Addressing the Digital Divide: An Interview with Thought Leaders

Andrée Simon is the CEO of FINCA Impact Finance. Anup Singh is the Domain Lead for MicroSave's Banking and Financial Services. During the Center for Financial Inclusion's Financial Inclusion Week 2018, these thought leaders offered up ideas on what is causing the digital divide and how the industry can self-correct.

SPTF: What is the digital divide and how does it affect low-income people?

Anup: In the financial inclusion space, the digital divide refers to the gap between people with access to digital financial services and those without access. Typically, this inequality is caused by digital providers who are focusing on the easier-to-reach and more profitable market segments. The underlying causes are many, including low connectivity in many geographies, low literacy and numeracy—what we call "oral customers"—and self-exclusion.

Andrée: We all buy into the concept that digital financial services have the potential to open up a world of access to low income people. But just because digital money is available, we can't assume everyone is ready to trust and use it. FINCA works in countries where cash is still preferred and people don't trust that they will have access to their money when it's in digital form.

For example, we have a digital savings product in Tanzania and when we launched it, we noticed that people would deposit money and then immediately withdraw it. When we investigated, we discovered that people were testing the system: *if I put my money into this digital account, will I be able to withdraw it when I need it?*

So, when it comes to the digital divide, we aren't just talking about accessing the services, but also the challenges of consumer trust and system reliability. We are also grappling with the problem of the cost of data. FINCA is experimenting with offering free hot-spots so that people don't have to use their data to make transactions, but we still need cheaper, more convenient options.

Anup: That's a great point about the prohibitively high cost of data and how it contributes to the digital divide. MicroSave's analysis shows that in Tanzania, for example, it costs almost $30 to get one gigabyte of data. There are many cases like this where the cost of data is major issue.

SPTF: Is there a difference between how men and women experience the digital divide?

Andrée: Yes! Our customer data shows that women are limited in their access to digital technology as compared to men. They are less likely to own their own phone, less likely to be outside the home and have access to a computer, and so on. But it's not just physical access to technology that comes into play. There are social, cultural, and psychological differences that we need to be aware of and leverage. For example, we know that women have a longer initial engagement period before choosing a product or provider, but once they've made their choice, they tend to stay with that provider longer than men. This is likely playing out in the digital space as well, where women may need more intensive engagement at the outset in order to feel comfortable using a digital platform.

We have to glean insights from real customers and then translate that into how we offer them services.

Anup: At MicroSave, we have seen this same dynamic. Women have a steeper learning curve and require more tries in order to use digital services successfully. We have to keep this in mind as we decide how to interact with customers.

SPTF: If the divide exists, in part, because providers don't want to pursue harder-to-reach clients, is there no business case for closing the divide?

Anup: Let's be clear. Investors aren't *trying* to create the digital divide. They are doing what comes naturally—pushing providers to be sustainable and profitable, which often creates short-term thinking and a focus on easier customer segments.

Andrée: I couldn't agree more. The fact is that providers are often operating on slim margins—especially when they are in profit-sharing arrangements that favor the mobile network operator. There are a lot of impatient investors out there. They don't necessarily incentivize careful, responsible market behavior; rather, they are pushing their investees toward profitability as fast as possible.

To me, this raises a couple of fundamental questions: how can we improve our operations so that we are able to reach scale faster? And how do we articulate to investors and others the importance of considering the long-term health of the industry and clients?

Anup: Absolutely there are examples that demonstrate the business case. Take Equity Bank. About 16 years ago, Equity was almost insolvent and had a customer base of around 100,000 people. Today, they have about one million clients and their non-funded income has increased very significantly. Equity has worked diligently to serve not just the easy-to-reach but also those in rural areas and in lower-income segments. 97% of their transactions are digital and they have a very strong network of agents.

Equity is a great example of a bank that has found the right mix of "tech and touch." They believe that tech is a good solution for repetitive processes and monotonous work, but touch is important for forming relationships with customers.

SPTF: What are some of the most promising practices that you are seeing in the market, which could serve to shrink the digital divide?

Andrée: I'll pick up on something Anup just mentioned about finding the right balance between tech and touch. In some of our markets, FINCA is giving tablets to agents so they can demonstrate digital interfaces and get customers accustomed to interacting with digital money. Anup observed that tech should be used to make processes more efficient, but we still need human representatives out in the communities, and I completely agree. Person-to-person contact is what creates trust in digital financial services and it's also how digital literacy spreads.

Anup: Picking up on this point of experiential learning for customers**,** we've worked with the Bank of Kigali to support financial education and digital literacy within a refugee camp in Rwanda. We've partnered with Financial Capital to create animated 3-6-minute videos on how to use digital finance which are then uploaded to tablets that circulate through the camp, almost like a library book being passed around. Leaders within the camp also work to show people how digital services can benefit them. This approach has been very effective in refugee camps where people are culturally connected—women tended to share videos together and create a network of education within themselves.

Education doesn't change people's minds and education doesn't build trust, but rather it is more about experiencing a sense of connectivity and repetition that builds financial trust.

Andrée: That is so true. In Tanzania, in particular, FINCA has taken a savings-led approach to digital financial services—in part, because it gives customers a chance to interact with the technology before engaging in higher-risk transactions like taking credit. Our savings-first strategy is also a financially motivated decision on our part: offering savings allows us to get to know the client and their financial behaviors so that when they come to us later for a loan, we have a history with them and we can be a better judge of their credit capacity.

Unlike many new players, we are not operating according to the "least friction" principle. It is not our objective to offer frictionless access to nano loans, for example. We don't think that's a good social strategy, nor do we think it's a smart business decision in the long-term. Instead, we are coming up with customer engagement strategies—like digital savings products, like agents with tablets—that will build our customers' capacity and loyalty over time.