Plenary 1: Digital Finance and Delivery Channels in the Pacific

Session Synopsis
Digital financial services are not new to the Pacific with most Pacific countries having one or more mobile services available. The success and growth of digital financial services in the Pacific has been remarkable given the region’s challenging geography and dispersed populations. This success has led to the Pacific becoming one of the world’s most progressive mobile and branchless banking regions.

In rural areas of the Pacific digital financial services are providing new ways for communities to access a range of financial services, which in many cases have not previously been available. Through mobile applications such as ANZ Go Money, Westpac’s Everywhere Money, Digicel Mobile Money or Vodafone MPAiSA, more Pacific islanders are being able to access financial services than ever before without the need to visit a physical bank branch.

In Tonga, the use of mobile money has been particularly successful. With over fifty inhabited islands, Tonga has taken advantage of the country’s high mobile phone penetration rate to significantly increase outreach by leveraging mobile phone networks without the need for physical bank branches on each island.

Challenges

A common challenge for digital financial services in the Pacific is how to get customers to use their mobile wallets and accounts for more than just transferring funds. More incentives are needed to encourage customers to load their wallets and utilize them as a secure savings service rather than just a transfer service. To address this many banks and mobile operators have begun offering financial literacy workshops in villages to better educate their customers of the benefits of utilizing their mobile wallets in a variety of ways. However, the lack of acceptance of e-money at end points is a major hindrance in getting more customers to make use of features such as making payments from their mobile wallets. This highlights the need for more work to be done to develop the infrastructure for digital financial systems in the region to make it a more viable and convenient option for customers which will encourage them to leave money in the wallet, rather than cashing out. Currently, it is estimated that up to 97% of funds deposited into mobile

Session Moderator:
- Ms Claire Cochrane, Counsellor – Development Cooperation, Department of Foreign Affairs and Trade

Speakers:
- Mr. Neil Singh, Regional Head of Diaspora and mCommerce, Digicel
- Mr. Shailendra Prasad, Head of E-Commerce and Corporate Affairs, Vodafone Fiji
- Mr. Aubry Dodd, Head of Digital and Channel Management – Pacific, ANZ Bank
- Mr. Tillman Bruett, Programme Manager, Mobile Money for the Poor, UNCDF
- Mr. Cameron Penfold, Acting Country Head, Solomon Islands, Westpac Pacific
Wallets are withdrawn for cash to then be spent on purchases, rather than being saved for later or used to pay for purchases directly through the wallet.

Government-to-people payments (G2P) represent significant financial flows in Pacific economies, and where governments take a role in transacting with digital money they can enable the development of the necessary ecosystem for these products and services to be more widely accepted in the region.

Financial education is also very important and successful methods continue to be a challenge for financial inclusion in the Pacific. In certain markets, many people do not know how to use their ATM cards, which is an indication of the level of education that still needs to be achieved. One method of financial education which has shown promise is the delivery of lessons on the topic of keeping money secure which are then directly followed-up by opportunities for those taking the course to open a savings account.

Researching global trends and case studies of successful financial inclusion programs outside of the Pacific can provide useful insights, but in many cases the unique environments of the Pacific Islands make it difficult for such programs to be replicated. Interoperability is one example of a global trend which is of interest in the Pacific and the case of Tanzania’s success in developing the world’s largest mobile money network with full interoperability between providers connected at a wallet level can be a useful source of insight and inspiration. In the case of Tanzania, their success with interoperability has resulted in an increased total volume of transactions which benefits both the providers and customers. A key element of their success has been Tanzanian regulators allowing interest gathered to be paid back to the clients resulting in a significant number of customers using digital financial services more. Such case studies provide useful examples to Pacific stakeholders on how they might successfully increase the take-up and usage of digital financial services in the region. However, care must be taken to ensure that attempts at replication are done so within the context of the Pacific region’s unique characteristics.

Lastly, mobile network operators face a major challenge in the Pacific in having to charge for digital financial services that banks can offer for free. Banks can generate revenue from other services such as credit or for payment services where the recipient absorbs the fee. This issue of free digital services is causing competitive tensions within the financial services industry requiring careful monitoring and regulation.

**Role of Agents**

Agents and agent networks are critical in the delivery of digital financial services, but the agent model has its limits. Providers need to have realistic expectations of their agents as they often do not have the capacity to provide all of the desired services or at the same standard as their peer agents. Most agents are
expected to facilitate transactions and explain services and risks to customers while also managing their own business. This is compounded where agents are also managing several different electronic wallets and systems. The use of agents is a critical element for successful digital financial services, and it is important that providers recognize that if agents are put under too much pressure they may lose interest in acting as an agent. This is especially the case where returns are minimal and regulations onerous. It is also essential that agents have sufficient volume of transactions to stay incentivized. Service providers cannot impose higher charges because the consumer will not want to use the product, but the agent also needs a percentage or fee from the transaction. So many providers have to fund the agents for their products, taking the risk that they may never recover these funds.

Providers also need to help agents manage their liquidity, especially within the current environment where the majority of customers prefer to withdraw all of their cash. Encouraging clients to transact electronically eases cash liquidity problems and helps create a micro-economy in a community or village. Education of both agents and clients is key.

When choosing an agent, due diligence checks are important. This would usually include an examination of aspects of the potential agent such as the size of the local population who would have easy access the store, the size of the store and whether it has sufficient liquidity and whether or not their security procedures are sufficient.

Agent networks are successful when providers and agents work together, and both know their customers and their needs.

Cultural Considerations

Cultural considerations must be kept in mind when designing products to meet the needs of customers. For some people, going into town to pay their monthly bill may be something they look forward to as it may be their main social outing. In such cases, there is less incentive or reason to make the payment through a digital channel.

Similarly, people may not want access to peer-to-peer payment services. The difficulty of sending money may be used as an excuse not to do it, as saying no can have its own ramifications. Providers need to be conscious of how the society works, and how they are evolving and adapting to these products and services, rather than assuming that that is what everyone wants.

Digital Financial Services and Women’s Economic Empowerment

With access to the right financial services, women can improve the lives of their community by taking actions such as investing in the education of their children, their family health or purchasing insurance products. Women may also find the confidential nature of digital services particularly appealing as it is easier to keep the knowledge that they have a bank account on their phone to themselves. Also, by being able to access their funds on their mobile, they no longer need to travel to a bank reducing their risk of
harassment and assault. Providers can also use the mobile network to provide information, for example on women’s health, weather warnings, crop disease and educational tools for children.

From a provider’s point of view women often make better agents due to women generally being more community-minded. Many providers are now focusing on how to get more women involved for this reason. Furthermore, studies have shown that women are more likely to pass on education and training to their family members. In many cases an account is held in the name of a male while it is a woman who is running the family business; thus making them the main focal point for customers and conducting transactions. As a result, it is important for providers to recognize the role of women in banking and the benefits of developing this role to support the growth of micro economies.

Key Points from the Session:

- Providing access to digital financial services is only an effective means of financial inclusion if those services are being used. Furthermore, the use of these services should result in tangible benefits for customers. To achieve this, more incentives are needed to encourage customers to make use of digital financial services available to them in a larger variety of ways such as to make payments or the purchase of insurance products. Such progress would result in greater number of transactions and lead to greater benefits to both the providers and customers.

- A major challenge in utilizing mobile wallets in the Pacific region is the lack of end-points that accept e-money. Until there are adequate end-points willing to accept this form of transaction the majority of mobile wallet users will continue to use the wallet primarily for transferring funds, and cash-out to make purchases. This lack of funds which are currently being retained in mobile wallets is a major drawback for providers. Governments have a role as enablers in building the necessary ecosystem for digital money to be more widely accepted, contribute to system viability, and foster innovation.

- When exploring the possible application of new methods or technologies, Pacific stakeholders often find useful case studies from outside the region to learn from the success and shortcomings of other organizations which have attempted similar things. However, when planning to adopt something which may have been implemented outside the region particular care must be taken to ensure that it is relevant and viable for the Pacific context.

- Providers need to understand the communities they are operating or intend to operate in. When designing digital financial products and services research is needed to examine how such services might impact the local community on both positive and negative levels. Cultural aspects of each local community may mean that products and services which are popular in one village may not be in another.

- More recognition is needed for the important role that women have in banking. By supporting women as part of the industry’s strategy for growth, service providers can achieve greater results by leveraging the ability of women to pass on financial education with their family and other members of their community and distinctive ability to build enterprises.
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