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Banking the unbanked in Pakistan: Catalysing peer-to-peer learning about digital financial services

Mark Walsh

- This study examines the barriers to usage of digital financial services (DFS) in Pakistan using data from an experiment conducted with 1,180 villagers in rural Punjab, Pakistan.
- The main barriers reported by villagers are lack of knowledge and concerns around scams/frauds.
- Providing one pamphlet on the benefits of DFS and one pamphlet with safety tips increases villager's intention to register a digital banking account.
- However, villagers are reluctant to share the pamphlets with fellow villagers due to fears around offending others or being blamed by them for negative outcomes.
- Allowing the recommender to be anonymous reduces blame concerns and increases sharing of both pamphlets.
- Framing the recommendation as generally "to a fellow villager" rather than as personally targeted reduces offense concerns and increases sharing of the safety pamphlet to acquaintances.
- Policy recommendations for public or private DFS information campaigns include combining benefits and safety information, stressing protections against negative outcomes (such as guaranteed reimbursement policies), creating low-risk channels for sharing benefits information, and organising consumer financial protection discussion groups.

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Policy motivation for research: Financial inclusion in Pakistan

In the 2021 World Bank Findex survey, only 21% of adult Pakistanis had a financial account, among the lowest rates for any lower-middle-income country. Experimental evidence suggests that Pakistan's low account ownership rate reduces the ability of Pakistanis to invest in productive activities and cope with negative shocks (Dupas and Robinson, 2013; Schaner 2017; Breza and Chandrasekhar, 2018).

In many low-and-middle-income countries, digital banking has increased financial account ownership rates, particularly among low-income households. In general, research has found that digital banking accounts have similar effects to traditional banking accounts in terms of increasing investment and the ability to cope with negative shocks (Suri et al., 2022). The benefits of digital banking accounts for poor households may grow over time as firms expand the range of services offered.[1] In partnership with private firms, the State Bank of Pakistan has sought to encourage digital banking adoption by capping fees, launching an instant interoperable payment switch, and broadcasting information through television, newspaper, and radio advertisements. Despite these efforts, only 8.5% of Pakistanis in the 2021 World Bank Findex survey had a digital banking account.

Barriers to digital financial services in rural Punjab

Our sample

Working with Gallup Pakistan, I designed and ran an experiment in over 50 villages in the Gujranwala, Hafizabad, and Mandi Bahuddin districts of Punjab, Pakistan to understand the barriers to usage of digital financial services (DFS) in Pakistan. Our experimental sample is primarily men who are the head of their household. They are relatively digitally literate with high rates of smartphone ownership rates and comfort using the internet. However, they still favour informal finance over digital banking. For savings, most opt to keep their money at home or with a savings committee. Very few mention saving via a bank, microfinance institution, or digital banking service. When facing a financial emergency, they primarily rely on their friends and family rather than formal lending channels.

[1] In recent years, Pakistani digital banking companies have begun offering commitment savings accounts, loans, insurance, and e-commerce.

Barrier to usage #1: Low knowledge of benefits

Most unbanked villagers report that lack of knowledge is the primary reason that they do not have a digital banking account. About half of villagers know you can transfer money via a mobile money agent, but only a quarter know you can transfer money via your phone or that you can save money on your phone. Even fewer mention advanced uses that are popular in other low-and-middle-income countries such as savings accounts, e-commerce, micro-loans, or paying utility bills (InterMedia, 2020).

Barrier to usage #2: Fears of scams/frauds

Villagers report that they are more comfortable keeping 30,000 PKR at home for 60 days than keeping 30,000 PKR in a digital banking account. One driver of this distrust is anecdotes from other villagers. Over half of our sample reports having heard of someone who lost money due to digital banking. More than one quarter have been personally contacted by a scammer asking for a PIN number or a digital banking transfer. Interestingly, the villagers who knew to ignore or report the scammer were more comfortable using digital banking than those who naively responded to the scammer's message. This pattern indicates that low digital financial literacy contributes to the discomfort with digital banking.[2]

Information provision

Gallup Pakistan field officers gave two informational pamphlets to villagers. Both pamphlets include information about how to open an Asaan Mobile Account, an initiative that the State Bank of Pakistan and the Pakistan Telecommunication Authority launched in December 2021 to enable the financial inclusion of low-income citizens.

One of the pamphlets (which I will call the benefits pamphlet) focuses on how one can use digital banking to grow their money. The pamphlet mentions savings accounts where one can earn profit, commitment savings accounts, e-commerce, and agricultural finance. The other pamphlet (which I will call the safety pamphlet) focuses on avoiding scams/fraud when using digital banking. This pamphlet includes information on protecting your PIN number, identifying common scams, checking your bank statement, and contacting digital banking helplines.

[2] Refer to Garz et al. (2021) for a detailed review of the evidence that low digital financial literacy contributes to financial exclusion.

Finding #1: Providing benefits and safety information increases reported likelihood of registering a digital banking account.

Prior to receiving the pamphlets, 15% of villagers report that they are very likely to register a digital banking account in the next eight weeks. After receiving the pamphlets, this number nearly doubles to 29%.

Barriers to peer-to-peer communication about DFS

After handing over the pamphlets, the field officer asks the villager if they want to recommend the pamphlets to two fellow villagers, one friend and one acquaintance. In the control group, less than 30% of villagers share both pamphlets.

Barrier to communication #1: Fear of being blamed for negative outcomes

One of the most cited reasons for not sharing the pamphlets is a fear of being blamed for negative outcomes by fellow villagers. Villagers know that their social ties mediate access to informal insurance, job opportunities, and social engagements. Given the perceived riskiness of digital banking, it is rational for villagers to withhold information that could threaten these critical relationships.

Barrier to communication #2: Fear of offending others by signalling low-regard for their abilities

Another commonly cited reason was fear of offending or disrespecting other villagers. Sharing information can be perceived as offensive or disrespectful if needing the information is associated with an undesirable characteristic. In our case, needing the safety pamphlet is correlated with gullibility to scams, so could be perceived as offensive.

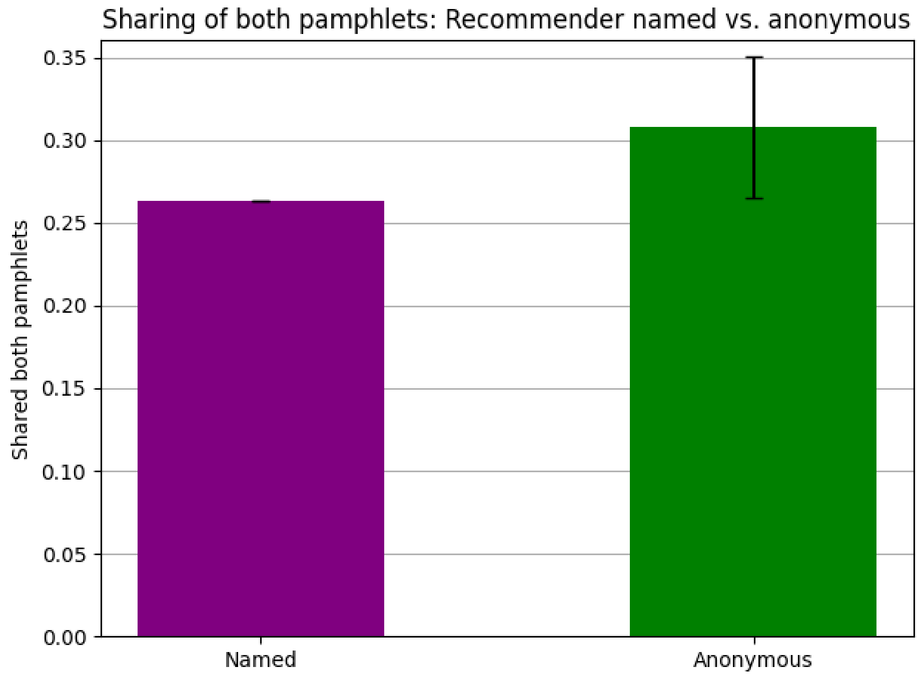
Communication interventions

To understand the importance of blame and offense concerns, we randomise the following aspects of the recommendation:

- Anonymous or named recommender:
    - (Anonymous): The sender knows that the receiver will be told that "a fellow villager" recommended the pamphlets.
    - (Named): The sender knows that the receiver will be told that "[Insert sender name]" recommended the pamphlets.
- Framed as generally targeted or personally targeted:
    - (Generally targeted): The sender knows that the receiver will be told that the recommendation was made to "a fellow villager".
    - (Personally targeted): The sender knows that the receiver will be told that the recommendation was made to "[Insert receiver name]".

Finding #2: Recommender anonymity increases the sharing of pamphlets to friends and acquaintances.

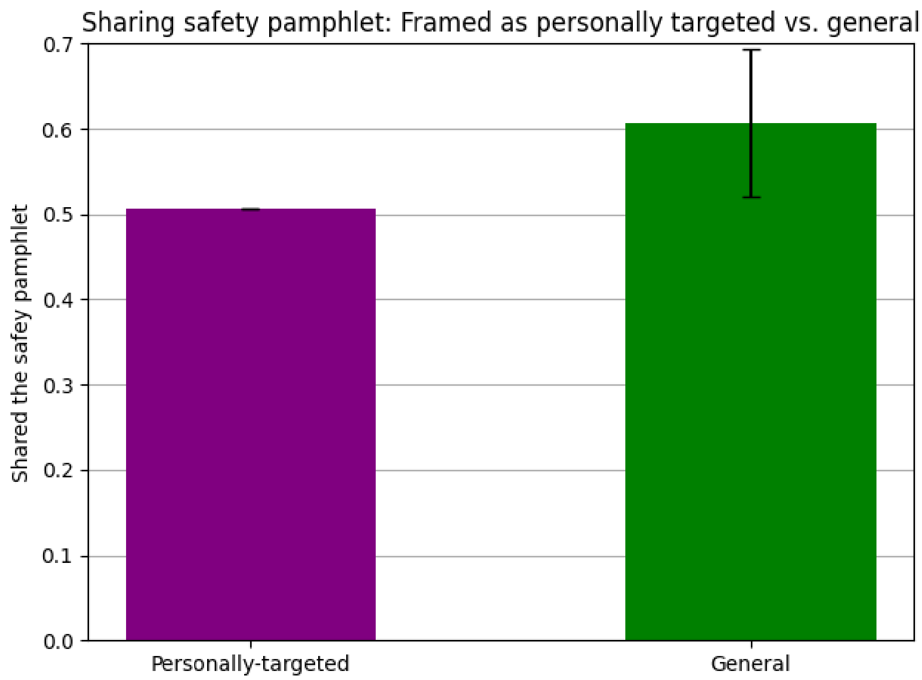
When villagers know their identity will not be revealed to the recipient of the recommendation, the percentage of villagers recommending both pamphlets rises by 4.5 percentage points (22.8% of the control mean). I interpret this as evidence that fears around being blamed inhibit information-sharing.



Note: Error bars represent 95% confidence interval.

Finding #3: Villagers share the safety pamphlet more with acquaintances when the recommendation is framed as general rather than personally targeted.

When villagers know their targeting of their acquaintance will not be revealed, the percentage of villagers recommending the safety pamphlet rises by 10.5 percentage points (20.1% of the control mean). There is no effect of this treatment on sharing to friends, suggesting that friends already know how the other regards their abilities. I interpret these results as evidence that fears around offending others inhibits sharing of the safety information among acquaintances.



Note: Error bars represent 95% confidence interval.

Policy recommendations: Designing information campaigns for digital financial services

Encouraging peer-to-peer communication is critical for success of any information campaign. The experimental results above show how social concerns, such as blame and offense, can silence peer-to-peer communication and stall diffusion of useful information. Careful design of information campaigns can sidestep these social concerns and ensure that households receive the information they need to make informed decisions about digital financial services and other technologies.

Distribute benefits and safety information.

Information campaigns that solely focus on consumer financial protection may lead to a loss of interest in digital banking altogether. In this study, villagers who only the receive the safety pamphlet were less likely to register for a mobile banking account than villagers who received both pamphlets. On the other hand, solely focusing on the benefits could make individuals susceptible to scams.

Create and publicise protections against negative outcomes.

In this study, villagers worried about recommending digital banking because others might have negative outcomes, such as scams and fraud. One approach to reducing these fears is to ramp up efforts to punish or block scammers. Another would be to provide forms of insurance for novice users, such as guaranteed reimbursement of funds lost due to scams.

Provide low-risk communication channels for discussion of DFS benefits

Villagers in our sample withheld useful information from others because of blame concerns. By creating anonymous communication channels for discussion of DFS benefits, villagers could share this information without fear of being blamed. It would be important to carefully monitor these channels or to circumscribe the type of content that can be shared since anonymity could also promote the sharing of untruthful or harmful information.

Organise consumer financial protection discussion groups

Villagers were more willing to share the safety pamphlet when their recommendation was framed as generally to "a fellow villager" rather than as personally targeted to the recipient. Thus, discussion groups would allow individuals to share information with each other without less fear of others' "taking it personally".

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