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Does Microloan Repayment via Cell Phone Increase Client Confidence in Mobile Value Storage? The Case of Green Bank in Mindanao, Philippines

SYNOPSIS

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This research was prepared by MICRA Philippines with funding support from the Institute for Money, Technology and Financial Inclusion (IMTFI) University of California, Irvine†

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In the past few years, there have been several promising cases of mobile financial services in developing countries suggesting that mobile financial services have great potential for the unbanked populations. The uptake of these services has been steadily growing in the Philippines, which can be attributed in part with the development of mobile phone banking (m-banking) applications for rural banks using GCASH, a mobile money service offered by Globe Telecom Inc., one of the Philippines largest mobile service providers through its subsidiary, GXchange (GXI).

In 2005, GXI in partnership with United States Agency for International Development-assisted Microenterprise Access to Banking Services (MABS) Program introduced Text-a-Payment (TAP) to partner rural banks, a loan repayment service for rural bank microfinance clients using the mobile phone. Microfinance clients enrolled under the service first need to have a Globe SIM and register to GCASH in order for them to use the service. They repay their loan by visiting a merchant who acts as an “agent” for converting their physical cash to GCASH (and vice-versa) and for customer support in terms of sending GCASH to the branch mobile wallet as payment for their loans. As an incentive, some partner banks running the service have offered lowered interest rates for clients who would opt to do their payments via TAP.



Figure 1. Green Bank Branch counter with GCASH and TAP posters

Subsequently, GXI and MABS developed other banking applications which was also adopted by several partner banks, including deposit taking (Text-A-Deposit or TAD), withdrawal services (Text-A-Withdrawal or TAW), remittances and money transfers (Text-A-Remittance

– or TAR), payroll servicing (Text-A-Salary or Sweldo or TAS), and bills payment (Text-A-BillPayment or TAB).

This paper explores the relationship between the usage of mobile technology for loan repayment and client’s behavior towards mobile value storage, utilizing as a case the experience of micro-borrowers already using the m-banking loan repayment service offered by one rural bank in the Philippines. The hypothesis is that the usage of mobile technology for loan repayment can lead to an increase in client confidence in mobile money and thus bring about wider adoption of other mobile banking services, particularly of a savings mechanism that allows borrowers to save in the bank via the mobile phone. The study seeks to gain insights on how mobile banking fits into the perceptions, values and uses that are attached to money and other forms of wealth among the poor as well as to review how clients tend to move to other uses of mobile money, particularly in storing and saving value. The paper also uses empirical data to suggest how mobile money applications might be designed to better suit the needs and interests of poor savers.



Figure 2. Research sites in the Philippines (map source: Wikipedia)

The research involved qualitative and quantitative research methods on determining the attitudes and behaviors of randomly selected microfinance loan clients of Green Bank, a MABS partner bank offering mobile phone banking services to its clients. Six focus group discussions (FGDs) with active, inactive, and non-users were carried out in two of its branches with the highest number of TAP users: Naval in Biliran Province (Visayas) and Mangagoy (Mindanao). In addition, collection of financial diaries from five TAP users was conducted to probe on the spending and savings practices of informants for a period of three months.

FGD RESULTS

Mobile Money experience of Active, Inactive and Non-users

Most of the members of the groups that were interviewed have mobile phones and have some knowledge about mobile money (i.e., Globe's GCASH and Smart's Smart Money). However, only a few have had experience using it.

Adoption of active users to the technology was not as transformative as originally anticipated. Usage of mobile money and mobile phone banking service has been limited to TAP. Most of the bank clients were

actually unaware of the other mobile banking services being offered by the bank (TAD, TAS, etc.). In terms of m-banking transactions, intermediaries are the ones performing them rather than the clients themselves. In using TAP, the client is supposed to go to the merchant-agent to do a Cash-In (exchange her physical cash to GCASH for a fee) and send GCASH from her mobile wallet to the bank's wallet as loan payment with a message containing her loan account details for bank's reference; what happened was the client still goes to the merchant-agent but she no longer does a Cash-In; the merchant instead accepts the payment and sends GCASH straight to the bank's mobile wallet.

When asked which aspects for them are most important in deciding whether or not to use m-banking services, **ease of use** and **security** are the top two traits for all three groups, outranking cost of the service, speed of delivery, hours of availability, etc. Discussions revealed at least five key points or lessons on what they mean when they said "easy" and "secure".

- One reason for the low uptake and usage is the incompatibility of the platform for the m-banking services with the mobile subscription profile of the target user segment. Informants, who are mostly Smart users, said they needed to get a second SIM (Globe) in order to use the TAP service as it only works with a Globe SIM. Not surprisingly, most of the active users continued to use their Smart SIM as their primary SIM and only used their Globe SIM when they needed to repay their loan.

LESSON 1: Easy and secure = m-banking services have an inter-operable platform or can communicate with different MNO systems.

- Another reason for this is the lack of trust in using the service on their own which can be attributed to low level of familiarity with the technology and difficulty in learning - and retaining - new information. One client tried doing TAP on her own for a month but had a hard time memorizing her PIN number; she eventually decided to have the authorized



Figure 3. MICRA Researchers conducting the FGDs.

merchant do it on her behalf. Another one complained that she could not follow the command because it was too complicated.

LESSON 2: Easy and secure = m-banking services with more intuitive interface and commands.

- Respondents have commented that the merchant's store is nearer than that of Green Bank so they preferred the former. Also, the merchant's store is open on Saturdays and until 6 or 7 in the evening, unlike Green Bank which is open only on weekdays and until 3 in the afternoon. Moreover, paying through the agent provides them convenience and saves them more time (in terms of queuing) and costs. Users are nevertheless satisfied with the mobile banking service. This is mostly due to the trust they allocate to the merchants who will see their payments through.

LESSON 3: Easy and secure = m-banking services allow clients to easily get their hands on cash with the support of merchant-agents that are nearer them and can transact even after banking hours.

- Inactive users have become passive on the use of m-banking primarily because they have paid off their microfinance loan from the bank and have never really used GCASH besides TAP. They recognized that mobile banking is useful, especially during emergencies and that, like active users, there is no need to wait in line for them to be able to pay their loans. However, some respondents expressed concern on security believing that others might try to use SMS messages to fool clients (i.e. text scams). Due to lack of information, they want to have more seminars and guides on how to process mobile banking transactions. If these are provided well, they are open to use mobile banking in the future.

LESSON 4: Easy and secure = m-banking services come with consumer education and protection tools.

- Most of the non-users have heard about the mobile money (GCASH) but not the m-banking service (TAP, TAD, TAW, etc.). While they have heard about GCASH through the television, brochures, leaflets, and messages on their mobile phones and billboards, some respondents have said that they are not aware that Green Bank is now offering m-banking services. Some thought that a possible reason for this is that they are not the focus segment for this type of service being already near the bank or since the bank's account officer already regularly goes to their place. They expressed willingness to try m-banking but they said they want to understand how the system works first. The services they are willing to try are mostly on payments and remittances, but they also want to try other services, such as loans, deposits and withdrawals.

LESSON 5: Easy and secure = m-banking services have multiple-user benefits and are designed to fit into and adapt to what the poor need and do.

FINANCIAL DIARIES RESULTS

The diaries supported earlier findings of other studies that low-income households use a combination of savings mechanisms to manage their limited income and that each mechanism acts as a complement – instead of a substitute – to the others (Morawczynski 2009). All the five informants have at least four (4) mechanisms in their savings portfolio being used altogether to support their personal and business activities from the start until the end of the study.

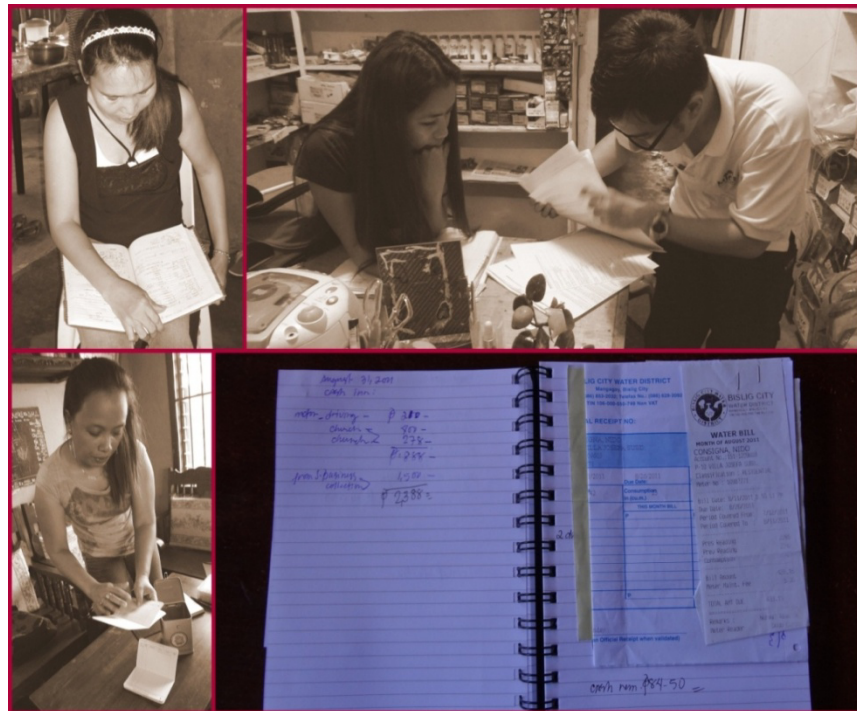


Figure 4. Photos of the financial diaries participants and their diaries

The financial diaries revealed how possession of cash can be linked to how the poor keep track of and manage their financial transactions. While most could be keeping track of their financial transactions in their heads, one informant actually made use of creative aids to make it more “tangible” for her with the use of cash. Deres said she preferred to keep her money at home because she gets a better sense of how much money she has as she can easily “see” whether she is about to run out of cash or not: seeing here does not refer to counting the money and getting the total value but more of just looking to get a sense of how thick her bills or how heavy her coins are. In the same way, other informants shared that they felt encouraged to save in coin boxes or any other container as they can feel the difference in weight of the box as they put more coins (and bills) into it.

The diaries would suggest that the amount they save and the corresponding mechanism they used somehow are related to their saving (or spending) goal or objective. Everyone kept money at home for which the value stored is comparatively lower than what was kept in the other savings mechanisms, validating that home savings were more for security and accessibility of funds that are for daily consumption and emergencies.

An overall average of 7 percent of income was deposited into home savings. This is much lower as compared to 30 percent that was put into TAP contractual savings, 28 percent in ROSCA and 27 percent that was put into credit (in kind). These other savings mechanisms were used for the accumulation of savings of greater value that facilitated purchase of higher value assets or payment of higher value credit whose payment can be delayed over time. Savings in-kind is more common for TAP clients with family (husband and children) of their own. Susette, Ivy, and Imelda usually saved money by accumulating assets, in particular by buying items in bulk i.e., cavan of rice, grocery items. TAP clients with relatively large business capital (3 out of 5) saved through credit in-kind or cash. In this mechanism, Deres, Susette and Teresita who operate a hardware store, lechon haus and a buy-and-sell business,

respectively, save or delay expenses (business or personal) by generating sales that can be realized in the future. Susette and Deres, also used another account with a formal bank with ATM for purposes of remittance and payment of high value items.

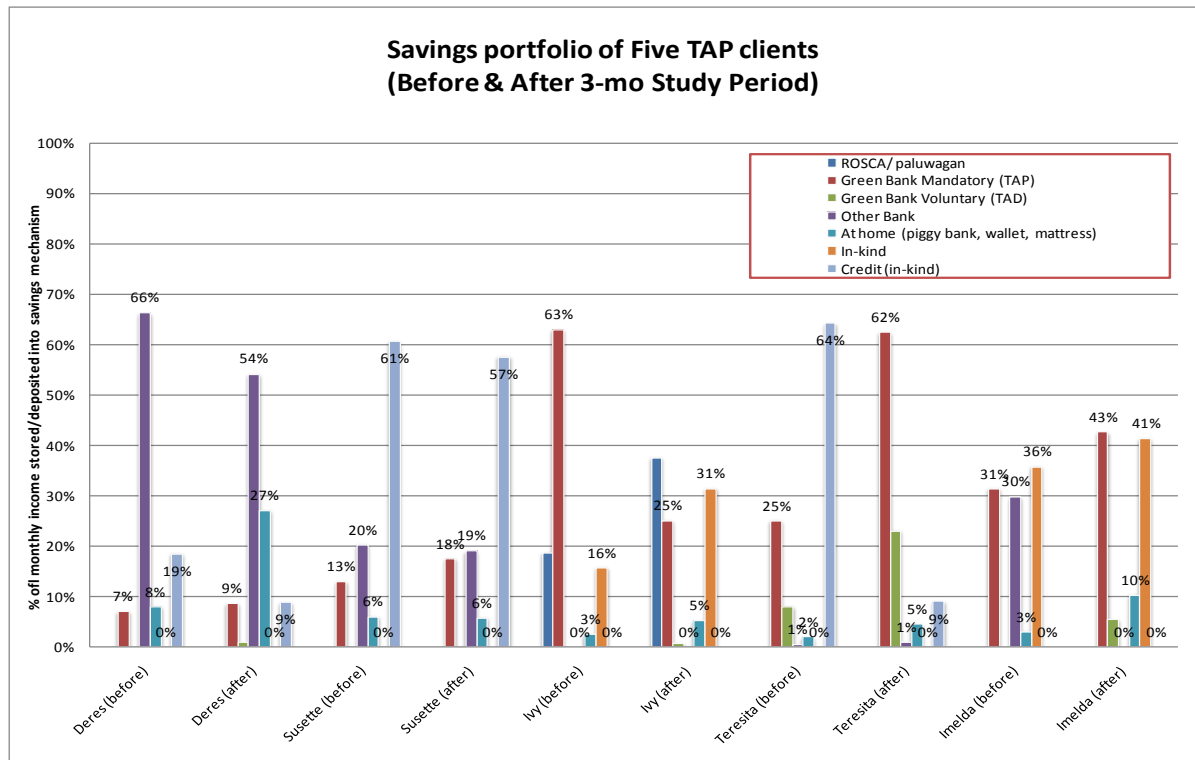


Figure 5. Savings Portfolio of the Financial Diaries Participants

In terms of number of transactions, the most popular is the home savings. All the informants kept some money in their home and many would make frequent deposits and withdrawals within a week, usually to purchase items for household consumption. Deres deposited close to 20% of her income because it was the easiest way for her to manage both her business budget, which has fast turnaround time, and family budget.

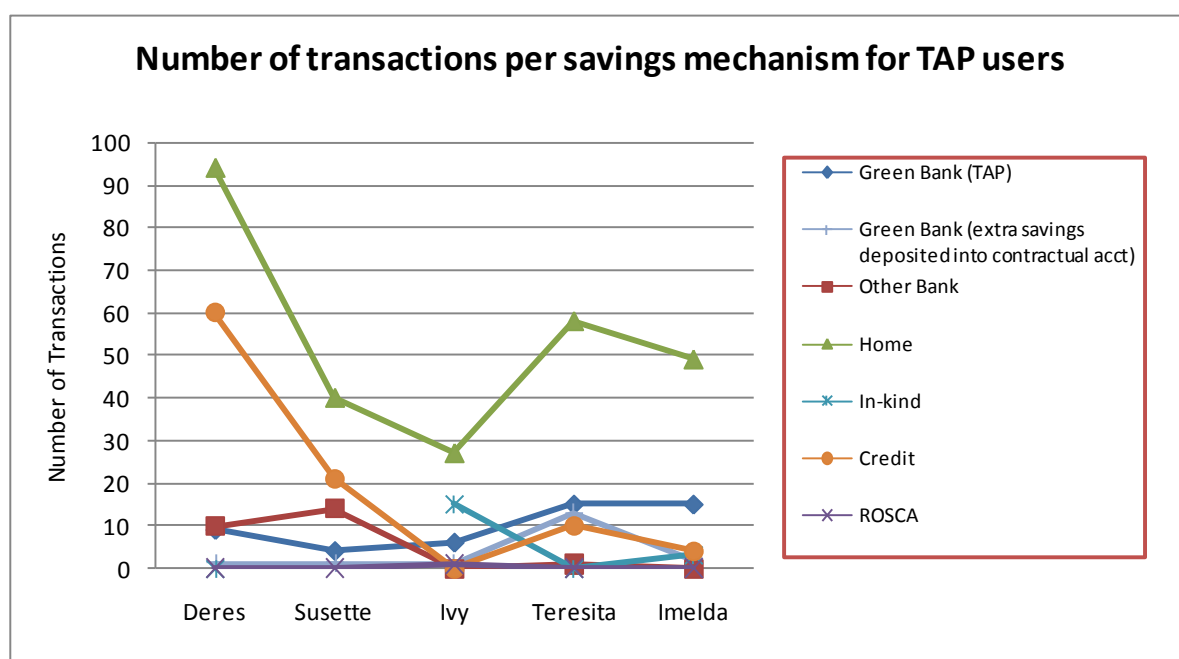


Figure 6. Number of Transactions per savings mechanism for Financial Diaries Participants

Interestingly, Teresita was the only one of the five informants who constantly deposited tiny amounts (less than \$2) in excess of what she was required to contribute to her contractual savings account (13 times throughout the study period). MF loan clients perform a single transaction to cover for their loan payment and contribution to the compulsory savings account. Any extra amount paid is automatically credited as additional contribution to the savings account. She asserted that she preferred this method because she is able to increase her savings without the risk of money being lost.

No one among the informants kept money in GCASH. They did not know that GCASH could be used for this purpose and they have no idea which financial objective will be best served by the built-in features of GCASH or GCASH-supported savings. They are not that interested in storing their money in GCASH as they still have not seen or experienced the actual benefits it can bring. They felt that their existing portfolio of savings mechanisms was enough to meet their needs but are willing to try to learn more about how GCASH and the mobile banking services work.

CONCLUSION AND RECOMMENDATIONS

The paper has examined the relationship between the usage of mobile technology and mobile banking services and the behavior of clients towards mobile value storage through the analysis of the experiences of rural bank clients using GCASH-enabled TAP in the Philippines.

The study showed that the usage of such innovation had a weak effect on diversifying use of mobile money and on their adoption of more formalized mechanisms of saving. In terms of use of mobile money, clients in general find little value for GCASH at the moment because it is still not widely accepted as a form of payment or exchange for the various financial transactions they do. While most have access to mobile phones and have heard about GCASH, only a few actually have tried to use it for sending/receiving money. Active TAP clients kept using GCASH for loan repayment but not really by choice; they had no other option but to use GCASH since it is the only form of mobile money that works with the TAP service and that is the way the bank receives payment. Drawing on the past experiences of inactive users, these clients are also likely stop using GCASH once they have paid off their microfinance loan.

Findings also indicated that cash is still the preferred mechanism for storing value and it will still take some time before the poor get to accept and are convinced to move considerable amounts of stored value from cash into GCASH or into GCASH-supported formal savings. Even as the poor are introduced into new formal ways of saving, they are still likely to combine it with informal ways of storing money (and credit) as most of their financial transactions still remain to be cash-based and informal in nature.

The financial diaries offered a possible explanation for this, revealing that the type of savings mechanism used by clients is somehow related to the saving (or spending) goal and the relative cost or amount of value that the clients require. Informal mechanisms are generally preferred when the goal is for daily consumption needs or other purposes that involve high-frequency transactions or require a small amount and are of immediate concern (e.g., emergencies). Semi-formal and formal mechanisms are employed on the other hand when the goal involves a higher amount and with less degree of immediacy.

The financial diaries also revealed how possession of cash can be linked to how the poor keep track of and manage their financial transactions. While most could be keeping track of their financial transactions in their heads, the poor have found ways to do it, sometimes with the use of cash-based creative aids, to make financial management more “tangible” for them.

Pinpointing the other components that altogether lead to a “better” customer experience

The drive towards financial inclusion with the help of branchless banking technology may be laden with obstacles and resistance but the study provided a glimmer of hope that the poor can appreciate these services in the case of one informant who saved small amounts (less than two US\$) in her compulsory savings account with the bank through TAP. With the right support mechanisms and enhancements, more clients who have limited income are likely to be encouraged to save more if they are able to experience an easier way to deposit and withdraw their money from the bank.

Developing mobile money applications through collaboration by several actors (i.e., Globe as the mobile network operator, GXI as the e-money issuer, Green Bank as the financial institution, and RBAP-MABS as a technical service provider) may be the right path towards the effective delivery of services for the poor. The study revealed that the technology is only one component of the service; there are other components that need to be in place to complement said innovation, which can only be worked out through strong partnerships among various stakeholders:

- Building a network of reliable agents to serve as the “face” of the service to the clients
- Coming up with an interoperable platform that is compatible with the systems of the different MNOs (both local and foreign)
- Developing an Intuitive user interface that requires no or little training to use
- Provision of consumer education tools for mass-market promotion and information retention
- Customer-centered design of mobile financial services to make financial services more “tangible” for the poor, e.g., sending of SMS reminders/alerts on current balance and specific account activity



Figure 7. Easy and Secure M-Banking Services in five fingers