CGAP

BRIEF

Enabling Customer Empowerment: Choice, Use, and Voice

The use of digital channels is changing the way financial services can be delivered to poor people. Growing mobile phone usage and the development of agent networks enable customer access to timely, low-cost digital financial services (DFS)[1] (World Bank 2014). Despite this, active use of DFS is relatively low. In this Brief, we address the inactivity problem faced by many financial service providers (FSPs) and some of the underlying causes related to customers' experiences. We explore how empowering customers can help address this issue and the role FSPs can play. This exploratory Brief reflects our hypothesis that customer empowerment—here defined as a process that builds customer trust and confidence through an interactive relationship between providers and their customers—can lead to a win-win for both providers and customers.

The premise is that when customers are empowered, they make more informed choices, trust the institutions they interact with, are comfortable using those financial services they value, and feel more in control of their financial lives. In turn, customers may become more loyal to and transact more regularly with their FSPs, which may bring greater consistency in transactions, positively affect provider sustainability, and generate greater value for customers.

Obstacles to Usage

Access to DFS is expanding rapidly, as evidenced by, for example, the high number of mobile money account registrations, which reached 300 million in 2014 (GSMA 2015). However, despite the high number of accounts, which is often used as an indicator of growth, the reality is that a majority of these are not used regularly. Globally account inactivity rates (accounts with less than one transaction in 90 days) are over 65 percent (GSMA 2015). FSPs are confronted with this problem across a range of financial services as they seek to tap large unserved markets and build sustainable institutions.[2]

Many reasons have been cited for customers not using their accounts. These include customer frustration with operational failures, ill-equipped front-line staff or agents, and weak product design. Inactivity is a function of the products on offer, responsiveness of customer services, and the nature of the delivery channels, including customer's interaction with their service provider.

Taking up DFS requires leap-frogging into a new environment. FSPs assume customers will move seamlessly from transacting in a cash environment to operating in a digital setting (Cohen 2013). In reality, many poor people have limited awareness of and information about DFS, their value, and how to use them. Low levels of functional literacy, information overload, and limited financial capability can make it difficult for customers to understand the services offered. Meanwhile, the onus is on the customer to seek out information needed to make informed choices.

There are also structural supply-side issues affecting the customer-provider interactions, such as menus that are not intuitive,[3] registration or sign-up processes that are complex and costly, and security passwords that are difficult to remember (Grameen Foundation 2013).

Many at the bottom of the pyramid lack experience with both technology and banking. The result is that customers feel pressure to transact without full knowledge and adequate time to learn. So they do not access their accounts at all or they ask friends, family, or agents to conduct transactions on their behalf and often for a fee. This behavior is not without risks (CGAP 2014). Moreover, inadequate recourse mechanisms weaken trust in service providers—the absence of accessible and timely complaint and dispute resolution mechanisms can impede building customer trust in FSPs (Chapman and Mazer 2013).

Obstacles to adoption and usage of DFS vary across customer segments and services and the channels they

1 DFS are delivered (by banks and nonbank financial service providers) using a transaction platform that receives and transmits transaction data; a technology-enabled device or instrument with a connection to the transaction platform, such as card reader/point-of-sale device, mobile phone, or computer; and agents (human or electronic, such as automated teller machines [ATMs]) that allow customers to make cash-in and cash-out transactions.

2 Five retail banks in Colombia, India, Kenya, Mexico, and South Africa reported dormancy rates ranging from 20 to 90 percent in different account categories, with a median dormancy rate of 50 percent (GAFIS 2013). Microsave (2011) reports high dormancy in no-frills accounts in India.

3 These include, for instance, scrolling and hierarchical navigation, languages or character sizes that are neither understood nor readable, syntax construction transactions that require multiple steps/clicks that are difficult to memorize, and insufficient clarity on what to do when things go wrong (Medhi, Nagasena, and Toyama 2009).

March 2015

use. Quantitative and qualitative research increasingly offers insights into some of the constraints faced by different segments, for instance, gender, age, geographic location, or literacy and education level (Grameen Foundation 2013; GSMA 2013; CGAP 2014). Behavioral research also points to the role of stress, low bandwidth, and other factors for why people do not use financial services (Ariely and Silva 2002; Mullainathan and Shafir 2013).[4]

Overcoming such hurdles to usage and empowering customers to build trust and confidence in DFS should be a priority for FSPs entering or already in this market. The customer interface with an FSP goes to the heart of this empowerment process. It encompasses the multiple touch points involving transactional behaviors between the customer and the provider, be they people or machines.

How Rural Women in India View Empowerment

To gain a better understanding of the meaning of "empowerment" in a financial inclusion context, we conducted a small study of low-income households in Bihar, India. We learned that not only is empowerment complicated, but eliciting its meaning from low-income customers proved challenging. First, people think of themselves as confident and empowered in relation to the environment in which they live and the financial services they use. Second, they are more comfortable defining what they see as "disempowerment" in terms of the negative attributes of the financial institutions and products they use.

The findings supported the notion that customer empowerment evolves over time, and the articulation of this process of empowerment occurs along a continuum. At one end are those with or without a bank account who delegate the management of their finances to someone else—a spouse or other family member. At the other end are those voluntarily opening a bank account based on informed choices, managing services confidently, and knowing what to expect from the providers. In Bihar we found that those who were pushed to open accounts by circumstances—migrant men or wives left behind who find that they have to fend for themselves—people receiving government benefits, and those encouraged by bank agents or members of their social network to become banked were at various points on the spectrum. As a consequence of "learning by doing," some build confidence and trust in an FSP. As one poor woman in Rajgir, India, explained,

"I opened my account when the bank agent came into my village to sign people up.... The support of people in my social network and the friendly bank staff have helped me learn how to use the bank services—I now make two or three transactions per month...I was nervous, but over time I have become confident in using the service center and the bank branch...I know now what I can demand. Mobile money scares me—what if the money gets stuck in the phone? But maybe I'll give it a try, and if it works I may use it."

Engaging with DFS can occur at different points along the continuum but requires capabilities on the part of the customer, as well as support from service providers. The Indian observations reafirm the notion that the interactions between customers and their FSPs should be a key focus of any customer empowerment strategy.

What Is "Customer Empowerment"?

As mentioned earlier, in this Brief, **customer empowerment is defined as a process involving interactive relationships between the service providers and their customers that build trust and strengthen customer confidence.** We hypothesize that changes in these relationships can lead to an increased usage of DFS. The emerging parameters of these new provider-customer institutional relationships would focus on actions by FSPs that do the following:

- Build customer trust in the FSPs they use
- Develop customer confidence in transacting over time
- Ensure mutually respectful interactions between customers and providers
- Provide transparency around what FSPs will do for the customers and ways they can be held accountable
- Make available opportunities for customers to influence their transactional experience and to act on their grievances

Strategies and actions that empower customers do not occur in isolation, but should be an integral part of a more customer-centric design and delivery of financial services that support the customer's priorities and result in a positive transactional experience. FSPs that pay greater attention to how they interact with

4. Even if we designed the seemingly perfect DFS product, there might still be challenges for poor people in using it. Whether it is due to capital, time, cognitive scarcity (poverty and the ever-present concerns that come with it, places an undue burden on an individual's limited mental resources), or other extenuating factors, what people want to do is not always what they end up doing. This disparity can be referred to as the intention-action gap and helps explain the challenges to removing obstacles or addressing social impediments (Ariely and Silva 2002; Mazer, McKee, and Fiorillo 2014).

An Empowered Customer

*"I **trust** the financial service providers I use, they treat me with **respect**; I am **confident** in transacting with them and feel free to exercise my **voice.** As a result, I make informed **choices** among the range of financial options available and **use** services I value. I have greater **control** of my financial life."*

their customers in the digital finance space will have more loyal and active customers. Increased usage of services and enhanced lifetime value should result in increased revenues (Kilara and Rhyne 2014).

How Can FSPs Support Customer Empowerment?

An interactive process that involves both customers and their FSPs and that capitalizes on customer institutional touch points is at the heart of the customer empowerment strategy proposed here. As we move from the high-touch approach of brick-and-mortar banking to lower-touch delivery systems associated with DFS, we must not lose sight of the human dimension. People do not behave rigidly like algorithms (Rasmussen 2014).

This strategy requires understanding how customers interface with the FSP and others, such as regulators, social networks, and civil society organizations engaged in financial services. The focus should be on what information customers receive, when, how, from whom, and where. Based on these data, the FSP can implement interactive tools that help customers make more informed choices, build trust and confidence, and exercise their voice. Our preliminary research[5] suggests that a customer empowerment strategy intended **to build choice capabilities, customer trust and confidence, voice, and mutual respect** should focus on three issues across the customer journey:

1. **Enable a Positive Customer Experience.** FSPs should understand how people use money, how they prefer to interact with providers, and how they identify the attributes of products, services, and channels that are their priority, such as timeliness, convenience, social value, cost, and risk of a loss. The FSPs can use customer transactional data to inform this understanding and should consult with their customers to ensure that product offerings solve their problems and that the information they receive is clear and timely.
2. **Promote "Learning by Doing."** FSPs can encourage customers to exercise agency by building trust and confidence through making available testing services. While front-line staff and agents are likely to be catalysts in this process, they may not be much more knowledgeable than their customers. An important step is to provide staff and agents with the tools, information, and communication skills to engage effectively with customers. Digital solutions can also be deployed to facilitate the process and directly engage the customer (e.g., with real-time interaction, games).
3. **Respect Customers and Listen to Them.** FSPs should create an environment that permits openness, transparency, mutual respect, and constructive feedback, and allows customers to exercise their rights and responsibilities. This extends beyond having effective and "just-in-time" recourse mechanisms to implementing structures and providing information that will allow customers to understand what they can demand and how they can shape their experiences. That includes transactional terms that hold both parties accountable and mutually respectful behavior.

What Next?

The concept of customer empowerment zeros in on the interface between the customer and service provider.

Figure 1. Building choice capabilities, trust, confidence, voice, and (mutual) respect

5. This preliminary research included an initial literature review, interviews and consultations with FSPs and other industry experts, and a qualitative survey of a small sample of customers in Bihar and New Delhi, India, through focus group discussions and individual interviews. See also the blog series: http://www.cgap.org/blog/series/building-empowered-customers.

CGAP

March 2015

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In advocating for the design and implementation of customer empowerment strategies and actions, we are building on the supposition that DFS is not intuitive for most low-income customers, but can be readily learned if given time, opportunity, and support by the FSP to leapfrog into an unknown world of formal financial services and technology. To engender this loyalty, FSPs will have to "grow with their customers" as their customers move onto different phases of their lives. This concept of a growing and maturing relationship with customers can pose a challenge for FSPs that are under pressure to generate short-term results. However, having a more empowered customer base is in the FSPs' longer-term interest and can have a positive impact on revenue.

CGAP is continuing to research in more detail why customers do not use DFS, even when they have accounts. We are exploring in greater depth how customer empowerment can help address this situation. We will test our hypothesis that empowering customers—with actions along the three pathways described earlier—can result in a win-win for customers and providers.

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