



RESEARCH HIGHLIGHT

Digital financial services in Lao PDR

Understanding customers' behaviours and needs

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Fund transfers and saving facilities are the two products that customers need most. They also have the most potential to be quickly adopted and to drive growth of digital financial services (DFS) in the Lao People's Democratic Republic (Lao PDR).

a bank account. Bank transfers in Lao PDR mimic Western Union and MoneyGram transactions where, upon making a deposit, the sender receives a code and shares it (through a phone call) with the receiver who can in turn withdraw money.

services is primarily done through discussions with village committee members, educated family members, or service providers—highlighting the key role remittance senders will need to play to reach clients.

Cash dependence

Financial transactions in Lao PDR are mainly in cash, including salary disbursements by several government departments. Most Lao people also tend to keep considerable cash at home. In fact, it is not uncommon for a household to keep as much as LAK10 million (approximately US\$1,200) at home. While safety of cash at home or in transit is thankfully not a major concern, people do want a means to save when there is surplus cash. However, there are several barriers to saving in Lao PDR—the biggest of which is the long distance between most Lao people and formal financial institutions.

“The biggest barrier is lack of proximity and convenient access to formal financial institutions.”

The only electronic means of payment is for mobile airtime top-ups and utility bill payments (electricity and water), both of which are regular and recently offered through digital means.

As DFS providers enter the market, they will need to consider how to start from current behaviours (e.g., OTC, using codes) and experience (e.g., electronic bill pay). In a DFS start-up market such as Lao PDR, top-ups and bill payments—paired with OTC money transfers—may be the gateway products for DFS, providing necessary short-term revenue and building trust while DFS providers build customer awareness and interest in savings and mobile money transfers.

Research commissioned earlier this year by the United Nations Capital Development Fund (UNCDF) reveals that the travel cost to transact at a formal financial institution increases tremendously if the distance is more than five to ten kilometres. DFS providers will have to deploy one agent per cluster of three to four villages, which are typically located in such a radius (i.e., 5–10 km). An agent will thus cover an average target population of 300 to 400 households. Potential agent candidates include village or market shopkeepers, dealers linked to national networks such as Beerlao (Lao beer company), and influential village members.

Moving money

While the use of banks for savings or other financial products is very limited, more than a third of Lao people use banks for over-the-counter (OTC) money transfers. Almost every household in Lao PDR has a family member working in an urban centre or abroad who provides them with a source of regular remittance. OTC money transfers have very high acceptance and are considered extremely convenient as neither the sender nor the receiver needs

Reaching clients

Electronic and print media have a very limited role in disseminating information about financial services. Communication and trust-building regarding financial

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Customers' behaviours and needs for digital financial services in Lao PDR

Making Access to Finance More Inclusive for Poor People (MAFIPP), with support from Mobile Money for the Poor (MM4P), conducted market research in Lao PDR to understand people's financial needs, aspirations and behaviours and the value proposition that DFS could offer. The exploratory research provided insights on early adopting customer segments, in-demand products, and potential agent network models that could support implementation of DFS in the country.

The research results were presented during a workshop held in Vientiane on 15 May 2014. The presentation was given in front of more than 70 senior officers from Bank of the Lao PDR and representatives from banks, mobile and telecommunication companies, retail networks, financial industry associations and donor organizations.

"Understanding the customer's side of the story has been the most interesting part of this workshop and will enable us to design products by putting clients at the centre," said Keasorn Manivong, deputy director of Financial Institutions and Supervision at Bank of the Lao PDR.

To read the full report, go to our website WWW.UNCDF.ORG/MM4P

WHILE THERE IS A CLEAR NEED FOR REMITTANCE SERVICES, ACCESS TO BANKING SERVICES IS CHALLENGING IN LAO PDR

LAK22,000 (US\$3): Average cost to travel to a bank branch

14.4 km: Average distance travelled to a bank

64%: Percentage of population that earns more than LAK1 million (US\$125) per month

50%: Percentage of population that sends/receives LAK1 million (US\$125) per month

90%: Percentage of households in agriculture

Top three features sought

MOBILE SAVINGS PRODUCT:

INTEREST ON DEPOSITS

SECURITY

PROXIMITY

MONEY TRANSFER SERVICE:

TRANSACTION SPEED

PROXIMITY

SECURITY

High potential products



Savings



Money transfers



Bill payments

MAFIPP is a joint **UNCDF-UNDP** sector support programme, in partnership with Bank of the Lao PDR, funded by the Australian Government. MAFIPP provides support and technical assistance to all stakeholders in the ecosystem to develop an enabling environment for branchless banking and mobile financial services to flourish.

For more information, contact **Cedric Javary**, UNCDF technical advisor in Lao PDR, at cedric.javary@uncdf.org

Market segments and needs

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FARMERS

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SMALL AND MEDIUM TRADERS

③

SALARIED EMPLOYEES

④

MIGRANTS AND STUDENTS



SAVINGS AND CREDIT OFFERINGS

SAVINGS, CREDIT AND PAYMENT SERVICES

SALARY TRANSFERS

MONEY TRANSFER AND RECEIPT SERVICES