Bringing Digital Financial Services to India's Emerging Middle Class

Webinar Presentation
March 16, 2017

NETHOPE  VISA  Deloitte
Presentation Agenda

1. Strategic Context for the Report - Erin Steinhauer
2. Report Objectives, Methodology & Structure - Shweta Shetty
3. Report Highlights: Consumer Personas - Shweta Shetty
4. Report Highlights: Merchant Personas - Nicholas Lesher
5. From Digital Enablement to Digital Empowerment - Payal Pathak
6. Audience Q&A
Strategic Context for the Report

- Why India
- Why this particular research focus
- Alignment with Visa’s Global Financial Inclusion mandate
WHERE & HOW?

PRIMARY RESEARCH & DATA COLLECTION CONDUCTED in TIER 2 to 4 CENTERS in 37 CITIES representative of all four regions across the country

500 CONSUMERS 70% MALE II 30% FEMALE

500 QUANTITATIVE INTERVIEWS
100 QUALITATIVE INTERVIEWS
10 FOCUS GROUP DISCUSSIONS

+ STUDY OF 250 MERCHANTS, including 100 quantitative interviews
WHO?

The Emerging Middle Class (EMC)

A unique segment of the economy — above every national average benchmark

99% of EMC customers own a mobile phone, 85% of who own a smart phone
63% of EMC customers use the Internet for over 30 minutes every day, mostly for entertainment
51% of EMC customers use cards as a mode of payment at large retail stores
78% of EMC customers own a two-wheeler. Ownership of a four-wheeler is aspirational as reflected by ownership levels of 17%
70% of the EMC receives its income in cash, despite high penetrations of bank accounts

The top 3 financial goals: (i) business growth, (ii) saving for child’s education, and (iii) saving for unforeseen expenses

Nearly 80% of EMC customers hold savings accounts, however only 73% actively use them for savings, retail payments and transfers
>75% of EMC customers worry about managing their finances

The top 5 household expenses: (i) grocery, (ii) garments, (iii) transport, (iv) education, and (v) health
Report Highlights: Creation of Consumer Personas

The DFS Journey

Awareness
Access
Interest
Evaluation
Usage
Trust

Six Dimensions and their key characteristics

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness</td>
<td>Gauges whether an individual is aware of the availability of DFS, understands how to access DFS, including his/her depth of understanding</td>
</tr>
<tr>
<td>Access</td>
<td>Measures the individual’s access to technology, infrastructure, and financial services with regard to adoption of digital channels, products and services</td>
</tr>
<tr>
<td>Interest</td>
<td>Gauges the individual’s desire and inclination to sample DFS, in addition to identifying factors driving the person’s decisions (attitudes, perceptions, aspirations, etc.)</td>
</tr>
<tr>
<td>Evaluation</td>
<td>Ascribes the value (financial and non-financial) perceived by the individual for DFS and judges their ability to use it</td>
</tr>
<tr>
<td>Usage</td>
<td>Ascertains the level of DFS activity, and the compatibility of an individual’s financial habits and lifestyle patterns with new digital products, channels, and services</td>
</tr>
<tr>
<td>Trust</td>
<td>Evaluates the level of trust merchants and customers have in DFS, with the likelihood of them recommending it to their peers</td>
</tr>
</tbody>
</table>
Report Highlights: Six Consumer Personas

Likelihood of DFS adoption

1. Skeptics
   - Conservative, satisfied with current cash ecosystem; risk averse, who perceive no value in DFS

2. Contemplators
   - Cautious and risk averse in nature; limited DFS usage due to comfort and trust in current ecosystem

3. Striders
   - Enthusiastic towards DFS, understand associated benefits, but limited access restricts usage

4. Hurdled
   - Limited financial and cognitive ability, restricted usage but open to DFS evaluation

5. Plus Ones
   - Financially dependent and digitally savvy; restricted DFS usage directed for specific needs

6. Venturers
   - Open to experimentation with new technologies, values convenience in daily life; propagators of DFS
Report Highlights: Consumer Personas

**Exhibit 19: Relative assessment of six dimensions across customer personas**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Skeptics</th>
<th>Hurdled</th>
<th>Contemplators</th>
<th>Plus Ones</th>
<th>Striders</th>
<th>Venturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Access</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Interest</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Evaluation</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Usage</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Trust</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

**Blue Bar = Most significant DFS related dimension for each Persona**

**Exhibit 20: Key metrics for tracking the behavior of customer personas**

<table>
<thead>
<tr>
<th>Personas</th>
<th>Skeptics</th>
<th>Hurdled</th>
<th>Contemplators</th>
<th>Plus Ones</th>
<th>Striders</th>
<th>Venturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative indicator</td>
<td>Averse to using technology while accessing financial services</td>
<td>Restricted by their financial ability, bank or mobile ownership</td>
<td>DFS use is restricted to using debit cards at popular and trusted outlets</td>
<td>Low interest in DFS due to limited acceptance at everyday touchpoints</td>
<td>Evaluation is impacted by inadequate financial ability</td>
<td>High use of DFS due to ecosystem support</td>
</tr>
<tr>
<td>Quantitative indicator</td>
<td>Only 21% exhibit interest in using technology for financial activities</td>
<td>47% own savings bank account; with only 45% being active users</td>
<td>~85% prefer ATMs to a bank branch for cash activities</td>
<td>Low interest in experimenting with varied DFS solutions</td>
<td>50% believe that DFS is easy, convenient and fast</td>
<td>100% debit card users and 60% electronic payment users</td>
</tr>
</tbody>
</table>

**Behavioral traits towards DFS emerging out of every persona**

<table>
<thead>
<tr>
<th>Attitude towards DFS</th>
<th>Cynical</th>
<th>Value-driven</th>
<th>Limited use</th>
<th>Functional</th>
<th>Aspirational</th>
<th>Convenience driven</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Segments</td>
<td>Banked-DFS non-users</td>
<td>Banked-DFS users</td>
<td>Banked-DFS non-users</td>
<td>Banked-DFS users</td>
<td>Banked-DFS users</td>
<td>Banked-DFS users</td>
</tr>
<tr>
<td>Key barrier to DFS use</td>
<td>Trust</td>
<td>Financial ability</td>
<td>Awareness</td>
<td>Acceptance points</td>
<td>Compatibility with ecosystem</td>
<td>Acceptance points</td>
</tr>
<tr>
<td>Motivator to DFS use</td>
<td>Government regulations to disincentivize cash</td>
<td>Minimal cost and easy to understand products</td>
<td>Handholding at time of adoption</td>
<td>Added on solution at minimum cost</td>
<td>Tailor made solutions</td>
<td>Convenient solutions</td>
</tr>
<tr>
<td>Ease of conversion</td>
<td>Very Low</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>Very High</td>
</tr>
</tbody>
</table>
Contemplators are risk averse by nature, preferring to remain confined to their comfort zone. They have restrictive DFS habits with usage of DFS restricted to either fixed needs, fixed products/channels or fixed point of usage (for example, they use only debit cards at restaurants, large grocery chains or malls).

Radhika, is a college graduate and is married. After her first child she started a boutique business in Meerut, a Tier 2 center in a North Indian town. Active on social media, her favorites shows are cookery and business education videos on YouTube. That apart, she enjoys getting forwards on new designs and dresses from friends and family. Rarely do these have anything to do with his finances.

For Radhika, technology is as an enabler only if it offers a compelling value proposition. DFS represents debit cards for cash withdrawals at an ATM, paying at a POS if no additional charges are payable at supermarkets to buy groceries and the option of “cash on delivery” for clothes/fabrics purchased online.
Report Highlights: Observations and findings

- **Optimization of basic needs and aspirational spends** impact evaluation of DFS
- Limited association of DFS with savings, credit and investments confines DFS use to “Payments”
- Value seeking women in the EMC cohort view DFS positively but find low relevance in everyday spends
- While the younger generation is “mobile ready and digitally savvy”, association with DFS is limited
- Despite adequate access to DFS, the customer’s perception that DFS is complex to understand and use, limits its adoption

### Most associated transactions with DFS (%)

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Send Money</td>
<td>43</td>
</tr>
<tr>
<td>Receive Money</td>
<td>40</td>
</tr>
<tr>
<td>Merchant payments</td>
<td>36</td>
</tr>
</tbody>
</table>

- **1/5** The EMC associate savings or safe storage with DFS
- **3/4** EMC worry about managing their money and finances
Banked-DFS users and Banked-DFS non-users show positive correlation between perception of safety and DFS use.

Frequent customer transaction points do not accept digital payments creating a hurdle in mass adoption of DFS.

The customers who receive their income in cash show limited propensity towards DFS.
Report Highlights: A Glimpse into DFS’s future for EMC

- Snowballing DFS and Network Effect
- The EMC will be “Digitally financially included”
- The EMC will emerge as Digital Natives
- Non-Metro EMC ecosystem to mirror its Metro Counterparts
- Person to “Merchant” transactions will outweigh the rest
- You are your own identity
Report Highlights: Merchant Personas

Likelihood of DFS adoption

1. Deserters
   Reverted to cash usage, due to bad experience with DFS

2. Toe-Dippers
   Cautious towards DFS, but likely to adopt with a strong use-case

3. Aspirers
   Enthusiastic towards DFS, understands associated benefits, but limited access restricts usage

4. Old Schoolers
   Satisfied with current cash ecosystem, perceives no value in DFS

5. Contented Captains
   Accepts established products like debit cards, but no strong preferences or dislike towards DFS

6. Early Adopters
   Risk takers, open to experimentation with new technologies, potential DFS propagators
Report Highlights: Merchant Personas

Blue Bar = Most significant DFS related dimension for each Persona

<table>
<thead>
<tr>
<th>Personas</th>
<th>Desertsers</th>
<th>Old Schoolers</th>
<th>Toe Dippers</th>
<th>Contented Captains</th>
<th>Aspirers</th>
<th>Early Adopters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative indicator</td>
<td>Low interest arising from an unpleasant experience</td>
<td>Lacks interest in adopting DFS and new technologies</td>
<td>Value delivered by DFS and cognitive ability impacts evaluation</td>
<td>Unable to evaluate benefits of DFS; maintains &quot;status quo&quot;</td>
<td>Usage is driven by interest in technology to expand their business</td>
<td>Easy access and high use of DFS</td>
</tr>
<tr>
<td>Quantitative indicator</td>
<td>More than 90% expressed disinterest in adopting DFS</td>
<td>70% are not interested in adopting a digital payment option</td>
<td>85% find DFS costlier than cash</td>
<td>65% see low correlation between DFS adoption and their business growth</td>
<td>~90% are willing to try POS for payments, in case of customer demand</td>
<td>~90% are likely to propagate DFS, in case of a good experience</td>
</tr>
</tbody>
</table>

Behavioral traits towards DFS emerging out of every persona

<table>
<thead>
<tr>
<th>Attitude towards DFS</th>
<th>Averse</th>
<th>Resistant</th>
<th>Evaluator</th>
<th>Objective</th>
<th>Ambitious</th>
<th>Experimentative</th>
</tr>
</thead>
<tbody>
<tr>
<td>DFS Involvement</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

Key barrier to DFS use

<table>
<thead>
<tr>
<th>Key barrier to DFS use</th>
<th>Experienced fraud</th>
<th>Negative perception of technology</th>
<th>Cost of DFS</th>
<th>Lack of quantifiable benefits with high usage of DFS</th>
<th>Reduced margins due to DFS</th>
<th>Lack of customer awareness</th>
</tr>
</thead>
</table>

Motivator to DFS use

| Motivator to DFS use | Secure transactions | Dis-incentivization of cash by government | Financial & non-financial incentives to self and customer | Easy and fast credit through DFS involvement | Financial history for credit worthiness | Avenues for customer satisfaction |
3. Toe Dippers

Toe Dippers are established merchants with a track record of over five years in business. They predominantly operate in unorganized markets, are street smart and not easily influenced. They believe in their own judgement when it comes to adopting new technologies and products.

Sahil is the second-generation owner of a mini-mart in Fatehgarh, a Tier 3 center in Punjab. Once a small mom-and-pop store, it has grown and now offers brands that would be for sale at a larger retailer.

Sahil enjoys spending his day interacting with his clients, many of whom are migrants to Canada and visit Fatehgarh to meet relatives. This gives him a world-view he would otherwise not have.

Sahil understands the convenience and benefits, both to customers and himself, of moving away from cash. He has a Point-of-Sale (POS) machine for accepting card payments.

However, as a low margin high volume business, Sahil has a INR 200 purchase minimum to cover the transaction charges. For amounts below INR 200, he asks clients to use the ATM next door to get money.
Report Highlights: Observations & Findings

Exhibit 55: Top 3 cited reasons for cash preference over other digital payment modes

"Customers rarely ask for it (non cash payment mode)"

"Cash payments are better as we receive the money immediately"

"Difficult to solve queries when customers have issues with the non cash payment option"

Exhibit 56: Frequency of cash deposit trips to the Bank

- Weekly 44%
- Daily 23%
- 2 - 3 times a week 28%
- 1 - 3 times a month 5%
Report Highlights: Observations & Findings

Exhibit 51: Top 3 reasons and benefits for DFS* adoption

**Customer demand**
- 57% indicated customer demand as a primary factor for adoption
- 45% feel that revenue increased post-adoption

**Safe to use**
- 62% indicated that card payments are very safe and advanced
- 40% feel digital options reduce risk of losing hard physical cash

**Saves time**
- 26% indicated that card payments reduced the cost of managing cash
- 31% feel card payments help to maintain and track records for payments

*DFS adoption predominantly refers to acceptance of card payments by merchants.*
Digital Enablement to Digital Empowerment

Recommendations for DFS Providers

Based on research of India’s Emerging Middle Class

- Offer Simple, Easy to Understand, Secure Products
- Focus on Efficient Service Delivery
- Build Customized, Need Based Solutions
- Move to Value-Based Pricing
- Foster Favorable Ecosystem Development
- Deliver Simple and Targeted Communication
Digital Enablement to Digital Empowerment

Exhibit 57: DFS Provider Landscape in below Tier 1 Centers

- Potential Business Model Shift in Near Future
- High Digital Value Proposition
- Moderate Digital Value Proposition
- Low Digital Value Proposition
Digital Enablement to Digital Empowerment

**Strategic**
- Market Research
- Use case identification
- Partnership development
- Distribution model
- Marketing/promotion

**Operational**
- Market awareness
- Consumer education/messaging
- Project management

**Technical**
- Product/Service use case design
- Pilot launch/testing

http://solutionscenter.nethope.org/communities/india-accept
The India ACCEPT program page:
http://solutionscenter.nethope.org/communities/india-accept

Access the report, Decoding the Unexplored Middle: A Study on Digital Financial Services for the Emerging Middle Class:
http://solutionscenter.nethope.org/assets/collaterals/Decoding_The_Unexplored_Middle-_DFS_and_Indias_Emerging_Middle_Class.pdf