BANGLADESH

RAPID RESPONSE STUDY ON ATTRITION OF NON-BANK FINANCIAL INSTITUTION ACCOUNTS

Conducted May – June 2017

July 2017
PUTTING THE USER FRONT AND CENTER

The Financial Inclusion Insights (FII) program responds to the need identified by multiple stakeholders for timely demand-side data and practical insights into digital financial services (DFS), including mobile money, and the potential for their expanded use among the poor.

The FII team conducts quantitative and qualitative research in Bangladesh, India, Indonesia, Kenya, Nigeria, Pakistan, Tanzania and Uganda to:

- Track access to and demand for financial services generally, and the uptake and use of DFS specifically;
- Measure adoption and use of DFS among key target groups (females, BOP, rural, unbanked, etc.);
- Identify drivers and barriers to further adoption of DFS;
- Evaluate the agent experience and the performance of mobile money agents; and
- Produce actionable, forward-looking insights to support product and service development and delivery, based on rigorous data.

The FII program is managed by InterMedia. Visit the FII Resource Center to learn more: www.finclusion.org.
# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>4</td>
</tr>
<tr>
<td>Background &amp; Overview</td>
<td>7</td>
</tr>
<tr>
<td>Account Closure &amp; Retention</td>
<td>12</td>
</tr>
<tr>
<td>MFI Account Retention</td>
<td>17</td>
</tr>
<tr>
<td>Methodology &amp; Research Description</td>
<td>20</td>
</tr>
</tbody>
</table>

www.finclusion.org
EXECUTIVE SUMMARY
What is financial inclusion?

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way (The World Bank). Financially included individuals are those who have an account in their name with a full-service financial institution.

How is it measured?

We measure financial inclusion as the percentage of adults (15+ years old) who report having at least one account in their name with an institution that offers a full suite of financial services, and comes under some form of government regulation.

How is it created?

Financial inclusion is created through the uptake and use of individual accounts with institutions that offer a full suite of financial services – savings, credit, money transfers, insurance and investment. Full-service financial institutions include banks, mobile money service providers, and nonbank financial institutions, such as deposit-taking microfinance institutions (MFIs) and financial cooperatives.

What institutions and services do not count?

Individuals who own accounts with institutions that are not full service, such as credit-only microfinance institutions (MFIs), are not considered financially included. Individuals who do not have their own full-service account or use someone else’s account are not considered financially included. Individuals who only use services such as money guards, savings collectors, and digital recharge cards that are not attached to a bank or MFI account are also considered financially excluded.
SUMMARY OF KEY FINDINGS

- The 2016 annual FII survey (Wave 4) in Bangladesh was notable for finding that 12 percent of the adult population owns a full-service account with a non-bank financial institution (NBFI), down from 24 percent in 2015. This drop of 12 percentage points could not be immediately cross-validated using external data sources.

- The objective of this study was to cross-validate the 2016 annual survey findings by examining the extent to which NBFI account owners surveyed in 2015 have since closed their accounts, and if so, why.

- To meet this objective, InterMedia re-contacted respondents from the 2015 annual survey who agreed to participate in a follow-up study, and also reported owning the three main NBFI account types: Microfinance Institutions (MFIs), Cooperatives, and Village level savings accounts. We were able to successfully re-contact 403 eligible respondents.

- Twenty percent of the respondents reported that they no longer own any NBFI account, and 24 percent reported closing a full service account — a greater decline than the 12 percent drop in full service recorded by the 2016 annual survey. An additional 22 percent reported that they had closed an account with one type of NBFI but retained an account with a different NBFI. In total, 42 percent of respondents had closed one of their NBFI accounts since 2015.

- Of the respondents who have retained ownership of an MFI account, 16 percent reported that they are likely to close the account in the next 6 months. This suggests that while Bangladeshi MFIs are continuing to register new accounts, they are not doing so at a rate that replaces the accounts that have been closed. Old accounts may also still technically exist on record, causing a discrepancy between demand-side and supply-side measurements of account prevalence.

- The choice to close NBFI accounts was primarily motivated by the sentiment among respondents that the quality of service at other financial institutions is better than their old NBFIs. Fifty-two percent also agreed (either somewhat or strongly) that “the products and services offered by my NBFI no longer help better my life.” Additionally, 55 percent of these respondents agreed that other financial institutions (e.g. banks, mobile money) offer products “more suited to my needs” than the NBFI where the respondent formerly had an account. Bangladeshis may be switching to other full service institutions rather than NBFIs.
BACKGROUND & OVERVIEW
FULL SERVICE NBFI ACCOUNTS AT A GLANCE

• The proportion of adults in Bangladesh who hold NBFI accounts at MFIs, cooperatives and village savings groups (the overwhelming majority of accounts) declined by 9 percent in absolute terms from the 2015 (Wave 3) to the 2016 (Wave 4) surveys.

• Over the same period, there was an even greater 23 percent decline in the proportion of adults who hold accounts with NBFIs that offer a full suite of services beyond loans. The panel findings showed a matching decline in full-service account holdings.

Percentage of Registered NBFI Account Holders who own Full Service NBFI Accounts

Wave 3 NBFIs (n=1490)
Wave 4 NBFIs (n=752)

2016: Wave 3 and Wave 4 Full Service Registered NBFI Accounts (N=6000)
(Not included: full service Post Office accounts)

25%
13%

*Percentage calculated based on respondents who reported using full service accounts in Wave 3
Source: InterMedia Bangladesh FII Tracker survey Wave 3 (N=6000, 15+), August-September 2015, Source: InterMedia Bangladesh FII Tracker survey Wave 4 (N=6000, 15+), August-September 2016
Source: InterMedia Bangladesh NBFI Follow-up study(N=403, 15+), May-June 2017.
**WAVE-PANEL VALIDATION**

- The panel closely matches the gender and locality characteristics of Wave 3 NBFI respondents. Wave 4 showed that poverty levels decreased, and ownership of phones and SIM cards increased among NBFI registered account holders from 2015 to 2016. The panel matches the Wave 4 sample on phone and SIM ownership.
- The close match between these demographic characteristics provides a basis for generalizing the findings of the panel study to the larger population of NBFI account holders.

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Wave 3 &amp; 4 National Survey (N=6000) weighted</th>
<th>Wave 3 Registered NBFI Subpopulation (N=1671) unweighted</th>
<th>Wave 4 Registered NBFI Subpopulation (N=1120) unweighted</th>
<th>NBFI Panel Study Registered NBFI Subpopulation (N=403) unweighted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male: 51% Female: 49%</td>
<td>Male: 44% Female: 56%</td>
<td>Male: 40% Female: 60%</td>
<td>Male: 46% Female: 54%</td>
</tr>
<tr>
<td>Poverty Level</td>
<td>Above Wave 3: 23% Above Wave 4: 24% Below</td>
<td>Above Wave 3: 15% Below Wave 4: 85%</td>
<td>Above Wave 3: 19% Below Wave 4: 81%</td>
<td>Above Wave 3: 20% Below Wave 4: 80%</td>
</tr>
<tr>
<td>Localy</td>
<td>Urban: 32% Rural: 68%</td>
<td>Urban: 27% Rural: 73%</td>
<td>Urban: 28% Rural: 72%</td>
<td>Urban: 27% Rural: 73%</td>
</tr>
<tr>
<td>Owns Phone &amp; SIM</td>
<td>Yes Wave 3: 40% Yes Wave 4: 58%</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: InterMedia Bangladesh FII Tracker survey Wave 3 (N=6000, 15+), August-September 2015.  
Source: InterMedia Bangladesh FII Tracker survey Wave 4 (N=6000, 15+), August-September 2016.  
Source: InterMedia Bangladesh NBFI Follow-up study (N=403, 15+), May-June 2017.
NBFI REGISTERED USER CROSS COMPARISON

- The distribution of NBFI accounts in the panel was a close match to the distribution reported in Wave 3. Panel survey respondents closed their MFI accounts the most often, causing a decrease in the rate of MFI ownership on the panel from 91 percent to 72 percent. The proportion of the panel that owned full service accounts declined by 24 percent.
- Cooperatives also dropped by 3 percentage points. However, village level savings groups, which tend not to be full service, saw significant increase in registered accounts – from 3 percent in Wave 3 to 11 percent in the panel study.

<table>
<thead>
<tr>
<th>NBFI Account Type*</th>
<th>Wave 3 Registered NBFI Subpopulation (N=1671) unweighted</th>
<th>Wave 4 Registered NBFI Subpopulation (N=1120) unweighted</th>
<th>NBFI Panel Study Registered NBFI Subpopulation (N=403) unweighted</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFIs</td>
<td>91%</td>
<td>86%</td>
<td>72%</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>11%</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Village level Savings Groups</td>
<td>3%</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Any Full Service Account</td>
<td>89%</td>
<td>66%</td>
<td>65%</td>
</tr>
</tbody>
</table>

*Respondents may hold more than one type of account

Source: InterMedia Bangladesh FII Tracker survey Wave 3 (N=6000, 15+), August-September 2015.
Source: InterMedia Bangladesh FII Tracker survey Wave 4 (N=6000, 15+), August-September 2016.
Source: InterMedia Bangladesh NBFI Follow-up study(N=403, 15+), May-June 2017.
ACCOUNT CLOSURE
CLOSURE OF NBFI ACCOUNTS

- Of the panel survey respondents, only 80 percent reported that they still owned an NBFI account in 2017. The 20 percent decline in registered accounts was slightly more than the 19% decline in registered accounts from Waves 3 to 4.
- An additional 22 percent of respondents closed one NBFI account but retained an account with a different NBFI. MFI accounts were most often closed by the panel survey respondents. MFI account closers were less likely to retain an account with a different NBFI compared to holders of accounts with cooperatives and village savings groups.

2017: Percentage of respondents who closed an NBFI account since 2015
(Shown: Percentage of respondents, N=403)

- No longer holds any NBFI account (n=80)
- Closed an account with one NBFI but retained an account with a different NBFI (n=87)

2017: Percentage of respondents who closed an account since 2015, by type of NBFI*

<table>
<thead>
<tr>
<th>NBFI Type</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI (n=102)</td>
<td>71</td>
</tr>
<tr>
<td>Cooperative (n=65)</td>
<td>35</td>
</tr>
<tr>
<td>Village saving group (n=34)</td>
<td>32</td>
</tr>
</tbody>
</table>

*Respondents may have closed or retained more than one NBFI account

Source: InterMedia Bangladesh NBFI Follow-up study (N=403, 15+), May-June 2017.
Most respondents who closed NBFI accounts closed them more than one year ago.

There are marked differences in the factors that motivate account closures. Most former account holders voluntarily closed their account. Cooperative and village savings account holders more often experienced forced account closure than MFI customers.

### 2017: Timing of account closure, by institution
(Shown: Percentage of respondents who closed an NBFI account, by institution)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Last 90 days</th>
<th>Last 12 months</th>
<th>More than 12 months ago</th>
<th>DK</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI (n=60)</td>
<td>2</td>
<td>70</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Cooperative (n=24)</td>
<td>4</td>
<td>79</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Village savings (n=27)</td>
<td>81</td>
<td>81</td>
<td>11</td>
<td>7</td>
</tr>
</tbody>
</table>

### 2017: Reasons for account closure, by institution
(Shown: Percentage of respondents who closed an NBFI account, by institution)

- **MFI (n=60)**
  - Provider ceased operations or moved location: 3%
  - Closed for unknown reasons by provider: 8%
  - Closed due to inactivity: 11%
  - Chose to close, any reason: 13%
  - Other: 42%

- **Cooperative (n=24)**
  - Provider ceased operations or moved location: 5%
  - Closed for unknown reasons by provider: 38%
  - Closed due to inactivity: 7%
  - Chose to close, any reason: 15%
  - Other: 13%

- **Village savings (n=27)**
  - Provider ceased operations or moved location: 5%
  - Closed for unknown reasons by provider: 44%
  - Closed due to inactivity: 15%
  - Chose to close, any reason: 11%
  - Other: 22%

Source: InterMedia Bangladesh NBFI Follow-up study (N=403, 15+), May-June 2017.
Most respondents who closed their accounts agreed that the services at other financial institutions were better matched to their needs than their former NBFI. Over 50 percent of respondents also reported that their NBFI no longer helped their lives and other institutions offered better products.

Less than half of respondents who closed NBFI accounts said that accessibility, quality of service, or service provision had decreased.

**2017: Perception of NBFIs and their offerings**
(Shown: Percentage answering, n=99)

- **The products/services offered by my NBFI no longer help better my life**
  - Strongly agree: 10
  - Agree: 52

- **My NBFI changed the type of products/services it offers**
  - Strongly agree: 14
  - Agree: 48

- **I no longer qualify to use the products/services offered by my former NBFI**
  - Strongly agree: 9
  - Agree: 46

- **It has become more difficult to physically reach my NBFI**
  - Strongly agree: 12
  - Agree: 36

- **The quality of service at my NBFI has declined**
  - Strongly agree: 7
  - Agree: 38

- **My NBFI no longer serves customers like me**
  - Strongly agree: 5
  - Agree: 36

- **The quality of service at other financial institutions is better than at my former NBFI**
  - Strongly agree: 11
  - Agree: 62

- **The products offered by other institutions are more suited for my needs**
  - Strongly agree: 15
  - Agree: 55

- **Other financial institutions are more convenient to physically visit than my former NBFI**
  - Strongly agree: 14
  - Agree: 48

**Source:** InterMedia Bangladesh NBFI Follow-up study (N=403, 15+), May-June 2017.
ACCOUNT RETENTION
There are no significant differences in account retention rates across gender and poverty status. However, there is a significant difference across locale, suggesting that rural residents experienced decreased accessibility and/or desire for NBFI accounts, compared to their urban counterparts. NBFI may be targeting urban customers at the expense of rural customers.

2017: NBFI account retention, by demographics*

- **Gender**
  - Men (n=185): 65%
  - Women (n=218): 74%

- **Locale**
  - Urban (n=108): 63%
  - Rural (n=295): 73%

- **Poverty status**
  - Above poverty line (n=80): 70%
  - Below poverty line (n=323): 70%

*Respondents may have retained more than one NBFI account

**Chi2 p<0.05

Source: InterMedia Bangladesh NBFI Follow-up study (N=403, 15+), May-June 2017.
USE OF RETAINED MFI ACCOUNTS

- 93 percent of respondents who retained their MFI accounts reported active use accounts – meaning they used their account in the 90 days preceding the follow-up study. The frequency of active use has not changed substantially; over three-quarters of MFI respondents reported either similar or increased use of their account compared to the same period last year.
- All of the respondents who retained their Cooperative and Village savings accounts from Wave 3 are active users of their accounts. Respondents with these NBFIs also reported the same level of engagement from the same time period past year.

*Respondents may hold more than one account with different institutions

Source: InterMedia Bangladesh NBFI Follow-up study (N=403, 15+), May-June 2017.
Sixteen percent of MFI account holders who retained their accounts reported that they are “likely” to close their account within six months. Men and those above the poverty line said they were more likely to close their accounts within six months than women and Bangladeshis below the poverty line.

If the rate of new account opening does not exceed the exit rate, then a drop in MFI, and overall NBFI, account ownership will be observed in 2017.

**2017: Likelihood to close MFI account within six months***
(Shown: Percentage of respondents with a retained MFI account, n=275)

- Unlikely
- Neither unlikely, nor likely
- Likely

**2017: Somewhat or very likely to close MFI account within six months***
(Shown: Percentage of respondents with a retained MFI account, n=275)

- Male (n=115)
  - 23%

- Female (n=160)
  - 10%

- Above Poverty (n=54)
  - 24%

- Below Poverty (n=221)
  - 14%

*Respondents may hold more than one account with different institutions
Source: InterMedia Bangladesh NBFI Follow-up study (N=403, 15+), May-June 2017.
METHODOLOGY & RESEARCH DESCRIPTION
FII BANGLADESH TRACKER SURVEY DETAILS

SURVEY SUMMARY

- Based on Wave 3 survey respondents (N=404) of Bangladeshi adults aged 15+ who reported owning an NBFI account in 2015
- NBFI Phone Survey conducted in June 2017
- Previous trends and DFS information were gathered from Wave 3 and Wave 4 surveys, conducted in 2015 and 2016 respectively

DATA COLLECTION

- Basic demographic and poverty measurement (Grameen Progress Out of Poverty Index)
- Access/registration/use of NBFI accounts
- Opinions on NBFI accounts
- Reasons for closing NBFI accounts
- Reasons for decreased use of NBFI accounts

Source: InterMedia Bangladesh NBFI Follow-up study (N=404, 15+), May-June 2017.
For more information, contact:

Tulsi Ratnam, Research Associate  RatnamT@InterMedia.org
Samuel Schueth, Director of Research  SchuethS@InterMedia.org