

The future of financial inclusion

FIPA – UNCDF Retreat 2011, Cape Town, 10 October 2011

Gerhard Coetzee

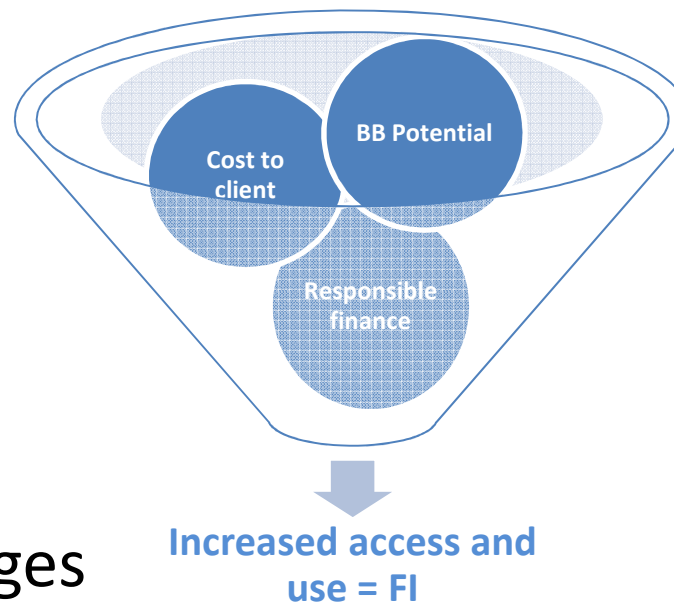


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Outline

- ❑ From microfinance to financial inclusion – revision of history!
- ❑ IF – challenges and opportunities
- ❑ Through the responsible finance filter
- ❑ Branchless banking as FI strategy
- ❑ Branchless banking challenges
- ❑ Roles for public funders
- ❑ Observations



History of microfinance

(Helms, 2006)



Since the beginning of time

- Informal groups
- Savings and credit groups



Middle Ages

- 1462 first official pawn shop
- 1515 Pope Leon X authorises the charging of interest



1700s

- Jonathan Swift and the Irish Loan Fund System
- Small loans to poor farmers
- 20% of all farmers



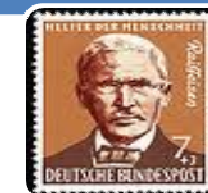
1800s

- Financial Cooperative
- From 1865 spread to rest of Europe, North America



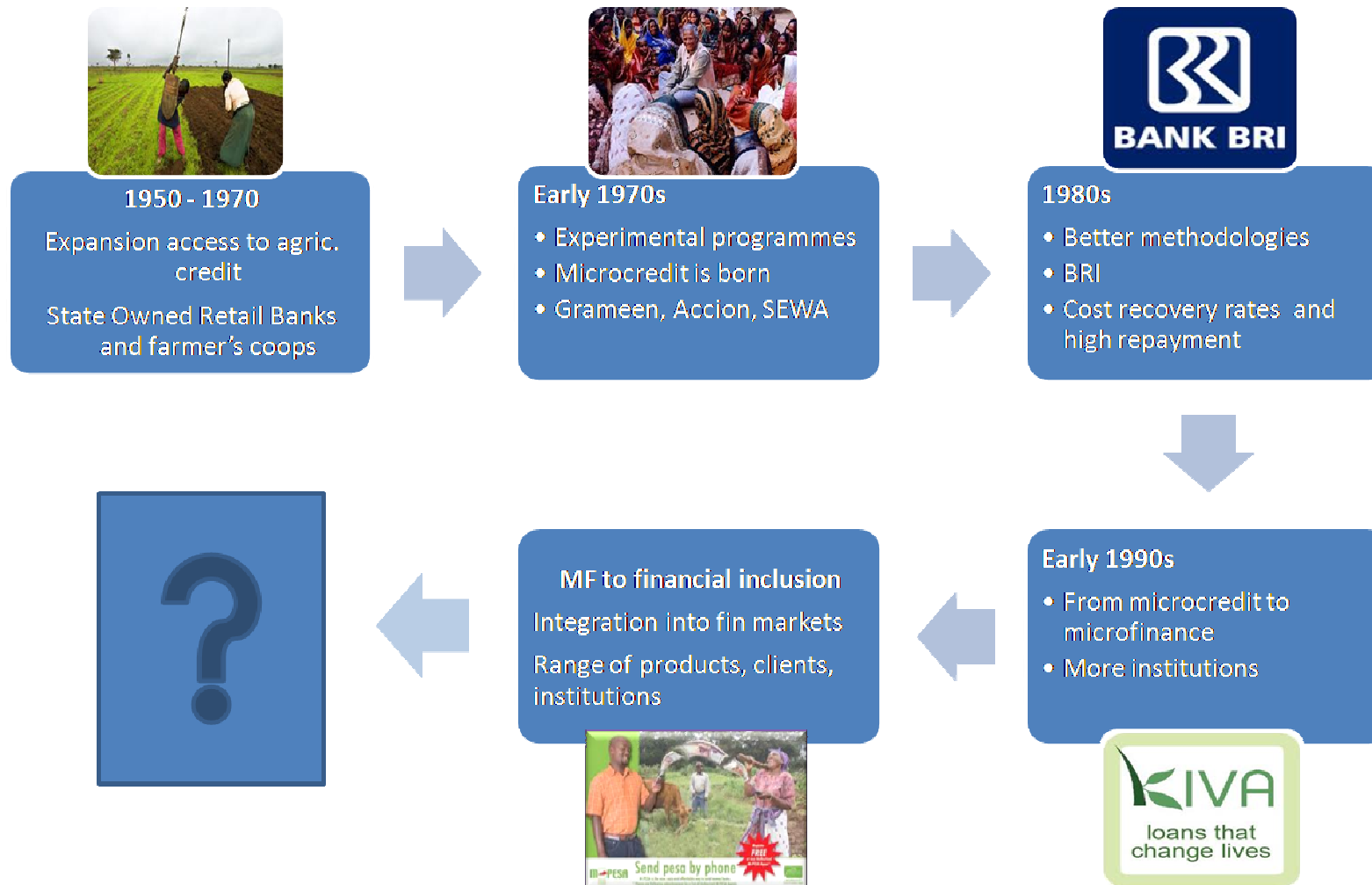
Early 1900s

- Adaptations of cooperative models
- Spread to Latin-America



History of microfinance

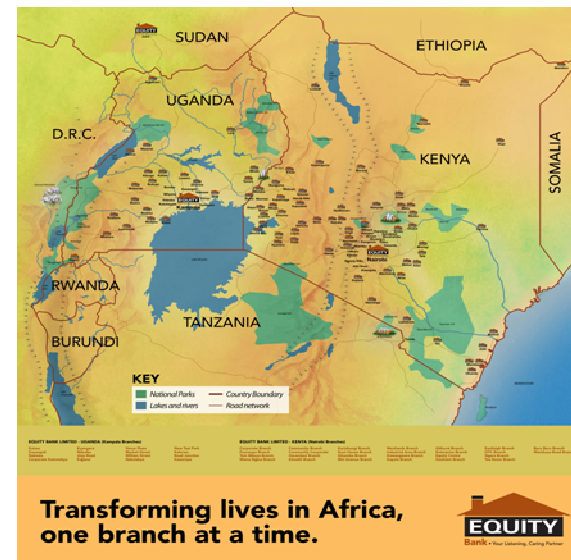
(Helms, 2006 and Coetzee, 2011)



Equity Bank

Mission Statement:

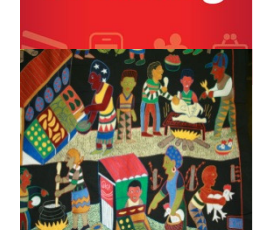
We offer inclusive, customer focused financial services that socially and economically empower our clients and other stakeholders



R1 = Kshs10	2003	2009
Savings clients	252,000	4,500,000
Savings deposits	Kshs 3.3 billion	Kshs 77.4 billion
Loan clients	67,000	807,925
Loan portfolio	Kshs 1.7 billion	Kshs 68.6 billion
Profit	Kshs 142 m	Kshs 1.7 billion
Assets	Kshs 3.9 billion	Kshs 110.5 billion
Share holders funds	Kshs 478 million	Kshs 23.4 billion
Growth in staff	354	5,108



**Absa
In-Store
Banking**

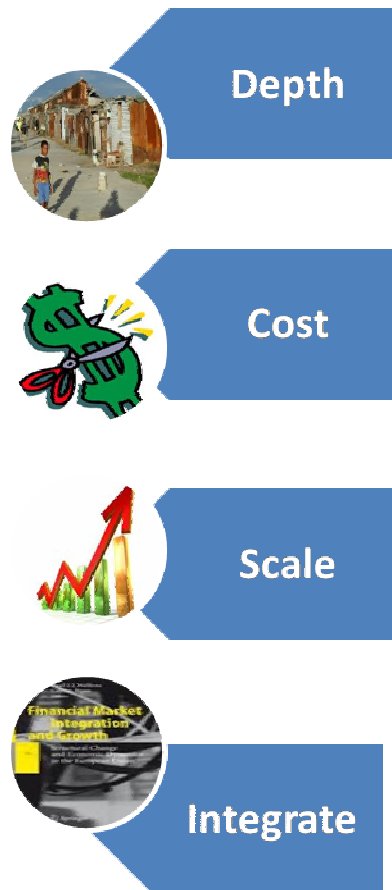


History of microfinance – today+

- ❑ From microfinance to financial inclusion
- ❑ Range of clients, poor people do repay
- ❑ Range of institutions, from poverty focused to very commercial (MFIs to commercial banks)
- ❑ Integration into formal financial markets
- ❑ Range of products, from transactions, remittances, savings, credit and insurance
- ❑ Though great progress, still many challenges to make financial markets work for the poor and to improve financial inclusion
- ❑ Access and use important



Challenges – MF to FI

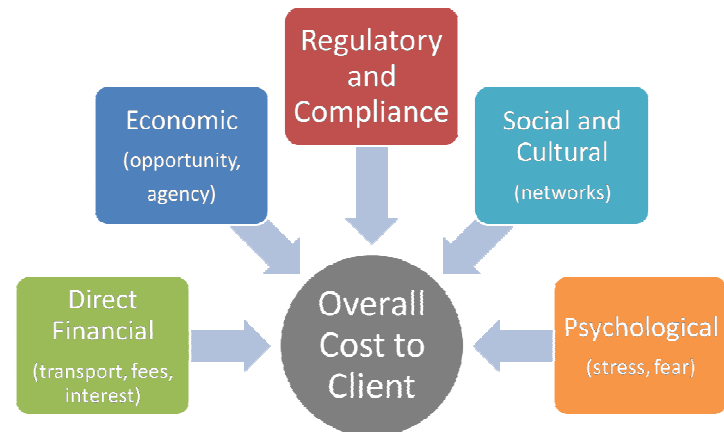
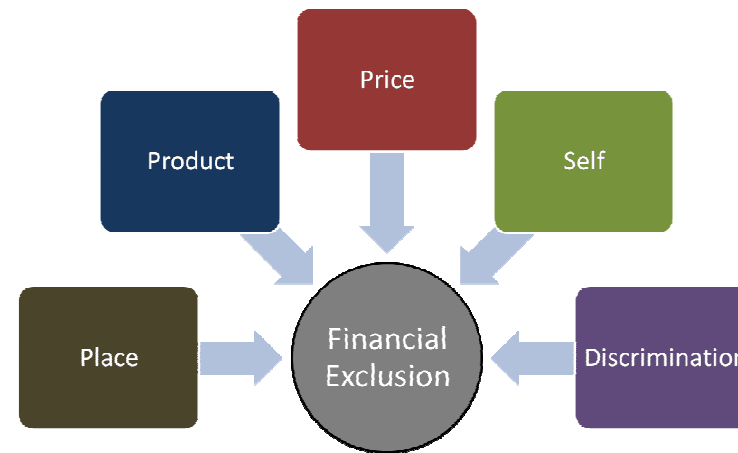


- ❑ Reaching more poor and remote clients (depth)?
- ❑ What is the best model to lower cost-to-client and cost-to-serve (cost)?
- ❑ How to scale quality and responsible financial products and services delivery to many clients (scale)?
- ❑ How to integrate it even more into the mainstream financial system?

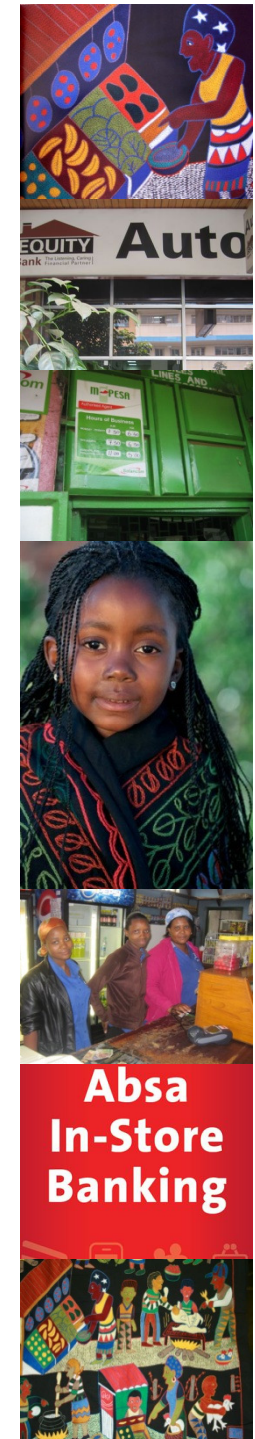


Exclusion and Cost

Financial exclusion, finding the right mitigating strategy and actions



Cost-to-serve and cost-to-client, what drives both, how to decrease



An inclusive financial system

(Helms, 2006)

- ❑ Clients at the core, must know the client, must know the numbers (Portfolios)
- ❑ Micro level – retail financial service providers (range from formal to informal, public to private)
- ❑ Meso level – basic financial infrastructure, skills, ICT, ratings, payments systems
- ❑ Macro level – appropriate legislative and policy framework, central banks, ministries and departments

FIGURE 1.3 An Inclusive Financial System



Clients. Poor and low-income clients are at the center of the financial system. Their demand for financial services drives the actions of those at all the other levels.

Micro. The backbone of financial systems remains retail financial service providers that offer services directly to poor and low-income clients. These micro-level service providers run the gamut from informal moneylenders or savings clubs to commercial banks and encompass everything in-between.

Meso. This level includes the basic financial infrastructure and the range of services required to reduce transactions costs, increase outreach, build skills, and foster transparency among financial service providers. It includes a wide range of players and activities, such as auditors, rating agencies, professional networks, trade associations, credit bureaus, transfer and payments systems, information technology, technical service providers, and trainers. These entities can transcend national boundaries and include regional or global organizations.

Macro. An appropriate legislative and policy framework is necessary to allow sustainable microfinance to flourish. Central banks, ministries of finance, and other national government entities constitute the primary macro-level participants.



Inclusive Finance Survey - Top 15

(Opportunities and obstacles to Financial Inclusion, Centre for Financial Inclusion, June 2011)

Level	Opportunities	Obstacles
Client	Financial education (1) Improved demand side information (10)	Limited financial literacy (1) Inadequate client protection (10)
Micro	Expanding range of products (2) Mobile phone banking (4) Full inclusion Institutions (7) Agent banking (9) Reaching out to new client groups (12) Competition (13) Mobile (branch) banking (15)	Limited institutional capacity (2) Microfinance's single product approach (3) Limited understanding of client needs (4) Product cost structures (7) Poor business practices (11) Costs of building/operating branches (12) Limited know-how of main operators (15)
Meso	Credit Bureaus (3) Capacity Building for MFIs (6) Strengthening financial infrastructure for electronic transactions (11) National IDs (14)	Lack of credit bureaus (6) Insufficient infrastructure (9) Lack of network cooperation (14)
Macro	Client Protection Regulation (5) Improve regulation & supervision of MFIs (8)	Political interference (5) Inadequate regulatory frameworks for MFIs (8) Inadequate client protection (10) Weak legal infrastructure (13)



Households with deposit accounts (2009)	
Africa	12%
South-Asia	22%
Latin America	40%

Africa: Reality and potential

- ❑ 12% of households with deposit accounts
- ❑ Unbanked one challenge, under-banked another
- ❑ Still high poverty, especially rural
- ❑ State of enabling environment varied across continent
 - supportive legislation
 - investment in education
 - investment in consumer financial literacy
 - investment in infrastructure
- ❑ 37% mobile phone subscribers
- ❑ Positive trends in investments ('03 to '10 CAGR – 21%)
- ❑ Creates demand and enable economic activities
- ❑ Access and use contribute to economic development



Client protection principles

(<http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles>)

- ❑ **Appropriate product design and delivery:** Design in such a way that they do not cause clients harm
- ❑ **Prevention of over-indebtedness:** Take adequate care to determine that clients have the capacity to repay without becoming over-indebted
- ❑ **Transparency:** Communicate clear, sufficient and timely information in a manner and language clients can understand so clients can make informed decisions
- ❑ **Responsible pricing:** Pricing, terms and conditions will be set in a way that is affordable to clients and allowing financial institutions to be sustainable
- ❑ **Fair and respectful treatment of clients:** Financial service providers and their agents will treat their clients fairly and respectfully
- ❑ **Privacy of client data:** Privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions
- ❑ **Mechanisms for complaint resolution:** Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients



Responsible finance considerations

(Kate McKee, 2011)

Aspect	Discussion
How can responsible finance be advanced?	Industry initiatives, consumer protection regulation and supervision, improve consumer awareness and financial capability
Why now important?	Global financial crisis, microcredit sector crises in some countries; Complex connections between inclusion, protection and overall health of financial sectors; Specific characteristics of MF sector/clients in SSA Savings to loans 3:1 in SSA; Branchless banking growth
Long term and short term tension	Long run business case and short term temptations
Prospects through industry initiatives	Transparency low and difficult to get voluntary action; over –indebtedness problematic especially where you do not have credit registries; Recourse important and should be part of overall system



Responsible finance considerations

(Kate McKee, 2011)

Aspect	Discussion
Regulation to improve market conduct and consumer protection	Is good for you . . . and regulators think so too! G20 endorses, good example National Credit Act in SA, but not without implementation challenges
The “how-to’s” of improving client financial capability is still a challenge	Very nascent state of knowledge and practise. What about rules like each touch point/moment should have an educational/informational aspect
Funders are taking notice, especially investors	Integrating into due diligence - key roles to play in creating the right incentives and providing support to advance the responsible finance agenda more quickly and deeply than otherwise possible (UNCDF, Incofin, Oiko, GIZ)
Get going	Many segments of the African microfinance market are poised to grow and diversify rapidly. Proactively adopting more responsible products and practices will position you well in your markets.



Branchless Banking - what and when?

(Own notes and adapted from a blog by Margaret Biallas from the IFC, 2011)

- ❑ What is branchless banking?
- ❑ Two pillars
 - Agent based banking
 - Mobile phone based banking
- ❑ Potential to reduce cost to client and cost to serve (overall criteria)
- ❑ When do you engage?
 - Reasonable potential to reach commercial viability and sustainability
 - Potential for outreach (% of population reached by financial services)
 - Potential for reaching challenging populations and geographies
 - Shared infrastructure to ensure interoperability and efficiency
 - Mobile phone penetration (% by population) at adequate level
 - Literacy levels (percentage by population) and process to improve
 - Regulatory environment conducive
 - Technology adoption evident (prior use of SMS texting, etc)
 - Anchor products (demonstrated customer demand)
 - Management team (operational capacity and expertise)
 - Customer care strategy

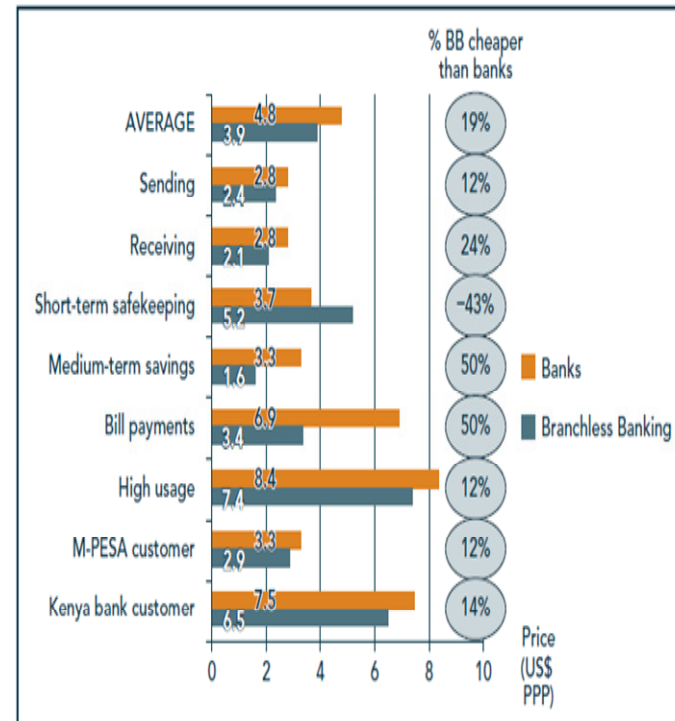


Branchless Banking – good for FI?

(mostly from McKay and Pickens, 2010)

- ❑ One strategy, now popular
 - One of many?
- ❑ Does it reach large numbers of low income and poor clients?
 - Yes, improved inclusion, up to 37% in select settings
- ❑ Are prices lower?
 - Yes, on average 19%
- ❑ What other services?
 - Still a challenge – loans, insurance services
 - Fino, started with payments, now loans, insurance, savings – 30 m clients, customer education imperative
- ❑ Can it replace branch based banking?
 - Relationships? Maintenance?
- ❑ Potential to decrease cost to client and cost to serve?
 - Yes, my view at least!

Figure 3: Prices for banks and branchless banking across eight use cases



Challenges for BB and FI

- ❑ Regulatory challenges (Booz Allen/USAID Matrix – 192 p)
<http://microlinks.kdid.org/sites/microlinks/files/resource/files/Mobile%20Financial%20Services%20Risk%20Matrix.pdf>
 - Systemic, operational, reputational, legal, liquidity, international
 - Clients
 - Merchants/Agents
 - Service providers, banks, MNOs and hybrids
 - Payments systems
 - National and International Regulators
- ❑ Agent logistical challenges
 - Recruiting
 - Training
 - Managing and maintaining
- ❑ Limited customer uptake (CGAP Focus Note 72)
 - Client financial education and product information
 - Client recourse
- ❑ The question of impact on FI (economic development)



Seven Point Action Agenda

(Opportunities and obstacles to Financial Inclusion, Centre for Financial Inclusion, June 2011)

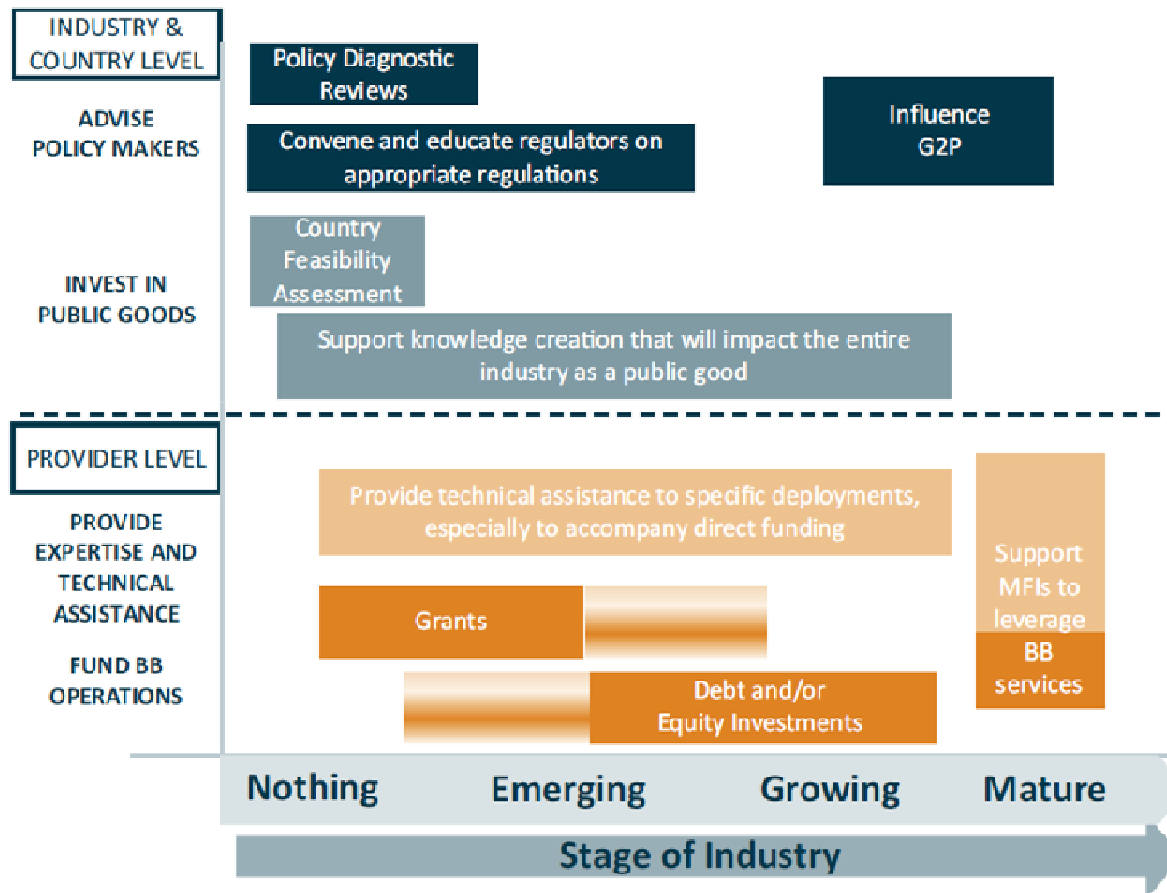
- ❑ Financial Education
- ❑ Product range, informed by understanding client needs
- ❑ Technology-enhanced delivery channels
- ❑ Credit bureaus
- ❑ Client protection
- ❑ Institutional capacity building
- ❑ Sound regulatory framework



Roles for public funders – UNCDF?

(CGAP Focus Note 72, 2011)

Figure 1: Potential roles of public funders in branchless banking



What about clients (marketing, information, education, recourse)?

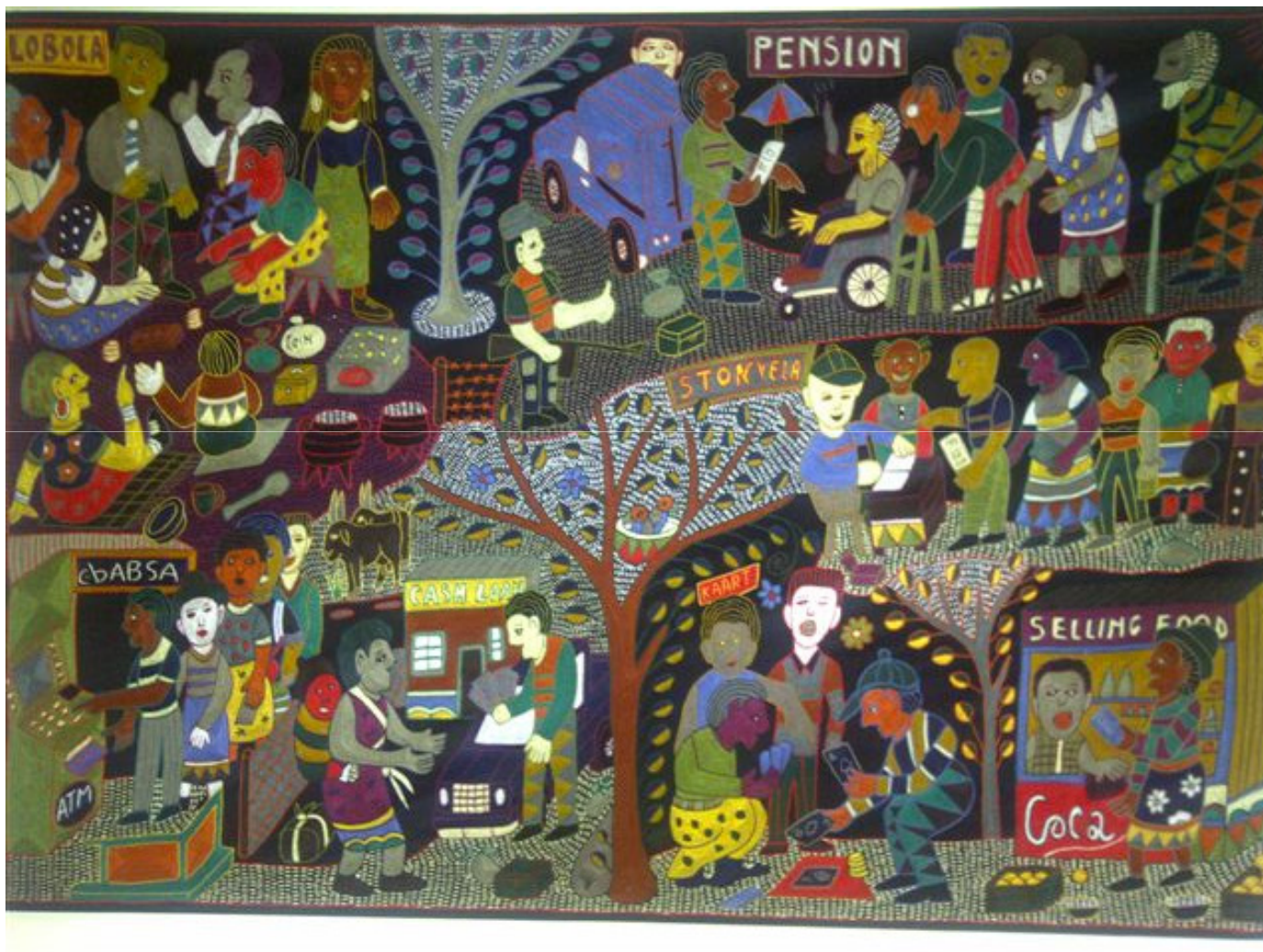


Observations

- ❑ FI has a long road ahead in Africa, potential recognised – initial results positive, G20 efforts and principles confirm
- ❑ But need to overcome major challenges, focus on BB
 - Infrastructure (coverage plus)
 - Regulatory issues
 - Good understanding of clients
 - Win-win partnerships or incentives towards co-opetition
 - Full banking service through branchless approaches
- ❑ Cost-to-client and cost-to-serve
- ❑ From MF to FI, do not ignore questions and question the “now popular” (institutions, methodology, approaches)
- ❑ BB - caution, short experience, little research, narrow focus
- ❑ Support areas:
 - Macro: Regulatory balance and integration
 - Meso: Support for agent networks and systems
 - Micro: Much support to understand, conceptualise and build
 - Client: Understanding, education, information towards uptake



Questions and Discussion



10 October 2011

Centre for Inclusive Banking in Africa, University of Pretoria

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