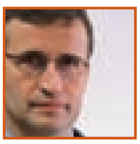
FINANCIAL SERVICES

A BLUE OCEAN STRATEGY TO CATCH MARKET MINNOWS



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IESE Prof. Javier Santomá and research associate Francesc Prior look at how financial institutions can overcome the lack of basic financial services in developing countries, a subject the authors analyze in their book, *Los nuevos océanos azules para productos financieros: oportunidades para negocio* (New Blue Oceans for Financial Products: Business Opportunities).

FINANCIAL SERVICES • WIRELESS TECHNOLOGY • DEVELOPING NATIONS

The development of the financial system and the economic development of the country are closely linked. Thus it is important to ensure that a large part of the population has access to financial services in order to boost economic development. Finding an economic and sustainable way of offering financial products to people who are outside the banking system is one of the main challenges facing financial institutions today.

The main problem facing developing countries is the lack of access to basic financial services. In spite of what might be expected, this is not because of a lack of demand but through the lack of micro-financial services. Micro-financial services are too expensive for low income groups, they are not distributed via sufficiently extensive networks, they don't use the appropriate mechanisms to analyze risk and are regulated under unsuitable regimes.

As a result, the low-income sector's demand for integrated financial services is not met, which means that this sector has to resort to unofficial services which are much more expensive and inefficient and which prevent borrowers from improving their financial circumstances. This is frequently the case in Latin America (Colombia, Ecuador and Peru); in the Maghreb (Algeria, Morocco, Tunisia and Egypt); and in sub-Saharan Africa (Kenya, Malawi, Tanzania and Uganda).

PUBLIC AND PRIVATE INITIATIVES

In order to address this problem, initiatives to promote access to micro-financial services have generally been the province of non-governmental organizations, which have tried to expand available financial services by transforming themselves into regulated micro-financial organizations, a process known as "upscaling." However, traditional banking has also involved itself in the microfinance sector by developing specific strategies to meet the demands of this market. This type of organization, the market leader in micro-finances in many developing countries, uses strategies known as "downscaling," meaning, optimizing existing infrastructures in order to apply new banking technologies in the development of alternative models for distributing low-cost financial services.

Another banking model that has recently been developed in the mi-

cro-finance industry is the "greenfield bank", banks established specifically to offer micro-finances which employ a business model that exploits technologies in order to distribute micro-financial services at a low cost.

As well as these private initiatives, there are also public policies to promote access to financial services. These policies fall into four broad categories. The first type attempts to resolve the problems inherent in the socioeconomic environment that inhibit the demand for financial services on the part of a large part of the population. The second type focuses on institutional, legal and governmental problems related that limit access to financial services by low-income

MOBILES HAVE HIGH LEVELS OF PENETRATION IN COUNTRIES WHERE ACCESS TO FINANCIAL SERVICES IS VERY LOW.

groups in the countries of the region. The third type of policy tries to resolve the regulatory problems that distort the provision of financial services in Latin America. Finally, a fourth type looks at the problems related to ways in which the financial system operates that impede financial development.

Faced with this, we believe it is necessary to develop financial services for the lowest income groups that resolve the problems that we have described. We propose a low-cost model for the distribution of financial services that would take advantage of existing solutions in the financial industry in order to resolve the problem of the inadequate supply of services for low-income groups. This proposal is largely based on a business model that uses electronic payment methods and wireless technology. Although electronic payment systems were originally designed for high-income groups, especially for executives on the move, products have recently been developed that could form the basis of a business model that is more efficient at offering financial services to low-income groups, not only in developing countries and Latin America in particular, but also in many parts of the developed world.

A NEW MODEL OF FINANCIAL SERVICES

The business model that we propose offers solutions to the concrete problems that give rise to the low level of banking among certain sectors, such as the extent of the distribution network, the cost of financial products, ways of analyzing risk and the tools for commercial segmentation. Furthermore, the proposal includes three additional elements.

EXPLOITING EXISTING ELECTRONIC AND WIRELESS TECHNOLOGIES

The first of these is to optimize the effect of remittances. We propose exploiting the synergies that exist between the money-transfer industry and the financial sector in a way that would not only reduce operating costs but also boost the system's income. These synergies would make the proposed model more efficient and, therefore, able to offer financial services to people with lower incomes while maintaining the profitability and sustainability of the system.

The second element is about economies of scale. Since the beginning, the electronic banking industry has had to opt for common, networked operating systems in order to guarantee sufficient levels of business. Savings banks and other important institutions traditionally involved in the general savings and credit market have also used these systems in order to achieve economies of scale. However, implementing these systems requires a legal framework that allows for this collaboration and the generation of economies of scale in savings and costs.

The third element consists in using wireless technology as the catalyst for massive development of the proposed model. Mobile telephones have reached high levels of penetration in many developing countries where access to financial services is still very low. The mobile telephone could be the catalyst that helps to increase access to banking services among those sectors of the population that do not have bank accounts. Different business models exist that can promote banking using the existing mobile telephone network.