Digital Financial Services

IN THE TIME OF COVID-19
Prologue

No other phenomenon has changed the world as momentously as the novel Covid-19. Beyond impacting the health of populations, it has impacted economic health of nations and people alike. For some, this meant a sudden drop in their household income and as a result being pushed below the poverty line. For others, this forced a rapid rethink of coping mechanisms. However, for yet others, it has opened up opportunities as well.

In Bangladesh, Covid-19 has exposed our inadequacies for an appropriate response and organizational inefficiencies across the board. Nonetheless, in the most basic of measures, we have managed to withstand the assault through a wide number of mechanisms, albeit in a haphazard way at least in the beginning.

One of the areas where the country did reasonably well is in its usage of digital payments to reach the vulnerable populations quickly with government subsidies. Over 2 million mobile money accounts were opened within six weeks - many in the RMG sector. Covid-19 has also propelled the expansion of use cases in digital financial services (DFS) in Bangladesh.

In keeping with its decade-long tradition of studying and analyzing various aspects of the DFS ecosystem, pi STRATEGY launched a nationwide research to obtain some early insights on how Covid-19 has impacted digital payments. The Firm’s first DFS study dates back to July 2009 - two years before the first mobile financial service was launched in the country. Its most recent study in this field was recently concluded in August 2020. Building on its differentiated analytical capabilities and recognized domain expertise in DFS through 30+ studies over this period, pi STRATEGY took a critical look at how Covid-19 and DFS impact one another.

The Firm interviewed 1,000+ respondents across Bangladesh for this study. A number of C-suite industry leaders were also consulted during this engagement. It is part of a series of studies in this domain that the Firm intends to undertake. This brief report outlines from this first study some of the early insights (akin to an Executive Summary).

Human beings are uncannily adaptive. Whatever you throw at them, they first find a coping mechanism and then explore opportunities to thrive. DFS in Bangladesh has somehow managed to find a way to harness the ills of Covid-19 towards a fortuitous end.

Pial Islam
Managing Partner
Study Approach

A multi-faceted set of lenses were used to triangulate on key insights. An extensive primary research with over 1,000 respondents nationwide further strengthened the findings.

Proprietary Insights Repository
pi STRATEGY has built an extensive repository of data sets and insights through its 11+ years of work in the DFS space. This provided longitudinal data points for comparison and reflection on the trajectory shifts within various sub-components of the DFS ecosystem.

Secondary Research
While there are many sources of secondary information on DFS, this study primarily leveraged data from the following five highly reliable sources: Bangladesh Bank, World Bank Findex, Intermedia's Fi Tracker, CGAP, and BTCA research papers.

Industry Expert Consultations
Experts deeply familiar with Bangladesh's DFS domain were consulted. They were C-suite resources from banking, MFS, agent banking, MFI, NBFI, insurance, multi-lateral donors, national & international think tanks, and regulatory bodies.

Primary Research
Over 1,000 people were interviewed for this study. The segmentation was designed to closely match the BBS demographic data for Bangladesh across age, gender, and rural/urban splits. This is depicted further in the charts below.

![Age Distribution Chart]

<table>
<thead>
<tr>
<th>Age Range</th>
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<tbody>
<tr>
<td>15 - 25</td>
<td>32%</td>
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<tr>
<td>26 - 35</td>
<td>24%</td>
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<td>36 - 45</td>
<td>20%</td>
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<td>46 - 55</td>
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<td>56 - 70</td>
<td>10%</td>
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<td>70+</td>
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Not drawn to scale
Special considerations were made to also match the income and technology adoption distributions as closely as reasonably possible with national level data from BBS and other sources.
Impact of Covid-19 on Income

Severe and Widespread

Covid-19 impacted everyone one way or another. For an overwhelming majority of the respondents (77.3%) it created a negative impact on household income and livelihoods.

Nearly one-fifth of the respondents reported losing their income fully. Among them three-fourth were from lower socio-economic population segments in the country. This represented the segments primarily involved with daily wage based income — rickshaw pullers, construction workers, day laborers, retail outlet salespeople, and informal workers.

Just over one-fifth of the respondents reported no change in their household income. Among them nearly three-fifth were from middle-class population segments. This represented the segments constituting salaried staff and self-employed, some of whom were able to embrace work-from-home measures for their jobs.

Interestingly enough, there were some people who reported an increase in income as a result of Covid-19. This was too small a segment to break down the numbers into socio-economic segments. However, they seemed to be involved with selling products related to Covid-19 (PPEs, masks, equipment) and providing delivery services (groceries, food, etc.).

A significant number of people faced financial difficulties

HAMIDA BEGUM
Female | 27 | Housewife | Rural

We had to borrow from relatives during Covid-19 to put food on the table. You can stop everything, but you cannot stop hunger.
When it comes to impacting income negatively, Covid-19 appears to be gender blind.

Gender disaggregated data indicate that while there were modest differences of the impact of Covid-19 on income across the genders, the differences were negligible. For example, among those that reported loss of income, 49.1% were men and 50.9% were women – only a 1.8% gender gap was registered.

The income of those with MFS wallets seemed to be less impacted by Covid-19 than those without.

Cross-tabulating impact of income due to Covid-19 with financial inclusion through bank accounts did show some correlation. However, this may be because people with greater income are more likely to have bank accounts. But a correlation was also observed for those with MFS wallets (ownership of which is not correlated with income). The median (red bar) shows lower impact on income for those with MFS wallets.
Financial Inclusion

Half the population financially included

Financial Inclusion (FI) is measured as the percentage of adults (15+ years) who reported having at least one account in their name with a formally registered institution. Using this definition, about half the population of Bangladesh is currently financially included. There is still a long way to go. Among the various channels, MFS has contributed the most to FI in the country in recent times.

This study also sought to understand the perception related to cost of maintaining an account across various channels. The gender disaggregated data show some variations. Interestingly, the data on Shomiti (informal community networks used for loans and savings) show both the lowest and highest perceptions of costliness for men and women respectively.

Financial Inclusion through Various Channels

People’s Perception of which Type of Account They Feel is Most Costly

Not drawn to scale | * Estimated by extrapolating from different factors and 2018 FII data
Early Insights

MFS and FI

23% Use financial services through MFS wallets alone who do not have accounts with banks or agent banking. Among them:

- 62.7% Male
- 37.3% Female

14% Use financial services through MFS agents alone who do not have MFS wallets nor accounts with banks or agent banking. Among them:

- 48.4% Male
- 51.6% Female

“I had no accounts before. During Covid-19 I opened an MFS account to receive government support, but still waiting.”

MOHAMMAD ARIF
Male | 31 | Tractor Driver | Rural
Women's Financial Inclusion

The gender gap in financial inclusion has decreased to 24% from 29% in 2017. Reimagining financial products and how women interact with those hold the key to creating greater impact in closing the gender gap further.

I don’t have a bank account, but I use MFS. I withdrew money from MFS during lockdown, but wouldn’t be able to from a bank since they were closed.

NASIMA AKTER
Female | 23 | RMG Worker | Rural
Currently 61.4% of men and 37.8% of women have financial accounts in Bangladesh – leading to a 23.6% gender gap in FI.

### A Stubborn Nut to Crack

Gender gap in financial inclusion is a complex issue. Beyond the systemic social norms and employment participation rate hurdles women face, there are literacy, numeracy, access to phones, and tech familiarity factors. Furthermore, when new services are offered (e.g. MFS, agent banking, wallet apps), men tend to embrace those at a faster rate, which further exacerbates the gap.

Here is a case in point. As stated earlier, MFS made the most contribution to FI in recent times. Among the 37.2% financially included through MFS, 67.7% are male and 32.3% are female - leading to a 35.4% gap for this sub-component (this gap was reported to be 14% in 2018 by FII). There is, however, a promising story here. Among those that signed up for MFS accounts in the last six months (March 2020 - August 2020), 31% are male and 69% are female - leading to a 38% gender gap favoring women. This is possibly because of a recent drive by the Government of Bangladesh to require RMG sector wages and social safety net payments to be made through MFS during the time of Covid-19.

### Requires a Holistic Reimagination of Financial Products and User Experience

Most of the women-targeted financial products that exist in the market today can be characterized as pink-wash- ing of existing products - marginally changing a few of the product features like slightly reduced interest rates for loans. There are, however, very few examples of holistic reframing of women-targeted products that encapsulate elements of safety and community. Nonetheless, the user experience is rarely differentiated.

A new breed of product innovations should be designed ground up - mapping financial services to life cycle events, removing long-lasting barriers to access and usage, and tailored user experiences that specifically address women's issues are but only a few examples.
Digital Payments

Expanding Wings

Covid-19 has had several effects on digital payments. In the early days, the volume of transactions saw a sharp drop due to many people losing income and unable to send money to their families in rural communities. However, subsequently, strict social distancing guidelines propelled the use of digital payments. Wages in the RMG sector were paid digitally. Social safety net payments were made digitally. Other use cases like airtime top-up, utility payments, and merchant payments also experienced greater adoption. Furthermore, innovations were also observed with new account opening using e-KYC protocols as well as SMTAP offerings that allowed initiation of fund transfer to those without MFS accounts.

The first nano-loan product pilot was also launched during the time of Covid-19. This holds a lot of promise if the uptake of similar products in Africa and elsewhere is an indication.

The MFS market has seen the entry of a new player that has grown quite rapidly within a short time. However, its effect on market competitiveness and consumer choice remains to be seen. bKash still commands the lion’s share. Work is currently underway by the Bangladesh Bank to introduce ecosystem-wide interoperability in MFS. A few new players are likely to enter the MFS market soon. Interoperability and addition of new entrants are expected to enhance the MFS market competitiveness in the years to come.
Only 7.7% people reported making digital payments using MFS wallets

While this may seem low, it used to be well below 5% prior to the start of the Covid-19 pandemic. And those that do make digital payments, make three transactions per month on average across multiple use cases.

Nearly one-fifth of the respondents reported using MFS through agents (OTC)

Among them, most use agents to receive money, a few use agents to send money, and nearly two-fifth use agents for both sending and receiving money. The fund transfers continue to flow from urban to rural locations.

Feature phones do not seem to act as a show-stopper for digital payments

Among those that reported making digital payments, an overwhelming majority of people used MFS wallets to make payments, and that too by using their feature phones for the most part.

Women's use of digital payments seem less impacted by Covid-19 than that of men's

Nearly two-third of the respondents reported increased use or no change in usage of digital payments during Covid-19. Among them, 86% were women and 56% were men. Women seemed to have been able to better withstand the shock.
About pi STRATEGY

Connecting Dots

We operate in a world where an organizational bias for action drives doing, and as a result thinking (and connecting seemingly unconnected dots) often takes a back seat. This impacts the quality of choices we make, the strategies we pursue, and the impact we create. pi STRATEGY is in the business of identifying and connecting seemingly unconnected dots.
pi STRATEGY is a pre-eminent consulting firm that specializes in helping clients transform ambiguity into opportunity.

Thought Leadership

In its 11 years, pi STRATEGY has established thought leadership in a growing number of domains. From digital financial services and social protection to health financing and e-commerce, the Firm is regularly invited to contribute its thought capital in national and global conferences, workshops, print media and on TV.

The Firm’s insights have been presented at global platforms such as the World Economic Forum, World Bank, United Nations, as well as at conferences organized by Harvard, Oxford and the London School of Economics.

Client Engagements

Over the years, the Firm has collaborated with 20+ clients across 60+ engagements locally in Bangladesh and globally, impacting 30+ million lives through its engagements. An overwhelming majority of its engagements originate from past clients and their referrals.

Teams

The Firm uses a combination of internal resources and external domain experts from around the world. It is further supported through an international advisory board and a global Fellows network.

Strategic Planning

When a strategy succeeds, it seems a little like magic, characterized by unknown unknowns in advance but obvious in retrospect.

Over the years, the Firm has helped large financial institutions, telecoms, and NGOs formulate organizational strategies. It has also helped governments and donor agencies leverage strategic thinking to inform program design.

Digital

The Firm’s work in digital covers three broad areas. It forms a cornerstone of organizational strategies that leverage digital transformation initiatives.

It uses its differentiated capabilities in various digital technologies to identify new growth opportunities as well as explore ways to do things differently.

Lastly, it uses its in-house tech capabilities to design innovative digital products from the ground up. Recently, it has designed an award-winning platform to catalyze productivity enhancements among micro and small enterprises.

DFS

The Firm’s work in digital financial services goes back 11 years. Over half of its client engagements are in the DFS space and cover a number of sub-domains: customer insights, regulatory issues, product innovation, interoperability, etc.

Its DFS work extends into the realm of social protection programs as well - looking at ways to improve the delivery of government services by leveraging digital payments.

pi STRATEGY has authored several landmark studies in DFS, including a formative report that articulated Bangladesh’s pathway towards a cash-lite society.
The use of 'red-plus' signs throughout this report signifies our own small effort to recognize the contributions of health workers and first responders in this fight against Covid-19.