GAFIS Focus Note

GAFIS Focus Note 5: Challenges of cost-effectively building customer understanding

Gateway Financial Innovations for Savings (GAFIS) was a special project of Rockefeller Philanthropy Advisors, funded by the Bill & Melinda Gates Foundation and managed by Bankable Frontier Associates (BFA), working with five leading banks: Standard Bank of South Africa, BANSEFI (Mexico), Bancolombia, Equity Bank (Kenya), and ICICI Bank (India).

The GAFIS project aimed to assist the banks to improve their propositions to offer relatively small balance savings accounts to low-income clients, where the products are useful to the client and viable for the financial institution.

While the actual uptake and activity levels of the GAFIS-supported products were consistent with expectations, qualitative findings among the GAFIS banks illustrate that the delivery of innovative savings products to low-income clients creates risk of sub-optimal understanding, which can affect the client experience, jeopardize the positive effect of the savings and also influence the long-term business proposition for the bank.

Reflecting on the experience of the GAFIS banks, this ***Focus Note 5 explores how banks, which are seeking to scale-up financially viable savings propositions, can address the issue of building customer understanding*** *of the core product features. We find a number of challenges arise here, namely,* ***as banks introduce alternative delivery channels (e.g., agents and mobile phones) to improve the viability of the overall product proposition (e.g., lower costs, improved customer convenience), these intermediaries introduce risk of miscommunication*** *or missed communication and, in turn, misunderstanding or missed understanding. Of course, these risks should not turn financial institutions away from introducing ADCs, but rather they need to be aware of the risks and design products and communications carefully in light of them. The Focus Note highlights these issues and potential pitfalls, and also sets forth some guidelines for actionable methods to enhance customer understanding.*

GAFIS products and experiences with customer understanding

Table 1 below outlines the key characteristics of each GAFIS-supported product. Each product represents at least some level of innovation for the respective banks, either in terms of product design, marketing or channel strategy. Some offerings had relatively simple product features but were delivered through new innovative channels (agents and/or mobile phones), which bring advantages but also challenges.

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Table 1: Overview of GAFIS products

Institution	BANSEFI	Equity Bank	Standard Bank	Bancolombia	ICICI Bank
Country	Mexico	Kenya	South Africa	Colombia	India
Description of bank	State-owned bank with government mandate to provide financial services to the poor	Retail bank focused on lower and middle income segments, and growing focus on SME	Each of these three banks is the flagship of its respective multi-segment commercial bank group, offering products and services to corporate, commercial, retail markets		
Product name	**Basic savings, linked to G2P**	**Jijenge & School Fees**	**AccessSave**	**Ahorro a la Mano**	**Apna**
Distinguishing features of GAFIS-supported savings products	Linked to G2P program (*Oportunidades*); card-based, must withdraw full subsidy payment but then may redeposit in this basic savings account	Two separate commitment, goal-oriented savings accounts with illiquidity features, one of them pays interest only if balance > $120	"7 day notice" savings account (must give such notice before make withdrawal); free deposits; tiered interest & "bonus" interest	Basic savings account on mobile phone platform that also offers P2P transfers and bill pay; health insurance incentive if balance > $175 USD	Basic savings account on mobile phone platform; village level deposit collection; 4% interest rate; only GAFIS product charging client to open
Primary origination method	Accounts opened automatically via G2P activation, providing information outsourced to G2P agency *Oportunidades*	Equity Bank branches only (i.e. not available at agents)	Branches and sales agents operating in communities	Self-service OTA (SIM menu), facilitated by agent or group sales agents	Loan officers of MFI (agent) at weekly group microfinance meetings
Geographic focus of Agents	Rural	Agents N/A for sales, but yes for servicing: Urban and Peri-urban, some rural	Urban and Peri-urban, some rural	Urban and Peri-urban, some rural	Rural
Agent network managers targeted	Large national network of government-subsidized food stores (DICONSA)	Organically developed by bank; often existing bank customer, w/ good location & robust business activity	Organically developed by bank (scaled w/ help of 3rd party aggregator); proper location with robust business activity	Organically developed by bank; proper location with robust business activity	Well established and trusted MFI (CASHPOR) with large customer base

Collectively, during the active GAFIS project life (2011-2013), the GAFIS banks opened more than 4 million new accounts in the GAFIS-supported products. However, only around 25% of them show real "savings" behavior in the account, and only a little over half of these (500,000, or 12% of the total opened) are by "poor" customers (i.e., "new poor savers").[1]

The GAFIS experience demonstrates some difficulties of designing and marketing products to low-income clients, especially when they are delivered through low-cost alternative channels outside the branch. Even though the GAFIS banks took precautions (described below where applicable) to help build customer understanding – each bank utilized differing strategies to communicate the savings product proposition to their customers – nonetheless, they experienced a variety of challenges with customer understanding of their products.

BANSEFI

In Mexico, recipients of the large government-to-person (G2P) program, *Oportunidades*, were required to open a BANSEFI account to receive their social welfare benefits from the Mexican government. While such bank-involved G2P programs appear to offer an effective and low-cost strategy for a bank to acquire large numbers of bank accounts (BANSEFI acquired millions of new customers this way), and perhaps an efficient way to distribute government transfer *payments*, GAFIS experience illustrates this does not automatically translate into actual *saving* behavior.

To deliver the *Oportunidades*-linked savings account, BANSEFI partnered with DICONSA, a government-subsidized network of community-owned stores. DICONSA was a large pre-existing network, which allowed BANSEFI to quickly gain a large national footprint. With the scale-up of this program, the distribution of this conditional cash transfer (CCT, a form of G2P) program has become a core business of BANSEFI. Where opening the account is required to receive a government benefit, a risk is that the account will be perceived merely as a payment conduit, and nothing else. In examining savings behavior of *Oportunidades* recipients, the vast majority exhibit a "dump and pull" pattern, whereby as soon as the G2P payment is received into the account, the account holder withdraws the entire account balance. This pattern of using *Oportunidades* primarily as a payment conduit is supported by the finding from a 2011 GAFIS survey of beneficiaries (all of whom had the linked savings account with BANSEFI), revealing that only 29% knew they had such savings functionality.

The structure of this G2P program was intended to promote transfers only (food subsidy), and failed to encourage savings behavior because it required beneficiaries to withdraw the full amount (technically, to fulfill the food subsidy policy), although they could elect to immediately re-deposit. The requirement to withdraw 100% of funds no doubt contributed to the high percentage of beneficiaries being unaware that they had a savings account at BANSEFI, and did not foster a savings culture amongst the rural recipients. Further, although the DICONSA stores were generally viewed positively by *Oportunidades* beneficiaries, BANSEFI's reliance on this network of stores as the bank agent may contribute to the disconnect between the savings product's features as a store of value, and the customer understanding of its purpose and uses, especially where the agent store may benefit more from expenditure of that money in the store than savings in the account.

[1] Refer to the GAFIS Project Report, at http://gafis.net/gafis-project-report, for more details.

In light of the low levels of awareness of the savings features of the BANSEFI accounts, marketing could have been improved to enhance at least awareness, and full understanding. Besides clear and repeated communication of product features, this could have included, for example, offering free balance inquiries, enabling the recipient test to the account and – in the process – build trust in BANSEFI.

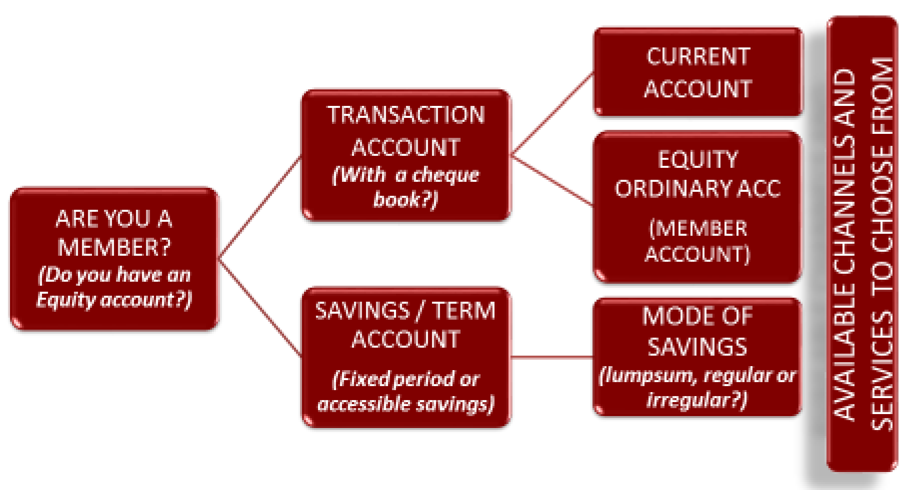
Equity Bank

With its roots as a Kenyan microfinance institution that later transformed into a leading retail bank with middle- and low-income focus, Equity Bank had a long history of understanding and deeply connecting with its customer base. However, Equity acknowledged at the outset of GAFIS that its rapid growth from 2005-2010 may have led them to lose some touch with their mass market base, and so with GAFIS support Equity wanted to intentionally build a customer research department to update understanding and re-develop the connections.

A core strategy for re-connecting was by launching a vast agent network, reducing costs and improving convenience. Although Equity invested heavily in its agent network to enable "cash-in, cash-out" transaction activity among all accounts (including *Jijenge* and School Fees), and to promote' openings of its Ordinary bank account, the Bank anticipated challenges of having agents effectively explain the *Jijenge* and School Fees account specifics at origination. Therefore, Equity made the strategic decision to originate these specialty *savings* accounts only by trained Equity staff in branches (i.e. not by agents). Equity believed this would lead to better educated clients and, in turn, would improve client retention.

Market research conducted by Equity led the bank to build a "client needs assessment" into the account origination process, illustrated below in Figure 1. An Equity staff member walks a prospective customer through a decision tree to understand what products and services are most appropriate based on the customer's unique profile and cash flow.

Figure 1: Equity Bank Customer needs assessment



Importantly, the needs assessment is not primarily intended to sell *more* Equity products, but rather to demonstrate to the customer how their financial needs could be met by the Bank, building trust in the process. Implementation of this additional step and getting staff buy-in took six months of training. These added steps actually temporarily cut account-opening productivity by around 50%. Nonetheless, the bank determined it to be an important initial entry point of establishing a solid relationship, built on not only awareness but understanding, between the customer and the bank. However, worth noting is that these specialty savings products (Jijenge, School Fees and a few other sin the suite) have not come close, even in aggregate, to the scale of the Ordinary account.

The underlying reason for the approach is that Equity management understands that they cannot assume the bank knows what the client needs; the resulting decision tree helps the client understand why a particular product or service is being offered to them, and how it can help them. However, despite the rigorous efforts to build customer understanding, the requirement to hold a minimum balance of US$ 120 to earn interest on the savings balance was not widely known. This suggests that although Equity was intentional about building both awareness and understanding of why a particular product was useful for a customer, the customer was not sufficiently informed about the full product details in terms of limitations and incentives. This can be easily remedied by adding a step in the decision tree process to thoroughly inform the client about the full product costs and benefits.

ICICI Bank

Similar to BANSEFI, ICICI partnered with an institution with a readymade network to distribute its *Apna* savings account product. CASHPOR, a NGO-MFI well-established in certain regions of India (Eastern Uttar Pradesh and Bihar), was contracted to serve as ICICI's network of agents and agent network manager.

Figure 2: ICICI's MFI agent network (CASHPOR) facilitates group meeting

CASHPOR staff was the interface for customers to open and transact on the *Apna* account, which meant limited direct engagement between ICICI and the account holders. CASHPOR was selected as the partner because it already served and understood a large low-income population in this region of India, and was trusted by its large customer base. Moreover, it already conducted weekly group lending meetings with this customer base (CASHPOR's core business), to which weekly deposit collections for the *Apna* account was added relatively easily and cost-effectively. Partnering with this MFI was successful in terms of opening more than 150,000 rural low-income accounts, and activating most of them by enabling regular deposits of any amount.

The CASHPOR-ICICI partnership enabled a potentially commercially viable approach for a large private-sector bank to offer useful savings facilities to poor rural Indians, which it could not do previously. The CASHPOR relationship brought down the cost of marketing and service delivery, costs which had made such markets previously unsustainable from for ICICI.

However, using an agent, even one like CASHPOR with a solid reputation and clear concern for the interests of the poor, heightens the risk that all product features, terms and conditions will not be completely or appropriately communicated.

The CASHPOR staff's incentives may not have been perfectly aligned with the Bank's, leading to a missed opportunity to build customer understanding. For example, GAFIS research indicates that many *Apna* clients were told by CASHPOR loan officers that they should open an *Apna* account in order to make repayments on CASHPOR loans, almost to the point of suggesting *Apna* was a *de facto* requirement of the loan, which is not accurate. For some, people opened accounts to ensure access to loans (and these reports are belied by the fact that not all group members opened accounts, so it was clear loans were available for those without deposit accounts).

Also, ICICI has found that many *Apna* customers were surprised to learn that the *Apna* product charged an annual fee of US$ 1 for unlimited deposit and withdrawal transactions, when they had instead understood that a one-time US$ 3 fee paid to originate the account would cover all fees; the $3 was actually a combination of $2 to originate and $1 for the first annual fee. This surprise led to hesitation (and in many cases refusal) to renew the account for another year, but most have still elected to maintain the account. Interesting to note is the apparent correlation between the $2 origination fee and the low dormancy of this account, suggesting that those who originated did so because they had a real practical use for the account, and did in fact use it.

The *Apna* account was based on using a mobile phone platform, on which all transactions would occur (cash deposits and withdrawals through the agent also using a mobile; and remittances). GAFIS research found that many clients struggle to effectively understand and make use of the mobile interface, often relying on the CASHPOR agent to process transactions and enter passwords that should remain known only to the customer (creating risks). Also, reliance on the mobile phone (and particular MNOs prevalent in the region) often led to inconvenience, frustration and alienation when the network was not available or when the basis of charging changed. This was not a challenge resulting from the use of agents, but rather from relying on another third party (the MNO) for key service delivery. This creates a gap between the bank and its customers and does not facilitate easy resolution of customer service disputes.

The experience with ICICI illustrates that *Apna* account holders were aware of the product and its core features (weekly savings with very small deposit levels available), but there was perhaps a missed opportunity to appropriately build full understanding. CASHPOR's weekly deposit collection activities, as part of the group microcredit meetings, were effective in providing an opportunity for *Apna* account holders to build understanding by simply watching and observing other customers interact with the agent.

Standard Bank of South Africa (SBSA)
At the end of 2010, Standard Bank restructured its strategy and operations to target the South African mass market, forming a new "Inclusive Banking" unit (branded as "Access Banking" to the public) to reach the lower income customer segment.

The Access Banking model included both a suite of products and a new approach to delivery. The product suite included a new savings account called AccessSave, as well as a transactional product and certain loan and insurance products, all aimed at this lower mass market segment. It was also built to rely heavily on a large network of agents, located in the communities where this segment lived and worked. Standard Bank created its own agent network, though it grew the network quickly by often relying on aggregators of *spaza* shops (small retailers). The Bank developed two distinct types of agents: individual sales agents dedicated to originating new accounts and small independent shops (branded "Access Points") to process transactions. While using community-based agents to open accounts allowed Standard Bank to reach into poorer peri-urban communities and to otherwise reduce the cost of opening accounts, an important issue emerged with respect to customer understanding when using agents to originate accounts.

Certain terms and conditions of the AccessSave account were not well understood by customers who opened accounts at agents. Specifically, the AccessSave account requires 7-day advance notice to withdraw, but many clients demonstrated lack of awareness of this important product condition. Some customers became confused and alienated when they were denied a withdrawal after arriving at a branch or ATM expecting to withdraw, because they had not provided the required 7 day advance notice. Furthermore, customers were not aware of the significant cost savings available by transacting (e.g., withdrawals) at an agent or proprietary ATM rather than at another bank's ATM or the branch, with free deposits at agents (not free at branches).

Important to note about these product features (7 day notice and channel-driven pricing) is that they were demand-driven design features, emerging from Standard Bank's significant *ex ante* market research within GAFIS. These important customer-centric benefits should help "sell" the account in the first place and encourage ongoing active usage. For instance, the 7-day notice period was designed to prevent impulse withdrawals and spending. If customers were fully aware of this feature, they might in fact deposit more as part of a broader financial management strategy. And the free deposits at agents would encourage more frequent deposits.

These potential positives turned negative as a result of sub-optimal agent-client communications.

In addition, many Access customers were confused (with negative effects on the Standard Bank brand) as a result of being unwittingly cross-sold funeral insurance, and their learning this only after the automatic deduction was shown on their transactional account. The funeral insurance product was an optional opt-in product cross-sold at the time of opening the Access savings (and/or transactional) account, but it appears many agents –incentivized to makes sales – pushed this cross-sale without clear disclosures around the future charges to customers. Once aware of it, Standard Bank quickly adjusted the sales process to stop this pattern.

Figure 3: Standard Bank's sales agents originating an account in a township

Standard Bank's experience also indicates the risk of sub-optimal understanding among customers who open accounts at agents. These experiences illustrate that, while customer awareness may be high for accounts originated at agents, full understanding of the product and its key features is often missed. In addition to aligning agent incentives, this phenomenon creates an opportunity for the issuing banks to build customer understanding through more rigorous agent training processes, but also for more direct communication between the bank and the customer, although balancing costs is obviously important with these two items.

Bancolombia

In 2012, Bancolombia established a dedicated financial inclusion unit reporting to the head of the retail bank, which managed – among other products – the new mobile phone-based savings account, *Ahorro a la Mano* (ALM). ALM featured over-the-air self-service account opening through a mobile phone. Customers could then deposit or withdraw cash via agents or ATMs (using their phone with the ATM, to generate a token rather than a card) or make payments through the mobile. Bancolombia's marketing was successful in at least two respects: (i) more than 150,000 new account holders opened an account remotely through the mobile phone menu; and (ii) cardless and branchless deposits and withdrawals became the top transaction activity, reducing costs and increasing convenience for these customers.

However, Bancolombia also encountered marketing difficulties in building awareness and understanding of a certain important feature of the ALM account. Account holders that maintained balances above the equivalent of US$ 175 were offered a free hospitalization insurance benefit, which was developed in response to *ex ante* market research indicating demand for this benefit (many had expressed concern that savings were often depleted to cover hospitalization costs). However, a small fraction of ALM account holders were actually aware of the benefit: a survey conducted in 2013 found that only 18% of ALM account holders were aware of the benefit, and only 3% were aware of the specific minimum balance requirements (only 6% of all opened accounts had balances at or above the $175 threshold). The hospitalization benefit was intended to encourage account balances to grow, and to provide a useful service by covering the cost of hospitalization for the account holder in the case of injury or childbirth, but the lack of awareness and understanding of this feature meant this incentive failed to work as planned.

It is unclear whether low awareness and understanding comes from the design itself or whether the communications deployed by Bancolombia were not as effective as they could have been to build awareness and understanding; or a bit of both.

- With respect to product design, perhaps the benefit threshold of US$ 175, which is much higher than most ALM balances, was set too high; or the benefit itself too narrow, available only for hospitalization due to injury or childbirth and then only in the month after meeting the balance threshold, perhaps leading customers to deem the benefit too out of reach to attain or too confusing to be worthwhile to focus on understanding.
- With regards to ineffective communications, which perhaps led to "missed understanding" (i.e., missed opportunities to build customer understanding), the explanations for such low awareness of the benefit likely stem from customers originating the ALM account remotely on a mobile interface (the hospitalization benefit is not prominently featured in the account activation process). While self-service over-the-air origination is ostensibly a customer convenience, such non-human interactions might have had an adverse effect on customers' ability to fully understand the ALM account. This again indicates the difficulty of achieving higher customer awareness when origination is not performed in person by informed bank staff.

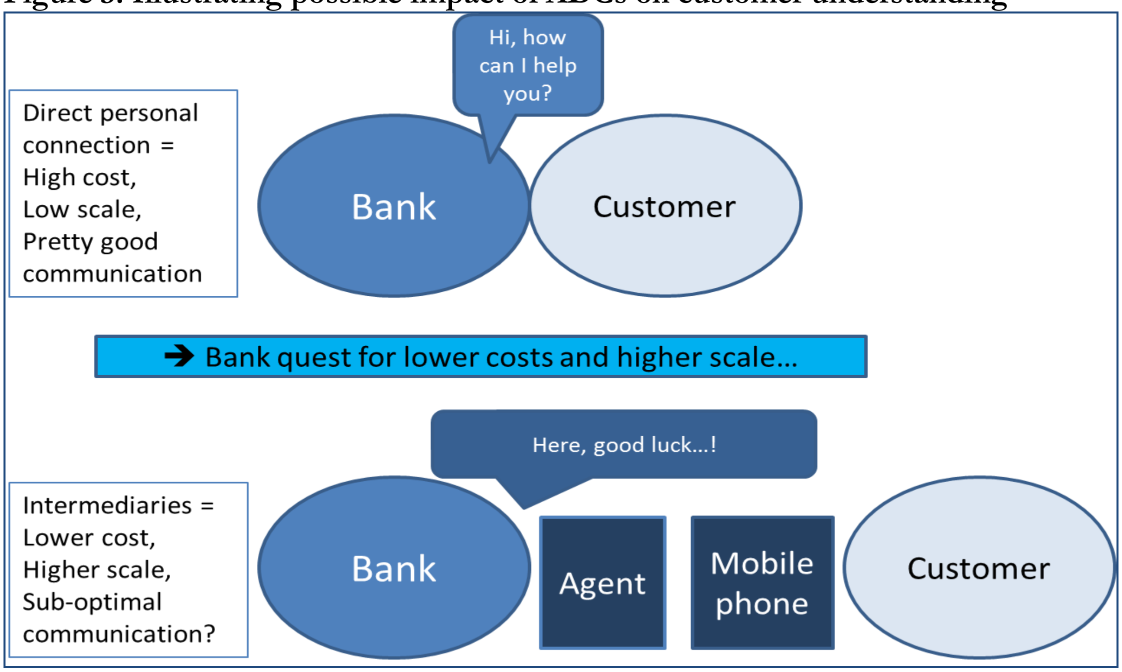
Despite this missed understanding, Bancolombia did utilize a two-way communications approach with some success, partnering with the SMS specialist *Juntos Finanzas*. When new ALM accounts were opened, the account holders' mobile-phone numbers were automatically linked to the account and, through *Juntos Finanzas*, Bancolombia was able to contact clients *after* the account was originated, with the purpose of asking the customer to define their savings goals and offering reminders of encouragement. In a subsequent phase, not directly covered by the GAFIS program, Bancolombia and *Juntos Finanzas* planned to test the effectiveness of SMS to increase at least awareness, if not full understanding, of the hospitalization benefit; early results indicate such SMS campaigns have a significant impact on awareness of this benefit (we do not have a full dataset here).

Key challenges to building customer understanding

We believe that reaching "understanding" requires a two-step process that begins with: (i) *awareness*, meaning that the customer is aware of the existence of a product and some of its features and; (ii) *understanding*, which we define as the customer being aware of, and comprehending, the full set of product features, benefits, costs, and, hopefully, how the product is beneficial to them.

Qualitative findings from the GAFIS banks' experiences illustrate challenges of building sufficient understanding of savings products into the origination, marketing and ongoing customer servicing processes. We explore below several general factors which contribute to "**missed understanding**", i.e., the missed opportunity to build customer understanding, a concept encompassing both "misunderstanding", in the sense of someone aware of a product feature but having the *wrong* understanding of it, and also where someone has a product but no awareness of a particular product feature and thus *no* understanding of (at least) that feature.

Figure 3: Illustrating possible impact of ADCs on customer understanding



During GAFIS, the GAFIS banks each moved towards developing a more intentional focus on low-income customers. This included extensive market research focused on this particular segment, as well as broader financial commitments to make the long-term business case for serving these segments work. As noted earlier, Equity established an internal customer research team; while two others (Standard Bank and Bancolombia) formed new bank units dedicated to the segment; and ICICI further entrenched its existing substantial dedicated unit, and each had renewed responsibility for contributing positively to the Banks' financial bottom line.

While these are important steps which signify the extent to which the GAFIS banks and other financial service providers have started to incorporate an understanding of the low-income segment – in addition to embracing the business case behind it – there is still a need for more. The GAFIS experience informs us that banks need to openly and expressly acknowledge the need for *awareness* and *understanding* to permeate product design, distribution strategy, and marketing and other communication strategies to support the uptake and ongoing effective usage of products. There is no simple formula to overcome all risks of missed understanding, but it is certainly important to acknowledge and be aware of this risk; and then continue to consider it at each step of developing not only the product features but also the overall proposition, including channel distribution and of course marketing and other communications.

Agent incentives impact extent & quality of information delivered to clients

Agents can and do play an important role in expanding access to formal savings services, through mass and more remote outreach, including account origination and deposit mobilization. Among the GAFIS banks, the quest for a low-cost, high-volume acquisition strategy led to the widespread embrace of agent networks. Clearly, banks' business case to serve low-income populations is much more attractive, at least from a cost perspective, when agents are used to originate and service the account. Indeed, it may represent the difference between a "go" and "no go" decision for serving lower income segments. For instance, for the GAFIS banks' GAFIS-supported products, using agents to originate accounts ranged from US$ 1 to US$ 6, whereas costs to originate accounts at the branch ranged from US$ 15 to US$ 25.[2] Other factors included the attractive economics of lower servicing costs in terms of processing cash deposits and withdrawals, a desire to decongest branches to heighten the customer experience and reserve branches for higher value-add activity, increase customer convenience, and – given these benefits – new regulations allowing agents to accept deposits.

However, the GAFIS experience also demonstrates that customers who open accounts at agents tend to be less aware of the features, terms and conditions of the savings product than those that open accounts with bank staff at full-service branches. Because of low-cost commission structures and other agent "distractions" (i.e., agents are busy running their primary businesses), agents are typically not incentivized (never mind monitored) to carefully explain account features to clients, and likely provide less complete information about products than staff in bank branches do; moreover, even if incentives were there, agent training does not match branch staff training. As a result, using agents heightens the risk that they will not be able to provide answers or to be thorough enough in their explanations.

Dormancy levels of agent-originated accounts tend to be relatively high compared with branch opened accounts (with ICICI's MFI (CASHPOR) partnership a notable exception). This dormancy reduces some of the business case benefits in terms of lower costs, since banks should really care about the effective cost to originate an *active* account, which increases with

[2] GAFIS Project Report, pg. 18.

higher dormancy levels, other things being equal. We are not certain why this higher dormancy persists, but it seems to support a hypothesis that agent-originated customers open accounts with a less-than-full understanding of the product features, e.g., may passively agree to the "sale" (especially if no charge to originate) without grasping the account's functional relevance. It seems important to ensure agents and new customers open an account for the right reasons, i.e., real practical usefulness for customer, not just some fleeting sales incentive.

This risk attached to agent-sold products is not necessarily surprising, as it is common with other "sold" products like insurance, where the incentives of agents are also based on opening accounts rather than clients using them. Nonetheless, the GAFIS experience with savings accounts adds further evidence about the need for care.

Recognizing the risk of misaligned incentives, several GAFIS banks modified the commission structure so the sales agent is incentivized to encourage account activity (helping ensure the client has adequate understanding to do so) before the bank will pay the agent its account origination commission. Here, the origination commission (at least in part) is not paid to the agent unless there is at least one (and up to three) transactions within the first 1-3 months.

IT can expand access & lower costs, but increases miscommunication risk

The GAFIS banks embraced innovative uses of information technology (IT) to expand outreach and drive usage among their target customers. However, the reliance on technology sometimes contributed to instances where the banks could have done more to build customer understanding, as the following examples illustrate:

- Technology can reduce the need for human interaction between the customer and the bank (or even its agent), such as Bancolombia's self-service account origination and cardless/branchless withdrawals . While over-the-air opening was largely successful, the experience with the hospitalization benefit illustrates how non-human interactions missed an opportunity to communicate all its product features and benefits to clients, and so this incentive to increase balances was underutilized.
- Furthermore, the reliance on MNOs for the mobile phone platform at the foundation of the ICICI savings account led to instances of customer inconvenience and frustration due to what were fundamentally mobile channel issues (e.g., poor connectivity or lost/broken SIM), which negatively influences the customer's relationship with ICICI, even though technically "not the bank's fault" or "out of the bank's control".
- At Standard Bank, the card technology used at agents (Access Points) was a cause of frustration for agents and customers alike, as initial versions were rolled out at scale – in a quest for first mover advantage and market share – before user-friendliness issues were fully worked out. This led to substantial early client alienation, which is hard to reverse. Especially among a client base that is new to such technology, first impressions are critical to building trust.

The benefits of using technology for delivering financial services can outweigh the drawbacks, but the risk of missed understanding when using technology – and the ensuing alienation – is an important issue to acknowledge and address. Financial institutions introducing technology as a fundamental part of the product or service delivery must take care to consider these issues of customer understanding. These are not reasons to curtail use of technology, but rather to be careful in considering the implications of doing so and implementing cost-effective support systems (e.g., clearer communications, more training, more aligned incentives for agents, and/or call centers to support agents and customers), to maximize the opportunities to build customer understanding.

Technology can also help improve banks' marketing: mobile banking opens doors for communication via SMS, although it is difficult to get this right.

Marketing alone does not build understanding

As the experience of Equity's "client needs assessment" tool illustrates, a customer-centric approach and corresponding marketing strategy requires a deep understanding of customer needs, preferences, and behaviors. This approach entails an understanding of how access to financial services can add value or solve a real-life challenge for low-income customers, and the challenge from the banks' perspective is how to effectively market the products and services to their customers.[3]

Taking the experience of Bancolombia as an example, the self-service feature of ALM was reasonably successful in terms of numbers of accounts opened (as noted above, more than 150,000 opened after around 18 months). A creative brochure and simple instruction booklet (see Figure 2 below, which is an image of the actual brochure, which features simple instructions inside the "phone" cover) and word-of-mouth marketing were effective for account opening; and a revised user-friendly ATM menu (featuring ALM on the opening screen) and agent training were also effective for promoting cardless/branchless transactions. ATM withdrawals were successfully enabled also in part because ATMs are often located directly outside Bancolombia branches, meaning that branch staff could introduce and assist a customer to the new way of using this ADC.

Figure 2: Bancolombia's ALM brochure with instructions

[3] CGAP Brief, *Customer-Centricity for Financial Inclusion*, Kilara and Rhyne, 2014

However, representatives from Bancolombia observed that the hospitalization benefit does require a more specialized marketing campaign to ensure full customer understanding of how to qualify, such as the minimum balance threshold. Furthermore, Bancolombia encountered the difficulties of successfully marketing products to rural populations: despite the fact that Bancolombia deployed teams of staff to assist certain rural ALM customers with account origination, transaction levels among rural populations were lower than targeted, although this is also due to the relative lack of rural "cash-out" points compared to the high number of urban locations.

High touch communications may enhance understanding

Information technology can play a significant role in improving activity and usage levels. For example, the successful introduction by Standard Bank's Access Banking of "Project Activate", which sends a choreographed series of SMS messages to new account holders during the 100 days following account opening, cut inactive ratios by around a third year-on-year. These text messages explained practical product benefits and how to activate them.

Similarly, in opening Bancolombia's ALM product, account holders' mobile-phone numbers were automatically linked to the account (as is the case with Standard Bank's Access accounts and ICICI's *Apna* accounts). This opened up the possibility to use text messages to regularly communicate with customers, and not merely in a passive (one-way) approach. Bancolombia – working with SMS specialist *Juntos Finanzas* – stimulated two-way communications between the bank and the customer to build trust, develop and understand savings goals, and then gently provide encouragements to save.

Figure 4: *Juntos Finanzas* sample text message communication

Additionally, text message reminders about upcoming loan repayments or encouragements to make deposits were used by Bancolombia and Equity Bank. Incentive schemes can also benefit from such low-cost communications such as rewarding clients with a free balance inquiry by SMS after making a predetermined number of deposits in a period. ABSA Bank in South Africa, a competitor of Standard Bank, took the use of technology one step further in an experimental program inviting customers to play a game via their cell phones in which customers earned prizes for checking their balance by phone rather than branch.[4]

Where a financial service provider is trying to encourage usage of a new alternative delivery channel (ADC), which may be unfamiliar to the customers, having a bank staff member physically demonstrate to customers how to use an ATM, an agent or the mobile phone builds the customers' financial capability in a trusted environment. This handholding also helps transfer trust from the branch (a trusted channel) to the new channels (where trust is not automatic). While this personal touch certainly entails an investment by the bank (branch staff time), it should soon lead to cost savings as more clients conduct their financial transactions through lower cost ADCs. For ATMs, this was done many years ago (pre-dating GAFIS), but those lessons are now relevant for the introduction of agent and/or mobile channels, especially where branch decongestion is a core motivation for agent rollout; and this has been done to some extent, but more energy here could translate into better customer understanding and appreciation of these newer ADCs. It also develops deeper ties and appreciation between the agent network and the branch, which Equity Bank has done well.

Post-origination "high-touch, low cost" communication strategies, such as described above, can improve customer understanding and, in turn, activity and usage levels.

An emerging idea to be tested

We hereby put forth an idea for consideration, which we think has the potential to help banks improve customer understanding in two ways. The idea is to use two-way SMS communications to test new customer understanding of product features, i.e., as part of the new account registration process, the bank sends the customer a short series of SMS messages, each requiring an active reply from the customer, which replies would indicate understanding (or lack thereof). If this were done at the time of origination, it would both confirm a certain level of customer understanding (or lack thereof) and establish customer comfort with this technology and communication method, setting the stage for using SMS for ongoing marketing and communications. If the customer "passes" the test, the registration goes forward and the account is opened; if the customer "fails" the test, the registration is redirected to some immediate targeted remedial education process, ideally ending in a successful re-test and registration.

As previously noted, a key challenge to building understanding is the inherent difficulty of measuring or quantifying the level of customer understanding. Merely "ticking the box" or "signing on the dotted line" during account origination does not accomplish understanding and

[4] Kilara and Rhyne, CGAP Brief, June 2014

perhaps not even awareness. The SMS test would measure functional understanding.[5] Of course, there are challenges, such as: (a) it assumes customer literacy and comfort with mobile/SMS and (b) it is susceptible to "rigging" because the agent/staff could simply "teach to the test" or even take the test on behalf of the customers. Nonetheless, we think it holds promise.

Conclusion

We have seen that, as banks deploy ADCs as a cost-effective means to scale-up savings propositions for the poor, it is a challenge to ensure clients gain sufficient understanding to optimize the product's usefulness to the client. Placing ADCs between the bank and its customers can drive down cost and increase scale and outreach, but can negatively affect clear communication of product features and conditions. And while the GAFIS experience highlights the need for caution, it reveals no panacea. This Focus Note flags the risks and offers several suggestions for proceeding more prudently, including:

- Strive to ensure the parties opening new accounts (client and sales agent) are doing so for the right reasons, i.e., product relevance and usefulness, so they are both **incentivized to want to achieve good understanding from the outset**. This means agent incentives tied to effective usage, not just account opening.
- Carefully **design all customer communications and processes, especially those where ADCs create new distance between client and bank, with an eye for building or preserving client understanding**. The focus on ADCs heightens the need for this hygiene factor, but often distracts attention away from it.
- Creatively **deploy IT in interactive ways that build client understanding**. An example is 2-way SMS to engage clients, which can educate clients, inform banks if understanding is achieved, and even improve banks' understanding of clients.

[5] A quasi-microfinance initiative called *Patrimonio Hoy*, implemented by Mexican cement company CEMEX, required new clients to take and pass a short written test to ensure they adequately understood at least the main terms and conditions of the deal structure. We don't have data on the impact of this, but the context and general reference to it is available in the following case study: Segel, A., Chu, M., and Herrero, G., *Patrimonio Hoy*, Harvard Business School, No. 9-805-064, revised: July 18, 2006.