MicroSave India Focus Note 52

Removing the Pain from Using Cash: An M-banking Solution?

Veena Yamini A, Nitin Garg and Valerie Rozycki

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While IFN 51, based on research conducted in partnership with mChek, a mobile payments technology provider, explained why and how to understand the "cost of cash" for low income clients, this IFN expands on the same theme, but presents the key findings from the research study undertaken and provides insights on how an organisation may apply the tool's findings in an e- or m-banking scenario.

Finding 1: **Key transactions**

When asked about the key financial transactions, the six most frequently mentioned transactions were: 1. utility bills, 2. hospital, 3. food, 4. education, 5. festivals, and 6.travel. In urban areas, the six most frequently mentioned transactions were 1. utility bills, 2. hospital, 3. food, 4. education, 5. loan repayment and 6. travel (with only festivals being more favoured in rural areas and loan repayments in urban).[1]

> "*Hum khaana chhoddenge par hamare bachhonko school bhejenge.*" [We will stop eating before we stop sending our children to school.]

The transactions above can be categorised into the following four categories:

- **Basic transactions**: These are mostly the transactions taking place in informal markets, usually through small vendors. Consumers often visit the same place for recurring items like food, but for big ticket events that involve several, often small purchases, such as marriages, festivals, and weddings, they often visit different shops. Weddings and festivals expenses included both small ticket expenses, such as paying for cleaning, and large ticket expenses, such as jewellery and clothes.
- **Auxiliary**: Auxiliary category transactions are those transactions which are more in the organised/formal sector, for example utilities, education, hospital and loans. These are routine payments and are mostly planned, except perhaps in the case of hospital payments.
- **Commodity**: Certain transactions such as mobile recharge, petrol, travel, etc. are generally 'no loyalty' or 'pick-up anywhere' services, that the place where the payment is made or where the product is purchased does not matter (in general). These are often very frequent transactions.
- **Inflows**: The inflows form the last category of transactions. Some examples of these include: salaries/wages and small business income. Most of the inflows are not from the same place as the sources (e.g. employers, customers, etc.) are varied and innumerable.

Finding 2: Perceived costs & challenges using cash

Based on the "cost of cash" categories mentioned in the previous IFN (Risk of Carrying Cash, Time Spent, Opportunity Cost, and Transaction Costs/Fees), the study participants ranked each in the following ways:

- ***Risk of carrying cash*** was ranked as the most painful/high on cost for all transactions in both ***urban*** and ***rural areas*** – though for differing reasons. In urban areas, it was the most painful cost due to fear of losing cash and for the fear of someone else (friends or neighbours) asking for money. In rural areas it was because of distances travelled and the temptation for personal use or theft. ***Time spent and opportunity cost*** were the next most painful as many respondents were day labourers for whom the opportunity costs of leaving their work to conduct transactions was quite high (e.g. missing a half day of work often meant losing out on the entire day's wage). Actual transaction cost was ranked the lowest in terms of pain in both rural and urban areas.

> "*Jo paisa bank mein hai who kharch nahin kar sakte, agar hamare paas hoga to kisi na kisi cheez mein kharach ho hi jayega*"
> [If the amount is saved in a bank, we cannot spend it. But if we have cash in hand, we tend to spend it on something or the other.]

Finding 3: Which of the transactions are most important and most painful?

In rural areas, transactions such as festival expenses agriculture expenses, hospital expenses, food/rations, travel, and insurance were moderate to high pain transactions. The above transactions were painful due to the distances involved to carry out transactions and

[1] Please note these rankings by urban and rural individuals in Karnataka would very likely vary with different demographic groups and different geographies.

because of the cumulative amount of cash involved. Other transactions such as utility payments were also among the common expenses listed but were low pain transactions (and usually low value transactions), often because of doorstep collection by bill collectors.

In urban areas, transactions such as travel, hospital expenses, electricity/utilities and savings were mentioned as high pain transactions because of the time involved in carrying out the transactions and the risk of carrying cash. Despite many alternatives available for making utility payments, respondents considered these moderately painful due to long queues (and hence the time required). Most of the above mentioned transactions were found to be low to moderate value transactions. Transactions such as education expenses, food/ration expenses, loan repayment, rent, petrol and insurance were mentioned as moderate pain expenses. These were again found to be low to moderate value transactions with the exception of food expenses, involving larger, cumulative amounts.

How did mChek use the findings?

When trying to deliver any new service, it is essential to fully understand the customer's existing pain points. Knowing where, when and how transactions are done with existing cash-based methods and how that experience would change by moving to an electronic, mobile-based system is critical to understanding the customer value proposition fully and how to develop the ideal user experience.

mChek was thus motivated to embark on the cost of cash research to develop knowledge that would help inform product and business decisions. mChek has used the findings in three primary areas: "go-to-market" strategy, pricing and marketing.

Go-to-Market Strategy

There are many important considerations when determining the exact strategy for rolling out a new set of services to a new customer base. The customer value proposition (based on reducing the costs of cash) is one component. For example, festival shopping is high pain for customers because they must carry large amounts of cash to the market to make many purchases. Reducing this pain by introducing mobile payments seems important, but it is also much more difficult to acquire a large number of small merchants selling festival goods than it is to acquire a larger merchant like a utility biller. mChek has combined its new knowledge of the costs of cash with other strategic and operational considerations to develop a go-to-market strategy for low income customers.

Pricing

The biggest lesson from this study was that there is enough pain in transacting in cash that customers are willing to pay transaction fees for the simplicity and security of mobile payments. This has an important impact on the pricing and business model for a mobile payments company like mChek.

Given the different costs of cash for different transactions, per-transaction pricing may be too generic. Fees may be too high for some transactions and too low for others. Given that the risk of carrying cash was considered the most painful element, a percentage-based pricing model could be considered. Therefore, the pricing is based on the value created (or the reduction in the amount of cash carried).

Marketing & Customer Education

For many low income customers, adopting mobile payments means adopting three new services at once: mobile phone, bank account, and mobile payments. There is a large amount of customer education required for any one of these three alone, and even more for all three together. Additionally, this means that there are many stakeholders involved in acquiring and educating the customer: bank, mobile operator, technology provider, merchants and possibly also an agent network (named Business Correspondents in India). Any marketing and customer education should be clear and convincing for such a complex offering. Understanding the costs of cash can help companies like mChek and other mobile payments stakeholders craft the right messages and customer education campaigns. One approach is to use messaging that reminds customers about the pain of using cash for different transactions. When customers associate with the costs of cash, they will then be more ready to learn about this new complete solution that will reduce those costs of cash.

Conclusion

The key findings of the research indicated that in both rural and urban areas, basic and auxiliary transactions such as food, festivals, marriage expenses, utility bills, education, hospital and loans were moderate-to-high pain transactions, for which if provided an alternative (essentially to cash) could possibly lead to high adoption. Equipped with this insight in addition to its strategic and operations considerations, mChek designed its "go-to-market" strategy for low income customers, pricing, marketing and customer education. Such understanding of the existing alternatives and what value can be created by offering a new, improved one is important for mobile money stakeholders to deliver the right services to the right customers at the right price.

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