



Inclusive Cashless
Payment Partnership

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Digitizing Micro-business Ecosystems **Low Income Communities and Gender**



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Context

Understanding low-income clusters in urban areas

According to Census 2011, there are 13.92 million slum households in India, with 65.49 million inhabitants. An estimated 33,510 slums exist in urban areas of India (NSSO, 2012). From the perspective of awareness, penetration and usage of new age financial services, it is important to understand a few defining characteristics of urban slums:



- While there are a wide variety of slum typologies, most consumers living in urban slums or informal settlements would fall in the bottom of the economic pyramid where annual incomes are less than INR 3.4 lakhs (with a bulk having annual incomes under INR 1.5 lakhs with extremely low disposable incomes)
- The resident population of an urban slum comprises of a mix of occupational patterns that is significantly skewed towards daily wage laborers and small, informal home-based entrepreneurship. Income streams therefore tend to be unstable and pre-dominantly cash-based
- Most slums are vibrant, self-contained transactional ecosystems where in households, small and informal merchants, community intermediaries and NGOs, and last-mile access points for government services co-exist
- On account of the recent emphasis on opening of bank accounts by the Government of India (Pradhan Mantri Jan Dhan Yojana), the instance of bank account ownerships high but active usage remains quite low
- Mirroring the high mobile phone penetration rate across the country, a majority of slum residents have access to mobile phones but poor network connectivity, low smartphone ownership and marginal internet usage remain major barriers in being able to actively access, use and engage with modern financial services

Profile of an urban slum in Jaipur

CATALYST's experiments with digitizing low-income clusters were anchored in Bhatta Basti, an urban slum in the city of Jaipur which has a largely migrant settlement of approximately 10,000 households, with an estimated population of over 45,000 people. A needs assessment study conducted by CATALYST based on a sample survey of 442 randomly selected low-income households from Bhatta Basti reveals characteristics that can perhaps be extrapolated to typical urban slums.

What does an urban ultra-poor household look like?

Profile of Bhatta Basti, Jaipur

Household size



5 members per household

2 earning members per household

INR 3,000 weekly household income

Mentioned data are median values

Industry patterns



Construction **26%**



Driving & auto repair **22%**



Artisans **21%**



Tailor/yarn maker **15%**



Other **16%**

Occupation patterns of earning members of the community

46%

Wage labourers

21%

Home based businesses

11%

Private sector employees

22%

Others

Bank account ownership and usage

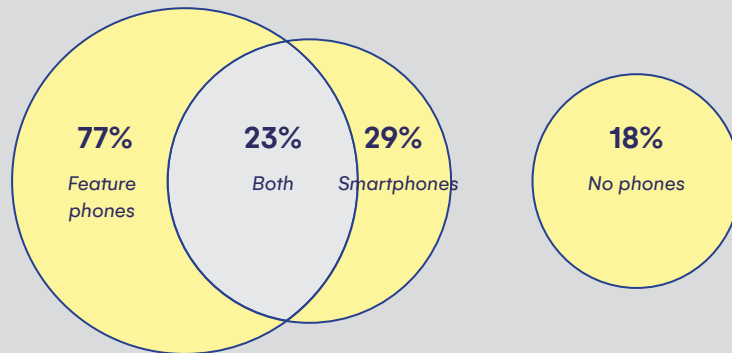
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Bank accounts per household

81%

Percentage of inactive bank accounts (without an inflow or outflow in past 30 days)

Mobile ownership and usage



Access to internet

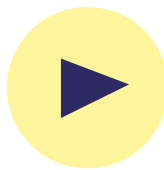


Only **1 out of 4** households had access to internet in any form (wifi, data card, mobile internet)

Smartphone usage patterns



93%
Calls & Text



85%
Entertainment
(movies, social
media, etc.)



10%
Business &
financial
purposes

To understand the issues pertaining to financial behaviors of low income clusters and how the lack of modern banking infrastructure becomes a hindrance to their participation, a few important user profiles are described below followed by some of the most commonly observed hurdles and pain points. While these are informed by the ethnographic study CATALYST conducted in Bhatta Basti in Jaipur, they are characteristic of the typical slum context.

Women

Women have a high involvement in the economic lives of their families. Many have informal sector that contribute significant amount to the total household income (as domestic workers, or in locally available industries as in the case of Bhatta Basti like bangle making, tie and dye etc), and a large number are self-employed in small home-based enterprises. Household purchases, especially of consumption goods bought on a daily basis, are almost entirely the purview of women with most of these transactions happening in cash and made against a set budget from their monthly expenses. However, their involvement in important financial decisions and planning is low, and they often lack information about financial products purchased by male members, that exist at the household level. That said, women often save independently, outside of pooled family savings if any, and mostly out of the money budgeted for household expenses. Bank account usage amongst women is low, even though many have accounts, and on the rare occasion that they interact with banks, they do so with the help of male members of the household or adolescent children. They have low confidence about their ability to use digital solutions, and do not feel the need to engage in digital transactions citing that their financial activities are limited to purchase of daily goods and consumption necessities where cash often suffices. Women also have strong social ties with other women in the community, and this usually implies that there is a great deal of influence they have on each other's behaviors.



Men

Men are usually engaged as daily wage labourers, construction workers, domestic workers, drivers, helpers in local hotels, small kirana shop owners etc. They often rely on multiple jobs in order to earn enough for their families. Major financial decision making in the household is almost solely the responsibility of the man, and therefore there is a higher level of interest and curiosity about newer products and services, including digital solutions, and their potential to improve their business and financial lives. There is a high degree of trust in banks and other social financial networks (like chit funds), but a great deal of skepticism around external agents.

Youth and children

Youth and children are the technology flag-bearers of the household, with active use of social media and other applications relating to food, travel, entertainment etc. This may happen on a smartphone owned by them or borrowed from their parents. The level of education amongst boys tends to be higher than girls, often also accompanied by a higher degree of social mobility and freedom. Young adolescents are quick learners when it comes to digital financial services, requiring significantly lesser handholding support than older women and men. Peer influence is a strong force in shaping their perceptions and attitudes.

A vulnerable segment

The urban poor, a large majority of whom are migrants in search of economic opportunities, have highly volatile incomes and unpredictable cash flows. Low education levels and skills translate into low wages and employment in industries such as construction or small scale manufacturing that employ people on a daily basis or on a per job basis, respectively. These are all based on informal contracts and almost always paid in cash. Work itself is unpredictable and sometimes varies by season. The wages received are not deposited in bank accounts, and are stashed away in boxes, jars, etc at home. This is driven by the perception that immediate access to the funds is important to balance their unpredictable lives and having clear visibility into their savings drives a sense of comfort. The current banking experience which is typically beset with issues like distance of the closest branch from their homes, unwelcoming environments and cumbersome processes also contribute to the preference for saving in cash and at home.

■
Design principle #1: Design products with liquidity as paramount concern

■
Design principle #2: Mitigating uncertainty (on account of seasonality, fickle livelihoods, emergencies) is important even if not explicitly demanded



Existence in a cash-based ecosystem

Households' preference to make cash payments, both for regular and ad hoc payments, is also determined by the fact that their daily purchases are fragmented across a variety of small offline merchants instead of depending on a few anchor merchants, i.e., merchants on whom the households rely for regular purchases. Merchants' preference for cash payments further entrenches a cash-based economy.

—
Design principle #3: Make the user experience of digital payments seamless and frictionless

—
Design principle #4: Reduce the economic barriers of adopting digital payments by merchants

Strong social connections with shared risks and vulnerabilities

Most migrants into the city depend on social connections and relatives to find employment. As a result, most people in the community are engaged in similar professions. This high dependence on similar professions results in families and social networks being vulnerable to events and economic downturns. This is further exacerbated by the fact that most of these livelihoods are hand-to-mouth, leaving no buffer to recover from health or business shocks.

Strong social ties also implies that households primarily depend on their social circle while making critical financial decisions on investments, savings and expenditure as opposed to relying on formal sources such as banks and other service providers. Most of the urban poor do not rely on formal sources of credit and when facing a need to raise a loan, will approach informal sources such as their family, neighbours, local moneylenders. The cash-based nature of their financial existence plays into this, with formal credit sources unable to assess the credit worthiness of an individual or a household.

■
Design principle #5: Leverage social cohesion to nudge behavior change

■
Design principle #6: Mirror the convenience of informal sources of financial services

■
Design principle #7: Educate and create awareness about the key aspects of the product

Technical barriers

Technical infrastructure such as internet access, network connectivity, access to smartphones, and active debit cards is still limited in urban poor settlements. Modern digital payment solutions (digital wallets, UPI) pre-suppose the existence of reliable technology infrastructure which becomes a major barrier towards adopting digital payments. While more reliable and accessible technologies exist (such as USSD or Unstructured Supplementary Service Data that can work on feature phones), user friendly applications built on these platforms are few.

Design principle #8: Offer and build awareness of low-tech options that can eventually be graduated to high-tech solutions

Intra-household gender dynamics

For digital financial inclusion programs to be effective, it is critical to understand intra-household dynamics, especially through a gender lens as women in the household typically do routine household financial transactions but are seldom empowered to make financial decisions or have dedicated access to technological infrastructure

Design principle #9: Leverage digital solutions that women can access easily (eg. Aadhaar Pay) as well as use offline mechanisms to build their capacity and confidence to engage with new solutions (eg. involvement of male members of household)

Case study

Enabling digital financial services for low-income households in Bhatta Basti, Jaipur

CATALYST implemented a set of interventions in Bhatta Basti to understand barriers as well as opportunities for the growth of digital payments, and drive uptake of formal digital financial solutions. There were principally three steps involved in this transformation journey:

Preparing the ground through awareness, trust and capability building drives

CATALYST partnered with SEWA Bharat, a community-based organization working in Bhatta Basti, to build awareness among the residents and avail local banking services through community level mobilization and door-to-door campaigns. It conducted systematic outreach on financial and digital literacy – including uptake of banking and payment digitization solutions – through community leaders and change agents.

Promoting ‘active banking’ by setting up bank mitras within the community, streamlining processes, and rolling out targeted promotional campaigns

Alongside SEWA's efforts in mobilising the community, CATALYST partnered with FIA Technology Service Private Limited to activate, train and supervise banking correspondents (associated with major issuing banks such as SBI and Bank of Baroda). The aim was to set up customer service points (CSPs) within the community in order to drive usage of banking services. FIA took the lead in enrolling residents to open savings bank accounts, inculcate habits of regular savings, as well as use of bank accounts for digital transactions like bill payments and inter-bank transfers. A cross-organization collaboration model was also implemented wherein SEWA captured individual leads within the community and FIA followed up to convert these leads into active bank accounts.

Promoting digital transactions that make use of the bank account through applications like UPI and digital micro savings

For a subset of customers that opened and activated their bank accounts, CATALYST facilitated personalised interactions through digital mela camps and door-to-door visits to pitch the potential benefits of digital payment solutions as well as to help onboard to the UPI platform and try first-time transactions. In addition, CATALYST facilitated adoption of Aadhaar Pay transactions among ‘local merchants’ and vendors with its partner FingPay, goal-based digital savings solutions with its partner Kaleidofin, and payments into government's accident insurance scheme (Pradhan Mantri Suraksha Bima Yojana or PMSBY) with its partner FIA.

Outlined below is a conversion funnel that demonstrates the interventions at each stage, the number of customers converted at that stage and the reasons for drop off:

Stage	Intervention	Scale reached (# of individuals)	Conversion	Reasons for drop off or lack of engagement
Driving awareness and engagement with formal banking to generate 'leads' for bank account opening	Conducting financial literacy camps and community awareness sessions, distributing collaterals, miking campaigns, engaging community leaders and social media campaigns	4567	NA	<p>Unwillingness and lack of interest in using non-cash methods of payment</p> <p>Inter-household dynamics and spousal pressure to not engage (cited by women)</p> <p>Perception of transaction sizes being too low for new solutions to be relevant</p>
Enrolling customers for bank account	<p>Conducted door to door lead generation campaigns, set up customer service points (CSPs), streamlined front-end account opening processes to align with customer needs</p> <p>Conducted follow on PIN generation camps, customer awareness for protection of account and PIN, using micro-ATM to generate PIN</p>	5550	1703 (30% leads converted to bank accounts)	<p>Lack of trust around opening of bank accounts and safety of money in them due to prior experiences with cases of fraud, particularly amongst women in Bhatta Basti</p> <p>Lack of clear long term value proposition that is aligned with customer needs (e.g., no provision of cheque books or children's accounts with 'zero balance', no clear roadmap linking bank account to insurance and payment digitization and to longer-term financial benefits like wealth creation and access to financing)</p> <p>Documents for 'proof of local address' unavailable in case of migrant members</p> <p>Issues with Aadhaar-based authentication (e.g., fingerprint not verifiable).</p> <p><i>Note: At the time of experiment, Aadhaar was mandatory for account opening which has since been discontinued through a Supreme Court ruling</i></p> <p>Lack of customer centric experience at front-end due to inadequate training, incentives and oversight vis-a-vis CSP entrepreneur</p>

Stage	Intervention	Scale reached (# of individuals)	Conversion	Reasons for drop off or lack of engagement
<p>Activating bank accounts and driving sustained usage (i.e., regular deposits & withdrawals)</p> <p><i>Note: Active banking is defined as any bank transaction carried out in 2 out of previous 3 months</i></p>	<p>Utility bill payment camps</p> <p>Creating awareness about ‘Smart saving’ during camps for women in the community</p> <p>Outbound call campaign to new account holders to urge them to activate accounts</p>	<p>1703</p>	<p>144 (8% bank account openings converted to active banking)</p>	<p>Compromised ‘first time user’ experience due to broken processes between local bank branch and CSP (e.g., bank delays in processing PIN generation and passbook/ debit card provision)</p> <p>Hidden and non standard costs charged by CSP entrepreneur eroded trust (e.g., low balance penalties even for ‘no frills’ PMJDY accounts, fees for debit card provision)</p>

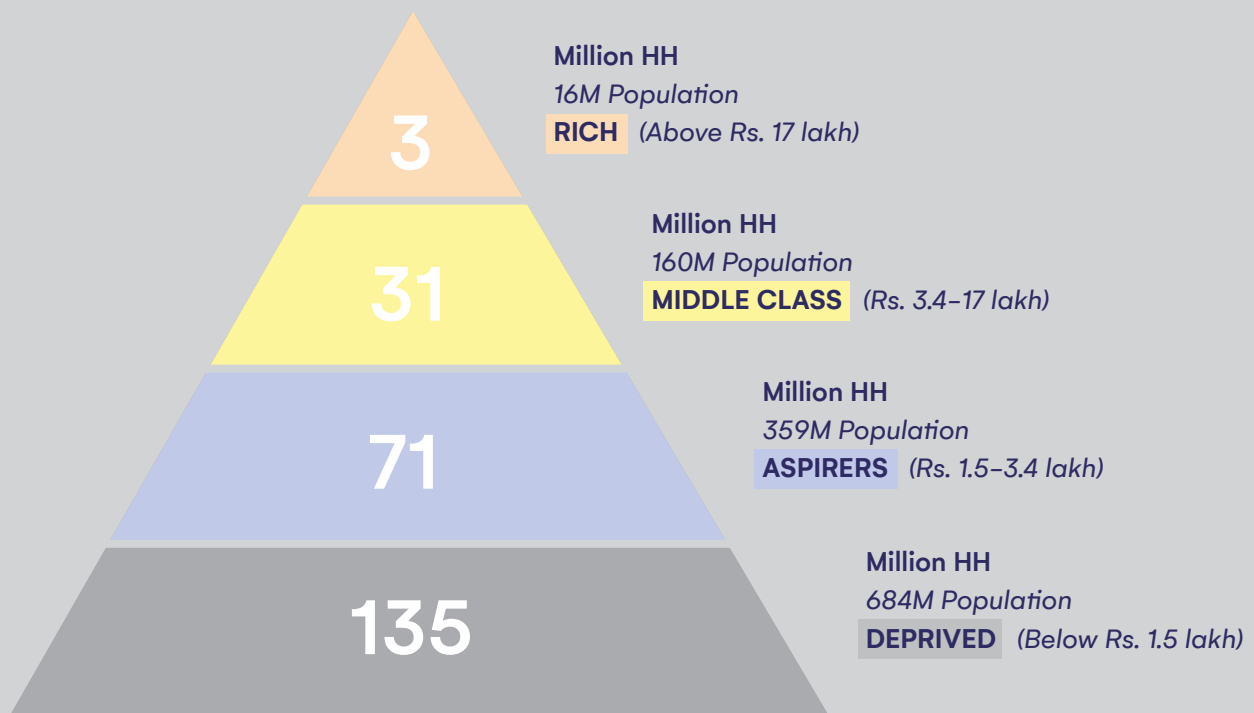
Opportunity

Business models for servicing low-income urban cluster sustainably

The base of the economic pyramid in India comprises of both the aspirers and the underprivileged masses, amounting to over 200 million households across both urban and rural geographies. As described before, these are households with an average annual income of under INR 3.4 lakhs. While the extent of penetration of formal services in rural areas is still quite poor, and hence the opportunity basket relatively bigger, urban poor households fall in large, concentrated population clusters, with better infrastructure, potentially driving better economics and higher financial flows linked to relatively stronger livelihoods.

INDIAN INCOME PYRAMID

Entire country stratified by NCAER-CMCR
2010 Annual Income Data



Notes : HH - Households; POP - Population. Figures in Million except annual income Strata (in Rs. Lakh);
Total Household - 240 million. Source : NCAER-CMCR-DOOR-TO-DOOR Survey

The opportunity to provide sustainable and potentially profitable financial services to low income consumers is necessarily a two-stage process:



Stage 1

Building financial capabilities and creating the necessary last-mile banking infrastructure that can get customers enrolled and equipped with digital-ready bank accounts



Stage 2

Provide products and services that have low friction in adoption, are structured around the unique needs of low-income consumers and built on top of an active banking layer

Stage 1:

Building financial capabilities and creating the necessary last-mile banking infrastructure that can get customers enrolled and equipped with digital-ready bank accounts

Expanding financially literacy to include new capabilities

Digital financial services incorporate a whole new area of knowledge and learning which pertains to the use of technology. This further exacerbates the anxiety and concern the excluded have with traditional financial products and services. Several contemporary financial solutions (such as digital wallets, UPI payments, AEPS) can succeed only if consumers are comfortable owning, initiating and setting up the technological foundations on which these solutions rest, namely active debit cards, phone number linked to bank accounts, and smartphone use. This also presents a window to draw the attention of and engage youth who are excited about technology and see it as a means of elevating their social status amongst peers. Youth in these contexts represent a favorable and early adopting consumer segment that can be leveraged to push financial inclusion for the broader community.

The need for these new financial capabilities to be built amongst consumers also points to the opportunity for new-age solution providers to be involved themselves in this process along with local community mobilizers in order to seed necessary knowledge and skills on why and how to use their products. Most literacy drives have traditionally focused on abstract goals without real products/solutions providing the necessary context. Capability building can be a lot more effective when it supports the full user adoption journey from broad awareness and consideration (knowledge of solutions available, their functionalities and features, tangible benefits to users) to enrolment and use (how to use) to eventual post-use support (grievance redressal). Solution providers focused on excluded segments would do well to integrate these new user experience workflows into their product, operations and partnerships.

Pairing private sector actors and civil society organisations to create robust last-mile access

Trust and creating a path of least friction are still two guiding tenets to get low-income consumers to embrace financial services. Leveraging civil society organizations that have built a relationship of trust through years of community work, can be a potentially powerful lever to gain access and attention of potential consumers. Tied to the point above, community based organizations and tech-curious youth ambassadors can also help onboard and build new capabilities for consumers.

Simultaneously, ensuring that last mile access points are available through CSPs and Bank Mitras, embedded deep within these densely populated communities, can reduce the friction in troubleshooting during the onboarding and enrollment process.

Creating a functional active banking layer given the high levels of account dormancy is critical in order to support digitization use cases on top of it. Effective and sustainable change agent models that can become the conduit for selling to customers, providing onboarding support and ongoing nudges is therefore a key driver of success. The business case for private actors to take up the cost of creating a digital-ready, active banking ecosystem, may not be commensurate, at least in the short run, to the expected return on investment. However, digital financial services have also opened up the opportunity to reach out to a large number of customers in a short span of time. Laying the necessary groundwork therefore is a worthy investment and requires collaboration between potentially multiple fin-tech providers, banks, banking correspondents and community based organizations.

Stage 2:

Provide products and services that have low friction in adoption, are structured around the unique needs of low-income consumers and built on top of an active banking layer

Payments as a key component of the financial suite

Payments are one of the most popular use cases in the contemporary digital financial services ecosystem in India with high levels of awareness even amongst low income consumers. Once a digital-ready active banking layer is established, certain payment use cases like to peer to peer transactions, online anchor utilities like electricity and mobile bill payments and offline anchor merchants like the local school or health clinics can be targeted for these consumer groups. To begin with relatively simpler payment use cases, and build towards more complex financial product suite, could be a viable strategy to pursue for a financial provider seeking to invest in low income settings. Digitising a larger and more fragmented payments eco-system, such as cash based wage payments from informal employment and cash purchases from small, diverse merchants, can be attempted once the value proposition is relatively well established. It is important to recognise that unless the supply and demand of cash is simultaneously digitized, the barriers to uptake of digital financial services will remain high.

Payments can also create a digital footprint that makes it easier for broader financial service providers to acquire these customers. For example, a credit provider can assess payment flows to underwrite a borrower or an insurance provider can structure pay-as-you-go products that can be layered on top of digital payments.

Structured products that acknowledge the need of low income consumers for savings, credit and protection, but not necessarily in traditional product silos

The financial lives of the urban poor are a complex mix of behaviors that are driven by uncertain futures (storing cash within the house for quick access and a sense of comfort), dependence and trust in social networks (turning to family and friends for advice) and informal sources that are convenient even if expensive (chit funds and local moneylenders). While standalone savings, credit and insurance products may not find resonance, combining them in ways that address the anxieties and aspirations of the poor could be a way to modify entrenched behaviors. It is also aligned with a simpler, more intuitive mental model of managing money coming in and going out from the household.

Designing a business model

The section below looks at some defining features of business models centered around providing a wider array of financial products to low income clusters (payments, savings, investments, credit and insurance). It must be emphasized that an ecosystem that has been mobilised and activated with consumers having access to digital-ready bank accounts, and a foundational payments solution already in use, can create conditions that greatly enhance the success of such a business model. However, even without some of these foundational elements, here are a few key guiding principles to consider while delivering a more comprehensive financial product suite to low income communities.

Key product features

Goal-based financial products

Contrary to popular belief, the short term planning horizon of the poor almost invariably hides the longer term aspirations that they have as well. These may be linked to education of their children, aspirations for owned housing, marriage, planning a family etc. Products that acknowledge these tangible and relatable goals, and help start a conversation on how the poor could achieve them, has the potential of starting them off on a financial journey that is more intentional and that they are more fully committed to.

Product bundles as opposed to stand-alone offers

Traditionally, financial inclusion has been pitched as a suite of individual products – savings, investments, insurance and credit – with little emphasis given to the fundamental need and goals that these products could be addressing for a low-income household. As an example, while most poor households would not acknowledge the need for insurance, a significant number suffer health setbacks or go through emergencies that are debilitating and limit livelihoods. Is it possible then that investment products offered to them are structured in a manner where protection is in-built and not sold explicitly? From a consumer's perspective, having insurance that protects a financial goal they may have committed to, is likely to be more valuable than being sold a stand-alone life insurance.

Bundling of products also implies that the cognitive load of understanding the nuances of each product category – for example, the different instruments available or the different providers to choose from – is taken away from the customer. Instead the conversation is centered around the goal that they would like to achieve and the responsibility of figuring the right configuration of products lies with the provider.

Prioritising convenience and liquidity over everything else

While it is important to focus on ensuring that a certain amount of safe return comes to the customer out of a savings instrument offered to them, equal amounts of emphasis needs to be given to convenience and liquidity. For a digital savings and investment product for example, this may manifest as:

- Being able to save the amount they want
- Being able to skip when they cannot save
- Waiving penalties associated with missed payments

The same principle holds for other digital financial products like payments, where the ability to convert cash to digital needs to be affordable and easy to instill the user's comfort and trust.

The need for this level of flexibility comes from the paramount importance that liquidity has in the lives of the poor. The fragility of their livelihoods necessitates that no formal financial instrument pushes them over their threshold, thereby irrevocably losing trust and faith in the system.

Provide low-tech and intuitive interface options that can lead to quicker uptake and circumvent infrastructural barriers

Given the infrastructural barriers with respect to technology pointed above (low smartphone penetration, poor internet access and network connectivity), it is imperative that technology interfaces designed for the poor incorporate assisted models and widely accessible options like USSD and voice based interactions (which work on feature phones and in areas of poor data connectivity). The familiarity of these interfaces and their immediate reach far exceeds the footprint of smartphone or internet dependent interfaces, making an immediate positive impact on the business model. This is also particularly key to ensure usage by women members of the household who conduct routine financial transactions but face technological and capability barriers.

Smartphone based applications can co-exist alongside USSD and other low-tech channels, especially since most households have at least one such device and therefore shared use is a prevalent norm. Smartphone applications (such as Aadhaar Pay) may also find a more willing audience amongst merchants when considering payment solutions, provided the business case is compelling.

Key distribution channels

Institutional partnerships with community-based organizations are essential to reach out to low-income communities on account of two primary reasons:

- To leverage the inherent trust that has been established through several years of community development efforts
- To provide an assisted model for pitching, enrolling, on-boarding and post transaction support to customers wherein understanding their goals and explaining the finer points of the product throughout the lifecycle becomes extremely critical. This can be championed by existing field agents of the partner that enjoy a level of intimacy with end customers that a third party solutions provider will be hard pressed to replicate. The solutions provider may still need to invest significant efforts in training, motivating, monitoring and rewarding these change agents.

Institutional partnerships in turn may be of two kinds, each premised on a unique value proposition relevant to them:

With organizations that have an existing financial relationship such as banks and micro-finance institutions:

For these organizations, the key value proposition is not the additional income that distribution of new products may generate for them, but in delivering an overall package of services that helps improve the stickiness with their customers. It may also help in staying connected with the customer over a much longer product lifecycle (such as in a long term goal-based savings product) than what the traditional credit or savings products may offer as a window. Or it may help tap benefits from digitization of their end customers, eg. being able to get loan repayments digitally.

In addition, solution providers of complementary financial products can combine efforts to make joint investments in building capabilities for use. These ‘co-opetitive’ models are yet to be established in the digital financial inclusion landscape.

With organizations that are non-profit in nature and have largely focused on community development activities:

For non profits, this becomes a viable revenue stream and could help them supplement what is mostly a grant driven model. It could also become a sizeable livelihood opportunity for their field staff.

Key service touchpoints

While designing the service touchpoints for such a business model, there are a few important considerations:

Assisted model for on-boarding and initiation

While digitization is imperative for eliminating costs and maintaining affordability, low-income consumers are still largely unfamiliar with technologies like smartphones, further exacerbated by poor and unreliable tech infrastructure. A self-service model upfront is therefore inappropriate in these contexts. It is important to consider an assisted model initially where one to one interaction can still happen on a common technology interface (a.k.a an agent app) but mediated through an agent who enjoys the trust of the customer. This may be more intense in the initial stages of onboarding and initiation, reducing to more infrequent interactions later on.

Easily accessible, proactive after-sales channel

Unlike higher income consumers where the burden of managing a product through its lifecycle is often passed onto them, including bearing the liability for any lapses, for low-income consumers, proactive management of the product on the part of the solutions provider is a necessity, failing which hard earned trust can be lost almost immediately. This trust is particularly tenuous for low-income households, given their acute loss aversion, limited financial resources and an anxiety around being defrauded, instances of which abound in their community. For example, ensuring that their bank accounts are kept funded at the time a payment into a savings instrument is due, may be par for the course amongst higher income customers, but for poor households it may be a very real struggle with liquidity. Hence proactive engagement, explaining to them the potential pitfalls, ensuring they have understood the product and nudging them to take the necessary corrective steps – all become essential parts of service delivery. While this may rely on an assisted model initially, technology based interfaces may also be more fully leveraged later. For example, a customer support call center that is more proactive than reactive, could be a lower cost alternative to in person engagement while still remaining highly accessible.

From assisted to self-service in the long run

As customers become more familiar with these solutions, it may become important to devolve more control for them to monitor their investments or transactions, understand products and solutions more fully and even initiate transactions on their own. This may be done through a direct-to-customer application that is accessible on phones.

Building a revenue model

Given the unique needs of this segment and small ticket sizes of transactions, the revenue model has to be creatively thought through. It also needs to be adequately differentiated from the convenient, even if expensive, options that exist today.

Revenue streams have to be determined on the basis of:

- Understanding and analyzing existing and traditional solution costs as benchmarks (both explicit and implicit costs) and adding significant value over and above that with the business model. This may also need to be broken down and communicated to end consumers for ease of comprehension. For example, in chit funds the customer ends up paying 5–10% for participating in the chit fund as fund management costs and credit fees. When benchmarked against that, there is ample room to price products in a manner that is far more affordable to the end customer. The important determinant of whether the customer will eventually opt in for the formal instrument is a proof that promised returns and goals have been historically achieved, along with the level of trust, convenience and flexibility the solutions provider can offer.
- Structuring a tiered pricing model which is linked to the value the solution provider is able to generate for the customer. However, unlike traditional products where costs are charged upfront, for low income consumers it may only be possible to do that once tangible value has been realised
- Considering additional monetization and funding streams to attain scale in order to become self-sustaining. This may include grants in the early stages as well as partnership with brands and service providers to charge lead generation or channel fees.

Sources of costs would broadly comprise of:

- Cost of subsidies or incentives that are needed to create a compelling value proposition for the customers (for example, embedded protection in an investments product through a free insurance)
- Variable charges for providing technology based customer service (for example, customer support that proactively engages with the customer through regular calls)
- Service fees (pay per use or one-time) for using technology sandboxes (especially through the available India Stack) that may be leveraged to streamline KYC and other paperwork
- It may be noted here that leveraging network institutions like MFIs and NGOs to reach out to their customer base eliminates, to a large extent, the cost of acquiring customers through marketing and communications. It also provides field level staff that undertake all onboarding activities. In lieu of these benefits, a revenue share with partner institutions will have to be negotiated
- Cost of hiring and training feet-on-street and field sales force, if employed directly

While the scalability of this model rides on the scale of partner institutions and the ability to train their field staff to hand hold and manage customers through their lifetime, there is an opportunity to achieve that to a reasonable level through a more intentional process of selecting partners having robust governance and who can facilitate growth instead of hindering it. Building a credible value proposition for customers and gradually increasing the coverage achieved across the operations of partner institutions is a critical path to success.

Concluding thoughts

There is a potentially large opportunity to create sustainable digital financial solutions for urban low-income communities, who can benefit from these solutions significantly. However, bank account dormancy is a major existing problem which needs to be solved through effective bank account activation campaigns. While digital solutions can be built on top of a banking layer, the very unique income, occupational, infrastructural, societal and behavioral patterns of these communities lend themselves to specific features and functionalities that address their needs. Bundled solutions with low cognitive overhead that are also simpler to use are more likely to work. They are also likely to generate better unit economics for solution providers. Also critical are distribution and capability building partnerships with local NGOs and community based organizations that can enable access and trust.



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