

Cambridge FinTech & Regulatory Innovation: Project Proposal

Name: Kelly Hattel, Andrew McCartney, Prashant Goyal (Asian Development Bank)

Project Title: Microfinance Digital Acceleration Program

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Proposal Summary

- Despite significant progress in the microfinance (MFI) industry globally, across many Asian markets a **large percentage of adults still do not have access to finance services**.
- **MFI providers** have last mile access but suffer from an **inability to scale** due to **inherent weaknesses in their business models**.
- **COVID has amplified these problems** forcing a MF industry rethink and a **need to accelerate their transformation and adoption of digital financial services** to remain relevant.
- ADB proposes a **structured approach towards piloting digital acceleration** in two key markets: namely Pakistan and the Philippines.
- Critical to the success of the initiative will be a **new partnership between ADB and the AFIN network** as well as a careful integration of initiatives with national priorities and roadmaps of local regulators.



Full Financial Inclusion Remains a Challenge Across Asia

- Despite significant progress, for many Asian markets a **large percentage of adults still do not have access to finance services**.
- **MFIs are best equipped for last mile inclusion**, but most have **failed to scale** up due to **fundamental weaknesses** in their business models.
 - **Economics:** High cost, high touch business models
 - **Networks:** Reliant upon limited brick and mortar and agent networks
 - **Remote access:** Lacking access to a lot of central banking infrastructure
 - **Barriers:** Failing to address a number of barriers to access to financial services for the target population



COVID has had a major impact on the MFI industry globally

Covid-19 Global Impact on Financial Institutions

READINESS

Business Continuity Plans, levels of digitization and process automation

AGILE & DIGITAL

Accelerated drive towards digital for relevance/survival and cost effectiveness

NEW NORMAL/GREAT RESET

Requires innovation and partnerships

COVID has had a major impact on the MFI industry (and MSMEs in particular) in the Philippines

- **Clear correlation between business closures and firm size**
 - Temporary closures most widespread among microenterprises (71.2% of total microenterprises), followed by small enterprises (63.2%), medium-sized enterprises (57.4%), and large enterprises (53.8%).
 - Among large enterprises, 7% remained fully operational while 38.2% stayed partially open.
- **Reduction or suspension of wage payments**
 - 50% of firms surveyed suspended wage payments after outbreak – higher in microenterprises.
 - Microenterprises reduced wage payments by more than 50% (44.2%), followed by small (31.8%), medium-sized (16.4%), and large (7.6%) enterprises.
- **Disruption of supply chains**
 - Over 1/3 of enterprises faced severe bottlenecks in product supply chain, negatively affecting more than half of production capacity.
 - Bottlenecks mainly caused by slow customs clearance on imported goods, limited operations with local suppliers, and shortage of trucks/drivers.
- **Reduced access to finance**
 - Enterprises cited bank credit as top financing method desired, but bank credit was actually difficult to obtain.
 - Over half (53%) responded could not obtain a loan for ₱50,000 (around \$1,000) quickly.
 - 57.3% reported it was more difficult now to borrow ₱50,000 in a short period than in 2019.

COVID has amplified these gaps and the need to accelerate digital solutions in the MFI sector



COVID-19 AS AMPLIFIER

Not a leveller but, an amplifier; gaps and inequality may widen further



COVID-19 AMPLIFIED RELEVANCE OF DIGITAL

Opportunities to innovate, improve customers' ability to transact, automate processes, to partner

Digital Financial Services provide an opportunity for MFIs to more directly address unbanked populations

Digital Financial Services

The application of ubiquitous computing power, pervasive connectivity, mass data storage, and advanced analytical technologies to deliver better tailored financial products and services more efficiently and more directly to a broader range of customers.



**Electronic
G2P Payments**



**Alternative
Credit Scoring**



**Mobile
Banking**



**Supply Chain
Finance**



**Process
Efficiencies**



**Internet
Banking**



ATMs



**Loan by
Phone**



**Remittances/
P2P Transfers**



ID Verification



Retail Payments



**Transfers & Bill
Payment Solutions**

Objectives of the ADB MFI Digital Accelerator Program

Pilot an approach to leverage digital and fintech to accelerate MFI financial inclusion and meet the demands of the post-COVID world



Partner with APIX as an industry sandbox to support country-level financial service providers across Asia



Key to success will be a partnership with APIX/AFIN to support industry sandbox and establish a “Digilab for MFIs”

APIX provides FI's a market-place and sandbox to post problem statements, discover Fintechs and do POC's to build prototypes quickly to be integrated into existing FI platform



Opportunity: Provide a shared problem statement space for MFIs to help expand capability to offer a set of “PreFab” solutions to:

- speed up Fintech selection and integration
- reduce costs
- Build local capacity
- provide sustainability

Solutions: PreFab solutions can provide a near ready made solution for key need clusters for the MFI segment:

- Front-end enablement: KYC, Money in/out, Wallet, etc
- Digital Lending product processor
- Backend integration toolkit
- Dedicated back-end (casa, loan, ledger)
- Regulatory reporting toolkit

PreFab solutions bring together a group of FinTechs that have been certified to work together, and an agreement for normalized pricing to simplify terms for participants (e.g. a preagreed fee per customer per solution component)

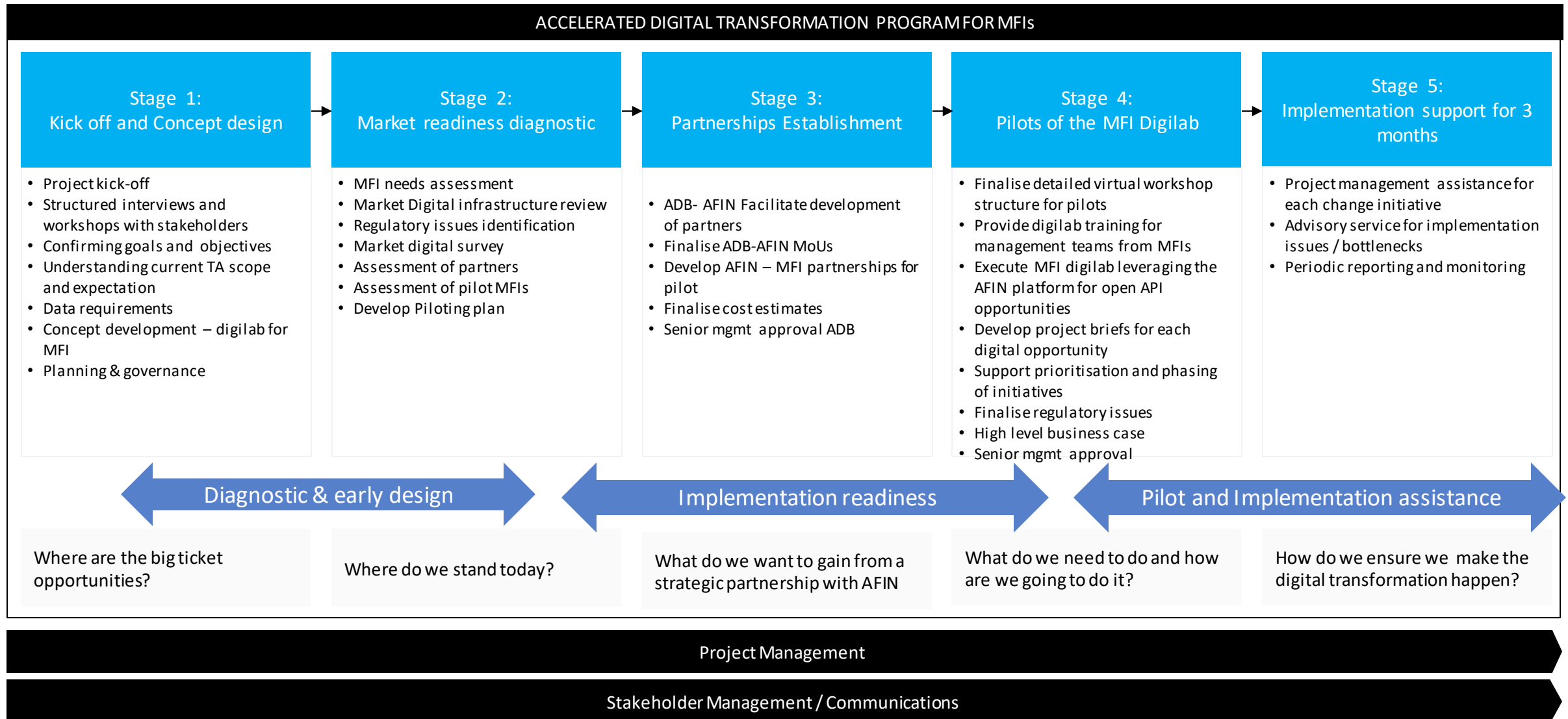


Key Challenges

- Could the platform **benefit a range of types of FSPs** including rural or less digitally advanced MFIs? Could the platform support the **application of commercial models** to less sophisticated MFIs? What about the issue of **affordability, capability for offline, connection to digital national ID systems**?
- Identify the **barriers to participation** – what are the prerequisites ?
- Identify the **benefits**?
- **Regulatory issues** at a national level.
- **Industry vs regulatory sandbox**: how one can be the input into the other ?
- Regulatory issues involved in **cross-border transactions**.
- How could the platform be used to **accelerate particular areas of focus** including **women's financial inclusion** or **green finance**?



ADB will be piloting a new approach towards digital acceleration for MFIs leveraging an AFIN Partnership



Risk Assessment

- **Key risks identified**

- Managing IT infrastructure transitions
- Change management
- Regulatory barriers
- Capex versus opex
- Covid impact and continuity
- 3rd party integration

- **Mitigation measures against risks**

- Provide targeted technical assistance to help prepare and guide financial service providers through the transformation process.
- Support regulators in establishing a sandbox (in-country or regional) to facilitate digital solutions.
- Provide recommendations for relief measures to sustain financial service providers and clients through COVID pandemic



Project Deliverables

- ❖ Digilab concept design
- ❖ MFI digital readiness assessment
- ❖ Regulatory review and gap analysis
- ❖ ADB-AFIN MOU (signed)
- ❖ Digilab detailed design methodology
- ❖ Pilot strategy and implementation plan



Project Timeline

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8
Phase 1								
Digilab Concept Design		X						
MFI digital readiness assessment				X				
Phase 2								
Regulatory review and gap analysis					X			
Phase 3								
ADB- AFIN MOU (signed)							X	
Phase 4								
Digilab detailed design methodology								X
Pilot strategy and implementation plan								X

