

MicroSave Briefing Note # 96

Measuring Willingness to Pay

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In late 2009, on the recommendation of the Working Group to review Business Correspondent (BC) model, the Reserve Bank of India (RBI) announced that it would allow trial of 'reasonable fees' levied from the end users of the service.¹

In order to understand the 'Willingness to Pay' of potential BC customers, *MicroSave* conducted a series of qualitative research studies in three states—Uttar Pradesh, Rajasthan and Tamil Nadu—on 'Cost and Willingness to Pay' (CWP) in the context of branchless banking.² This note presents the development and the implementation of an innovative qualitative research tool directed at determining the level of 'Willingness To Pay' (WTP) for BC services. This tool is referred to as the WTP tool and can be used to assess the extent to which existing costs of banking impact WTP.

Willingness to Pay

The WTP tool used in the CWP research builds on 'Participatory Rapid Appraisal' (PRA) techniques used in *MicroSave*'s Market Research for MicroFinance (MR4MF) toolkit.³ The new WTP tool uses similar techniques as in other *MicroSave* PRA tools. At the same time, it allows respondents to think about the relevance of a product in their lives and to quantify this relevance with a price. It also allows them to compare the cost of a new banking service to their current costs of banking.

This WTP tool is noteworthy for two reasons. Firstly, it takes into consideration the respondents' context, which has a bearing on how s/he estimates her/his WTP. For example, we find that respondents who receive government payments via banks have a higher WTP than those who do not. Secondly, this tool takes care to ensure that respondents are not under- or overstating their valuation of the service. Facilitators can ascertain a realistic valuation through careful probing.

The WTP tool is conducted with small 'focus groups' of six to eight individuals, preferably from same socio-economic background. A facilitator moderates the discussion that revolves around the logistics of a BC arrangement, the relative merits of this arrangement, potential price levels for such a service and the rationale for the same. The facilitator also probes responses to

uncover the reasons behind them. This is done through the following process:

Step 1: The BC concept is introduced to the group, using a standard script. The facilitator then checks to see if respondents understand the model. To do this, the facilitator asks one or more of the group members to explain the model in her/his own words.⁴

Step 2: The respondents are asked to indicate acceptable charges for availing the BC service. It is crucial to allow respondents enough time to think and respond to this question. Often, respondents will use this time to go back to Step 1, and to ask further questions about the model. While the facilitator must clarify any doubts about the model, s/he must not lose focus on the question of acceptable price levels. Usually, there will be differing opinions on this topic in the group, leading to multiple responses from the group and valuable discussion.

Step 3: All the different responses are recorded on flash cards and laid out in front of the group.

Step 4: The fourth step is to ask the respondents 'W' questions: "Why it is the most appropriate charge?", "What is the basis of arriving at this price?" etc. The facilitator probes the reasons behind all the charges that have come up in Step 3. During this step, as a result of the discussion fostered by the 'W' questions, respondents typically start increasing or decreasing the charge they recommended in Step 3. The facilitator records the reasons for the change. At the end of Step 4, the group has usually arrived at a consensus on an acceptable charge for the BC service. The charge which emerges as a consensus is usually expressed as a range.

Step 5: The fifth step is to increase the charge range from Step 3, to test the upper limit of the fees/charges that respondents would be willing to pay.⁵ The facilitator should take care to increase the price in small amounts as small increments are the key to arriving at a realistic WTP. If the difference between the consensus price and the new increased facilitator-generated price is high, the respondents will reject the higher price outright. By the end of Step 5, the group has arrived at the maximum possible price which they would pay for the BC service. The facilitator records this price.

1 For more details, please refer to RBI's website www.rbi.org.in and <http://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=5390>

2 See Platt et al. "The Answer is 'Yes'- Cost & Willingness To Pay" *MicroSave*, 2011 for a summary of the results.

3 Please refer to *MicroSave*'s "Market Research for MicroFinance" toolkit, at <http://microsave.net/toolkits/2/7>

4 The facilitator has some flexibility around this. Instead of asking a respondent to explain the product in his/her own words, the facilitator may just pose questions around the model to check if respondents understand of the model.

5 WTP refers to the maximum amount, so the rationale of increasing the price range is to get that maximum range, beyond which respondents would choose not to use the BC service.

The Importance of Probing

To most respondents, the BC model is a new concept. As a result, the facilitator has a crucial role in ensuring that the respondents understand the model, eliciting a realistic WTP, probing to understand the rationale behind the WTP, while keeping the discussion focused and lively at the same time.⁶ Prior to using the WTP tool, the facilitator typically asks some warm up questions to the group, which helps the facilitator understand the banking behaviour and literacy levels of the respondents. These questions also serve to establish a rapport between the facilitator and the respondents and build confidence, thus paving the way for effectively using the tool. This also helps the facilitator to probe deeper later in the discussion so that s/he can aid the group in giving voice to their thought process.

Below are some examples of facilitator probes.

- “Why is 2% the appropriate price?”
- “What if it is 2.5%?”
- “Should the price stay at 2% of the total transaction amount if your transaction amount is Rs.500? or Rs.1,000? or Rs.5,000?”⁷
- “Would you be willing to pay both at the time of withdrawal and deposit? Why?”

Challenges in Implementation

As with all market research, even if customers provide an estimation of acceptable prices, there is no guarantee that this will translate into actual behaviour once the product goes live. However, using this tool, the discussion provides significant insights into how customers think about pricing. For example, the kind of transactions they already do with bank or with informal channels has a bearing on the charges they are willing to pay. As noted above respondents receiving government benefits tend to report higher WTP.

Since many respondents have greater exposure to loans, they may try to shift the discussion to credit. As a result, some respondents compare the price for the BC service with the price to access credit. Their WTP shows perceptible increases in these instances. The facilitator should control these tendencies by moderating and maintaining the focus on savings.

Some respondents might also propose unrealistic charges while discussing the price. The facilitator can use the information provided by respondents on their average transaction amounts during the warm-up phase of the FGD to focus the attention of the group on a realistic transaction amount.

The following exhibit presents snippets from field research notes wherein a group arrives at a consensus

price band of 1% to 2% of the transaction amount, for deposit transactions at a BC service point.

‘Willingness To Pay’ Tool in Action

Jungle Ekla No. 2 village, Gorakhpur district, Uttar Pradesh

Q1: Are you willing to pay for this service?

Respondents were willing to pay for this service, justifying it as follows. “*Bank kee suvidha is samay 99% logon ko chahiye par aisa ho nahin paa raha hai*” (99% of people want access to banking services, but somehow it seems to be impossible to achieve).

Q2: What factors influence your decision to pay for this service?

Respondents primarily talked about the significance of the time saved. “*Samay kee bachat ke anusar kuch diya jaana chahiye*” (Time saved by using the service will determine the amount that I will pay for the service).

The indirect cost of banking was also a factor. “*Ham bank nahin jaaynge to 150 bachega jiske hakdaar to aap hee honge. Par itna jyada paisa sahi nahin lag raha*” (If we don’t go to the bank then we save Rs. 150, whose rightful owner is [the BC agent]. But such a high price for banking at one’s village does not seem right).

Q3: How much are you willing to pay?

First response was Rs. 50 for Rs. 5,000.

Second response: 1% (same as Rs. 50 for Rs. 5,000)

Third response: 2%

During the third response, some respondents did quick back-of-the-envelope calculations. 2% seemed to a bit high for higher amount transactions. As a result, respondents decided that they would need some amount brackets/ ranges for the fees. Ultimately, the price range was as follows:

Rs. 100 - Rs. 2,000: 2%

Above Rs. 2,000: 1%

Respondents argued that people will deposit Rs. 2,100 instead of Rs. 2,000 to get a saving on commission.

Conclusion

The WTP tool has been designed to allow stakeholders to understand how low-income households think about pricing and cost. It is also an effective way to estimate what potential customers of BC services would be willing to pay for the services. The results obtained from using this tool have been summarised in Platt et al., “[The Answer is ‘Yes’- Cost & Willingness To Pay](#)”, *MicroSave*, 2011”. While this tool has been designed to be implemented in a very specific environment, nevertheless it can be modified and used in other contexts as well. The WTP tool helped to elicit some interesting results on the potential of charging ‘reasonable fees’ from potential BC customers.

⁶ Probing involves exploring all the responses that come during the discussion. It is important to give due importance to all points however insignificant they may seem as explanations often give insights that are important.

⁷ This probe allows the group to do a quick reality check. Thus, varying transaction amount during the discussion is important.