



# Assessing the Economic Inclusion Potential of Mobile Financial Services

Susan Burhouse  
Matthew Homer  
Yazmin Osaki  
Michael Bachman

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**