Promise and challenges of Inclusive fintech in Developing Economies

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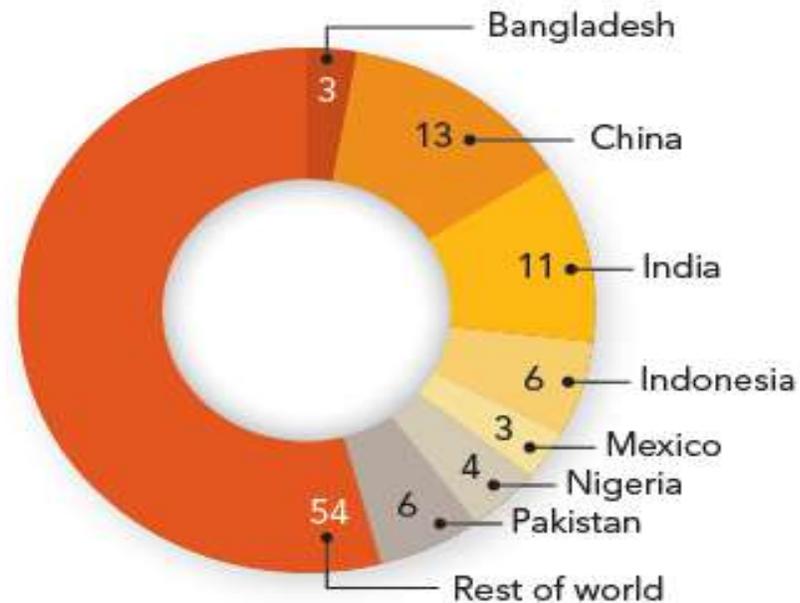Asia Regional Director

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Despite rapid growth and technological advancements, large sections of population still lack basic services

- *783 million people, lived below the extreme poverty threshold* in 2013

- About *815 million people are undernourished* worldwide (increased from 10.6 per cent in 2015 to 11.0 per cent in 2016).

- In 2017, *151 million children under age 5 suffered from stunting* (low height for their age), 51 million suffered from wasting (low weight for height), and 38 million were overweight

- Millions of people lack access to basic services like water, electricity and sanitation

Source: UNDP 2018

One in three adults do not have an account with a formal financial institution

Nearly half of all unbanked adults live in just seven economies
Adults without an account by economy (%), 2017

- Bangladesh 3
- China 13
- India 11
- Indonesia 6
- Mexico 3
- Nigeria 4
- Pakistan 6
- Rest of world 54

Source: Global Findex database.

In a digital world, the role of government is shifting

Government can and does strongly influence the other spheres, but technology is changing its own power—increasing it to collect data, but also limiting it from acting unilaterally.

Three trends are changing the paradigm of the public sector with respect to technology:
- Addressing increasing and more complex societal challenges, while promoting resilience and sustainable development
- Acceptance that the public sector does not have monopoly on resource or innovation, but must rather ensure quality, standards and no one left behind
- Increased capacity of civil society and business to participate in addressing challenges

Transitions: Beyond e-government to digital government

Digital government
Digital technologies and user preferences integrated into the design and receipt of services and broad public sector reform—an integral part of modernization strategies to create public value

E-government
Use by governments of digital technologies, particularly internet, to achieve better government

Digitization
Greater use of digital technologies to improve cross-government activities and data management

FOCUS

Efficiency and productivity

Efficiency and productivity in delivering tailored services to individuals

Governance, openness, transparency, engagement with and trust in government

TRANSITION

- Government-centered
- Users are passive recipients

- User-centered
- Users participate in service delivery processes

- People-driven
- Users voice demands and needs, shaping agenda and service content and delivery

Providing identity is just one of the pillars

- Governments need to build Digital ecosystems that can have lasting impact on economic growth and inclusive nature of the economy
- Examples of India and Estonia

Case Study: India

Digital ID as a jumping-off point

Aadhaar in India

- Aadhaar is built on an open platform and allows other organizations to create connected services. These layers of connected services have formed what is known as the "India Stack," which provide a digital infrastructure that facilitates **presence-less, paperless**, and **cashless service delivery** from anywhere in India.

- The India stack allows organizations to:
  - digitally authenticate new customers (e-KYC)
  - send payments directly to a users' bank account (Aadhaar Payments Bridge)
  - sign documents online (e-Sign)
  - transfer money via mobile (Unified Payment Interface)
  - share documents such as bank statements, utility bills, etc. with other service providers who need to authenticate a users' identity (Digital Locker)

Sources: GSMA (2017) and Indiastack

1.23 bn
AADHAAR NUMBERS ISSUED

27.9 bn
AADHAAR AUTHENTICATIONS DONE

640 mn
AADHAAR-LINKED BANK ACCOUNTS

7.1 bn
E-KYC DONE

IndiaStack and its benefits to the ecosystem

India Stack is a set of APIs that allows governments, businesses, start-ups and developers to utilise an unique digital Infrastructure to solve India's hard problems towards presence-less, paperless, and cashless service delivery

CONSENT LAYER

CASHLESS LAYER

PAPERLESS LAYER

PRESENCE-LESS LAYER
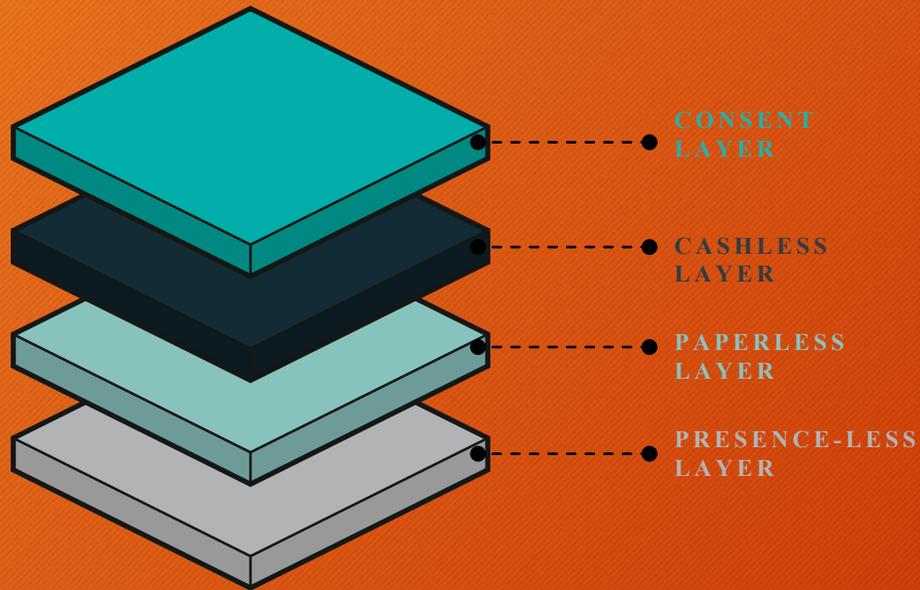
API ECOSYSTEM

The following APIs are core part of the India Stack:

- **Aadhaar Authentication**
- **Aadhaar e-KYC**
- **eSign**
- **Digital Locker**
- **Unified Payment Interface (UPI)**
- **Digital User Consent**

- India Stack has been effective in bringing millions of Indians into the formal economy by reducing friction and has increased **transparency**, **accountability**, and **leakage in service delivery**.
- In 2018, the government of India estimated fiscal gains of more than **USD $12.7 bn** since 2013 from Aadhaar-enabled direct benefit transfers.
- Aadhaar-enabled **e-KYC reduces onboarding costs** from INR **1,500 (USD $23) to INR 10 (USD $0.15)** and is likely to save banks and mobile operators in India around **INR 10,000 crore (USD $1.6 bn)** over the next five years.

Sources: GSMA (2017), indiastack, World Bank ID4D (2018a) and World Bank ID4D (2018b)

Availability of finance for achieving SDG goals is a challenge but impact investing can be a game changer

- UN estimates that achieving SDGs by 2030 will require an annual investment of

  US $ 5-7 trillion across sectors and industries (UN, 2018)

- Donor money including multilaterals is also insufficient to meet the SDG goals by the year 2030

- Global personal wealth is estimated at US $201 trillion which is 2.5 times the global GDP for the year (BCG, 2018)

- Impact investing current market size is currently at US $228 billion (www.giin.com)

Why Inclusive Fintech Works

Inclusive Fintech startups are reaching low-income customers with life-changing financial products in credit, microinsurance, paygo energy and education. These firms are masters at understanding low-income customer needs.

By leveraging innovative technology, data analytics and new business models, they deliver products and services that are:

Accessible
Serving customers with little reported financial data, farmers and women.

DESTACAME
320,000 users obtained credit score for first time to access loans from a bank

MOBILIFE
40% of customers accessing insurance digitally for the first time are female

WORLDCOVER
90% of farmers earn less than 75¢/day

Appropriate
Tailored products that are flexible, fast and simple to use

RUKULA
95% repayment rate — Payment flexibility results in high repayment

TOGARANTIDO
7-12 mins Time now to process policies versus several weeks

WORLDCOVER
95% attendance at community meetings, in-person visits combined with digital outreach lead to engagement

Affordable
Reduced business costs through smart use of tech mean lower prices for customers

ESCALA EDUCACION
100% matched tuition savings for employees and up to **77%** in university fee discounts versus loans from:
Government 15% APR
Banks 23% APR

DESTACAME
20% annual interest rate for first time loans vs. 30% for Chilean MFIs

PAYGO ENERGY
Pay-per-use gas paid for using mobile money and charged in small amounts customers can afford versus:
Canister: $50
Refills: $10

Examples of fintechs solving real world problems – PayGo Water

- In Kenya, **Grundfos** has been running its Lifelink water ATMs (prepaid communal taps paid for with smart cards – credit loaded via mobile wallet) for years.

- The **Lilongwe Water Board in Malawi** worked with **SeeSaw** to install dozens of water ATMs on public standpipes

Examples of fintechs solving real world problems –small businesses

Sokowatch

Sokowatch is an e-commerce platform that helps informal stores in emerging markets keep products in stock and access credit to grow their businesses. Sokowatch does this by allowing shopkeepers to order products at any time via SMS or mobile app for free same-day delivery to their stores. Basis this data they also offer credit facilities to micro-merchants

Examples of fintech companies solving real world problems – Agri insurance

Pula

Pula is an agriculture insurance provider for smallholder farmers in African emerging markets. Radically restructuring traditional agriculture insurance, Pula is using satellite technology and data to provide previously unbanked, uninsured, and underserved landowners with a better safety net

Sources: Omidyar.com

Examples of fintech companies solving real world problems

BIMA

BIMA has introduced insurance products across 15 countries in Asia, Latin America, and Africa by partnering with mobile providers to distribute insurance. BIMA's mobile insurance platform integrates directly with the mobile provider to allow consumers to obtain insurance through their device and subsequently pay for their policy and work through claims as well (IFC 2018)

What will it take for the promise to be fulfilled?

- Digital ID for individuals and companies
- Regulatory issues of registering businesses, taxes, labor laws etc. and other aspects of 'Ease of Doing Business'
- Open data APIs framework
- Financial market infrastructure – e.g. credit bureaus, 24*7 payments infrastructure etc.
- Financial intergration – Africa as a trade bloc
- Improve Digital infrastructure and technology-related skills
- Africa must develop a system for owning and regulating its own data – Data privacy and data protection frameworks

THANKS