CONVENIENCE RECONSIDERED: SOME FINDINGS ON FORMAL vs INFORMAL FINANCIAL SERVICES FROM THE FINANCIAL DIARIES

- **Of the transactions conducted with banks**, the vast majority involved a savings account, with cash withdrawals 20 times more common than loans involving six times the funds.
- **When subjects of the MFO study** were in need of credit, they were much more likely to borrow from friends or family than from a bank.
- **The OIBM van** represented a significant innovation in geographic proximity.
- **Despite having to travel 10 times as far**, the Kamphata segment of the study conducted an almost identical number of transactions per week.
- **When disaggregated by gender**, our results suggested that proximity to a van stop made a distinct difference for women.

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FROM AGENT BANKING TO MOBILE PHONES TO POINT-OF-SALE DEVICES, innovations in branchless banking – the delivery of banking services through means other than fixed bricks-and-mortar locations—have attempted to bring formal financial service into low-income, underserved communities. Rather than making the customer go to the bank (a process which in many developing countries entails significant travel time and monetary expense), branchless solutions essentially bring the bank to the customer.

In a word, the value proposition of branchless banking is convenience. As articulated by scholars over the past decade or so (notably by Morduch & Rutherford, 2003), convenience for microfinance clients has multiple dimensions. It includes not just geographic proximity but also flexibility (e.g., of product terms and conditions) and ease of use (e.g., hours of operation, administrative requirements).

Microfinance Opportunities (MFO) recently completed a two-year, large-scale research project among hundreds of low-income households in Central Malawi. A key focus of the study was a branchless banking innovation that had been piloted in 2007 by Opportunity International Bank of Malawi (OIBM). OIBM's mobile banking van, launched with start-up funding from the Bill & Melinda Gates Foundation, functions as a high-tech bank-on-wheels, with both an ATM and a human teller on board. The van travels a regular schedule of stops among communities underserved by the banking sector, providing a full range of financial services.

OIBM's particular focus was the delivery of savings services. For the local population (as for poor people all over the world), storing cash at home or on one's person is standard practice. But cash stored informally, which the MFO study authors loosely termed "mattress money," is of course vulnerable to theft. In addition, mattress money's accessibility, the very thing that makes it so convenient, also presents chronic temptation to unwise spending. The idea was that the van, by delivering banking services closer to people's doorsteps, would benefit the study population by transitioning people away from reliance on informal finance and towards safer, higher-quality formal banking.

MFO's study suggests that the van did advance the goal of introducing formal financial services to first-time customers, albeit on a modest scale. The study also found that the convenience factor was especially important for women. But while the van may have been convenient by comparison to a fixed branch location, when compared to the extreme convenience of informal alternatives (mattress money, spot loans from friends), the van operated at a disadvantage.

FORMAL VS INFORMAL FINANCIAL TRANSACTIONS

Among the study population, there was a clear split between use of formal financial services and informal alternatives. Commercial banks captured many fewer but much bigger transactions; conversely, informal transactions were much smaller in size (one-tenth the size of the mean amount of a formal transaction) but seven times more frequent. (See Table 1.)[1]

Of the transactions conducted with banks, the vast majority involved a savings account, with cash withdrawals 20 times more common than loans and involving six times the funds. Formal-sector loans were made but the frequency was quite low relative to savings. In fact, OIBM itself was the only commercial bank offering credit to the low-income segment in this market. When the subjects of the MFO study were in need of credit, they were much more likely to borrow from friends or family than from a bank (or nonbank financial institution including microfinance institutions, a segment that represented negligible market share).

TABLE 1 - SUMMING UP: BANKS AND INDIVIDUAL CASH TRANSFERS

	TOTAL CASH FLOWS	TOTAL NUMBER OF TRANSACTIONS	MEAN AMOUNT OF TRANSACTIONS
Banks	$463,026	1,292	$358
Individuals	$276,535	9,299	$30

The authors graciously thank Anne Folan for preparing this brief.

[1] Stuart, G., Ferguson, M., & Cohen, M. (2011). "Cash In, Cash Out: Financial Transactions and Access to Finance in Malawi." Washington, DC: Microfinance Opportunities, Assessing the Impact of Innovation Grants in Financial Services Project.

DID THE VAN BRING IN THE UNBANKED?

As noted above, a central question of MFO's study concerned whether OIBM's van brought in the previously unbanked: whether people would transition from informal financial services to become bank customers for the first time (rather than just switching to OIBM from a different bank, or to the van instead of a bricks-and-mortar branch). In other words, in this environment where informal financial transactions were so dominant, did inconvenience in fact prove to have been a defining constraint against formal-service use? And did the van remove that constraint?

MFO segmented the participant data to isolate those individuals who:

- Identified as non-OIBM clients at the beginning of the study
- Went on to transact with OIBM at least once during the life of the study, and
- Did not transact with any other banks.

Four percent of the total sample (10 total) fit that description. Perhaps the most notable characteristic of this group, other than its small size, is the infrequency of use. Eighty percent of these first-time formal financial services users conducted three or fewer transactions over the study period even though all of them had begun transacting well before the study's conclusion. Moreover, their pattern of informal financial service use continued in ways more or less comparable to the period before they became OIBM clients. In other words, formal financial service use was in addition to, not instead of, the informal alternatives, and of those two, formal service was used less frequently.

Another priority was to look at the pattern of van use over time. MFO studied whether van use took hold and grew steadily, or whether it got off to an enthusiastic start and then diminished as the novelty factor faded. Researchers found a definite downward trend in van use over the life of the study. Both frequency and value of transactions diminished over the life of the study (correcting for seasonal variation), and this was true for both savings and loans.

Villagers near the calling points had likely never seen a bank come to them, and the high-tech nature of the van surely drew interest and admiration. On this basis, OIBM likely garnered a multitude of new clients who were ltrying on the new service for size and who eventually moved on. This trend is largely consistent with observations by other researchers (McGuinness 2008) who have noted a history in Malawi of new providers appearing on the landscape, being embraced initially by clients, and then scaling back operations as the market corrects. In the case of the van, it seems plausible that OIBM was left with a fairly stable group of genuinely viable customers by the time the study ended.

Along with the wearing-off of the novelty factor, macroeconomic conditions likely contributed to the downward trend in van usage. There are indications that the economy in Central Malawi suffered some kind of localized depression, perhaps linked to tobacco prices, during the study period. After remaining fairly flat through 2006, local tobacco prices spiked in 2007 shortly after the Malawian government began mandating minimum prices for export sales. Prices peaked in 2008 (during the period when the study was getting underway) but then dropped off by about 20% in 2009.

Only a small fraction of the study sample drew the majority of its income directly from tobacco sales. But most were microentrepreneurs whose business depended to a greater or lesser extent on the circulation of cash that begins, in Central Malawi, with tobacco. While official macroeconomic data from the Malawian government was unavailable, the evidence provided by the banking data (fewer banking transactions at lower overall value) supports the theory of an economic slowdown.

CONVENIENCE REDEFINED

The experience of the four-percent cohort of first-time banking customers suggests that even in the small number of cases where the transition from informal to formal financial services occurred, that transition was partial and gradual. As noted, the majority of the new adopters (like the rest of the sample), far from abandoning the informal alternatives, continued to rely on them as their primary financial tools.

This could be the force of habit. It seems reasonable to assume that a transition period would be involved for a significant departure from any long-established practice, financial or otherwise. But informal financial alternatives simply remain much more convenient than a bank, even a mobile bank. Withdrawing savings from the mattress in your own home is faster than waiting for the van's weekly visits. And it is more convenient to ask a friend for a spot loan than to fill out even the simplest paperwork, especially if that friend owes you some cash himself (the study found many instances of friends repaying loans by making loans in return).

As noted above, convenient financial services are those that provide the opportunity to make all kinds of transactions (e.g., loan disbursals and repayments, savings deposits and withdrawals) on a schedule of one's choosing, close to home or business, quickly, privately, and with a minimum of paperwork. The OIBM van represented a significant innovation in one of those aspects - geographic proximity. But the market response to the van reinforces the view that proximity is only one dimension of the broader understanding of convenience.

A NATURAL EXPERIMENT

The group of study subjects who lived near the Kamphata trading center differed from the rest of the sample in that they did not live along the van's route. Instead, they went to the main branch location in

Lilongwe, traveling an average distance more than 10 times that of the rest of the sample to conduct banking.

One way to test the convenience factor of the van was to compare banking patterns of those living close to the van's stops against those, like the Kamphata segment, whose homes were more distant. If the van's greater convenience is decisive, we might expect to see more bank use among those closest to the stops. So the counter-example of the Kamphata segment provided a natural experiment: given their distance disparity, do we see less intensive bank use *among that group?*

The answer to that question is essentially no. Despite having to travel 10 times as far, the Kamphata segment conducted an almost identical number of transactions per week. Both the average size and the sum value of those transactions were higher compared to the rest of the sample using the bank van. Kamphata participants paid on average $7.49 (purchasing power parity) in bus fare to reach Lilongwe, which amounts to a three percent transaction fee that van users avoided. But this added cost seemed not to matter. In fact, the data suggest that most of the time, their business with the bank was the only reason for the trip into Lilongwe. Fifty-nine percent of the Kamphata residents' OIBM transactions were not accompanied by any other transaction except for the purchase of the bus ticket. In other words, the trip to the bank was not combined with other errands that would have necessitated the journey anyway.

THE GENDER FACTOR

When disaggregated by gender, however, the results suggested that proximity to a van stop made a distinct difference for women. Women with access to the van stops completed significantly more transactions compared with the Kamphata segment. Moreover, the gap between men and women on this issue was much wider at Kamphata compared with the rest of the sample.

In other words, distance to and convenience of financial services may be more important to women, and the van may be helping to serve women's interests in this regard. These findings suggest a gender dimension to the convenience concept as elaborated by earlier research (Morduch and Rutherford 2003) and represent evidence that convenience seems highly valued, perhaps decisive, for women.

FROM THE BANK'S PERSPECTIVE

For many mission-driven financial services providers, reaching women is a social goal. The van and other solutions that serve women better by virtue of making banking more convenient may well advance that objective. However, among the study population, women conducted frequent, low-balance transactions – the opposite of what is profitable for a bank. Men, by contrast, took charge of the less frequent but larger transactions – the ones that are more profitable for a bank, but also the ones for which evidence suggests that convenience is less of a decisive issue.

OIBM's van is, so to speak, one variable in the convenience equation. The more that variable can be isolated, the clearer will become the convenience value of the van. Isolating that variable, in turn, depends on making OIBM as comparable as possible to its peers, a task that is complicated by OIBM's significant comparative disadvantage in the direct-deposit market. As noted above, a major driver of the Central Malawian economy is tobacco farming. Tobacco farmers bring their harvest to auction, and the proceeds are deposited directly from the auction house into their bank accounts. Although OIBM has made some inroads into the direct-deposit business, at the time of the study, a handful of other banks still dominated this lucrative business. If OIBM can capture more of the direct-deposit market, the bank will become more comparable with its competitors making it, as noted, easier to isolate the van and its presumptive convenience as a causal factor behind increased financial-services usage.

But all financial service providers in this market are competing not just with each other, but with the extreme convenience of long-established informal practice. Compared with mattress money – by definition available right in one's home, 24 hours a day, seven days a week – banks in the savings market cannot compete on convenience alone. They must make an argument from security, and possibly compound interest. Compared with a quick loan from a neighbor, banks cannot compete in the credit market either, on convenience alone, but could do so on the basis of loan size and reliability.

In short, in a market such as Central Malawi, the selling point for mobile-enabled formal financial services may be not so much that they are convenient, as that they are not inconvenient – and that they are superior in other important respects.

This brief is based on Cash In, Cash Out: Financial Transactions and Access to Finance in Malawi (January 2011) by Guy Stuart, Michael Ferguson, and Monique Cohen. The original report can be downloaded in PDF form from www.microfinanceopportunities.org. The Financial Diaries are part of the Financial Services Assessment project, information about which can be found on the web at http://www.fsassessment.umd.edu/.

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This study is part of the **Financial Services Assessment** project, undertaken by the IRIS Center at the University of Maryland and its partner, Microfinance Opportunities. The goal is to assess the impact of grants provided by the Bill and Melinda Gates Foundation to microfinance organizations for the development of innovations in financial services.

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FUNDING

Financial Services Assessment is funded by a $6 million grant from the Bill & Melinda Gates Foundation.

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