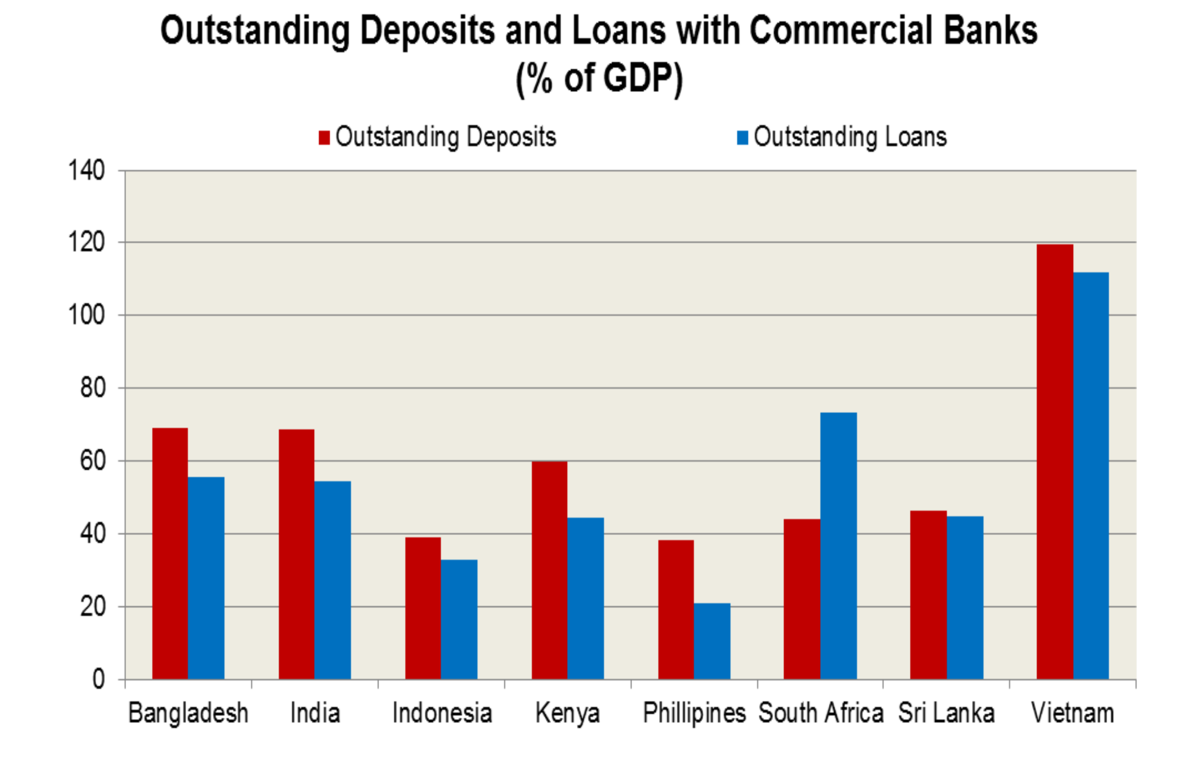
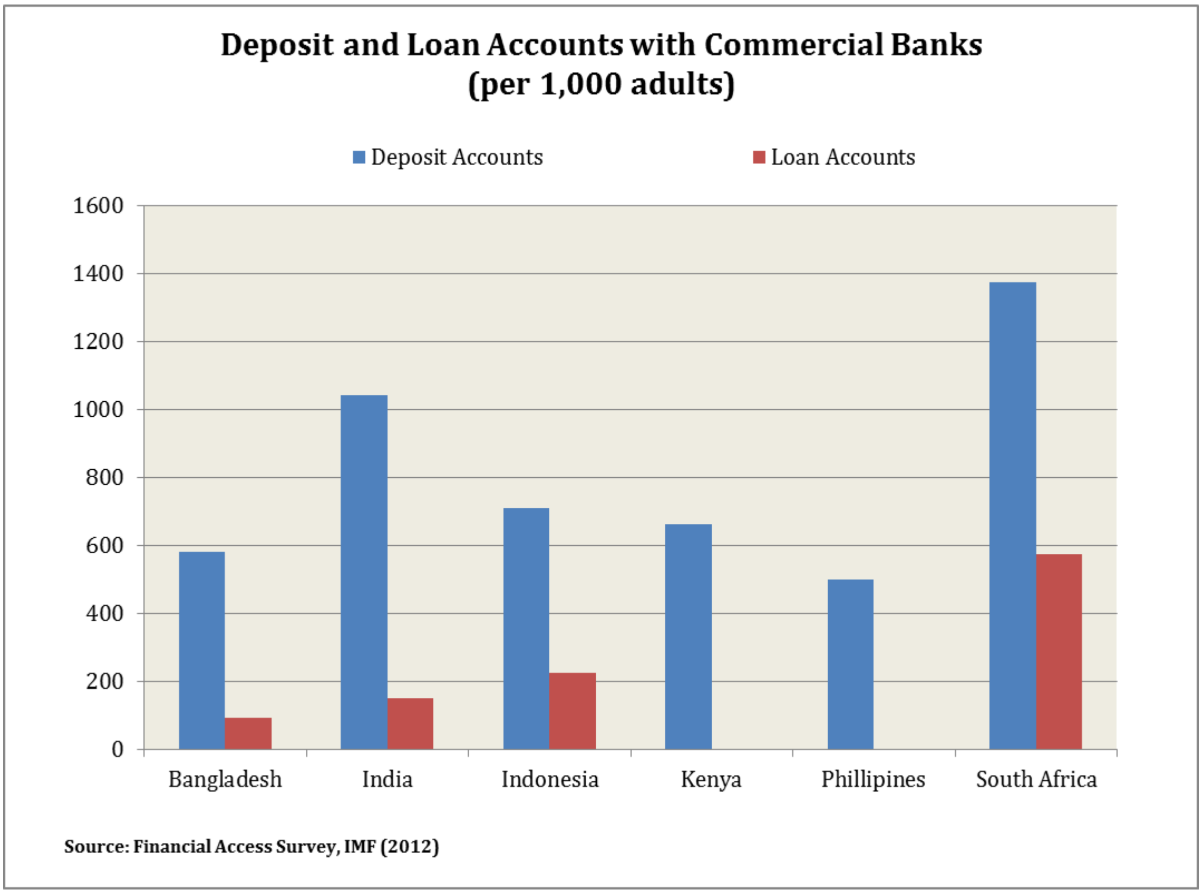
# Mass Retail Banking Roundtable – Background Note

The mass retail segment constitutes more than half the population in all emerging market economies. This segment comprising of individuals (between US$ 1000 and US$ 12,000 annual household income) and small enterprises (between US$10,000 to US$ 200,000 annual turnover) plays a very pivotal role in the overall growth and development of the economy. This segment, however, remains hugely underserved despite sustained efforts of regulators and banks the world over. What is heartening is that at the micro-level one can find enough examples of innovation, creativity and perseverance by many banks in recognising the potential of the mass retail banking opportunity and creating break-through solutions to address this segment. The objective of the roundtable is to get a group of like-minded Bankers and Regulators from various countries to share, ideate and debate on the opportunities and challenges of tapping the Mass Retail Banking segment.

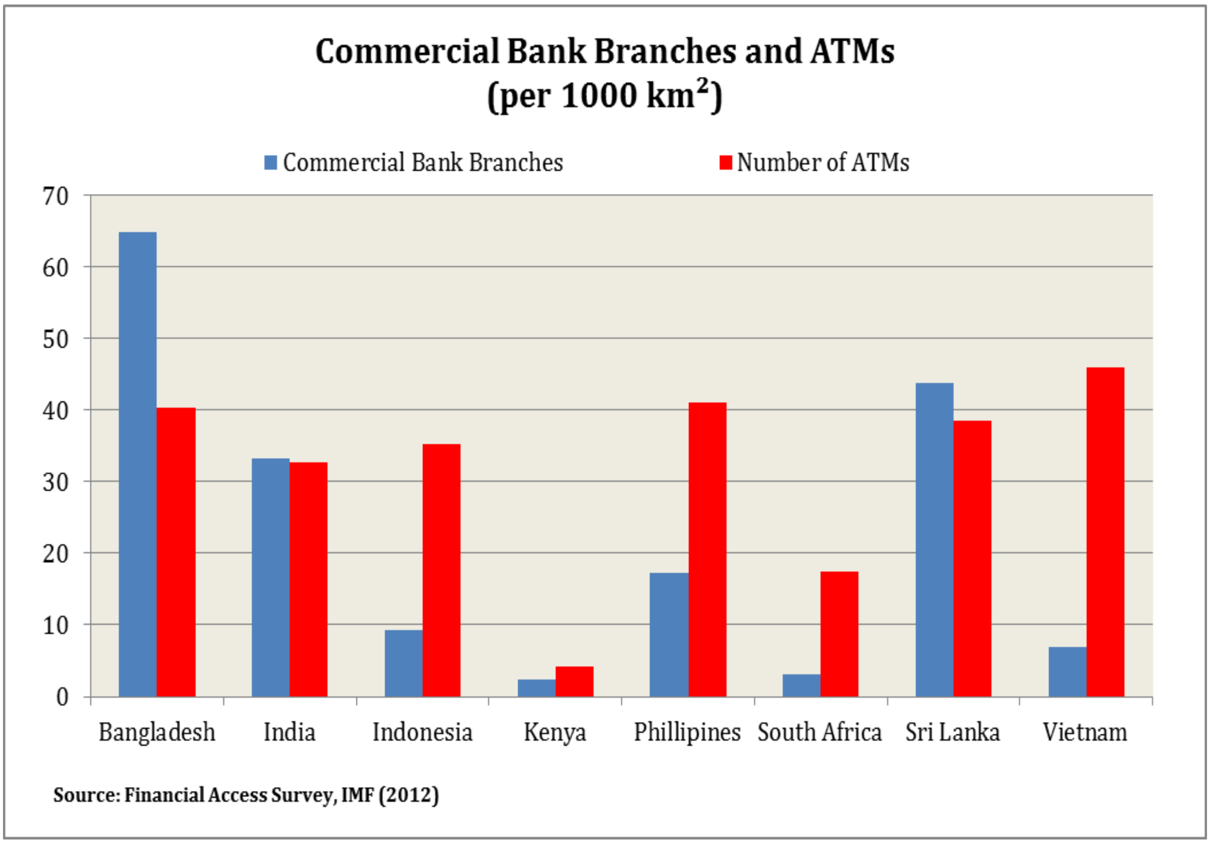
The Financial Access Survey by IMF provides a useful pointer on the penetration of banking services across various countries.

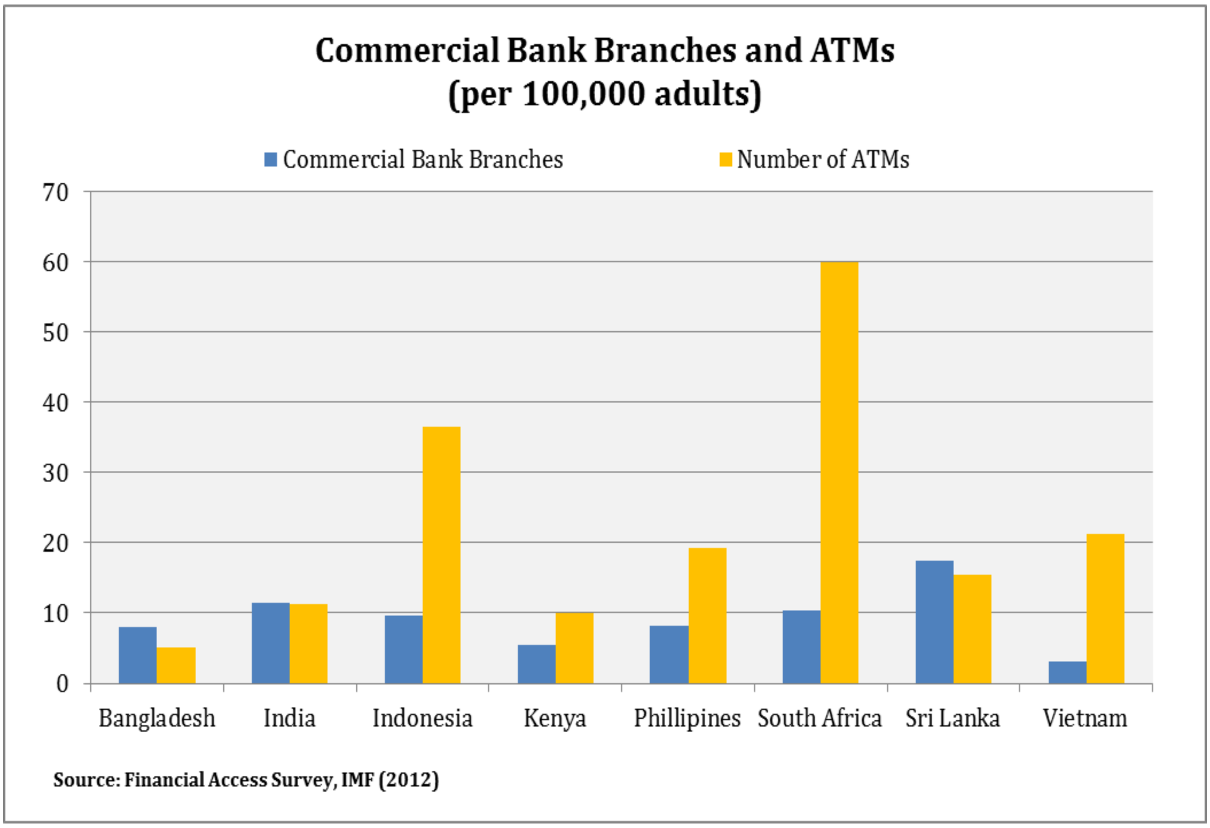



Source: Financial Access Survey, IMF (2012)




***Loan Accounts data not available for Kenya & Philippines***




**Roundtable Discussion Session I: What is the optimal size, structure and scope for banks, to enable penetration in the mass market segment?**

**Size and Structure of the banks**

The starting point for a vibrant ecosystem for mass retail banking is to ensure that the organisational architecture supports and creates banks that can reach the target segment in an efficient manner. Many countries have a single bank licence policy which permits the bank to undertake all the activities across segments and geography within the country, while others like Pakistan and many others have restricted licence categories based on size of the bank and nature of activities permitted to the bank. The size and scale of a bank also determines its focus on various customer segments. On one hand there is the argument that large universal banks have the scale, expertise and organisation strength to provide "mass" solutions to the untapped segments. On the other hand there is a view that the needs of the small businesses/lower income customers are better served through "customised" products and business models delivered by niche banks that operate with local resources and local knowledge. Mass retail banking lends itself to various business models, partly guided by regulatory direction and partly governed by business imperatives.

- State Bank of India (India), Standard Bank (South Africa), BRI (Indonesia) are some examples of large scale universal banks that are also pursuing a mass retail strategy. Some of these banks have followed the path of creating a "bank within a bank" by ring fencing their business segments and creating an independent business unit and profit centre with a distinct identity.

- Another model adopted by full service banks is to create a separate subsidiary that works exclusively in the area of mass retail banking. This subsidiary could either be formed as a standalone entity, or in the form of a joint venture with an entity that adds value to the business model (e.g. fuel distribution companies, telecom companies, post offices, chain stores etc.). BPI (Philippines) and Bank Danamon (Indonesia) are following this model through their subsidiaries BPI Globe BanKO and DSP.

- Capitec Bank (South Africa), Centenary Bank (Uganda), Tameer Bank (Pakistan) are some examples of niche banks exclusively focussed on serving the mass retail segment.

**Points for discussion**:

- Can a mass market model and a traditional banking model co-exist within a single bank? What are the challenges and advantages of doing so?

- What are the advantages that niche banks have in serving this segment?

- What are the imperatives to make a "bank within a bank" model successful?

**Scope and products of a mass retail banking strategy**

The four key requirements of mass retail customers are savings, credit, payment services and insurance. Different banks have chosen to adopt different strategies.

Savings and credit focus: As on June 2013, BRI (Indonesia) has 5.9 Million micro borrowers and 30 million micro savers. The entire micro lending business aggregating US$ 11 bn is funded through savings mobilised from micro savers.

Savings only focus: BPI Globe Banko is licensed as a savings and thrift bank. It mobilised small savings through its extensive partner outlets network and provided wholesale lending to smaller rural banks, microfinance institutions and NGOs. Recently it has introduced credit products for its mass retail customers. Banks in India, following a mandate from the regulator have opened 182 mn basic savings account till March 2013. However, the average balance per account is only US$ 16.[1]

Credit focus on small business segment: Brac Bank (Bangladesh), BTPN (Indonesia), primarily focus on providing credit to small businesses, many of whom are first time customers of a formal bank.

Payment Services: Banks such as Dutch Bangla Bank (Bangladesh) have invested significantly in providing access to electronic payment channels to the unbanked population through a large network of ATMs, POS terminals, smart cards, mobile banking, etc.

Insurance: The formal financial system in South Africa has been effective in delivering transactional banking and insurance products. While 63 percent of adults have bank accounts, 50 percent have a financial product that covers a defined risk, such as life, burial, and health insurance[2].

**Points for discussion**:

- What determines the product strategy of a bank for this segment - demand, profitability, risk appetite?

- To what extent has regulatory intervention in form of mandatory products (e.g. No-frills account in India or Mzansi initiative in South Africa) determined the bank's strategy? Many countries including India, Philippines, and Indonesia have directed lending norms to cover the MSME clients. Are these clients and products pursued to fulfil regulatory requirements or as a part of a sustainable business strategy?

- How important is product design in a successful business strategy? What are some of the examples of successes and failure of product design? In India and many African and Asian countries, there is a large and thriving network of informal organisations that successfully tap the savings of low-income households. However, banks are unable to attract these customers to open deposit accounts with them. What is missing?

**Roundtable Discussion Session II: Outreach strategies for mass retail banking**

Cost of acquiring a new customer and servicing a customer form the bulk of the operating cost in a mass retail model. In tapping this segment, the banks have to contend with widely dispersed customers, low financial literacy, small ticket-high volumes and unstructured information flow about the customers. Regulators across the countries are encouraging banks to increase the use of electronic channels. The banks have experimented and innovated with multiple outreach strategies.

Branch based distribution: BRI (Indonesia), Capitec Bank (South Africa), DSP (Indonesia) primarily use a network of small and low cost branches to reach out to their customers. Each BRI Unit (this is what their small branch is called) is a profit centre. Equity Bank uses mobile (moveable) branches that stay for one or two days per week in a particular town/village.

Use of Agents/partners: In India, banks have reported deploying 1,95,380 Business Correspondents (agents) which covered 2,21,341 villages[3]. Bansefi in Mexico uses the existing public distribution system of the Government[4] Bradesco Expresso has enabled the Bradesco Bank (Brazil) to expand its share in the correspondent bank segment through partnerships with supermarkets, drugstores, department stores and other retail chains, making sure the Bank is present in all Brazilian cities with more than 43,000 such outlets.

Use of electronic channels: Banks across the globe are increasingly deploying applications through electronic channels like ATMS, PoS, mobile to increase reach and access to customers in a cost effective manner. A transaction through a mobile phone costs merely 2 per cent of a bank branch based funds transfer, 10 per cent of an ATM-based funds transfer and 50 per cent of an online banking transaction[5]. While the volume of mobile banking transactions is increasing at more than 100%, the mobile banking penetration is still a fraction of mobile phone penetration.

**Mobile Phone Penetration and Mobile Banking: World (2011)[6]**

| Country | Mobile phone Subscriptions (per 100 people) | Mobile phone Used to pay bills (% of Adults) | Mobile phone used to Send/receive money (% of Adults) |
|---|---|---|---|
| India | 72.0 | 2.2 | 0.6 |
| Philippines | 92.0 | 2.1 | 7.3 |
| Indonesia | 97.7 | 0.2 | 0.6 |
| Bangladesh | 56.5 | 1.7 | 1.0 |
| South Africa | 126.8 | 4.4 | 5.4 |
| Kenya | 64.8 | 13.4 | 60.5 |
| Vietnam | 143.4 | 3.6 | 2.8 |
| Sri Lanka | 87.0 | 2.4 | 1.9 |

## Cash and Non-Cash Payments across countries[7]

| Country | Cash Value as a percentage of GDP (2011) | ATMs(no. per million inhabitants)(2011) | POS terminals (no. per million inhabitants(2011) | Number of non-cash transaction per inhabitant (2011) |
|---|---|---|---|---|
| Australia | 4.10 | 1,379 | 33,577 | 295 |
| Brazil | 3.93 | 892 | 30,025 | 112 |
| India | 12.04 | 80 | 550 | 6 |
| South Africa | 3.72 | 475 | 5,481 | 47 |
| Turkey | 4.32 | 434 | 26,455 | 30 |

The Standard Bank mobile service consists of an Access Account, which is a banking account based on a mobile platform that allows users to create mobile apps. With the app, sales agents can open an account for new customers within minutes[8].

While it is important for the mobile banking applications to be secure, consumer readiness to adapt to this channel is clearly determined by ease of use with simple and inter-operable (any handset, any telco, any bank) applications.

**<u>Points for discussion</u>**

- How sustainable is the branch based model?

- How can the challenges in the use of agents be overcome – quality control of service delivery, investment in agent infrastructure, cash and risk management by the agent?

- While mobile has served as an excellent platform to facilitate remittances, how can mobile banking make the paradigm shift to serve as a banking channel for mass retail?

- How can technology be leveraged to optimize costs – e-KYC[9] introduced in India is an example of cutting edge technology which can significantly reduce cost of customer acquisition of a bank.

**Roundtable Discussion Session III: Risk Management**

A sound business model is based on a strong foundation of risk management policies and practices. Banks have evolved and innovated in understanding and managing risks specific to mass retail.

**Credit due diligence:** One of the biggest stumbling blocks banks face in extending credit to the mass retail customers, is their inability to apply standard risk assessment procedures to this segment. Most mass retail customers, be it small businesses or individuals are characterised by the following features: lack of documentary proof of income, primarily cash based transactions, no record of credit history, imperfect or no title documents for assets such as property etc. Banks such as DSP, BTPN and Brac Bank have evolved their proprietary risk evaluation methods through a combination of use of surrogates, local community knowledge, credit scoring model and also psychometric tests for borrowers. Some other banks take the route of first building a transaction history for the customer through the use of remittance and savings products. The transaction history is then used as a surrogate for credit assessment. Application credit scoring for individuals and credit ratings for MSMEs is increasingly being adopted to serve first time customers in the mass market. Equity Bank with a customer base of 8 million uses data mining techniques to assess customer behaviour. Continuous monitoring of the borrowers post disbursement is another critical aspect of credit risk management.

**Operations risk:** This is probably one of the biggest contributors of risk in the mass retail business and comprises various aspects such as employee frauds, cash handling and management at the customer point, technology failure, etc.

**Reputation Risk:** Reputation risk is the current and prospective impact on earnings and capital arising from negative public opinion. There have been instances where Banks have suffered bad press due to instances of mis-selling of products to vulnerable consumers, sale of unsolicited products-often by bundling them with other products, lack of transparency and disclosure, hidden charges, penalties, etc. and alleged strong-arm recovery practices.

**Consumer Protection Issues**

The TCF ('treating customers fairly') principles define standards, which the institutions must aspire to meet so that the consumers are benefited and have increased confidence in the financial services industry[10].

**Points for discussion**

- What credit risk assessment framework can be adopted for first time customers?
- What kind of safeguards through internal audit and risk oversight processes should be built in for operations risk?
- Is there an enhanced reputation risk for banks when dealing with this segment? What can be done to mitigate it?
- To what extent are financial literacy and community development programs critical for better risk management?

**Round table Session IV Organisation to deliver mass market**

A key component of the business model would be the people strategy of the bank which is suitable for this segment. The key imperatives for banks to consider in deciding the profile and composition of its organisation structure would be:

- How can we achieve scale and yet be local in operations?
- Need for suitable profile of resources that can effectively reach out to this segment
- Cost structure and parity with other employees in the bank
- How to achieve standardisation as well as decentralised decision making?
- How to manage partnerships and outsourced resources, within the organisation structure?

As banks expand their footprint into mass retail banking, the human resources challenge would need to be addressed at an increasingly complex scale. Different banks have adopted different approaches like local hiring, tie-ups with educational institutions to catch them young, etc.

**Points for discussion**

- Do banks need to customise their HR policies to suit the needs of this segment?
- What are the cost effective methods for training and retaining this talent pool?
- What kind of performance metrics and incentives should be used to motivate the employees?


**Sources:**

1. RBI Annual Report 2012-13
2. Report of Finmark Trust
3. RBI Annual Report 2012-13
4. Bansefi website
5. SBI Research Report
6. World Bank
7. CPSS
8. Banking Technology May 2013
9. **e-KYC** means a customer of a bank that chooses to use e-KYC can get his/her credentials verified without carrying any paper documents by allowing the bank to access his/her proof of identity, address, email address and mobile number stored with the UIDAI by providing biometrics (fingerprint or iris scan or both). The customer has to authorise the bank to access his/her demographic records registered and stored in the UIDAI's Central Identity Data Repository and the bank will receive the details from it after matching the customer's biometrics scan with the Aadhaar number provided.
10. Speech on "Financial Consumer Protection" delivered by Dr. K C Chakrabarty, Deputy Governor, Reserve Bank of India on March 22, 2013