



## 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.

---

## Acknowledgements

Series authors: *Hennie Bester, Jeremy Gray, Christine Hougaard, David Saunders and Albert van der Linden*

Series editor: *Kameshnee Naidoo*

Editing and proofreading: *Jacquié Withers*

Design and layout: *Garage East*

*The authors of this note would like to thank the following UNCDF team that reviewed the document and provided invaluable comments: Samuel Choritz, Henri Dommel, Pamela Eser, Anthony Githiari, Nomathemba Mhlanga and Hanadi Tutunji.*

---

*This series has been made possible through the support of the Swedish International Development Agency and the Government of the Grand Duchy of Luxembourg.*

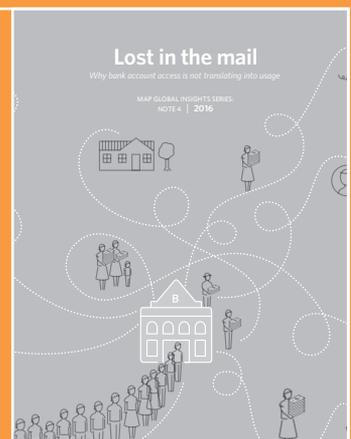


LE GOUVERNEMENT  
DU GRAND-DUCHÉ DE LUXEMBOURG  
Ministère des Affaires étrangères  
et européennes

Direction de la coopération  
au développement et  
de l'action humanitaire

### About the cover

The cover contrasts an orderly-looking queue into a bank with a representation of the more challenging, convoluted and 'dispersed' nature of the financial lives of consumers in the MAP pilot countries. Widely considered an answer to financial inclusion, bank account ownership is not, in reality, translating into meaningful usage; it is often actively eroding account holders' income. Time away from work, travelling and queues are among the inconveniences endured by consumers in order to access their accounts, which they treat simply as 'mailboxes': repositories of funds that are withdrawn almost in their entirety as soon as they are deposited and used to meet the varied financial obligations of the consumer's 'real world'. The bulk of the typical account holder's financial payments life is lived outside of their bank account, with value for all stakeholders being lost in the process.



## The MAP Global Insights series

The MAP Global Insights series consolidates and synthesises the learnings from MAP across the MAP pilot countries. The first of the MAP Global Insights products comprises five thematic cross-country notes plus a concluding note, 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 4** considers the gap between ownership and usage of bank accounts. The note queries whether bank accounts are always the appropriate product for increasing customer welfare, and argues the need for a paradigm shift away from focusing on ownership to a focus on usage in the context of a wider, systems approach.



**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 providers, policymakers and donors 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 and explores the policy implications of moving away from a linear, one-dimensional view of financial inclusion.



**NOTE 3** looks at the nature of informal financial services. It shows that it is the local nature of these financial services, rather than their informal nature, that makes them valuable for the majority of consumers in these countries.



**NOTE 5** focuses on cash as a payment instrument to explore the largely undiminished popularity of cash. The different payment needs of consumers are introduced, analysed and compared with regard to the use of cash versus digital instruments.



**NOTE 6** draws together the findings from this Global Insights series. It shows that the MAP evidence calls for a rethink of conventional financial inclusion assumptions, based on a consumer decision-making framework that emphasises economic incentives, cost and value.

## Why bank accounts may not always be the answer to improving consumer well-being

Underlying the global financial inclusion agenda is the assumption that providing access to and ownership of bank accounts will improve the lives of previously excluded adults (GPFI 2016) and contribute to economic growth objectives. This assumption is reinforced by global surveys such as the World Bank Global Financial Inclusion Index (FinIndex) and the country-level FinScope Consumer Survey, which monitor the progress of financial inclusion policies by tracking the number of 'banked' individuals. The headline indicators, such as the FinScope Access Strand, position bank account ownership as the priority area of inclusion, with other forms of financial inclusion secondary.

However, the evidence from the first six MAP pilot countries shows that ownership of a bank account is not a sufficient measure for whether adults are using them and, in turn, benefiting from them.

*Fatima Cugala is a teacher working at a school a few hours by bus north of Maputo, Mozambique. For most of her working career, Fatima received her salary in cash at the school, but in 2011 the government introduced an initiative to pay salaries directly into bank accounts and opened accounts for all teachers on their payroll. A few days before payday Fatima now takes leave from school to make the bus trip to the northernmost part of Maputo to the bank branch where she is a customer. When she arrives at the bank she waits in a long queue, and by the time she gets to the ATM, typically the system is down. Usually she must wait until the next day to try again. On the next day if she arrives at the ATM early she is usually able to withdraw her money. She then starts the trip home where she plans to save the cash that she has withdrawn in the community xitique (an informal savings group). Fatima repeats the same trip every month, receiving one deposit into her account and making one withdrawal to access her income. The time away from school means that valuable tuition time is lost. While Fatima is now considered a 'banked' adult, and thus 'financially included', the additional costs incurred to use her bank account outweigh the value she derives from it and she uses it only when she must.*

If people own bank accounts, but do not use them, or withdraw all their cash at once, as Fatima does, the chances are very likely that they are not benefiting much from them; they are typically paying fees for these unused services, which in all likelihood is eroding their income. Furthermore, to withdraw their cash they must incur additional costs, such as for travel or opportunity costs from not working. There are exceptions, of course: some account holders voluntarily hold and pay for such 'mailbox' accounts, seeming to find the minimal benefit derived from them sufficient to meet their specific needs, and possibly preferring to use other types of channels to meet the balance of their financial needs. Nevertheless, while accounts used as mailboxes might or might not offer their owners benefits, they add only limited value - certainly less than their potential, and certainly less than what donors and policymakers should be aiming for.

Note 4 zeroes in on what it means to use a financial product - in this case, a bank account. The note scrutinises how bank accounts are being used, analyses why they are being used this way, and asks why banks accounts are not used more. The note also makes suggestions for why banks are not really responding. Furthermore, the note examines how the way in which bank accounts are being used by consumers in the MAP pilot countries in many cases leads to consumers being worse off financially. It then considers why policymakers, providers and donors should be very concerned about this situation, and suggests possible options under the circumstances.

To sum up, given that financial inclusion is about improving consumer welfare, Note 4 poses two related questions: Is it possible that - contrary to the prevailing emphasis - bank accounts are not the answer, especially when the financial infrastructure required to enable active usage of those accounts, at affordable cost, does not exist? And if this is so, where might the answer/s lie?



## Defining usage

Ownership is the step between access and usage and, along with access, is most commonly measured in financial inclusion:

- *Access* is when financial services are available for adults to take up. Density of bank-based distribution or distance to touchpoints are indicators typically used to measure this.
- *Ownership* is when the adult actually takes up the product (and therefore owns it) and enters into a relationship with a financial services provider that confers on the person the right to use the financial service without any further requirement being met. The percentage of adults with a transaction, deposit or credit account from a bank or financial institution is typically used to measure this.
- *Usage* is when adults actually use the financial service they own for a specific purpose: for example, to transact, to store value and/or to access credit. This is not typically measured in financial inclusion. However, it is critical to measure, including *intensity* of usage, because it is where adults derive value from the financial service.

Usage in this note moves away from the AFI Financial Inclusion Data Working Group definition that has been used in previous notes by differentiating between ownership and usage.

## Why usage?

Consumers can use bank accounts in the following ways:



- *Transfer of value* – to transact. People can use their bank accounts to make or receive a transfer of value, to pay for goods and services and to make payments. In terms of digital payments, the most commonly used are card based, but digital payments also include Internet banking and mobile platforms that act as the front-end for banks.



- *Liquidity, meeting goals and financial resilience* – to save. People can also use their accounts to store value. This means that there is no return on their savings, but the account provides them with a safe and reliable place in which to keep their money. Where there is a real return on savings, bank accounts can also be used as investments.



- *Liquidity and resilience* – to access credit. People may want to use their accounts to access credit. This includes using the bank account to make repayments, or as an instrument to access credit directly from the bank.

The purpose of this note is not to demonstrate how bank account usage translates into economic value. Rather, in the first instance the note sets out to provide an in-depth look at and understanding of the extent to which consumers in the six MAP pilot countries are using bank accounts to meet their financial needs as envisaged above. This is of interest to policymakers and financial services providers for at least the following reasons:

- For policymakers, usage is important for achieving broader public policy objectives, such as financial intermediation. When adults use bank accounts to save or to store value they grow the available pool of capital for financial intermediation. This is an important way in which credit can be reticulated to the productive sector as well as to grow savings for national investment.
- For providers, usage is important for the viability of their business models. Providers incur costs when they acquire customers, and such costs are recouped by fees charged to customers and interest from lending out customer deposits. These costs all rely on account holders using the accounts. The less that accounts are used, the less revenue is earned by banks, thus limiting the potential for further investment driving market innovation.

Thus, in the second instance, this note looks at what happens when bank accounts are not used, or are used in a very limited capacity: value is lost for all stakeholders. Consumers own bank accounts from which they get little – often no – value and that may in all likelihood be eroding value; policymakers' efforts to achieve their policy objectives are undermined; and providers are not able to viably extend access into new markets. If this is the case, then policymakers and donors pursuing financial inclusion objectives should carefully consider the circumstances where a focus on increasing access to bank accounts is appropriate. Based on the MAP research findings, this note argues that focusing on increasing access to bank accounts is rarely an appropriate financial inclusion strategy - and that the focus needs to be on a wider, systems approach to identifying and fulfilling preconditions for active account usage.

In the third instance, the note touches on the importance once again of policymakers and donors being guided in their policy-making and initiatives by consumer behaviour – that is to say, by actual usage choices and patterns. This echoes points raised in the other notes: that the poor in fact have considerable skills in managing their financial lives, and that ostensibly counter-intuitive practices often make sense for a range of reasons that are not immediately apparent from the outside and hence do not immediately link into prevailing policy and business practices.

In the final instance, the note includes a social justice emphasis, in that in reality an unintended consequence of current financial inclusion policy and initiatives is that bank account ownership and existing conditions of usage are in many cases disadvantaging already-disadvantaged consumers, leaving them worse off.

## What are we finding? Access not translating into usage

**Rising access paints a misleadingly rosy picture.** The Findex Global Survey (2014) found that from 2011–14 the percentage of adults globally that reported owning an account at a financial institution (excluding those that only report owning a mobile money account) grew from 51% to 56%. The FinScope Consumer Survey corroborates this trend in MAP countries where multiple surveys have been conducted:

- In Malawi, the percentage of banked adults grew from 20% of the adult population in 2008 to 27% in 2014.
- In Mozambique, it grew from 12% in 2009 to 20% in 2014.
- In Swaziland, it grew from 44% in 2011 to 54% in 2014.

The MAP research shows very clearly that access, measured as ownership of bank accounts, is not necessarily translating into usage; despite the large gains in ownership or access, usage is not keeping up. Not only is bank account dormancy very common but, perhaps more importantly, where bank accounts are used, they are used primarily as a ‘mailbox’ account – where ‘negative value’ is actually created. The story of Fatima Cugala, cited at the outset, is a recurring theme.

**Government and donors drive account roll-out.** The rapid increase in account ownership has often been driven by an emphasis on bank-led financial inclusion.

Targeted interventions have included mandating that government payments – whether for salaries, grants or pensions – be paid into bank accounts, as well as incentivising or legally requiring banks to offer low-cost or entry-level accounts:

- In Mozambique, 76% of government employees are paid electronically into an account, compared to 41% of non-government salaried workers (FinScope 2014).
- In Malawi, it is estimated that 79% of donor welfare payments are made into accounts or electronic instruments (BTCA 2015).
- In Swaziland and Lesotho, all banks offer a low-cost or entry-level bank account (MAP Lesotho 2014; MAP Swaziland 2014).

Thus bank account ownership has increased even among lower-income groups in these countries.

## How are account holders using bank accounts?

### Are customers using bank accounts to transact?

Figure 1 presents data from the Findex Global Survey on the frequency of transactions for bank accounts in five MAP pilot countries. The usage profile is disaggregated into the following three categories:



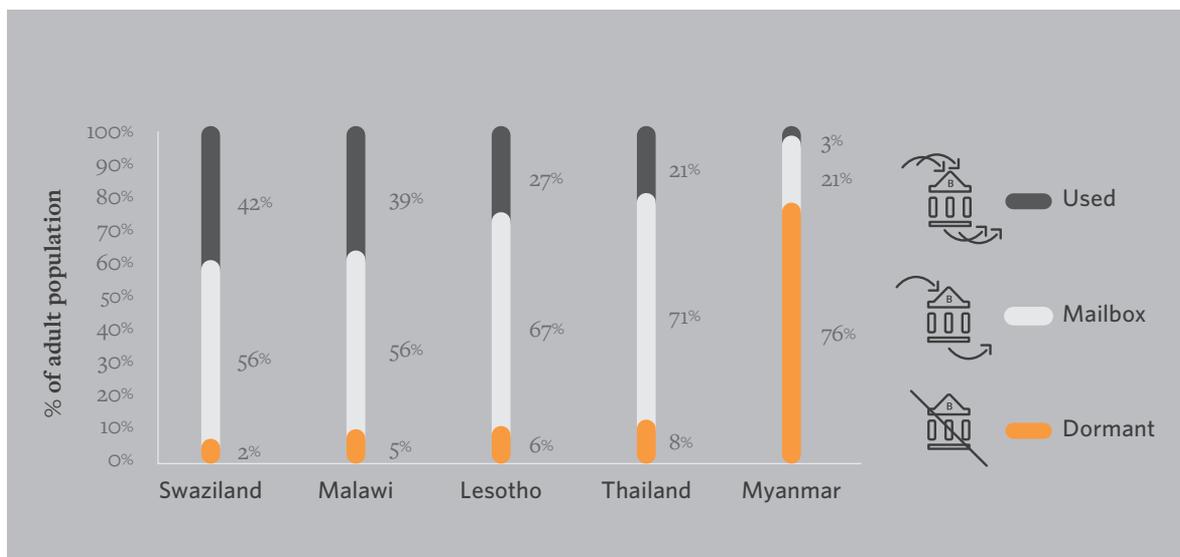
- A *dormant* account is an account where the client has not reported making any deposits or withdrawals in a typical month. This indicator is taken to mean that the person who owns the account maintains the account, but does not use it to transact or for any other purpose.



- A *mailbox* account is an account where an account holder reports making only one or two deposits or withdrawals in a typical month. This indicator is taken to mean that the account holder uses the account only to receive income and, once that is received, the person tends to withdraw the full amount in cash.



- A *used* account is an account where the account holder reports making three or more withdrawals or deposits in a typical month. This is taken to mean that the account holder makes multiple transactions throughout the course of a single month.



**FIGURE 1:** Bank account usage across five of the MAP pilot countries  
 Source: Malawi, Myanmar, Thailand: Findex 2014; Lesotho, Swaziland: Findex 2011.

**Dormant accounts present.** Bearing in mind the phenomenon of account holders' tendency to under-report bank account dormancy because they are not always aware of accounts they have and are not using, we see that Figure 1 shows that in most of the MAP pilot countries there is a relatively low presence of dormant accounts. The exceptions are Myanmar and Mozambique (the latter is not shown in the figure). While Findex data is not available for Mozambique, supply-side consultation with the industry revealed high levels of inactive accounts; one bank reported that approximately 25% of its deposit accounts were inactive, while another indicated that approximately 33% of its current accounts were inactive.

**Many use accounts only as a mailbox.** Figure 1 indicates that the majority of adults that own a bank account – between half and two-thirds of bank account owners – use their bank accounts as mailbox accounts, making one – at maximum two – deposits per month, followed by one – at maximum two – cash withdrawals. As explained, a mailbox account is thus primarily a holder for electronic value that is often immediately, and virtually in its entirety, converted into cash (a process termed 'encashment').

MAP confirms the mailbox nature of the bulk of bank accounts in the countries studied:

- In Mozambique, on average, only two ATM withdrawals are made per card per month (data

supplied by Central Bank of Mozambique – BDM 2014), indicating that very few cardholders use their cards for anything other than a single, large ATM withdrawal weekly or monthly.

- In Lesotho, ATM withdrawals account for the majority of transactions in terms of both volume (89% of the total) and value (62%) (data supplied by Central Bank of Lesotho 2013). Furthermore, FinScope (2011) indicated that just 5% of bank account holders had transferred money to someone else's account within the previous three months. In contrast, 85% of bank account holders indicated that they had withdrawn cash within the same period. This suggests that most account holders use their accounts primarily for ATM withdrawals. Anecdotal evidence suggests that many account holders immediately withdraw their entire salary from the account when the salary is deposited.

**Account holders' exposure to the bank is minimal.** In the absence of other electronic payment channels, a bank account used as a mailbox will often be the only way in which a person can receive a remittance or other payment over distance. For such customers, the benefit may or may not outweigh the cost of maintaining and accessing the account, but what is very clear in such cases is that the bulk of the bank account holder's financial payments life is lived outside of the bank account.

## Are customers using bank accounts to store value or to save?

**Limited store of value.** While the available data in Findex tracks the frequency of transactions, data from MAP can be used to show whether an account is used to store value or save. Figure 2 compares the percentage of adults that report owning a bank account and saving in it with the percentage of adults that report owning a bank account but not saving in it. It shows that, with the exception of Swaziland and Myanmar, the majority of bank account holders do not use their bank accounts for savings. Account holders that do not use their account to store value use it to move cash by making or receiving payments, or as a mailbox account as described above. For example:

- In Thailand, bank account ownership is driven largely by the ability to use bank accounts as a means of receiving and sending funds across the country rather than as a tool for accumulating or storing cash. This was confirmed by FinScope, which found that five of the seven top reasons that adults reported for owning bank accounts was related to the sending or receiving of remittances.

## Are customers using bank accounts to access credit?

**Few able to access credit through banks.** Across the six MAP pilot countries, very few people with a bank account also report accessing credit from the bank. Figure 3 shows that the majority of banked adults that use credit access it from sources other than the bank.

The exceptions in this regard are Mozambique and Myanmar:

- In Mozambique, the relatively high percentage of adults with bank accounts that use them to access credit is driven by payroll lending to government workers: 41% of government workers access credit through their bank accounts, followed by 11% of salaried workers and 6% of micro-enterprises. Take-up of bank credit by all other groups is marginal, at 2% or less.
- The high usage of credit through a bank account in Myanmar is driven by state provision to farmers through the Myanmar Agricultural Development Bank (MADB). In this instance, the government subsidises both the cost of the credit and the cost of reticulating the cash to distribute it. This drives high usage of credit among farmers compared to other target markets and is also a significant driver of bank account take-up in Myanmar.

## Limited account usage outside of encashment.

To sum up, the above analysis shows that, in the six MAP pilot countries, bank accounts are primarily used as mailboxes to receive income in cash. Outside of the traditional high-income banked market, banks accounts are not used for payments, very few people use them to save or store value, and even fewer people access credit through their bank accounts. The dominant use for bank accounts is for encashment purposes – to turn a salary, grant receipt or remittance into cash as soon as it is received.

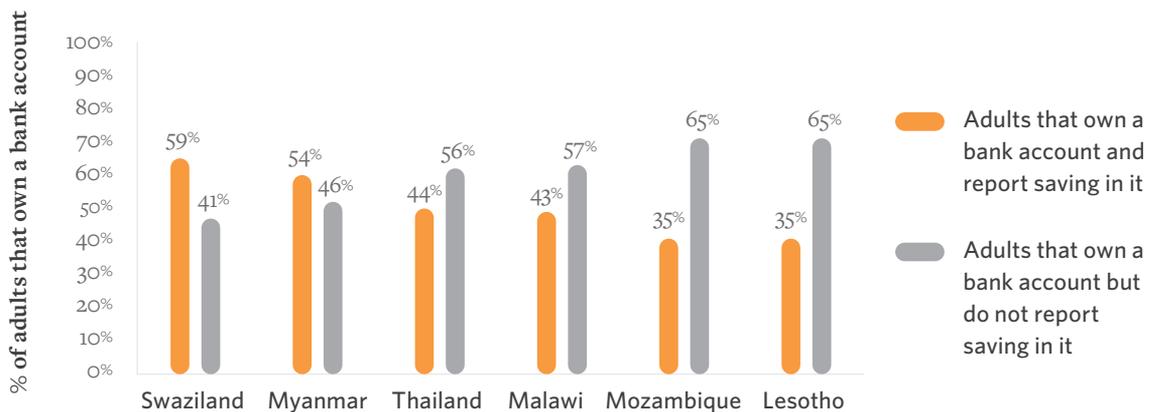
## Why are bank accounts not used more?

The MAP evidence presented in this note highlights that while financial inclusion initiatives are translating into more bank accounts, usage of these bank accounts remains limited. This section focuses on the customer perspective to unpack why people are not actively using their accounts. The MAP evidence suggests two key drivers for this phenomenon: 1. Actually accessing and using the bank account is costly; and 2. Bank accounts are not meeting customers' need.

### 1. Actually accessing and using the bank account is costly

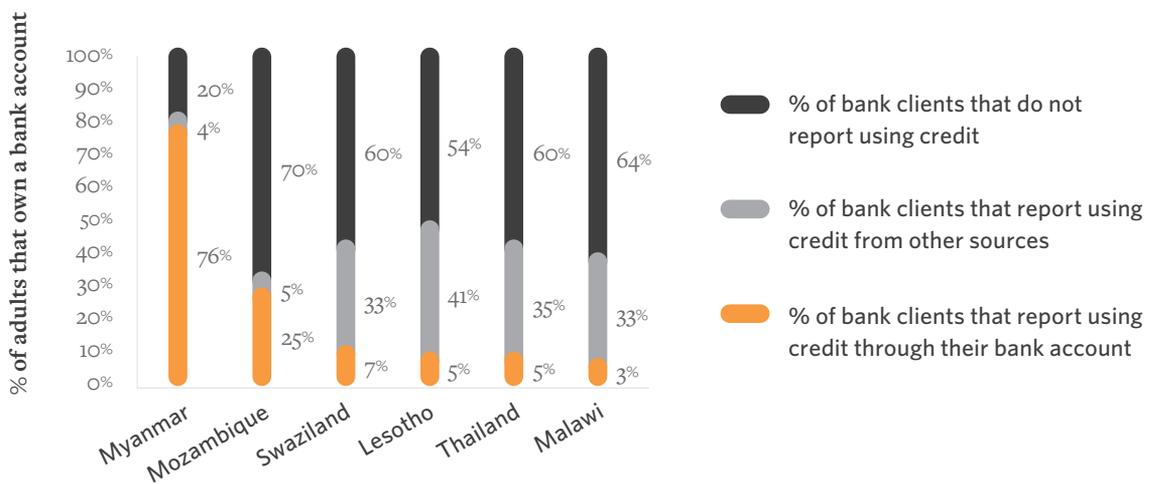
**Cash infrastructure is lacking.** Across the six MAP countries more than 90% of payments happen in cash (as noted in Notes 3 and 5). It is the primary means of economic and financial activity. Thus bank infrastructure that allows access to cash (such as branches and ATMs) is critical if people are to function in their current financial and economic lives. However, cash infrastructure offered by banks is limited in these countries. Figure 4 shows that, with the exception of Thailand, between about 20% and 50% of bank clients in the MAP pilot countries report living more than an hour away from banking infrastructure.

**It is costly to access cash infrastructure.** While the basic cost of bank accounts may be low, MAP finds that the overall usage cost is high. This was highlighted in the example, cited at the outset, of Fatima Cugala, who had to incur significant transport and opportunity costs in order to use her bank account. In her home country, Mozambique, 47% of all bank branches, 45% of ATMs and 60% of POS devices are concentrated in Maputo City and Maputo Province. Where infrastructure is present outside of these regions, it is concentrated in urban areas. Consumer focus-group discussions revealed that this is a common deterrent to using bank accounts.



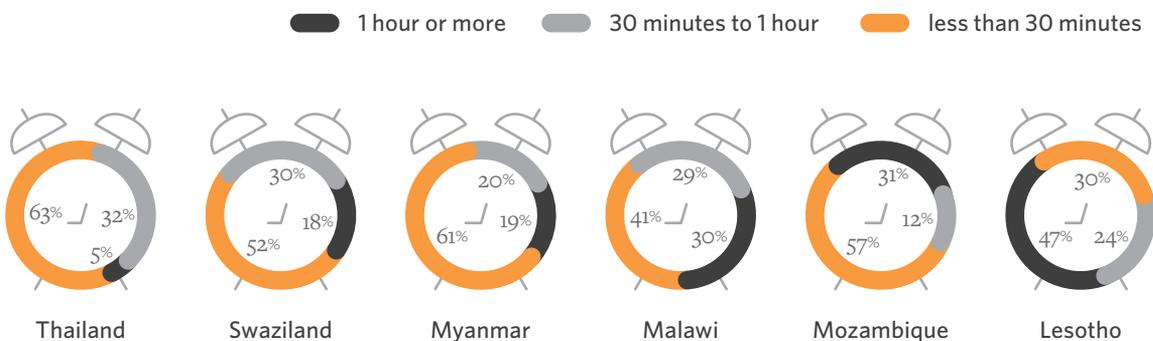
**FIGURE 2:** Percentage that report owning a bank account and saving in it vs those that report owning a bank account but not saving in it

Source: FinScope Consumer Surveys.



**FIGURE 3:** Percentage of banked adults that access credit from a bank vs other sources

Source: FinScope Consumer Surveys.



**FIGURE 4:** Time to touchpoint for adults with bank accounts

Source: FinScope Consumer Surveys.

*'It became complicated with BIM [bank]. If I make a profit, I go to BIM and make a deposit, but BIM is located in town and I use my profit money as fare to get to town.'* (Inhambane, Mozambique, female, aged 20–30)

Further evidence of the high cost of usage was found in Malawi. Most Malawians live in rural areas far from bank infrastructure. While average bank fees are not unaffordable for the majority of the adult population, the average transportation cost to reach the closest bank is hefty. Furthermore, the time spent travelling and the long queues add a substantial opportunity cost for adults reliant on their own labour for their income. As Note 3 graphically shows, by the time these additional costs are taken into account, the total cost of using a bank account is more than seven times the bank fees.

**Available infrastructure not effective.** Furthermore, even when it is present, infrastructure may be unusable or overextended:

- In Malawi, limited bank interoperability means that consumers are only able to use their own bank's infrastructure, further limiting their options.
- In Mozambique, ATMs are rare, and where they are present they are often unreliable. ATMs experience frequent network outages and are prone to running out of cash in some areas.

The pressure on the existing ATM network in Mozambique is illustrated by estimating the impact created if all current consumers simply made two withdrawals per month. According to the MAP calculations, the likely impact would be that each ATM would need to increase operational times to up to 25 hours a day – clearly impossible. MAP Mozambique (2015) found that the current fleet of 1,300 ATMs would need to more than triple in order to accommodate any consumer behaviour beyond a single cash withdrawal per month.

Inaccessible or unreliable infrastructure creates a major inconvenience for those required to access their income from bank accounts. If, in response, bank account holders withdraw all their funds whenever the ATMs are operating, this entrenches mailbox behaviour.

## 2. Bank accounts are not meeting customers' need

Consumers with limited or tight incomes need financial services from providers that can help them meet a broad range of financial needs. The findings from the first six MAP pilot countries are that bank

accounts at best meet a narrow set of people's needs, and at worst do not meet any needs at all.

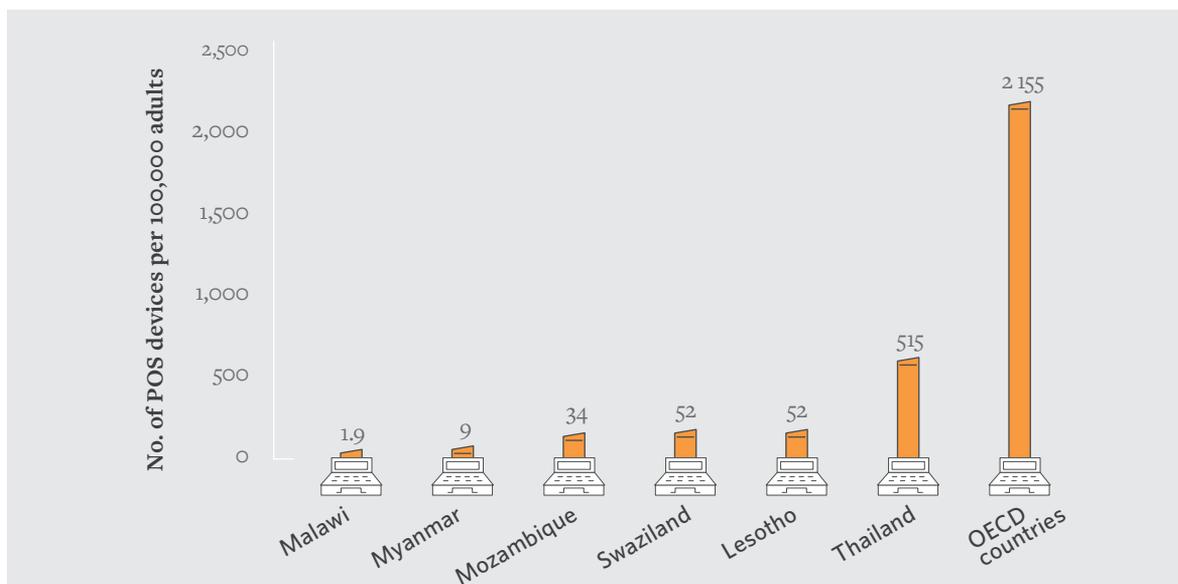
**Bank accounts not being used to transact.** One of the primary functions of a bank account is its use for account holder transacting. However, as already described in the section on how holders use their accounts, the majority do not use their bank accounts to transact, preferring to withdraw their income in cash and use that to live their financial lives.

Evidence from MAP identified two key drivers of why account holders do not use their bank accounts to transact:

*There is a preference for cash.* Across the MAP countries the majority of adults live their financial lives in cash and therefore have a preference for using cash to transact. Cash offers greater flexibility for consumers as they always have immediate access to their money. Furthermore, the cost of using cash after you withdraw it is very low. (The only factor that increases the cost of cash post-withdrawal in countries tends to be crime – e.g. using a safe to store the cash.)

- In Lesotho, 54% of adults prefer to carry cash rather than bank cards (FinScope 2011).
- In Swaziland, 64% of adults believe that you can easily live your life without a bank account (FinScope 2011).
- In Malawi, just over 99% of all payment transactions are made in cash (BTCA 2015).
- In Mozambique, 66% of adults transact in cash exclusively (FinScope 2014).
- Even in Thailand (with better infrastructure for cashless transactions), large payments such as monthly rent or car payments are commonly made using cash (FinScope 2013).

*Digital payments infrastructure is limited.* For adults to use their bank accounts to transact, they require basic cards that have transaction functionality and payment infrastructure that can accept them. However, payment infrastructure remains a major challenge across the MAP countries. Figure 5 shows that, with the exception of Thailand, infrastructure required for cashless transactions, such as point of sale (POS) devices, is severely inadequate when compared to the average for OECD countries. Furthermore, few bank clients have the card functionality to use these POS devices. For example, evidence from MAP is that:



**FIGURE 5:** POS devices per 100,000 adults  
Source: MAP diagnostic reports.

- In Malawi, only 3% of bank clients have debit cards and less than 1% have credit cards (FinScope 2014).
- In Swaziland, 13% of bank clients report having a debit card and only 6% have a credit card (FinScope 2011).
- Even in Thailand, debit and credit cards are not ubiquitous among bank clients: only two-thirds have debit cards and less than 7% have credit cards (FinScope 2013).

Qualitative demand-side research has indicated that the lack of digital payments infrastructure gives consumers little choice but to continue using cash, thus using bank accounts only for encashment.

*'The good thing about cash, here in the village, is because we have small shops that wouldn't accept cheques or other payments, so it is better we use cash.'* (Malawi, male, aged 41, salaried employee)

The preference for cash and the lack of payment infrastructure undermines the adoption of digital transactions. The international yardstick for the level of adoption of digital commerce in retail economies is the ratio of POS transactions to ATM transactions. Predominantly cash-based economies like India report around 7 POS transactions per ATM withdrawal, and the G20 countries around 16. The majority of MAP countries fall well below the 7 POS transactions benchmark. For example, in Mozambique the figure is 0.36, reflecting an overwhelming preference for cash and very low adoption of digital services.

**Bank accounts not being used as a store of value.** As already discussed, holders can use bank accounts as a safe and reliable mechanism to store value, which they can draw down to smooth consumption when their cash runs short. However, as also already indicated, the majority do not do so.

While not exhaustive, evidence from MAP revealed the following three key drivers of why account holders do not use their accounts to store value:

*Pricing erodes value.* The findings from the first six MAP pilot countries are that the pricing models for bank accounts act as a disincentive for the majority of adults to use them. While pricing models vary quite substantially, qualitative research in all of the countries indicates that bank account holders are strongly opposed to monthly service fees because they erode the value stored in the accounts. (This is also mentioned in Note 3 as a reason for consumers' preference for local financial services providers.)

*'I used to keep my money in a bank account. But then when I went to withdraw it, there was less than when I first deposited the money. I asked them why and they told me about these charges, but I didn't understand why they took so much'* (Butha-Buthe, Lesotho, female, aged 33, police officer and informal moneylender)

*‘The bank charges are astronomical...And they fail to explain this right from the beginning. You put your money in and when you take it out you are shocked to find that it’s less than what you expected.’*  
 (Manzini, Swaziland, female, aged 41–55)

For example, Table 1 shows that in Swaziland the pricing model of banks was found to erode nearly half of the total nominal value for people saving E50 (US\$4.70) a month for 12 months and nearly a quarter of the total nominal value for those saving E100 (US\$9.40). This is the best-case scenario, if the money is left in the bank. The reality is that bank account holders would incur additional costs from withdrawal fees used to access their income, and reduced interest because they would be leaving less money in their account. While this would result in lower costs incurred for monthly service fees, the client would be left with less income at the end because of the additional costs incurred from withdrawals and lower revenue from reduced interest.

*Banks cannot facilitate small-value savings.* Bank account holders with low income only have small amounts to save. Transaction costs must therefore be close to zero to make savings viable. However, collecting small-value deposits is operationally expensive outside of high-population areas. The result is that very few banks across the MAP countries are able to cost-effectively facilitate small-value savings for the majority of consumers who live in rural areas.

(Note 3 explores this issue of local providers being preferred by consumers for small-value savings, and provides a breakdown of the monthly savings by different types of providers.) This was confirmed by FinScope, which found that across the six MAP pilot countries those that reported saving at banks were primarily higher-income earners, who saved relatively larger sums than those saving with any other provider. For example, in Malawi, the average monthly saving in banks was US\$220, compared to that in village savings and loan associations (VSLAs), which was US\$2. The travel costs (as already highlighted) to make small-value savings contributions render savings in formal institutions unfeasible for most rural Malawians. Focus-group discussions in Malawi revealed that in many cases this was a conscious decision by the client.

**Q: ‘Do you have a bank account?’**

**A: ‘I just opened it a year ago at ABC Bank with an amount of K500 [US\$1.20] but I do not use it either for depositing or withdrawing any amount from it, because of the distance from here to where the banks are, so I cannot waste some money travelling to the bank just to keep the money at the bank for while I have a house where I can keep the money.’**  
 (Malawi, male, aged 43, farmer)

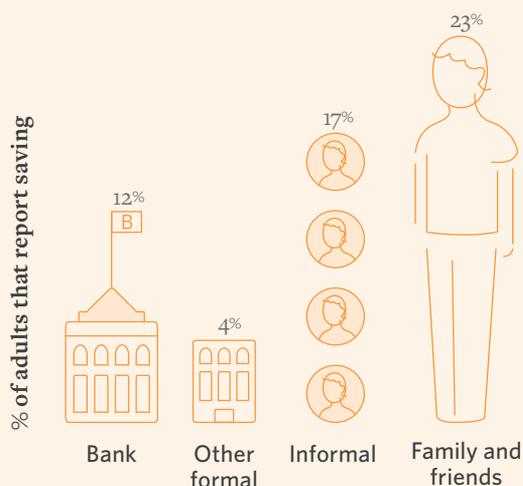
This may be why adults in Malawi have a preference for saving at home or in informal (following Note 3: read ‘local’ for ‘informal’) savings groups, as shown in Figure 6.

**Entry-level bank savings account**

*(calculated on average weighted costs across the four banks’ entry-level savings accounts, based on market share of consumers)*

Monthly deposit	E50 (US\$4.70)	E100 (US\$9.40)
Interest earned (pa)	1%	1%
<b>Total deposits during the year</b>	<b>E600.00 (US\$56.7)</b>	<b>E1,200.00 (US\$113.4)</b>
Less total annual deposit fees (one deposit each month)	E183.51 (US\$17.30)	E189.96 (US\$17.95)
Annual interest compounded monthly	E2.26 (US\$0.21)	E5.49 (US\$0.52)
Less total annual service fee (monthly charge x 12)	E116.44 (US\$11.00)	E116.44 (US\$11.00)
Less withdrawal fee (incurred when holder withdraws the remaining value after the 12 months)	E4.67 (US\$0.44)	E10.73 (US\$1.01)
<b>Nominal value of savings at year end</b>	<b>E297.64 (US\$28.13)</b>	<b>E888.36 (US\$83.96)</b>
<b>Real value of savings at year end adjusted for inflation (less 8.94%)</b>	<b>E271.03 (US\$25.62)</b>	<b>E808.94 (US\$76.46)</b>
<b>Percentage of initial deposits left at the end of 12 months</b>	<b>45.2%</b>	<b>67.4%</b>

**TABLE 1:** Estimated value of monthly savings in banks after 12 months of contributing E50 or E100  
 Source: Mystery shopping 2013; Supply-side consultations 2013.



**FIGURE 6:** Total take-up of savings products in Malawi  
Source: *FinScope Malawi (2014)*.

*Bank saving is neither disciplined nor flexible.* As shown in Note 3, the value of local (informal) savings groups for many adults lies in their ability to offer savings discipline mechanisms for their clients, while still providing them with the flexibility to access funds in the event of an emergency. Local savings groups, such as VSLAs in Malawi and Lesotho, *xitiques* in Mozambique or *Sajjas* in Thailand, require their members to make regular, monthly contributions. Through the group collective structure, members are able to apply social pressure on other members to ensure that they contribute and meet their savings goals. While this pressure is crucial in order to instil the discipline required to save over time, these groups also support their members when they are in trouble. For example, it was reported during multiple fieldwork interviews that *xitiques* in Mozambique will allow a member to take their turn in the rotating scheme early if they are facing an emergency. Banks are able to replicate neither the discipline these groups offer nor the flexibility they afford in the event of an emergency.

*‘When I am in trouble, I can take an advance [from the xitique].’*  
(Maputo, Mozambique, male, aged 30–40)

**Bank accounts not being used as a gateway to credit.** In addition to a store of value, bank accounts theoretically provide holders with access to credit when they require it to assist them in managing their financial lives. For example, if they want to invest in an asset or they need an immediate sum of capital to respond to a risk event, they will need credit. However, as already indicated, very few adults with bank accounts access credit from banks.

Evidence from MAP identified two key drivers of why bank account holders are unable to use credit through banks:

*The poor struggle with collateral.* Only 15% of adults across the MAP countries reported receiving monthly salaries. However, formal payslips are a universal requirement for accessing unsecured credit from a bank. Even fewer adults across the MAP countries have appropriate physical collateral to secure a collateralised loan. Even in Thailand, where the most developed retail credit market was found, those working in the informal sector, without regular payslips or financial records, experience documentation requirements as an absolute barrier to accessing formal credit.

*‘You need to have a collateral for you to get a loan like Limbe Leaf if you want to take a loan of half a hectare [10,000 square metres], you pay K17,000 [US\$35.43] [collateral for half hectare] and if it is one hectare you pay K34,000 [US\$70.87].’*  
(Malawi, female, aged 39, farmer)

*Interest rate ceilings limit credit provision to low-income market.* Interest rate caps were found to be present across the MAP countries. Such ceilings restrict providers’ ability to price credit for riskier markets. Non-bank providers, such as MFIs, are often exempt from these interest rate caps, while banks are not. These exemptions allow MFIs to price in the risk of non-performing loans as well as the cost of distributing them to harder-to-reach clients. Banks can neither price in the cost of the risk nor overcome the poor infrastructure present in most markets, making it unviable to serve the majority of their bank clients with credit. For example:

- In Swaziland, banks have a client base of more than 230,000 adults, reaching into even the poorest target markets (MAP Swaziland 2014). However, as shown in Figure 7, only 9% of bank clients have credit with the bank, and these are largely the higher-income clients. The figure also shows that a larger number of lower-income consumers have credit with savings groups and informal moneylenders, at much higher interest rates.

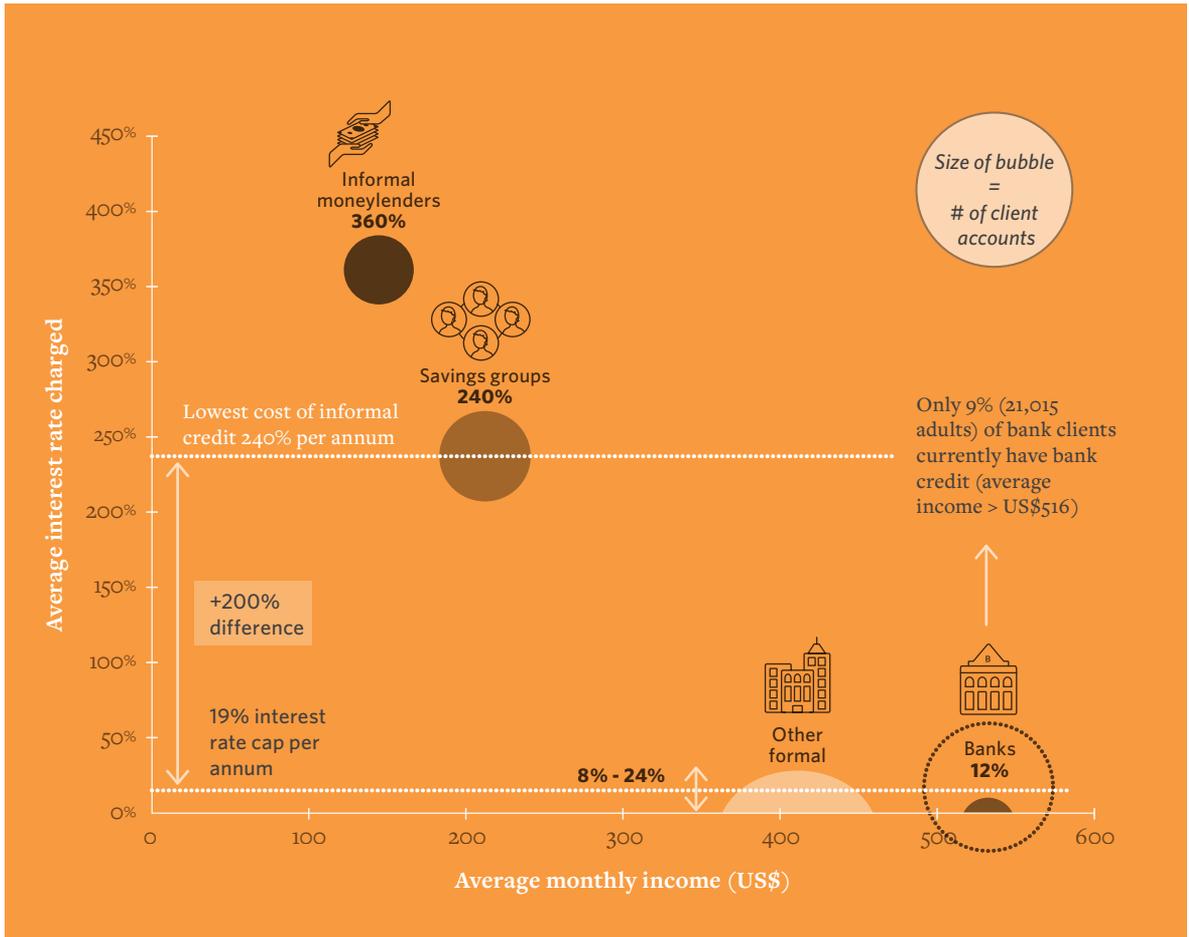


FIGURE 7: Credit market in Swaziland  
Source: MAP Swaziland (2014).

## Why are banks not responding?

Current market and regulatory conditions provide little incentive for banks to change their operations because the cost of driving usage is higher than the additional revenue the majority of banks would be able to recoup.

**Traditional bank business models do not make sense in the low-income market.** Bank revenue across the MAP countries is generated primarily through either intermediation or fees. However, as it stands, banks make money off neither intermediation nor fees in the low-income market:

- *Intermediation business model sputters to a halt.* Banks gather many small and some larger deposits to lend out. However, the tendency of low-income clients to leave little value in their accounts, and their preference for withdrawing the bulk of their

receipts in one or two lump sums shortly after deposit, derails the intermediation business model. Furthermore, the cost of raising deposits in the low-income space is high due to the infrastructure required to facilitate low-cost savings. From an intermediation point of view then, low-income clients offer limited scope.

- *Mismatch between cost of installing infrastructure and the revenue banks are getting.* Financial sector infrastructure is costly. The average operational costs of an ATM are substantial for banks. For example, in Malawi, MAP discussions with providers indicated that the monthly operational costs can be in the region of US\$1,000. This is in addition to the cost of purchasing the ATM, which is about US\$26,500, with a further cost of US\$12,000 to deploy it. These costs can

be further driven up by the lack of physical infrastructure, which requires banks to bear the cost of connectivity, electricity and in some cases road infrastructure. Banks need to recoup these costs from the fees that they generate from clients. However, the revenue from customers is too low to justify the infrastructure investment.

In this regard, the exceptions among the MAP countries are Swaziland and Lesotho, where financial sector infrastructure is more widespread. Banks charge high fees for monthly servicing, deposit and withdrawal to justify their infrastructure investment. MAP consultation with providers in Swaziland and Lesotho revealed that between 40% and 60% of their revenue is generated from bank charges (fees).

**Need for new models.** A traditional bricks-and-mortar infrastructure is expensive and unlikely to enhance the end service to the client. Furthermore, the incentive to invest in bricks-and-mortar infrastructure and the attendant salaries is not there, given that the majority of the clients are very low net worth. Operating models that are more cost effective and responsive to the needs of the customer will drive usage.

**Donor programmes and government policies can inhibit banks.** The evidence from the MAP countries underscores the complexity of the situation, indicating that regulators and donors can inadvertently promote policies and programmes that inhibit banks from extending their offerings:

- *Subsidising or restricting bank costs undermines infrastructure investment.* In many countries, donor and government policy works directly against infrastructure expansion because banks are not allowed to price for the true cost of the distribution and specifically cash reticulation. For example:
  - In Mozambique, the government introduced regulation that restricts banks from charging fees for accessing and using bank infrastructure, especially for cash transactions. This limits the ability of banks to recoup their infrastructure investments, creating a disincentive to their doing so in the first place.
  - In Malawi, bank fees have been driven lower than is sustainable for most banks due to one donor-funded bank where the donor subsidises bank fees. The result is that clients have migrated to this bank, forcing other banks to follow suit. There is now even less incentive for banks to invest in fee-based business.

The result is that in both Mozambique and Malawi bank-based payments infrastructure is extremely limited.

- *Interest rate ceilings cannot justify offering credit.* In all of the MAP pilot countries, interest rate caps for bank credit make it unviable for them to offer credit in the low-income market. Banks are able to price neither for the risk of offering credit in this market nor for distributing it, which requires them to invest in new infrastructure and processes. The result is very little credit offered through banks to this market.

## Implications for providers, policymakers and donors

This note demonstrates that in the six MAP pilot countries, bank account-based financial inclusion has not translated into significant usage of bank accounts beyond a mailbox or encashment function. To the extent that bank accounts are used for electronic payments, savings and credit, this still occurs primarily in the narrow, traditional higher-income market.

Fatima Cugala is also not an exception. For many people, receiving salaries and government payments into their bank accounts has effectively reduced their welfare and financial well-being, since the transaction and opportunity costs to access that value and turn it into cash can be high. For the most part, all that has been achieved is that employers and government agencies that previously had to bear the cost of ensuring payment in cash to the recipient have transferred those costs to the recipient, who is worse off.

The evidence shows that these outcomes are likely to be produced in countries that lack a well-developed and ubiquitous bank-based payments infrastructure: branches, ATMs and POS devices. In this environment a drive for bank accounts beyond narrow urban areas will not be commercially viable for banks, and neither would it meet the financial services needs of the new customers. In the six MAP pilot countries there was also little incentive for banks to change their offerings and extend their infrastructure, given that customers leave minimal funds in their accounts that could be intermediated. At the same time, the cost-benefit equation for extending infrastructure does not stack up.

In the first instance, strategies to increase bank account access must carefully review whether there are better, more appropriate products, and must be accompanied explicitly by usage strategies.

Furthermore, policymakers should not target bank account-based financial inclusion in the absence of an adequate bank-based payments infrastructure. What will likely be required is an indicator that integrates the density of bank-based distribution and the reach of cash infrastructure to measure the connectivity of adults to the banking system. Below a certain threshold, consumers will not be connected enough to benefit from bank account-based financial inclusion.

Policymakers can enhance the coverage and utility of existing infrastructure by encouraging or mandating interoperability between existing proprietary bank infrastructures. As a general rule, policymakers should not encourage or require banks to provide low-cost bank accounts or cap transaction fees for especially cash transactions, since this will further undermine the commercial viability of opening new accounts.

Banks serious about entering the low-income market should rethink their pricing models, moving away from a retainer-type fee to transaction-based fees. Furthermore, they should move to a shared infrastructure model with other banks, competing on service rather than infrastructure. At the same time, they need to engage new distribution models such as mobile, which can dramatically reduce their cost per transaction. However, for the foreseeable future banks will remain the primary providers of cash irrespective of whether they move to a mobile front-end or not. Thus, while the recommendation is that banks not be forced to cap their fees, the challenge will remain to find

ways to make cash available to their customers at the lowest cost - and this conundrum will require lateral thinking and innovation.

In general, there is a need for new models of client engagement. For banks to move from a mailbox relationship with their clients, they need face-to-face engagement, which calls for fresh and innovative partnerships that can work with the low-income sector. Emerging business models like Airbnb and Uber have found new ways of intermediating clients within an old-world industry, and the challenge for traditional financial services providers is to identify new partnerships that are better able to develop client relationships.

For their part, donors must be very cautious before encouraging or instigating bank account-based financial inclusion drives in countries with underdeveloped bank-based payments infrastructures. The same goes for encouraging the migration of salary payments or government payments to bank channels in the absence of adequate infrastructure. As this note has discussed, this can create more hardship than benefit.

Donors also need to pay more attention to existing banking business models in the countries in which they work. Bank account-based financial inclusion will work much better where banks have already decided to increase fee-based income and adjusted their operations accordingly. If 60%-plus of their income is still interest-based, it will be more difficult to drive financial inclusion through bank accounts.

Furthermore, donors need to reconsider what they are promoting with the existing measurement frameworks in financial inclusion. Looking back at the ways that bank accounts can be used - i.e. to transact, save and access credit - which were the underlying drivers of bank account-based financial inclusion, this note illustrates that this has not been achieved. The headline indicators for Findex and FinScope and the AFI Core Financial Inclusion indicators reflect bank account ownership, by tracking the percentage of adults with access to an account - be it a deposit, credit or bank account - at a financial institution. Measurement needs to follow the shift in our understanding of how adults derive value from formal financial services. For example, the FinScope Financial Access Strand is constructed in a way that gives preference to bank account ownership over usage of other formal or informal financial services; whether account holders actually use the bank account is an afterthought. If the different categories (other formal, and informal/local) are disaggregated, it would at least give a representation of the relative importance of other formal and informal/local providers and an indication that there may be limitations with regard to the reach of bank accounts.

The evidence from the MAP research has demonstrated that increasing usage in any given environment calls for meeting a range of complex and dynamic preconditions. Hence, any strategy to assist consumers to transact, save and access credit must embrace a much larger strategy, which in the first instance gets a clearer picture of the market and its drivers, and then builds in continual data feedback loops linked to customer realities and market growth alike, while allowing for organic decision-making by market players, governments and donors.

After all, markets are organic and develop at varying paces. While well-intentioned financial inclusion interventions aim to enable market development, consumers might not be ready to accept these development initiatives - and hence such initiatives might run ahead of market readiness. Adopting a systems approach, which is able to prepare the market, based on the prevailing attitudes, behaviours and acceptance while offering potential solutions, is more likely to win consumer support and yield sustainable results.

## Bibliography

BTCA (Better Than Cash Alliance). (2015). *Country Diagnostic: Malawi*. UNCDF BTCA programme.

Chamberlain, D., Bester, H., Smit, H., Loots, C., Mburu, S., Dermish, A. & Gidvani, L. (2014). *Myanmar Demand, Supply and Policy Diagnostic Report*. UNCDF Making Access Possible (MAP) Programme. Available online from: <http://cenfri.org/making-access-possible/map-myanmar> (accessed January 2016).

Chamberlain, D., Bester, H., Smit, H., Loots, C. & Saunders, D. (2014). *MAP Thailand Country Report*. UNCDF Making Access Possible (MAP) Programme.

Demircuc-Kunt, A. & Klapper, L. (2012). *Measuring Financial Inclusion. The Global Financial Inclusion Index (Global Findex)*. The World Bank.

Estey, N., Cooper, B., Hougaard, C., Chamberlain, D. & Weiderman, J. (2015). *Mozambique Demand, Supply, Policy and Regulation Diagnostic Report*. UNCDF Making Access Possible (MAP) Programme.

FinMark Trust. (2011). *FinScope Consumer Survey Lesotho*. Available online from: [http://www.finmark.org.za/finscope/consumer\\_lesotho/?title=FinScope%20Consumer](http://www.finmark.org.za/finscope/consumer_lesotho/?title=FinScope%20Consumer) (accessed January 2016).

FinMark Trust. (2011). *FinScope Consumer Survey Swaziland*. Available online from: [http://www.finmark.org.za/finscope/consumer\\_swaziland/?title=FinScope%20Consumer](http://www.finmark.org.za/finscope/consumer_swaziland/?title=FinScope%20Consumer) (accessed January 2016).

FinMark Trust. (2012). *FinScope MSME Survey Malawi*. Available online from: <http://www.finmark.org.za/publication/finscope-malawi-2012-msme-survey> (accessed January 2016).

FinMark Trust. (2013). *FinScope Consumer Survey Myanmar*. Available online from: [http://www.finmark.org.za/finscope/consumer\\_myanmar/?title=FinScope%20Consumer](http://www.finmark.org.za/finscope/consumer_myanmar/?title=FinScope%20Consumer) (accessed January 2016).

FinMark Trust. (2013). *FinScope Consumer Survey Thailand*. Available online from: [http://www.finmark.org.za/finscope/consumer\\_thailand/?title=FinScope%20Consumer](http://www.finmark.org.za/finscope/consumer_thailand/?title=FinScope%20Consumer) (accessed January 2016).

FinMark Trust. (2014). *FinScope Consumer Survey Malawi*. Available online from: [http://www.finmark.org.za/finscope/consumer\\_malawi/?title=FinScope%20Consumer](http://www.finmark.org.za/finscope/consumer_malawi/?title=FinScope%20Consumer) (accessed January 2016).

FinMark Trust. (2014). *FinScope Consumer Survey Mozambique*. Available online from: <http://www.finmark.org.za/publication/finscope-mozambique-consumer-survey-2014> (accessed January 2016).

GPFI (Global Partnership for Financial Inclusion). (2016). *Why Financial Inclusion*. Available online from: <http://www.gpfi.org/about/why-financial-inclusion> (accessed March 2016).

IAIS (International Association of Insurance Supervisors). 2012. *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*. Available online at: <http://cenfri.org/microinsurance/iais-application-paper-on-regulation-and-supervision-supporting-inclusive-insurance-markets> (accessed January 2016).

Jefferis, J. & Manje, L. (2014). *Lesotho Demand, Supply, Policy and Regulation Diagnostic Report*. FMT Making Access Possible (MAP) Programme. Available online from: <http://cenfri.org/making-access-possible/map-lesotho> (accessed January 2016).

Thom, M., Cooper, B., Gray, J., Denoon-Stevens, C. & Van der Linden, A. (2015). *Malawi Demand, Supply, Policy and Regulation Diagnostic Report*. FMT Making Access Possible (MAP) Programme.

Thom, M., Gray, J., Hougaard, C., Cooper, B., Mburu, S., Saunders, D., Slabber, M. & Muller, Z. (2014). *Swaziland Demand, Supply, Policy and Regulation Diagnostic Report*. FMT Making Access Possible (MAP) Programme. Available online from: <http://cenfri.org/making-access-possible/map-swaziland> (accessed January 2016).

## Notes







## 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 decentralisation, 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.



## Unlocking Public and Private Finance for the Poor

### UN Capital Development Fund

Two United Nations Plaza  
New York, NY 10017

[info@uncdf.org](mailto:info@uncdf.org) | [www.uncdf.org](http://www.uncdf.org)

Tel: +1 212 906 6565 | Fax: +1 212 906 6479

 [www.facebook.com/uncdf](https://www.facebook.com/uncdf)

 [www.twitter.com/uncdf](https://www.twitter.com/uncdf)

