Cost

Cost of using DFS (incl. transaction cost)

This barrier points to the cost of data services to access the internet over smartphones.

Why is this barrier important?
Cost of mobile/internet has been cited as a top reason for not having a mobile device or using mobile internet (relevant to Segments 1 and 2), which prevents adoption of the tools needed for DFS. The high cost of mobile/internet has also been cited as a barrier for Segments 3 and 4 as it restricts the products/services the Segments can engage with. This barrier is also relevant for MSMEs as they attempt to explore more options in the e-commerce world and the digital economy.

Connected Barriers

Prerequisites
Phone/SIM ownership
Lack of credit history (for credit products only)

Cost
Cost of mobile/ internet
Perceived and/or lack of money

Product & Service Quality
Lack of products that meet women's needs

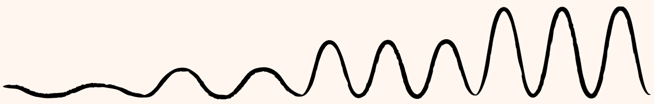
Accessibility
Distance from bank/ FSP/ CICO agent

Consumer Protection
Over-charging

Most Relevant Segments

1	2	3	4
Excluded, marginalized	Excluded, high potential	Included, underserved	Included, Not underserved

Customer Journey Relevance



Phase 1: Account Ownership
Phase 2: Basic Account Usage
Phase 3: Active Account Usage
Phase 4: Economic Empowerment

Key evidence relevant to this barrier

- According to the *Findex (2021)*, cost is an important barrier to account ownership reported by **36%** of adults without an account at a financial institution. The volume of reporting that accounts are too expensive was twice as high in Latin America and the Caribbean. In Brazil, Colombia, Honduras, Nicaragua, Panama, Paraguay, and Peru specifically, **more than 60%** cited cost as a barrier.

- Using data from the *Findex (2017)*, the Center for Global Development estimates that the percentage of people who do not have a financial account because it is too expensive (excluding high income people) is as follows (2019):

  - East Asia and Pacific – 20%
  - Europe and Central Asia – 32%
  - LAC – 53%
  - MENA – 20%
  - South Asia (including high income people) – 25%
  - Sub-Saharan Africa – 30%

- In *Regulatory Approaches To Digital Payments Transaction Costs In Sustaining Financial Inclusion In Africa (2021)*, AFI states:

  "In response to the COVID-19 pandemic, regulators in several African countries introduced moratoriums reducing and waiving transaction costs on digital payments. The resultant evidence pointed to an unprecedented spike in access and usage of digital payments, with some countries recording over **50% increment in usage** within the first week of implementation of the moratoriums. **This perhaps provides the strongest validation yet on the impact of low transaction cost in driving access and usage of digital payments.**"

- Kenya was one country that introduced transaction fee waivers during COVID-19. Digital payments increased by 35% in retail sectors, 18% in pharmacies, and 54% in agribusinesses. Also, "in July 2020, the Central Bank reported—that Kenyans transacted a record KES 450.9 billion (approximately US $4.18 billion) on mobile phones, with usage boosted by increased service uptake. Furthermore, the number of mobile money subscribers rose to 62 million, and the transactions totalled 158 million during the same month." (AFI, 2021).

- In a survey of mobile money customers in Ivory Coast, **15.5% cited "service is too expensive" as the reason why they were inactive on their mobile money accounts. Fifteen percent cited "high prices" as the reason for reverting to cash. Nearly 21%** of respondents suggested to decrease prices as a way to increase activity rates, which was the most popular response (IFC, 2018).

- A study examining the effect of mobile banking on microfinance groups in the Philippines found that members exposed to mobile money were **67%** more likely to avoid mobile deposits due to the mobile banking transaction costs. Members who made less frequent mobile deposits due to the transaction costs were more likely to keep their cash somewhere else and rely on informal savings (Harigaya, 2016).

- In Burkina Faso, female entrepreneurs do not perceive DFS as conducive to, or compatible with, their professional lives. For instance, **high transaction costs** are prohibitive for people making several small transactions over the course of a day. As one female FGD participant notes:

  - "The transaction costs are very high. For a withdrawal of 5,000 FCFA ($8.30 US) from an account, you pay 250 FCFA ($0.40 US) [in fees]. If we could reduce the cost of withdrawal to 100 FCFA ($0.15 US) for those with an account, it would be able to help us women. For those who do not have an account, it is worse, they have to pay 400 FCFA ($0.65 US) and there is a code. ... One strategy to help women and get them to use these services is to **make account transfers free of charge for women**." (Female FGD participant, MIT D-Lab, 2020).

The following Exemplar represents one evidence-based interventions that has shown success in addressing this particular barrier. There may be other Exemplars for this barrier in the larger Barriers & Exemplars Analysis compendium deck.

Exemplar

Reducing Bank Overdraft Usage through Price Discounts and SMS Reminders

"Turkey's banking sector is well developed and innovative, with the highest percent of mobile banking users in Europe among internet users in 2013. However, because add-on charges for financial products, such as overdraft fees, can be complex and misleading, consumers may not fully understand the cost of using these additional services and may overuse them as a result. Researchers conducted a randomized evaluation to measure the impact of informational reminders and price discounts on bank clients' overdraft usage in Turkey. Researchers partnered with Yapi Kredi (YK), one of the five largest banks in Turkey's retail banking sector." (J-PAL).

Key Activities

"Researchers randomly assigned half of the 108,000 existing checking account holders with overdraft services to receive a reminder about the availability of overdraft service, but not the cost. Then, researchers sent each person in the sample one of six randomly selected messages

- Overdraft availability reminder only: This message reminded customers that their account had overdraft services but provided no additional information on the cost.
- Overdraft Interest Discount only: This message offered a 50% discount on all overdraft fees.
- Automatic-Bill Pay Discount only: This message offered extra rewards points for authorizing automatic bill payments from their accounts. Customers could redeem reward points when making purchases with the account's debit card.
- Debit Card Discount only: This message offered extra rewards points for using their debit cards.
- Overdraft Interest Discount with Automatic-Bill Pay Discount: This message offered the same discount on overdraft fees and extra rewards points for automatic bill payments.
- Overdraft Interest Discount with Debit Card Discount: This message offered the same discount on overdraft fees and extra rewards points for using their debit cards.

Researchers also tested if the frequency or duration of the messages impacted client's usage of YK's products and services. While all participants—received one message in September, afterwards, researchers randomly selected how often participants received additional SMS messages, either more frequently (every ten days), less frequently (every twenty days), or not at all during the evaluation. The messages also lasted longer for some randomly selected individuals, ending in November for some and in December for the others." (J-PAL).

Outcomes/results

- "Messages promoting the overdraft discount reduced overdraft usage, especially when combined with other discounts on debit cards and automatic-bill payments, because it reminded consumers of the price of overdraft services. In contrast, consumers increased overdraft usage when they received messages only on the availability of overdraft services.
- Customers who received the messages with an overdraft discount were 1.2% less likely to have used overdraft services relative to those who received messages on the availability of overdraft.
- More frequent messages reinforced the messages' impacts on consumer choices: For both the overdraft availability and discount messages, there was no impact on clients who received just one message, thus repeated messages drove the impact on consumer's overdraft usage." (J-PAL)

Key enabling environment factors for intervention

Turkey's banking sector is well developed and innovative. "91% of Turkish adults have a cell phone, for one of the highest penetration rates in the world, and Turkey has the highest rate of mobile banking in Europe among internet users, at around 50%, according to a 2013 ING survey." (Alan et al., 2017). Turkish banks also use SMS-based promotions frequently, signifying that the concept of SMS reminders is not nascent or unusual for this population.

Key design elements and principles that led to successful outcomes

- The program design leveraged SMS reminders, which were already popular for banks in Turkey. Thus, customers did not have to be introduced to this design element.
- The program incorporated varying frequencies of SMS reminders to test the impact of having repeated information campaigns.
- For the evaluation, "the bank selected participants who were almost likely to overdraft but had not used the service in the prior three months." (J-PAL).

Potential for scale/replicability

If the program were to be replicated, the market would have to have a relatively high mobile phone penetration rate, as well as a banking sector that has used SMS text messages to deliver information in the past. As seen in Turkey's example, the customers' existing familiarity with bank messages was crucial for this intervention to be successful.

Challenges encountered during the program

"There was no evidence of long-term effects of the messaging campaigns; none of the changes in consumer behavior lasted beyond two months past the evaluation. The lack of long-term effects suggests that advertising or information campaigns must continue over time in order to be effective." (J-PAL).

Recommendations from the research

Since the consumer behavior did not continue beyond two months past the evaluation, the research team suggests having sustaining and long-lasting information campaigns. FSPs looking to implement SMS reminders about pricing and products should consider implementing longer-term information campaigns to see if changes in consumer behavior last over time.

Additional Exemplars

Interest Rate Sensitivity Among Village Banking Clients in Mexico

Reducing Tax Costs on Connectivity

Mobile-Linked Bank Accounts

Mexico's Tiered KYC

Digitizing payroll for factory workers in Bangladesh

The Role of Information on Retirement Planning

The Impact of a Formal Savings Intervention in Sri Lanka

The Persistent Power of Behavioral Change: Long-Run Impacts of Temporary Savings Subsidies for the Poor