

DIGITAL FINANCIAL SERVICES LESSONS LEARNT

PRESENTED IN FREE TOWN, SIERRA LEONE -
IN MARCH 2016



PARTNERSHIP
for **FINANCIAL**
INCLUSION

Joseck Luminzu Mudiri
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PARTNERSHIP *for* FINANCIAL INCLUSION

The Partnership for Financial Inclusion aims to scale up commercial microfinance institutions and develop mobile financial services to bring affordable financial services to 5.3 million previously unbanked people in Sub-Saharan Africa by 2017.

It is a \$37.4 million initiative by The MasterCard Foundation and IFC that brings together the intellectual and financial capital of the Foundation with IFC's market knowledge, expertise and client base. The partnership is also joined by The Development Bank of Austria, OeEB, and The Bill & Melinda Gates Foundation, and collaborates with knowledge partners such as the World Bank and CGAP.

An important objective of the partnership is to contribute to the global community of practice on financial inclusion, and to share research and lessons learned. This publication is part of a series of reports published by the program.

www.ifc.org/financialinclusionafrica



BILL & MELINDA
GATES *foundation*



Why is Digital Financial Services (DFS) important?

DFS addresses Financial Inclusion

Issues in Demand Side

- 2 billion adults, 70% of people in developing countries, do not have access to formal financial services.
- 45+ million formal MSMEs and 150+ million informal MSMEs are unserved or underserved today despite their importance in job creation, growth and innovation.

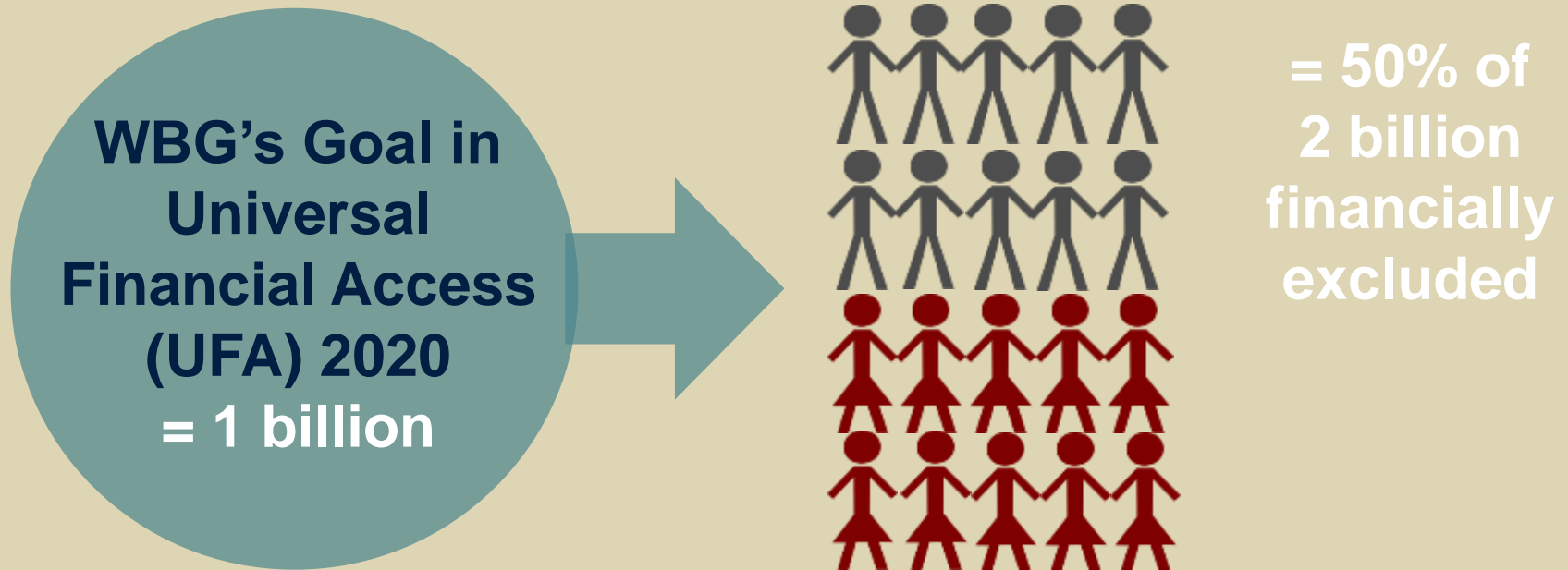
Digital Financial Services (DFS) can provide solutions to Demand and Supply side of basic financial services

Issues in Supply Side

- Conventional banking model based on high cost delivery channels represented by brick and mortar branches is under threat by disruptors using technology
- Lack risk appetite to adopt innovation and changes in business model. Banks have not capitalized the opportunities presented by technology.

WBG's and IFC's goal in Universal Financial Access - 1 billion by WBG, 600 million by IFC, by 2020

- The World Bank Group is committed to providing access to finance for **one billion** people by 2020. As part of this ambitious goal, IFC has committed to help provide access to **600 million** financial transaction accounts by 2020.
- **DFS is critical in achieving this goal.** IFC wants to reach 250 million clients through Digital Financial Services in FIG by 2020.



How are leading Banks/FIs responding to emerging trends?

Emerging Trends and Disruption

- Virtual Wallets**
 - Growing global adoption. 183 mn people in Africa alone own a mobile wallet
- Data driven/ Internet Lending, Savings**
 - P2P lending, Platform lending
 - M-shwari, JUMO, data driven lenders
- Financial e-commerce**
 - Comparison/fulfillment portals
 - Personal Finance and Wealth Management
 - Wealthfront took only 2 years to reach US\$1bn in AUM
- Infrastructure**
 - mPoS as a medium of transaction + lending
 - White label ATMs
 - Payments gateways, switches

Banks' Response

- Aware & Active**
 - Aditya Puri, CEO, HDFC Bank – “...the only way we could be disintermediated is if we buried our heads in the sand and did not come out with our own solution”
 - Equity Bank's acquisition of MVNO a reaction to M-PESA.
- Launch products**
 - Mobile wallets and other prepaid instruments, NFC-enabled payment systems
 - Banks have tied up with Telcos - India Payments Banks, Mbank-Orange Poland
 - Banks are adapting to online lending and credit underwriting (CBA, Barclays); also entering ecommerce to retain customers (China banks)
- Invest / Acquire / Partner**
 - Acquiring FinTech start-ups – BBVA Santander acquired Simple; HSBC, Citibank, Mandiri have VC like structures in place for FinTech/DFS
 - Citigroup has partnered with Lending Club to lend US\$150 mn through its online platform
 - Specialized digital subsidiaries – ING Direct, First Direct HSBC, B-Kash (Brac Bank)

▶ However, most banks have not yet fully responded to the emerging threats and opportunities

DFS Engagement Models

DFS unit/department in a Financial Institution

Company's CEO/MD

Retail Division

Digital Financial Services

Other Divisions

- Lower risk
- DFS strategy integrated in FI strategy
- Revenue/costs driven by core strategy - Largely non revenue

DFS may operate as a full division or department within a division



Partnership Model

Financial Institution

Mobile Network Provider

Micro credit Joint Venture

- Medium risk
- Driven by regulatory environment, and/or strategic product delivery
- May be subsidiary or otherwise
- Revenue share model

Partnerships are complex, choice of partners may make or break the JV.



Subsidiary or separate DFS company

Holding Company

Fintech platform/DFS subsidiary

Banking subsidiary

- Higher risk
- Separate strategy for Fintech/DFS
- Regulator driven, or strategic focus
- Revenue/cost model for full sustainability.

Some Institutions are evolving into this model over time.



It is a continuum that financial service providers

Current Challenges

Regulation

Partnership
management

Risk
management

Agency versus
merchant

What IFC Digital Financial Services Advisory Team Does

STRATEGY AND FINANCIAL ANALYSIS

- Definition of core objective
- Ecosystem mapping
- Gap analysis
- Strategy/business planning
- Financial modelling

AGENT NETWORK DESIGN, BUILD UP, MANAGEMENT

- Agent strategy, structure and design
- Agent business case
- Agent incentives, monitoring and performance assessment
- Liquidity management and quality control

CUSTOMER ACTIVATION

- Market research and customer segmentation
- Product development and pricing
- Marketing and consumer awareness/education
- Data analytics

RISK MANAGEMENT

- Risk mitigation tools/internal controls
- Regulatory compliance
- Data dashboards to monitor risks (esp. liquidity, fraud and compliance risks)