

MicroSave India Focus Note 51

Understanding the 'Cost of Cash' for Low Income Clients: Why and How?

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Introduction¹

Mobile banking and payments (m-banking) for low-income and under-banked customers in India is at an evolutionary stage, where a number of pilots are being conducted with the objective to discover a sustainable business model. Finding an appropriate technology solution does not appear to be the primary issue, but rather, one of discovering the right customer value proposition (CVP) that facilitates large scale adoption of the service². The identification of the right value proposition can only truly come from understanding client needs and designing products to meet those needs.

mChek³, the largest mobile payments provider in India, collaborated with *MicroSave* in a joint research project to explore the challenges that un/under-banked customers face with various payment and savings options involving cash and how mobile payments might add value. The research was carried out in urban and rural Karnataka with support from Grameen Koota. This note presents the development and implementation process of a unique research tool designed specifically around understanding the pain involved in cash transactions (with an eye towards presenting an m-banking solution to alleviate the pain) and the challenges faced.

Tool Development Process and Implementation

Over the years, *MicroSave* has developed various Participatory Rapid Appraisal (PRA) tools in its Market Research for MicroFinance (MR4MF) Toolkit⁴ to understand customer needs and behaviours around financial services. However to understand the challenges of current cash payments and how mobile payments might help, there was no one tool readily available. Hence, a new tool – called the 'Cost of Cash' tool (COC)⁵ was developed and piloted.

This new tool uses the same PRA techniques used by *MicroSave*, but is specifically useful in determining what types of transactions incur the most 'pain' or

'stress' for the customers while dealing in cash. The tool is conducted with small working groups of 6-8 individuals, preferably from the same socio-economic stratum, and the facilitator moderates the discussion around the major transactions of households (both expenses and income/inflows). Some examples of the most common transactions are salary/wages, rental/business income, mobile recharge, electricity, savings, travel/ticketing, food, education, etc.

Each major transaction is then written on a separate card. Using anything available such as stones, candy, buttons, etc., participants score the level of financial stress/pain associated with each transaction or payment type. Transactions are scored (on a scale of 1 to 5, 1 being the lowest and 5 being the highest) on pain levels for four categories:

- **Transaction costs** are those costs incurred in making the transaction, including commissions paid, information costs, transport costs, late fees, etc., but excluding the actual amount of transaction.
- **Time spent** includes waiting, travel and transaction time.
- **Opportunity cost** is the value of the next best alternative foregone as the result of making a decision or the cost of 'time wasted' on a particular activity – this includes both monetary and non monetary activities, such as lost wages, lost sales, time spent with family or for leisure.
- **Risk of holding cash** is the potential for having cash lost, stolen, or spent needlessly by him/herself or by



¹ Clara Radhakrishna from mChek, Krishna Thacker and Chris Linder from *MicroSave* and several staff from Grameen Koota all assisted in the development and testing of this new tool as well.

² For more information, refer to *MicroSave's* [Briefing Note # 47 on the CVP for m-banking](#) and [Briefing Note # 71 on customer adoption](#).

³ mChek is the largest player in India in terms of the number of registered customers for the service.

⁴ Please refer to *MicroSave's* "[Market Research for MicroFinance](#)" toolkit.

⁵ Please note that the research team used 3-4 additional tools, interacting with over 300 individuals in total to complement the COC tool findings and to help with triangulation and validation.

family members, etc.

Example COC Results Table

	Transaction Costs	Time Spent	Opportunity Cost	Risk of holding Cash
Household/food	***	****	***	****
Hospital	***	*****	**	*****
Festivals	**	****	****	*****
Utility bills	**	***	**	**
Insurance	*	*	*	*****
Savings	***	***	**	***
Salary/Wages	*	*		*****

In the example table provided above (excerpted from the initial research results), utility bills, such as electricity and water, were low pain, as bill collectors often went to clients' doorsteps in rural areas (and there were many bill payment options close-by found in urban areas). Two other categories, festivals and hospital expenses, were generally high pain transactions for most respondents (urban and rural), as they often had to carry cash large amounts of cash long distances to make these transactions⁶.

Challenges faced during implementation of COC

1. Proper ranking of transactions

- Participants often skipped “inflow” transactions, such as salaries or sales. The facilitators did often have to remind gently the participants about these transactions.
- While ranking the transactions, participants often tended to rank the transactions which are important to them in general, such as school fees, children’s expenses, hospital bills etc. but not necessarily painful for them to transact. Hence, this has to be explained clearly.

2. Bringing clarity around the concepts

- While considering the transaction cost category, the actual amount/cost of the transaction should be excluded. If this is not explained, members might consider the actual transaction amount and give a high rank to transactions with high value.
- Many times people perceived opportunity cost and time spent as directly proportional to the other. However, this is not always the case. For example, one of the groups in urban Bangalore said that they spent much time in paying hospital bills, but they did not see it as incurring

high opportunity cost, as they were investing in their own health. It is important to note such observations, but research teams should also be careful to explain opportunity cost carefully.

- The opportunity costs also were understood as entailing a ‘tangible cost’ like a loss of wages or income, while there were also intangible costs, such as being away from family, not having time for entertainment, etc. During the facilitation, if this angle is not probed, very valuable insights that may have future implications might be lost.
- Risk of carrying cash is not just about losing cash or being robbed – other risks like neighbours/friends asking for loans or the person themselves not exhibiting self-discipline can happen as well.

3. Probe, Probe and Probe!

It is often a tendency in the m-banking world that any and all non-cash/mobile transactions will solve all the pain points. However, there may be good reasons for conducting cash transactions even if there is a mobile/electronic choice: not wanting a nosy spouse to track finances, universal acceptance, no need to be mobile literate, etc. It is important to probe and find out which transactions people prefer using cash.

Conclusion

As the tool is in its early stages of implementation, attempts will be made to improve it further. Though not quite perfect, the COC tool is nevertheless a start for listening to clients’ needs around the costs of cash and how mobile solutions may reduce those costs. The research team observed that this tool even prompted participants to suggest additional, creative ways that mobile solutions could solve their needs.

This tool can especially be an effective way of discovering which suite of transactions to focus on for e- and m-banking solutions. The initial research results helped mChek in particular to refine its overall un/under-banked strategy and in developing new service offerings for its partners and end-clients; all described in more detail in IFN 52 “Removing the Pain from Using Cash: an M-banking Solution?”

⁶Please note that the overall findings from the initial research will be explained in more detail in the subsequent IFN.