

# Understanding the Financial Behaviour of the Mass Market: the Key to Financial Inclusion

*By*

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# *Prologue and acknowledgement*

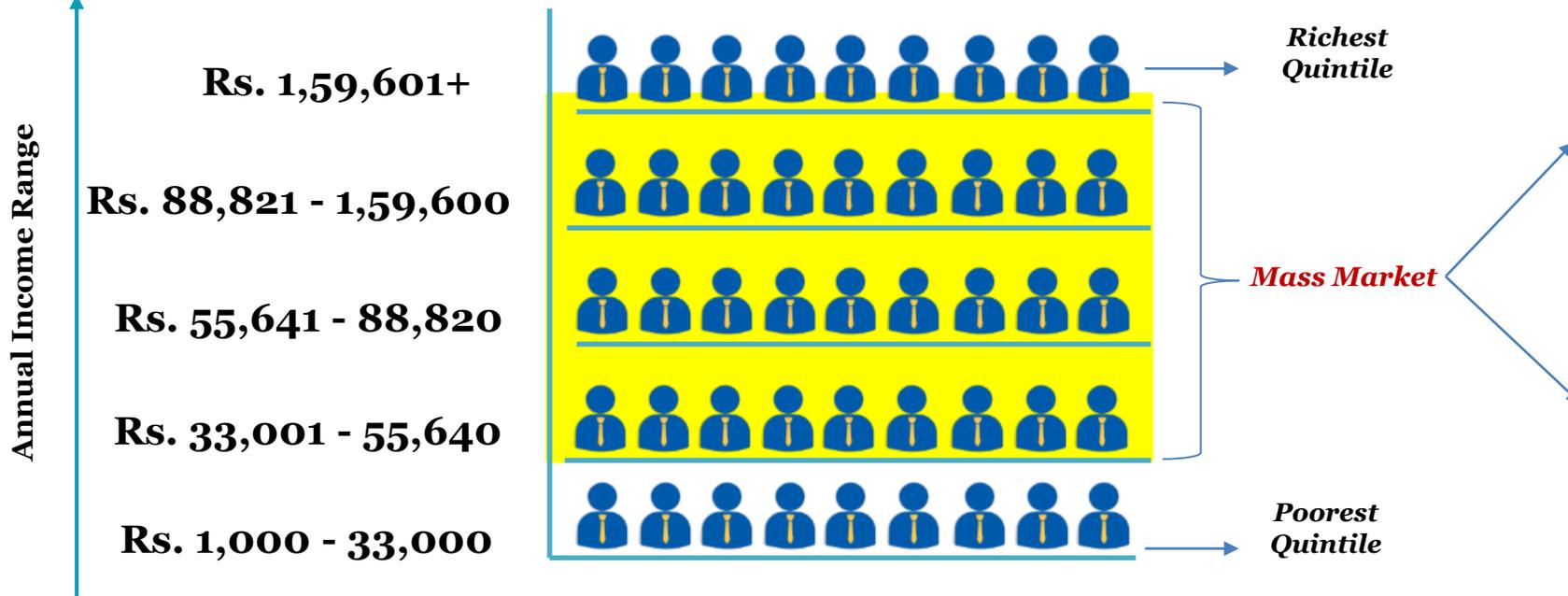
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This study is an extension of the work that *MicroSave* has been doing over the years on understanding how different types of people practice money management. We have also drawn from industry literature on the subject, such as the financial diaries in [Bangladesh](#), [Kenya](#), [Mexico](#), and [Zambia](#). Drawing insights from studies conducted in India, we analyse the behaviour of mass market customers in order to offer providers designs for universally appropriate financial products and services. The market insights from the Indian mass market has yielded important lessons for financial services providers all over the world.

We began the research, using our [Market Insights for Innovation & Design](#) approach with a supposition that service providers want to look at the mass market as a whole and not as specific segments. A broad overview of the mass market construct and corresponding behaviour would allow them to create generic products. Customers in the mass market would then find their own value proposition in these products and will adopt to accommodate multiple use-cases. We believe, for financial service providers, this approach is better than focussing on specific solutions, such as types of payments; or on specific types of customers such as migrants or G2P beneficiaries.

# The mass market contains diverse segments

We define the mass market as a segment comprising the middle to lower income groups that have similar life-cycle aspirations and similar ways of using financial services. Although the ways in which they are influenced to make decisions and the contexts in which they make them vary, they are moulded by broadly similar social pressures.



Source: India Human Development Survey, 2011-12

While statistical data serves as the stepping stone for identifying the **mass market**, the compartmentalisation is too simplistic and does not account for the myriad factors that influence the money management practices of different segments within the mass market. **So, we set out to find out what constitutes the mass market and whether the different groups within it have any common characteristics.**

Life cycle aspirations and financial lifestyles are determined by the frequency with which income is received and by the amount of that income i.e. its value.

Frequency

The frequency with which income is received could be daily, weekly, monthly, quarterly or a mix of these. We have consolidated this as daily and monthly.

Value \$

The monetary value gives an idea of the amount of the household income at the disposal of a mass market customer. We interviewed people in the income bracket of INR 3,000 (USD 44) to INR 20,000 (USD 294) per month.

# Amount and frequency of income: determinants of mass market customer behaviour

Income Frequency



## Shankar Singh - Daily Low

**Shankar** is a daily wage labourer and earns about Rs. 8,000 (USD 117.5) per month (p.m.) He lives with his wife, 4 children and mother in a village close to the city. Shankar prefers to use informal financial services – more often for credit than for savings. He mostly finds himself in a debt trap. He invests in jewellery for his daughter’s wedding, and in *beesi*.\*



## Jai Prakash - Monthly Low

**Jai Prakash** is a watchman at a residential complex and earns Rs. 8,000 per month. He lives with his wife and 2 children. He is averse to formal credit and plans his current and future expenses through savings in multiple places – in a box at home, in the bank, and with a large non-bank company.\*\* He takes advances against his salary and borrows money from friends and apartment residents to facilitate monthly expenses.



## Sunder Devi - Daily High

**Sundar Devi** is a dairy farmer and manages a shop. Her husband manages their 5 acres of agricultural land. Cash flows in on a daily basis and together they earn about Rs. 20,000 (USD 294) p.m. She saves money in a box at home and also uses a savings account in a bank. The savings are used to meet unexpected household and other expenses. She uses credit from micro-finance institutions (MFIs) to expand her business.



## Vijay Thakur - Monthly High

**Vijay Thakur** is a clerk with a firm. His salary is about Rs. 20,000 per month. He is a dedicated father committed to saving for a brighter future for his children. He uses multiple financial services including banking and life insurance. He uses savings primarily to meet spikes in household expenses. He finds it easy to borrow money from friends if he needs it.

\*Beesis are informal [chit funds](#). Read more [here](#) and [here](#)

\*\* [These are specialised, licensed financial institutions that are allowed to take deposits.](#)

Income Value

Customers in the mass market can be broadly categorized into the **four Personas** who are illustrated here. The disposable income in the hands of such individuals at any given time has a strong impact on their ability to manage household (HH) expenses, and thus influences their financial behaviour. We find that mass market households transition through **four distinct zones** depending on how well they are able to manage these expenses.

# Mass market customers oscillate between four discrete financial phases

**Comfort zone:** In this zone, the HH money\* is sufficient to meet expected and sudden expenditure e.g. a life event. Cash-flows happen as planned and financial goals seem achievable.

**Fluid zone:** The shortfalls in HH finances are foreseeable so enough money is usually set aside to cover them. While in this zone, dipping into savings is the first recourse for all types of mass market customers; followed by small loans from informal avenues.

**Stress zone:** Household income and savings are no longer adequate to cover spiralling expenses – some of them unexpected. Credit value increases and so do liabilities. Assets may also be liquidated.

**Blast zone:** Savings have been used up; any money coming into the household is insufficient to meet expenses; and unplanned events occur that are catastrophic for the financially desperate individuals and their households. Loans are taken from friends, family and moneylenders (at very high interest rates). The quality of life deteriorates as the household is pushed into a financially vulnerable situation.

Rather than being in any of the zones permanently, mass market customers tend to oscillate through four distinct zones depending on the volatility of their sources of income and on how much money they have at their disposal. Their aspirations and lifestyles differ depending on how long they live in each of these zones.

\*Money in the household is the amount of the current household income plus any money which was left over from the previous in-flow.  
\*\*Financial behaviour is defined as their decision with respect to financial products and formal/informal avenues.

# Shankar Singh's life through the four zones



Shankar Singh

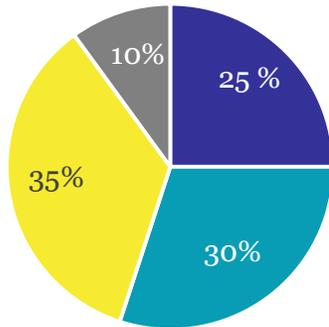
**C** Shankar accumulates his daily earnings for the first few days of a month, which enables him to meet most of the essential household expenses. The money is accumulated in a **box at home** and in his wife's **savings group**.

**F** Due to his sporadic and limited cash inflows, he soon faces a cash crunch. At this point, he relies on informal loans from his soft circle,\* and from his wife's *beesi* (informal rotating savings and credit associations), to manage daily expenses. He might be inching towards stress but an influx of work and wages often catapults him back into the comfort zone.

**S** Shankar's volatile income has dried up at this stage. To cover his expenses, he at first avails of loans from his friends and relatives. Then household assets are sold and high-interest loans are taken from moneylenders.

**B** Any sudden catastrophic event pushes Shankar further into the trap of high-interest loans. Sales of livestock and remaining assets follow and the family's quality of life is compromised.

Shankar is able to stay in the comfort zone occasionally but only for limited periods of time. In view of impending cash deficiencies in the HH, he prefers to save in informal channels where the money he needs will be readily available to him and also because he likes to avoid the "hassle" of banking.



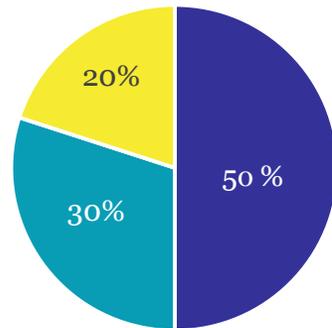
**Time spent in each zone (during a month).** Although Shankar earns money on a daily basis, we have analysed his household income over the course of a month. Furthermore, due to seasonality of income, the time he spends in a zone actually varies every month, depending on the length of lean periods of work.

\*Friends and relatives with whom a person shares good relationships.

# Sundar Devi's life through the four zones



Sundar Devi



## Time spent in each zone (during a month)

Although Sundar Devi earns money on a daily basis, we have analysed her household income over the course of a month.

**Sundar Devi** has enough to meet her daily HH and business expenses. She saves for planned future expenses. She accumulates cash in a **box** and in her **bank account**. She only deposits lump sums\* in her bank account and saves for **insurance premiums** that will yield a lump sum in the future.

She has saved enough money to tide her over gaps in her cash flow. She is able to recognise business investments that her savings cannot cover, so she takes loans from banks or MFIs to invest in such businesses.

She borrows from her self-help group and soft circle. She does not dip into her savings at the bank for the fear of being unable to attain her goal of creating a large lump sum.

She is forced to use her savings in the bank and stop some utility and aspirational HH expenses. However, Sundar Devi has been a diligent saver and has multiple sources of income. Therefore, more often than not, she is able to avoid this zone.

Even in the stress zone, Sundar Devi will not use her savings in the bank until she reaches the blast zone. This is possible because those savings are kept away from the vagaries of daily HH expenses. The idea behind such savings is to afford a life cycle event or survive the blast zone.

\*By "lump sum" we mean "a large amount of money."

# Jai Prakash's life through the four zones



Jai Prakash

**Jai Prakash** rarely enjoys this zone as all the money he earns is spent in paying off debts as well as covering daily expenses. He is averse to taking credit from formal sources. He keeps his money in a **box**, at a **deposit company**, and in a bank.

C

Soon his expenses outstrip the money he has at home and by the end of the second week of the month, he has run out of cash. Fortunately, he can take an advance against his salary to help him manage his expenses.

F

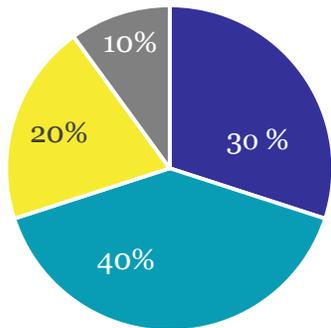
However, the advance is not enough to meet HH expenses. He takes interest-free loans from his soft circle and curtails daily expenses.

S

He runs out of people from whom he can take an interest-free loan so he is forced to resort to sources of high-interest loans. These are usually moneylenders who he knows and sometimes shops where he can purchase goods on credit.

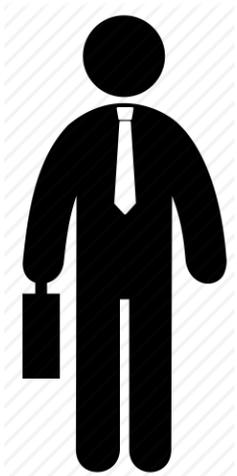
B

The fluid zone is tricky for Jai Prakash as he has very limited savings. He first resorts to a loan against his salary, which he is always under pressure to repay in the following month. He is averse to borrowing money as he understands the repercussions of not being able to repay both soft circle and high-interest loans, so that is always the last resort for him.



Time spent in each zone (during a month)

# Vijay Thakur's life through the four zones



Vijay Thakur

**Vijay's** salary helps him to take care of daily expenses, and also save in formal financial channels such as **insurance policies, bank accounts, and public provident funds.** He is also able to avail of other services like online payments and bank loans etc. He is easily able to meet all of his monthly loan repayment commitments.

C

Vijay's savings are adequate to tide him over times when cash is scarce. He can borrow cash to invest in income shaping avenues such as *beesi* or assets. He is still able to meet his monthly loan repayment commitments.

F

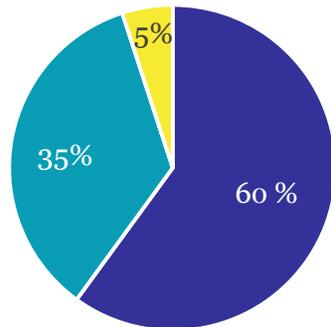
At this juncture, inconvenienced by a sudden spike in expenses, he digs further into his savings. If expenses spiral further, then he fails to honour his equated monthly instalment (EMI) commitments.

S

Vijay Thakur rarely has to face this financial zone due to his substantial savings and his investments in assets; although in order to avoid it he will allow his savings accounts to deplete and stop his aspirational expenses such as dining out and apparel.

B

While Vijay will seldom experience the blast zone, in the event that he does, he also likes to borrow money from his soft circle i.e. friends and relatives, and from informal local groups.



Time spent in each zone (during a month)

# Informal services are used and preferred because they play multiple roles

It is important to note that the four personas who typify the mass market might never experience all four zones in a month. These four zones might not even follow a linear path.

Research shows that there is a preference for using informal avenues (summarised below for Sundar Devi). We realised that money which is set aside (at home or through a service) is not seen as 'savings' all the time. In most cases, it is just thought of as a financial tool; a way of meeting expenses – either emergency or planned ones. The way formal and informal services represent themselves, to start with, makes informal services preferred. Consider two options - one which sells itself as a service to park money, create lump sum to make future payments and purchase. The other one identifies itself as a savings product which people can use for payments in future. The former resonates much better with their thought process. This resonance becomes stronger when mass market customers slide into the stress zone or slip even further down into the blast zone.

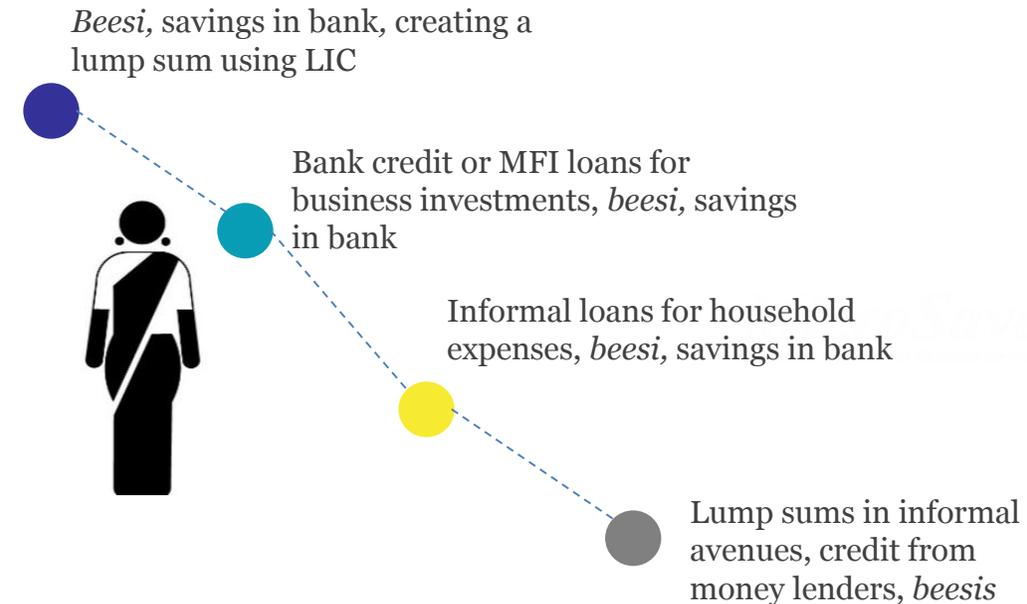
While trying to stay in the comfort zone, all mass market customers exhibit similar behavioural traits:

1. 'loss aversion' – where losses are feared more than gains are desired (e.g. fear of not getting money at required time from formal sources, pushes Sundar Devi to keep using informal avenues);
2. 'tunnelling'\* due to the scarcity of money (e.g. Sundar Devi stops using banks when she is blast zone); and
3. 'present bias' \*\* (e.g. Jai Shankar's preference to keeping money at home to meet current immediate expenses over keeping aside a portion of income in the bank to help during stress/blast zone).

These cognitive issues also influence mass market customers to use informal services.

\*Neglect of other things due to focus on one

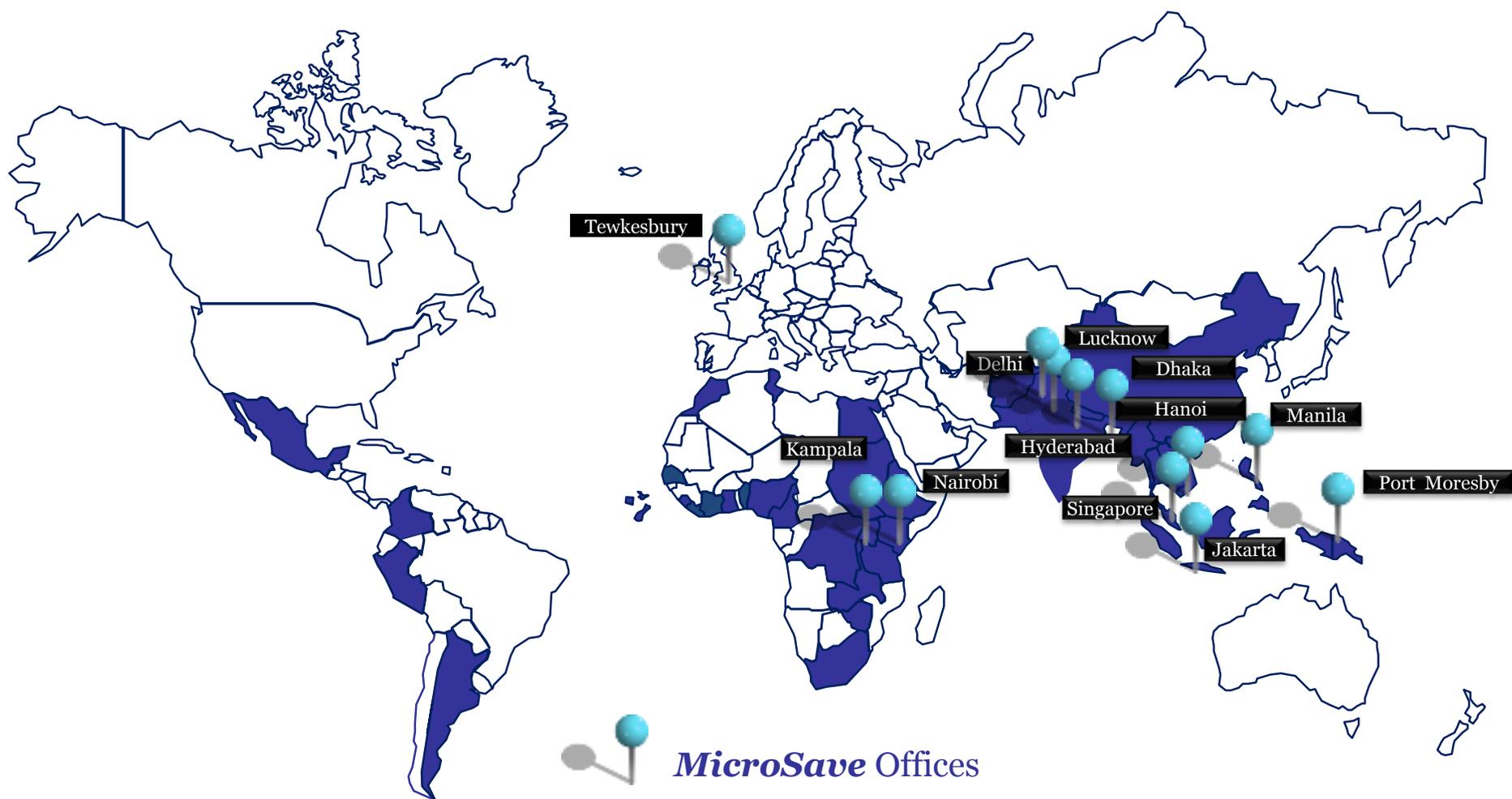
\*\*Tendency of people to give stronger weight to benefits/gains that are closer to the present, when considering trade-offs between two future moments



# Can common denominators be found in financial products and services designed for the mass market?

How can we help mass market customers to stay in the comfort zone? How can we help them to climb out of the lower zones when they are vulnerable? [Our previous notes highlighted that key shifts are needed in the way we think about financial access.](#) We revisit some of these based on mass market's behaviour in different zones below –

- **Intuitive, not simple:** Providers aim should be offer intuitive products/services and cater to ways in which people already think about money while in different zones.
- **Managing money gaps, not money:** The objective should be about helping them manage income gaps rather than their money, so that the products help them sliding into stress or blast zones
- **No moral stances:** The objective is to help people to be more deliberate about how they go about preparing for future payments and purchases.
- **Organising money, not budgeting:** Budgets and goals do not resonate well for the low income groups since a budget presupposes a regularity of income, which does not exist in the mass market. More often than note mass market may find themselves in the stress or blast zones, the product should help the HH to come out of it?
- **A continuum between informal and formal financial services:** The tools should act as a bridge between informal practices which they already employ and formal financial services. The objective should be about enhancing the experience of current practices and not dropping what people already do.
- **Marketing tools, not products:** The aim is to help provide poor people tools which they can use themselves to better manage their money. The tools should have a minimum number of functionalities and they should help facilitate the largest number of use cases. The focus is on co-creation of use cases.



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