

FSDT Focus Note

The next digital finance frontier: Filling the accounts

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An open industry secret: Most accounts are empty

It is commonly accepted that poor people find value in remote digital payments propositions. A large number of Tanzanians have flocked to emerging mobile payment solutions, whether it is to send money home, facilitate informal business transactions, pay for bills, or buy pre-paid electricity. This has created tantalizing prospects for such solutions to be the spearhead for financial inclusion in a massive scale.

The reality, however, is that most digital accounts are empty and serve mainly, if not exclusively, as a pass through for such payments. We tend to think of financial services as being a broad array of connected capabilities (saving up, saving down, borrowing, paying), but most poor people experience digital financial services (DFS) as a point solution to very specific problems – again, sending money home, or paying a bill. As a result, current digital financial services (DFS) may be very useful, but have limited transformational potential.

One often hears about the stunning success of mobile money leading East African countries like Kenya and Tanzania towards a *cash-lite* environment. Yet it is strange to talk about *cash-lite* when most digital payments start and end in cash. Far from replacing cash, mobile money has made cash more efficient because it has addressed a key cash weakness (long-distance travel) while allowing cash to remain entrenched in local cash ecosystems.

Why is the value of digital storage of value not readily apparent to most consumers?

There are many factors which, together, make digital accounts an illogical store of value for people who live precariously on low and uncertain incomes and face health or weather-related shocks which can easily overwhelm their means. Here are a few ways in which providers can help make digital storage of value more attractive.

First, digital accounts need to deliver both fast and convenient payments (“flow”) as well as illiquidity features to support people’s mental hierarchies for different kinds of money based on their origin or purpose (“friction”). How can one savings account or mobile wallet deliver both friction and flow? Features need to be introduced that give users more of a sense of control over when they need flow and when they want friction. Only then can digital accounts play a

¹ This Focus Note is based on a presentation and discussion with senior industry participants that was held at the Hyatt Regency Hotel in Dar es Salaam on January 22, 2016. For any further information, please contact Innocent Ephraim at innocent@fsdt.or.tz.

significant role in helping people manage their money tensions, which, unlike day-to-day payments, play out in time.

Second, providers need to stop thinking of savings products as devices to discipline poor people (I won't let you touch your money!), and instead focus on tools that help people discipline themselves (I can't justify to myself touching my money now!) Poor people will reject savings products if they feel that they carry or invite implicit judgments by the bank. Dedicated school fees accounts, for instance, do not work partly because if you have had a rough month and haven't been able to contribute to your children's school fees account, the last thing you want is for the bank to think that you are a bad mother.

Third, providers need to talk of their savings services in a way that makes it seem more relevant to poor people. For poor people, *saving* is what you do when you have extra money – except that never seems to happen to them. Their problem is not that they have too much money, but rather that they have too many payments they need to make and too many things they want to buy, today and in the future. So saving products should be pitched as a payment solution – to build up to and protect tomorrow's payments. Money management is all about not letting today's payments unduly undermine tomorrow's payments.

Also, for many poor people savings is not so much money that is not yet spent as much as money that is not yet *spoken for*. Most people who save money for school fees in a jar would not think of that money as savings. Rather, they would think of savings as money that does not yet have a clear purpose, and as such is vulnerable money – money that is begging to be used. Savings are hard to hang on to; but stick it into the school fees jar (give it a story) or buy a chicken with it (think of it as an investment) and now it's a lot easier to hang onto. Insisting that people should "save" undermines their instinctive financial logic.

Fourth, poor people can't afford to have dedicated pots of money for single purposes, the way richer people do. Money always must do double, if not triple, duty. A key reason why informal savings mechanisms are so entrenched —savings groups, money guards, livestock— is precisely because you might think of each as savings for a purpose (that motorcycle I want to buy), also as an insurance (a fund I can raid if I need to take my daughter to the hospital), as well as building up your future credit potential (building up social capital by displaying my success and financial capacity). Bank savings products need to incorporate this multiplicity and fuzziness of purpose; that's what lets people feel like their money is working for them.

Fifth, to the extent that discipline needs to be supported by illiquidity features, these should be highly intuitive to people and not be driven by customers perceive as arbitrary impositions and small print. Nobody blames the cow for being indivisible, but most would blame the bank if they are not able to make a small withdrawal from a large savings account they hold. Any illiquidity features embedded in an account need to be readily obvious in the name and visual representation of the account on the phone menu.

Sixth, in countries where there is little or no interoperability across digital financial service providers, digital money appears to people as a confusing mess of monetary islands – each with its own rules, menu structure, maybe requiring a specific mobile operator connection. This is in stark contrast to cash, which appears to them as a consistent monetary universe. They may learn to use specific digital monetary islands to make specific remote payments (this island to send my mother to the village, this other island to pay a bill), but what they will not want to do is to leave money stranded in these diverse monetary islands. They'll always return back to cash, the universal solution. Without interoperability, what we call digital money will never feel like digital cash to them. It is just too hard to figure out.

The common denominator across all these factors might well be that digital accounts will not be useful money management and savings tools as long as they don't give users a greater sense of control over their money. The feeling of control doesn't come from agreeing to certain conditions that the bank has imposed on your account; it comes from being able to take the action that you feel is right. Action is what creates a sense of control. Yet if you get money on your mobile wallet today, the only action you can take today to feel in control of your money is to cash it out. There need to be a far richer set of actions that you can take digitally the moment you receive money.

It is time to put money management, and not just instant payments, at the center of the digital finance propositions

Restoring the storage-of-value function of digital money is important for many reasons:

- Offering effective savings services opens up more paths to impact, by helping clients manage their cash flows better and build up their discipline and resilience.
- Digitizing people's money (and not just their payments) can help unlock merchant payments because it puts people in the position of naturally wanting to pay for things digitally. While accounts remain largely empty, people will not be inclined to pay for things electronically at a local shop, limiting the growth of payment ecosystems.
- If people turn money over in their account more frequently for short-term money management purposes and daily in-store payments, providers can gain substantial more insight into their clients' financial habits and lives, powering credit scoring engines more meaningfully, and driving more responsible and affordable credit.
- Having a greater focus on money management and savings will result in a greater base of low-cost deposit funding, which can drive greater lending capacity and more float income.

- Finally, by putting money management at the center of their customer propositions, providers can develop a much more holistic relationship with their clients, creating many more opportunities for building customer loyalty.

Addressing the DFS innovation deficit

Creating these money management tools and embedding them in an intuitive phone-based application will require substantial innovation, which ought to be driven from a human-centered design perspective.

FSDT introduces the path to success to help Financial services providers put customers in the center of their service offering, motivating them to offer tools rather than products.

“FinDisrupt” the first insight-to solution initiative in Africa dubbed. it is a customer centricity module of service offering (product development), backed up with data insights from research and first-hand experience, with real customers in real environment.

FinDirupt events are designed for product development managers, startups and entrepreneurs in the financial sector space.

The main objective of FinDisrupt is to promote evidence based decision making in product development by Financial Service Providers in Tanzania.

It is our desire that the participants will;

- Be able to understand how to interpret and interrogate research findings
- Be able to make use of FSDT’s extensive insights on the needs of the end user and the gaps in the market
- Be able to conduct further analysis of exciting datasets
- Be able to understand how they can conduct quick consumer feedback surveys while developing products
- Take time to relook at their exciting products / processes and consider possible improvements based on exciting evidence
- Take time to reflect on developing new tools and or products / processes based on the evidence in their hands

Given FSDT’s desire to ignite a conversation on consumer centered product development in Tanzania, FinDisrupt is bringing together a wide range of stakeholders involved in the product development cycle in the financial sector. Participants will get a unique opportunity to;

- **Connect** – FinDisrupt will bring together product development teams from Financial Service Providers, researchers and developers. This will be a great opportunity for different players to network and identify possible partners and suppliers. These connections are essential in starting conversation and forging partnership that can result in better deigned products.

- **Curate** – FinDisrupt seeks to empower participants with the right skills to; interpret research findings, interrogate research findings and conduct further quick turnaround surveys that can help them get a better understanding of the demand side.
- **Construct**- Based on the insights and technics shared at FinDisrupt, the session would not yield the desired results if the knowledge and skills are not put to test or use. From the offset of the event the teams will be charged with the task of building / developing products. We will allow the participants to think of either exciting products that need to be revamped or completely new products. In order to nature creativity and competition they winning team will be awarded and FSDT will offer support to the promising prototypes that come out of FinDisrupt.
- **Collaborate** – In order to foster the spirit of collaboration, the product development sessions will call for a more collaborative approach among different players in the product development cycle (Financial service providers, researchers and developers).

Tanzania is one of the world’s leading markets for Mobile money/Digital finance cases, this being a natural space for innovation and testing of ideas, Innovation Hub is geared to promote customer centric innovation in Tanzania helping businesses and startups to create tools/products and services that respond to customer’s needs, build enabling environment for startups to scale, as for established organizations.

Creating an innovative environment requires a number of initiative and coordination of efforts, below are initiatives/events:

- FinDisrupt *“Let’s connect, curate, collaborate and construct”*. Use this to bring players together.
- Academicians, especially the business schools, Law school or lawyers, to help startups with professional guidance.
- Local incubators (COSTECH, Buni Hub) they will provide physical location as well as virtual incubation.
- Venture Capitalists (to conduct due diligence for startups before their stock is floated at the stock market).
- Stock market (DSE) for micro trading through digital form – using mobile phones.

Building a community that works together to deliver a common goal in financial inclusion is our desire, FSDT urges players in Tanzanian market to make this community a reality.