Panel 2: Product and Service innovation in the Pacific

Session Synopsis
Significant growth in financial inclusion has occurred in recent years as a consequence of innovation across the financial ecosystem – in products, services, infrastructure, technology communications, policy, regulation – with an increasing attention to customer driven innovation. Innovative solutions are progressively reaching those parts of the population that are otherwise generally excluded from formal financial services, with tailored solutions to meet the specific needs of people to achieve positive impacts.

**Growth in Digital Finance**

The growth in global financial inclusion is in part due to the success of digital financial services and the low cost and convenient platform it provides for clients to access financial services including receiving salaries, making payments or purchasing goods.

Other factors driving growth in financial inclusion around the world include: mobiles phones, government-mandated accounts, government-to-person payments (the number one reason why people open a bank account in the Solomon Islands), and general utility from being able to access the financial system by customers that digital finance offers.

The National Bank of Vanuatu is trialing tablet banking. At the moment half of the Bank’s 28 branches are off-line, with processing of transactions at head office taking 7 to 10 days. “EasyMobile” is a tablet/mobile phone based system that will bring branches online and enable a range of services for both personal and business customers, including money transfers. It will enable same day value for deposits and transfers. The Bank is also introducing biometric identification, first for its staff. Variable mobile communications in Vanuatu is the main barrier to wider rollout. There is demand for microfinance in remoter areas and financial services by rural workers, but not the communications infrastructure to support this. One lesson here is that infrastructure is needed to support good ideas, and this infrastructure needs to be connected.
Given the prevalence of savings clubs in the Pacific and efficiencies that technology offers, there may be potential in ‘digitising’ the systems and trust developed within groups. Banks could then lend or interact with the savings group based on the pre-existing histories and discipline within the group.

Digital finance innovations of note in other parts of the world include E-Peso – an electronic payment platform for transactions in the Philippines, the remittances service Simba in Kenya, and First Access, which uses a range of mobile phone and utility company data of customers for credit scoring purposes. M-Shwari in Africa is a high profile success in terms of generating new accounts - with its next challenge being to stimulate customer use of those accounts. While M-Shwari is challenging the markets traditionally held by the banks, it is generating new accounts with previously unserved people and reaching the ‘next mile’ of the population.

Core Regulatory Principles

Financial institutions are continuously developing new ideas for products and services to meet the needs of their clients and provide them with access to new markets. In response, regulators (the Alliance for Financial Inclusion) and policymakers (G20) have prepared guiding principles for institutions to consider when approaching the regulation of new products and services for the unbanked and poor. These principals include:

- Leadership of the institution
- Level of diversity and competition in the market
- Innovation and responsiveness to customer needs
- Contribution to empowerment through financial education and building capability
- Cooperation amongst providers within the market
- Knowledge sharing with peers on similar issues within the region
- Applications of proportionality of regulation to allow for fairness among players
- The product’s place in the broader financial system ecosystem
If one goal of financial inclusion is reaching the next mile and the market isn’t responding adequately to this challenge, regulators and policymakers may increasingly encourage cooperation (i.e., between banks and MNOs) as well as competition amongst providers.

**Importance of customer-driven innovation**

In recent years the focus of financial inclusion has been on increasing *access* by the unbanked to financial products and services, but increasingly attention is shifting to *use* of financial products and services, and putting the customer at the centre of development. The effort that has gone into technology and methodology as drivers of access needs to be matched with an understanding of customer needs and circumstances.

For people to adopt new financial products and services they need to be: available, accessible (close), reliable, appropriate (relevant to their needs), appealing (not just a smart application), and affordable. Financial services providers cannot deliver on all of these elements by themselves - it takes everyone involved in the financial system to make this happen, and new product design needs to take into account other aspects of the financial system for new products to be used effectively.

An example of this whole-of-system approach is a bundled insurance product being developed in Fiji. In recent years, individual companies have introduced individual insurance products in the country, but without success. The new product is being developed in partnership with several companies and includes a bundle of insurance several products (life, health, general, personal accident), with a $10,000 potential payout that can be applied across different risks. Administration will be standardised to keep costs down and premiums more affordable. Initially it will be marketed through companies to their...
employees to build volume, then to the general public. This cooperative effort is being facilitated by the Reserve Bank of Fiji.

Determining what customers want and/or need is key. Prototyping and co-design – involving providers and customer in the design process involves testing ideas with customers at an early stage. Testing the idea with customers to see whether it’s going to work at the earliest stage of product and systems development is a prudent investment strategy for financial services providers. There are great applications and technologies in Africa and Asia that have yet to connect with a customer need, and as a result are going nowhere.

In addition to technology, product and service innovation is increasingly being driven by customer data. There is much data in the financial system that is not being fully used by financial services providers. Data from mobile phone usage, utilities providers and even social media is being used and cross-referenced to provide instant credit references. At the same time, the rapid use of these data to provide instant access credit has raised questions about access to and distribution of personal data, which regulators are monitoring.

Innovation in financial services is also being pursued through deeper dives into the ecosystems and value chains of businesses and industries, with an increasing interest in applications, rather than products and technology. Identifying the problems in a sector, what those are that have a financial service link or solution, and then identifying who’s best placed to provide a solution. New products will increasingly be purpose rather than product or technology driven, and by providers who try to solve a problem, rather than just sell a service.

Communicating with the customer

Innovations in service are driven by constant and meaningful communication with customers, and need to adapt to the constant change in customer circumstances and the market environment generally. Financial services providers should periodically review the method and relevance of communications with customers. Is all the information traditionally requested on bank forms still needed, is the language used understandable by the customer? Do agents and contractors fully understand the provider’s products and contracts?

Positive behaviours for financial wellbeing can be reinforced through simple means such as text messages sent to clients when a payment is made towards a savings goal, and/or when the savings goal is achieved. In the Pacific, these simple automated communications can to be augmented with personal follow-up as face to face communication is very important culturally.
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