

Beyond financial inclusion: The promise and practice of *inclusive cash lite*¹

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In retrospect, 2012 may be seen as the high water mark of financial inclusion as we know it. Much of the commitment to date has come from policy makers, often at very senior levels—as the excerpt from the June 2012 Los Cabos G20 Summit Declaration demonstrates. The Declaration contained further commitments and encouragement from the assembled Presidents and Prime Ministers on the topic of financial inclusion. And the support is not limited to G20 countries either. The Alliance for Financial Inclusion (AFI) which was founded in 2009 as a platform to encourage south-south learning and engagement on how to promote financial inclusion now counts 88 member institutions from across the developing world. More than 80 countries – representing over 75% of the world’s unbanked population – have endorsed the Maya Declaration² in terms of which each country makes measurable commitments to increase financial inclusion.

In many ways, this level of convergence and alignment on this relatively new issue is remarkable in a world in which other priorities—not least financial stability—would seem to crowd it out. Indeed, the term financial inclusion is barely seven years old, arising as the more embracing and acceptable alternative to microfinance out of the 2005 UN Year of Microcredit. Beyond a general sense that it implies more people using formal financial services, most countries lack a clear applied definition of the term, though in increasing numbers they are committed to increasing ‘it’ because it is considered a ‘good thing’. The degree of consensus in part reflects the vagueness of the term³; and in part it recognizes the reality that while the Global Financial Crisis of 2008 followed over-active financial markets and over-indebted consumers with too much access to credit, the problem remains lack of access rather than too much in most developing countries today.

“We acknowledge the efforts of G20 and non-G20 countries committed to national coordination platforms and strategies for financial inclusion...and encourage similar efforts to advance effective implementation of the G20 Principles for Innovative Financial Inclusion.”

G20 Leaders Declaration,
Clause 51, Los Cabos Summit
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² <http://www.afj-global.org/gpf/maya-declaration>

³ The most general recent definition is perhaps that proposed by CGAP (2011) : Financial inclusion is “A state in which all working age adults have effective access to credit, savings, payments and insurance from formal service providers. Effective access involves convenient and responsible service delivery at a cost affordable to the

Against this context, this paper seeks to look beyond the current consensus, first to consider some evidence that existing approaches to inclusion may be reaching their limits; and then to propose and define the approach dubbed ‘inclusive cash lite’. This approach seeks to promote usage of electronic payments for most categories of payments and the majority of the population, although it stops well short of the ‘holy grail’ (for some) of cashlessness. It is this approach, I argue, which will lead to financial inclusion in time, reaching beyond current barriers. Finally, I review briefly, the approaches adopted by an increasing number of governments to promote or require electronic payments; and propose three essential stepping stones which are necessary for this to happen.

1. Financial inclusion: reaching the limits?

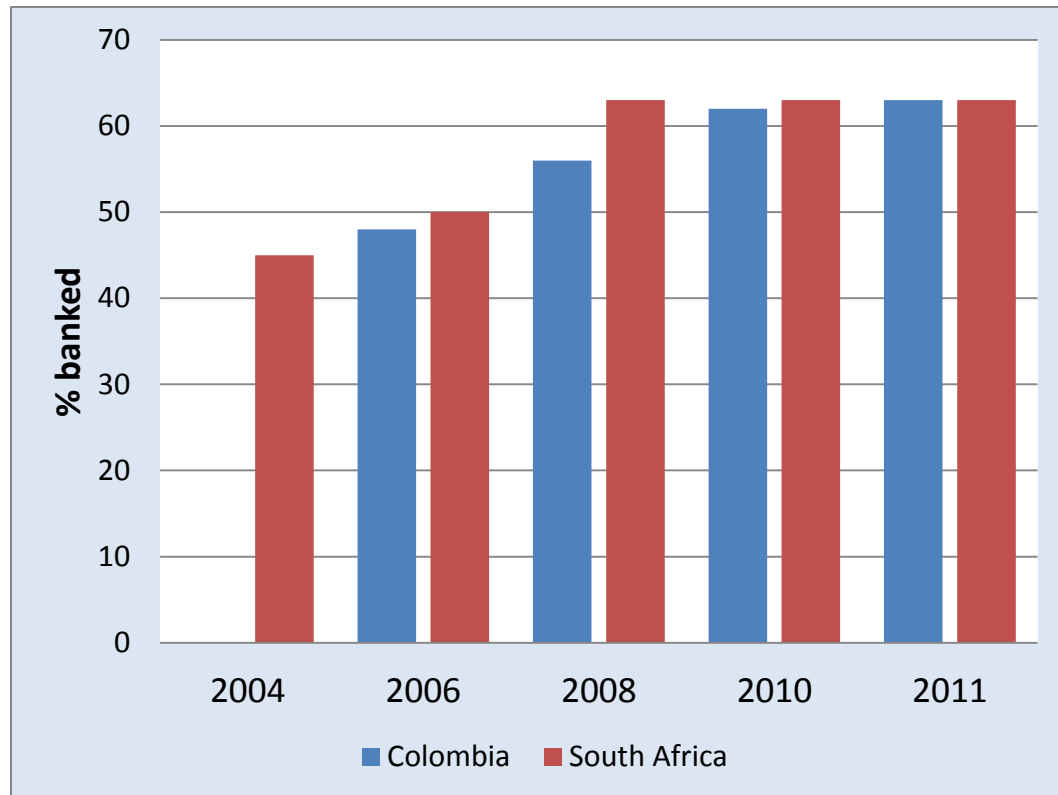
If financial inclusion is understood in its most crude, yet widely accepted, form as ‘banking the unbanked’, then some early indicators suggest that this level may be reaching limits in its current form. Few developing countries have measured the percentage of people banked accurately or consistently over long enough time to give accurate trend indications, but South Africa and Colombia are two exceptions. Both of these middle income countries embarked on comprehensive and explicit (though different) policies to promote access to financial services in the first part of the past decade, with the % banked an explicit measure of success. Figure 1 below tracks the trend in these two countries. In both countries, there was considerable ramp up in the early years from figures in the mid 40% range to reach the low 60% range, yet the reported numbers appear to be stuck in that range in recent years, notwithstanding new efforts.

There is some evidence that these two countries may be indicators of a wider although not universal trend towards a plateau, well short of full inclusion. What could be going on here?

In both these countries, efforts in the past decade have seen a large supply push by banks to increase low income clients: basic account types have been created; new channels (such as agents in Colombia or mini-ATMs in South Africa) deployed to broaden the reach of banking services; and almost all permanent formally employed people have been reached with accounts, often via their employers for whom cash wage payments are costly and unsafe.

Figure 1: % of Adults banked in Colombia and South Africa

customer and sustainable to the provider, with the result that financially excluded customers use formal financial services rather than existing informal service options. “



Sources: SA: FinScope various years; Colombia: Asobancaria numbers, shown years

And yet, two factors constrain further takeup. On the demand side, the banking ‘bucket’ appears very leaky—while customers appear to respond well to new offers of cheap bank accounts, a high proportion of these accounts become dormant within a specified period—ranging from 25% to 90% of basic bank accounts opened across a sample of large banks with which we have worked globally (including Colombia and SA). The reasons for dormancy vary widely—but the fact remains that the account holder no longer uses the account. And this high dormancy is not restricted to the banking sector. CGAP (2012) analyzed the client records of four providers of mobile money accounts (which are similar in features to some basic bank accounts although may not legally be bank accounts) and found only 8% of the accounts remained active.⁴ A large insurance company which sells insurance policies to a client base of whom 80% had not had insurance policies before found that 40% of the policies lapsed early on.

And of course, high lapse rates for financial products affect the supply side logic, or business case, for providers. The upfront costs of selling and opening a basic bank account may be as high as US\$20 or more, depending on the sales channel used. This cost includes the costs of issuing a plastic debit card and of compliance with KYC regulation and bank procedures, all of which have to be recovered out of non-existent subsequent revenue. Even among non-dormant accounts, the business case for commercial providers to offer low value accounts is not easy to sustain. In part it is because low average balances yield low float revenue, and most of these accounts are relatively inactive, limiting fee earning

⁴ <http://technology.cgap.org/2012/03/02/let%E2%80%99s-start-at-the-very-beginning-strong-customer-activity-needs-to-begin-on-day-one/>

potential: customers with basic accounts transacted around twice a month on average, compared with four or more transactions in the nearest equivalent account categories.⁵ Our work in the past two years with the mass account bases of four large banks showed that only the upper quartile of savings accounts by balances earned positive income for the bank, a fairly standard result across bank retail deposit books; and that the income on the top quartile was only sufficient to subsidize the deposit book if the internal bank float interest rate (related to its external cost of borrowing) was high enough.

These two factors coalesce to create a 'dead-zone' at the current limits of financial inclusion: where providers struggle to earn a return therefore apply the minimum capital and energy to the task of providing services to next tier markets (sufficient to satisfy regulatory or political demands); and where the nature and accessibility of products is often far from being really relevant or useful to customers (other than perhaps cashing out a government grant once a month via an ATM for example, because this is the only way to get the cash) . How then to break through to advance to full and sustainable financial inclusion?

2. Inclusive cash lite: The promise

This is where the promise of what has been called 'inclusive cash lite' comes in. The word 'cash lite' was to my knowledge first coined and used in the CGAP *Scenarios for Branchless Banking in 2020* (2009). 'Cash lite' distinguishes itself from the current 'cash heavy' state in most places; but more importantly, it deliberately differentiates from the concept of 'cashless' i.e. where there is no paper or metal money in circulation. The advent of cashless societies has been breathlessly anticipated at various times in the past although not yet realized. Thanks to the spread of mobile devices, which allow real time electronic communication, some believe that the cashless society is yet again imminent.⁶ The term 'cash lite' stops short of this, and adopts a more pragmatic approach in general: 'cash lite' refers instead to the case where the majority (not all) of transactions for the majority of people become electronic. Cash co-exists with electronic payments in the cash lite vision, but its role is pushed to the margin rather than fully displaced. An inclusive cash lite society has three key characteristics:

1. Every person has an account with a regulated institution;
2. Electronic transfers from this account (and others) are real time and close to free;
3. Financial product providers thrive on information rich products which meet the needs of the customer.

Cash lite as defined above must be inclusive since every person has a financial account. The reason for adding the otherwise redundant emphasis of 'inclusive' to cash lite is to emphasize the other dimensions of inclusion: it is possible to envisage a world in which cash is displaced to the margins measured in terms of value, as it is already in many places, but that substantial groups of people are still

⁵ BFA (2009) The Mzansi Basic Bank account in South Africa, available via www.finmarktrust.org.za

⁶ See for example PayPal UK which suggests a tipping point by 2016:
<https://www.paypal.co.uk/Blog/innovation/PayPal-Predicts-the-Future-of-Money/>

dependent on using it; or where the high costs or inappropriate terms of access to electronic accounts limit its use and usefulness. Adding 'inclusive' to cash lite therefore imposes riders such as 'close to free' to encourage its pervasiveness.

Why does it matter? The journey from cash-heavy to cash-lite carries a range of potential benefits:

- *Macro-economic growth:* Hancock and Humphrey (1997) estimated that the transaction costs of payment absorb around 3% of a country's GDP on average. Work done in a range of countries including Brazil by the Banco Central (2007) has suggested that a full transition to electronic systems would reduce these costs by 1% of GDP. Global Insight (2003) went further to link the growth in electronic payments to the growth in consumer spending, finding using a cross section of countries that an increase of 10% in the share of electronic payments will generate an increase of 0.5% in consumer spending. They also postulated other links leading to increased economic growth, such as increased intermediation of deposits through financial inclusion. This link between measures of financial depth and growth has been borne out elsewhere (see Cull et al 2012 for recent summary).
- *Governments:* the proposition for converting to electronic payments has often been considered the most compelling for governments out of all stakeholder groups, because governments at all levels receive (in the form of taxes and fees) and make (in form of wages to social transfers to purchases) so many payments to many different types of stakeholder. As one applied example, McKinsey (2010) estimated that automating payments between governments and households in India could save 8% of the amount paid, of which savings, government would receive close to 80% (the balance going to providers and beneficiaries). 75-80% of the estimated savings comes from reducing leakages on large government benefit programs which have until recently been paid in cash. These savings apply beyond India: recent research from a four middle income countries with large cash transfer schemes (see Bold, Porteous & Rotman 2012) also found that conversion from cash to electronic generally reduced costs by 50% or more, although the saving was conditioned on whether payment infrastructure existed at the time or not.
- *Consumers:* based on survey evidence, Zollmann (2012) calculates the time and cost incurred by consumers of three different banks in Africa to travel to bank branches and then queue to withdraw their cash as 2-7% of the monthly income of some clients. Electronic payments reduce this transaction cost. A key proposition of electronic payments is convenience: the ability to make payments without necessarily being bound to location or particular hours, which even low income grant beneficiaries recognize and value. However, the extent of this benefit depends on the extent of acceptance. As Schuh and Stavins (2012) show using US data on payment instrument adoption, cash is hard to beat for its general acceptance; and for its relative ease and low cost to consumers to use. In fact, compared in its attributes to other common payment instruments, the only categories where cash clearly loses to electronic payments is in terms of security and record keeping: cash is easier to lose and leaves no footprints.
- *Financial service providers:* for banks, the cost of handling cash is considerable, no matter which channel is used—branch, ATM or agent. Our work with a range of good sized retail banks in a range of developing countries has shown that the costs of branch based cash handling

transactions are above \$1 each (often well above); and even the use of ATMs and bank agents (with limits on the types and amounts which can be handled) may not bring the cost to the provider much below 25-50c. By comparison, a pure electronic transaction originated online or by mobile phone would cost 1-5c, depending on the channel used. As long as bank transactions are primarily about providing access to cash (to store or withdraw), banks' ability to reduce the transaction costs to consumers while being viable remains severely limited.

The benefits are tempting indeed, especially for governments who seem to have the most of all these groups to gain.

Financial inclusion in the fully orbed sense is also associated closely with cash lite, because the availability of cheap reliable electronic transaction channels should enable the provision of a wide range of additional financial services on top of a transactional account which can be debited or credited cheaply. However, while financial inclusion may be an output of cash lite, it is also a pre-requisite: for electronic payments to become pervasive requires that most people have a transactional account with the functionality. Just as one may argue that financial inclusion is necessary to promote cash lite, so cash lite promotes financial inclusion: the wide availability and acceptance of electronic transactions starts to change business models and enable cheaper provision of relevant services.

Is this cash lite vision 'pie in sky', especially in developing countries where levels of financial inclusion are still so low with less than 50% of adults banked? To be sure, there is a long way to go. Figure 2 below draws on results from the World Bank's 2011 Global Findex survey to show the proportions of adults in a range of low, middle and high income societies who report using electronic payments; it ranges from 4% in sub-Saharan Africa as a whole, where barely a fifth of adults are banked, to two-thirds in the UK and to 85% in Sweden, where almost everyone is banked. However, closer examination shows some anomalies: while only 5% of Kenyans report using electronic payments, almost 2/3 report (in answer to a different FINDEX question) that they send or receive money by mobile phone, the highest level in the world. P2P transfers by mobile phone, enabled by the well known and much researched M-Pesa mobile payment service of MNO Safaricom, are clearly a key sub-category of electronic payments. In five short years, the new mobile payment alternative has all but displaced previous methods of sending cash within the country as research has shown.⁷

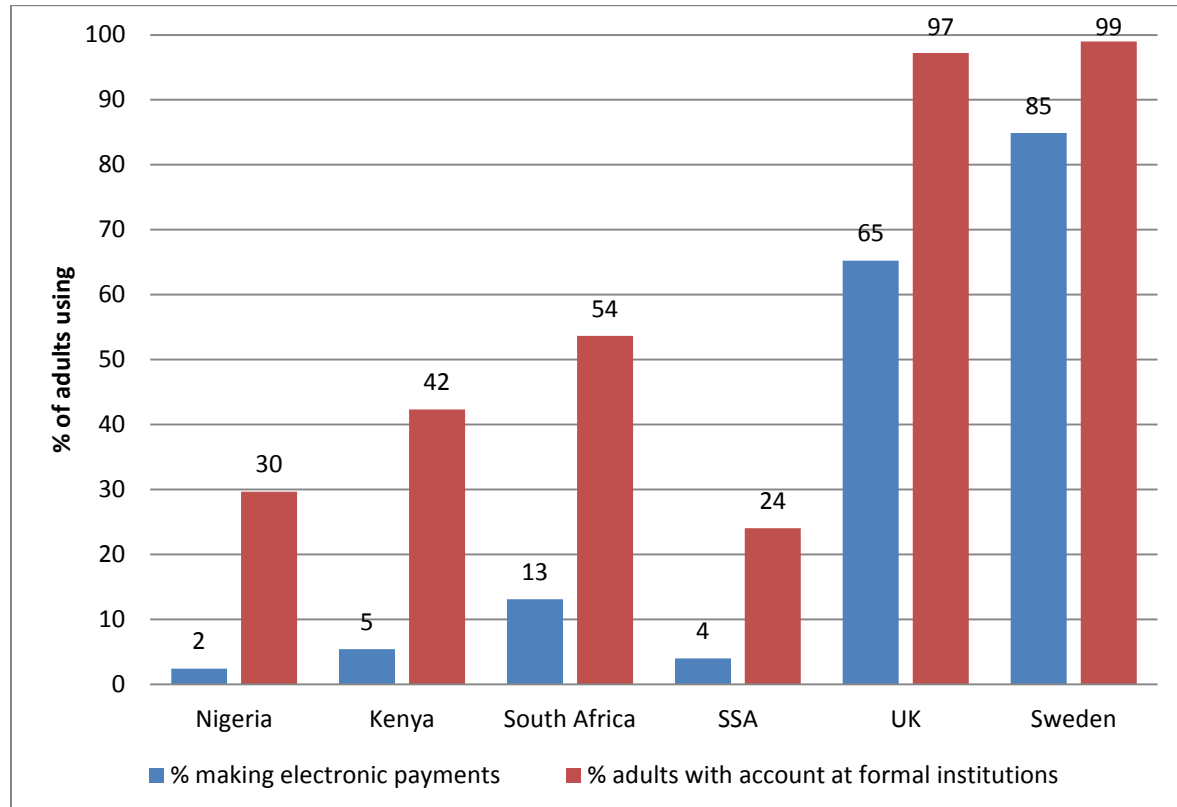
While the example is striking and illustrative of the potential, it also has its limits. The rapid adoption of one type of electronic payments in Kenya has not yet been replicated at the same scale elsewhere although initiatives in countries like Tanzania, Uganda and South Africa are starting to gain momentum in creating a critical mass of users of electronic money and electronic payments. Furthermore, while M-Pesa has changed the ways in which people pay each other across space, and even how people pay bills, it has yet to make much inroads to the way firms or government pay each other or how people buy goods. Recent works based on interviews with a range of Kenyan firms (Mas & Ngweni 2012) and a larger sample of SMEs only (Higgins et al 2012) show that mobile money use may be widespread in Kenya but is not (yet) deep: fewer than 28% of SMEs surveyed accepted mobile payments from

⁷ See Pulver, Suri & Jack (2009) The Performance and Impact of M-Pesa, available via http://technology.cgap.org/technologyblog/wp-content/uploads/2009/10/fsd_june2009_caroline_pulver.pdf

customers or initiated them, for example, to pay salaries to employees. As Mas & Ngweni conclude from their study:

“Few businesses have a dedicated mobile money account for conducting financial transactions electronically, and among those who have one, most do not appear to promote its use by customers or suppliers. There is little momentum behind the application of mobile money to business. Most businesses do not feel lifted, shaken or swallowed by the tidal wave of M-PESA.”

Figure 2: % Adults using electronic payments and % banked in selected countries/regions



Source: Global Findex (2012)

A healthy dose of realism is therefore appropriate about timelines for electronic transition. But nonetheless, as Ignacio Mas and I said recently: “We envision an inclusive cash lite⁸ world in which digital money is widely used as a store of value and a payment solution in developing countries....this world is now closer than one might think” (Mas & Porteous 2012). That world is closer than it seems because of the convergence of government interest in this, for reasons mainly not to do with inclusion, but tax collection as we will see in the next section; and more importantly, because mobile internet technology in particular is enabling new levels of connectedness between people which creates strong underlying demand for the type of payment solutions.

⁸ Inclusive cash lite was named i-Fi in the original paper; it is renamed here consistent with this paper to avoid confusion.

3. Inclusive cash lite: The practice

So, if there are compelling benefits which support a transition to cash lite, at least in its inclusive form, how have governments and policy makers sought to promote the adoption of electronic payments? We first survey briefly the traditional approaches here, and then propose some more fundamental stepping stones to cash lite.

3.1 Traditional approaches

Persuaded of the efficiency benefits of e-payments but more especially, of the potential to reduce tax evasion on cash purchases, governments around the world have adopted a range of different carrots and sticks to encourage consumers to make greater use of electronic payments.

Common incentives have included:

- **Tax refunds** for consumers on debit and credit card purchases, in places like:
 - Korea (1999 →) offers income tax deductions of portion of credit and debit card spend above income thresholds
 - Argentina (2002 →): three and five basis percentage points on VAT rate of 21%
 - Colombia (2004 →): two percentage points on a VAT rate of 16 percent.
 - Uruguay (2006 →): nine percentage points off of a 23 percent VAT tax rate in the tourism sector (including restaurants and car rentals).⁹
- **Lotteries** which reward consumers proportional to their usage of payment cards:
 - For example, Mexico started (2003 →) a high-profile lottery - El Boletazo - to promote payment card usage among consumers.
- **Tax subsidy** for providers to encourage deployment of POS devices:
 - Mexico (2005-2008) passed an incentive scheme which allowed accelerated tax deductions to banks which deployed new EMV compliant point of sale machines; and the banking sector set up a specialized trust (called FIMPE) to manage joint procurement of devices under the scheme and acquiring small value merchants (such as taxis) which banks themselves did not find viable.

On the side of 'sticks', governments have the power to mandate change in their own payment methods, as Mexico for example has decided to do: a 2010 presidential decree required that all government agencies make all their disbursements electronically by December 2012. Since 85% of the 5.8m beneficiaries of the major Mexican government CCT, Oportunidades, were cash paid in 2010, this has required rapid roll out of new pre-paid debit cards and accounts, as well as the rollout of bank agents to serve areas where clients are situated. Although the deadline is near, it is not yet clear that the target will be reached in full (Fletcher School/BFA case study 2011).

Instead, cash strapped governments, especially in Europe, have in the past few years imposed bans, and limits on the use of cash above defined thresholds. Some examples:

⁹ http://www.paymentsnews.com/2006/05/visa_spotlights.html

- Greece (2011): banned cash transactions over €1,500
- Italy: eliminated cash payments over €1,000
- Spain (April 2012): limits on the use of cash for large-scale transactions
- Nigeria (2011): adopted a ‘cash lite’ policy which has been piloted in Lagos State from April 2012 in terms of which penalties (in the form of 3% processing fee) are charged on cash withdrawals by individuals from banks exceeding approx. \$3100 per day.¹⁰

3.2 Stepping stones

Some carrots and sticks like these may be necessary and helpful to advance cash lite but they are at very least not sufficient: indeed, without some of the more fundamental building blocks in place which support an electronic transition, the traditional incentives may not be sustained and may have perverse consequences, including negative effects on financial inclusion. Ignacio Mas (see 2012) and I have set out three fundamental stepping stones to inclusive cash lite.

(a) Build ‘bridges to cash’

Ironically, to reduce the use of cash, it is likely that people need more access, not less, to the cash handling points at which cash can be converted to electronic value and vice versa—such as ATMs and cash in cash out agents. These are the bridges between cash and electronic value; and it is only through the presence of these points that customers unfamiliar with electronic value can gain confidence that it exists: indeed, evidence from mobile money schemes in developing countries suggests that some new consumers ‘convert’ their cash to electronic value in accounts (i.e. deposit) and then convert it back (i.e. withdraw it) repeatedly soon after opening their accounts just to make sure that the value is in fact there. Over time, as certainty grows, the need to do this diminishes. The constraint here is less about withdrawal than deposit. ATMs and even cash back at the point of sale are available in urban areas of many countries; but regulators have been very conservative until recently about allowing agents to get involved in deposit taking although this is now changing: 2/3 of countries in a CGAP survey indicated that agents were allowed to perform cash in and out transactions on behalf of banks.¹¹ A more fundamental obstacle is the business model: few ATM owners or retailers have been willing to accept cash (as opposed to getting rid of it for customers to spend in the store), at least without a fee for the service commensurate to the added risk and handling cost. Since customers typically struggle to see why they should pay to give their money to a financial institution, this exacerbates the problem: someone has to pay the agent to receive cash; and if not the customer, then the financial institution has to cross subsidize the cost of deposit acceptance with fees obtained from other services—withdrawing the cash, for example.¹² A pricing regime which incentivizes customers to deposit e-value and agents and agent acquirers to take the cash is therefore important.

Clearly, agents can play a much more compelling role than machines in deposit acceptance: even in countries where ATMs are able to accept cash, customers often indicate preference to exchange cash with a person to be sure that they receive credit. The number of agents is increasing rapidly in countries

¹⁰ Higher thresholds and fees apply to corporate transactions. See <http://cashlesslagos.org/>

¹¹ CGAP Financial Access 2009 Figure 4.10 available via <http://www.cgap.org/gm/document-1.9.38735/FA2009.pdf>

¹² Indeed, this is the basis of the M-Pesa pricing formula: free to the customer to deposit although the agent receives a small fee; and the customer pays to transfer or withdraw the money.

from Peru to Pakistan, and is starting there to exceed the combined number of bank branches and ATMs. However, much remains to be done to encourage the spread of agents to remote areas; and to optimize the efficiency of operating models. Some government agencies like Colombia's Banca de las Oportunidades have developed sophisticated area-based agent subsidy schemes which have encouraged wider roll out of bank agents to rural and marginal urban areas, and much can be learned from this. But the process of building more and better bridges to cash is at least underway in most places, and the incentives appear strong enough for providers to achieve this with policy assistance at the margins to encourage diffusion.

(b) Make real time electronic transfers easy and close to free

Once consumers have e-value, they have to be able to use it—not only as a store from which they have to cash out to use it, although this safe store is clearly appealing, but if we wish to reduce the usage of cash then people must be able to transfer the electronic value directly to others, whether to buy, remit or pay bills, and in turn, receive electronically into their accounts. Customers like the certainty of real time payment functionality, in which they and the recipient receives payment confirmation almost instantaneously is clearly important here: it is not necessary that final settlement takes place in real time, although if it does, this reduces the settlement risk. However, in a world of rapid communications, and especially where customers have had experience of using payment cards in which confirmation at point of sale is very close to real time, customers expect this, and if a good is being purchased, the merchant will not release it otherwise.

Outside of the credit and debit card environment in which acceptance is still limited in most developing countries, we are still surprisingly far from this vision:

- Real time payments may be available 'on us' i.e. within the same payment provider; but only relatively few countries, including South Africa, Mexico, UK, and recently India, offer real time clearing across providers for retail payments (different from real time gross settlement typically offered by central banks to settle obligations between banks);
- However, the usage of these instruments is still limited due either to a cumbersome process (India) or pricing models which discourage every day usage (South Africa, UK): there is a premium charged for the real time basis, whereas to be widely used, this type of instrument has to become close to free.

Mobile payments offer the prospect of achieving this component, in particular because the use of a mobile phone number as the recipient account address increases vastly the convenience of payment, compared with having to insert IBAN numbers or branch codes and bank account numbers. For this reason, the UK Payment Council recently announced that it would be establishing a central data base which would enable customers to map their mobile phone numbers to nominated bank accounts so that a payment to a mobile number would be automatically routed through to the account of choice. The recent review of innovation in the Australian payment system¹³ recommends both increasing

¹³ Payment Systems Board (2012) Strategic Review of Innovation in the Payment System
<http://www.rba.gov.au/payments-system/reforms/strategic-review-innovation/conclusions/index.html>

‘addressability’ of payments in this way, and also stresses the need to move faster towards real time clearing in line with customer needs and expectations.

To achieve the vision of real time clearing across a payment system requires not only an investment in systems and procedures but also in mechanisms which adjudicate and enforce clear liability for failed and fraudulent transactions in a range of different circumstances. Over the past fifty years, the major card associations have built up an elaborate rule book outlining how to resolve disputes between customers and merchants and member banks; and they enforce the application of their rules across members by agreement. These procedures have been adopted even in countries which have lacked national legislation or regulation for electronic payments since the card rules have been enforced among member banks, by associations which have had a clear interest in building consumer and merchant trust in their brands. However, this rich experience of balancing and distributing risks so as to grow a two sided market does not extend widely across the world of electronic payments: ACH rules for electronic credits may cover certain types of inter-bank transfers, but new payment providers in some countries are not part of these arrangements. And when they do on some basis, ACHs which have covered relatively limited volumes of payments will explode, and with that, require new mechanisms for customers to lodge complaints and to adjudicate these cost effectively and fairly. It is unlikely that government mechanisms can cover the scale necessary, even though Consumer Protection Agencies may be the backstop; rather, new e-arbitration mechanisms must be designed and considered.

(c) Encourage the emergence of products which build on information and allow consumers to tailor their choice of products

Even if all customers are able to make transfers and payments easily and cheaply, this does not amount to full financial inclusion by any definition: they should have access to other financial products and services which enable them to manage their financial portfolios and their household risks.

The new logic of financial inclusion has reprioritized payments ahead of savings and credit on the basis that once electronic payments are easy and cheap, providers will find it easy to offer other financial services which can be collected (whether for savings or premia or loan repayments) electronically. This logic remains true on the supply side, and there is some evidence that this cross-selling to other financial services emerges once customers are on an electronic transaction platform. However, it is increasingly clear that this logic is not complete since it does not address the fundamental demand side problem of financial services: unless customers see value in a product, why would they want to use it? And even more so, if customers have limited options for managing their money on basic transactional platforms, the platforms themselves remain limited in usefulness. Therefore, rather than simply waiting for the mass emergence of electronic platforms before developing new products and services, it is important for financial service providers to do so now.

For example, basic bank savings accounts are often limited in their appeal to poor people for savings: even if they are low cost, they don’t offer the means to accumulate for different savings goals and horizons in the same account; and opening multiple accounts (at the same institution) is complex to manage and anyway may not be allowed by bank or regulator. New generation offerings, like SmartyPig

(www.smartypig.com) are internet based third party savings providers which specialize in creating savings products and the customer interfaces (entirely internet based) to access them, even though the savings themselves are held in regulated bank accounts. But Smartypig offers additional features such as:

- The ability to have multiple savings goals which are set and measured separately;
- Free transfers in from transactional bank accounts and out once savings have been accumulated (from which withdrawals or transfers may then be made)
- The ability to be prompted, encouraged to save via e-mail and
- To link into social networks for friends and family to support public goals;
- Relatively high interest payments because of low cost structure, or alternative returns such as relevant product vouchers to cash out savings (e.g. home improvement store cards if the goal of savings is for home improvement, or airline cards if travel) where the return on savings is boosted by the final service provider which wishes to attract custom and can pay out of its margin.

Smartypig is only one example of an increasing number of new products, and Smartypig is to date only available in US and Australia where a critical mass of users has both internet access and the ability to make credit transfers across the banking system at very low cost which can be absorbed by the specialist provider. But the inexorable spread of internet connectivity, mainly via mobile phones, has led to the recent launch of a whole range of other financial service options—such as Lenddo (www.lenddo.com) which since 2011 has provided unsecured credit to individuals in The Philippines and now also Colombia using credit assessments based on social network profiles. In South Africa, Capitec Bank (<http://www.capitecbank.co.za/>) has come closest to the logic of offering multiple sub-accounts on its Global One debit card product; and has seen rapid adoption from customers—in part linked to access to its unsecured credit offering, and in part because the bank account product is seen as very compelling compared with its competitors.

Experimenting with new financial product designs like these is the role of providers who take the risks involved in finding out what really works well for targeted customers and bringing this offering to market. The direct role of policy makers and regulators in this area is relatively limited but still important: the creation of competitive and fair new generation product suites will depend on how the payment system infrastructure enables this to happen—can customers freely choose providers other than their transactional account provider for other services and pay them from their accounts, for example? Payment overseers need to consider carefully whether payment systems offer the functionality required and if not, how to encourage or offer it. As the Australian review concluded, there may be a more active role for payment regulators to play to overcome coordination failure and vested interest among incumbents to enable this to happen.

Conclusions

These three stepping stones start to lay out a feasible path towards an inclusive cash lite society: an outcome achieved when a society has the majority of its inhabitants using formal electronic payments in a majority of payment categories. This outcome cannot only be mandated or forced, although some pressure and certainly some incentives from the state may help along the way. However, without the enabling stepping stones, mandates or penalties alone may simply shrink the formal financial sector, or prove unenforceable, or both.

This inclusive cash lite vision is closely aligned with the ‘finance for all’ vision of Beck et al (2011) in *Financing Africa: Through the Crisis and Beyond*. The route to get there which I have sketched here is also consistent with the messages in that book, including most prominently the focus on demand constraints as much as on supply, but also the focus on services rather than institutions as well as competition. But it goes beyond current strategies to promote inclusion in many places, which are often focused on degrees of pressure on banks and other providers to provide basic services at low or no cost. It also requires focus on converting broad categories of electronic payments for people who already have bank accounts, rather than simply pushing out to the margins of financial service delivery which are the hardest places to achieve the vision.

Governments must also resolve, or at least prioritize, the tensions which underly the drive to financial inclusion: why do you want people included? Is it for economic growth, their own good, or is it to improve tax collection and fight crime? It is not possible to achieve all three simultaneously; an early drive to collect tax for example, may discourage use of the formal financial system by adding cost and reducing the consumer proposition; but a focus first on building the stepping stones will bring more customers into using the formal system where over time, the usual monitoring of electronic accounts can happen.

Inclusive cash lite builds on the strong wave of financial inclusion but, by rechanneling it, seeks to ensure that a supply-heavy inclusion approach will not crash on the shore of consumer indifference. There are many aspects to the emerging cash lite research agenda about which we need to know more; but we already know enough to know that financial inclusion paradigms must be realigned in order to remain relevant in a world of fast changing technology, risks and consumer preferences; in this sense, it moves beyond financial inclusion as we know it today, but seeks to deliver on the broad visions of financial inclusion as most seek it.

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