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22
FINANCIAL INCLUSION AND PENSION INCLUSION LESSONS LEARNED ON **ACCESS, USAGE AND FINANCIAL CAPABILITY**

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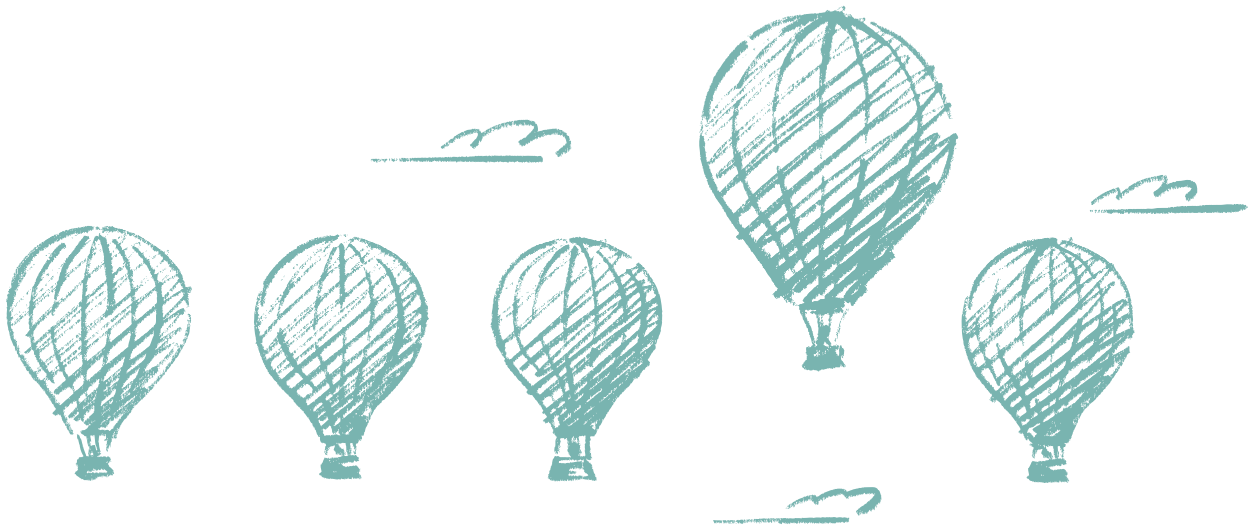


THE FINANCIALLY EXCLUDED AND THEIR PENSION NEEDS

The vast majority of the world's people who work outside formal, salaried employment have no pension. They expect to survive in their old age by working, using their own savings and assets, or through support from their children. These sources will not always supply a decent standard of living, and many elderly will spend their last years in penury.

In the past few decades, through the financial inclusion movement, great progress has been made – and is continuing – to connect the financially excluded to modern financial systems. The financial inclusion and microfinance sectors focus on basic financial products: savings, credit, payments and, to some extent, insurance. They have found cost-effective ways to serve lower income populations, and in so doing, have created institutions, infrastructure, and applied technologies that could now be brought to bear to bring pension products to this vast segment.

To be accurate, in some countries non-contributory pension systems have existed for over 100 years, with governments going to extreme lengths to deliver payments across difficult terrains and geographies. But the issues are multiple. In many countries, the poor lack these government-provided pensions, which often supply only a small portion of those who need such pensions. Even fewer have the chance to pay in to contributory systems. And where coverage exists, the costs and difficulties of delivering the pensions and ensuring that they reach the right people can be very significant.

This chapter explores how the learning and innovation taking place in financial inclusion can address and potentially alleviate barriers to pension inclusion. It will review the characteristics of the financially excluded market segment in developing countries, discuss the specific challenges they pose for financial service providers generally and pension providers in particular, and point to promising solutions, using examples from financial inclusion and from innovators in behavioural economics and financial capability. Moreover, the insights from other chapters on how to deliver pensions with the market structure, governance and investment working in the interests of members can be combined to positive effect with the insights coming from financial inclusion. The authors are convinced that the relevant ingredients are available to enable great progress over the next few years, and because the well-being of so many people will depend on it, this situation has to be addressed with a sense of urgency.

The first half of this chapter provides a broad portrait of the financially excluded. Section 1A focuses on the central challenge: incomes that are informal, irregular, and small. It identifies some segments where financial exclusion is particularly deep. Section 1B briefly reviews the approaches of the financially excluded to their old age support, emphasizing that adequate support will almost certainly involve a portfolio of strategies. Part 2 of the chapter turns to the challenges of providing pensions to the financially excluded (or newly/barely included). Section 2A looks at the practicalities of collecting small, irregular inbound pension contributions in light of new technologies such as mobile money that offer the promise of reducing collection costs. Section 2B examines the behavioural challenges of working with previously excluded people who know little about (and may trust less) formal financial services. Section 2C discusses the need for consumer protection, with reflections on how this issue is playing out in financial inclusion. A brief concluding note ends the chapter.

1A. PROFILE OF THE FINANCIALLY EXCLUDED

According to the Global Findex, the World Bank's demand-side survey on financial inclusion, 2 billion people around the globe do not have a bank account, with the greatest numbers of unbanked in East and South Asia (including India, China, and the Pacific). Despite significant increases over the past several years, only 54% of adults in developing economies have a bank account, in great contrast to high-income economies, where bank account ownership is almost universal at 94%. While the number of bank accounts has grown in many developing countries, many of these accounts are not in active use, in contrast with the active usage patterns seen in high income countries. For example, in high income countries, most account holders (about 60%) make three or more withdrawals per month, but in low and middle income countries, fewer than 10% do so.[1] Taken together, the estimates are that about 3 billion people are either unbanked or underbanked. (To oversimplify, the *unbanked* face an access gap while the *underbanked* face a usage gap.)

These are the people to whom the financial inclusion sector reaches out. Their characteristics pose specific challenges for traditional financial service providers, and these challenges are only magnified when considering pension products. However, expansion and innovation in services to these populations is occurring at a rapid, possibly even revolutionary, pace, providing greater access and addressing usage gaps with more relevant products, as we will discuss.

In seeking to understand the special challenges posed by this segment, the first characteristic to consider is income – its size, source, and irregularity. Most of the financially excluded work in the informal sector – as farmers, microenterprise proprietors, or day labourers – or they cycle in and out of formal employment. Their incomes range both above and below national poverty lines, with many, especially in rural areas, having very low incomes. The small size of their incomes means that they have only small surpluses to set aside for long term savings.

The incomes of the financially excluded are also irregular, volatile, and often seasonal. In *Portfolios of the Poor*, one of the cornerstone studies for financial inclusion, the authors note that the difficulty poor people face is not just with living on USD 2 or less per day, but that the USD 2 does not come in every day, appearing instead in varied amounts and at different times.[2] This irregularity makes it difficult for informally-employed people to follow a scheme

[1] Sonja Kelly and Elisabeth Rhyne, "By the Numbers: Benchmarking Progress Toward Financial Inclusion" (Center for Financial Inclusion at Accion, June 2015), p. 19.

that requires regular payments. While many people are willing and able to make savings contributions for their later years, few will be able to sustain sufficient, regular contributions across multiple decades in order to yield a meaningful retirement income. Indeed, this is why a basic pension pillar that delivers a poverty-alleviating income floor in old-age is recommended. Nevertheless, for the financially excluded, contributions could become a significant element of old age security. We argue that a desirable pension system is one that mixes public and private provision, with contributory and non-contributory elements.[3] Our focus in this chapter is on harnessing the contributory potential of the unbanked and underbanked population.

A related problem is that the sources of income for most people in this segment are informal. Without a link to a large institution, there is no ready way to capture and set aside a portion of the income as it is generated. While many of the pension-excluded may have formal employment at various times in their lives, they are likely to move in and out of formal employment, and they may migrate from one location to another.

Another salient characteristic of the financially excluded is their vulnerability to shocks. They are exposed to illness, theft, economic downturns, extreme weather, and more – and they tend to lack sufficient safety nets to recover. As a result, such shocks often force them to draw down any accumulated savings.

The financially excluded tend to have relatively low socio-economic status, as reflected in low scores on variables including literacy, education, access to technology (though this is changing), and connection to formal institutions of all kinds. Despite their lower status and because of their vulnerability, it has been thoroughly demonstrated that the people in these groups often have complex financial lives.[4] However, most of their financial transactions are informal – involving friends, family, employers, and customers rather than formal financial institutions. As a result, many of the excluded lack familiarity with the concepts of formal financial products, such as insurance and pensions. In order to connect successfully with this client segment, providers must reach across these literacy and educational barriers and, if the product is to succeed, customers must develop trust in the provider and confidence in their own ability to use the product.

Within the broad range of the financially excluded, there are population segments where exclusion is more severe. According to the Findex, across the globe, women are 9 % less likely than men to have an account; the gap is much larger in regions such as South Asia and the Middle East. And since women live longer on average than men, their challenges in managing their finances in old age can be more significant. More extreme exclusion is

2 Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven, Portfolios of the Poor: How the World's Poor Live on USD 2 a Day (Princeton University Press, 2009).

3 See for example William Price, "Market structure, scale, expertize and governance as drivers of costs and investment outcomes" (Presentation at 6th World Bank Pension and Saving Conference, World Bank, Washington DC, 2014) and Rafael Rofman, Ignacio Apella, and Evelyn Vezza, "Beyond Contributory Pensions: Fourteen Experiences with Coverage Expansion in Latin America. Directions in Development--Human Development" (Washington, DC: World Bank. 2015).

4 See Portfolios of the Poor. Small and irregular incomes, coupled with vulnerability to shocks, actually force people to use a range of financial management strategies.

also associated with low formal education, lower income, and rural locations. As one might expect, people with disabilities, refugees, and members of disadvantaged ethnic groups are more severely excluded. And social exclusion begets financial exclusion. Those who have no cultural or social support for using formal financial services are more excluded, in some cases because of self-exclusion. Those at the upper end of this spectrum, such as small business owners and urbanites with some education who are near the poverty line, also struggle to get access to the financial services they need.

At the same time, the need for pension support among the financially excluded is rising because lives are lengthening and traditional support mechanisms may be declining. Even the financially excluded are benefitting from advances in nutrition and health care: like their better-off counterparts, they are living longer. They are having fewer children, and their children more often move away, undermining traditional patterns of elder care. As a result, they may need old age support longer than they expect, while being less able to call on their children to provide it. Older people also have less access to financial services. Many lenders and insurers have age caps that exclude older people from formal credit and insurance. Age caps can be as low as 55, so a micro-entrepreneur may live for 20 or 30 more years after she no longer has access to credit.[5]

The characteristics we have just reviewed have direct implications for the design of financial services and help explain the absence of pension coverage for most of the financially excluded. In sum, the picture we have drawn shows both daunting barriers to providing pension services and great need.

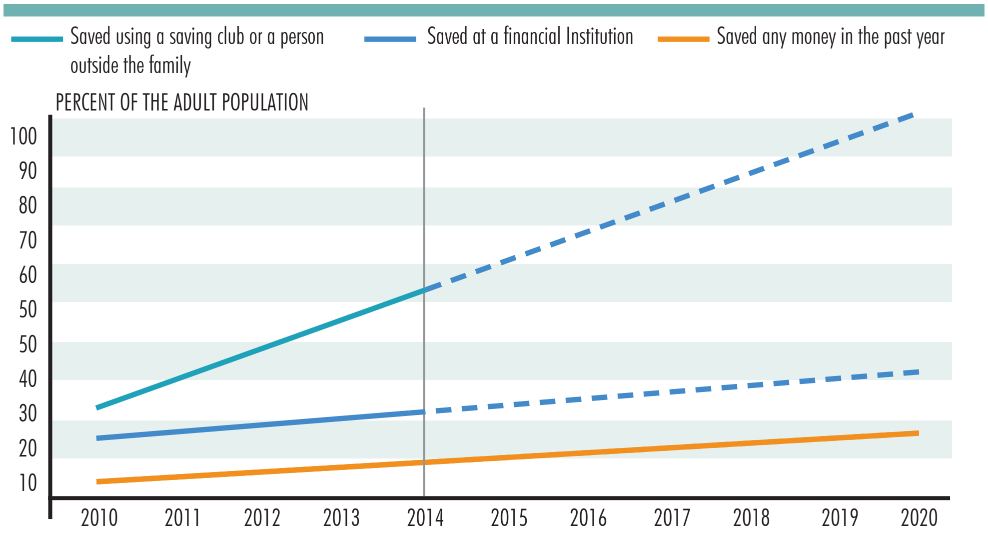
This picture is, however, a snapshot. Reality is more dynamic, and provides avenues for experimentation and progress. Excluded populations are rapidly gaining access to basic formal financial services. In the three years from 2011 to 2014, over 700 million people gained access to basic accounts, and since then, in India alone, 250 million new accounts have been opened in the past two years.[6] These changes result from decades of learning about how to serve the poor, and they are now accelerating due to technologies that make it cost-effective for the first time ever to serve people in less accessible areas whose transactions are small. Microfinance has shown that low income people are reliable borrowers, and mobile money has shown that they are willing to use technology to carry out transactions. Research demonstrates that low income people are often skilful financial managers, maximizing the use of their scarce resources. And thanks to the increased availability of data on low-income people and how they manage their finances, providers are innovating in the design of new and sometimes hybrid products, creating a portfolio approach that both meets customer needs and also strengthens the business model for the provider.

[5] See "Aging & Financial Inclusion" by the Center for Financial Inclusion at Accion and HelpAge International (February 2015).

[6] Global Findex 2014. The Global Findex is the world's most comprehensive database on financial inclusion, based on interviews with about 150,000 adults in over 140 countries, designed by the World Bank, collected in partnership with the Gallup World Poll, and funded by the Bill & Melinda Gates Foundation.

For example, the increase in savings is promising, as seen in Figure 22.1. According to the 2014 Global Findex, 54% of people in low and middle income economies saved money in the previous year, up from the 31% reported in the 2011 Findex.[7] As the Center for Financial Inclusion's 'By the Numbers' report notes, however, there is a gap between those who report saving at all and those who report saving in a financial institution – which is likely an indicator of informal saving through cash or assets such as livestock and property.[8] (See also Chapter 11 on the Pacific Island Countries for evidence on the differential coverage of formal and informal saving.) Saving in financial institutions tends to be higher where there is greater trust in banks, a higher level of convenience, and low-fee savings products.

Figure 22.1
Saving Activity (Developing Economies)



Source: World Bank, Global Findex. Washington, DC: World Bank, 2015. Projections from Kelly and Rhyne, "By the Numbers," Center for Financial Inclusion at Accion, 2015.

According to the Global Findex, people who live in countries with higher savings rates are much more likely to save for old age. Despite continued informal savings, the increase in accounts also bodes well, as "Adults who have an account at a financial institution or a mobile money account are about 53%-64% more likely to save for old age than adults who lack an account." Other factors correlate highly with saving for old age, such as having an outstanding mortgage or a job. According to the Global Findex, "In every region, employed adults are far more likely to save for old age than unemployed adults, with the only exception of South Asia." [9]

[7] Leora Klapper and Karina Broens Nielsen, "10 Insights on Financial Inclusion from the 2014 Global Findex," (CGAP Blog, 6th May 2015). Klapper and Broens Nielsen report that "In developing economies, most people who save money don't use an account to do so. In high-income OECD countries, about 70% of savers keep their savings at a bank or another financial institution, compared to about only 40% of savers in developing economies. A common alternative in developing economies is to save using a person outside the family or a semiformal savings club, including rotating savings and credit associations (ROSCAs).

[8] Kelly and Rhyne, "By the Numbers," p. 21.

[9] Asli Demirgüç-Kunt, Leora Klapper and Georgios A. Panos, "Saving for Old Age." Policy Research Working Paper 7693, World Bank Development Research Group Finance and Private Sector Development Team, June 2016. See Figure 1 on p. 23 for a comparison of saving for old age and financial inclusion status per region.

On the strength of these insights, a financial sector infrastructure is being constructed in countries all over the world to enable the excluded to access and use financial services. Pension providers may well be able to ride on this infrastructure to begin offering pensions to those whose profiles previously put them beyond limits. But as highlighted in Chapter 18 on costs, and Chapter 17 on governance and investment, if the most is to be made of these new opportunities, it will be essential to match the new infrastructure with a clear understanding of what drives value in the interest of members and their retirement income.

1B. HOW THE FINANCIALLY EXCLUDED PLAN FOR THEIR OLD AGE TODAY

Around the world, people have unrealistic ideas about how they will manage their finances in old age. The 2014 Global Findex found that only about a quarter of adults save for old age. The rate is higher (above 35%) in high-income economies and East Asia,[10] than in developing countries. Women are less likely to save than men.

The 2007 Invest India Income and Savings Survey (IIISS) by the pinBox founding team showed that 46% of Indians surveyed were not at all concerned about their ability to meet their financial needs when they grow old. Among workers not covered by a pension plan, fewer than one in fourteen were consciously saving for retirement, and the accumulated lifetime savings, in most cases, were inadequate, representing on average between one and one and a half times average annual earnings.[11]

In "The Future of Retirement," by HSBC, 39% of retired respondents in the U.K. said that they had not prepared adequately for a comfortable retirement, and "almost three-quarters (73%) of retirees have been unable to realise at least one of their hopes and aspirations since retiring."

On average, health declines and physical limitations increase with age, yet most people expect to enter retirement in good health and retirement plans are often based on such rosy expectations. The subtitle of a report by Morneau Shepell focused on Canada says it all: "Forgotten decisions: The disconnect between the plan and reality of Canadians regarding health and finances in retirement." Despite the expectation of good health by the survey respondents, 61% of them have one or more chronic health conditions. The result is under-planning for health costs and, therefore, over-spending of their savings.[12]

According to the 2011 WHO report on Global Health and Aging, the number of disabled people in most developing countries seems certain to increase as the number of older

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[10] Asli Demirgüç-Kunt, Leora Klapper, Dorothe Singer and Peter Van Oudheusden, "The Global Findex Database 2014: Measuring Financial Inclusion around the World." Policy Research Working Paper 7255, World Bank Development Research Group Finance and Private Sector Development Team, April 2015.

[11] IIMS DataWorks, "Towards an Inclusive Financial System Financial Services Demand and Utilisation by India's Low Income Workforce." DataWorks 2008. This report draws on a pan–India Income and Savings Survey (IIISS 2007).

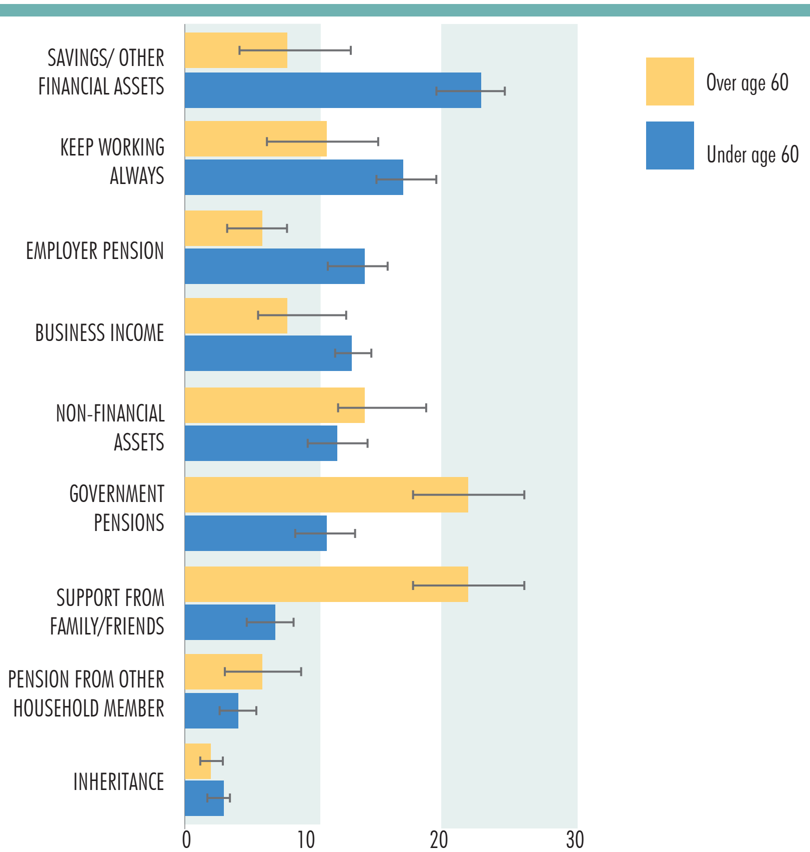
[12] "Forgotten decisions: The disconnect between the plan and reality of Canadians regarding health and finances in retirement," Morneau Shepell, June 2016.

people continues to rise.[13] Likewise, the 2015 HSBC Future of Retirement report found that the majority of people surveyed in 17 countries and territories were unable to predict how much they will spend on healthcare in retirement. They worry about their mobility, their ability to care for themselves, and the impact of caring for family members who have health issues.[14]

So what actually happens? How do people cover their expenses when they grow old?

Data from Colombia reveals a major gap between what people expect and what actually happens. The World Bank and Government of Colombia carried out a nationally representative study in 2013 that asked people under 60 what they expected their income sources would be in old age, and asked people over 60 what their actual circumstances were. As seen in Figure 22.2, those under 60 expected that their top income sources in old age would be their own savings and assets and their work. Yet those over 60 found that government pensions and family and friends were by far their most important sources of income.

Figure 22.2
Strategies to Cover Old-Age Expenses, Colombia (2013)



Source: Rekha Reddy, Miriam Bruhn, and Congyan Tan, Financial Capability in Colombia: Results from a National Survey on Financial Behaviors, Attitudes, and Knowledge (Washington, DC: World Bank, 2013).

[13] World Health Organisation, "Global Health and Aging," National Institute on Aging, National Institutes of Health, and U.S. Department of Health and Human Services, NIH Publication no. 11-7737, October 2011.

[14] "The Future of Retirement: Choices for Later Life," HSBC Holdings plc, 2015.

Colombia is not the only country where people are not able to work as much in old age to cover their needs. Research undertaken in 2016 for the Center for Financial Inclusion at Accion in the Dominican Republic, Ecuador, and Peru unearthed a common refrain among micro-entrepreneurs: exhaustion, coupled with doubt about the possibility of ever taking a rest. A market vendor in Lima, Peru said "Since I'm already 57, I don't want any harder [work]." And a bakery owner in Guayaquil, Ecuador said "I have so many plans, but I already feel tired." After investing long hours over many years building their businesses, these entrepreneurs wanted to slow down. Many of the microenterprise clients interviewed for this study bought or built rental properties as an income strategy for old age. They built apartments above their own homes, or rented former homes and business sites. As Christy Stickney reports in *Emerging SMEs: Secrets to Growing from Micro to Small Enterprise,* "rental income has become the de-facto pension for much of this population."[15] The study underlines two important points: first, that even the hardest-working, most motivated people do not want to continue at a gruelling pace forever, so their income from work will likely diminish; and, second, that most people will need multiple income sources to meet their needs in old age. This echoes a key point highlighted in the overview chapter, that the most effective pension system is one that is a diversified mix of public and private pillars, including family, work, housing, rental income and insurance. The family and other means will remain very much part of the overall mix.

MEETING THE CHALLENGES OF PENSION PROVISION **FOR THE FINANCIALLY LESS INCLUDED**

Pensions have distinct features that make it difficult for financial services providers simply to add them to an existing suite of product offerings. The time horizon over which contributions are made is very long, requiring a stable relationship with the pension provider over decades. To secure the future, contributions must be safeguarded over this long period. These considerations, together with the characteristics of the pension-excluded, give rise to questions that must be answered if pensions are to be developed for these segments.

The first question is whether the pension-excluded (or sub-segments of the excluded) have enough income to make saving for a pension worthwhile. If the amounts that can be set aside after immediate consumption are too small, the accumulated value in a pension fund will yield insignificant payouts in later years or be absorbed in administrative costs. Contributory pension inclusion may not be feasible for all of the currently excluded, and that is why a basic poverty alleviating floor – or 'zero pillar' in World Bank terminology – is advocated as part of the pension system. However, it is likely that a significant and growing portion of the financially excluded have sufficient income to be effectively served – and in any event, people who receive a basic zero pillar pension will still need additional

[15] Christy Stickney, "Emerging SMEs: Secrets to Growing from Micro to Small Enterprise," Center for Financial Inclusion at Accion, November 2016.

sources of income to achieve a decent living standard. A more detailed discussion of this question would require actuarial, income, and transaction cost data that are beyond the scope of this chapter.

Nevertheless, it is clear that a stand-alone system devoted to the low income segment will have high management costs as a percentage of funds under management. Thus, a first conclusion about pensions for the poor is that fund management and oversight must involve pooling with other funds management, such as with the pensions of higher income savers. For more details on the most effective strategies in terms of the overall pension value chain see Chapter 18 on costs and Chapter 17 on governance and investments. With the need for a low cost/high governance outcome for fund management as a foundational premise, we can set aside fund management for the purpose of this chapter and turn to three questions:

How can small and irregular pension contributions be captured? Given the size of contributions by the poor, it must be inexpensive for providers to receive payments and convenient for contributors to make them. In the absence of employer-based aggregation, collection systems must work for individuals and very small businesses. The financial infrastructure has to be smart enough to harvest contributions to pensions at times when cash is on hand and to connect these smaller and often idiosyncratic contributions into a meaningful pot of money. Insights from financial inclusion may help in the design of cost-effective value chains that deliver quality and security at very low cost. Automatic or default-based contribution mechanisms may be essential, although finding such mechanisms that work for the poor is not easy.

How can the willingness or discipline of the consumer to contribute be built and maintained? Low-income people may be unfamiliar with pensions and unwilling to participate in a scheme unless they are fully comfortable with its dimensions, including the process of enrolling and contributing, the safety of their money, and the returns relative to competing uses. Financial capability interventions are needed to both inform prospective participants and turn new knowledge into behaviour.

How can safety and consumer protection be ensured? Trust is essential for convincing people to put their precious resources into a financial institution. Unfortunately, the pension-excluded are often subjected to frauds and scams.[16] Therefore, consumer protections must be robust and easy to understand. Not only must funds be safeguarded, but also errors must be easily corrected and questions answered.

The remainder of this chapter considers how these three questions might be answered, drawing on lessons from the financial inclusion movement.

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[16] Price (2014)

Sidebar 1

An Alternative to Pensions: Rental Income for Microentrepreneurs

Consuelo has been selling fruit in markets around Quito [Ecuador] for the past 36 years. Consuelo's husband, Diego, provides transportation services, working as an independent truck owner and operator…. Now in their late-50s, Consuelo and Diego have raised four children, financed the construction of their home, and are preparing to build additional rental apartments to generate future income. Last year, Consuelo borrowed USD 13,000 to purchase land and build a fence around the property where they plan to build four new rental apartments. When asked about her future plans, Consuelo speaks of the new rental apartments she is preparing to build. She plans to work as long as she can, and eventually live from her rental income.

"Emerging SMEs: Secrets to growth from micro to small enterprise" by Christy Stickney, Center for Financial Inclusion at Accion, October 2016.

2A. THE CHALLENGE OF COST-EFFECTIVELY COLLECTING SMALL, IRREGULAR CONTRIBUTIONS

The costs of collecting individual, small, and often irregular inbound payments have until now prohibited the offer of pensions to lower income people operating in the informal sector. A benchmark for costs in pension delivery of, say, 0.5% of assets under management is very challenging when set against the need for many small contributions that are collected individually. If costs are much higher, they will absorb too much of the funds saved and it will not be worthwhile for people to contribute.

The cornerstone of many successful mainstream pension plans has been connection to large employers that provide a link to many contributors at once (scale), some administrative support (customer interface), and an inexpensive, automatic means of collecting payments. Large employers have the staff capacity, financial resources, and longevity to interface with a pension provider or even in some cases to provide pensions directly. Smaller employers do not have this capacity and should be considered much the same as individuals when thinking about pension engagement. But as the U.K. experience highlighted in Chapter 3 shows, employers may still be a useful channel to get their employees into the pension system even in cases where they have only a handful of employees – but only if the products and mechanisms are simple and require no oversight by the employer.

How can these essential functions be performed in the absence of major employers?

Connecting to large numbers of contributors at once. While low income people in developing countries have few institutional connections, they are not entirely devoid of such connections, and the financial inclusion movement is creating new ones every day.

As early as the 1980s, microfinance began to be built on the principle of organizing (mostly) women into savings and lending groups and either supporting the groups to manage their own funds or offering loans and savings at a group level. This aggregation saved costs for service providers while also building a culture of effective use of financial services. The experience of microfinance demonstrates that groups can effectively reduce the costs of serving customers with low incomes. It also demonstrates that low income people can maintain financial discipline if the amounts are appropriate and motivation is strong. Importantly, the network of microfinance institutions and savings group promoters operating around the world today maintains infrastructure and connections to hundreds of millions of customers: they provide the customer relationships on which pension provision could be built. As shown in Chapter 1 on India, the role of such institutions in enrolment, collections, and payouts can be valuable, while the investment, oversight, and governance of the assets is probably better left to larger, highly supervised, and long-lived institutions.

In addition to saving groups and microfinance institutions, lower income people link to: credit unions, agricultural cooperatives, distributors, commercial banks that offer accounts to low income people, government benefit and subsidy schemes, and mobile money services. Non-financial institutions may also be relevant, such as schools, churches, trade or merchant associations, and social clubs. Any of these organizations could provide a vehicle to connect with groups of lower income people for purposes of enrolment, and the financial institutions can also facilitate collection and payout of contributions.

Managing customer interfaces. One of the main challenges for working with such institutions is equipping their staff. The front line staff or agents who are in a position to encourage pension sign-up, such as microfinance loan officers and banking agents, often don't understand the products themselves. This has been a finding for banking and insurance inclusion efforts: front-line staff are often ill-equipped to provide guidance on the services available. McKinsey & Co. reported in 2012 that it takes 10 to 15 minutes of in-person engagement with an agent for a customer to feel comfortable using mobile financial services.[17] Agents must be trained to help people over such participation barriers, and the training and time required to effectively promote pension enrolment may be significantly greater than that needed to familiarize a person with an electronic account. One solution suggested by Dr Kavim Bhatnagar recognizes that buyers make the most effective sellers. When field agents are provided pensions for themselves, they are motivated to understand them for their own use, and that translates into more effective promotion of the products to others.[18] Microfinance Opportunities, an NGO that develops techniques to build the capability of financial inclusion clients, creates flip books with simple scripts and pictures that enable banking agents to explain products clearly and consistently to customers.

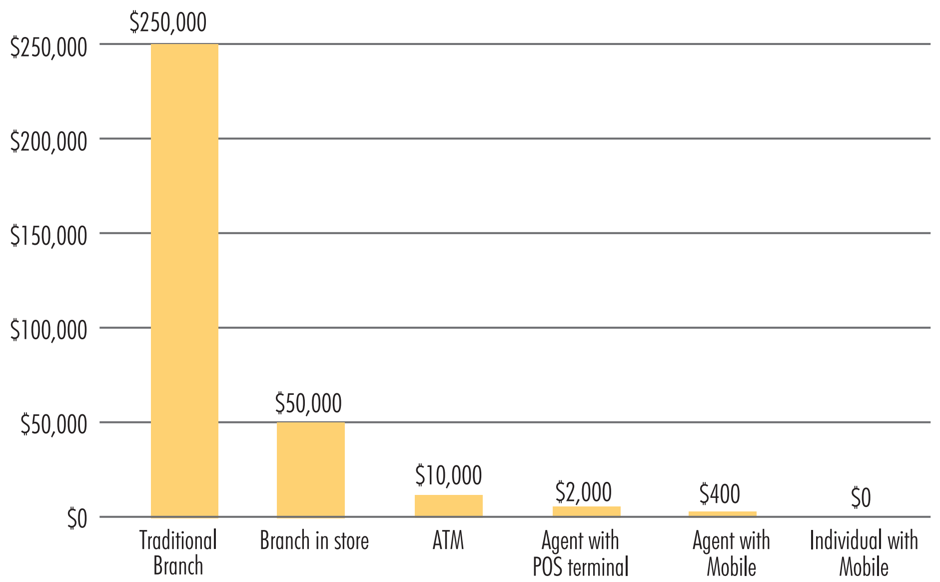
Reducing and automating the cost of inbound contributions. The good news is that in the financial system at large, technology is dramatically reducing the cost of payments

[17] Beth Cobert, Brigit Helms and Doug Parker, "Mobile Money: Getting to Scale in Emerging Markets," McKinsey & Company, 2012.
[18] Author interview with Kavim Bhatnagar, 16th November 2016.
[19] Greg Chen, "The Use of Technology in Financial Inclusion." Washington, DC: CGAP, 2011.

transactions and making it feasible to consider collecting small individual pension contributions that were previously out of bounds. Technology also offers ways to automate contributions, relieving customers of the need to remember to contribute regularly.

Agent banking is one such innovation. This refers to the use of small retail shops as outlets for banking transactions – which is spreading rapidly. The cost to providers of transactions that take place at agents' locations, assisted by debit and credit cards and point of sale devices, is far lower than the cost of a bank teller transaction. More promising but not yet as widespread, online and mobile phone transactions cost even less. As seen in Figure 22.3, according to CGAP, the marginal cost to set up a low-overhead bank branch (such as a branch in a retail store) is about USD 60,000, far less than the cost of a traditional stand-alone branch. An ATM costs roughly USD 20,000 to set up, a banking agent with a point of sale device costs about USD 650, and setting up a mobile account costs nothing at all.[19] Numbers like these are behind the sea change moving the banking sector to digitize payment transactions everywhere.

Figure 22.3
Estimated Physical Banking Infrastructure Start-Up Costs



Source: Greg Chen, "The Use of Technology in Financial Inclusion." Washington, DC: CGAP, 2011.

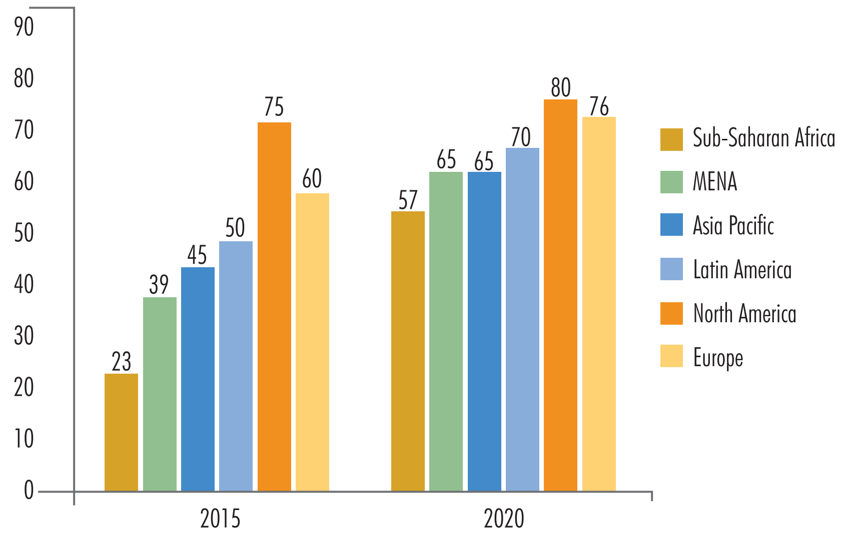
There are about as many mobile phones in operation around the world today as there are people, and they are increasingly available to adults of every income level. Many important financial transactions can be done on a basic or feature phone which does not require Internet access. Financial inclusion moves faster with the spread of these phones.

[19] Greg Chen, "The Use of Technology in Financial Inclusion." Washington, DC: CGAP, 2011.

Particularly in Africa, mobile money accounts are growing fast, and in five countries – Côte d'Ivoire, Somalia, Tanzania, Uganda, and Zimbabwe – more adults have a mobile money account than an account at a financial institution.[20]

In a few years, most of those accounts will operate through smart phones with internet access and an array of apps, which will allow more complex customer interfaces. Global smartphone penetration is expected to exceed half of the global population in 2017, according to Forrester, a technology and market research company, and every geographic region will see a significant rise by 2020 (see Figure 22.4). And prices are coming down, already reaching as low as USD 30 for some models, though not without substantial sacrifices in quality.

Figure 22.4
Projected Global Smartphone Adoption, 2020



Source: Center for Financial Inclusion at Accion based on data from the GSMA Mobile Economy Series 2016.

Current payment systems are hybrids of digital and cash systems, and thus, although they are far cheaper and more available than traditional bank branch systems, the extremely low costs mobile money could ultimately produce are not yet available. Most systems rely today on banking or phone company agents to accept and disburse cash. With most mobile money and digital banking systems, lower income customers put value into the mobile "wallet" by handing cash to an agent. An example of such a system is the Saldazo bank account provided by Banamex, the Citibank affiliate in Mexico, in collaboration with Oxxo, a convenience store chain whose employees/franchisees serve as banking agents. The Saldazo account has become the most popular bank account in the country in a very short time.[21] Customers deposit cash into the account at their local Oxxo stores and then use

[20] Leora Klapper and Karina Broens Nielsen, "10 Insights on Financial Inclusion from the 2014 Global Findex," CGAP Blog, 6th May 2015.

either a debit card or mobile phone to make purchases or send money. In such a system, each party– i.e., Banamex, Oxxo, and the phone company – charges a small fraction of the payment value. For more details on innovations in Mexico, see Chapter 9.

An agent-based system like Saldazo works for people who receive their income in cash, as most of the financially excluded do. However, the worldwide movement to shift away from cash and into digital income disbursement is on the move, opening the way for further cost reductions by eventually lessening the need for a relatively expensive agent network.

Governments are kick-starting the less-cash transition by making government-to-people (G2P) payments for social transfers, payroll, agricultural subsidies, government-subsidized loans, procurement, and unemployment benefits—and, of course, pensions—in digital form.[22] The Better Than Cash Alliance, a U.N.-based project, works with governments around the world to assist them to migrate welfare payments from cash to digital. Payments are provided on a prepaid card, into a bank account, or in a few cases into a mobile wallet. The customer can then use electronic means to pay for purchases without handling cash (although at present most recipients still choose to cash out their entire payment at once). While the emphasis on digital G2P focuses on outbound transactions, once established, the channel could flow inbound, too.[23]

Other efforts to digitize transactions are often linked to large distributors of fast-moving consumer goods, agricultural marketing chains, or, especially in China, e-commerce. And in 2016 India's "demonetization" made an enormous (though painful) push toward a less-cash society by declaring ordinary currency notes invalid, sending merchants of all sizes rushing to set themselves up to accept electronic payments. The array of cash-free payment services becoming available is dizzying—e-commerce, merchant payments, bill payments, cell phone re-charge, school fees, entertainment tickets and transportation. At least some of these services are already available to many lower income customers around the world.

As transactions become digital, they become more convenient and cheaper for customers, too. The spread of banking agents has brought banking services physically closer to customers, and eventually, when transactions are entirely phone-based, they will be available 24/7, wherever a person may be, reducing the customer's transport and time-lost costs to nil.

This is important because low-income people have serious time and travel constraints. Digital channels provide more and more convenient customer service points, and if well

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[21] Gabriela Zapata Alvarez and Martha Casanova, "How a Retail Chain Became Mexico's No. 1 Bank Account Supplier" CGAP blog, 30th November 2016.

[22] Susy Cheston, "The Business of Financial Inclusion: Insights from Banks in Emerging Markets," Center for Financial Inclusion at Accion and Institute of International Finance, July 2016.

[23] Klapper and Broens Nielsen, "10 Insights on Financial Inclusion from the 2014 Global Findex," report that "Hundreds of millions of people could join the formal financial system if governments and businesses made payments into accounts instead of in cash. The Global Findex data point to several big opportunities to help the unbanked get access to financial services. Globally, shifting government wages and transfer payments from cash into accounts could increase the number of adults with an account by up to 160 million; doing the same for private-sector wages could increase the number by up to 280 million."

designed, they involve customer interfaces that are very easy to use. User-friendly, friction-free phone features include fingerprint authentication, one-click payments, and set-it-and-forget-it features found in apps such as Uber and Lyft, which make the act of payment essentially disappear.[24]

The spread of digital payments is hastened by modernization of the domestic payments infrastructure.[25] For example, digital IDs are essential to enable remote account opening, which commercial banks believe is key to unlocking the market at the base of the pyramid. (See Chapter 14 for more on Digital IDs.) And providers are increasingly exploring ways to serve the previously excluded, and in the process learning more about how to create cost-effective and customer-friendly channels, backed by efficient operations and scrupulous monitoring.[26] The financial inclusion ecosystem features an increasing variety of partnerships among governments, retailers, banks and microfinance institutions, payment companies, insurance companies, financial technology companies, data analytics companies, financial capability providers, and more. The need to ensure that new customer segments yield a positive business case may make financial institutions more receptive to connecting with pension providers than ever before.

The key message here is that in the next few years many more people will have financial accounts and use digital payment systems, creating the conditions to enable digital or mobile collection of inbound pension contributions, by enabling scale at manageable cost. The story of financial inclusion in low income countries is a digital story, as developing countries leapfrog developed countries in innovative use of technologies, without the impediment of legacy systems and infrastructure.

Pension inclusion systems that work in developing countries will not simply be adaptations of designs originating in developed countries. Inbound pension contributions could ride on the new digital rails, if fee sharing can be negotiated for all parties. A pension provider could negotiate very low charges to piggy-back on channels primarily dedicated to other transaction types. How would this work? Any time money is coming in, there is potential for some of it to be set aside for pensions, particularly if the set-aside can be automated. Set-asides may even be possible for some occasions when money is going out.

To find the best entry point, the first line of investigation is to identify regular payments that previously excluded people receive or make. Some lower income people receive regular salaries from small businesses or domestic employment, and others receive government benefit or subsidy payments, as noted. The "Gift a Pension" (www.giftapension.org) initiative by Micro Pension Foundation and pinBox Solutions is an example from India that works with individuals who employ domestic help. Employers pay in to pension accounts for their employees as a regular part of salaries. Payments into social security accounts are already required in higher income countries, such as the

[24] "Global Payments 2015: A Healthy Industry Confronts Disruption," McKinsey & Co. Financial Services Practice, October 2015.
[25] McKinsey & Co., "Global Payments 2015."
[26] Cheston, "The Business of Financial Inclusion."

U.S., and Gift a Pension builds on their example, demonstrating that small employers, potentially including small businesses, can help collect pension contributions.

It has been shown that if motivated, low income people can make regular payments even if they do not receive income regularly. Millions of people pay weekly into savings groups or make regular loan repayments to microfinance institutions. Any of these transactions could be tapped as opportunities for small sums to be set aside as pension contributions. In fact, many microfinance customers already pay a small loan insurance premium with every repayment. The challenge for linking a pension contribution to loan repayments is that loans last typically no more than a year or two, so the decision to pay in to a pension would need to be re-affirmed or negotiated repeatedly. Given that many customers switch lenders frequently, a micro-lender might view its ability to offer a connection to a pension scheme as a means to build long term customer loyalty.

But many people have no regular payments of any kind, which increases the challenge significantly. Nevertheless, it may still be possible to connect with some forms of irregular payments. As an example that taps into the inter-generational aspect of pensions, remittance senders often wish to direct their contributions to be used in ways they approve of, and so may be willing for a portion of their contributions to be set aside in pensions for their relatives. Agricultural marketing boards that purchase crops at harvest could also be tapped to set aside a portion of their payments to small farmers.

Bank accounts and purchase transactions can also be tapped if the payment mechanism is simple enough. The Mexican government's pension administrator allows pension payments to be made through 7-Eleven convenience stores and other outlets.[27] Not only is such a system useful for informal sector workers, it is also potentially important for the many people who signed up with a pension scheme through formal employers but whose employment has ended. And there are round-up schemes in many places that round purchase amounts up to the next whole number and move the few cents difference into savings accounts. For people of moderate income, this could be a useful mechanism.

2B. THE CHALLENGE OF CONSUMER BEHAVIOUR

It will be highly challenging for low income people operating largely informally to maintain regular pension contributions over decades sufficient to amass useful amounts. Very creative design will be needed to connect products to life patterns, informed by a deep understanding of behavioural motivations.

In order for a pension scheme to successfully enrol people who have limited experience with formal financial services, it must convince them to participate, a challenge that will be more difficult because of the lack of a large employer to manage this process and provide motivation. Gaining customer acceptance entails the following challenges: providing knowledge about pensions and the particular scheme; overcoming the rational concerns people have about safety and returns; overcoming the intrinsic behavioural biases that

[27] Sonja Kelly, "Would you like a pension with that?" Center for Financial Inclusion blog, 27th May 2015).

cause people to behave in less than rationally optimal ways; and providing a convenient transaction mechanism (as discussed above).

Providing information to support enrolment. Lack of knowledge is an important barrier for financial inclusion. The 2014 Standard & Poor's Global Financial Literacy survey found that only 33% of the world's adults were financially literate.[28] Low financial literacy is an even greater barrier for pension coverage—even for higher income customers in developed countries. Analyses of financial knowledge compared with investor performance show that less knowledgeable people invest in assets that generate lower returns on retirement saving along with lower non-systematic risk.[29] It is challenging to calculate an optimal savings rate, whether to join a savings plan, how much to contribute, and how to invest. Defined contributions plans put the burden on the consumer to calculate and invest wisely. Sendhil Mullainathan wrote in the New York Times about his paralysis when making investment decisions for his retirement; he was confused by the jargon and unable to judge whether he had made good decisions. What makes his 'confession' noteworthy is that Mullainathan is a professor of economics at Harvard University, and a recipient of a MacArthur Foundation 'genius grant'.[30]

If someone with Mullainathan's credentials can't sort it out, what does that mean for the rest of us, and especially low income people in developing countries?

Given the likely technology-based future of contributions, customers will also need to know how to use digital channels, making digital literacy essential. Digital literacy is a particular challenge for rural residents, women, and other groups with lower exposure to digital channels and access to mobile phones and banking agents due to cultural, mobility, and other barriers. GSMA's 2013 study on women and mobile financial services reported on the many women who were aware of mobile money services but had never tried them. Those who had tried them tended to adopt them for regular use.[31] An analysis of the 2014 Global Findex data by GSMA's Connected Women program points out that "women in low- and middle-income countries are 36 % less likely than men to access and use mobile money, which translates to 1.9 billion women worldwide." In some places the gender gap in mobile money ownership is much higher. In South Asia, for instance, women are 67% less likely than men to have a mobile money account.[32]

One frequent response to these challenges is the offer of financial education to inform people about how they should behave to achieve their lifetime financial goals. Yet most

[28] See Leora Klapper, Annamaria Lusardi, and Peter van Oudheusden, "Financial Literacy Around the World: Insights from the Standard & Poor's Ratings Services Global Financial Literacy Survey," 2015. Findings are available at www.gflec.org. The Standard & Poor's Ratings Services Global Financial Literacy Survey probed knowledge of four basic financial concepts: risk diversification, inflation, numeracy, and interest compounding. The 2014 survey was a companion to the Global Findex with similar methodology and reach.

[29] Robert L. Clark, Annamaria Lusardi, and Olivia S. Mitchell, "Financial Knowledge and 401(k) Investment Performance," NBER Working Paper No. 20137, May 2014.

[30] Sendhil Mullainathan, "Why Investing Is So Complicated, and How to Make It Simpler," The New York Times, July 11, 2015.

[31] GSMA mWomen, VISA and Bankable Frontier Associates, "Unlocking the Potential: Women and Mobile Financial Services in Emerging Markets," GSMA mWomen, 2013.

[32] Elisa Minischetti, "Taking a look at women's financial inclusion via mobile money – Barriers and drivers to the mobile money gender gap in Rwanda," GSMA blog Connected Women, 14th December 2016. http://www.gsma.com/mobilefordevelopment/programme/mobile-money/taking-a-look-at-womens-financial-inclusion-via-mobile-money-barriers-and-drivers-to-the-mobile-money-gender-gap-in-rwanda

traditional financial education and financial literacy programs are costly and ineffective. Bernartzi and Thaler reviewed attempts employers had made to educate their employees and supply tools to help them make better decisions about pensions. In one case, a large employer found that the average score on a financial literacy test changed from 54 out of 100 to 55 out of 100 after employees participated in a free financial education program. While we don't know the cost of that program, surely it was too high to warrant a one-point improvement on the test. Even where financial education programs have increased knowledge, they often fail to change behaviour. Despite high costs, they have not successfully closed the gap between knowing and action. As Bernartzi and Thaler note, "Employees often leave educational seminars excited about saving more, but then fail to follow through."[33] For people with little formal schooling and no supportive employer to encourage their attendance, traditional education is an even less effective means to prompt pension sign-up and subsequent regular contributions. This finding emphasizes the urgency to focus on making enrolment and contributions as automatic as possible, building them into daily routines, and related methods.

In marketing pensions for people new to financial services, information provision will be necessary and will probably require a more intensive effort than for mainstream pensions. We will discuss the ways to make this process more behaviourally savvy, but first need to address the very rational concerns about returns that may keep people from being enthusiastic about pensions.

Addressing concerns about returns and meshing with existing financial lives. The financially excluded have vibrant financial lives that take place beyond the borders of the formal financial system. In order for a pension product to be attractive, it must essentially out-perform the available informal alternatives. People in the informal sector want their scarce resources to work hard for them. They are often reluctant to save in financial form because they see money in a bank as passive, while money deployed to buy livestock, inventory, or even lent to a neighbour is actively working to meet needs and provide a return. While people do recognize their need for an old-age income strategy, they care that money set aside will at least maintain its value if not provide a good return. A history of high inflation instils a preference for in-kind saving and has undoubtedly contributed to the relative lack of interest in savings shown by low income Latin Americans. The Global Findex finds increased rates of savings for old age in countries that have deposit insurance, indicating "evidence in favour of institutional arrangements enabling greater trust in the financial system." [34]

Many people strive to acquire assets – notably real estate – that can provide income in old age. Building a rental flat on top of a person's dwelling may appear to be a better bet for old age income than entrusting funds to a pension, and historically in some countries, building a flat was indeed a much better investment. However, in countries with stable inflation and deposit insurance, putting money into a long term pension can also be a

[33] Shlomo Benartzi and Richard H. Thaler, "Heuristics and Biases in Retirement Savings Behavior,"Journal of Economic Perspectives, Vol. 21, No. 3, 2007. pp. 81-104.

[34] Demirgüç-Kunt, Klapper and Panos, "Saving for Old Age," p. 3.

good investment and viewed by consumers as part of a portfolio of income strategies for their later years.

Since low-income people are particularly vulnerable to shocks, they have a greater need for liquidity than higher-income people. Hybrid products that allow for some withdrawal in the event of an emergency can help alleviate that concern, as can access to health insurance. Financial inclusion offers examples of hybrid risk management products designed to take into account the needs of low-income customers, such as combining savings to pay for less expensive events such as outpatient care, with insurance to cover expensive events such as inpatient care. Some innovative examples of bundling products are shown in Chapter 19 on inclusive insurance. As the chapter highlights, there have been a number of carefully designed approaches – but they have often been unable to overcome profound difficulties in the 'last mile' aspects in relation to costs and the impact of sales agent delivery models. This is why the financial inclusion solutions to these issues are so important.

From knowledge to behaviour. Knowledge and a rational consideration of returns are not the only relevant barriers. Knowledge does not guarantee that behaviour will follow. There is often an enormous gap between what people know and what they do. Life circumstances and human nature get in the way.

The gap is evident, for example, when people sign up for financial services that they subsequently fail to use. According to the Global Findex, about 20% of adults in the developing world who have an account – and 40% in South Asia – have left it unused for at least a year.[35]

Behavioural insights, as recently promoted by the field of behavioural economics, catalogue the biases to which we humans are inherently susceptible, such as inertia and avoidance. For example, in a U.K. study of enrolment in defined benefit pension plans, only half of eligible employees signed up—even when the plan was fully paid for by the employer and required no employee contribution.[36] Anxiety about aging, disability, and death can lead to wishful thinking, lack of action, and paralysis. Too often, social and cultural norms exacerbate these fears—or, at least, do not support saving for old age.

Behavioural economics have also demonstrated the tendency to place a greater value on the present than on the future—a phenomenon known as "temporal discounting." The easiest course is to put off decisions that have a long time horizon. Low-income customers who manage pressing needs with scarce resources often hold liquidity to be a high priority in light of frequent emergencies, or they may prefer competing uses for money that provide greater near-term return, such as investment in a microenterprise.

Even when customers make a decision to enrol in a pension scheme, their intent to maintain contributions may be derailed due to forgetfulness, lack of a specific plan, small

[35] Demirgüç-Kunt, Klapper, Singer, and Oudheusden, "The Global Findex Database 2014: Measuring Financial Inclusion around the World," Findex Notes #2014-1.

[36] Benartzi and Thaler, 2007.

hassles like paperwork that create a deterrent, or lack of self-control. The Center for Financial Inclusion at Accion uses the term financial capability to refer to interventions informed by behavioural economics that focus on behaviour change in addition to knowledge or skills. CFI's 2016 report identified seven promising behaviourally informed practices (see sidebar).[37] Chapter 3 on the U.K. experience shows the importance of re-enrolment on a regular basis. In the first wave of automatic enrolment only about 10% of workers opted out. Interestingly as these 10% are being re-enrolled, their opt-out rate is only around 5%. That is to say the first decision to opt out is almost never repeated.

Of the seven practices, nudges, reminders and defaults are of paramount importance for pensions. In standard pension schemes, behavioural obstacles to enrolment and subsequent contributions are overcome through the use of default options that are operative unless a person explicitly decides otherwise.

Defaults overcome inertia and minimize the hassles that prevent participation. Under automatic enrolment, employees are enrolled by default and can choose to opt out, which has been shown to increase uptake significantly above processes in which employees must opt in. In one US study of 401(k) plans, employees that were automatically enrolled in a retirement savings plan overwhelmingly accepted the plan, while employees without automatic enrolment typically took over a year to join.[38] Conversely, when a new pension scheme was launched in Rajasthan, India in 2007, estimates by Invest India Micro Pension Services (IIMPS) showed that 80 million workers were capable of saving for retirement, yet in the absence of a default set for enrolment, barely 5% of them were doing so.[39] Default options overcome barriers to both enrolment and contributions by making the process as automatic as possible. They reduce the anxiety that results from having an overwhelming set of options.

The efficacy of reminders and nudges has been shown for other financial products. In randomized field tests, Karlan et al. (2010) found that simple text message reminders to save increased savings account balances by 6%.[40] Juntos is a financial technology company that contracts with financial service providers to send text reminders and nudges that are personalized based on customers' reactions. Its platform enables automated two-way conversations with customers that are informed by behavioural insights, such as reducing friction for the customer, building customer trust and confidence, and rewarding desired behaviours such as increases in savings. For instance, Juntos sends messages complimenting customers for depositing money. In the first three months of Juntos' first pilot in Colombia, active new accounts increased by 33%, and average account balances grew by 50% compared to a control group.[41]

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[37] Julia Arnold and Elisabeth Rhyne, "A Change in Behavior: Innovations in Financial Capability," Center for Financial Inclusion at Accion, April 2016.

[38] James J. Choi, David Laibson, Brigitte Madrian, and Andrew Metrick, "Saving For Retirement on the Path of Least Resistance," Behavioral Public Finance, ed. Slemrod and McCaffrey. Russell Sage. 2006

[39] Siddharth Zarabi, "Rajasthan's pension scheme for unorganised sector draws praise," Business Standard, New Delhi, 8th September 2008.

[40] Dean Karlan, Margaret McConnell, Sendhil Mullainathan, and Jonathan Zinman, "Getting to the top of mind: How reminders increase saving," National Bureau of Economic Research, NBER Working Paper No. 16205. Issued in July 2010.

[41] Myra Valenzuela, Nina Holle, and Wameek Noor, "Juntos Finanzas: A Case Study," CGAP October 2015.

Default options are essential for the pension-excluded, but they are difficult to establish. Two examples show how this could become quite sophisticated, though both are now available only in the US. 'Digit' is a free, automatic savings tool that uses a sophisticated algorithm to analyse income and spending habits, and then, based on the analysis, makes regular transfers into a customer's savings account. Similarly, 'Even' is an app that helps hourly workers transform irregular pay checks into steady salaries. After analysing their bank accounts, the app informs customers of the smoothed 'Even pay' (salary equivalent) they will receive from now on. When users out-earn their 'Even' salary, the company banks the surplus into a separate, Even-managed savings account (the 'Even cushion'). It taps that account to top up the salary during low-earning periods.

Tencent's WeChat in China provides an extraordinary example of seamless transactions that are enabled by linking a mobile app to a bank account or credit card. The social network has well over 800 million active users, and they "can use the app to manage a credit card statement, pay utility bills, hail a taxi, order a food delivery, buy movie tickets, send money to friends, get a banking statement, book a doctor appointment, find geo-targeted coupons, and more."[42] This is on top of nonfinancial transactions such as playing games, tracking fitness data, meeting strangers nearby, or recognizing music.[43] Having a single, integrated app for all of these functions opens up the potential for new ways not only to make payments into a pension account but also to develop new saving habits—in other words, combining a new infrastructure with behavioural practices.

However, defaults are not the only relevant behaviourally-informed strategy for overcoming biases, as the following examples show. An abundance of apps created by financial technology start-ups apply the behavioural practice 'customize it' to personal financial management tools that help improve financial decision-making. SmartyPig, for example, is an online and mobile-enabled tool designed to help users save for specific goals. The tool helps users create a goal and then automatically debits from a checking or savings account an amount determined by the user.[44]

Simplified products decrease the cognitive burden and fatigue of decision-making, as well as the need for extensive financial education and marketing. Even simplifying the enrolment process can make a difference. Participation rates increase when employees are offered a chance to accept a pre-selected saving rate and asset allocation, rather than choosing from a range of options,[45] and when an enrolment form is partially filled out in advance.

Another behavioural barrier that can be removed through use of technology is the embarrassment of not understanding a product. Customers can be too ashamed to ask questions of a bank representative face-to-face. Juntos has found that some customers

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[42] McKinsey & Co., "Global Payments 2015"

[43] Connie Chan, "When One App Rules Them All: The Case of WeChat and Mobile in China," Andreessen Horwitz blog, August 6, 2015. http://a16z.com/2015/08/06/wechat-china-mobile-first/

[44] See the "Catalogue of Innovations" compiled between February 2015 and December 2015 by the Center for Financial Inclusion as part of its research report "A Change in Behavior: Innovations in Financial Capability." https://centerforfinancialinclusionblog.files.wordpress.com/2016/04/catalogue-of-innovations-final.pdf

[45] Benartzi and Thaler, 2007.

are more willing to express their concerns or ask for information through an anonymous communication channel such as an SMS. Juntos has also found that small things, like being able to check an account balance on the phone – and actually practicing doing it – build customer confidence to try different types of transactions. Likewise, Fundación Capital in Colombia set out to encourage women in a conditional cash transfer program to receive their payments from an ATM. Women were provided tablets that addressed a range of financial capability needs, including simulating using an ATM so women could practice "using" the ATM at home rather than in a public setting where they might feel uncomfortable.

Sidebar 2

An Alternative to Pensions: Rental Income for Microentrepreneurs

The Center for Financial Inclusion at Accion identified seven behaviourally-informed practices that support positive customer behaviours, especially at critical decision-making moments, such as when signing up for and using financial products. In an interview in November 2016, Dr Kavim Bhatnagar provided examples of applications of each practice to pension inclusion in India.

Teachable moments. Reach customers when they are making financial decisions.
"Why do you want to withdraw the full amount when you don't need all the money today?" That's the question business correspondents (banking agents) in Madhya Pradesh were trained to ask workers when they came to withdraw their wages. The workers were paid USD 40 every 20 days for manual labour under a government program. The payment was credited into the workers' bank accounts, but nearly everyone withdrew all USD 40 at once. The banking correspondents, trained in financial literacy, helped the workers think through how much they actually needed. The next question was "Do you think you will need money in your old age as well?" With these prompts, delivered at the teachable moment when they were able to take immediate action, many workers began to make payments of USD 2 or USD 5 per paycheck into a pension account.[46]

Learning by doing. Let consumers practice using products.
Invest India Micro Pension Services (IIMPS) found that staff who are training customers in pension literacy aren't very effective when they don't have pensions themselves. But once staff are given pensions and incentivized with contributions by their employers, they learn the ins and outs of the product and are motivated and equipped to sell it to others.

Nudges, reminders and defaults. Timely reminders and default options support good habits.
Sending reminders to customers to make payments helps build a healthy habit—

[46] Kavim V. Bhatnagar and Ashish Gupta. "Samruddhi: The Madhya Pradesh Model of Financial Inclusion," United Nations Development Programme, December 2013.

such as through text or audio messages. And matched savings can provide a powerful nudge to participate, as the Rajasthan government did by adding a matching contribution to the member's saving up to a maximum of INR 1,000 per year per worker.[47]

Rules of Thumb (Heuristics). Mental shortcuts help turn learning into habit.
Rules of thumb have been used to show the power of compounding. The IIMPS Pension Calculator shows that your saving can grow 20-fold if you start when you are 20. Rules of thumb help break down pension contributions to a less daunting amount. IIMPS asked construction workers how many cups of tea they drank each day—the average was seven—and how many cigarettes they smoked—usually about half a pack. The workers were challenged to cut down by one cup of tea plus two cigarettes per day. The savings of 6 rupees per day resulted in about USD 30 per year—an amount that would make a good start on a pension.

Make it Fun. Games and humour aid learning and retention.
Accion India worked with IIMPS to make learning about pensions fun, through client education that incorporates movies, games, stories and magic shows. A video series introduces pensions along with other financial services, with each video building interest in the next. The key lessons are reinforced by peer educators through familiar games such as Monopoly, Tick-Tack, and Unseen and Foreseen. Accion India has also developed magic shows that deliver messages on savings, borrowing, financial planning, over-indebtedness, etc.

Customize It. Tailor advice to an individual's specific financial situation.
The IIMPS "Pension Calculator" is a tool for customization, showing the impact of different contribution amounts in a way that is clear and easy to understand at a glance.

Make it Social. Leverage the influence of peers and culture.
Introducing the pension concept may not succeed on a one-to-one basis, but when 20 women answer in chorus and discuss their options, peer pressure kicks in, and a pension culture begins to form.

2C. BUILDING TRUST THROUGH CONSUMER PROTECTION

Goats, gold, real estate, and cash under the mattress may all seem safer to a financially excluded person than trusting hard-earned and scarce income with a financial institution. This may be in part due to lack of familiarity, but it is also exacerbated by recurrent scams in the market. A pension has advantages relative to, say, goats, if regulation and good design mean that it offers basic protections for consumers and can deliver fungible assets that have accumulated over decades. Healthy consumer protection depends on governments doing their part while also counting on providers to integrate consumer

[47] Zarabi, "Rajasthan's pension scheme for unorganised sector draws praise"

protection into their operations. In addition to ensuring fund safety through deposit insurance or other forms of guarantee, pensions should embody the seven Client Protection Principles promoted by the Smart Campaign and widely accepted throughout the microfinance sector. Six of the seven are readily applicable or adaptable for pensions (The principle on preventing over-indebtedness applies only to loans.):

- **Appropriate products and delivery systems,** which encompasses sales techniques. Examples abound of mis-selling products that are not actually likely to benefit customers, especially when commissioned sales agents are used. This has been a particular issue for insurance, and pensions are vulnerable for some of the same reasons.[48]
- **Transparent pricing, terms and conditions.** Special efforts are needed to create products that are extremely simple and easy to understand, even if that may come at a cost to flexibility. Check-box agreement to terms and conditions is not acceptable. Providers must take care that customers understand what they are signing.
- **Fair pricing.** This principle may be difficult to assess without a market, but excessive fees are an example of a frequent problem. Care must be taken that a financial institution handling pension transactions charges a fair price. There are numerous examples of lenders charging excessive fees for credit insurance.
- **Fair and respectful treatment.** In addition to treating customers politely and humanely, this principle includes non-discrimination on the basis of gender, religion, age, etc.
- **Privacy of customer data.** Pension systems must handle customer information securely and avoid selling or providing it to third parties without consent (again, not just check-box consent). This is a rapidly changing area, as data is increasingly plentiful and valued as a commodity.
- **Mechanisms for resolving complaints.** Grievance systems are a fundamental tenet of consumer protection. It should always be easy for a customer to know how to resolve a problem.

These principles are relevant during all phases of pensions, but it is good to call out particularly the need for good practice during the distribution phase, as older people have been shown to be more susceptible to mistakes and abuse in financial services.

The Better Than Cash Alliance has created a similar set of principles for G2P payments, and GSMA has done the same for mobile money, in both cases working from the template set by the Smart Campaign. Likewise, the key features of good private pensions have been set out in 'Outcome Based Assessments for Pensions: A Handbook,[49] and also in work by the Organisation for Economic Co-operation and Development (OECD) and International Organization of Pension Supervisors (IOPS). However, principles are insufficient. They should be backed by clear operational standards. The

[48] See Monika Halan, Renuka Sane and Susan Thomas, "The case of the missing billions: Estimating losses to customers due to mis-sold life insurance policies," Journal of Economic Policy Reform, October 2014. And Monika Halan and Renuka Sane, "Misled and mis-sold: Financial misbehaviour in retail banks?," NSE-IFF Working paper, 2016

Smart Campaign has developed a certification program to recognize financial institutions that fully implement the Client Protection Principles, and this kind of certification is especially important in countries where consumer protection regulation is weak. A form of certification could make sense for pension providers as well.

CONCLUSION
WHAT CAN BE DONE NOW?

With technology changing rapidly to make it extremely easy for people to make digital payments and to reduce the cost of those payments, pension designers face a future that will enable access to large numbers of previously excluded people made possible through means such as inexpensive collection of inbound contributions. However, the full conditions for such systems are still under construction. Those conditions include ubiquitous smart phones with mobile money, a shift away from cash and agents and onto purely digital transactions, and the achievement of universal access to financial accounts. Given the fast pace of movement toward such a future, it would behove pension planners to begin building their systems in a way that anticipates such change, with a testing and learning approach to design. In addition to resolving the mechanics and governance of pension systems that can reach the pension-excluded, now is an important moment for learning more about how to build in features to attract customers, to be understandable to poorly educated people, to out-perform informal alternatives, and to overcome behavioural biases. Financial inclusion has so much momentum that it makes sense to plan based on a vision for a few years hence, with a view toward a quantum leap in what pensions can provide to the currently uncovered billions.

[49] William Price, John Ashcroft, and Michael Hafeman, "Outcome Based Assessments for Private Pensions: A Handbook." World Bank, Washington, DC. 2016.