financial services. For the purposes of this report, we will in many instances refer to the broadly defined term "underbanked" which includes all individuals falling within the above categories. In practice, banks need to be crystal clear on the segments they target to provide the most relevant service; for example, products and channels addressing the micro segment would, in many cases, differ from those attractive to low-income consumers.

FIGURE 2. Three dimensions of financial inclusion



Source: G20 Global Partnership for Financial Inclusion

Meeting the needs of key underbanked consumers, such as:

- Rural
- Women
- Youth
- Small and medium enterprises
- Micro-enterprises



# About the Accenture and CARE Financial Inclusion Study

- Research and diagnostic-based analysis to examine the realities and opportunities of financial inclusion for mainstream banks in developing and emerging markets, and how some banks are successfully getting it done
- 30 banks—private and public, commercial and retail, established market leaders and smaller institutions, international and indigenous—in 12 developing countries in Africa, Asia and Latin America, allowing analysis of market and practice commonalities and nuances around financial inclusion
- Focus on scalability, replicability, portability across borders, sustainability, scale of engagement
- Capability maturity model structure for the analysis, covering all components of the bank business model to assess banks against four levels of maturity: trailing, basic, leading, and advanced
- Anonymity of bank participants to encourage openness; case studies do not imply the participation of these institutions in the study
- Primary and secondary data sources which Accenture and CARE believe to be reliable



# Where are banks today in capturing the opportunity?

## Our Capability Assessment

Our analysis focuses on how banks' strategies and capabilities support implementation of business models that are inclusive and enable them to tap into the major financial inclusion opportunity.

Although most banks' strategies contain ambitions to target underbanked consumers, the assessment found that their motivations differ. As shown in Figure 3, only 23 percent are truly aligning their strategies to financial inclusion ("D" in Figure 4) in a way that drives them towards commercially sustainable business models with the potential of reaching significant scale. The rest are approaching the market as:

- A. Philanthropic/Corporate Social Responsibility (CSR)-related (20 percent), desiring to be seen as good corporate citizens and only investing in a very limited way outside the core business;
- B. Regulatory-driven (17 percent), complying with government requirements to serve underbanked customers; or
- C. Short-term profit-driven (40 percent), focusing on short-term commercial opportunities and planning horizons in specific financial inclusion segments.

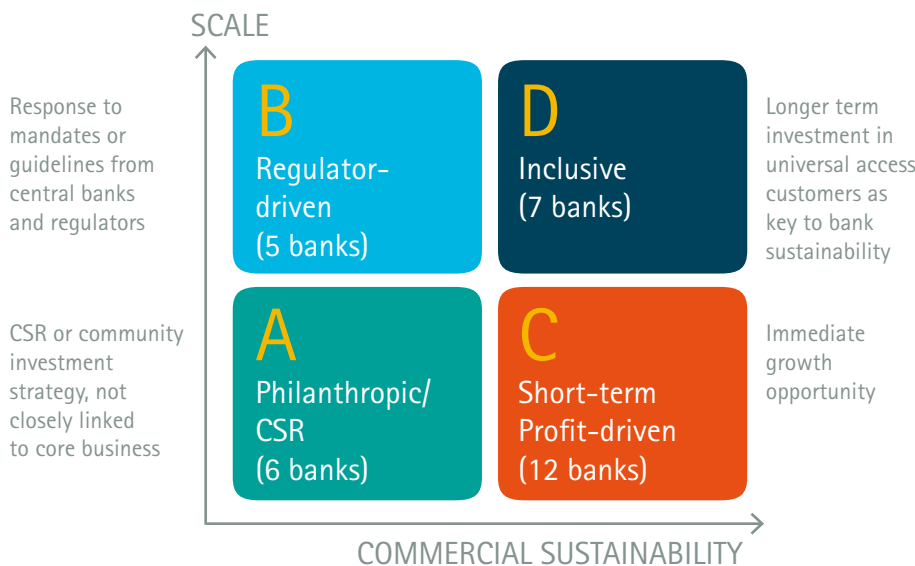
### Capability assessment results

Many banks are indeed developing the capabilities that support financial inclusion, albeit many of them are doing so to serve more traditional consumer segments—those which they perceive as "easier." The capability assessment results, summarized in Figure 4 clearly shows that there are many encouraging observations of advanced and leading capabilities in most areas.

Detailed analysis however, show that only a few banks consistently lead across all areas. Indeed, there is an interesting lack of correlation: having a "leading" approach to strategic alignment is no pointer to having "leading" products. It seems that many of the banks are struggling with the challenges of executing an inclusive strategy through product design and organizational change.

While none of the banks has fully mastered the underbanked market, there are promising examples of how some are excelling in particular capabilities. These examples illustrate that banks can achieve changes across their business and operating models to extend their products and services inclusively, profitably and responsibly. Elaborating on our observations from surveying the banks that are taking the lead in developing specific capabilities, our six insights provide pointers to how banks can make this happen.

FIGURE 3. Bank motivation matrix



Source: Accenture and CARE International Financial Inclusion Study 2015

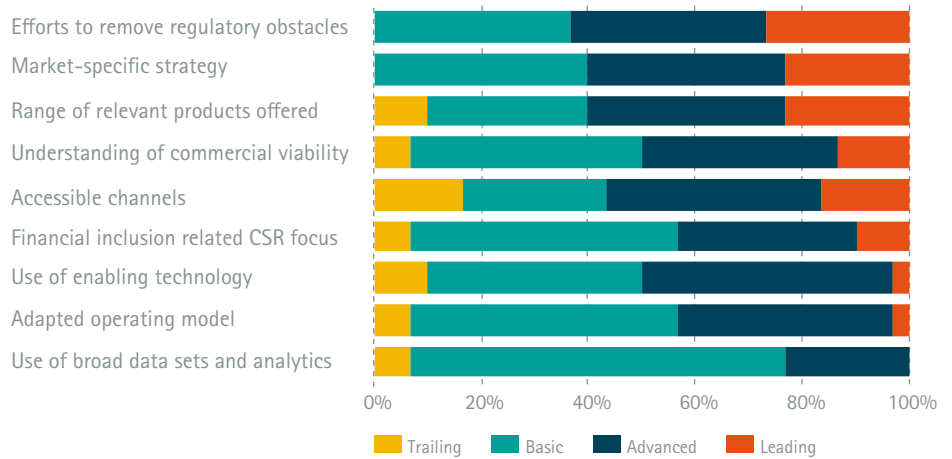


## The Capability Maturity Model

By using structured criteria within a "capability maturity model," Accenture and CARE assessed the state of the surveyed banks' capabilities specifically for financial inclusion.

We considered nine capabilities that are critical in achieving responsible financial inclusion, polling bank executives on some 100 questions through interviews and secondary research, and scored banks' capabilities into four levels of advancement, shown in Figure 5. The model, including the questionnaire and qualitative descriptions of what needs to be in place at each level of advancement, will be an important tool as banks and other organizations work to understand how they should invest to pursue the financial inclusion opportunity.

FIGURE 4. Maturity scores by key capability across all banks analyzed  
NINE CRITICAL CAPABILITIES FOR FINANCIAL INCLUSION



Source: Accenture and CARE Financial Inclusion Study 2015

FIGURE 5. Four levels of capability maturity advancement



Source: Accenture and CARE International Financial Inclusion Study 2015

# Invest now or be left behind

As the strategic motivation for financial inclusion differs across banks, so does the range of operational priorities and investments. The relatively low number of the banks surveyed that are pursuing a financial inclusion strategy aimed at universal access are taking a longer-term view than their competitors in expecting returns from their effort. Such a position significantly expands the market they serve. Mission-driven stakeholders, including governments, specialist investors and concerned citizens, tend to sit behind and influence these banks. This implies that it is difficult to make a business case for universal access over the planning time horizons that banks typically use.

So, if the short-term business case for financial inclusion is challenging, what of the longer-term for banks whose stakeholders are less mission-driven?

For banks that see their future as a leading brand in the mass market, building a strong relationship with tomorrow's customers by better understanding and serving them will be key. Doing so commands a new perspective on assessing business cases for financial inclusion. Banks that do not pursue financial inclusion will likely see their market position eroded; it is already under considerable threat in many countries from MNOs that provide mobile wallets. Further, the banks that are already finding cost-effective, technology-based ways to reach even the lowest-income and micro segment consumers stand poised to take hefty chunks of market share. Such banks will

also benefit from large volumes of new deposits, providing relatively stable and low-cost funds to improve margins.

To avoid being left behind, banks must develop a clear strategy and business model that targets specific segments of the underbanked market. Banks can and should capitalize on investments already made; our study shows that even those banks not explicitly targeting financial inclusion customers are developing the mobile and agent network capabilities that can reach this segment—a prime opportunity to “sweat the assets.”

Banks that are unable to justify acting fast to capture the long-term financial inclusion opportunity risk losing out to others that have built, or are building, dominant infrastructures and powerful brands.

**“Financial inclusion has become a business imperative. In the current environment, there is no choice but to pursue financial inclusion to go after deposits: this is where cheap funding is!”**

**Banker interviewed in the Accenture and CARE Financial Inclusion Study 2015**



## Recommended actions from insight 1

- Review current approach to financial inclusion, paying attention to strategic threats, opportunities for economies of scale and early-mover advantages; make financial inclusion part of a coherent corporate strategy
- Revise governance processes and principles to ensure that opportunities with short-term investments and longer-term payback are considered during strategic planning and evaluation of concrete projects
- Engage with stakeholders to establish a common understanding of the significant opportunity and the required willingness to take risk
- Develop principles of responsible financial inclusion and incorporate them in strategic planning
- Ensure the executive team has the right set of skills to explore and assess business models fundamentally different from those of the past
- Actively seek innovative approaches to use digital capabilities and bring innovation into business model design to attract and serve customers with the right services at a lower cost; capitalize on investments already made
- Allocate legacy costs in ways that allow new business opportunities to develop inside existing organizations

## FINANCIAL INCLUSION WORKS

# Zanaco invests to launch distinctive brand for financial inclusion

The Zambia National Commercial Bank (Zanaco) successfully launched Zambia's first mobile banking service, Xapit, in 2008. The Xapit account, which the bank can open in only minutes, offers a Visa card and other banking services over a mobile phone. Targeting Zambia's underbanked markets, Xapit now serves more than 200,000 customers and conducts more than one million transactions per month. Xapit users include other Zanaco customers that have easy access to the product through their savings and current accounts.



# Get the products right by taking a new view on customer segments

While a number of the short-term profit-driven banks (see Figure 3) surveyed are targeting very specific segments (such as small farmers growing specific crops), more generally we found that many of the banks are too basic in their financial inclusion segmentation. They treat consumers very broadly, tending only to differentiate small and medium enterprises (SMEs) in the formal sector from the rest of the market. To protect their market position and optimize returns on infrastructure investments for financial inclusion, banks will need to become more refined in their customer segmentation—particularly, expanding the target mix to include high-potential, under-tapped segment gaps, such as women, youth and micro-enterprises. Banks in our survey that are successfully reaching out to underbanked consumers are doing so through detailed customer engagement and new, relevant products.

**Women.** In 2014, 50 percent of women in developing countries had a formal bank account compared to 59 percent of men<sup>3</sup>, and in some countries the disparity is much more striking. Despite societal hurdles in reaching women—such as higher illiteracy, low employment rates, and less freedom of movement—many of the banks studied expressed strong interest in targeting women. Some of the banks report much lower rates of non-performing loans among women; one bank includes the borrower's gender in their credit scoring, typically rating women at better credit scores than men. This is supported by data from a number of financial institutions showing that women<sup>4</sup>:

- Were generally better than men at paying off loans.
- Deposit money more frequently and leave it in the bank for longer.
- Are more likely to buy multiple products from a financial institution.

However, only a small number of the banks analyzed actually are targeting women; those that are, do so within the SME sector and frequently under regulatory pressure. For instance, the central bank in Bangladesh requires that all branches make available a separate 'help desk' for women at all their branches to help create new women entrepreneurs.

None of the banks interviewed had a well-defined strategy for addressing women as a financial inclusion market beyond SMEs. Some banks, based on cues from existing customers, were skeptical as to the need to provide different products for women. However, wider trends show that tailoring products to the needs of specific segments is an important factor in success. Further, the attractiveness of women as customers requires that banks examine much more closely and fine-tune their go-to-market approach—including, for example, gender patterns in their existing customer base, new channels (such as saving and loan groups) for reaching women, and programs to improve women's financial literacy.

**Youth.** Almost all developing countries are seeing a massive increase in the number of young people coming of age, and seeking jobs and livelihoods. According to the World Bank, the share of the population aged 15 to 29 in developing regions is about seven percentage points higher than developed regions.<sup>5</sup>



Banks in the survey are placing very little focus on the youth market. A few have financial literacy projects targeting middle-class youth. Youth will need more extensive financial literacy programs and basic banking services over digital channels as they build their livelihoods and seek to improve their position in life. While the young have a lower understanding of financial needs and services, less access to collateral and less credibility as micro-entrepreneurs compared to their elders, banks should consider that customers often stay with their first bank and retain their banking relationship as they migrate up the Consumer Pyramid. Similar to the way that banks in mature markets focus strongly on capturing the student market (the next generation of mass affluent), banks can capture customers in emerging markets by helping young people improve their lives. The risk always exists that others may lock in these customers first.

**Micro-enterprises.** As mentioned previously, there is strong emphasis and a lot of service innovation from many of the banks surveyed in reaching the SME sector. The rise and expansion of Kenya's Equity Bank, for instance, is due to considerable success

in the SME market which is also attracting strong interest in the sector from competitors. Elsewhere, favorable funding, regulatory pressure, and central bank direction are encouraging banks to significantly expand their SME lending.

However, only 40 percent of the banks surveyed are focused on very small businesses (usually operating in the informal sector) that represent, in many developing countries, the only livelihood option for a large proportion of the population. These "micro-enterprises" are frequently sole traders, or perhaps an individual offering casual work to a small number of others. For example, small-scale farmers, though playing a significant role in many developing economies, make up a very small percentage of the micro-enterprises banked by the surveyed institutions. We found little evidence of banks taking into account the unique payment and credit services needs of micro-enterprises in designing and marketing their products. One example is farmers' needs for credit and savings products aligned with crop cycles. It appears that mainly micro-finance institutions (MFIs) are targeting this segment. The banks pursuing micro-enterprise business either engage via MFIs or follow supportive regulators. Bangladesh's Central Bank is a good example. It introduced a no-frills bank account for unbanked farmers that primarily enables the Ministry of Agriculture to deposit subsidies for fertilizer, electricity, and diesel directly into farmers' bank accounts. Similarly, a number of banks cited demand from their large corporate customers to reduce their dependence on cash in their value chains by bringing small and micro-enterprises into formal financial services, often requiring extension of the banks' existing networks.



## Recommended actions from insight 2

- Work with customers (such as via focus groups) to define segments at more granular levels, then develop segment-specific business and marketing strategies, including products, services, and channels
- Work with corporate customers to move the micro-enterprises within their value chains into formal financial services
- Connect with existing national and local institutions that can support financial access and remove barriers of financial literacy, such as the local Women Chamber of Commerce, youth organizations, non-government organizations and education systems
- Optimize data management, to capture and conduct analysis on gender, age and livelihood information
- Reshape operations to reflect target markets, such as employing women staff in branches and as agents



# Start with payments and savings, then consider extending to credit

Mobile payment services are proving to be the perfect entry point for ushering underbanked consumers into formal financial services. It makes sense for both the customer and the provider as the required level of trust is relatively low, the transaction decision point is simple and low risk, and the financial benefit, convenience, speed and efficiency is far more compelling than traditional alternatives.

Yet, it is MNOs and not mainstream banks that are leading the way in using mobile payments to serve the poor. According to GSMA, 60 percent of all mobile payment services are operationally run by MNOs<sup>6</sup> which threatens banks' access to potential customers. Mobile wallets also are not just about transactions; they also operate importantly as a store of value, making it difficult for banks to win back customers once they have been "banked" by MNOs. The situation holds particularly true in mature contexts for mobile wallets, such as Kenya and Tanzania, where MNOs play a dominant role in payments. A Kenyan banker commented, "Banking is a heavily regulated industry and this came to a disadvantage for us as telcos could move earlier and quicker. We are facing huge challenge in the mobile payment space as telcos have connectivity as well as products, while banks only have products and depend on telcos for connectivity! Having said so, mobile wallets have several limitations and we as banks need to build on those."

**Win (back) the payments space.** Banks can get ahead of MNOs that today dominate mobile for financial inclusion. The GSMA estimates that over two-thirds of mobile money accounts are inactive.<sup>7</sup> The lack of competition in many countries, most notably Kenya, yields higher pricing, less than desired innovation to improve products, and monopolization of agents by a single dominant provider. In Kenya, Equity Bank launched a direct competitor to M-PESA by setting up a virtual MNO that adds an ultra-slim SIM card into customers' mobile phones and offering its own payments product, Equitel.<sup>8</sup> Also, the Kenya Bankers' Association established a system to increase integration of some of its members' payment and cash networks (ATMs and cards). Provisionally named the Kenya Interbank Transaction Switch, the system will provide a shared platform to give bank account holders easier access to a much larger selection of cash in and out points, thus reducing reliance on mobiles.<sup>9</sup> Underbanked consumers' typical preference for cash, and lack of familiarity and confidence in using technology for financial

transactions has hindered the take up of mobile money. Some banks are also helped by the position at some central banks that mobile money services should not be supplied solely by MNOs. Further, Government-to-Person (G2P) payments provide a major opportunity for banks to expand financial inclusion by positioning themselves as a key intermediary between government and citizen. In India, for instance, a strong push from the government to receive grants and pensions via bank accounts helped banks to significantly increase their customer base. However, even in G2P payments, banks need to be ahead of the curve as competition is strong. Payment systems operators, for example, are aggressively targeting this market.

**Develop entry-level products to grow the customer base.** With payments being the natural entry point for MNOs into financial inclusion, the entry strategy of many banks is around simple, low-cost savings accounts. Examples include Nedbank and Standard Bank in South Africa with their respective Ke Yona and Access accounts, Kenya Commercial Bank with M-Benki and Equity Bank's group accounts where deposits and withdrawals at Equity agents are free; withdrawals at Equity ATMs and branches, and transfers between Equity accounts carry fees of 30 or 50 Kenyan Shillings (US\$0.30 or US\$0.50).<sup>10</sup>

Banks' entry-level products should be:

- **Easy to open**, requiring light Know Your Customer (KYC) steps. Banks in regulatory-supportive environments can open accounts for underbanked customers with limited proof of identity, for instance banks in Kenya can enroll customers merely by linking to the National Identification database.
- **Affordable**, charging low fees to open, manage or conduct common transactions for entry-level accounts.
- **Simple to use**, equipping underbanked customers so they can withdraw money at agents, till points and ATMs. Almost 20 percent of banks surveyed offer a mobile banking solution that allows customers to transfer money from one account to another without visiting a branch.

Very simple entry-level products can bring unbanked customers into the banking system as no-frill account holders from which banks can nurture a portion of them into fully-fledged customers with higher-value types of accounts.

**Graduate customers into fully-banked clients by offering credit products.**

Responsible lending to underbanked consumers is an important part of the business proposition for banks, helping to retain customers, grow revenue and increase profits. Once new customers have built a financial track record, banks can understand what credit products to offer which customers and on what basis.

Loans for financial inclusion customers will generally be uncollateralized, often requiring automated credit decisions based on credit scoring systems which can tap into the transaction and savings history, plus other easily obtained key factors, such as gender. At the moment, even in the much more widely served SME market, credit scoring models are relatively rare. Many instances of credit decisions are still being left in the hands of branch managers. Banks need to go ahead and bite the investment bullet to develop scoring models. As demonstrated in Kenya today, the future will likely see more banks battling to offer tiny loans to underbanked customers via the phone.





## Recommended actions from insight 3

- Safeguard payments as a starting point for providing more extensive services, such as credit, as part of a responsible products approach to build a trusted and valuable brand, avoid unnecessary risk and grow regulator confidence
- Develop a clear strategy either to cooperate with MNOs to capitalize on agent networks and customers, or compete to keep MNOs out of the payment space
- Consider creating a separate, purpose-built mobile payments/financial services business with its own team, brand, operating model and balance sheet, as illustrated by Equity Bank's Finserve Africa in Kenya and BRAC Bank's bKash in Bangladesh
- Foster mobile money interoperability by working on cross-bank initiatives to develop agent networks, payment systems and other technology infrastructure, particularly in countries where MNO services and networks are already dominant
- Develop credit scoring capabilities and tools
- Engage target customers in developing (and endorsing) relevant products that meet their needs, behaviors and transaction preferences; run pilots and scale up over time
- Seek concessional funding from governments and donors to support lending
- Build financial services and product literacy, even integrating learning into marketing campaigns and the customer proposition through gamification, social media, broadcast media and other entertainment; and taking advantage of teachable moments at customer milestone life events (such as starting a job or expanding a business)

## FINANCIAL INCLUSION WORKS

### Offering Ghana's community savings groups access to full-service banking using mobile phones

Fidelity Bank, Visa, MTN and CARE are working together, with the support of Visa Inc., UNCDF and FSD Africa, to enable community SLGs in Ghana to open and operate a Fidelity Bank Smart Account without visiting a bank branch. Opening an account is entirely digital and can happen in under five minutes. Group members can access their account through an MTN account, and transfer money between their Fidelity account and MTN mobile money wallet. The partnership with MTN allows Fidelity to augment its own national network of agents with MTN's 7,000-member agent network. Having launched in 2014, the project is set to directly impact an estimated 72,500 persons with potential to reach many tens of thousands more in the communities that these VSLAs are located and in other parts of Ghana where Fidelity has agents.<sup>11</sup>



## INSIGHT 4

# Use saving and loan groups as an entry strategy

One very effective means of reaching women and other under-banked consumers is through saving and loan groups (SLGs), such as Rotating Savings and Credit Associations (ROSCAs), India's self-help groups and CARE's Village Saving and Loan Groups. Such groups enable individuals to save and borrow small amounts of money to smooth consumption and earning patterns while building financial assets, wider financial literacy skills and a track record. Some 40 percent of banks surveyed are providing some level of services to SLGs. Some are treating SLGs as non-mainstream business in CSR initiatives while others are experimenting with new products and channels that are likely to be ready to roll out to many more savings groups in the relatively near future.

While savings groups require the development of specific products, the economics of banks linking accounts to them are attractive, spreading the cost of opening and maintaining an account over 20 to 25 people and lowering significantly the cost to serve. Bank accounts for savings groups provide banks with access to a pool of largely women savers and borrowers who are quality customers with accessible savings and credit records. Research from CARE and Barclays show that the average member of a savings group saves US\$58 per year<sup>12</sup>, so banks could expect each group to save more than US\$1,000 per year. Group experience helps develop members' financial literacy and reduces the cultural barriers banks face in persuading them to consider opening bank accounts as the need is already established.

Digital technologies strengthen the business case for banks to link SLGs, improving the revenue and profitability potential by increasing the number of transactions banks can capture while also reducing the risk, time, and cost of going to market. For example, banks can use financial transaction data captured and stored in e-recording systems to create digital credit profiles for group members and make better decisions on extending individual savings and credit products responsibly. Electronically-based materials can help reduce the cost of group formation and acquisition by automating more difficult aspects of savings groups, such as training, promotion and calculating share-out amounts at the end of a savings cycle.

Existing informal groups cover many millions of people across all developing countries. For instance, in sub-Saharan Africa, there are more than eight million members of SLGs alone, of whom women account for 75 percent.



## Recommended actions from insight 4

- Nurture relationships with NGOs that propagate SLGs as they provide opportunities for banks to connect at scale with groups that are financially literate and have documented track records
- Work with SLGs and NGOs on developing products suitable for SLGs
- Use digital technologies to lower the risk, time and cost of enabling, marketing to and serving SLGs
- Take advantage of the period it takes for SLGs to get ready for linkage to commercial bank accounts to prime the market: engage group members, develop their financial literacy on the value of saving, and help them appreciate the additional benefits of moving to formal accounts
- Engage with the Linking for Change Savings Charter (see page 19)

## Barclays reaches rural savings group members in Uganda's remote areas at low cost

In Uganda, Barclays partnered with the Grameen Foundation, Airtel and CARE to develop a mobile product, called eKeys, which links a savings group's mobile money wallet to a Barclays savings account. By visiting any of Airtel's more than 30,000 mobile money agents, the savings groups are able to make a deposit or withdraw funds from their bank account anytime, anywhere. In the same way groups require three keys to open their metal savings box, the mobile app is designed so that three separate group members must enter a PIN before funds can be accessed.

Another mobile product, Ledger Link, is helping savings groups build a credit history with Barclays by enabling them to submit digital records of their savings and loan activities. After six months of saving with Barclays, these records can be used to assess the group's credit score and provide access to an overdraft facility. In line with the traditional savings group model, the group (versus an individual) is responsible for lending out the funds from the overdraft and collecting loan payments from individual members.

Barclays has seen migration of individuals from relatively mature savings groups into individual savings accounts, suggesting that savings group linkages are a viable, long-term strategy for reaching and providing services to individual, underbanked customers across multiple markets. Barclays recognized early on the need to develop tailored products that respond to the evolving needs of savings groups.

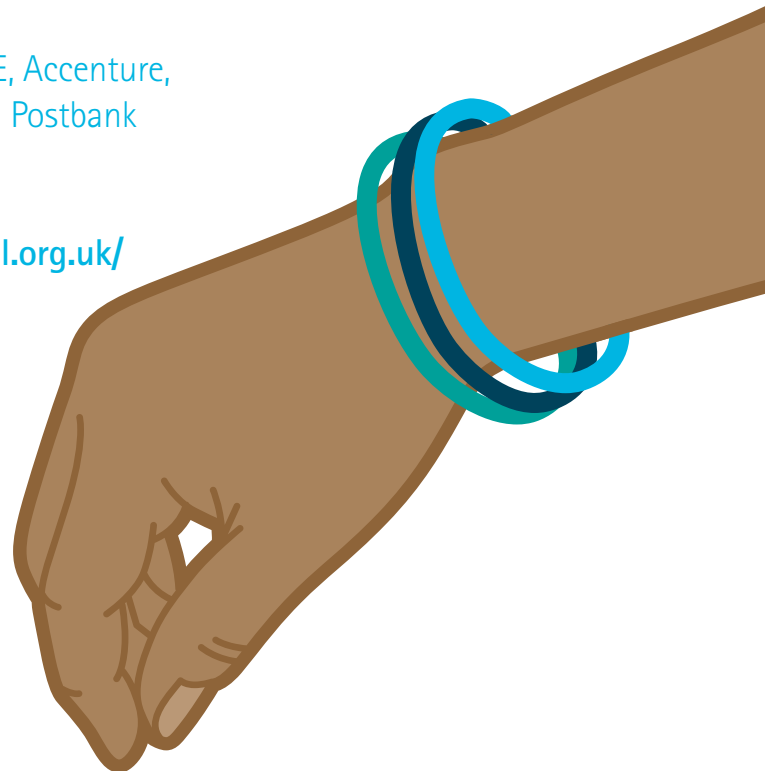
## The Linking for Change Savings Charter

Banks are increasingly linking to Savings and Loan Groups, building on the experience of pioneers like Barclays (Case Study). To bring this solution to scale, many organisations will need to work together. That's why CARE, Plan and Barclays have created the Linking for Change Savings Charter which sets out international principles for effectively and responsibly linking informal groups of savers to formal banking products and services. The Charter aims to build a powerful global alliance of leading organizations, who commit to develop and roll out new savings products for poor communities in the developing world, and who agree with the Charter principles:

1. It's a win-win investment that brings social and economic rewards.
2. Banking the poorest is possible.
3. It starts with savings.
4. People come first.
5. Financial education matters.
6. No one can do it alone.

The 26 signatories as of October 2015 include CARE, Accenture, Barclays, Fidelity Bank Ghana, Grameen Foundation, Postbank Uganda, AB Bank Zambia, UNCDF

More details are available at [www.careinternational.org.uk/linking-for-change/](http://www.careinternational.org.uk/linking-for-change/)

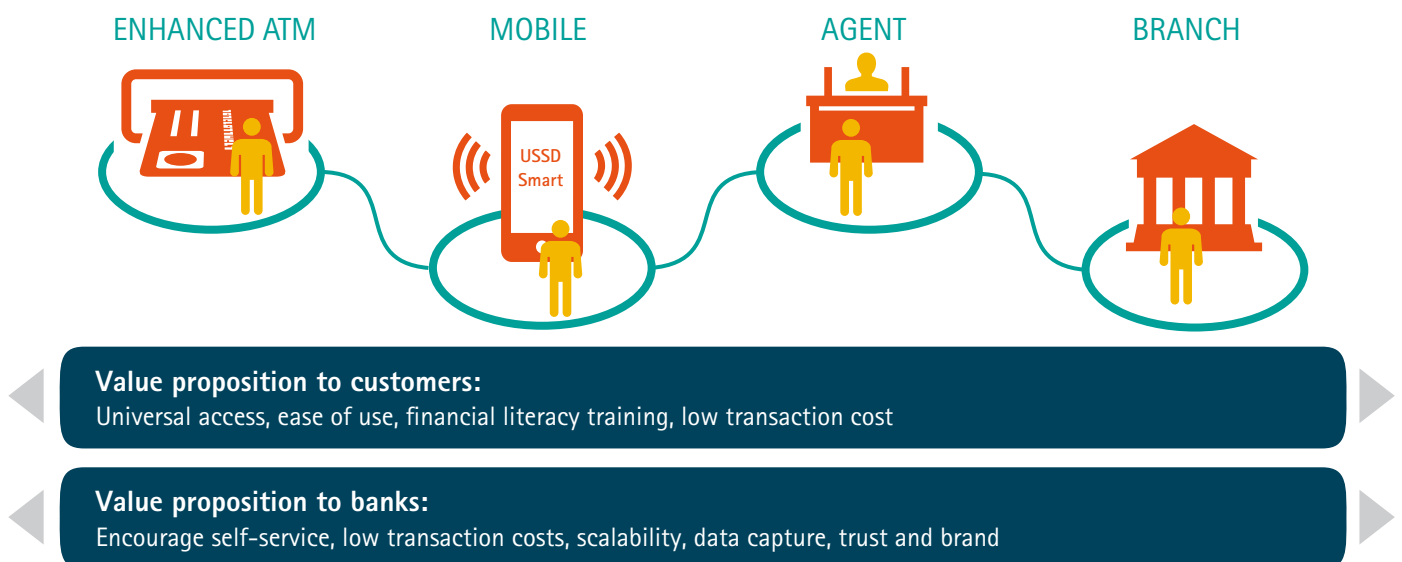


# Find the right balance between physical and digital channel capabilities

Traditional bank distribution models can be obstacles in reaching and engaging extremely poor and underbanked consumers at acceptable costs and prices. Branches, for example, can be difficult for many financial inclusion customers to access; yet, banks struggle with branch congestion. Physical and digital channel capabilities must work and blend together under an omni-channel distribution model (Figure 6) where more transactions occur outside of the branch. No longer will one dominant channel suffice.

Some banks in the study are employing omni-channel distribution for financial inclusion. All are developing better networks to reach the poorest customer segments, and the starting point varies. Barclays Africa Group Limited's (BAGL) bank in South Africa, Absa, for example, is providing financial services through branches, ATMs and digital channels (such as Internet, mobile phone and telephone banking). Of its four million cellphone banking customers who can perform a host of transactions from their cellphones (even if they have no airtime), half are entry-level banking customers (as of October 2014).

FIGURE 6. Accenture hybrid model for omni-channel distribution



Banks building modern distribution networks in developing countries will need to meet some tough objectives: retain control of the customer proposition, relationship, brand benefits and data; create an agent network; get the right deal with mobile operators for mobile products and services; and put in place the technology platform and infrastructure. It means both digital and physical capabilities (best developed while maintaining a low cost to serve customers) working together to enable the omni-channel model.

**Digital dimension.** Deploying financial services digitally, most notably via mobile phones, has emerged as a critical success factor for financial inclusion. Digital technologies have the power to increase access to banking services beyond traditional branch networks (particularly payments and remittances), to lower costs to serve and acquire, to extend distribution models, and to generate customer data where it did not exist previously. Consider bKash's mobile banking services in Bangladesh where customers can, among many options, use the International Remittances service, pay for goods via its Mobile Merchant Payments, buy airtime for mobile phones and even earn interest on their wallet balances over a period of time. Investing in innovative, cost-effective, secure smartphone capabilities—biometrics, geolocation, SIM card-independence, innovative platforms, and more—can enable more customer self-service, faster payments, and product sales within banking apps. However, about half the banks surveyed are behind the curve in using technology to reach underserved customers.

By 2017, smartphone penetration is expected to rise to 20 percent of the population in sub-Saharan Africa<sup>13</sup> and 44 percent in Latin America<sup>14</sup>.

**The physical dimension.** Along with digital banking services, physical banking components remain critical factors in banks' ability to compete and effect financial inclusion profitably and responsibly. For example, customers still rely on cash-in-cash-out networks through agent terminals to deposit, transfer, and access their money. High transaction costs on mobile money means that many people still prefer to maintain a stock of cash. Human interaction is also needed to help customers with more sophisticated products and services. To best address the underbanked market banks must improve capabilities primarily around two physical banking components:

- **Agent network**, expanding a bank's physical presence beyond its traditional branches to provide service to dispersed rural and peri-urban populations. Building an agent network requires an enabling regulatory environment that allows third parties to provide services on behalf of banks. It also takes considerable time and money to recruit, train and manage the right agents. Dominant MNOs, such as in Kenya, Tanzania and Nigeria, pose challenges to banks in building their

own networks; MNOs have snapped up agents and agent network managers, often under exclusive arrangements. Banks therefore have to use the MNO network, with the ensuing implication for the bank of costs dictated by the MNO, service levels out of the bank's control, and reduced brand visibility. Nearly 37 percent of the banks surveyed have extensive agent networks; 17 percent operate their own while 20 percent use an MNO network (supported by national regulations).

- **Alternative branch**, increasing accessibility at a lower cost compared to the more traditional customer experience. Creative alternatives to full-service branches include mobile branches where staff in vans or on bikes provide cash and basic transactional services, such as account openings. Other examples are kiosks, enhanced ATMs and mini-branches in rural and peri-urban areas that offer reduced branch services through a virtual staff or a small number of human staff at a lower set-up and run costs. However, the potential of such alternative branch models is limited compared to the scale banks can achieve through optimized mobile and agent networks.



## Recommended actions from insight 5

- Adopt an omni-channel service model, mixing branch, mobile, cards and agents
- Create an effective agent network, tapping into existing customer base, branches, to identify and recruit agents, then work to mature agent skill and capabilities
- Balance quality assurance of service and conduct of business with the cost of agent training, audits and monitoring
- Nurture regional "super agents" or use agent network managers to support training and supervision of agents in their local area
- Consider creative alternatives to traditional branches

### FINANCIAL INCLUSION WORKS

## NMB Tanzania combines physical and digital channel to reach large underbanked population

NMB created an entry-level savings account, targeting Tanzania's large underbanked population through an agent banking model. Agents are equipped with smartphones and point-of-service devices enabling fast account openings (in 10 minutes or less) and instant, branch-free transactions. Local agents bridge the gap for the poor who are hesitant to enter bank branches and unfamiliar with using mobile financial services. Agents also help lower overall customer traffic in bank branches. Because of the favorable regulatory environment, agents can conduct light customer identification. The account interoperability framework fostered by the Tanzanian government means that transactions can be made from any mobile wallet into a customer's account. Moving forwards, NMB intends to use customer fingerprints for instantaneous verification of customers.

# Align the operating model to a financial inclusion strategy

While banks do not need fully-developed organizational or technological capabilities to start extending their reach to underbanked consumers, they should implement over time key initiatives to improve the efficiency and effectiveness of that extension. Many such initiatives naturally emerge to serve banks' existing operations and core customer segments. However, outcomes of the efforts will be much more coherent and successful if the implementations are aligned to a well-defined financial inclusion strategy.

Study findings suggest that many banks are struggling with elements that need to be in place to execute an effective financial inclusion strategy. These include:

- **Data and analytics.** By combining the highest quality data with innovative analytics, banks can better understand, segment and address underbanked populations. For example, access to geo-location data captured on smart devices and uploaded to internal systems can help banks better assess potential customers. Specialist cloud-based MIS and banking platforms are available, and can help banks improve data and analytics, and minimize costs of legacy IT systems.
- **Operating structure.** Banks will need a supportive operating structure—governance, incentives, collaboration arrangements, and more—to treat financial inclusion as a commercial profit center that draws on their existing infrastructure (especially agent and mobile networks) to reach, serve and mature newly banked customers. As noted in a recent FSD Africa and Accenture report<sup>15</sup>, incentive systems not supporting emerging business areas may result in focus shifting back to existing core business before results even materialize.
- **Risk management.** Banks can incorporate technology innovation into a risk-based approach to speed up and streamline the KYC process to lower customer on-boarding and servicing requirements.
- **Talent and skills.** To effect the outcomes they want from financial inclusion, banks will need to attract new skills and reskill banking talent at all levels of their organization—from more technical skills on the credit and risk side to more creativity at the executive level that can navigate fast-changing policy frameworks. Branch staff and agents will need better communications skills to interact effectively with customers who have a different cultural perspective. Having the right workforce roles and skills are strategic imperatives for financial inclusion.
- **Core banking systems.** Mainstream banks will need to digitize operations with modern, scalable and resilient core banking and management information systems. Doing so will allow them to maximize overall investments in financial inclusion and compete against challenger- and non-banks that do not carry the burden of legacy IT systems. Principles for cost allocation can, if not well aligned, provide a significant hurdle in serving underbanked markets as discussed in the FSD Africa-Accenture report.<sup>15</sup>

To advance financial inclusion, banks will also need to support industry- or country-wide initiatives, such as developing national digital identification systems or empowering banking agents as intake and relationship specialists (with the full support of regulators) who verify and on-board customers.



## Recommended actions from insight 6

- Create financial inclusion as a profit center, and have the unit report to the bank's senior management group; align incentive structures to the support service to underbanked consumers as a long-term growth opportunity
- Develop a coherent strategy for talent and skills development that supports ambitions towards financial inclusion
- Share knowledge across financial inclusion and retail units
- Provide a path for newly banked customers to graduate to mainstream customers of the bank
- Embed digital capabilities into core operations, including smart digital devices, portable scanners, electronic enrollment, geo-location tools, and credit scoring models
- Modernize core banking, data and analytics technology platforms; ensure principles for cost allocation that support financial inclusion banking
- Align overall plans for organizational and technological development with a coherent strategy

## M-Shwari exploits enterprise innovation for fast, easy, convenient service targeting 15 million of Kenya's underbanked adults

Commercial Bank of Africa (CBA) teamed with Safaricom to launch its new M-Shwari mobile banking service. The M-Shwari account opening process is remotely initiated by the customer and then fulfilled electronically, using automated processes to verify KYC information in the space of a few seconds. Tapping into Safaricom's mobile phone registration data eliminates the need for CBA to conduct additional checks. Customers can access interest-earning accounts at CBA and apply for 30-day loans from CBA without ever having to walk into a bank or fill out paperwork. Customer transactions are 100 percent 'straight-through', allowing the platform to be supported by only seven back-office and IT staff. A central integration hub also means that transaction messages going between CBA's various systems can be treated in an extremely efficient manner, centrally and asynchronously, preserving the system's performance as it scales. CBA on-boarded one million customers in M-Shwari's first 40 days of existence and three million in the first five months after launch.





## CONCLUSION

# Make financial inclusion a core strategy

The financial inclusion market presents banks with an enormous opportunity worth \$380 billion per annum of revenue. Further, our analysis in twelve countries shows that a number of mainstream banks in developing countries are already making great strides in implementing the capabilities—mobile accounts, cards, agent networks, and others—needed to capture a large share of this market by attracting a large number of underbanked consumers.

However, too few banks are fully exploiting these capabilities. Not doing so leaves banks open to the substantial risk that competitors, including MNOs, will capture large shares of the mass consumer market. The challenge to banks is clear: invest now or be left behind. There are clear pointers to what is needed: make financial inclusion a core strategy, better understand what customers want, adopt principles of responsible financial inclusion, provide more targeted products, place greater emphasis on digital, improve financial literacy and nurture well-targeted brands that provide customers with ample access, ease of use and high-quality services. These need to be enabled by more advanced capabilities in data collection and analysis, as well as distribution, such as digital-enabled branch alternatives and agent network.

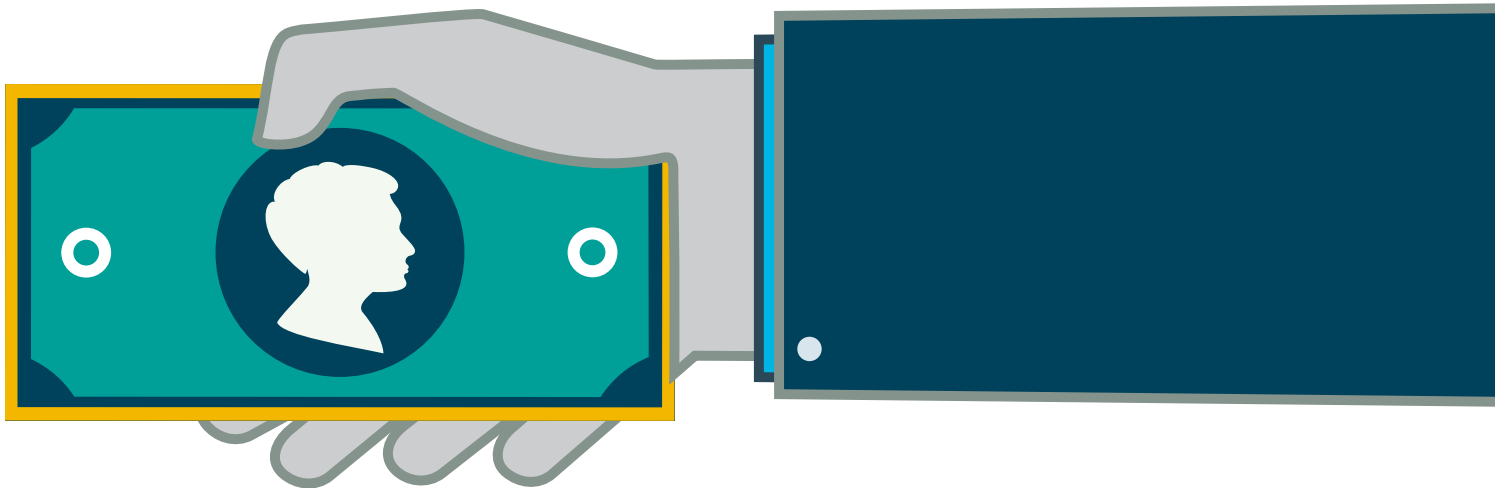
Success will increase transaction volumes, while lowering demand on branches, provide access to new low cost deposits and reap the benefits of scale, market share and brand recognition equating to attractive commercial return.

For all commercial banks in developing countries, the great social opportunity to become an indispensable part of improving the lives of customers every day is one that we believe can be seized profitably, but the window of opportunity may be closing as MNOs and the most enterprising banks find ways to reach everyone profitably.

## Support from other stakeholders

While banks can, and should, progress this agenda, there are pivotal actions other financial inclusion stakeholders need to take to help banks reach underbanked consumers. For example:

- **Governments** can clearly define the role of financial inclusion in the country's growth strategy, incorporate proven methods such as Saving and Loan Groups in their financial inclusion strategy, provide support to financial and business literacy training within and outside the education sector, and provide support to new and necessary financial/telecoms infrastructure.
- **Central banks** can push universal biometric-based national IDs to ease the KYC burden, support agent-based customer verification, develop effective credit bureaus, and more flexible credit metrics (such as how losses due to credit delinquency are charged to the P&L), and commercially entice banks toward innovation (such as for non-payment products) and provide favorable funding to reach the most underbanked segments.
- **Donors** can continue to emphasize savings and technology, and support banks' balance sheet that are being stretched to reach underbanked markets.
- **Non-bank businesses** can help build agent networks or use their influence to encourage their large numbers of employees and suppliers to take advantage of formal financial services.
- **NGOs** can provide access to savings groups; nurture development of suitable, responsible products and services by offering insights into customer needs and behaviors; and work with governments towards better guidelines and regulations.



## Authors

### CARE

**Gerry Boyle**  
Senior Policy Adviser  
CARE International UK  
boyle@careinternational.org

### ACCENTURE

**Simon Whitehouse**  
Senior Managing Director  
Financial Services  
Accenture  
simon.whitehouse@accenture.com

**Finn Erik Kolnes**  
Senior Manager Accenture Strategy,  
ADP Financial Inclusion Lead  
finn.erik.kolnes@accenture.com

**Louise C. James**  
Managing Director  
Accenture Development Partnerships  
louise.c.james@accenture.com

---

## Acknowledgements

CARE and Accenture would like to thank all those bank executives who kindly gave up their time to support this research. We would also like to thank the following individuals who supported the research project and contributed to this report.

### CARE

#### UK

Alice Allan  
John Plastow  
Nicola Peckett  
Kathryn Richards  
Marco Bartholdy  
Teresa Hall  
Christine Svarer  
Grace Majara  
Lauren Hendricks  
Tim Bishop

#### Bangladesh

Jamie Terzi  
Saif M M Islam

#### India

R Devaprakash  
Senthil Kumar G

#### Zambia

Dennis O'Brien  
Mbeluko Phiri

#### Kenya

Bogdan Dumitru  
Phyllis Kariuki  
Silvester K'obare

Varcando Ltd.  
Alberto Didoni

#### Ghana

Christne Achieng  
Gifty Blekpe  
Noel Da'Cruz

#### Tanzania

Mwimbe Fikirini  
Joyce Kulwah  
Christian Pennotti

#### Uganda

John Perry  
Henry Mutabazi

#### Vietnam

Gerda Binder  
Nga Ha Thi Quynh

This report was produced with the support of the UK Department for International Development through the Programme Partnership Arrangement; however, the views expressed do not necessarily reflect the UK government's official policies.

### ACCENTURE

#### Accenture Development Partnerships

Miceal C. Canavan  
**Liz Cruickshank**  
ADP Africa Partnerships Services Lead  
e.cruickshank@accenture.com

Simon Martin  
Director, Value Creation Group  
Leapfrog Investments

#### Brazil

**Edson Dossi**  
edson.dossi@accenture.com  
Flaviano Faleiro

#### India

**Arun Vasan**  
Senior Manager  
Management Consulting, Banking  
arun.vasan@accenture.com

Shadab Ahmed

#### Indonesia

**Dianne Rajaratnam**  
Senior Manager  
Financial Inclusion Lead, Indonesia  
dianne.g.rajarithnam@accenture.com

#### Mexico

**Martin Folino**  
Managing Director  
Management Consulting, Financial Services—  
Mexico  
martin.j.folino@accenture.com  
Daniel Ladiano

#### South Africa/Nigeria

**Paul Gurney**  
Accenture Strategy, Director of Sustainability,  
Growth Markets  
paul.gurney@accenture.com  
Jolene Dawson  
Stephen Joannides  
Chetan A. Rana



## References

- 1 [http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP15a\\_web\\_full.pdf](http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP15a_web_full.pdf)
- 2 <http://insights.careinternational.org.uk/development-blog/private-sector-engagement/banking-the-missing-billions-is-within-reach>
- 3 World Bank's Global Findex Data, 2014, p.15, <http://datatopics.worldbank.org/financialinclusion/indv-characteristics/gender>
- 4 <http://af.reuters.com/article/topNews/idAFKCN0J21M920141118?pageNumber=2&virtualBrandChannel=0>
- 5 <http://blogs.worldbank.org/developmenttalk/youth-bulge-a-demographic-dividend-or-a-demographic-bomb-in-developing-countries>
- 6 <https://gsmaintelligence.com/research/?file=8d7e56071f00f28571cae54f7673181d&download>
- 7 GSMA, "Mobile Money for the Unbanked: State of the Industry: Results from the 2012 Global Mobile Money Adoption Survey," 2012
- 8 Theguardian.com, "Watch out M-Pesa, Equity Bank wants to transform mobile money in Kenya," October 2, 2014
- 9 [http://www.fsdkenya.org/pdf\\_documents/opportunities/14-03-13\\_Int\\_tech\\_assistance\\_payments\\_ad.pdf](http://www.fsdkenya.org/pdf_documents/opportunities/14-03-13_Int_tech_assistance_payments_ad.pdf)
- 10 CARE International, Barclays and Plan, "Banking on Change: The First 100," 2015
- 11 <http://www.fidelitybank.com.gh/products-services/financial-inclusion/strategic-partnerships/>
- 12 <http://www.home.barclays/content/dam/barclayspublic/docs/Citizenship/banking-on-change.pdf>
- 13 GSMA Mobile Economy Africa Report 2013
- 14 GSMA Mobile Economy Report for Latin America 2013
- 15 FSD Africa and Accenture Development Partnerships, "Seeking Sustainable Change in Africa's Financial Systems," June 2015

## About CARE International

Founded in 1945, CARE is a leading humanitarian and development organization fighting global poverty. CARE places special focus on working alongside poor girls and women because, equipped with the proper resources, they have the power to lift whole families and entire communities out of poverty. CARE works in over 80 countries and helps millions of the world's poorest people find routes out of poverty. Find out more at [www.careinternational.org.uk](http://www.careinternational.org.uk).

## About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 358,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$31.0 billion for the fiscal year ended Aug. 31, 2015. Its home page is [www.accenture.com](http://www.accenture.com).

## About Accenture Development Partnerships

Accenture Development Partnerships collaborates with organizations working in the international development sector to help deliver innovative solutions that change the way people work and live. Its award-winning business model enables Accenture's core capabilities—its best people and strategic business, technology and project management expertise—to be made available to clients in the international development sector on a not-for-profit basis.