

The Formal Disguise

Financial Inclusion Among Flexible Workers and the Self-Employed

Medellín, Colombia



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Barely legal formal workers

Who they are

- > Employees with contracts that fall outside conventional full-time, full benefits models.

Colombia's workforce:

43.3 % self-employed

46.4 % earn below minimum

wage

50 % lack social security

coverage

- > Independent workers and the self-employed

- > Unskilled or low skills required

Car maintenance and services Food and restaurant
Delivery and packaging Construction Fitness & beauty
Retail & sales Outsourced textile and manufacturing



Methodology – exploratory research

Data collection

24 Informants. Direct approach in public spaces and referrals
Video ethnography. Semi-structured interviews

Analysis

Work arrangements
Interplay between formal and informal economies
Financial behavior and access to healthcare, pension and other social security benefits.

Contrasting behaviors
Identifying underlying factors driving behaviors
Factors include: values, attitudes, perceptions

Synthesis

Transforming values into guidelines for developing services

Contrasting behaviors



Common patterns - examples

	Behavi	Underlying
Work	Using word of mouth and referrals for finding jobs	Reliance on social networking Frustration with job websites' offerings
	In & out mobility instead of upward mobility	Indirect, triangulated employment, became the norm. Typecasting jobs
Money	Withdrawing all balance on pay day Preferring cash based income	Avoiding account deductions Staying below the "fiscal radar" to reduce costs Low savings capability
	Using out of pocket money to get better healthcare	Speedy, high quality care, especially for children
Risk	Building home additions for future rental Saving towards equipment	Ensuring retirement or future income Fearing to lose one's job or ability to work
	Taking funeral costs insurance	Sure event, peace of mind, not burdening family with unforeseen need

Findings - Guidelines

Enduring Formal work

- > Workers assume all risks and operational costs as consequence of flexible and emerging contracts:

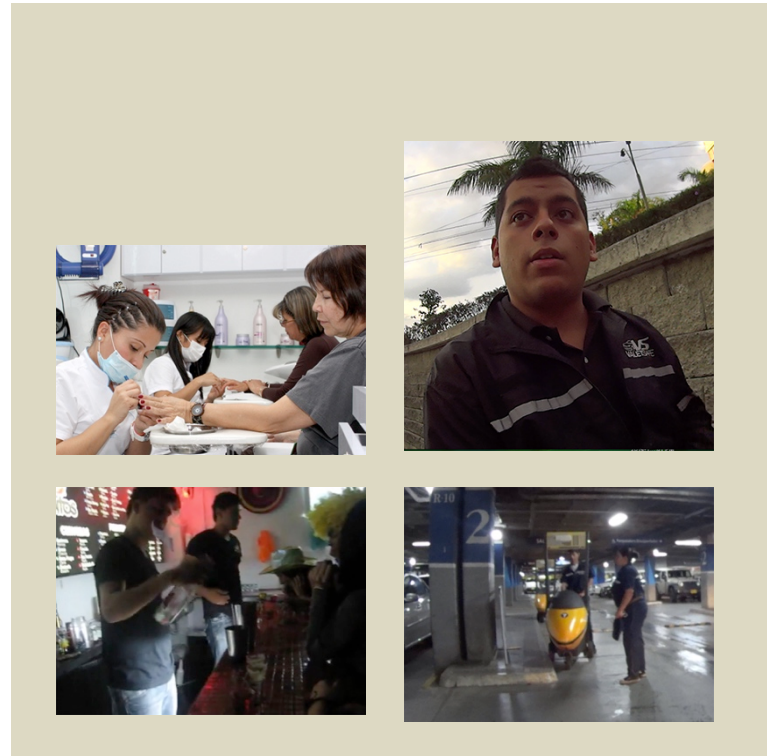
- Taking qualification courses from potential employers without a guaranteed job

- Paying mandatory insurance for healthcare, retirement & professional risk

- Deductions for uniforms, supplies, materials, and glassware among others

1 > To stay competitive and reduce costs, many opt out of mandatory requirements i.e. military passbook, retirement plan.

2 Provide social dialogue tools that bring together disperse workers and employers



Findings - Guidelines

Enduring formal work

> Children are a source of motivation to get ahead in life. Workers place a child need before their own.

Using loans and out of pocket expenses to:

- Get better healthcare services
- Raise children in safer neighborhoods
- Solve practical needs i.e. computer, motorcycle, job outfits.



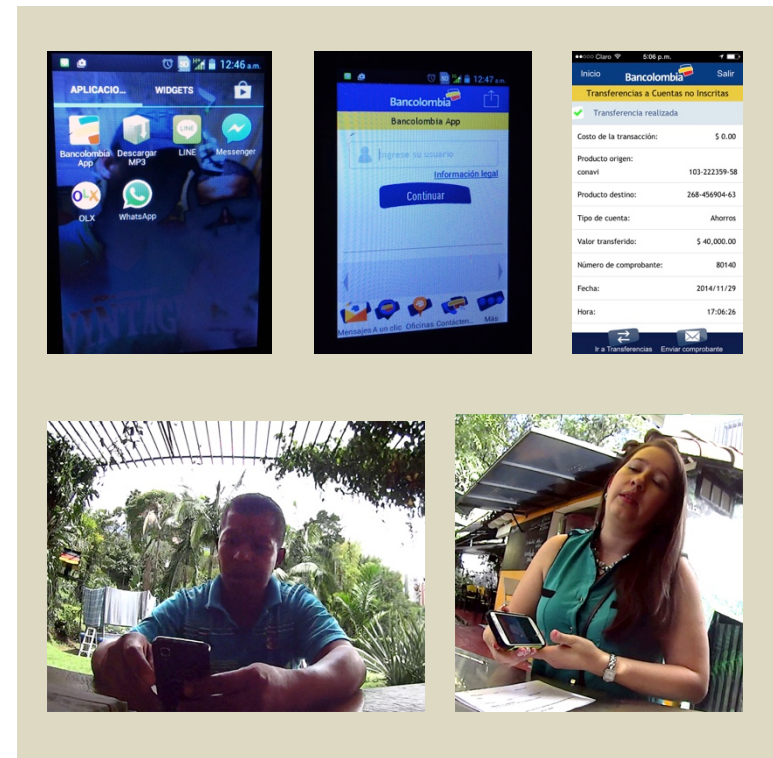
3 > Offer tools and services that ensure a better future / living conditions for children.
> Word-of-mouth is the most important means to find better jobs as referrals and recommendations have more relevance than resumes alone (trust).

4 Leverage referrals and social networks into employment services.

Findings - Guidelines

Money matters

- > Smartphones and payroll accounts are common among these workers
- > Payroll accounts have fees and deductions according to transactions
- > Cash transactions are preferred to stay out of the fiscal “radar” and avoid taxes
- > Financial planning is done by memory and in monthly basis



5 Make loans or credit eligibility visible to the user

6 Recommend related products or services into payroll accounts - insurance, investments.

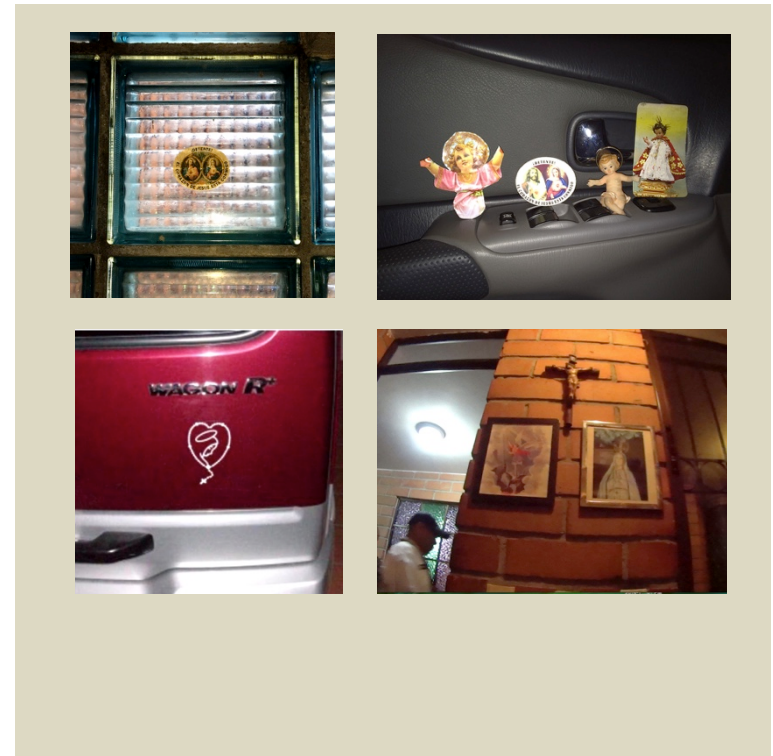
Findings - Guidelines

Managing risk

- > Risk is strongly associated to fear of not being able to work and provide for the family.
- > Most flexible workers can barely afford mandatory insurance services (approx. 15 % of income) making additional coverage unaffordable.
- > The only widespread insurance is for funeral expenses due to its low cost

7 At least, promote add-on complements to mandatory insurance

- > A common means of protecting



8 Structural social security reform should include lowering costs through customization

Findings - Guidelines

Managing risk

- > Low possibility of meeting requirements for obtaining retirement money and unemployment subsidies.
- > Need to find alternate ways of securing one's future:
 - Build house additions for rent
 - Save small amounts towards a small business that can generate income
 - Buy equipment (sewing machines hair

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Promote alternative investments, forms of savings, and entrepreneurial ideas to secure complementary income

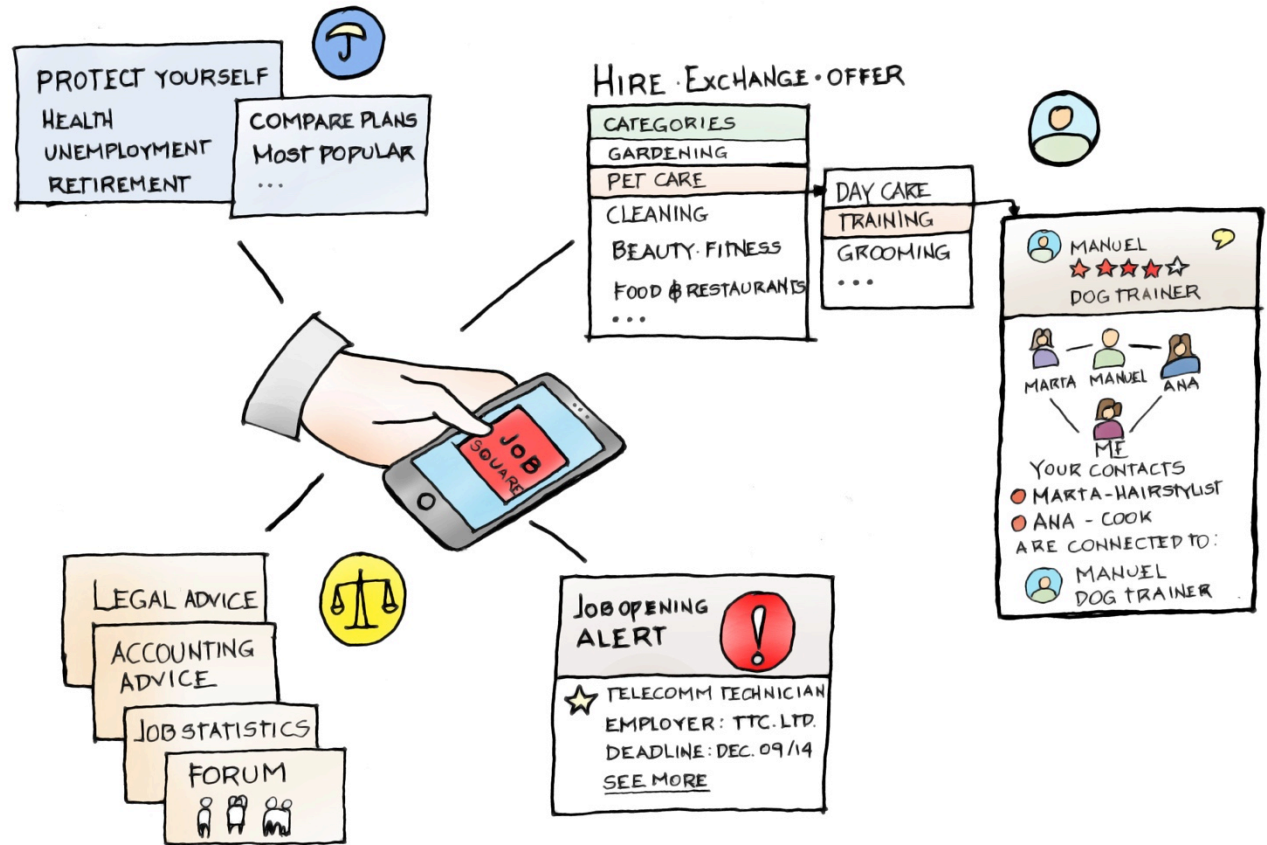
- > There are no insurance products for independent workers, except the



Innovation opportunities 1

Enduring formal work

>> CONGREGATE
disperse independent
and flexible workers to
facilitate EXCHANGE
of services and
SPREAD
opportunities.



>> Help workers make
INFORMED
DECISIONS and
stay up-to-date on
legal, insurance and
financial topics

Innovation opportunities 2

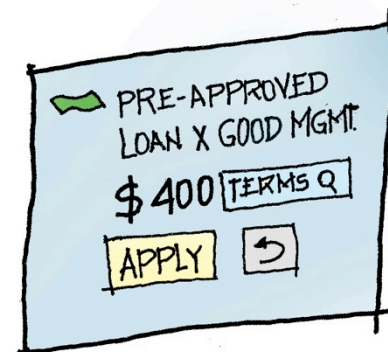
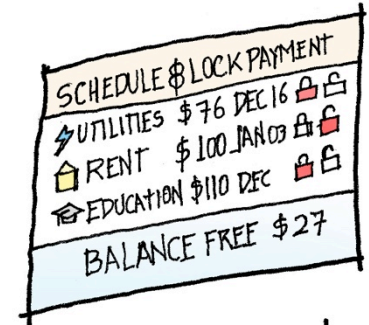
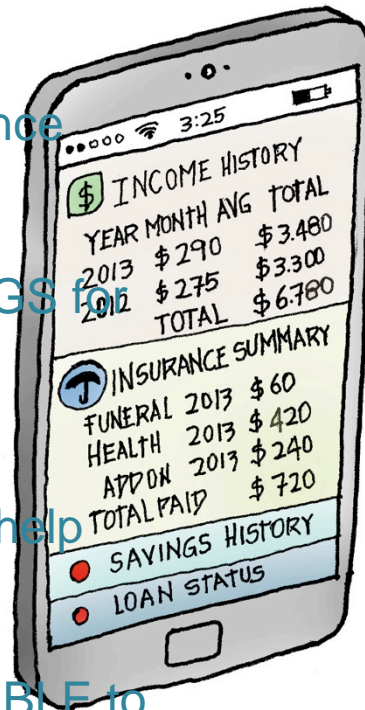
Money matters

>> Provide SAVINGS INCENTIVES toward specific goals –loans, insurance add-ons– tied to payroll accounts.

>> Promote small “HIDDEN” SAVINGS for unforeseen events or specific goals.

>> Allow money management or BUDGET ALLOCATION features to help workers keep control.

>> Make ELIGIBLE SERVICES VISIBLE to the user to keep them aware financial services are more than a payroll account.



Innovation opportunities 3

Managing risk

>> Develop micro-insurance ADD-ON products to personalize “one-size-fits-all” mandatory insurance.

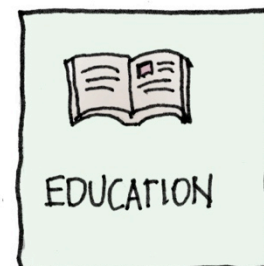
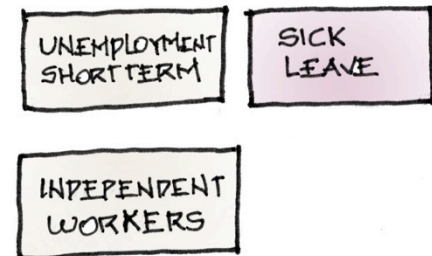
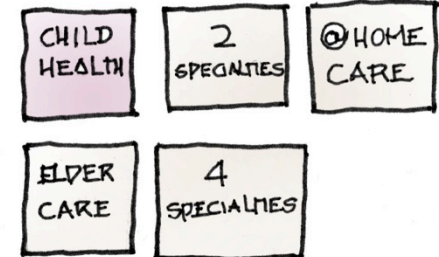
>> Create specific micro-insurance for INDEPENDENT AND SHORT-TERM WORKERS since there are no solutions for this growing segment.

>> Focus on UNEMPLOYMENT, which is the primary concern among workers.

BASIC MANDATORY



MICRO INSURANCE ADD ONS



Closing the loophole

To be competitive in a global market,

- > Countries have implemented flexible labor laws
- > Employers have transferred risks to employees
- > Intermediaries have profited from triangulation services between companies and workers

While workers jump through hoops to keep precarious jobs.

Mobile technology can help dispersed flexible workers create a marketplace where,

- > Business relationships
- > Financial and risk management services
- > Social dialogue

Can offer a chance to get ahead professionally and financially.

