



Helping Millions Help Themselves

The next banking revolution

Commentary: Microfinance is not just about loans

By Elisabeth Rhyne, ACCION International

WASHINGTON (MarketWatch) -- The world is in the midst of a banking revolution that has nothing to do with exotic financial engineering. It's in microfinance, or the provision of financial services to poor people worldwide.

To most people, microfinance means microcredit, or lending to the owners of very small businesses in the developing world. In recent years, though, efforts to extend a wider range of financial services to reach the nearly three-quarters of the world's population with per-capita incomes below \$3,000 -- the so-called "base of the pyramid" -- have gained significant traction.

Since the first microloan was dispensed in Brazil in 1973, microlending pioneers such as Accion International and Grameen Bank -- the latter founded by Nobel laureate Muhammad Yunus -- have proven that the poor, served responsibly, are excellent credit risks and prudent users of financial services.

A surge of experimentation in the last five years, fueled by an influx of investment capital, has demonstrated an equally strong demand from the base for savings, insurance and tools such as bank cards and cell phones to facilitate payments.

New York Times columnist Paul Krugman has said that we should "make banking boring again." If "boring" means returning to the basics of relationship banking, strong underwriting and transparent products, he's right. But there is nothing boring about extending service based on those principles to the base.

\$5 trillion in purchasing power

That's the long-term challenge for the financial industry, from multinational banks looking for new sources of sustainable growth to small microfinance organizations seeking to extend their reach and diversify their services. Statistics show the base's collective purchasing power currently stands at \$5 trillion.

Scaling microfinance up presents daunting challenges. Chief among them are the high costs of reaching deep into rural backwaters and inner-city slums, and of servicing very small transactions. Meeting these challenges requires creative alliances and cultural insight as well as technical innovation.

Some recent successes:

-- Partnerships for last-mile delivery: In 2001, Brazilian banking authorities introduced the banking correspondent model, a regulatory innovation that has radically transformed access to



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financial services in Brazil and is being adopted, with regional variations, across Latin America and to a limited degree in India. Brazil allows any enterprise, including supermarkets, lottery kiosks, pharmacies and post offices to act as an agent to one or several banks.

In Brazil today, 95,000 agents are conduits for services such as new accounts, deposits, withdrawals and bill payments. Before the banking agent revolution, almost a third of Brazil's municipalities had no banking services; now they all do. At least 13 million new savings accounts have been opened.

The agent model may be the single most powerful means of localizing banking services. Banking authorities in Peru report that a bank branch costs about \$200,000 to set up, while an agent costs just \$5,000.

-- Technology: One engine of the agent model is the pre-paid bank card and the humble point-of-sale machine, the device that reads your card at the supermarket checkout counter. A point-of-sale machine typically costs less than \$100 vs. thousands for an ATM. Customers can use cards at locations with the point-of-sale machine to make deposits, withdraw cash, make a money transfer, and pay bills as well as make purchases.

The pre-paid card model avoids risks of over-indebtedness and the problems of complex fees currently bedeviling the U.S. market. For poor people, liberation from the need to pay every bill in cash and in person at the bank branch saves a tremendous amount of time, cost and risk.

An even more flexible and user-centered payment device has taken off in parts of Africa and Asia: the cell phone. In Kenya, the Philippines and South Africa, millions of cell-phone customers use text messaging to withdraw and deposit cash at the same retail outlets where they buy airtime for their phones. They also use the phones to receive their salary, pay off loans and store money, as well as make retail purchases.

-- Product design: Microinsurance providers have proved especially creative in designing products tailored to specific cultural needs. In Latin America, many women balk at buying life insurance because they don't want to enrich their husband's imagined second wife. "Education life" policies therefore provide benefits in the form of school vouchers. Other policies pay out vouchers for food at large grocery chains.

Often, major insurers seeking to crack the low-income market rely on microfinance or microinsurance specialists to design and distribute products that they underwrite. Zurich Financial Services recently announced a partnership with microfinance group Women's World Banking to offer "caregiver insurance," covering a range of expenses arising from a woman's hospitalization.

Progress on all of these fronts is mutually reinforcing. New technologies help enable new kinds of partnerships, such as those between financial institutions and retailers, which in turn enable delivery of a wider range of services, spurring providers to get creative.



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The core vision of microfinance pioneers – to help the poor help themselves – has broadened to the concept of inclusive finance: delivering to the world's poor the basic financial infrastructure that is a foundation of wealth development and risk management. In turn, these pioneers have begun breaking the cycle of poverty worldwide.

Elisabeth Rhyne is managing director of the Washington, D.C.-based Center for Financial Inclusion at Accion International. Portions of this article were adapted from her forthcoming book, "Microfinance for Bankers and Investors: Understanding the Opportunity at the Bottom of the Pyramid."