‘Homefield advantage’

Learning from the popularity of local financial services providers

MAP GLOBAL INSIGHTS SERIES:
NOTE 3 | **2016**

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MAKING ACCESS POSSIBLE

About the Making Access Possible Programme

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based analysis feeding into a financial inclusion roadmap jointly implemented by a range of local stakeholders.

MAP was initiated by the United Nations Capital Development Fund (UNCDF) and is implemented in partnership with FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri). In each country, MAP brings together a broad range of stakeholders from within government, the private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country.

About UNCDF

UNCDF is the UN's capital investment agency for the world's 48 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest; where market failures are most pronounced; and where benefits from national growth tend to leave people excluded.

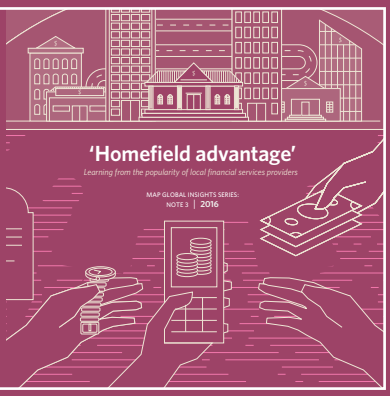
UNCDF's financing models work through two channels: savings-led financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localised investments – through fiscal decentralization, innovative municipal finance, and structured project finance – can drive public and private funding that underpins local economic expansion and sustainable development. UNCDF financing models are applied in thematic areas where addressing barriers to finance at the local level can have a transformational effect for poor and excluded people and communities.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty with a focus on reaching the last mile and addressing exclusion and inequalities of access. At the same time, UNCDF deploys its capital finance mandate in line with SDG 17 on the means of implementation, to unlock public and private finance for the poor at the local level. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile, UNCDF contributes to a number of different SDGs and currently to 28 of 169 targets.

About the cover

The cover for Note 3 depicts 'local versus remote' in financial services provision. It sets up a visual contrast between the solid, somewhat monolithic-looking 'presence' of remote financial services and their often nimbler, less daunting-looking and more responsive local counterparts.

The cover hints at issues of accessibility/proximity, convenience, variety, simplicity and responsiveness, which start to explain the widespread appeal of local financial services and the high value that consumers place in them.



The MAP Global Insights series

The MAP Global Insights series attempts to consolidate and synthesise the learnings from MAP across the MAP pilot countries. The first of the MAP Global Insights products comprises five thematic cross-country notes, based on the initial round of findings from the country diagnostic studies, which have been conducted in Thailand, Myanmar, Swaziland, Mozambique, Lesotho and Malawi.

NOTE 3 looks at the role of local financial services compared to remote financial services, and the implications for providers, policymakers and donors in terms of learning from, replicating or leveraging the value offered by these existing services.

The other notes in the MAP Global Insights series are as follows:

NOTE 1 unpacks the target market segmentation approach that is central to the MAP methodology of putting the client at the core of the analysis. Note 1 provides a window into the emerging cross-country segments, and the implications for donors, policymakers and providers in this regard.

NOTE 2 explores the shift in financial inclusion measurement away from focusing solely on access to more closely match the realities of how adults live their financial lives. It introduces a new measurement framework, which includes gauging depth of usage in financial inclusion, and explores the policy implications of moving away from a linear, one-dimensional view of financial inclusion.

NOTE 4 considers the cross-country evidence on the gap between access and usage of transactional bank accounts, and why the majority are not used. It concludes with arguing the need for a paradigm shift in the focus of financial inclusion, away from cost and scale to value.

NOTE 5 describes the different experiences of mobile money across the six MAP pilot countries, and discusses some of the key drivers of these differences, specifically in terms of the relationship between mobile money and cash infrastructure. It concludes with a discussion of the possible implications for policymakers and regulators with regard to the changing financial services environment.

Acknowledgements

Authors: Hennie Bester, Christine Hougaard, Jeremy Gray and David Saunders. *The authors of this note would like to thank those who reviewed the document and provided invaluable comments:* Henri Dommel (UNCDF), Hanadi Tutunji (UNCDF), Kameshnee Naidoo (UNCDF), Nomathemba Mhlanga (UNCDF), Samuel Choritz and Anthony Githiari (UNCDF), as well as Joanna Ledgerwood (Financial Sector Deepening Zambia).

Introduction

In the six countries where MAP was piloted, informal financial services persist despite an explicit push both globally and within the MAP countries to migrate consumers towards formal financial services. While it is increasingly acknowledged that informal services often offer benefits that formal services do not (such as accepting informal means of collateral like gold or jewellery, or providing more flexible terms), the persistence of informality is still commonly attributed to people having little to no alternative. Yet, as this note shows, there is increasing evidence that consumers rely on informal services even when they have access to formal alternatives. Why, despite the best efforts to increase usage of formal financial services, is this the case?

This note shows that the widespread use of informal financial services has less to do with the fact that they are informal than with the value that clients derive from the *local nature* of such services.

Financial services provided, operated and governed at the local level is not a new phenomenon. For centuries communities have pooled capital for investment, consumption and risk mitigation. For example:

- In 1778 the first (modern-day) savings bank in Germany was founded in Hamburg.[1] The bank was set up to develop financial solutions for people with low incomes, allowing them to save small sums of money and supporting business start-ups.

- In the United Kingdom, the first savings bank[2] was established in the late 18th century. The bank was set up specifically to encourage and assist locals with meagre incomes to save.

- In the US, the first savings bank[3] was founded in Philadelphia in 1816. It was created by 12 local Philadelphians to serve the financial needs of the local community.

- More recently, Shinkin banks[4] were created in Japan in 1951 as cooperative financial institutions to serve the needs of small and medium-sized enterprises and local residents.

These examples are from developed countries. Evidence from the first six MAP pilot countries (Thailand, Myanmar, Swaziland, Mozambique, Lesotho and Malawi) reveals that local financial services are equally prevalent in developing countries, where they also often happen to be *informal*.

The categorising of retail financial services as either formal or informal is conventionally determined by the legal status of the service provider. The World Bank defines formal financial services as 'those offered by institutions authorized (or licensed) to offer financial services and may or may not be actively supervised' (Demirguc-Kunt & Klapper 2012: 3). Institutions that are not licensed to offer financial services are thus, irrespective of their supervisory status, considered informal. Coupled with this has been the assumption that only the use of formal products constitutes financial inclusion (GPFI 2011). The upshot has been a focus, in financial inclusion policy and initiatives, on formalising the informal (IAIS 2012).

This note explores the prevalence – and persistence over time – of locally delivered financial services across the six MAP pilot countries. It creates a new distinction in financial services – *local versus remote* – to enhance our understanding of why consumers ultimately prefer to use local financial services.

The note also argues for a paradigm shift on the part of providers, policymakers and donors – away from a sole focus on the supply environment and market potential, to an approach that more clearly prioritises customers, and that bases its financial modelling and its operational strategy on customer behaviour and choices. In the process, providers, policymakers and donors could start to take advantage of some of the clear strengths associated with local provision, as further discussed in this note.

1. Ersparungscasse der Hamburgischen Allgemeinen Versorgungsanstalt (Beck et al. 2009; Bülbül, Schmidt & Schüwer 2013).
2. Trustee Savings Bank (WSBI & ESBG 2015).
3. Philadelphia Savings Fund Society.
4. Mori No Miyako Shinkin Bank (2015).

Defining local and remote financial services

This note applies the following definitions of local and remote financial services:

- **Local financial services** are those in which both the client touchpoint (the interface by means of which the client is able to interact with the financial services provided) and the provider decision-making are close to the client.

  If the touchpoint is located in proximity to the environment in which the client normally moves for his or her other activities, it can be considered local, even if it is not within walking distance.

- **Remote financial services** are those in which the touchpoint or the provider decision-making – or both – are not in proximity to the client.

  A client touchpoint is considered remote if it requires the client to move to a place that is not part of his or her normal movements and will therefore have a financial implication. Remote providers include providers such as banks or mobile money providers. While some of these providers may have a touchpoint close to the customer, such as through an ATM, agent or branch, the decision to provide the service takes place remotely, usually at a centralised head office or processing centre, and key operating decisions are implemented from a central authority.

Box 1: What kinds of decisions do providers typically need to make?

How the provider decides whether or not to take on a customer differs between local and remote financial services and is therefore a key distinguishing feature. Decisions on the part of the provider include whether to take on a particular client, renegotiating the terms, and settling disputes.

When a relationship is local, the provider often directly knows the person and his or her community - and whether, for example, the person should be able to repay a loan. Where the potential customer is not personally known to the provider and 'information asymmetries' thus come into play, these are on a small scale because the provider would typically rely on recommendations or references by a known person or trusted community institution.

local providers know their customers in their local context and are familiar with clients' economic circumstances

Where such local knowledge is not present, however, the provider needs to implement a set of policies and procedures to determine whether – and on what terms – to enter into a relationship with a prospective client. This decision-making process consists of at least the following three components:

- **Is the provider prepared to offer the financial service to the client?** The willingness to take on the risk of providing financial services is determined by the provider's knowledge of the customer. In order to attempt to overcome information asymmetries, remote providers need to rely on documentation such as identity documents and proof of income and employment to determine client identity and risk. The need to apply these tools means that good clients may be excluded.

By contrast, local providers know their customers in their local context and are familiar with clients' economic circumstances.

- **How is the service renegotiated?** The willingness and ability of providers to renegotiate services when circumstances change, such as in times of financial trouble, varies between remote and local providers. Faced with information asymmetries, remote providers have less flexibility to renegotiate when, and how frequently, credit repayments or insurance premium payments are made.

  Where there is local knowledge and decisions are made locally, more flexibility is possible.

- **How are complaints settled?** Remote account providers typically settle complaints through a specific department separate from the rest of the institution and governed by strict protocols. The majority of these departments are accessed through call centres or electronically, thereby removing face-to-face interaction.

  By contrast, clients of local service providers seek recourse directly, almost always face to face, from those individuals that administered their financial product.

Decision-making considered local if all of these components are conducted in proximity to client. Proximity in this case is not simply geographical proximity but also the ability of the client to directly access and engage with the decision-maker. For example, accounts at a bank are typically governed by policies and procedures established at a corporate headquarters. Even if the client is geographically close to the bank's decision-makers, he or she is not able to engage with them, or such engagement will not change the outcome – which makes the decision remote. By contrast, members of savings and loan groups, for example, make the decisions among themselves. Thus loan clients have direct access to the decision-maker/s and can negotiate the terms of services.

Uncovering the underlying drivers of usage. The convention of defining providers in terms of formality has obscured some of the underlying drivers of financial services usage. In the first instance, it has obscured the *client's perspective*. As this note discusses, the client's usage decision in any instance is not based on formality or informality. Rather, it is based on considerations related to the value that the financial service represents for the client in response to his or her particular needs, and the control that consumers feel that they have over the decision-making process with regard to their money.

The perceived value of a financial service is conditioned by two key customer considerations, among others, namely: how close/convenient the service is in terms of access; and how the provider manages to overcome any information asymmetries in order to be able to grant the consumer access to the service.

Note 3 uses evidence from MAP to show that where both these parameters are local, there is much higher usage than when one or both of these are remote.

Different types of local. Across the six MAP pilot countries, a range of localised providers are present, as outlined in Table 1.

Interestingly, the types of services do not differ widely from country to country or, in some cases, region to region. Usually, these services are also offered by remote providers, yet the local services have flourished. Typically they are adapted for local conditions.

Often but not always collective. The examples of local provision found in MAP are often member-based or collective in nature. However, this is not always the case, and thus the individual or collective nature of the provider is not one of the defining characteristics of local versus remote.

Type of institution *(listed alphabetically)*	Product classes	Description
Burial societies	Insurance	*Burial societies are an insurance or risk-pooling mechanism where members pool their funds to contribute towards the cost of the funeral of a family member. They are commonly found in the Southern African MAP countries.*
Bus/taxi drivers	Payments	*Taxis, buses or trucks are used in Southern Africa to make payments over a distance, such as cross-border or domestic remittances, by physically transporting cash.*
Cooperatives	Savings and credit	*Cooperatives are organisations that are jointly run by their members and offer savings and credit services as a way to support the overall purpose of the cooperative, such as to support farming activities. Cooperatives play a prominent role especially in the Asian MAP countries (Myanmar and Thailand).*
Funeral parlours	Insurance	*Funeral cover is provided by funeral parlours or undertakers, mainly through the provision of funeral services. These services are popular in the Southern African MAP countries.*
Moneylenders	Credit	*Moneylenders are typically individuals who lend out their own money from savings and/or take out a loan from a formal institution and on-lend. Moneylenders are common at community level, with each country adopting its own term for such lenders, from* shylocks *in Swaziland, to* katapilas *in Malawi,* agiotas *in Mozambique and* machonisas *in Lesotho.*
Payment brokers	Payments	*Payment brokers are a network of citizens offering payment services to clients for personal and business needs by leveraging their existing business to move money around. These are most commonly found in the Asian MAP countries and are known as* Hundis.
Retailers	Credit	*Small, local un-networked retailers sometimes provide credit to customers. This is often in the form of providing goods or services in advance of payment.*
Savings and credit cooperatives (SACCOs)	Savings and credit	*SACCOs are usually formally regulated institutions, though still local. As with savings and loan groups, SACCOs pool members' savings and then lend these out to members.*
Savings groups	Savings	*Savings groups operate by taking monthly savings contributions from all the members and disbursing all these contributions to one member each month. Savings groups are common at community level, with each country adopting its own term for such groups, such as* xitiques *in Mozambique or* Sajjas *in Thailand.*
Savings and loan groups	Savings and credit	*Savings and loan groups pool members' savings, from regular contributions, and then lend these out to members and non-members. Most commonly encountered in Malawi, they are referred to as village savings and loan associations (VSLAs).*

Table 1: Overview of the types of local providers present across the six MAP pilot countries
Sources: various MAP country studies

The Royal Government of Thailand introduced village funds as a way to leverage the culture of local decision-making institutionalised in informal savings groups (Sajjas) to reticulate credit into rural communities.

Box 2: Leveraging local structures for national gain – the cases of Thailand and Myanmar

Village funds in Thailand. The Royal Government of Thailand introduced village funds as a way to leverage the culture of local decision-making institutionalised in informal savings groups (*Sajjas*) to reticulate credit into rural communities. The initiative provided one million Thai Baht (THB) to each of Thailand's approximately 80,000 villages. Village funds have since become the single largest providers of loans, with approximately 7.4 million adult clients, the majority (77%) of whom earn less than THB12,000 per month. Furthermore, 83% of all borrowing takes place in the rural north and northeast regions (MAP Thailand 2013).

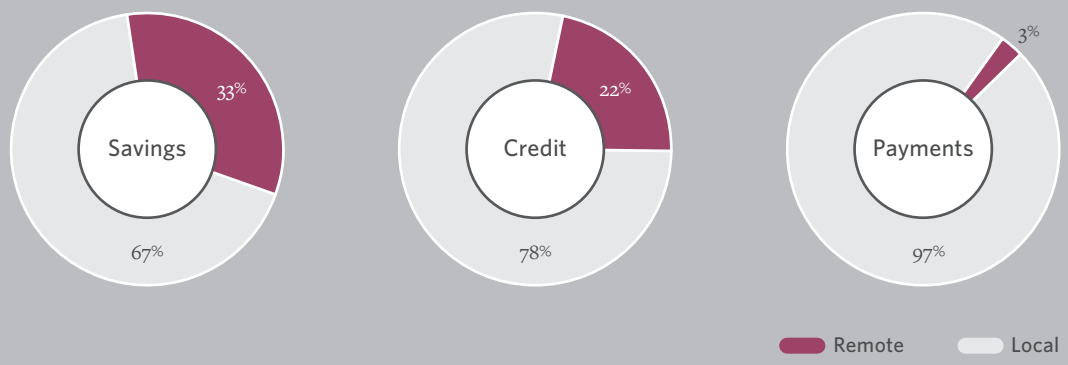
Cooperatives in Myanmar. Similar to the case of Thailand, the Government of Myanmar negotiated to receive US$600 million from China over a three-year period, starting in 2014, for provision of credit in rural areas. The financing is to be disbursed through the Ministry of Cooperatives via the Central Cooperative Society, which aims to establish one cooperative in every village (totalling 60,000). This represents a massive expansion of credit provision to rural areas (MAP Myanmar 2013).

Leveraged for public policy purposes. These local providers are sometimes developed externally by the state, as is the case with Myanmar's cooperatives, or by donor organisations, such as CARE in Malawi. But even if externally introduced, they are all adopted by and adapted within communities to meet the specific needs of that community, and decision-making is local. In certain instances the government or donors have enacted deliberate policies to leverage these local structures to extend financial services to certain segments of the population. The result has been that the decision-making culture of these local providers is formalised.

What are we finding? Use of local services prevalent and persistent

This section draws on findings from FinScope Consumer Surveys in the six MAP pilot countries to highlight the extent of takeup of local financial services. FinScope does not differentiate between local and remote providers, but between formal and informal. Thus, the FinScope analysis in this note uses 'informal' as a proxy for local, and 'formal' as a proxy for remote. This was consistent with the findings in these countries that most local financial services are informal and most remote services are formal, with a few exceptions.

To allow us to accurately compare the prevalence of use of local financial services to their remote counterparts, we need a metric that tracks the number of interactions that consumers have with the financial services provider over a given period. The ideal metric to track this would be the number of transactions recorded over a period of time through local providers versus the same through remote providers. The available data fails to capture the frequency of these transactions, however. Therefore, the comparison that is used in this note and represented in Figure 1 shows the relative usage of local and remote financial instruments within each product market (savings, credit, payments). The calculation for the relative usage of financial instruments is described in detail in Box 3.



Top 5 savings instruments used	
Save at home	27%
Commercial bank account	18%
Savings group	14%
Non-bank financial institution accounts	13%
In-kind/assets	13%

Top 5 credit instruments used	
Family & friends	33%
Non-bank financial institution loan	20%
Retail shop	12%
Informal moneylender	13%
Savings club	11%

Top 5 payments instruments used	
Cash	94%
Purchase on credit	2%
Labour	2%
Barter	1%
Formal payments (e.g. cards)	0%

Figure 1: Savings, credit, payments – proportion of local vs remote financial instruments across the MAP countries
Source: various FinScope surveys

Box 3: Figure 1 explained

Figure 1 splits the total uptake of financial instruments across the six MAP pilot countries between local and remote. In this context, by 'financial instrument' is meant any means that a client uses to meet his or her financial needs. For example, in terms of this definition, payment services from a bank, savings in an informal savings groups or loans from family or friends are all considered financial instruments, as is the use of cash to make a purchase. Clients might use more than one financial instrument. For example, a person may have a bank account and be a member of an informal savings group. This would constitute two financial instruments.

- **With regard to the savings and credit instruments:** the FinScope survey asks respondents, 'Which savings and/or credit product do you have?' and offers respondents 15–20 options of different instruments. The question is a multiple-response one and the answer therefore provides the total number of instruments used by the respondent. This figure classifies each of these options as either local or remote and shows the relative proportion of uptake of each. This provides a comparison of the *total number of instruments used* rather than the number of adults using at least one instrument of each category. To construct the cross-country figure, the proportions calculated for each country are averaged.

- **With regard to the payments instruments:** these are calculated based on the FinScope question asking, 'How do you pay for food?' Food is the most frequent payment for most adults in the MAP countries and so constitutes a high proportion of an adults' volume of payments. (When using the other payment question, 'How do you pay for clothing?', the survey produces the same result.) From the options offered to respondents, paid 'by using cash' and 'by exchanging goods (or labour) for this' are classified as local, with all other payment instruments – including paid on credit, by cheque, and by debit or credit or other card classified as remote. (Mobile money as a payment instrument has not yet been captured in the FinScope surveys, but would represent remote services as defined.) Again, these findings are then averaged across the six MAP countries.

Local much more prevalent. Figure 1 shows that the use of local financial instruments is much more prevalent than the use of remote instruments: two-thirds of savings instrument used are local, as is 78% of credit. In terms of payments, MAP finds that 97% of payment instruments for frequent transactions are local, as formal financial services are used as a proxy for remote financial services and informal as a proxy for local. Despite showing a great deal of support for local financial instruments, Figure 1 in fact underestimates the use of local financial services because SACCOs (savings and credit cooperatives) are classified as formal institutions in Swaziland, Malawi and Lesotho but are local in nature. Consumers in the six MAP pilot countries primarily meet their financial needs through local services.

Local usage persists even for those with remote services. Even when people use remote services, many continue to use local services to meet at least some of their financial needs. Figure 2 shows the percentage of the adult population in each country that uses local and remote products, which highlights a large overlap across the six MAP countries for consumers using both local and remote services.

The overlap suggests that users of local services are not doing so because they have no other option, but rather due to the relative value derived from these products.

For example:

- In Mozambique, salaried workers have much higher uptake of financial services than the average Mozambican, and almost two-thirds of salaried workers are banked. Yet 26% still use informal savings clubs, *xitiques*, in order to save. This is the highest *xitique* penetration of all the target groups (MAP Mozambique 2014).
- In Lesotho, 70% of those who use a remote financial service report using a locally delivered service as well. This is largely driven by the popularity of local burial societies (MAP Lesotho 2011).
- In Myanmar, 4.6 million people, constituting 42% of adults using remote financial products, use financial services from both local and remote providers (MAP Myanmar 2013).

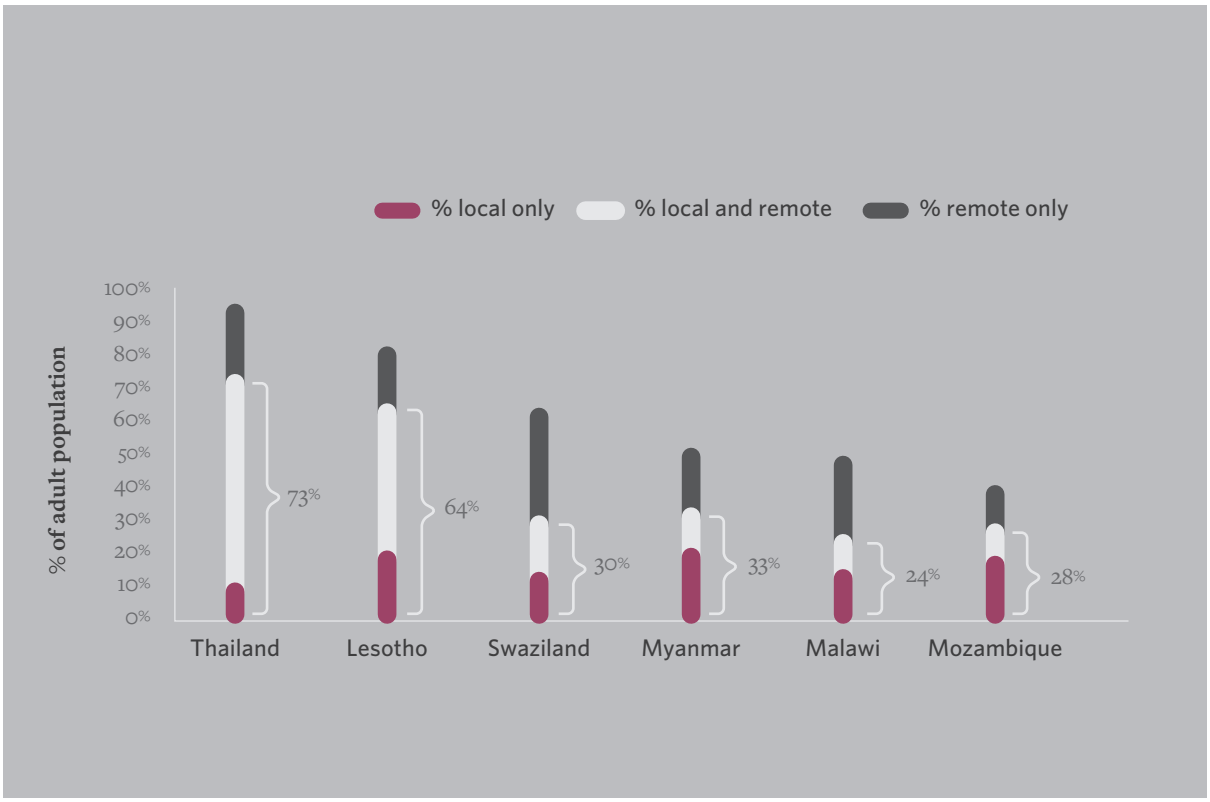


Figure 2: Overlaps in usage of local and remote financial services
Source: various FinScope surveys

The value of local?

No other choice, or a deliberate decision? Clearly, some people use local services by default, simply because they do not have access to remote services. Local provision circumvents the barriers to accessing financial services created by documentation or eligibility requirements in the formal sector (such requirements being introduced by regulation or the need to overcome information asymmetries or prevent fraud). By the same token, when people know one another, they can leverage social structures and networks to overcome information asymmetries and ensure that informal contracts are adhered to. Furthermore, no regulatory compliance requirements apply to informal services, with the result that there are few if any eligibility barriers.

'Informal lenders should be thanked for giving loans when you are in difficulties. If they do not give loans we cannot get from other sources.'

(Myanmar, female, aged 31–50)

However, what is also emerging from the evidence from the six MAP pilot countries is that people continue to use local services even where they have access to remote services. What particular value do such local services provide, and what consumer needs are they meeting that remote providers cannot or do not?

A complex set of decision factors. In making their usage decisions, consumers take a number of factors into account, including preference, trust and convenience. The decision to use local financial services goes beyond simply cost considerations to the overall value proposition in comparison to remote services.

Seven reasons to go local. MAP identifies seven main reasons why consumers find greater value in the use of local financial services:

1. Convenience. Access to financial services at times and in ways that suit clients' schedules is an important component of the value that they derive from the services. Formal providers' opening hours are frequently restrictive for economically active adults. Proximity, which includes both the cost and time required to access the product, is another valuable feature of local provision. The longer it takes to reach and use providers' services, due to proximity, length of queues and efficiency of service, the greater the opportunity cost for consumers and the lower the value derived. The immediacy of services is a further component of convenience. A major attraction of local provision is that such services offer immediate availability of funds when they are needed most. Figure 3 shows that the cost of travelling to access bank infrastructure in Malawi, for example, is estimated to be more than seven times the direct bank fees for the account (bank fees including monthly account fees, and a fee for depositing into or withdrawing from a savings account). By contrast, given that VSLAs are located in the members' village, access to these services is immediate and entails no or only minimal costs.

Furthermore, in the case of banking, the dearth of touchpoints deters even existing clients from using services to their full potential. For example, in Mozambique an adult with a bank account must still make

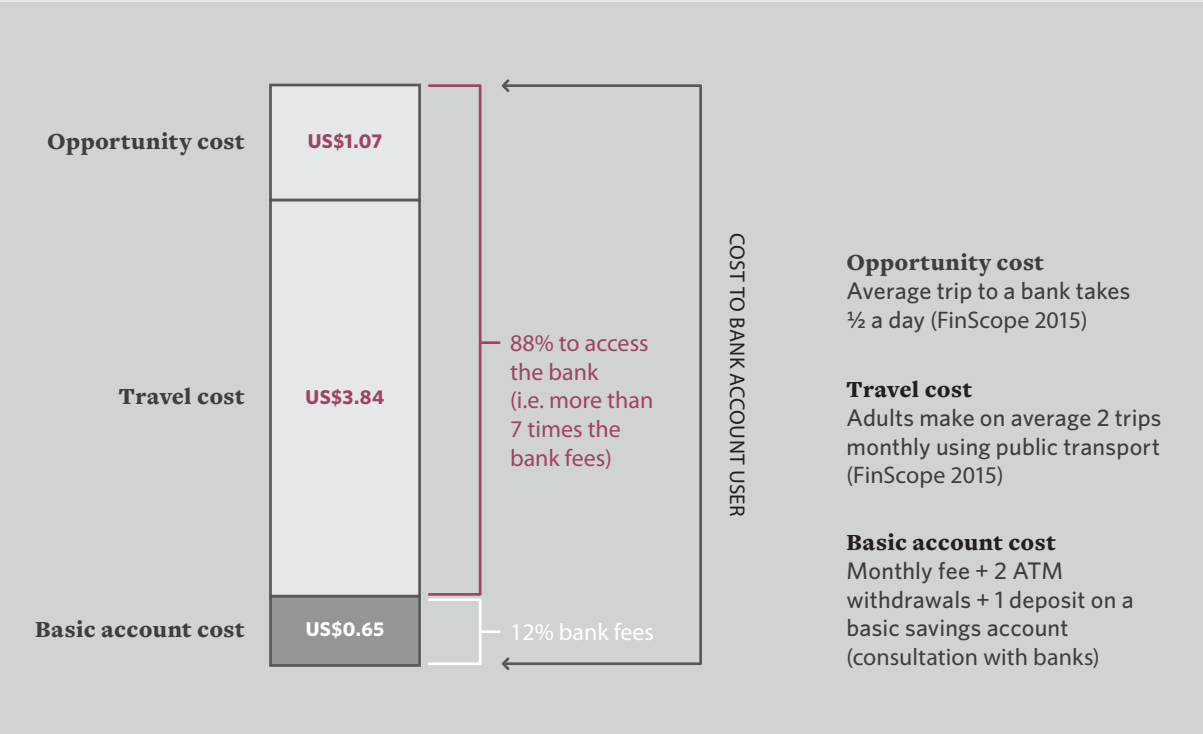


Figure 3: True cost of using a bank account in Malawi
Source: FinScope Malawi 2014; mystery shopping 2014.

most transactions in cash because there are only 34 POS devices per 100,000 people. Nearly half of these are found in Maputo City and are almost exclusively located on the premises of tourism service providers such as hotels and high-end restaurants. Thus it is simply more convenient for people to transact in cash.

2. Flexibility. The flexibility offered by local providers is an important aspect of their perceived value. Across the six MAP pilot countries, the majority of people experience fluctuating income and hence are not always able to make their monthly loan repayments or contributions to savings groups and burial societies. Local financial services present users with direct access to the key decision-makers and the ability to negotiate an extension or grace period. Local products are thus more flexible than remotely provided products and better able to meet individuals' specific needs.

'Good points for getting loan from informal money lender are: no need to give collaterals, no legal action taken in case you cannot repay and we can also negotiate new repayment term.'

(Myanmar, female, aged 22–30)

3. Enables small-value transactions. Figure 4 shows that the average savings amount held with local providers is lower than with remote providers. The figure plots the average income of adults against the average amount they save. It shows that the clients of local types of providers, illustrated by the maroon bubbles, have lower average incomes than clients of remote providers and that they save, on average, lower amounts (they tend to be clustered to the left and bottom of the diagram). That is to say, local financial services are able to reach lower down the income spectrum and facilitate lower average savings amounts, typically due to reduced fixed costs. This was also found for credit, where the average size of locally provided loans in the MAP countries is typically much smaller than those remotely provided. Although mobile money is excluded from this graph due to data limitations, data triangulations from the MAP supply-side data found that the savings element in mobile money is negligible. However, the payments situation is different: MAP has found that mobile money is able to facilitate higher-volume, lower-value transactions than, for example, banks.

4. Simplicity. Local financial services tend to be simple in structure, with easy-to-understand pricing. Very often prices are a universal single cost.

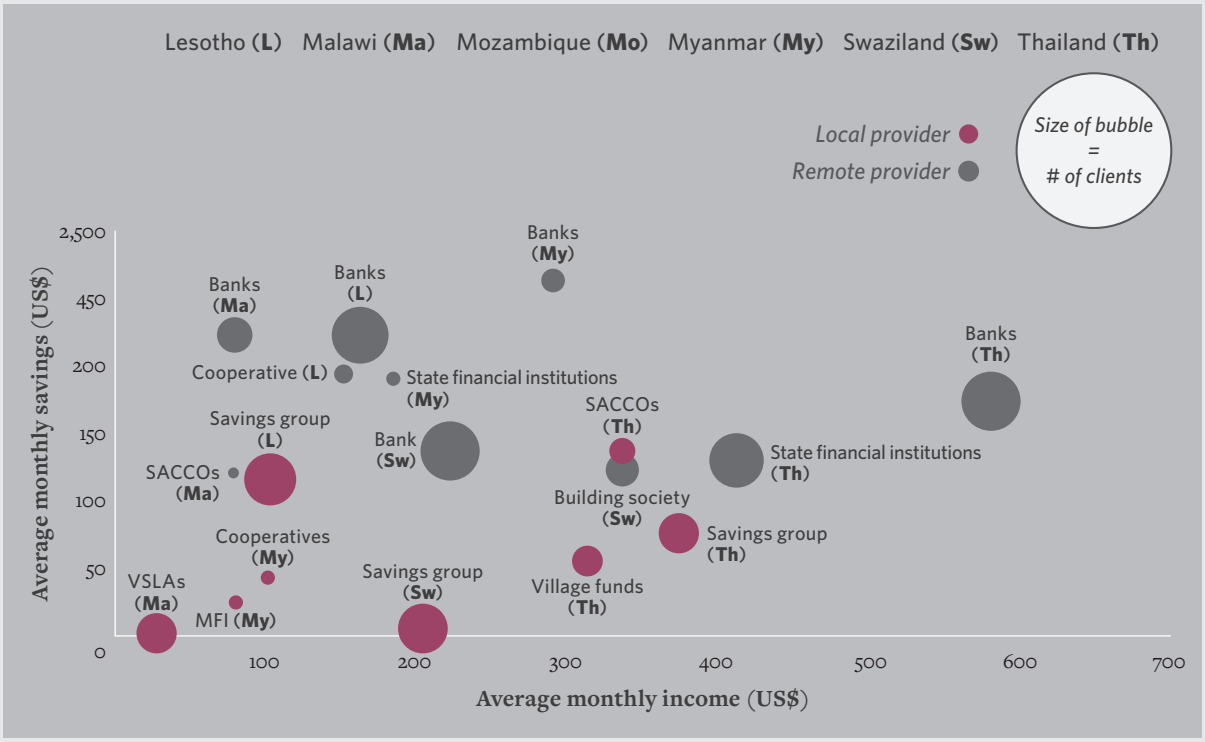


Figure 4: Plotting the provider playing field – users' average income, average amounts involved
Source: various MAP country studies

MAP qualitative demand-side research shows that users value this simplicity as it ensures that they understand the services and can better manage their budget. Additionally, clients prefer services where they are charged fees linked directly to the activity rather than monthly fees for the service (e.g. monthly account fees on bank accounts). When repaying loans, the material fact for clients is the size of the instalment rather than the interest rate. Local loans, which calculate the interest repayment on the lump sum and typically have short maturities, are therefore far easier for clients to engage with than the complicated compound interest rates charged by remote providers.

'It brought problems to me because it was a small amount yet I pay bank a lot. I have realised that the longer the repayment period, the more you will end up paying in total.'

(Malawi, male, formally employed, aged 39)

5. Social capital. Collectives are member-owned financial institutions. They serve the financial needs of their members and as a result often focus more on maximising value to their members than on profits. For example, rotating or accumulating savings clubs or groups are popular across the MAP pilot countries. The regular social interactions between members combined with the collective structure create an environment where users of the services are the same individuals responsible for making the decisions, and where members share in any surpluses generated. This builds trust within the organisation and provides a strong incentive to members to maintain their regular contributions to the group.

'The main reason [to join the savings group] is financial support. [The members] have targets of purchases that they want to make or aspirations that they wish to achieve.'

(Malawi, female, aged 28)

Likewise, burial societies are popular structures in the Southern African MAP countries, in large part due to the social role that they fulfil.

'There are a lot of benefits and advantages to being part of these groups especially the funeral insurance and life covers. When a crisis or death arises we know exactly who to turn to.'

(Lesotho, male, aged 25–40)

6. Recourse. Although theoretically protected under legislation, in practice many consumers are unable, or even unaware of how to access recourse mechanisms with remote providers. Conversely, despite not being typically protected under legislation, clients of local providers know whom to confront when something goes wrong. For example, in Lesotho, respondents in qualitative interviews suggested that they have more trust in funeral undertakers than in formal insurers because they do not have recourse in the case of remote providers.

'I started with Metropolitan, used to contribute M70 [US$7] per month. When my husband died I struggled a lot and failed to get the money so I incurred some debts to bury my husband. My husband had left me, and Metropolitan was causing me to run around so I stopped collecting it [attempting to claim the insurance]. I have [since] joined a woman's society where you pay M300 [US$30] and the monthly contribution is M60. When there is a death in the family, a member gets ten thousand [US$1,000] and also the society helps.'

(Lesotho, female, aged 40–55)

7. Trust. The recourse example above speaks to the often-encountered phenomenon in MAP demand-side research that people have more inherent trust in local financial services than in national institutions, whom they perceive to be not 'for them'. MAP demand-side research also found that, particularly in low-income communities, people may fear for the safety of their savings when they are stored in remote accounts. Remote providers, unlike local providers, are vulnerable to systemic risk – for example, in Myanmar, clients' savings in bank accounts were wiped out following multiple rounds of demonetisation from 1964–87. Furthermore, the ability to check on funds is a critical component in reducing the fear of lost income and maintaining trust – yet, in Mozambique, for example, the relatively high costs of bank statements create a barrier for potential users to check on the funds and so act as a disincentive to using the service at all.

Financial services from a consumer viewpoint. These seven main reasons for consumers to opt for local financial services are a reminder that people's decision-making processes are often complex and multi-faceted. The example of funeral insurance can be used to underscore this point. The traditional view of funeral insurance and the burial societies that provide it is that it is a unique insurance scheme. Yet its actual mechanics include more than just insurance – it has savings, credit, payment, and insurance facets, particularly when assessed from a consumer's, as opposed to a bank's, point of view.

Interestingly, in countries where burial societies are particularly prevalent, like South Africa, Swaziland and Lesotho, both remote and local providers are available – with remote providers sometimes cheaper – yet consumers consistently choose local. When questioned on this, a respondent remarked, 'When I cry, who will hear me?', meaning that those closest to her can provide the most appropriate assistance in times of need.

In contexts where burial societies are a popular service, a period of bereavement entails complex traditions, customs and financial requirements that local providers are able to fulfil and that remote providers are simply not structured to. When asked about savings, many respondents describe their burial society contributions as a savings scheme, often while simultaneously describing it as a form of insurance. They further characterise the practice of making regular contributions as being representative of strong financial discipline, something that they believe should be valued in credit contexts (e.g. in loan applications). Some burial societies allow emergency loans from the funeral pool, effectively serving as credit institutions. And the mechanics of contribution and of payout touch on many of the core principles of payment solutions – payment over time, over distance, and over social networks.

Implications for providers, policymakers and donors

Traditionally there has been an assumption, on the part of policymakers, providers and donors, of a continuum of customer behaviour: from informal usage, to value, to formal usage. The data emerging from MAP – that people choose to use multiple kinds of financial services depending on preferences – is contradicting this conventional view.

The persistence and popularity of local financial services outlined in this note highlights the value that consumers derive from these services. This value creates an adoption threshold to remote services that is overcome only when users get greater utility from the services offered by remote providers than those offered by local ones. By taking their lead from the features and value proposition of local services, remote services can lower the adoption threshold. This has a number of implications for providers, policymakers and donors looking to advance financial inclusion.

For remote providers, it requires a rethink of their product offerings and operational implementation alike, so that they can compete with local services. The fundamental aspects for providers to reconsider are distribution, customer touchpoints, trust and product design – including convenience, flexibility, simplicity, recourse and accessibility.

Mobile payments is a prime example of how remote services have been able to become locally relevant by taking on features of local provision. This can be attributed to their activity-based pricing structure, and the fact that they allow regular, small-value transactions, making it possible for users to transfer payment over distance, cheaply, safely and quickly. Consumers are able to ensure that money reaches their recipient quickly, and the transaction is easily traceable through a phone call. In addition, the device used (i.e. the mobile phone) helps to make the service local in that users do not need to travel to register or use the service. The result is a rise to prominence of mobile money in local communities (see Note 5 for an in-depth analysis of the phenomenon).

Policymakers need to rethink the role of local financial services in financial inclusion policy and strategy, putting more emphasis on the role that local services can play in delivering financial services to rural and low-income communities. This can be done through policies to facilitate the continued existence and growth of local services, rather than necessarily clamping down on them through formalisation strategies. It can also mean leveraging

these structures for national policy purposes. The examples cited from Thailand and Myanmar show how the state worked with existing local structures and knowledge to reticulate credit to local communities.

Furthermore, policymakers should be cautious when it comes to mandating licensed (usually nationally represented) providers to deliver services at local level – whether such mandate is through quotas, targets or other policy tools – as this may lead to service offerings at commercially unsustainable prices that are unable to overcome the adoption threshold.

Similarly, donor interventions should take care not to undermine the impact of locally delivered financial services. In many developed countries, informal savings groups are supported by donors such as CARE. However, at the same time, other donors are supporting policies that advance formalisation and remote provision; these should focus more on managing the otherwise legitimate concerns around consumer protection – whether with regard to formal or informal services. Donors need to be aware of the value derived from existing local providers and seek to learn from and leverage them to advance financial inclusion.

In future MAP research, it will be interesting to take the distinction between local and remote further in measuring support in poor communities for financial services. For example, it will be important to consider not simply number of financial instruments used, but frequency of use, to establish whether one instrument or product class tends to dominate - and whether possibly conclusions about depth of usage (see Note 2) *within* the local versus remote distinction might be made.

It will also be interesting to monitor whether, as the effects of mobile money and digital financial services provision become evident, the local versus remote distinction still stands for poor communities; and, if so, whether it applies equally to all four product classes, or possibly becomes less important regarding issues of payments, but still relevant on issues of credit, savings and insurance.

Where policymakers, remote providers and donors fail to adjust their policies, offerings and initiatives to the culture and practice of local financial services, local providers will remain the preferred option for many.

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