

Electronic banking for the poor



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Why electronic banking?

Change is being driven by falling costs of technology, by competition and by the ability of electronic banking solutions to offer customers an enhanced range of services at a very low cost.

There are a number of advanced technologies and tools that can be used to expedite e-Banking mechanisms and applications. Technologies used in electronic banking include, but are not limited to:

- **Personal Digital Assistants:** Used by microfinance programmes to automate record keeping.
- **Automatic Teller Machines and Point of Sale Devices:** Used in conjunction with Magnetic stripe or Smart cards.
- **Magnetic Stripe Cards:** Low cost cards operated through a magnetic stripe on the reverse of the card.
- **Smart Cards:** More expensive chip-based cards that can store information offline on the embedded chip.
- **Cell-phone banking:** Banking through cellular phones, either through menus or through SMS.

Whichever technical option is chosen the development of an electronic banking solution should consider the customer perspective – the customer value proposition; the institutional perspective – the business case; and the e-Banking environment.

Customer perspective – the value proposition

An electronic banking solution must

provide sufficient value to persuade the customer to move transactions away from cash. However, cash is an incredibly versatile medium of exchange. It is universally recognised as a store of value; and it is accessible, portable and divisible. So what drives value for the customer?

- **Features:** What needs does the e-Banking solution meet? What features encourage the user to maintain an electronic account in preference to cash? - For example, improved personal safety and the ability to transfer value from person to person.
- **Accessibility:** Limited distribution of transaction points strongly reduces the value proposition to the customer. Walking many kilometres to access

Electronic banking or e-Banking has the potential to extend low cost virtual bank accounts to a large number of currently un-banked individuals worldwide

services is inconvenient and costly. Saturation of an area with the service is preferable to a wider and thinner distribution.

- **Affordability:** Cash is inherently 'frictionless'. There is no charge that gets levied each time value is transferred. Given this, start up and

transactional costs need to be as low as possible for both the end user and the merchants these users frequent.

- **Ease of use – convenience:** The e-Banking solution needs to be simple to use, fast and user friendly.

Institutional perspective – the business case

From an institutional perspective, the electronic banking solution should increase profitability. This means careful consideration of functionality, business volumes, fees and charges, efficiency gains, development costs, partnerships, and distribution channels. The business case should consider:

- **Functionality:** The level of functionality that the institution wishes to develop, whether this should be narrowly or widely focused.
- **Building volume through segmentation:** By careful development of different business segments the financial institution is able to build transaction volume through the core e-Banking infrastructure.
- **Fees and charges:** Developing an appropriate revenue strategy is heavily influenced by the functionality offered, the segments served and the anticipated volume of transactions.
- **Efficiency gains:** The financial institution is able to handle substantially increased business transactions without corresponding investment in physical infrastructure.
- **Controlling development costs:** Costs must be controlled during the development phase to ensure positive returns on investment.
- **Partnerships:** Multiple business partnerships are essential in building a multi-functional e-Banking solution and in supporting the distribution network.

- **Distribution network:** The distribution network must meet customer requirements for accessibility, ease of access and widespread functionality, whilst meeting institutional cost requirements.
- **Developing multiple business cases:** Each partner involved in the solution must benefit, whether through reducing costs, increasing efficiency, increasing turnover, or through direct income.

The e-Banking environment

To develop an environment conducive to electronic banking, it is very important to see whether the regulatory and policy environment that includes appropriate banking regulations and communications, security, and information policies etc is supportive or not. The development and management of an electronic banking solution is far from easy. Risks during development and design must be carefully managed. These include:

- **Institutional capacity:** The financial institution will require new technical competencies in order to run the e-Banking solutions. New functions like risk management, call centres and relationship managers may be necessary. Existing functions such as treasury management, internal audit and marketing may need to be strengthened.
- **Managing development risk:** The development phase carries considerable risk that the solution will not be developed as anticipated or will run over cost.
- **Pilot testing:** Whilst pilot testing may demonstrate the product to the competition, it represents the final opportunity to make changes to the design and/or implementation of the product.
- **Research:** The pilot test phase provides an opportunity to research client acceptance of the product, to refine marketing and communications, to test the suitability of the distribution infrastructure and to test assumptions in the business case.

As the level of financial literacy determines the nature of the distribution channel and the nature of transactions made, it is also important to see that e-Banking develops in a financially literate environment.

Future of e-Banking

Future of e-Banking depends upon how the technologies and tools are used in the banking sector. For example, many e-Banking projects have developed or are developing in South Africa.

This is not the result of chance, but rather that the South African environment is particularly favourable for electronic banking. There are well-developed banking and retail sectors, a supportive central bank, good communications and a generally positive policy environment. □

References

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- Waterfield, Charles, 'Conference Summary – Virtual Conference on Electronic Banking for the Poor', *MicroSave (2004)*

ADB and Japan help Philippines to provide insurance to the poor

Japan and the Asian Development Bank (ADB) have provided a one million dollar grant to Philippines to establish access to insurance for millions of people, most of whom have no financial protection.



The Japan Fund, which will be managed by ADB, will provide the grant for Poverty Reduction. The grant will enhance the induction of implementation guidelines and standards for an insurance service that will not only cater to the needs of low-income people and their families but will also protect them against the risk of losing their main income earners to death, illness or injury at their place of work. Presently only 3.1 million poor people in the Philippines are insured. The Philippines Government has signed an agreement with ADB in this regard.

Corporation Bank - Biometric card for branchless banking

Corporation Bank's initiative, 'branchless banking model' makes use of biometric card based authentication devices at the select villages of four southern states in India. Through these cost effective ICT devices, the bank is providing basic banking services to the rural folks without incurring any extra cost associated with setting up of an Extension Counter, ATM or a Branch. The model developed by the bank to cover a large number of un-banked villages is making use of small 'Point Of Transaction' (POT) device indigenously developed ICT applications by two local vendors. The adoption of new technology facilitated basic identification of the customer based on the survey details, minimising procedural hassles like filling up of challans, cheques, etc. Automated voice guidance to the users in local language is also provided conveniently while depositing/withdrawing the cash. The process is made operational through the bank's Business Correspondent's at the villages. The Bank is also planning to introduce remittance products for the card holders and factor in Government payouts such as pension, NREGP payments, etc. through the card holder's account. The bank is also planning to commence a project to disburse group loans through the business correspondents to SHGs and additional services like Utility Payments, Mobile bill payments, etc., through this account.

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