



# Assessing the Economic Inclusion Potential of Mobile Financial Services

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April 24, 2014



# What are the challenges to economic inclusion?

## ■ **Industry Perspective**

- ◆ Profitability
- ◆ Regulatory environment (customer ID requirements)
- ◆ Fraud
- ◆ Consumers' lack of knowledge or awareness about financial products and services
- ◆ Effective marketing



# What are the challenges to economic inclusion?

## ■ **Consumer Perspective**

- ◆ Research on factors that influence banking status
  - Money/Income
  - Employment
  - Convenience
  - Transparency and predictability
- ◆ Reasons for being unbanked vary – MFS can't help everyone
- ◆ Many banking relationships are not sustainable, households cycle in and out of the banking system



## What is MFS?

- **MFS is a mode of accessing financial services, not a product in itself**
  - ◆ Characteristics of underlying products are still important
- **MFS services can include basic transactions (checking account balances) and more advanced, emerging services (mobile check deposit, push alerts, payments)**
- **MFS is provided by both banks and nonbanks, but this paper focuses on mobile banking**



# Can MFS meet the challenges?

- **MFS can provide anytime, anyplace, actionable information**
  - ◆ The unbanked and underbanked (known collectively as the underserved) value convenience, speed and price
- **MFS, including advanced features, is widely available**
  - ◆ All of the 26 largest financial institutions offer core MFS capabilities
  - ◆ 77 percent offer mobile RDC, 31 percent offer PFM
  - ◆ But, commonly offered features are not always economic inclusion-friendly



# Who uses mobile phones?

- The 2013 FDIC National Survey of Unbanked and Underbanked Households collected new data on the use of mobile phones and mobile banking

(Percent of Households)

| Demographic Group     | Access to Mobile Phones | Access to smartphones |                          |
|-----------------------|-------------------------|-----------------------|--------------------------|
|                       | Among all households    | Among all households  | Among mobile phone users |
| All Households        | 82.6                    | 55.6                  | 67.2                     |
| <u>Banking Status</u> |                         |                       |                          |
| Unbanked              | 68.1                    | 33.1                  | 48.6                     |
| Underbanked           | 90.4                    | 64.3                  | 71.1                     |
| Fully Banked          | 86.8                    | 58.9                  | 67.8                     |

Source: 2013 FDIC National Survey of Unbanked and Underbanked Households



# Who uses mobile phones?

(Percent of Households)

| Demographic Group               | Access to Mobile Phones | Access to smartphones |                          |
|---------------------------------|-------------------------|-----------------------|--------------------------|
|                                 | Among all households    | Among all households  | Among mobile phone users |
| All Households                  | 82.6                    | 55.6                  | 67.2                     |
| <b><u>Race or Ethnicity</u></b> |                         |                       |                          |
| Black                           | 79.1                    | 52.3                  | 66.2                     |
| Hispanic                        | 79.9                    | 55.5                  | 69.5                     |
| Non-Hispanic Whites             | 83.6                    | 55.5                  | 66.4                     |
| Other                           | 85.0                    | 63.5                  | 74.7                     |
| <b><u>Age</u></b>               |                         |                       |                          |
| Age 24 or younger               | 88.8                    | 76.0                  | 85.5                     |
| Age 25-34                       | 89.8                    | 76.3                  | 85.0                     |
| Age 35-44                       | 89.0                    | 72.0                  | 80.9                     |
| Age 45-54                       | 86.6                    | 62.8                  | 72.6                     |
| Age 55-64                       | 83.5                    | 48.7                  | 58.3                     |
| Age 65 or older                 | 67.3                    | 23.2                  | 34.5                     |
| <b><u>Income</u></b>            |                         |                       |                          |
| Less than \$15,000              | 69.2                    | 31.2                  | 45.1                     |
| Between \$15K and \$30K         | 74.4                    | 37.9                  | 50.9                     |
| Between \$30K and \$50K         | 82.2                    | 50.9                  | 61.9                     |
| Between \$50K and \$75K         | 88.3                    | 63.2                  | 71.6                     |
| \$75,000 or more                | 91.6                    | 77.7                  | 84.9                     |

Source: 2013 FDIC National Survey of Unbanked and Underbanked Households



## Who uses MFS?

- **One quarter (25 percent) of mobile phone users have used mobile banking in the last 12 months**
  - ◆ 24 percent of fully banked households
  - ◆ 31 percent of underbanked households
  
- **Over a third (36 percent) of smartphone users have used mobile banking in the last 12 months**
  - ◆ 34 percent of fully banked households
  - ◆ 42 percent of underbanked households

Source: 2013 FDIC National Survey of Unbanked and Underbanked Households



# Who uses MFS?

(Percent of Households)

| Demographic Group               | Use of Mobile Banking in the Last 12 Months |                        |
|---------------------------------|---|------------------------|
|                                 | Among mobile phone users                    | Among smartphone users |
| All Households                  | 25.4  | 35.6                   |
| <b><u>Race or Ethnicity</u></b> |   |                        |
| Black                           | 25.1  | 34.3                   |
| Hispanic                        | 26.8  | 35.7                   |
| Non-Hispanic Whites             | 24.8  | 35.6                   |
| Other                           | 29.7  | 37.3                   |
| <b><u>Age</u></b>               |   |                        |
| Age 24 or younger               | 46.0  | 49.7                   |
| Age 25-34                       | 44.4  | 49.1                   |
| Age 35-44                       | 35.0  | 40.6                   |
| Age 45-54                       | 24.0  | 31.1                   |
| Age 55-64                       | 15.1  | 23.7                   |
| Age 65 or older                 | 6.2   | 15.6                   |
| <b><u>Income</u></b>            |   |                        |
| Less than \$15,000              | 14.3  | 27.6                   |
| Between \$15K and \$30K         | 17.1  | 31.7                   |
| Between \$30K and \$50K         | 22.0  | 33.8                   |
| Between \$50K and \$75K         | 26.1  | 34.6                   |
| \$75,000 or more                | 33.9  | 39.1                   |

Source: 2013 FDIC National Survey of Unbanked and Underbanked Households



# How do households access their bank accounts?

(Percent of Households)

| Methods Used to Access Accounts in the Last 12 Months | All Banked Households that Accessed Their Account | Fully Banked | Underbanked |
|---|---|--------------|-------------|
| Bank Teller   | 78.9  | 78.8         | 79.3        |
| ATM/Kiosk   | 69.6  | 67.9         | 76.3        |
| Telephone Banking                                     | 26.0  | 24.3         | 32.7        |
| Online Banking  | 55.0  | 56.1         | 52.4        |
| Mobile Banking  | 23.1  | 21.6         | 29.0        |
| Other   | 1.0   | 1.1          | 0.7         |

Source: 2013 FDIC National Survey of Unbanked and Underbanked Households



# Framework for evaluating economic inclusion

- **ACCESS – Drawing consumers into the banking system**
- **SUSTAINABILITY – Keeping consumers in the banking system**
- **GROWTH – Deepening banking relationships and fostering financial empowerment**



# Evaluating MFS Along Access, Sustainability, and Growth



# ACCESS: Banking the Unbanked

- **Increasing appeal of banking system**
  - ◆ Penetration of smartphones (33 percent)
  - ◆ MFS alone does not address main reasons for being unbanked (e.g., ID, insufficient money, etc.)
  - ◆ Depends on available features and functionalities
- **Account opening**
  - ◆ Not widely Available:
    - Screen size
    - Integration of systems (core, mobile, online)
    - Competing priorities



# ACCESS: Banking the Unbanked

- **Opportunities:**
  - ◆ Smartphone penetration is growing
  - ◆ Account opening is being considered and implemented by banks; some seeing results
- **To take advantage of this opportunity, consider:**
  - ◆ ‘Trusted party’ and coaching
  - ◆ Financial literacy that integrates MFS
  - ◆ Leverage strategies to address reasons for being unbanked



# SUSTAINABILITY of Banking Relationships: for Consumers

- **Anytime, anyplace features of MFS are promising, but further adaptation required.**
  - ◆ Increase consumer awareness of account status
    - Make timely financial transactions and avoid fees (Check balance, receive alerts/ notifications) (e.g., low balance (avoid fees), fraud alert).
  - ◆ Increase convenience of everyday banking transactions
    - Mobile remote deposit capture (mRDC), bill pay, transfers, etc.



# SUSTAINABILITY of Banking Relationships: for Consumers

## ■ **Issues:**

- ◆ Real time information
- ◆ Speed of available funds and payments
- ◆ Enrollment and management requires online banking
- ◆ Need or preference for cash/paper instruments



## SUSTAINABILITY of Banking Relationships: for Financial Institutions

- **MFS could change the economics of serving underserved, however, in the short term costs are additive and cost recovery is focused on serving existing well established customers.**
  - ◆ Potential for increased feasibility
    - Reduce use of more costly channels
    - Increase customer engagement (accessing accounts more times, increased retention)
    - New revenue sources (trends should be monitored)



# SUSTAINABILITY of Banking Relationships: for Financial Institutions

- ◆ Security and Fraud
  - New risk are less understood (limit available functionalities)
  - But, new opportunities to use image capture, biometrics, geo location and other authentication tools to reduce fraud
    - However, must consider concerns related to consumer protection / privacy



# GROWTH of Banking Relationships

- **Financial Capability**
  - ◆ What are the most effective types of personal financial management (PFM) tools for underserved?
- **Customer Relationship**
  - ◆ Frequent and brief customer interaction
  - ◆ Role of personal interaction and branch banking (particularly for recently banked)
- **Deepening Banking relationships**
  - ◆ How do MFS customers learn about other products?



# Takeaways



## Integrate MFS into broader economic inclusion strategies

- **MFS alone is not likely to solve all challenges related to economic inclusion**
- **MFS should be connected with broader strategies, particularly for access and growth**
- **Example: Partner with community organizations or others to reach out to the underserved and help them learn how to make responsible use of MFS as a replacement for AFS**



Integrate MFS with other delivery channels and incorporate one-on-one interactions

- **One-on-one interaction is still important for the underserved, particularly for coaching and guidance**
- **Examples: Provide one-on-one assistance to help a customer download an MFS app, sign up for an account, and use MFS features**



Thoughtfully fine-tune risk management strategies associated with features that meet the needs of the underserved

- **Uncertainties about potential risks with new technologies may inhibit availability or access to features that benefit the underserved**
- **Risk management approaches that preserve access should be a goal**
- **Example: Implement risk management strategies that enable quicker access to funds from deposited checks**



## Address infrastructure challenges to increase the convenience and speed of MFS

- **Fully meeting underserved preferences related to convenience and speed requires real-time information and faster processing**
- **Infrastructure and systems updates may be needed, but in the short-run consumers could benefit from other ways to increase accuracy of account information**
- **Example: Move to real-time alerts over the medium-term, while utilizing virtual checking as a short-term stop-gap tool**



## Identify opportunities to enable more functionalities

- **Some consumers rely on their mobile phone for internet access, but there are often gaps between the banking services offered via mobile and a desktop website**
- **In some instances this is due to risk management concerns**
- **Example: Improve self-sufficiency of MFS features (e.g. billpay and enrolling payees, alert management, account opening)**



## Identify case studies demonstrating profitable implementation of MFS for economic inclusion

- **Although MFS requires upfront investment costs, savings are likely to occur over time**
- **Transaction costs are lower with MFS, which could make the underserved more profitable**
- **Business models that do not carry prohibitively high fees are likely to be the most successful for economic inclusion**



## Bridge mobile service delivery with traditional payment methods

- **Many underserved, by preference or necessity, conduct transactions using cash or other paper instruments**
- **Successful economic inclusion strategies are likely to recognize these needs in MFS offerings**
- **Examples: Provide mobile billpay that can mail paper checks to payees such as landlords; increase acceptance of electronic payments**