

# Customer-Centricity for Financial Inclusion

Every business depends on winning customer loyalty by providing value. This is also true when your customers are from the base of the social and economic pyramid (BOP). Financial service providers who are serving or who want to serve this important customer segment need to invest in understanding these customers' needs and develop products that meet those needs.

Customer-centricity is about providing solutions based on a deep understanding of customer needs, preferences, and behaviors. Customer-centricity is a concept that practically everyone agrees with, yet it takes a lot more than good intentions to implement. To effectively put the needs and aspirations of customers at the center of business strategies and decision-making, financial service providers may have to rethink their operations and invest significant effort and resources to change not only business operations but also organizational mindsets.

The journey to customer-centricity for financial service providers to the BOP segment begins with understanding how access to financial services can add value to the lives of lower-income customers. Well-tailored services can help customers meet daily needs, achieve personal and business goals, and build resistance against vulnerability. As new customers engage with formal financial services, they build the capability to interact responsibly with these services. But instilling these customers with trust and confidence in the provider and in formal financial systems is not automatic. Trust and confidence are outcomes of successful design and an embedded customer-centric approach.

Getting it right for BOP customers creates a competitive edge for financial service providers, whether through building customer loyalty or by tapping new market segments. Offering a range of tailored services helps providers reduce risk by diversifying across products and customer segments. Providers that take a long-term view stand to gain from a customer-centered approach.

## How the BOP Is Different and What It Means to Be Customer-Centric for the BOP

Although they use financial services for the same core functions, BOP customers differ in important ways from their middle-class counterparts.

*Informal, irregular incomes.* BOP families are more likely than middle-class families to obtain their income from small farms, microenterprises, informal employment, and day labor. Moreover, because informal sources tend to be irregular, families often piece together multiple sources and intertwine business and family finances. As Collins, Morduch, Rutherford, and Ruthven (2010) showed, informal incomes vary widely by day, week, or season. Consumption-smoothing through savings and credit thus becomes especially important for the BOP. They are especially vulnerable to shocks (health emergencies, thefts, crop failures), which suggests that insurance may be a valuable offering. Informal incomes also require creative "on-ramps" for BOP customers in the absence of ready-made connections through employers. The prevalence of microenterprises and small farms suggests that business finance is especially important, as the BOP appetite for microenterprise credit shows.

*Different spending and consumption.* Low-income families spend a relatively high proportion of their incomes on basic needs, and they spend it in different places than the middle class do, particularly in informal markets and at retail outlets catering to low-income customers. BOP families may need financing for purchases that richer customers can buy outright. BOP customers may have unique methods for meeting basic needs. For example, if they build their houses one room at a time, getting the design of a home improvement product right could bring value to customers.

Financial needs differ by customer segment, for example, by life stage or gender, and it is important to understand specific segments at the BOP. Young adults may strive for education and household set-up, mature families for business investment, and older adults for income and pay for health care. Women and men within the same household may have different needs, based on family roles.

*Different relationships with formal institutions.* Financially excluded people use financial services, just not formal ones. And, they may be happier with informal arrangements with family, neighbors, customers, and suppliers than formal providers expect. To attract BOP customers, formal services must provide greater value than informal services. However, many facets of formal financial services heap costs (money, time, emotional stress) on BOP customers. In addition, the World Bank's Global Findex found lack of trust in financial institutions to be a major reason for avoiding formal providers (Demirguc-Kunt and Klapper 2012). Overcoming this reluctance to engage in formal financial services may require service providers to make adjustments in communications and delivery channels, especially for people with low literacy, language barriers, or little exposure to new technologies. Providers should expect that the transition from informal to formal services will be gradual, with customers using both types of services simultaneously.

*Need for consumer protection.* Because of their unpredictable and risky lives and lack of experience with formal finances, BOP customers are especially vulnerable. New research by Mullainathan and Shafir (2013) revealed that the mere fact of being poor can undermine consumers' ability to make sound financial choices, even though their limited resources—and therefore margin for error—make them the very consumers for whom the most is at stake (Mazer, McKee, and Fiorillo 2014). For example, over-indebtedness and debt stress frequently result when a group of customers gains abundant access to credit for the first time. Customer-centricity for the BOP includes sensitivity to the potential for mis-selling and efforts to ensure that treatment of customers is fair, prudent, and responsible.

## How to Become a Customer-Centric Provider—It's a Journey

For providers looking to achieve customer-centricity, specific commitments are needed to shift toward putting customers first. It is a journey, but incremental progress over time can lead to significant value for customers and providers. Customer-centric providers share common building blocks. They are organized to systematically understand customers and design their operating model around the customer experience, all in a way that is ultimately profitable. We touch on several of these building blocks.

## Understanding Customers

Broad insights about the financial behavior of BOP customers need to be localized and embedded in the organization. This requires creating an insights engine that systematically generates a deep understanding of customers and then mining those insights for practical implementation.

*Creating an insights engine to understand customers.* To harness insights efficiently, organizations should use multiple sources. One place to start is with front line staff. Front line staff members build empathy with customers and are a rich source of insights. The challenge is to ensure that these insights reach senior decision makers. Technology makes it easier than ever to create feedback loops that spread information from the front line throughout the organization. In addition, it is highly recommended that board members and senior managers regularly spend time in structured conversation with current and potential customers. Face-to-face contact can powerfully communicate messages and motivate action.

Organizations also need to invest in the capacity to source customer understanding systematically through market research and mining data available within the institution or within its partners (e.g., agents). This requires sufficient budget and staff to enable market research to be an energetic, high-quality function. Collecting information and data is not sufficient; specific people and units need to be responsible for deriving insights from the data for new or adjusted products. Kaleido, a customer profiling tool developed by the Indian microfinance institution Janalakshmi Financial Services, acts as an insights engine for the organization (CGAP 2014).

## Reorienting Operations around Customers

Customer orientation should not be exclusive to the market research department. At least four more areas will contribute to achieving customer-centric operations: leadership and culture, customer experience, operating model, and financial capability.

*Leadership and culture.* Intent to provide value to customers is a matter of corporate culture. It must emanate from the top and be embodied in strategy and performance monitoring. Staff need

to hear consistent prioritization from board and management. Does the mission statement reflect customer-centricity? Is customer focus reflected in performance goals? Carefully selected measures, treated as core strategic indicators, can steer the business toward customer-centricity. Volume targets (such as numbers of customers) are among the few top-line performance metrics with a customer-specific dimension, but they do not suffice. Customer-focused performance metrics will include information on who is being served, how they are using products, and how satisfied they are. A small number of such metrics should be elevated to stand alongside growth and profitability in monitoring strategic success.

Staff resistance to change may be a sticking point, as existing staff may be comfortable—and relatively efficient—in their current roles. For example, loan officers in several Latin American microfinance institutions resisted the introduction of housing microfinance loans, despite customer interest, because they required more steps to complete and unfamiliar calculations compared to microenterprise loans. Wise providers will prepare the soil before planting new seeds. That preparation will include revising staff incentives and rewards formulas, training, and operating processes, all first in pilot before full roll out. Customer-centric human resources departments will select front line staff for their customer orientation, evaluate staff partly based on customer feedback, and inculcate a customer-centric culture during training.

*Customer experience.* Commercial and operational staff must work to design the entire customer experience, and not just the product on offer, in a way that helps customers solve their real-life challenges. The Indian microfinance institution KGFS first determines a customer's own goals and only then proposes a suite of half a dozen or more credit, savings, and insurance products that match these goals. Moreover, when they use a product, customers must find the experience positive: they are treated with respect, the technology is intuitive, help is available when needed, and their time and money costs are minimized. CGAP and Continuum, a design firm, worked with Habib Bank in Pakistan on product development for very poor female beneficiaries of a government welfare program. Many of the women were illiterate and lacked trust and experience using

automated teller machines (ATMs); they often relied on male family members to help them make their transactions. Using visual guides and oral instructions, the research team created a prototype of a "talking ATM" that the women could operate alone (McKay and Seltzer 2013).

*Operating model.* While the ideal customer experience is being designed, business realities must also be met. Customer advocates, the finance team, and operations staff will all have to work together to assess the consequences of new offers for staff efficiency, IT costs, and revenue, so that an effective business model emerges. CGAP and IDEO.org, another design firm, worked with Bancomer in Mexico to design a savings product for low-income individuals. The team followed the human-centered design process: conducting in-depth interviews, building design principles, and prototyping new concepts. The new savings product, Mis Proyectos, allowed customers to set aside money for various named goals. However, despite the design team's finding that customers wanted the bank to "speak people speak, not bank speak," the marketing team, which not been part of the design process, developed initial marketing material filled with technical information in tiny font (McKay and Seltzer 2013).

Finally, internal audit and internal control systems will also need to incorporate measures of customer satisfaction, possibly linked to complaint resolution systems, which can be a rich resource for identifying gaps between customer desires or expectations and their actual experiences.

*Financial capability.* Customer-centric providers will seek to build customer financial capability, recognizing that capable customers are likely to be more active users. Traditional financial education can be costly and has not demonstrated clear impact. However, emerging approaches focus on supporting effective use. For example, behavioral insights suggest that practice in a protected setting can build capability. Staff could be temporarily positioned to help new customers use ATMs. Information technology lowers the cost of communications such as text messages about upcoming loan repayments or encouragement to save. In one example, Absa Bank in South Africa invited customers to play a game on their cell phones in which customers earned prizes for checking their

### Box 1. Is Your Institution Customer-Centric?

1. Does your institution's mission statement refer to creating value for customers; is this a key strategic outcome?
2. Do senior management and board members regularly spend time listening to customers?
3. Is there a robust market research function, informed by best practice?
4. Are there mechanisms for gathering customer insights from front line staff?
5. Does the institution mine its data about customers and use it to design and deliver services?
6. Do operational areas work together to design products and interfaces based on customer insights?
7. Does the product and service respond to customer needs?
8. Is the customer experience positive (easy, intuitive, understandable, quick, and dignified)?
9. Does the institution value and apply good customer protection practices?
10. Does staff training inculcate customer-first values?
11. Do evaluation systems reward achievement of good customer outcomes?
12. Is profitability and performance monitored at the customer or customer segment level?

account balances by phone rather than in a branch, which was easier for the customer and less costly for the bank. Initial indications are that this could be an efficient way to incentivize behavior and can be tested by measuring the post-game activity of customers who participate.

## The Business Case for Being Customer-Centric

The economics of reaching BOP customers are changing fast as BOP populations around the globe experience rising incomes and technology reduces the cost to serve them. These drivers make financial services potentially profitable for vast new markets.

But is there a business case for a customer-centric approach at the BOP? Analysts of business success

across industries agree that customer-centric providers tend to fare better in the long run, as they are better at retaining customer loyalty and identifying and meeting evolving demand.<sup>1</sup> But does this work for low-income customers, where margins are thin? We believe that it does, and that customer-centricity at the BOP is a critical ingredient for success.

A customer-centric organizational approach is critical for solving a core challenge in financial inclusion: the access-usage gap. Many new inclusive financial products have seen rapid enrollment followed by low usage. Understanding this gap involves looking in detail at how the product appears to customers and how it fits into their lives. IT and data analytics can identify positive (and profitable) use cases, allowing providers to hone the offer to appeal to inactive customers.

An important part of becoming customer-centric is shifting profitability analysis from transactions or products to customers and even customer segments. A shift toward measuring total customer profitability involves valuing the activity of a customer over a longer time. Data analytics can help organizations make this shift in business and performance monitoring models.

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<sup>1</sup> When Booz & Co. distilled key traits of businesses in Europe and North America with values and operations strongly aligned with customers, it found that these businesses outperformed industry peers two to one on revenue growth, with profit margins 5–10 percent greater than competitors. See Egol, Hyde, Ribeiro, and Tipping (2004) and Booz Allen Hamilton (2003).

### AUTHORS:

Tanaya Kilara and Elisabeth Rhyne