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Electronic banking for the poor – how can it facilitate reaching poorer and/or more remote clients?

For the participants of the Savings & Credit Forum
and other interested persons

Dear colleagues,

The Savings & Credit Forum on 2.12.2005 discussed the opportunities and challenges the recent innovations in electronic banking technologies may offer to financial institutions in reducing their transaction costs and thus in facilitating their outreach to poorer and/or more remote clients. It discussed what preliminary lessons rural financial institutions and donors could draw from these technological innovations that will have a profound impact on the marketplace. The discussion was enriched by the case study of Safesave, an innovative savings and credit cooperative in Dhaka, that has introduced palm pilots (handheld computers) with technical assistance financed by SDC.

Mr. Hansruedi Pfeiffer (SDC) first welcomed the participants and then introduced the speakers: Mr. David Cracknell, just appointed Director of MicroSave's Africa Programme who has researched and written on, among others, electronic banking for the poor, and Ms. Kathy Bugada, a student of the Economics Faculty of Lugano University, who received a scholarship from SDC to study the introduction of palm pilots by Safesave.

Mr. Cracknell delivered a multifaceted introduction of the complex topic by touching on the changing marketplace, the customer value proposition, the business case, recent innovations and success factors. He pointed out that the costs of electronic banking technologies have dropped sharply during the 1990s which have resulted in reduced banking transaction costs and increased competition. This development started first in countries with higher labour costs (e.g. South Africa and Kenia within Sub-Saharan Africa), but is going to impact rapidly the financial sectors of poorer countries. We are at the beginning of a decisive market phase where increasing technology-driven competition will force all types of financial institutions (and gradually also niche players like rural financial institutions) to introduce selected electronic banking solutions.

Mr. Cracknell shortly explained the key technologies, like automated teller machine (ATM), personal digital assistants (PDAs), mobile phone banking, and their recent exponential application in South Africa and Kenia. He then discussed key features for the customer value proposition (i.e. ability to obtain cash, value added services, accessibility, money transfer and inexpensive services) and the accessibility, affordability and usability of selected technologies from the clients' viewpoint. He then turned to the business case by hightlighting the importance of partnership with the technology provider, the necessary cost control with the help of business models, the question of the distribution strategy and, last but not least, the drive for economies of scale.

Mr. Cracknell mentioned selected innovators, like Prodem in Bolivia and ICICI Bank in India that introduced ATMs and the rapid rise of mobile phone banking in South Africa. He mentioned that 8 million clients are connected via correspondence banking systems in Brasil compared to only 300.000 clients of all microfinance institutions. He stressed the enormous potential of mobile phone banking, but that considerable bottlenecks still remain. The question remains whether phone companies may mobilise the necessary development costs and agree on the sharing of networks. People in development countries are likely to adopt mobile phone banking or other

technologies faster than in the West (provided that a basic technology literacy is created) as no other options exist for them.

In his second presentation Mr. Cracknell elaborated on what lessons can be learnt by rural financial institutions and donors to harness the advantages of electronic banking technologies. Financial institutions need to have proper IT and internal control systems as well as reliable power supply in order to be capable to introduce successfully electronic banking technologies. They need to increase both their outreach and the range of services so as to reach a turnover that can amortise fast enough the investments in selected technologies. They may have to form new partnerships with card issuers and so forth.

The following lessons can be drawn by donors: Donors should only invest in risk capital by seeding new technologies as long as they remain a public good; i.e. open source technologies accessible for everybody. Therefore, the documentation and dissemination of lessons and bringing financial institutions together with other actors are important tasks for donors in facilitating the application of electronic banking technologies for the benefit of outreach expansion. They may also help in potential clients' education in financial and technological literacy. Furthermore, donors may assist in further developing the policy and legislative framework that is required to cope with such new technologies. As a good example, Mr. Cracknell mentioned the two on-going studies of DIFID on regulatory systems for electronic banking in South Africa and Kenya and possibly in another 22 countries.

After a common lunch Ms. Bugada presented her research findings on the introduction of palm pilots by Safesave in four new branches where the field staff carry out and record clients' transactions with palm pilots. Safesave offers savings and loan products during daily visits of the field staff to poor slum dwellers (mainly women) in Dhaka. All clients are served individually without any group pressure. The products are very flexible from the viewpoint of the clients; e.g. the clients can decide when to repay loans as long as they pay the monthly service fee and interest. Loans are disbursed within a day after the loan demand. Important is also that Safesave does not pressure its clients to take out loans.

Ms. Bugada explained her research methodology in making a cost-benefit-analysis of the four new branches that introduced palm pilots compared to the four older branches that operate manually without palm pilots. She focused on the time requirements, the confidence and the information reliability from the viewpoint of the clients and the staff differentiated by field staff, assistant branch managers and branch managers. The branches with palm pilots were rated better in regard to the latter two categories, but they also achieved a higher productivity in terms of total time requirements of all branch staff. Moreover, the palm pilots significantly improved internal control and loan monitoring leading to an improved loan portfolio quality.

Ms. Bugada concluded that the introduction of the palm pilots makes business sense in all aspects provided that the branches reach a business margin (mainly through increased outreach) that allows for the amortisation of the investment in the technology, its maintenance and ultimate updating. She pointed out that technologies may become quickly obsolete so that there is limited time for their amortisation.

Mr. Hans Ramm (Intercooperation) shortly summarised the key findings and conclusions of the workshop. He mentioned that the Advisors Group to the United Nations International Year of Microfinance made explicit references to the cost cutting potential of electronic technologies in its final statement on the 8th of November. Mr. Pfeifer then thanked the speakers and the participants for their valuable contributions. He pointed out that all powerpoint presentations can be downloaded from the website http://www.intercooperation.ch/finance/download/#pvsc.

On behalf of the Financial Sector Backstopping Team of SDC
Hans Ramm, Intercooperation