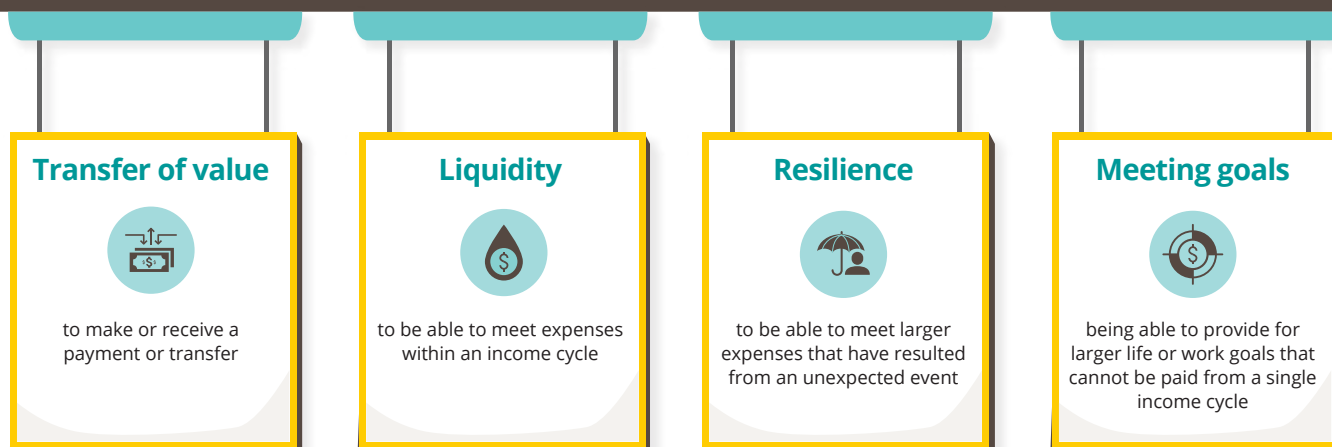


Shopping for Value

Are formal financial services meeting people's financial needs?

A needs lens

In the quest for financial inclusion, it matters what you measure. The percentage of people who have a bank account does not tell you much when tracked in isolation. Equally relevant for policymakers to know is: Are people actively using their financial services and is doing so having a positive impact on their lives? The key is to understand whether the formal financial sector is meeting people's underlying financial needs – that's why they have financial services in the first place. There are four universal financial needs. Each consists of a number of specific *use cases* as indicated in the examples below:



Examples: Buying airline, paying for groceries, sending money to a relative, making an online payment

Example: Enough funds to meet all expenses for the week or month

Examples: Having the funds to pay for a funeral, being able to pay a hospital bill, getting by when losing your job

Examples: Paying for a wedding, buying your own home, a quality education for your child, being able to retire

People choose a basket of different **financial devices** to meet their use cases. These devices can be formal or informal, social or personal; they can be credit, savings, payments or insurance.

What is a financial device?

A financial device is any physical, social or electronic mechanism that stores, accumulates, distributes or transfers value and that can be used to meet a financial need. Financial devices is a broader concept than financial services. A financial device refers to what a person makes use of to meet a financial need. For example, cash at home or savings in gold or other assets would be a "personal device", while assistance from family and friends would be a "social device".



A market perspective

Each financial need represents a **market** where different types of devices are complements or substitutes to meet that need. Formal financial institutions are not competing with one another in the market for, say, credit or savings. *They are competing with cash, informal and social devices in the market for meeting goals, for resilience, liquidity or transfer of value.*





Formal financial services are not meeting needs

Sometimes, what you buy does not match what you need. Our **pilot studies**¹ confirm that informal financial services are widely used, even among the formally included. Despite the gains in formal financial inclusion, formal financial service providers are largely not meeting the needs of the low-income market. They find it difficult to outcompete informal alternatives: KYC requirements, monthly charges, minimum account balances, credit-scoring and risk-rating – to name but a few features of formal products – all make it hard to emulate the flexibility and accessibility of social devices or the “free”, ubiquitous nature of cash.

New business models needed

Where formal financial services manage to reach large chunks of the lower-income population, it is on the back of instant payments and mobile payments as a cash alternative. Such innovation is often happening outside of the legacy systems of the traditional banking sector, through the development of new business models driven by digital technologies. This suggests that, to meet needs in the formal sector, you need to think outside the box.

¹ <https://i2ifacility.org/initiatives/measurement-in-financial-inclusion>

A changing measurement imperative

Our measurement agenda over the past few years has changed our perspective on what really matters in financial inclusion measurement. Our pilot studies have confirmed that understanding financial needs is an important starting point. Next, we need to better understand outcomes of usage in the context of financial health: Are financial services enabling people to live their financial lives in a way that allows them to make progress towards their goals and prevent financial vulnerability? We also need to look beyond individual financial needs to understand how economic sectors function and how financial services interplay with value chains to generate growth.

The traditional bank and non-bank financial sector can no longer be our only focus. Much of the dynamics are happening elsewhere. Nor can we rely just on full-scale demand-side surveys to render insights. We need adaptable instruments to measure trends with a quicker turnaround, plus we must harness the full potential of transaction data.

See our **toolkit**² for a practical guide to applying the FinNeeds measurement approach and see our **synthesis note**³ for a fuller overview of our findings to date and our predictions on the next frontier of financial inclusion measurement.

² http://access.i2ifacility.org/Measurement_framework/

³ https://i2ifacility.org/system/documents/files/000/000/131/original/insight2impact_Synthesis_Note_FinNeeds.pdf?1585974894


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About Cenfri

Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly. For more information, visit www.cenfri.org.

About FinMark Trust

FinMark Trust is an independent non-profit trust. Its purpose is "Making markets work for the poor, by promoting financial inclusion and regional financial integration". Its programmes aim to unlock financial inclusion and sector development through a symbiotic relationship between rigorous data collection and research activities. Its work can be found in South Africa, throughout the SADC region and the global arena. For more information, visit www.finmark.org.za.