Is the financial sector meeting the needs of Mexicans?
Implications for financial inclusion

February 2019
FI in Mexico
Great strides, but is it delivering impact?

ENIF 2012–2018:

68% (14.6 million more) have at least one financial product

47% (12.3 million more) have an account

But cash continues to dominate payments

Is FI delivering welfare impacts?
Success in achieving financial inclusion targets

Questions around the impact of financial inclusion
Does the financial sector meet consumers’ finneeds?

i2i Finneeds framework: A closer look at how people live their financial lives by considering what use cases they express, how they meet these use cases and how they actually engage with different financial services
Everyone expresses financial **use cases**, pursued through **financial devices**

- **Child is sick**
  - **Cash**
  - **Medical insurance**
  - **Relatives**
  - **Loan**
Financial needs framework

Need: A collection of use cases that can be fulfilled by financial services

- **Transfer of value**: Send money or digital value from one person to another
- **Meeting goals**: Achieve life objectives or obligations that require funding across income cycles
- **Liquidity**: The need to meet expenses in each income cycle
- **Resilience**: The ability to deal with unexpected shocks that have a financial impact
About the Mexico study

Sample

<table>
<thead>
<tr>
<th>Sample</th>
<th>1,154 adults representative of Puebla state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fieldwork</td>
<td>Fieldwork completed in December 2017</td>
</tr>
</tbody>
</table>

Booster sample

<table>
<thead>
<tr>
<th>Booster sample</th>
<th>400 individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fieldwork</td>
<td>Fieldwork completed in July 2018</td>
</tr>
</tbody>
</table>
Key findings

FI is not yet doing enough to build financial health and social equity

Unmet needs highlight large market opportunities…

… and create distinct policy and market imperatives.
1. How do people meet their financial needs?
2. A closer look at usage
3. Why do these findings matter?
Which financial devices do people use?

### Formal financial devices

- **37%**

### Informal financial devices

- **99%**

#### Top three devices used

- **Money transfer from account**: 18%
- **Money in account**: 12%
- **Money transfer service**: 10%

- **Cash**: 99%
- **Money set aside at home**: 41%
- **Assistance from friends and family**: 32%

*Source: Puebla field survey*
Formal financial sector not meeting needs

- **Transfer of value**: 29%
- **Liquidity**: 8%
- **Resilience**: 10%
- **Meeting goals**: 15%

- % of adults who use **at least one formal** fin service to meet their needs
- % of adults who use **only informal** fin devices to meet their needs

Source: Puebla field survey
How do people receive and make payments?
Income receipts:
Some inroads being made in wages and remittances

Source: Puebla field survey
Payments:
Cash dominating, with the exception of remittances

Source: Puebla field survey
Most remittances still have a cash link

- Regular: 44% Cash, 25% Transfer from account, 10% Money transfer service, 11% Card
- Daily expenses: 100% Cash
- Domestic salaries: 100% Cash
- Remittances: 44% Cash, 25% Transfer from account, 10% Money transfer service, 11% Card
- Income Received: 21% Transfer from account, 25% Money transfer service, 21% Card, 23% Cash
Cash remains the primary mechanism to transfer value, even for those with a bank account.

% of adults that use cash for regular expenses:
- Banked: 70%
- Non-banked: 85%

% of adults that use cash for daily expenses:
- Banked: 80%
- Non-banked: 87%

Source: Puebla field survey
### Digital receipts as a predictor of digital payments?

<table>
<thead>
<tr>
<th>Receiving payments</th>
<th>Account ownership</th>
<th>Making payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least one income source received into an account</td>
<td>Have an account</td>
<td>Account used to make a digital payment</td>
</tr>
<tr>
<td><strong>Do NOT receive income into an account</strong></td>
<td><strong>30</strong></td>
<td><strong>6</strong></td>
</tr>
<tr>
<td>594</td>
<td>564</td>
<td>24</td>
</tr>
<tr>
<td><strong>Receive income into an account</strong></td>
<td>185</td>
<td>78</td>
</tr>
<tr>
<td>185</td>
<td>185</td>
<td>107</td>
</tr>
<tr>
<td><strong>Do not earn any income</strong></td>
<td>374</td>
<td>17</td>
</tr>
<tr>
<td>374</td>
<td>357</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Puebla field survey
Transfer of value
What does this tell us?

- A notable proportion of population have digital accounts.
- *Digital growth points:*
  - Income receipts
  - Remittances
- However, most use cases are still met largely via cash.
- Even for digital, there remains a cash link.
- *Future growth points?*
  - Instant payments that mimic cash
How do people manage liquidity?
Most respond to liquidity stress by turning to their community or family.
Very little reliance on formal savings or credit

Source: Puebla field survey
Liquidity: What does this tell us?

- Distress makes people turn to social circle and cash at home:
  - Ease of access
  - Flexibility
- This is a call to action for the financial sector
  - How can formal features mimic assistance/cash at home to change consumer incentives towards formal?
How do people cope with risks?
Many experienced a risk event in the past 12 months

- Big sickness or health problem: 27%
- Natural disaster: 16%
- Loss of income: 14%
- Death in family: 13%
- Theft/damage: 12%
- Big accident: 7%
- Other: 1%

Source: Puebla field survey
...but take a long time to recover (if ever)

% of those who experienced a risk more than three months ago:

- 63% have not recovered
- 17% took longer than 3 months to recover
- 20% recovered within 3 months

Source: Puebla field survey
... despite reliance on informal devices

Source: Puebla field survey
Resilience: What does this tell us?

- Informal coping strategies not able to secure resilience
- Welfare imperative for larger formal financial sector role
How do people meet goals?
Education, paying off debts and buying house/land are the most expressed personal goals

Source: Puebla field survey
Again: Reliance mostly on community or family and friends to meet this need

- Assistance from family and friends: 15%
- Used credit: 11% (Formal 5%, Informal 5%, Social 10%)
- Used savings: 35% (Formal 6%, Informal 14%, Social 14%, Personal 35%)

Source: Puebla field survey
Meeting goals

What does this tell us?

• Formal sector already playing large role in some use cases
  - ENIF 2018 shows pensions emerging as anchor alongside other devices for retirement use case

• What will it take to extend the use cases for which the formal financial sector is the anchor?
  - Education
  - Home/land ownership
1. How do people meet their financial needs?
2. A closer look at usage
3. Why do these findings matter?
What are consumers telling us about their usage behaviour?
Savings usage behaviour

<table>
<thead>
<tr>
<th>% of sample</th>
<th>Median deposit</th>
<th>Frequency of deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal account</td>
<td>14% MXN 1000</td>
<td>Daily: 14%  Weekly: 32%  Two weeks: 32%  Monthly: 0%  Less often: 0%</td>
</tr>
<tr>
<td>Savings at home</td>
<td>39% MXN 300</td>
<td>Daily: 33%  Weekly: 21%  Two weeks: 12%  Monthly: 14%  Less often: 0%</td>
</tr>
<tr>
<td>Savings in group</td>
<td>12% MXN 200</td>
<td>Daily: 70%  Weekly: 4%  Two weeks: 0%  Monthly: 0%  Less often: 0%</td>
</tr>
</tbody>
</table>

Source: Puebla field survey
Credit usage behaviour

- Borrowing from Family & Friends: 31% adults with loan, 15% roll over loans
- Popular Service Provider: 6% adults with loan, 4% roll over loans
- Money Lender: 5% adults with loan, 2% roll over loans
- Bank Loan: 6% adults with loan, 2% roll over loans
- Store Credit: 5% adults with loan, 2% roll over loans

Source: Puebla field survey
What does transaction data tell us about usage?
Overview: Retail bank data

- Credit card
  - 77,697 IDs
  - 5.7m Trxn
  - Account age
  - Product type
  - Amount transacted
  - Transaction channel
  - Date of transaction
  - Monthly balance
  - Merchant code
  - Credit limit
  - Months in arrears
  - Required instalment

- Debit card
  - 357,572 IDs
  - 27.8m Trxn
  - Account age
  - Product type
  - Amount transacted
  - Transaction channel
  - Date of transaction
  - Monthly balance
  - Merchant code

- Deposit transfers
  - 201,298 IDs
  - 7.98m Trxn
  - Account age
  - Product type
  - Amount transacted
  - Transaction channel
  - Date of transaction
  - Monthly balance

- Insurance
  - 97,880 IDs
  - 1.27m Trxn
  - Account age
  - Insurance type
  - Insured amount
  - Premium
  - Term (start and end)

- Loans
  - 62,937 IDs
  - 706k Trxn
  - Account age
  - Loan type
  - Loan amount
  - Advance payment
  - Status (arrears)
  - Date last paid
  - Amount last paid
  - Term (start and end)

Demographic Information

- Age
- Gender
- Marital status
- Income
- Education
- Years associated
Comparing debit and credit card users by frequency of use

Frequency: Number of transactions conducted per active month
(Unique customers from data sample)

- **Debit card**
  - Weekly: 78%
  - Monthly: 18%
  - Dormant: 1%

- **Credit card**
  - Weekly: 31%
  - Monthly: 49%
  - Dormant: 14%
  - Infrequent: 7%

Source: Retail bank transactional data
Comparing debit and credit card users by payment channel used

Debit card usage

- 60% ATM and Practicaja
- 35% TPV
- 5% Online

Credit card usage

- 87% ATM and Practicaja
- 13% TPV

Source: Retail bank transactional data
What determines higher usage?

Usage Modelling Framework

Usage =  

**Recency**  
- Measure by: Days since last transaction

**Frequency**  
- Measure by: Average number of transactions

**Monetary Value**  
- Measure by: Average amount transacted

**Duration**  
- Measure by: Age of account

Process

1. Cap and floor variables*
2. Standardise variables
3. Assign quintiles to IDs based on standardised variables
4. Create composite score by adding quintiles
5. Create quintiles for aggregate score

*drop observations below first percentile and above 99th percentile
Modelling usage

Basic analysis process

**Basic regression**

\[ \text{outcome} = \alpha_1 + \beta_{1-n} [\text{demo}_1 + \ldots + \text{demo}_n] + \rho_{1-m} [\text{account}_1 + \ldots + \text{account}_m] + \epsilon \]

**Logistic Regression**

\[ \text{outcome} = \begin{cases} 1 & \alpha_1 + \beta_{1,n} [\text{demo}_1 + \ldots + \text{demo}_n] + \rho_{1-m} [\text{account}_1 + \ldots + \text{account}_m] + \epsilon > 0 \\ 0 & \text{else} \end{cases} \]

**Ordered logit**

\[ y = \begin{cases} 0 & y^* < y_1 \\ 1 & y_1 < y^* < y_2 \\ 2 & y_2 < y^* < y_3 \\ \vdots & \vdots \\ N & y_N < y^* \end{cases} \]

**Nested Models**

Model 1: \[ \text{outcome} = \alpha_1 + \beta_1 \text{demo}_1 + \epsilon \]

Model 2: \[ \text{outcome} = \alpha_1 + \beta_1 \text{demo}_1 + \beta_2 \text{demo}_2 + \epsilon \]

Model 3: \[ \text{outcome} = \alpha_1 + \beta_{1-n} [\text{demo}_1 + \ldots + \text{demo}_n] + \epsilon \]

Model 4: \[ \text{outcome} = \alpha_1 + \beta_{1-n} [\text{demo}_1 + \ldots + \text{demo}_n] + \rho_2 \text{account}_2 + \epsilon \]

Model 5: \[ \text{outcome} = \alpha_1 + \beta_{1-n} [\text{demo}_1 + \ldots + \text{demo}_n] + \rho_2 \text{account}_1 + \rho_2 \text{account}_2 + \epsilon \]

Model 6: \[ \text{outcome} = \alpha_1 + \beta_{1-n} [\text{demo}_1 + \ldots + \text{demo}_n] + \rho_{1-m} [\text{account}_1 + \ldots + \text{account}_m] + \epsilon \]
## Modelling usage

### Results

**Ordered Logistic Regression**

| Explanatory variable | Debit Usage | $P>|z|$ | Credit Usage | $P>|z|$ | Statistics |
|----------------------|-------------|--------|--------------|--------|------------|
| gender (male)        | 1.05        | 0.000  | 0.98         | 0.121  |            |
| age                  | 0.97        | 0.000  | 0.99         | 0.000  |            |
| In a relationship    | 1.4         | 0.000  | 0.93         | 0.000  |            |
| Income (base = Low)  |             |        |              |        |            |
| Medium Low           | 4.8         | 0.000  | 0.6          | 0.000  |            |
| Medium High          | 9.4         | 0.000  | 1.4          | 0.000  |            |
| High                 | 12          | 0.000  | 2.9          | 0.000  |            |
| Very High            | 13.1        | 0.000  | 8.4          | 0.000  |            |
| Education (base = None) |         |        |              |        |            |
| Junior High School   | 1.36        | 0.001  | 0.55         | 0.004  |            |
| High School          | 1.86        | 0.000  | 0.74         | 0.137  |            |
| Tertiary             | 2.34        | 0.000  | 1.3          | 0.199  |            |

**Number of Observations**

- 354,692 ; 77,278
- $LR \chi^2 (16)$
- 168,683 ; 175,513
- $Probability > \chi^2$
- 0.000 ; 0.000
- $Psuedo R$-squared
- 0.1490 ; 0.0714
Modelling usage
What determines usage?

- **Income** is the most important driver of usage.
- **Education** is strongly associated with higher usage.
- Being in a **relationship** is strongly associated with higher usage scores.
- Gender and age have small, statistically significant effects.
But it is about more than just income and demographics

When asked why they choose their particular device mix, the following picture emerges from the Puebla survey:

- People tend to use **formal services** more for the **functional benefit** (value and cost).
- Tend to use **informal/social** for **relational benefits** (trust and sense of belonging).
- All socioeconomic classes skew towards relational, except for AB who emphasise functional benefits.
# Segmenting customers by usage intensity

## Method
K-means Clustering

## Data
Debit card transactions

## Variables
1. Average number of transactions
2. Average amount transacted
3. Gender
4. Age
5. Income
6. Education
Six clusters of users

- **Digital Elite**: 7% of users, average number of monthly transactions: 37, average amount transacted: 17%.
- **Aspirational youth**: 37% of users, average number of monthly transactions: 17.
- **Getting by**: 17% of users, average number of monthly transactions: 17.
- **Yuppies**: 17% of users, average number of monthly transactions: 17, average amount transacted: 8%.
- **Professionals**: 8% of users, average number of monthly transactions: 17.
- **Middle of the pack**: 14% of users, average number of monthly transactions: 17.

Source: Retail bank transactional data.
## Overview of usage cluster profiles

<table>
<thead>
<tr>
<th>Cluster</th>
<th>% of sample</th>
<th>Male</th>
<th>Female</th>
<th>Income</th>
<th>Married*</th>
<th>Education</th>
<th>Median age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting by</td>
<td>17%</td>
<td>42%</td>
<td>58%</td>
<td>Low</td>
<td>37%</td>
<td>Poor</td>
<td>42</td>
</tr>
<tr>
<td>Aspirational youth</td>
<td>37%</td>
<td>53%</td>
<td>47%</td>
<td>Very Low</td>
<td>35%</td>
<td>Poor</td>
<td>32</td>
</tr>
<tr>
<td>Middle of the pack</td>
<td>14%</td>
<td>56%</td>
<td>44%</td>
<td>Medium</td>
<td>58%</td>
<td>Decent</td>
<td>50</td>
</tr>
<tr>
<td>Digital Elite</td>
<td>7%</td>
<td>39%</td>
<td>61%</td>
<td>High</td>
<td>47%</td>
<td>Excellent</td>
<td>41</td>
</tr>
<tr>
<td>Professionals</td>
<td>8%</td>
<td>30%</td>
<td>70%</td>
<td>Very high</td>
<td>54%</td>
<td>Good</td>
<td>43</td>
</tr>
<tr>
<td>Yuppies</td>
<td>17%</td>
<td>57%</td>
<td>43%</td>
<td>Very high</td>
<td>55%</td>
<td>Good</td>
<td>36</td>
</tr>
</tbody>
</table>

- Male and Female percentages represent the gender distribution within each cluster.
- Income categories: Low, Very Low, Medium, High, Very high.
- Married* includes individuals who are married or living together/in a relationship.
- Education categories: Poor, Decent, Excellent, Good.
- Median age values for each cluster.

Source: Retail bank transactional data

*or living together/in a relationship
What insights do we get from combining the transaction and demand-side picture?
Merged data set summary statistics

- Final sample size: 400
- Matches in bank dataset:

Cautionary notes:
- Smaller sample size limits granularity
- Inherent sampling bias towards higher income and more “established” clients
- Demand-side data underreports formal usage relative to the objective stats in the transaction data

Source: Merged dataset
Understanding formal usage in context
Usage Cluster Profile 1: Getting by

**Getting by**

17% of customers fall into this segment

Transactions per month 15
Average value per transaction MXN 736
Median monthly spend MXN 8,466

**Transaction types used**

<table>
<thead>
<tr>
<th>Type</th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>POS</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>ONLINE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATM</td>
<td>76%</td>
<td></td>
</tr>
</tbody>
</table>

**Consumer needs**

<table>
<thead>
<tr>
<th>Need</th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receive income</td>
<td>69%</td>
<td>45%</td>
</tr>
<tr>
<td>Make payments</td>
<td>60%</td>
<td>98%</td>
</tr>
<tr>
<td>Balance expenses (Liquidity)</td>
<td>11%</td>
<td>92%</td>
</tr>
<tr>
<td>Manage risks (Resilience)</td>
<td>10%</td>
<td>54%</td>
</tr>
<tr>
<td>Meet goals</td>
<td>27%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Source: Merged dataset
Understanding formal usage in context
Usage Cluster Profile 2: Aspirational youth

Aspirational youth

37% of customers fall into this segment

Transactions per month: 13
Average value per transaction: MXN 766
Median monthly spend: MXN 8,596

Transaction types used

<table>
<thead>
<tr>
<th>Channel</th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>POS</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>ONLINE</td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>ATM</td>
<td>66%</td>
<td></td>
</tr>
</tbody>
</table>

Dominant channel: ATM

Consumer needs

<table>
<thead>
<tr>
<th></th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receive income</td>
<td>60%</td>
<td>45%</td>
</tr>
<tr>
<td>Make payments</td>
<td>57%</td>
<td>96%</td>
</tr>
<tr>
<td>Balance expenses</td>
<td>15%</td>
<td>97%</td>
</tr>
<tr>
<td>Manage risks</td>
<td>13%</td>
<td>47%</td>
</tr>
<tr>
<td>Meet goals</td>
<td>34%</td>
<td>72%</td>
</tr>
</tbody>
</table>

Source: Merged dataset
Middle of the pack

14% of customers fall into this segment

Transactions per month: 11
Average value per transaction: MXN 2,247
Median monthly spend: MXN 22,160

Consumer needs

<table>
<thead>
<tr>
<th></th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receive income</td>
<td>59%</td>
<td>37%</td>
</tr>
<tr>
<td>Make payments</td>
<td>49%</td>
<td>100%</td>
</tr>
<tr>
<td>Balance expenses</td>
<td>50%</td>
<td>65%</td>
</tr>
<tr>
<td>Manage risks</td>
<td>19%</td>
<td>35%</td>
</tr>
<tr>
<td>Meet goals</td>
<td>38%</td>
<td>62%</td>
</tr>
</tbody>
</table>

Transaction types used

<table>
<thead>
<tr>
<th></th>
<th>POS</th>
<th>ONLINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM</td>
<td>39%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Merged dataset
Understanding formal usage in context

Usage Cluster Profile 4: Digital Elite

**Digital Elite**

7% of customers fall into this segment

<table>
<thead>
<tr>
<th>Transaction types used</th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>POS</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>ONLINE</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>ATM</td>
<td>38%</td>
<td></td>
</tr>
</tbody>
</table>

Transactions per month: 33
Average value per transaction: MXN 821
Median monthly spend: MXN 23,427

**Consumer needs**

<table>
<thead>
<tr>
<th></th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receive income</td>
<td>88%</td>
<td>46%</td>
</tr>
<tr>
<td>Make payments</td>
<td>92%</td>
<td>92%</td>
</tr>
<tr>
<td>Balance expenses (Liquidity)</td>
<td>73%</td>
<td>53%</td>
</tr>
<tr>
<td>Manage risks (Resilience)</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>Meet goals</td>
<td>60%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Merged dataset
Understanding formal usage in context
Usage Cluster Profile 5: Professionals

**Professionals**

8% of customers fall into this segment

<table>
<thead>
<tr>
<th>Transaction type</th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions per month</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Average value per transaction</td>
<td>MXN 1,712</td>
<td></td>
</tr>
<tr>
<td>Median monthly spend</td>
<td>MXN 17,508</td>
<td></td>
</tr>
</tbody>
</table>

**Consumer needs**

<table>
<thead>
<tr>
<th>Consumer needs</th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receive income</td>
<td>58%</td>
<td>38%</td>
</tr>
<tr>
<td>Make payments</td>
<td>67%</td>
<td>100%</td>
</tr>
<tr>
<td>Balance expenses (Liquidity)</td>
<td>23%</td>
<td>77%</td>
</tr>
<tr>
<td>Manage risks (Resilience)</td>
<td>10%</td>
<td>40%</td>
</tr>
<tr>
<td>Meet goals</td>
<td>38%</td>
<td>46%</td>
</tr>
</tbody>
</table>

**Transaction types used**

<table>
<thead>
<tr>
<th>Channel</th>
<th>Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM</td>
<td>74%</td>
</tr>
<tr>
<td>POS</td>
<td>19%</td>
</tr>
<tr>
<td>ONLINE</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Merged dataset
### Understanding formal usage in context

#### Usage Cluster Profile 6: Yuppies

**Yuppies**

17% of customers fall into this segment

- Transactions per month: 19
- Average value per transaction: MXN 1,162
- Median monthly spend: MXN 19,250

#### Consumer needs

<table>
<thead>
<tr>
<th></th>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receive income</td>
<td>71%</td>
<td>49%</td>
</tr>
<tr>
<td>Make payments</td>
<td>74%</td>
<td>91%</td>
</tr>
<tr>
<td>Balance expenses</td>
<td>30%</td>
<td>87%</td>
</tr>
<tr>
<td>Manage risks</td>
<td>22%</td>
<td>31%</td>
</tr>
<tr>
<td>Meet goals</td>
<td>54%</td>
<td>46%</td>
</tr>
</tbody>
</table>

#### Transaction types used

<table>
<thead>
<tr>
<th>Channel</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>POS</td>
<td>17%</td>
</tr>
<tr>
<td>ONLINE</td>
<td>1%</td>
</tr>
<tr>
<td>ATM</td>
<td>68%</td>
</tr>
</tbody>
</table>

Source: Merged dataset
Agenda

1. How do people meet their financial needs?
2. A closer look at usage
3. Why do these findings matter?
Key findings

FI is not yet doing enough to build financial health and social equity

Unmet needs highlight large market opportunities…

… and create distinct policy and market imperatives.
Falling short of its policy purpose

• Customer portfolio choice systematically biased against formal sector
  - Across socio-economic classes and finneeds
  - Growth points: pensions, remittances, income receipts

• Formal sector limited contribution to building welfare
  - 37% ran out of money more than one month the past year.
  - 63% who experienced a shock more than three months ago had not yet recovered.
  - A more formal portfolio does not really make a difference.
  - But neither do informal/social devices ensure resilience.

• A mismatch between needs and market offering
  - The social/informal preference is not due to low literacy or awareness.
  - Informal is preferred for relational aspects and cash for convenience.
Substantial market opportunities

% of each “need market” still to be tapped:

- **Transfer of Value**: 71%
- **Liquidity**: 92%
- **Resilience**: 90%
- **Meeting goals**: 85%

**Digital must compete with cash on ubiquity, convenience, cost**

- *Existing growth points*: income receipts, remittances, card
- *Future*: instant payments

**Large opportunity if consumer incentives can change towards formal**

**Informal cannot fully protect**, so opportunity for formal:
- Use case-earmarked savings and loans
- Tangible, bundled insurance benefits

**ENIF shows pensions as anchor for retirement use case**

- Opportunity for the same to happen for other key use cases
- E.g. use case-earmarked savings and loans
Policy and market imperatives

Focus financial inclusion on outcomes, rather than reach by fixing failures and leveraging successes of financial sector from a finneeds perspective

Importance for:
- Welfare
- Business opportunity
- Digitisation
Policy and market imperatives

1. Change incentives for dealing with liquidity distress
   - Formal services must provide the ease of access and flexibility of informal and social alternatives

2. Build resilience via formal financial sector
   - Holistic policy perspective on how to help people recover from financial shocks and build resilience: via insurance, but also credit, savings and social security

3. Extend the goal use cases for which financial sector is the anchor
   - Explore scope for savings vehicles earmarked for education savings and land/property ownership

4. Make digital payments cash-competitive
   - Frame digitisation path taking cash use cases as starting point
     Instant payments for *ubiquity*, *convenience*, *cost* (CoDi)
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