

# ROAD TO INCLUSION

A look at the Financially Underserved and Excluded across Europe

A white paper prepared by Ipsos MORI for MasterCard Worldwide  
16<sup>th</sup> September 2013



# ABOUT THIS PAPER

There has been a growing need to understand what financial inclusion means and gain insight into the way in which people are included financially across Europe. Specifically, insights are needed on what the impact of being financially 'excluded' or 'underserved' is on people's everyday lives. Those who are financially excluded have little access to many of the services that others are starting to take for granted. While there has been some positive progress in the statutory provision of basic bank accounts for all, it is widely thought that this is a limiting way to become financially included, since this still does not automatically provide access to electronic payments. There is a growing need to look at how organisations can mobilise around these groups to include them.

This study – both quantitative and qualitative – looks at the financially 'excluded' and 'underserved' across Europe. The research concentrates on two key groups:

- Those who are totally **financially excluded** (without any access to formal banking services);
- The **financially underserved** (those who have some sort of account, but no access to any form of electronic payment, such as a debit, credit or prepaid card).

By focusing on these groups, this research aims to illustrate the everyday lives of those who are often hidden from financial institutions in Europe, as they currently have little or no relationship with them.

The research approach was designed with breadth and depth in mind. The quantitative element contained a sample of over 630 people without any access to electronic payments at all, in some cases not even a bank account, and was designed to look at the types of services people have (or do not have) access to.

This was combined with an in-depth ethnographic study, looking qualitatively at how 36 different households live day-to-day under these circumstances, understanding the ways in which people manage whilst financially excluded/underserved. Combined, it makes one of the largest studies of its type to research this population, and details both the attitudes and behaviours towards living in this manner. Throughout this paper, there will be references to quantitative findings alongside illustrative stories of families and individuals who took part in the ethnographic study.

The picture is made more vivid by conducting the research in different markets across six countries: UK, France, Spain, Italy, Poland and Russia. The similarities across these markets are larger than researchers would have expected, demonstrating that being financially excluded/underserved dictates so many other aspects of life, that the responses to living in this way have a large part in defining an individual's identity.

This paper highlights the impact of being financially excluded/underserved, including what this means for inclusion in wider society, how electronic payments could benefit these groups of people and the way in which they should be positioned in order to have the most far-reaching impact with regard to increasing financial, and thus social, inclusion across Europe. In exploring the challenges of financial exclusion, four key themes emerge that demonstrate an obvious **perception gap** of this group: that **money management** is an issue, **access to technology** varied, and that **education** about financial inclusion is going to be important.

These themes, generated from the research data, form the narrative of this paper. Furthermore, it is evident in this research that many people are not responding to more conventional forms of banking and are looking for new ways of financial inclusion. This paper looks at a **call to action** to help those who are financially excluded, and the opportunity and **future of prepaid** cards as one of many mechanisms to aide financial inclusion.

Many of the people who took part in this research are clearly not responding to more conventional forms of banking and are looking for new ways of financial inclusion.

This paper looks at the opportunity for prepaid cards as an entry point for financial inclusion, the manner in which these groups would engage with prepaid, and the opportunities it would offer them.

The research was conducted by Ipsos MORI on behalf of MasterCard in June and July 2013.



# PERCEPTION GAP

## Financially Excluded



### Time lived in Country

Lived here all my life

## Financially Underserved



### Average Age



### Who are the financially underserved & excluded, and why they are in this position?

The results of this research challenge some of the assumptions we all make about who the financially excluded and underserved populations are. For example, a number of people who fall into these categories are working - the proportion of **both groups** that are in some form of employment is just under 30%. Perhaps also surprising is that the proportion of both groups who are recent immigrants (in country one year or less) is relatively low (2%). In fact, four out of five respondents have lived in the same country for most of their lives.

The ethnographic research shows that these groups are well-integrated into their local communities, and being financially excluded or underserved results in familial and local networks becoming very significant for social and financial co-dependence.

*"Our granny is like our financial institution: we always turn to her"*

**Poland, female, underserved, working, 36**

## Financially Excluded

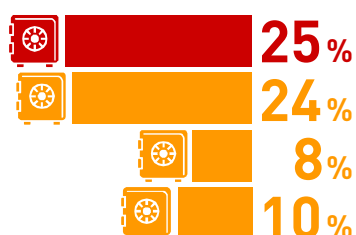


Gender

## Financially Underserved



### Main reason for no full Bank Account

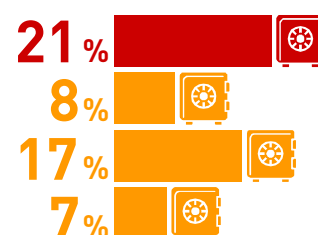


Do not have enough money

Do not want/need one

Not allowed one

Don't like/trust banks



Across all countries, the research shows that groups rely on friends and family to find work, lend/borrow money and assist with purchasing online. Over a third (34%) have their utilities paid for them by a family member/friend/acquaintance and nearly a third (31%) have their rent or mortgage paid for them by a family member/friend/acquaintance – this is significantly higher among the 18-24 age group, suggesting parental help may be more pronounced amongst this group. The larger proportion of people who give their occupation as 'homemaker' may account, in some part, for exclusion, and a greater proportion do receive an allowance from a family member or friend.

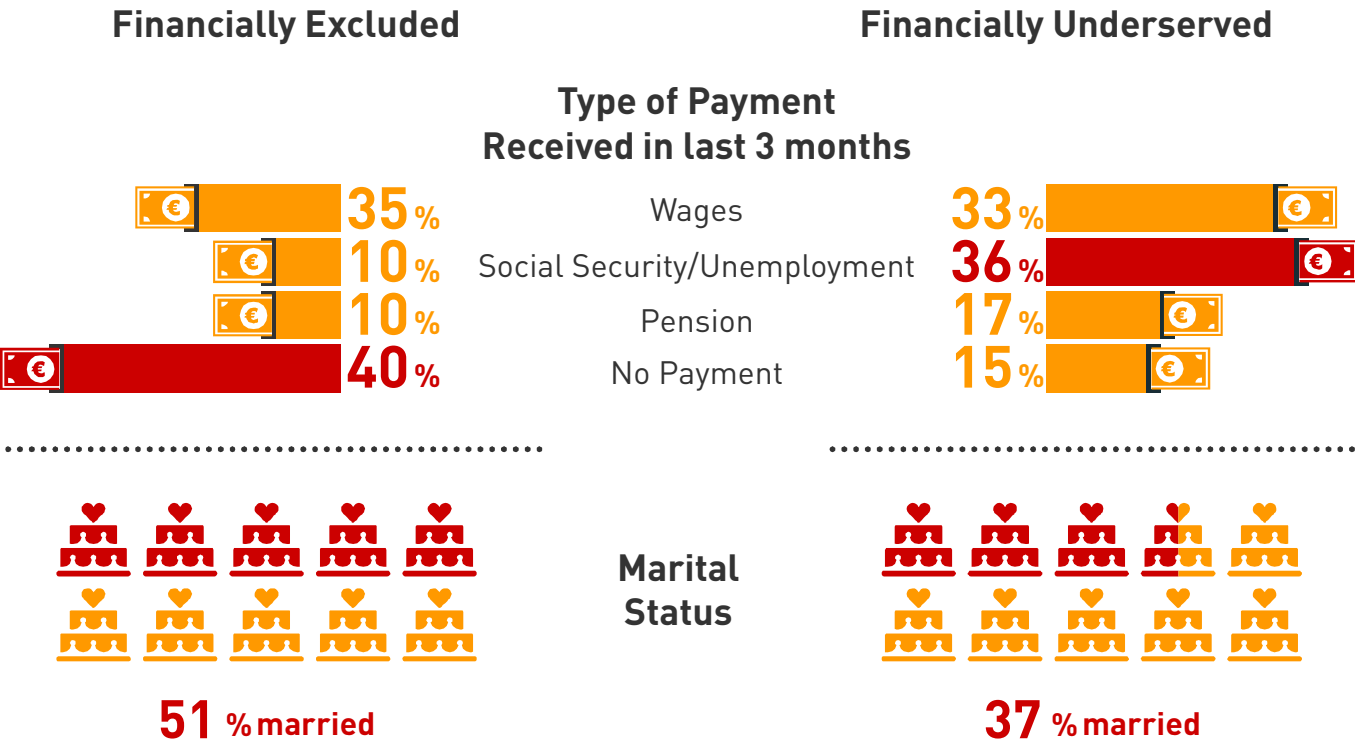
This reliance on close networks enables these groups to function locally; however, they can find themselves excluded from full participation in wider society.

*"I'm also penalised because in shops now, when I pay by cheque, they know me [in local area] so they trust me, but when I go to Saint-Germain-en-Laye, you increasingly see signs: 'We no longer accept cheques,' and so on."*

**France, female, underserved, 66**

Although, overall, the age and gender profile<sup>1</sup> for the financially excluded and financially underserved are the same - average age 40 years old - there are marginally more females (55%) than males (45%). The financially underserved group are significantly more likely to be out of work and therefore receiving social security/ unemployment payments. The sample profile for the study in each country was not controlled for or quotas set to be nationally representative. The recruitment and profile of respondents reported here is based on a 'first available for recruitment' basis. This may, therefore, not be truly representative of the actual profile of financially excluded or underserved.

Picking apart why people are underserved is less clear-cut. Amongst both groups, there is a relatively small proportion (8%) of people who give lack of *trust* in banks as the main reason for not having a full bank account, while nearly a quarter of the financially excluded say they do not have a full account because they do not want or need one.



51 % married

♥

♥

♥

♥

♥

♥

♥

♥

♥

37 % married

<sup>1</sup>The sample profile for the study in each country was not controlled for or quotas set to be nationally representative. The recruitment and profile of respondents reported here is based on a 'first available for recruitment' basis. This may, therefore, not be truly representative of the actual profile of financially excluded or underserved.

The financially underserved express more of a need for financial services, and are more likely to be excluded from having a full bank account due to their apparent inability to get one (i.e. having an account closed, ID/credit problems/not having enough money), rather than through choice. Of the financially excluded, a third do not have an account, due to ID constraints/having an account closed in the past/not having enough money to run the account, while a larger proportion have, for one reason or another, **chosen** to be excluded. Although 40% of the excluded claim to have received no form of income payment in the last 3 months, it is interesting to note that 35% are receiving some form of wages. So, their exclusion is not necessarily because they are not interacting with money.

The research shows that financial inclusion and social inclusion are inextricably linked, and being financially excluded/underserved clearly leads to forms of social exclusion. Examples from Sylvie and Maria (in the ethnographic research) in Italy represent a number of people across Europe who make an effort to appear financially included, and go to lengths to cover up their daily frustrations of being financially excluded. Maria, for example, ensured that she put enough money aside from her limited budget to buy clothes from “respectable” high street retailers – a conscious effort on her part, so as not to stand out as someone who struggles financially. This led her to quite extreme measures, such as reducing her food budget for the week, so as to appear like everyone else. Marianne in France, whose financial understanding was not sophisticated, also felt at a disadvantage because she did not understand the difference between cards – notably between a Carte Bleu and credit card – which meant that she preferred to use cheques.

Conversely, the underserved status is a strong symbol in identity formation, with many people in the ethnography identifying themselves with particular social/familial/local networks which are also underserved. This association comes about through shared understanding and experiences, and has an impact on people's views of others/institutions. An elderly lady in rural Spain, who was paying a €4,000 bill to her builder in small instalments over a couple of years because she did not have the money to pay for it upfront, was done a ‘favour’ because the builder sympathised with her situation. She explained that this was not an unusual situation in her local area: many people came to such agreements, as it was preferential to borrowing from an institution (regardless of whether the option was there or not).

The shared experiences, and thus views, inherent in these networks can often be projected onto institutions. The research highlights that, often, not using cards is rooted in family history and learned opinions, and people are less inclined to go against the grain of local opinion. Apparent comfort or discomfort with financial or social situations can depend on individual desires to be associated with a particular social/local/familial group who share the same views about financial institutions.

### From financial inclusion to social inclusion

This research has shown, for various reasons, that conventional forms of banking and financial inclusion are not working for these groups. Whether it is a problem getting a credit check, only dealing with small sums of money, or a general distrust of banks, the need to be financially included is important, and also moves beyond having purely financial implications. It is clear that for many, giving the impression of financial literacy in turn leads to a rise in social status. A couple in France who wanted to get married and adopt felt they were denied this normal aspiration by their circumstance, and, to their mind, financial inclusion was one of the many hurdles they needed to overcome for marriage and potential adoption.

In the ethnographic research, Maria (a Romanian migrant to Italy) vividly described her exclusion from her group of friends, in that she did not have any cards that related to status.





She described to researchers that she could not partake in conversations about money with friends, as she had no understanding of the terms they were using, nor did she have any other financial products that she could use as a reference point in the conversation. Education about, and access to, the benefits of mainstream financial products that have similar functions to a bank account could lead to Maria, and others like her, feeling more included and aware of financial options.

Much distrust of financial institutions stems from the perceived cynical intent to make as much money out of individuals as possible. Even when distrust is not the direct cause of exclusion, in some markets there is a marked preference for government-run bodies, and a general cynicism about the intentions of banks. Credit is seen, in the main, as a trap that the underserved are unwilling to buy into because of the association with increased debt and loss of control. Despite a low rating of trust for retailers in the quantitative results, the ethnographic research shows that on a daily level, retailers are trusted more than banks, which can be seen through the use of a number of loyalty cards owned by these groups across all markets. Sharing of information with retailers is likely to be more accepted, due to the immediate savings that can be made on an everyday basis.



# MONEY MANAGEMENT

Both the financially excluded and financially underserved, most certainly live within a cash economy. Whilst this may not be a surprise, this cash economy spreads to payments of a more formal nature, with 98% of the underserved paying their rent in cash (of those who are paying their own rent), 95% of the underserved paying their utility bills in cash (of those paying their own bills), and 100% paying for other goods/services with cash. Given the associated problems of living in a cash economy, it is not surprising that the biggest benefit of financial inclusion is 'safety'. Numerous participants in the ethnographic research demonstrated that cash is often kept at home in a safe secret place, or a number of different wallets.

There remains a strong emotional connection to the physicality of cash, not displayed through cards.

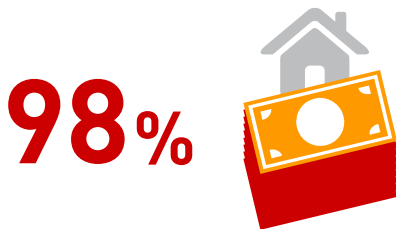
*"You make do with cash because you can make adjustments day by day. If you can afford something, you buy it; if this month you can't, you don't buy it."*

**Italy, female, underserved, 50**

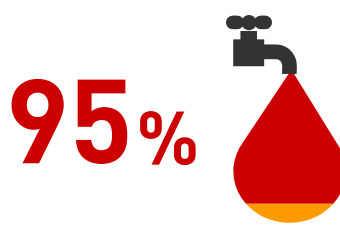
*"If I have my card only and go to the butchers or dairy, and they don't take card payments there, then they will not accept my card and say to me, 'Pay by cash.' What would I do with the card? So I would have to carry both the card and cash in my pocket."*

**Russia, female, underserved, 62**

## Payment methods



of those paying rent themselves (and not having it paid for them) are paying by cash.



of those paying utilities themselves (and not having it paid for them) are using cash



of those paying for other goods/services themselves (and not having it paid for them) are paying by cash

### Keeping track of money

Expenditure is dealt with on a day-to-day level with the emphasis on spending what you have, rather than saving. Formal saving using a bank account or card is not overtly used. Spending first covers the essentials and then, what is left is sometimes distributed to others or spent on luxuries. Spending is in shops, as opposed to on the internet, apart from certain specific purchases, in which case people would usually borrow a card from a friend or family member (except in Poland where cash is paid on delivery). In a family, there is often one money manager who distributes cash for individual purchasing. Choices are often made based on shopping around for 'the best deal' in different shops.

Within these groups, mental accounting systems are predominant and often critical. People often have a very clear idea of where their money goes without much formal budgeting.

*"I have an alignment in my head. How much this costs, how much that costs"*

**Female, Russia, Underserved, 62**

People regularly keep receipts and lists of expenditure in order to find good deals and keep account of their own spending. This leaves a paper trail, which is useful, albeit observed to be cumbersome to store and keep hold of. Being able to electronically account for where money has actually gone might well be a benefit that would appeal to these groups, as it offers the sort of control they are displaying offline in their handling and use of cash.



## The physicality of cash – a love-hate relationship

Due to the reliance on cash, people were observed keeping all of their money at home or on their person. Money was either stored in a safe and secret place or kept in a wallet and taken out of the house. This was because people demonstrated a reticence to rely on banks, as well as a belief that their money was safer if they could see it

*"It's true: I prefer to keep the cash... You never know what can happen with a bank. Like, I don't know, there could always be unexpected payments... So, I prefer not to keep any money with a bank, so to speak. I know it's at home. I know that, well, I have the money here. If I need to, I take some. I've got the money with me."*

**France, female, underserved, 25**

*"I'm the kind of person who keeps secret hideaways... I have one for holidays, I have one for daily expenses"*

**Poland, female, underserved, working, 36**

Ironically, amongst these groups, people were observed frequently losing money if they only kept it in their pockets without a wallet, but were worried about theft causing them to constantly think about where their money was.

*"I don't have a wallet... I tend to lose a lot [of money]"*

**UK, male, underserved, 56**

However, when asked in the quantitative research, the no. 1 ranked overall perceived benefit of a prepaid card was: "I would not have to carry cash around", followed by "I could keep control of my spending". This demonstrates that mainstream financial products, such as prepaid cards, could therefore function as safety devices for these groups and as a way to safely store their money, removing some of the anxiety displayed with their current approach to handling and storing cash.

### The No. 1 ranked overall benefit of having a bank account is:



Keeping money in a bank account is safer than keeping cash



I could earn interest on my money



I could have a bank card that would allow me to make purchases in-store and online



### The No. 1 ranked overall perceived benefit of a prepaid card is:



I would not have to carry cash around



followed by: I could keep control of my spending

### A safe place to keep money

Observing the everyday use of money, the research highlights that people associate seeing physical money with spending it, tapping into a sense of control. The ethnographic research enabled us to observe how people struggle to divide their money between specific commitments, and also how hard they found it to save. Certainly, educating consumers about the benefits of using financial products to save, as compared to physical cash, would help consumers generate greater control and not have money 'burning a hole in their pocket'.

For those who have access to smartphones, a simple 'control app' could enable them to track their spending or, alternatively, this could be done through a website.

*"Well, if you keep it at home there's a big temptation to spend it. You have to remove it from the house because... Yes, we tried to save money this way but we couldn't do it."*

**Russia, female, underserved, 36**

*"If I had a bank account I could save"*

**UK, male, excluded, 30**

Short-term saving for larger purchases could be made more easily with particular products, as they often look for a safe place to leave money until they are ready to spend it. Lawrence, who took part in the ethnographic research in the UK, was storing money on a prepaid card in the hope of starting a business buying and selling cars. While his prepaid card became a physical place where he could put aside money to save for his business, it also became a symbolic way of saving that he wouldn't have been able to do with cash. Having access to mainstream financial products could help those who feel that they are 'unable' to save.

### Making ends meet – bargain hunting

These consumer groups are often keeping close account of their money to ensure they are making the most of it. One aspect of this is taking advantage of the best deals by ensuring they are signed up to offers and loyalty programmes. Store cards, including those with retailer points, are often used, so often, in fact, that cards are seen spilling out of wallets. The ethnographic research shows consumers in every market with loyalty cards to numerous stores, demonstrating their desire to shop around for the best price. This fits with their propensity for shopping in-store, where they can physically engage with the products they are buying. As a result, retailers should already have extensive data on these groups through *Know Your Customer* schemes, and be well-placed to actively engage with the underserved.

*"I have some supermarket cards... You can collect points and can exchange them for gifts"*

**Poland, male, underserved, 31**

The fact that people prefer to buy in shops, as opposed to online (because they can try things on, as well as enjoy this time with friends as a leisure activity), also points to a retailer role in financial inclusion. Accumulating points is a big enticement amongst the underserved to become frequent shoppers, since they cannot afford to bulk-shop.

This results in increased expenditure at particular retailers. Connecting their customers to mainstream financial products could add value to both parties and help enable the underserved to become more closely aligned with their lifestyle aspirations.

The question of financial independence

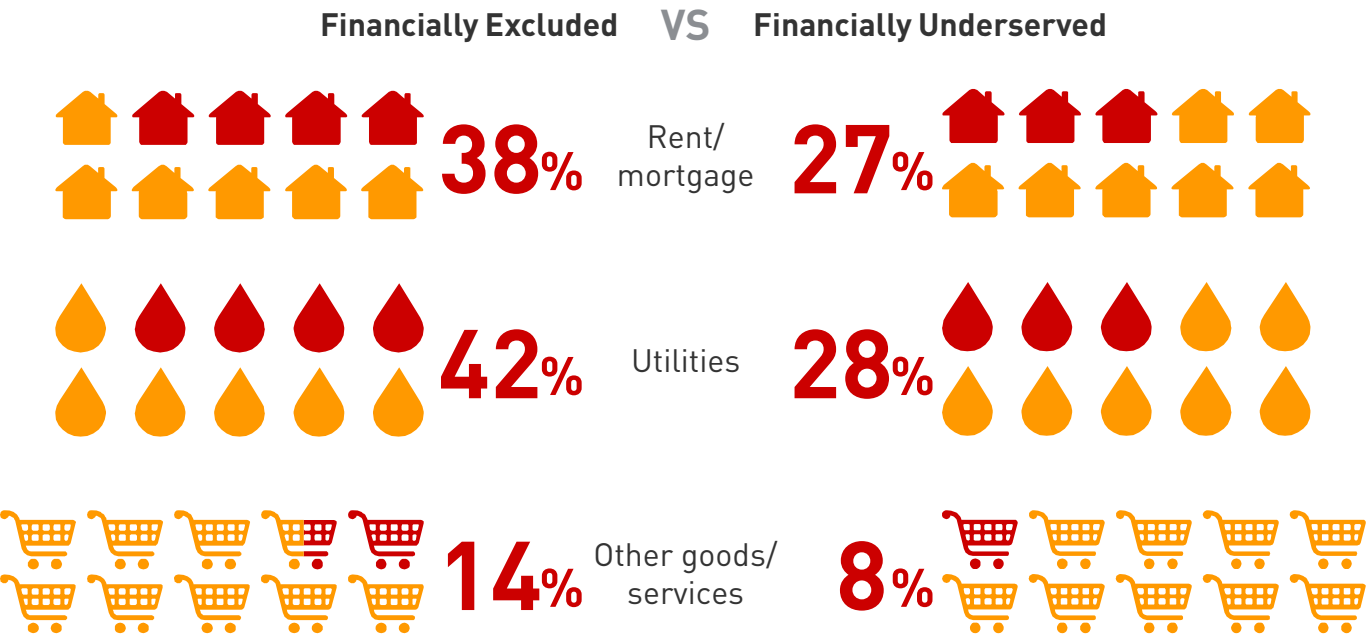
Reliance on social and familial networks for loans and available cash is a critical resource for these people, but equally burdensome (both emotionally and in terms of their time) for all parties. Olesya (36), in Russia, relied on family friends for loans, as she did not trust the banks. However, the international aspect of this research allows us to juxtapose Oleysa’s experiences with Lawrence in the UK, who could not get a bank account and instead used a prepaid card to create some level of financial inclusion.

Lawrence first started using a prepaid card after a friend had given him one to pay off a debt, and now uses it for a lot of his transactions. Like Oleysa, Lawrence was very distrustful of banks, but had found a way of using mainstream financial products to gain financial independence.

The role that electronic payment cards can play in creating more financial independence amongst the young is interesting. Nikolay (17) in Poland depended on his parents, for immediate cash, as well as access to a bank account for his wages.

Costs covered

The ‘financially excluded’ are significantly more likely than the ‘financially underserved’ to have certain costs covered by a family/friend/acquaintance:



His parents wanted him to become more financially aware and independent and they used a prepaid card to facilitate this, whilst also ensuring that they were aware of how much money he had at any one time. The prepaid card in this context worked as a stepping stone or gateway to adulthood, by helping to prepare Nikolay for a future of financial independence, whilst also enabling his parents to feel secure in the knowledge he would not be stranded without money, should he need more when he was away from them.

*"He can call me at any time and tell me he's run out of money... He can call me and I will process a transfer [to the card]"*

**Nikolay's mother, Poland**

This is a good intermediate step towards financial independence amongst the young, in that it reassured Nikolay's mother that he was behaving independently of her, but she could step in, should she need to – a finding that was reinforced in the other markets.

**Alternative payment methods for employers**

Cash-in-hand jobs are often commonplace for these consumer groups, as this is one of the few ways of gaining employment. However, this tends to put people in a difficult situation when cash-in-hand jobs are not available, as more conventional jobs often require bank accounts for remittances. In Poland, a participant arranged for his salary to be paid onto his prepaid card directly. Given the social implications of being financially excluded, this appeared to be a beneficial 'workaround' to an otherwise difficult situation of getting paid cash-in-hand.

*"Because I can't get a bank account, I can't get a job - a decent job at that"*

**UK, male, excluded, 31**

As part of overcoming the structural barriers to financial exclusion, employers could be educated about the merits of different payment methods, as this could overcome a large barrier in the road to financial and social inclusion by opening up a wider variety of employment prospects.

### The desire to 'jam jar'

Where saving did occur, this tended to be for short-term expenditure goals, such as a holiday, short trips, clothes for their children and sometimes (although rarely) for emergencies. Cash was often stored in pots, boxes at the back of wardrobes, and under hidden in various places.

*"I think I have €200 in my piggy bank. That's a lot for me. It's hidden... You put the money in it and cannot take it out unless you break the piggy bank. I've been putting money in since I was in the fourth or fifth year, in primary school."*

**Spain, male, excluded, 18**

It was felt by many that saving in this way was preferable to using a financial institution, many of which they neither have direct access to nor trust.

*"I don't trust the bank... I don't know - the bank always tends to cheat you. I have this view of the classic banker who is there to cheat you."*

**Italy, female, underserved, 39**

The ability to and efficiency in saving using this method is not optimal. Providing an easy way for these groups to electronically partition money using mainstream financial services would relieve the pressure of mental accounting, by helping people keep track of the amount they have, removing the temptation to spend money, as well as creating a much safer place to store their cash.





### **Banks are not always the answer...**

Credit checks were often cited among these consumer groups as a major cause for the dislike of banks. For example, Lawrence, in the UK, who said that bad credit was the reason he could not get a bank account. Another example is Nathan, in the UK, who could not get a full bank account because he lacked the appropriate documentation, and is financially excluded as a result. Our findings demonstrate that when people are denied a bank account in these circumstances, it further enhances their distaste and distrust of banks and, as a result, they do not want to be part of such a system anyway.

*"I don't have a bank account... I just can't pass credit checks to get one... I think I've got a bad credit or I'm blacklisted or, I don't know"*

**UK, Male, Excluded, 33**

The fact that other mainstream financial products offer similar (and more) services to a bank account – such as bill payments and regular statements – acts as a further enabler for both online and offline spending, leading to financial inclusion. This feeling of inclusion is available to all without having to go through the regular credit checks associated with opening a bank account, which is seen by many who took part in this research to be a significant barrier.



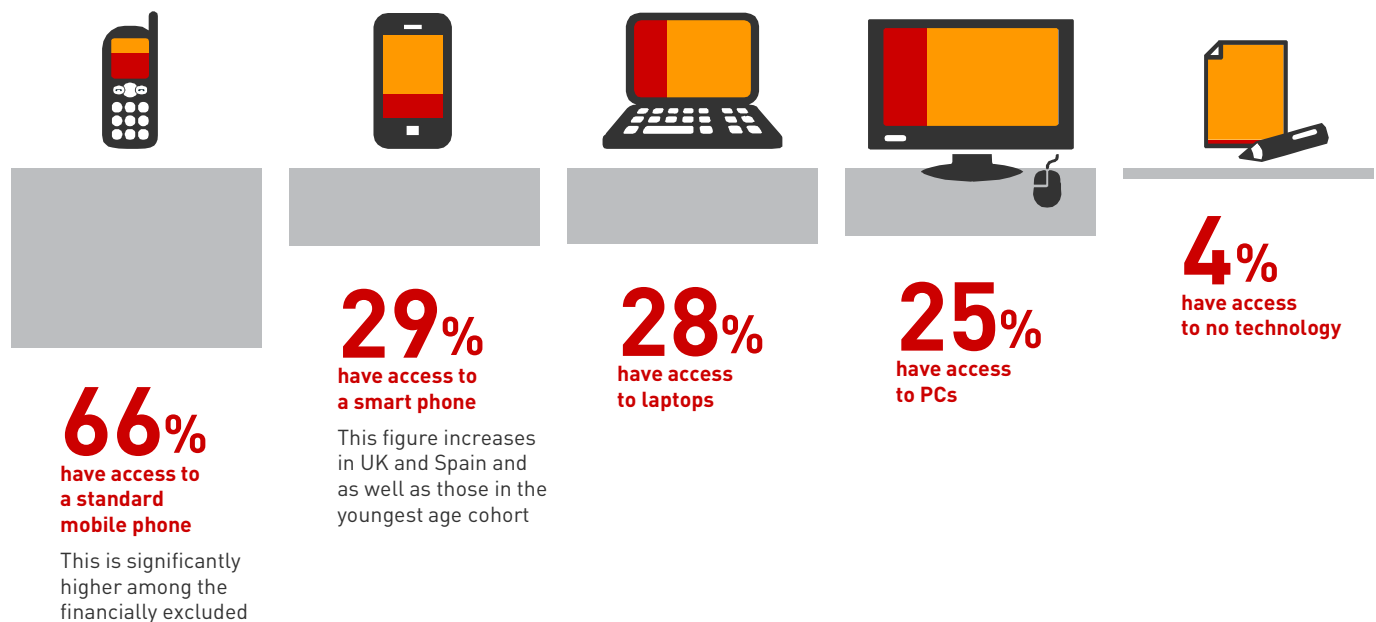
# ATTITUDES TO TECHNOLOGY

Whilst the majority of people in these groups have access to some form of technology, for the largest proportion, this is to a standard mobile phone only, and access to more advanced technology is much more limited. The quantitative findings show that two thirds have access to a standard mobile phone (*this is significantly higher among the financially excluded*), whereas 29% have access to a smartphone (*this figure increases in the UK and Spain, as well as amongst those in the youngest age group (18-24)*). Access to laptops and PCs is lower: 28% and 25% respectively, though, perhaps surprisingly, only a small minority have no access to technology at all (4%).

Despite access to technology, the use of it is not sophisticated. The ethnographic research highlights that this could be attributed to a preference for real-life exchanges. As such, the most common use of technology was on social networking sites, such as Facebook, as opposed to online banking or shopping.

*"It's not that I don't trust them [online retailers]... I just like to go there, to feel and touch things"*

**Russia, female, underserved, 36**



This preference can be put down to a predominantly cash economy, a general distrust of internet purchasing and the sociability inherent in bartering for goods and services. Going to the shops and 'bargain hunting' is felt to be an important social and leisure experience for some participants.

Awareness of, and interest in, a mobile bank account is relatively low. Probably for this reason, paying bills online is not seen as a key benefit of being financially included. Only 9% believe "I could pay my bills electronically" is a benefit to having a full bank account, while a lower proportion (5%) see it as a main benefit of a prepaid card. Only 4% see "I could buy products and services on-line" as a main benefit of a full bank account, and a similar proportion (3%) see this as a main benefit to having a prepaid card.

Two thirds have 'not heard of' mobile banking as an alternative to a full bank account (*significantly higher among the financially underserved, and those aged 65+*), with interest in mobile banking also low – 72% are 'not at all interested'. However, nearly a quarter (23%), 'would like more information on it', though it's difficult to know how this would translate into behaviour.

The only factor as strong as the pull of face-to-face local connections for this group was the prospect of saving money on purchases.

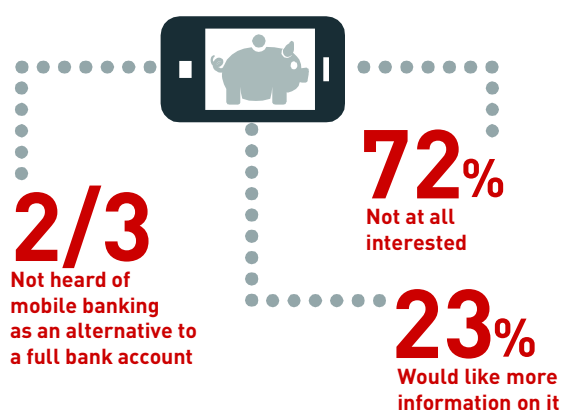
### Main benefit to having a full bank account



### Main benefit to having a prepaid card



### Mobile banking



### **Enabling e-commerce could save these groups money...**

Building on this, particular groups in the ethnographic research do believe (and have had clear experience) that online purchasing could save them money on goods and services. When people are denied a card that allows online purchasing, they feel frustrated as though they are 'missing out'.

Within families, the younger generation showed far greater trust of online purchasing. In Italy, Sylvie was observed to be at a disadvantage in terms of her knowledge about online shopping. Her son explained the advantages of online shopping in relation to discounts and she was tempted by a desire to please her children – and the tension that the researcher was faced with was palpable. Young people would certainly see the benefits of parents becoming more financially included, as it is perfectly normal amongst their peer group to make online purchases.

Furthermore, many of the underserved and excluded could make savings on everyday items, as well as irregular purchases – something they are working hard to do in the offline world already, through the use of loyalty and store rewards cards. This is a benefit these groups would certainly be interested in, although there appears to be a barrier in the form of a rather common misconception: that there is no recourse if the product ordered online is not up to standard. In this case, in order to gain traction and build trust, education about online protection is required.

### **Rural locations**

Rural groups often define themselves and their group identity in opposition to their town counterparts. Town cousins are seen as 'more advanced' and more likely to be aware of, and use, innovative technology. Whilst this can lead to an inferiority complex in some, it can equally result in enforcing the positives of village identity through the recognition of shared values. In rural Russia, for example, self-sufficiency is seen as more common and perceived as an asset that sets them apart from their town neighbours. Greater financial inclusion, with the everyday benefits and social status it brings, can be associated with a more independent way of life to support this mindset.

*"Everyone is aiming to go live in town... Because life is better there. Because urban people are sort of more sophisticated"*

#### **Female, Russia, financially underserved, housewife**

Even though particular products might seem surplus to requirements for some in rural villages, this is complemented by the freedom they offer by enabling the online purchase of items that cannot easily be sourced in local towns. Use of cards in towns by more rural dwellers would signify an ability to use more advanced technology outside their own local network, when it becomes more relevant, and undoubtedly follows the general trend to move towards inclusion.

### Potential for technology

Sometimes bill payments, when not electronic, were disorganised and chaotic. This suggests a lack of awareness about personal finances that a simple 'app' that served to educate, as well as facilitate easy budgeting, could remedy. As smartphone uptake increases, the potential for these groups to make use of technology in relation to their finances grows. A simple budget app that could be used on a mobile phone would be helpful for everyday budgeting and work as a simple extension of the mental accounting that already takes place. Because some people need help with tasks such as topping up a phone, an online portal that links phone companies with financial products could also help.

As use of technology is currently not sophisticated amongst this group, online activity is seen as time-consuming. Simplicity of visuals and key benefits in an online application for a financial product would be important to help a person like Natasza (Poland), who did pay bills online but disliked it, as she found this difficult and complicated.





# EDUCATION IS KEY

While all opinion-led research starts from the point of view that truth is in the eye of the beholder, many of the barriers observed in the research could actually be overcome through better education about the full range of alternative financial products that are available to the financially underserved and excluded. Hence, a critical element on the path to financial inclusion has to be education about these points.

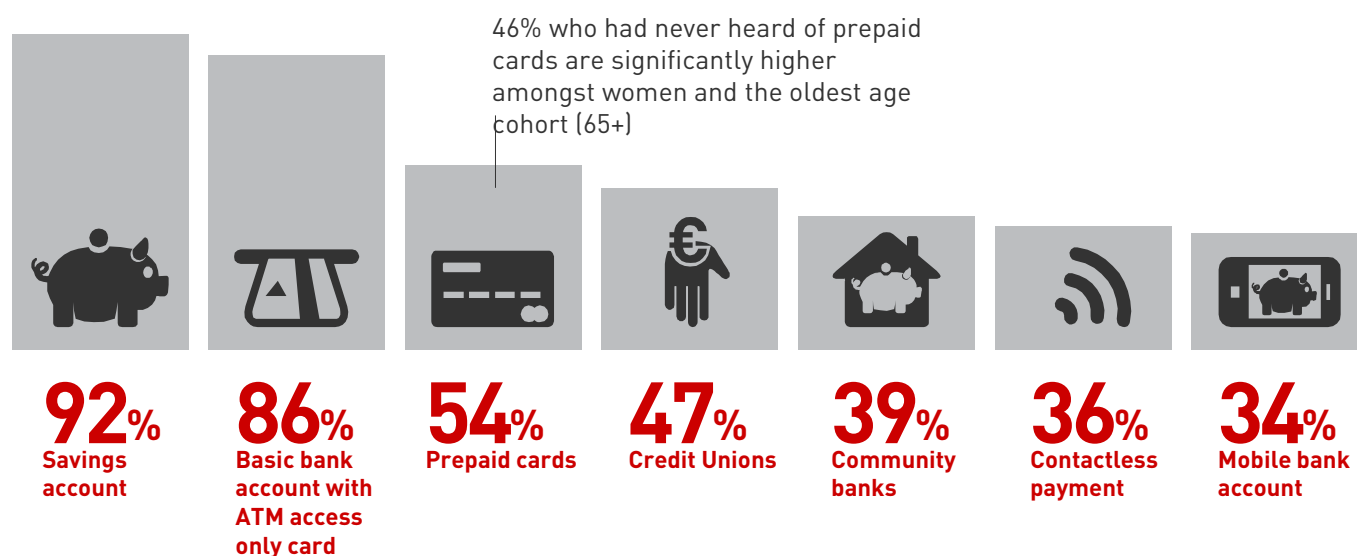
## 1. Communicating the merits of safety

In terms of the advantages associated with financial inclusion, safety is again recognised as key, as people do not need to carry cash. Whilst the main advantage of having an electronic payment card is seen as security, a major disadvantage of owning a card is the risk of losing it, and someone else spending your money. This view was largely due to a lack of knowledge around security and fraud- protection mechanisms that are integral to electronic payment cards.

Education about the ability to block a card that has either been lost or stolen, in order to protect your money, as well as the ability to receive/obtain a replacement card, should be promoted in order to increase the uptake of electronic payment cards amongst this group.

Furthermore, our findings indicate that these groups know they are missing out on online deals, but they are not savvy online purchasers. There is a worry that buying online could result in the purchase of goods that would be unsatisfactory (too big, too small, etc.) with limited possibility of a refund. Promoting the fact there is inherent consumer protection when buying products online would further emphasise the merits of safety of financial products amongst this group.

## The proportion of respondents who have heard of or who have used in the past:



## 2. Honesty and transparency regarding fees

Fees on bank accounts act as a barrier to people engaging with financial institutions and lead to an impression of institutional dishonesty. Our consumer groups discuss not knowing the true cost of a bank account and worry about hidden bank charges on top of monthly fees. This is particularly true when people spend beyond their means by mistake, leading to further charges and financial difficulties that they weren't otherwise expecting.

A sense of transparency and honesty about fees would appeal to consumers. Financial products designed for these groups should be totally transparent with regards to one-off, monthly or annual fees, in order to build trust and uptake. Reassuring consumers that they will be unable to spend beyond their limits will add to this sense transparency and honesty.

## 3. Dual functionality - in-store and online: promote sense of freedom

Our research exposed the preference for real-life exchanges amongst these consumer groups. The ability for electronic payment cards to be used both in store and online creates a renewed sense of freedom. People can search for deals online and purchase there and then, or they can subsequently visit stores in person, paying for the item with their card. This is certainly an attractive benefit to these consumers – for example, those who like to use the internet for travel research but then buy tickets in person from an agency. For the older generation who find ATM machines difficult to operate (or are concerned about safety/carrying cash and the threat of being mugged), the use of cards in shops can also help, particularly as point-of-sale infrastructure and overall card acceptance improves in different markets.

## 4. Using financial products for saving

Highlighting that financial products, such as basic payment accounts and prepaid cards, can be helpful to the underserved and excluded as a way to save money safely (as discussed earlier in this paper) would be of huge benefit. Products that can help the underserved keep track of what money is available to spend will be helpful, and the ability to physically partition money in a place where it is not then immediately accessible would also be of significance.

Text alerts and simple online statements delivered via an easy-to-use portal where information could be quickly obtained would be beneficial for those consumers who like to keep close track of their expenditure. This feedback loop could help a person like Natasza, who was concerned that she would not know the balance of her card, which could lead to embarrassment if it was declined during a purchase. It would also help the likes of Lawrence in the UK, who knew what money he had to pay out, but was less clear on the money he had coming in.

*"I don't really know what I've got coming in really; I know what I've got that needs to go out... just trying to do my best to keep up with things, but I'm never up to date, always behind"*

**UK, male, underserved, 33**



# CALL TO ACTION

The concept of a 'basic bank account' for all is a laudable idea. However, this research indicates that a basic bank account may not sufficiently meet the needs of today's consumers. Some form of electronic payment is necessary to fully include the financially excluded, offering access to e-commerce, mobile payments, person-to-person transfers, etc.

A 'basic payment account' provides consumers access to basic bank-account functionality with the added value of electronic payments. For example, many general purpose prepaid cards are, in fact, basic payment accounts.

Crucially, prepaid cards are widely available and sold via entities (local shops, post offices, convenience stores) in the local community – where there is inherently more trust afforded than is given to banks.

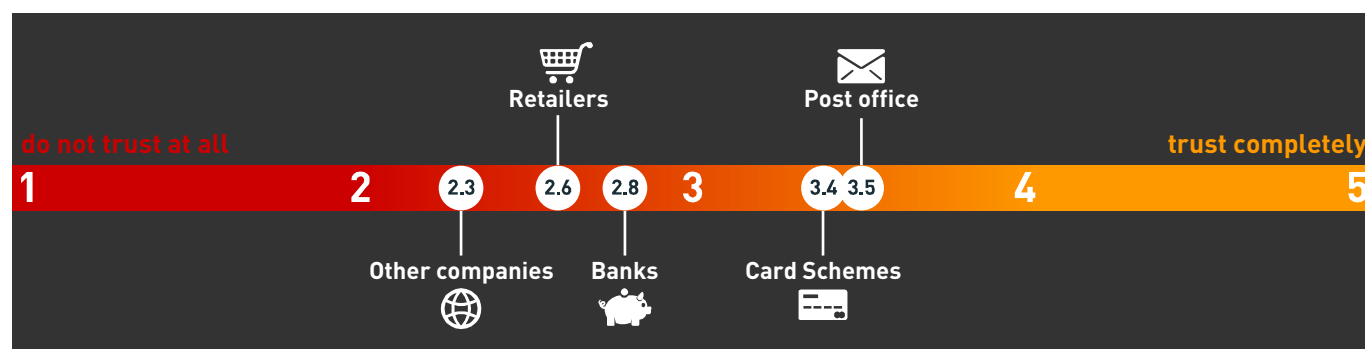
Keeping the proposition simple and straightforward – in the same way that loyalty cards are positioned – will be of greatest benefit to the underserved.

Furthermore, there is a hierarchy of trust afforded to a variety of institutions that is highly pertinent to the providers of prepaid cards, and that needs to be borne in mind to drive traction amongst these consumer groups. Based on the countries where different providers may be available, the most trusted are post offices. However, just below this on the scale of trust are the card schemes, which in turn are more trusted than banks. All of these are more trusted than other companies such as telecommunications, or airlines.

Asked on a scale of 1 to 5 where 5 = trust completely and 1 = do not trust at all, the mean scores are:

## Trust of prepaid cards providers

Asked on a scale of 1 to 5, the mean scores are :



For example, Andreea in Spain was a migrant worker from Romania. She lived with her employer and did not have all her identification documents. Furthermore, she worked Monday to Saturday and only had Sunday off, which was the one day the bank was shut. As a result she had no access to the basic facilities her local bank could potentially have offered her. Even if she had been able to visit the bank, Andreea would not have qualified for a bank account, due to her lack of Full Due Diligence (“know your customer”) anti-money laundering documentation.

She transferred money back to her family in Romania via a costly (and quite possibly unregulated) money transfer service. Andreea *could* have purchased a prepaid card, with limited ‘know your customer’ checks under Simplified Due Diligence (SDD) from her local village shop. Andreea would have been able to top-up/reload her card using a cash-in solution, such as *MasterCard® rePower™*, and then use it to purchase goods or services in-store or online, or perform her other basic financial needs.

The research underlines the importance for financially excluded individuals of the continued existence of the Simplified Due Diligence category within anti-money laundering legislation. Many of the financially excluded research respondents in this study did not have the documentation required to pass a full Know Your Customer Due Diligence check, but would have been able to qualify for a payment product under Simplified Due Diligence.

If the Simplified Due Diligence category common in the Anti-Money Laundering legislation gets eroded or eliminated, this would effectively cut off large tranches of society that may already be benefitting from the added value an SDD prepaid product gives them – and worse, there is a serious risk of permanently disenfranchising/subjugating millions more excluded people from ever easily being included in, and benefiting from, electronic payments.

This research has also shown there is a need to go beyond the simple call for ‘bank accounts for all’. Education should be a critical focus for governments, financial institutions, and retailers. It is important to make sure consumers are aware of the many existing and emerging financial options available to them so that they can make an informed choice depending on their circumstances and personal preferences. Consumers also need to have access to clear and transparent information about financial product fees, functionality, and safety/protective mechanisms. While this information is important for all consumers, it is especially critical in advancing financial inclusion efforts.

Finally, the research highlights the social inclusion aspect of owning ‘mainstream’ financial products. Bank accounts and payment products are important social markers. Being able to own financial products, conduct transactions and make payments like the rest of society were important considerations for study respondents. As policy-makers consider how to structure products for the financially excluded, it is important these products look and feel like ‘mainstream’ financial products and not be readily identifiable as a product for the poor or excluded.



# FUTURE OF PREPAID

This research has demonstrated that many of the conventional routes to financial inclusion through traditional bank/savings accounts are not working for this group, as some of the (perceived) barriers in place appear insurmountable. However, the ethnographic research shows that there were actually many options open to the people who took part, if only they had known more, or had received clearer information about the benefits of engaging with financial service providers.

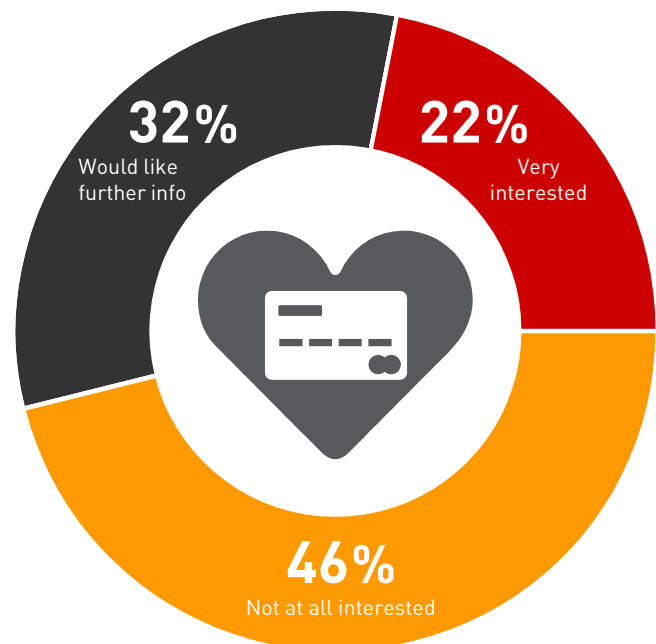
As it has been observed during the ethnography that prepaid was, to some extent, already being used as a path to greater financial inclusion, a MasterCard prepaid card concept was introduced in the quantitative research across all three Ipsos measures of in-market success – 'Relevance', 'Unique and Different' and 'Purchase Intent'. The results show the concept scored highly, indicating there is relevance for prepaid as an enabler of increased financial inclusion.

When asked if they were likely to apply for a prepaid card, after the product construct was described to them, over one third (37%) of respondents said they would be very/somewhat likely to. Nearly a quarter (22%) stated that they are 'very interested in' prepaid cards and this is significantly higher amongst those who are financially underserved.

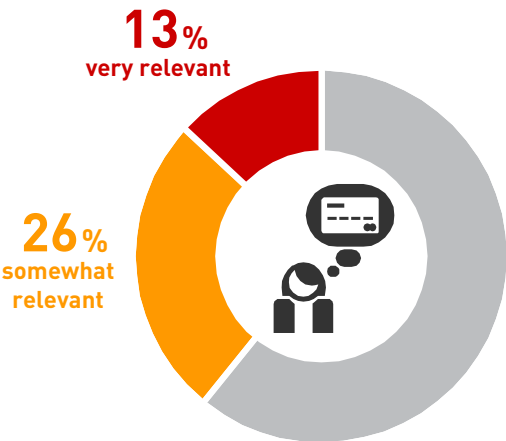
Interestingly, the reaction to prepaid cards changes by sampled market and by demographic:

- In the UK and France, respondents found the idea to generally be relevant to them, unique and different, and expressed more of an interest in applying for such a card;
- Conversely, in Poland and Spain, the concept performed less well on these metrics;
- Generally, the financially underserved are more interested in prepaid cards than the financially excluded, who appear to be more ambivalent;
- Similarly, the idea appears to resonate more strongly with respondents under 55; and,
- The idea is significantly less appealing to older respondents.

## General interest in prepaid cards

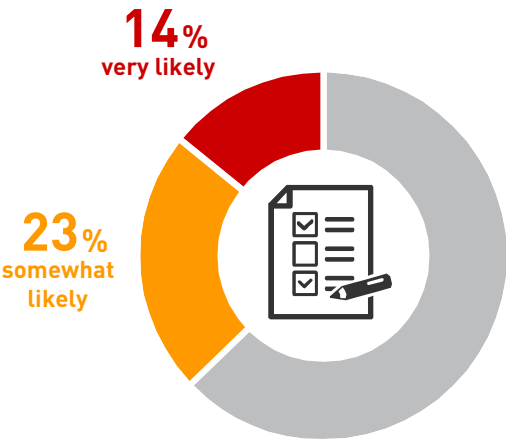
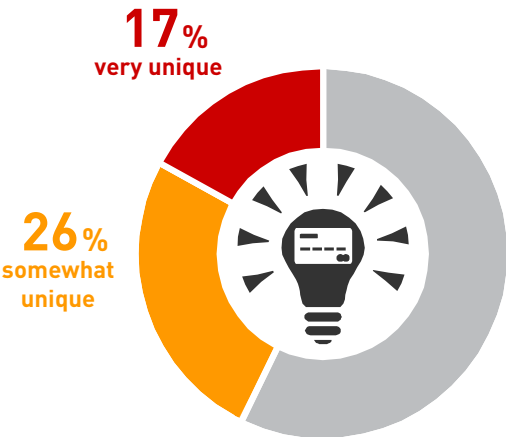


Interest in a MasterCard prepaid card



How relevant may a prepaid card be to them?

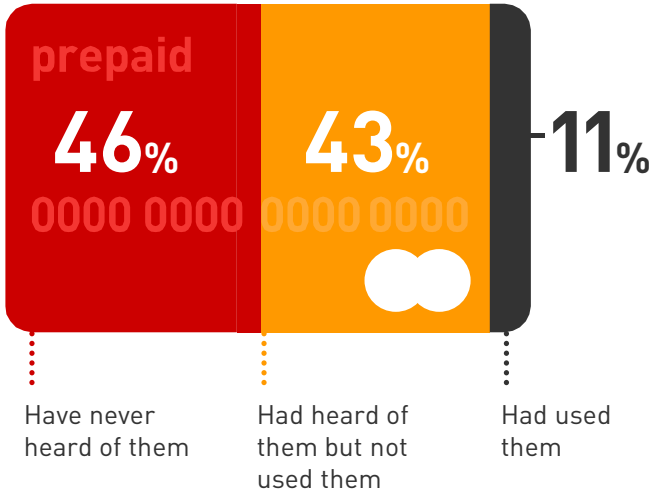
How unique and different is a prepaid card?



How likely are they to apply for a prepaid card?

When asked how relevant a MasterCard-branded prepaid card may be to them, 39% said very/somewhat relevant, and when asked how unique and different a prepaid card is, 43% said very/somewhat unique and different, demonstrating that the concept could possibly be relevant to their current circumstances.

Overall, 11% had used prepaid cards in the past whilst 43% had heard of them but not used them, with 46% having never heard of them. Almost a third (32%) 'would like further information' on prepaid cards.



Those who had used/were using prepaid cards revealed various triggers for uptake:

- People had been gifted the card either from parents or from a friend;
- Those who had opted out of the banking system also found that they experienced fewer charges with prepaid cards, which they were happy with;
- There were also a lot of people for whom the use of prepaid cards gave more control on their spending;
- Young consumers bought cards in order to shop online, cash cheques or to emulate an admired older person with more financial resources, and thereby demonstrate more financial independence;
- Prepaid cards functioned well as a mechanism to receive money from others.

Those who already used prepaid cards in this study found that they were extremely convenient, and amongst those who had never used them, there was a simple lack of knowledge about what they are. A reflection of this is that half of all European respondents said they would be interested in receiving more information.

Some of the key barriers to prepaid usage highlighted in the quantitative research are:

1. "I might lose my card/anybody could use it if I lose it" – **41%**
2. "I would have to pay money to own the card/regular fees" – **30%**
3. "Shops/other places would not accept prepaid cards" – **7%**
4. "I would never be able to put enough money on the card" – **6%**.

Despite limited awareness of such a card, there is both an opportunity and a desire amongst these consumer groups to adopt this technology; doing so could have a materially positive impact and help overcome some of the payments challenges they currently encounter in their daily lives.

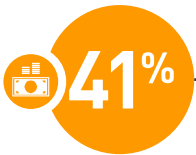
Looking at the barriers and advantages of prepaid, there is a clear need for education from governments, NGOs, retailers, and those looking to provide prepaid

## ADVANTAGES -SECURITY

The perceived **main** advantages of a prepaid card are seen as:



I would not have to carry cash around

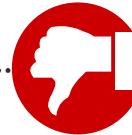


I could keep control of my spending



## DISADVANTAGES

The perceived **main** disadvantages of a prepaid card are seen as:



I might lose my card/anybody could use it if I lose it



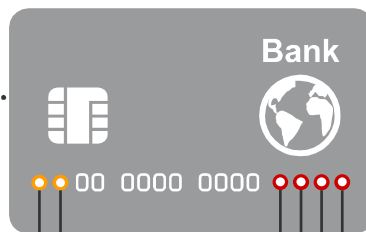
I would have to pay money to own the card/regular fees



Shops/other places would not accept prepaid cards



I would never be able to put enough money on the card



Connected devices are *proliferating* and will continue to proliferate, and their capabilities will continue to affect every aspect of our lives, including financial services, payments and banking - the reason being that every one of these devices has the potential to become a commerce device, and hence technology is changing the way we all transact. But, for the financially excluded and underserved, there is a real danger of being left behind in the wake of this technological advancement because, at the moment, they just don't have access to, or interest in, these connected devices.

The concept of 'show-rooming' - where people go to the store to window-shop, but then buy the products online - highlights even now how consumer behaviour is changing, where we blur the lines between physical and digital stores, checking products out and trying them for size before seeking the best price on the internet. Such trends are in their infancy but they *are* happening, and retailers are increasingly being required to make the high street much more relevant for the internet age.

When we look to the future, it is important to bring the financially excluded and underserved on this transformational payments journey and, as part of this, prepaid cards and other types of basic payment accounts have a real role to play in the drive for greater financial inclusion.

All people, irrespective of their own personal circumstances, should have an opportunity to participate in the global economy. However, millions of people around the world lack access to the most basic financial tools, and this limits their personal options. They don't have secure places to save money, reliable ways to transfer it, or safe ways to transport it.

Financial exclusion, in its worst form, can perpetuate poverty and lead to social exclusion. It slows the economy down. Bringing basic financial services to the world's unbanked is, clearly, an obvious commercial opportunity, but more importantly, it's a meaningful opportunity for society as well.

### Technical note

This piece of research was undertaken by Ipsos MORI, a leading Market Research agency in the UK.

The ethnographic research – conducted through the Ipsos Ethnography Centre of Excellence – used the anthropological ‘participant-led’ approach to qualitative research to understand the lives of 36 different households. The interviews were semi-structured using an observation guide and lasted between four and seven hours. Quotas were set on financially excluded (with no formal access to electronic payments), financially underserved (those who do not have access to any form of directional payment), and one household with access to a prepaid card. The research took place in 6 markets: Poland, Italy, UK, Russia, Spain and France, in June and July 2013. All interviews were video-recorded in their entirety, and a total of 181 hours of footage was collected, analysed, and edited.

The quantitative intercepts consisted of n=631 interviews split over 6 markets: Poland, Italy, UK, Russia, Spain and France in July 2013. A 10-minute face-to-face PAPI interview was carried out using experienced interviewers in each local market. Whilst no hard quotas were imposed on region, the different regions in each market have been covered. Research was conducted amongst the financially excluded (those who do not have access to formal banking facilities) and the underserved (those who do not have access to any form of directional payment).

