

The Financial Inclusion Compass 2019

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Today

- Background to 2019 *Compass*
- Evolution from *2018*
- Methodology and respondents
- The *Compass* trends
- New Areas of Focus (and the NAF Index)
- Open-ended questions – challenges, opportunities, new entrants, etc.
- Overall themes



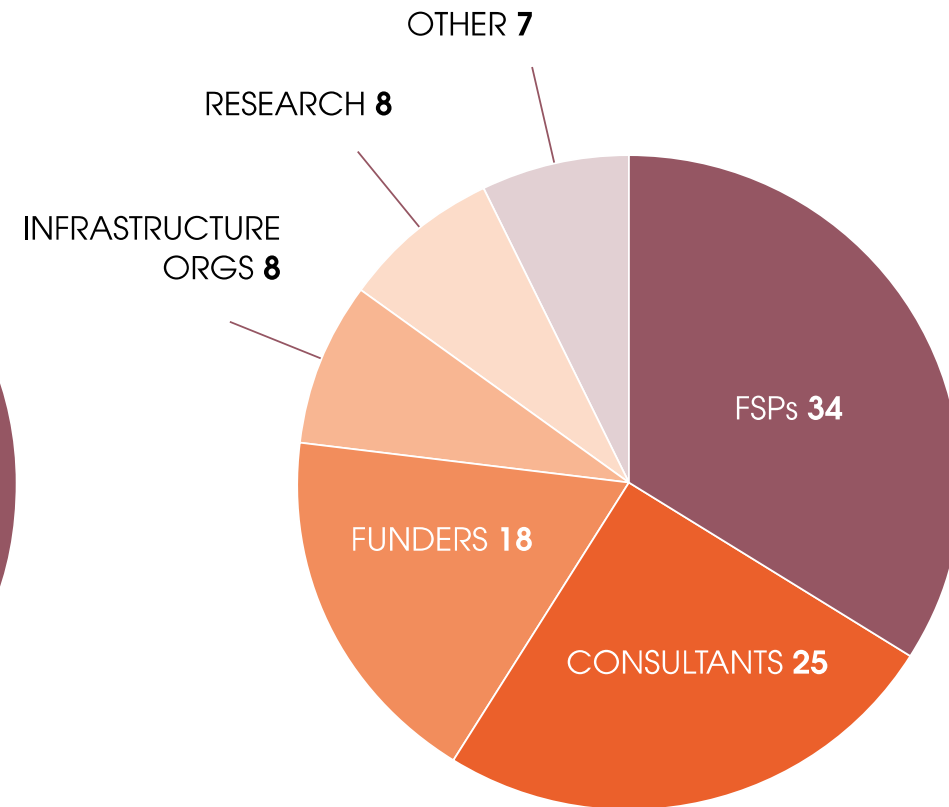
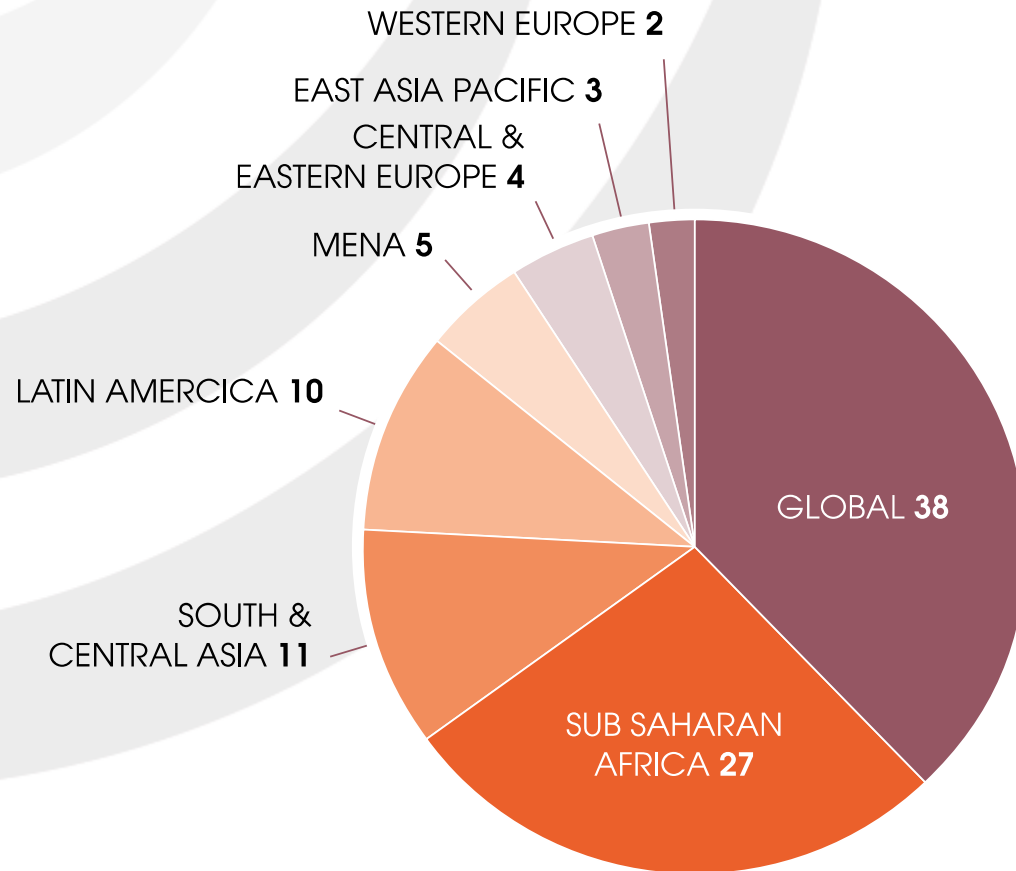
Background

- Inaugural *Compass* launched in 2018
- 2019 process (feedback, re-design) began in Spring 2019, survey ran over Summer, closed in Sept
- 'Policy-making wish lists' and 'hopes for the future' will be only periodic going forward. New question on FSP New Entrants. 'Direction' of trends removed; New Areas of Focus Index improved
- Survey translated into Spanish and French this year. 76% of responses were to the English survey; 16% to the French and 8% to the Spanish
- Trends list remained similar- couple of merged trends and additions. New Areas of Focus added one (Finance for the Urban Poor) to the list
- In the 2018 *Compass*, no comments were directly attributed to any respondent. This year, respondents were asked to opt in if they wanted their comments attributed, so some of the responses included in this paper are

The 2018 Compass

- Top trends: 1) Client Protection; 2) Regulatory Environment; 3) Governance; 4) Outreach to Low-Income Segments; 5) Technology and New Delivery Channels.
- Top Areas of Focus: 1) Agri-Finance; 2) SME Finance; 3) Climate Change Adaptation/Mitigation
- Some overall themes:
 - FinTech revolution as threat and opportunity to clients and FSPs alike
 - Nevertheless, Technology is the area moving most in the 'right' direction
 - Challenges include ensuring client protection and erosion of social focus via a 'race to the bottom', driven by new entrants
 - Mix of provider types to play a role in the future
 - Respondents biggest long-term hopes included expansion of (financial) education

Compass 2019: Respondents (%)



The table here shows:

- 2019 ranking of trends
- Average score (1-10) based on perceived importance)
- 2018 ranking for comparison

1

Digital
Transformation
(Institutional-
Side)

2

Client
Protection

3

Digital
Innovations
(Client-Side)

4

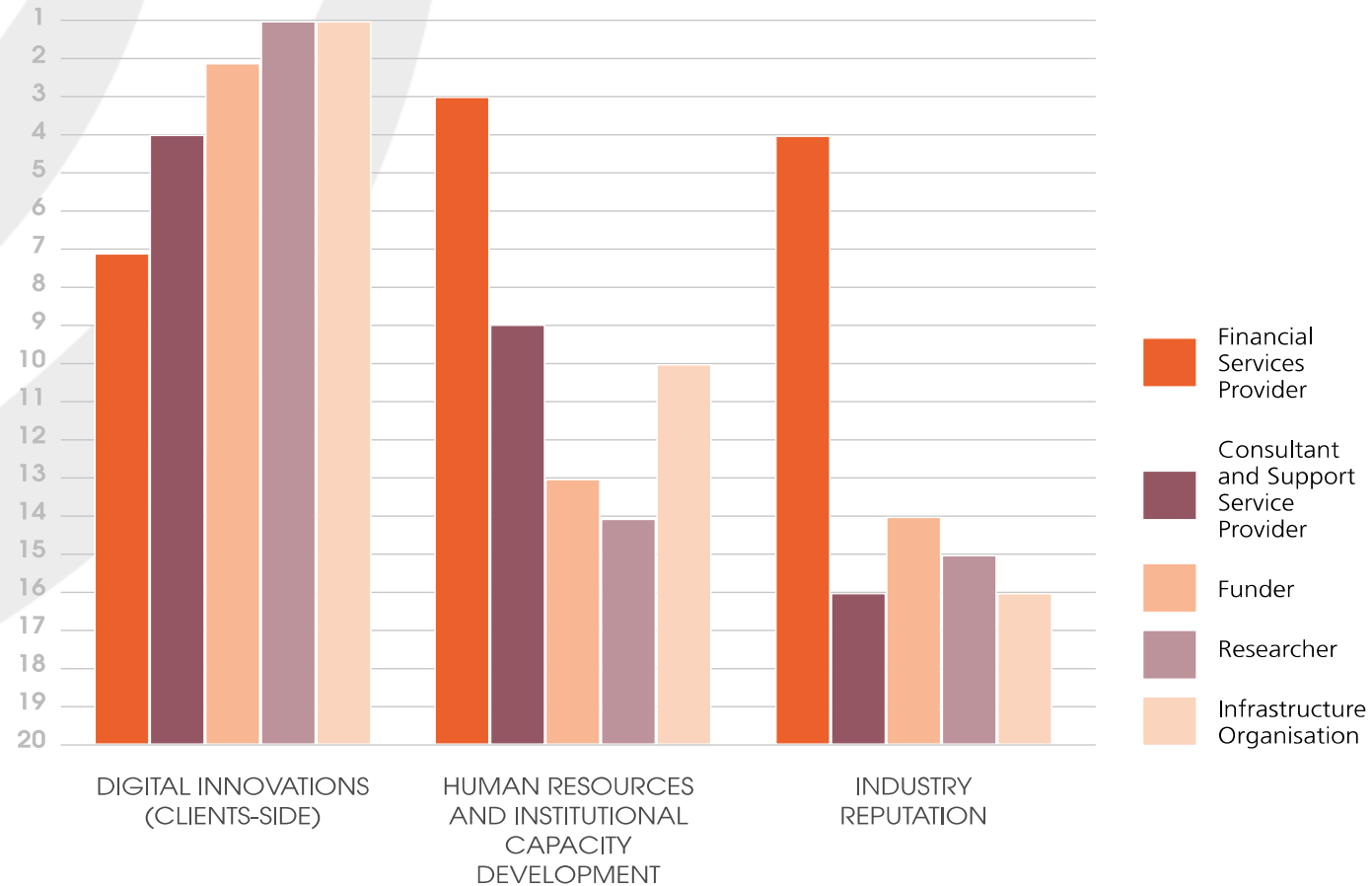
Regulatory
Environment

5

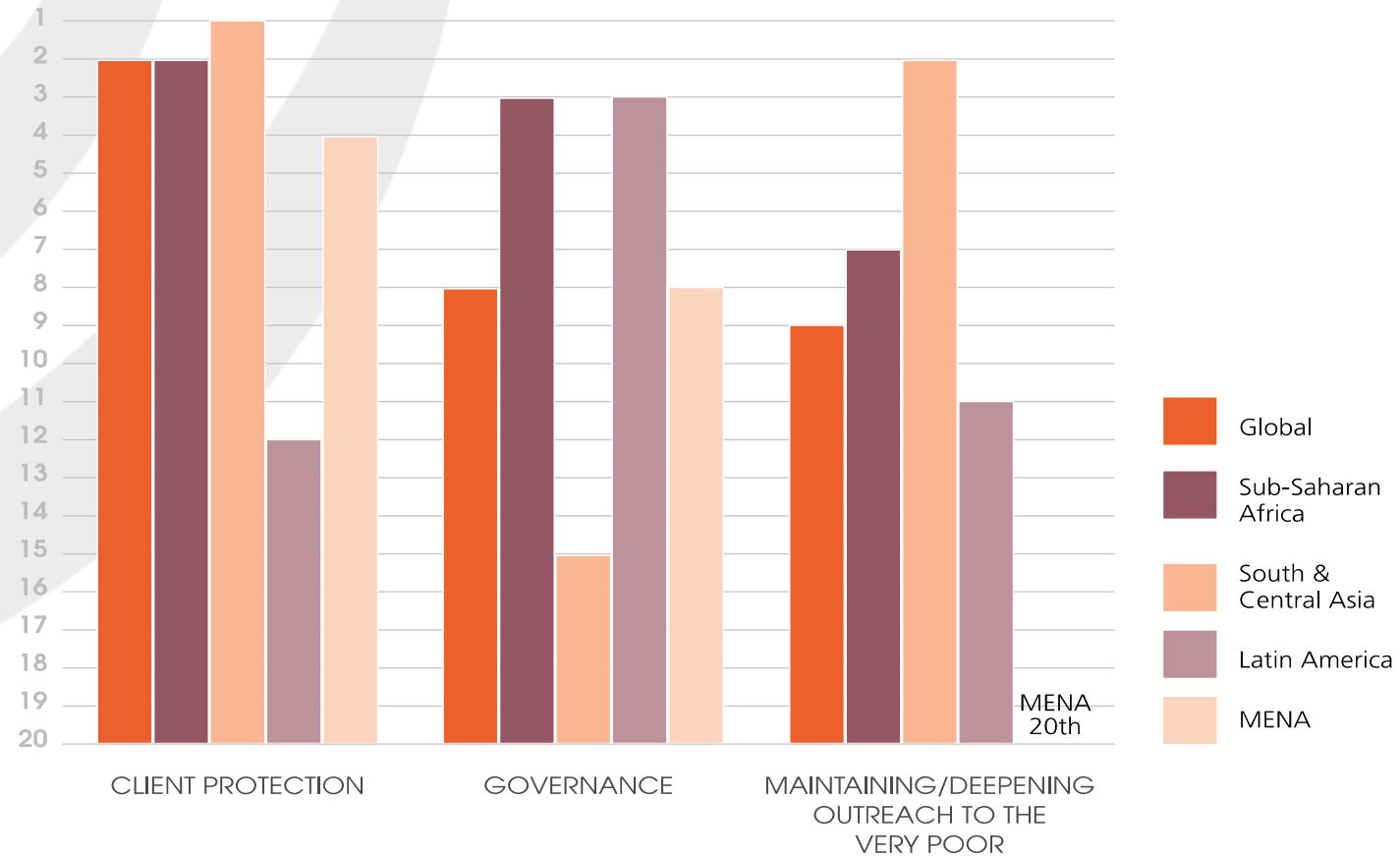
Social
Performance
and/or Impact
Measurement

Rank	Trend	Average Score	2018 Rank
1	Digital transformation (institutional-side)	8.31	New
2	Client protection	8.14	1
3	Digital innovations (client-side)	8.01	5 ^a
4	Regulatory environment	7.55	2
5	Social performance and/or impact measurement	7.54	10
6	New categories of FSP (FinTechs, consumer lenders, banks downscaling)	7.53	14
7	Governance	7.42	3
8	Maintaining/deepening outreach to the very poor	7.32	4 ^a
9	Product development or innovative end-user finance	7.28	6
10	Human Resources and institutional capacity development	7.21	8
11	New focus areas (WASH, green, housing, education, etc.)	7.12	16
12	Market information & infrastructure (credit bureaus, reg. reports, etc.)	7.01	7
13	Industry reputation	6.87	11
14	Non-financial services	6.81	17
15	Use of new outreach/marketing channels (e.g. agents)	6.80	13
16	Institution-level information (ratings, audited reports, etc.)	6.56	15
17	Expanding to new client segments	6.55	9
18	New investor or funding channels	6.35	18
19	Research	6.33	19
20	Fund management practices	5.67	20

Importance of Trends by Respondent Organisation



Importance of Trends by Geographical Area of Focus





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Industry Reputation

It should be much higher but I don't see this being taken seriously - interest rates don't come down despite innovation, little progress on still excluded, many areas of reputational risk at a time of "impact-mainstreaming" in the financial and industrial world.
Executive Director of international SPM body

Important to distinguish committed double bottom line companies from greenwashing. Push back against "no trade off" myth.
Managing Director of Fund Manager

Yes, it is important, but Tier 2 and 3 MFIs are very single-product MFIs and sometimes have difficulty in deploying a more diversified offer of financial services. Loan officers are often much more motivated to distribute traditional loans in large numbers to their clients (with which they will more easily achieve their disbursement target) than innovative and complex loans whose objective is to finance, for example, a solar energy furnace or a young entrepreneur without guarantees and experience and who requires more time and financial education.
Project Head at INGO

Adaptation to client needs - yes. [But] I don't see the need for product development. The products all exist already.
Managing Director, Europe-based infrastructure organisation

Non-Financial Services

They are always valued by customers, however they are becoming more specific depending on each segment.
Deputy General Manager at Cooperative in Peru

Still a fascinating area, but that horse seems beyond flogging generally
Head of US-based TA Provider

Non-financial services such as financial education are essential, especially if we are moving towards increasingly complex financial products, but this is definitely not the priority of MFIs, at least those in tier 1.
Head of Projects at INGO working in Sub-Sahara Africa

Human Resources and Institutional Capacity Development

Essential in these rapidly evolving times when traditional skills sets are being displaced or need to be augmented.
Managing Director of Global TA Provider

[Microfinance] and outreach to marginalised communities (and even from a gender perspective) will continue to require an organic, medium touch model, so HR is a critical piece of the entire delivery methodology, in spite of digitalisation.
Managing Director of a Pakistani NBF

New Focus Areas (WASH, green, housing, education, etc.)

Recognition that most products are loans and most loans are variations on a theme, I see a huge need to expand differentiation.
Co-Founder of global TA provider

These "new" areas are crucial, but what seems most novel is the focus on the end use of financial services: they are supposed to be used for education, housing, hygiene, and inclusive finance should have focused on the end use of financial services a long time ago.
Head of research at Luxembourg-based NGO

Talent for digital transformation is in short supply in many areas.
Managing Director of supra-national network

Use of New Outreach/Marketing Channels (e.g. agents)

'Improvement' of use [is what matters]
Financial Inclusion Specialist at South-African TA Provider

Institution-Level Information (ratings, audited reports, etc.)

This is of more interest to funders; how important is it to the end client?
Director of inclusive Finance at Moroccan ICT support provider

With the globalisation of the "impact" approach, [we] need to (i) define clear concepts and evaluation standards and then (ii) audit and/or rate [so that] new actors will feel comforted by external validations.
Managing Director of global SPM organisation

Market Information & Infrastructure (credit bureaus, reg. reports, etc.)

A large part of this now exists in some or other form.
Partner at TA Provider working in South Asia

A big effort in the past 3 years by regulators means much more sophistication of credit bureaus.
Head of Investment at Commercial Bank working in Sub-Sahara Africa

New Categories of FSP

Most important: how do we make/keep them social, transparent and responsive to the Client Protection Principles?
Policy Adviser at international NGO

In some countries more than others, but it is a reality - and often distorting the market where FSPs operate.
Inclusive Finance Director at microfinance rating agency

These new players will play an increasingly important role and regulation should pay close attention to them
Head of research and development projects at European donor

Governance

A subject that the Tier Ones have done well.
Director at French Commercial Bank

Now that we are in FinTech, we must have a very strong governance practices and structure. [The] Governance team must be aware why are we implementing FinTech.
CEO of MFI in Philippines

Maintaining/Deepening Outreach to the Very Poor

Not that it is not important, but the criteria should be on underserved rather than very poor.
Market Analyst at Funder

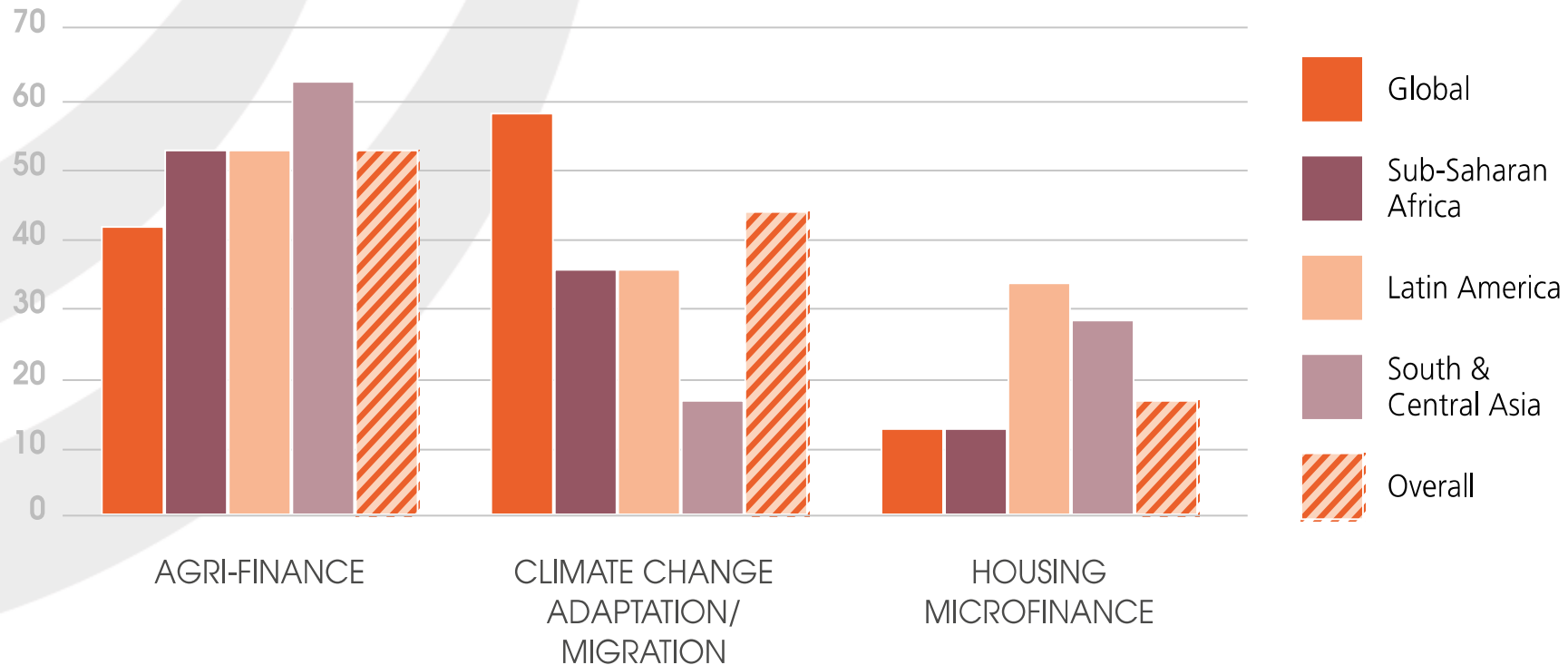
This depends on the vision of the organisation: if inclusion is the vision, how can the ultra poor be forgotten?
Senior Manager at Indian Bank

Performance benchmarks need to get a fresh look. Many digital apps don't conform.
Managing Director of global network

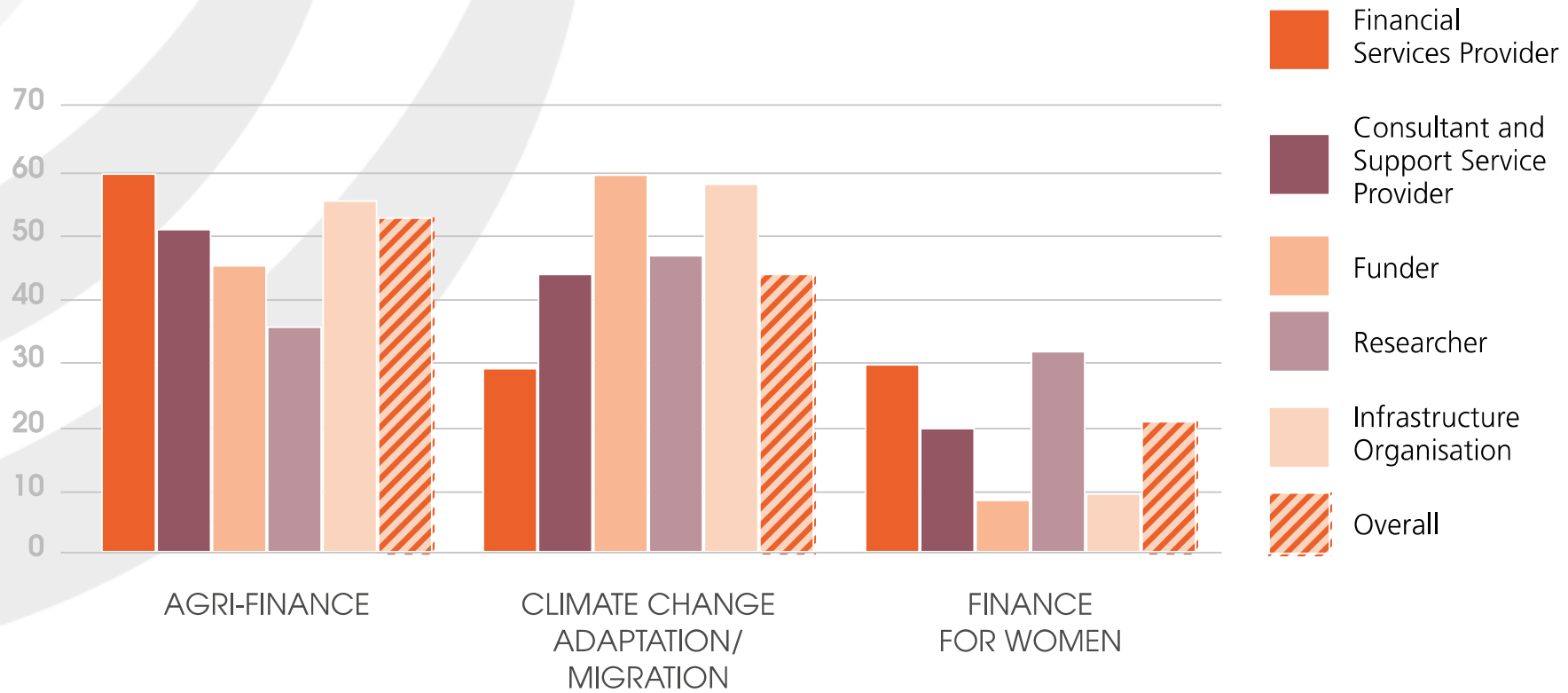
New Areas of Focus

Rank	Area of Focus	NAF Index score	2018 score
1	AGRI-FINANCE	52.0	1
2	CLIMATE CHANGE ADAPTATION/MITIGATION	43.3	3
3	SMALL AND MEDIUM ENTERPRISE (SME) FINANCE	40.0	2
4	FINANCE FOR REFUGEES/DISPLACED POPULATIONS	22.0	7
5	FINANCE FOR YOUTH	20.7	6
6	FINANCE FOR WOMEN	20.5	8
7	ENERGY	17.9	5
8	HOUSING MICROFINANCE	16.2	4
9	EDUCATION	15.2	12
10	ENVIRONMENTAL SUSTAINABILITY/RESOURCE MANAGEMENT	15.0	9
11	DISASTER RESILIENCE	11.5	10
12	FINANCE FOR THE URBAN POOR	11.5	NEW
13	WATER, SANITATION AND HYGIENE (WASH)	8.4	11
14	FAIR TRADE	4.2	13
15	FINANCE FOR THE ELDERLY	1.7	14

New Areas of Focus by Geographical Region of Work



New Areas of Focus by Respondent Organisation



Challenges

- Respondents see many **challenges** and are concerned about both **External challenges** (including politics, financing, climate change and regulation); and **Institutional challenges** (notably product development, mission drift, client education, overindebtedness, digital transformation and sustainability of business models).
- **Climate change**, even though second among New Areas of Focus, was strongly represented here, respondents are extremely motivated to strengthen resilience of clients and institutions
- Many challenges – including the importance of education, concerns about mission drift, lack of client-centricity in product design, stalled momentum on client protection, obsolescence of traditional providers in the face of a ‘race to the bottom’ by FinTechs – feed into issues on business models – **profitability and sustainability**.
- **Education** – access, affordability at all levels – and financial education – remains a huge challenge
- Which leads to the hardest question of all: is serving excluded groups at scale, protecting them from harm or malfeasance, offering them useful and client-centric

Opportunities

- At the same time, respondents are optimistic about progress in several areas and see myriad **opportunities**. Some notable mentions:
- Improvements in understanding clients' needs
- Product innovations
- Overall improvements client protection/SPM standards (but client protection in DFS is a concern)
- Efficiency gains making outreach to new excluded segments more sustainable
- Respondents described real progress being made in product diversification and understanding client financial behaviour and mind-set

"(We need) Expansion of digital finance in its diverse forms, both at the clients and institutional level, despite accompanied with great challenges. This expansion must consider the sector's heterogeneity - providing solutions which can be adapted to different contexts and, above all, are inclusive of the segments of the population who can easily become digitally excluded."

Financial Services Providers – Opportunities and Roles for New Entrants

- Strong case made for banks – downscaling commercial banks, new categories (Indian SFBs, etc.) due to low cost and highly regulated
 - But they must improve their services, and MFIs that have transitioned to banks much catch up in technology
 - Natural synergies between MNOs and NBFIs
 - Strong support for continued role of cooperatives
 - Overall.....
- “No single category can provide these (services). There has to be a synergy between local level small organisations (MFIs, Cooperatives and NGOs) and mainstream commercial banks as well as international banks.”

Financial Services Providers – Opportunities and Roles for New Entrants

- Respondents advocate a **mix of traditional and emerging entrants**. Preconditions:
 1. Funding should ideally come from local parties
 2. Need better and more streamlined systems and platforms for all providers to collaborate, including FinTechs - and a stronger impact and good practice-based codes of conduct for such collaboration
 3. Regulation that enables scale (for example, cooperative regulations can limit the ability to access finance and/or offer certain services and are frequently regulated outside the formal sector

Financial Services Providers – Opportunities and Roles for New Entrants

- Overall, the hype regarding opportunities for FinTechs (and the existential threat posed to traditional providers) may be softening – that traditional providers and new entrants are still operating in different areas
- If there is any consensus, is that **partnership is best** – traditional MFIs becoming channel partners for the grassroots –level business of the new entrants?

“I am not convinced that (new entrants) are replacing the traditional MFI; in most markets the target clientele of traditional MFIs and these entrants remains somewhat distinct.”

“New entrants’ business models are so different that today they are still not disruptive enough, which is a positive thing. It pushes traditional FSPs to also increase their investments in technology in order to better serve their client segments.”

Overall themes

- The sector is in probably unprecedented flux
- Why? A rapid influx of new providers, new reporting frameworks, new technology innovations, new reputational issues catalyzed by the speed of (mis)information
- In many ways, the sector is unrecognizable from a decade ago – and this is largely a good thing (with exceptions)
- And while people are generally both very concerned about the challenges AND very excited by the opportunities, there is a real sense of a sector at crossroads – what is financial inclusion/microfinance *for?*

What is Financial Inclusion *for*?

Access new and unsaturated markets?

Meet SDG targets?

Reach poorer segments?

Reduce costs and increase efficiencies?

Field-test new technologies?

Provide reasonable returns to investors?

Open more accounts?

Protect the vulnerable from shocks?

Put poverty in a museum?



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Thank you!

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