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DFS Observatory Webinar

# Is Digital Credit A Silver Bullet?

Presenter: Graham A.N. Wright, *MicroSave*

November 22 2017 – 1-2pm GMT/UTC

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# Is Digital Credit A Silver Bullet?

(Evidence from Kenya, Uganda & India)

Presenter: Graham A.N. Wright, *MicroSave*



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# Graham A.N. Wright, *MicroSave*



Graham A.N. Wright founded *MicroSave* and is currently its Group Managing Director. He is a reformed Chartered Accountant.

Graham has provided training and technical assistance to a variety of financial institutions in Bangladesh, India, Indonesia, the Philippines and throughout Africa. He has been deeply involved in digital financial services (DFS) from the days he sat on the steering committee for M-PESA and supported its initial pilot-testing process; partnered with Equity Bank on its DFS strategy and operations. He has worked on a variety of DFS projects with banks and telcos throughout Asia and both Anglo- and Franco-phone Africa. These involved strategic planning, market research, product development, process analysis, agent network development and maintenance, and marketing.

*MicroSave* (with its *Helix* Institute training centre) partner with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value.



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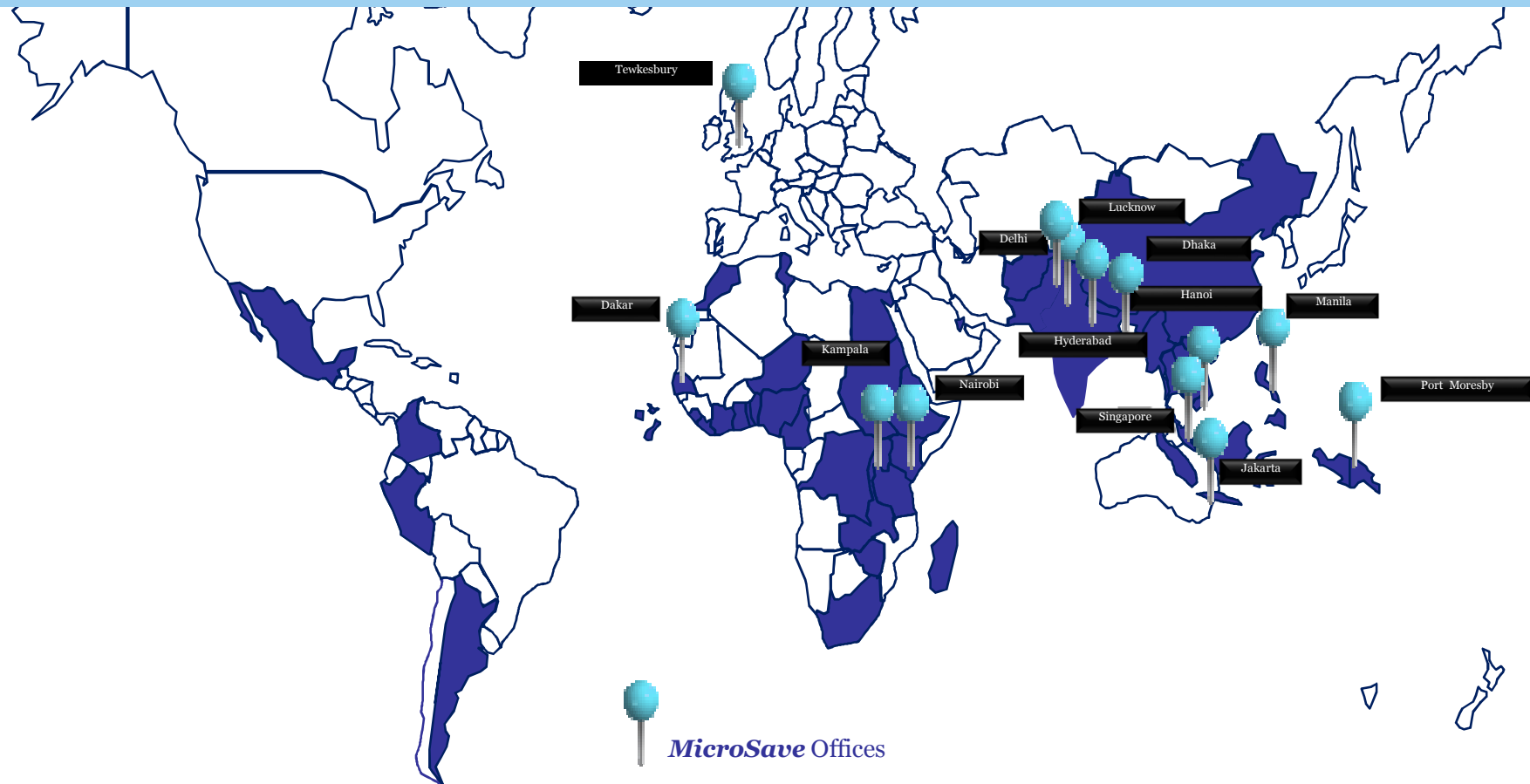


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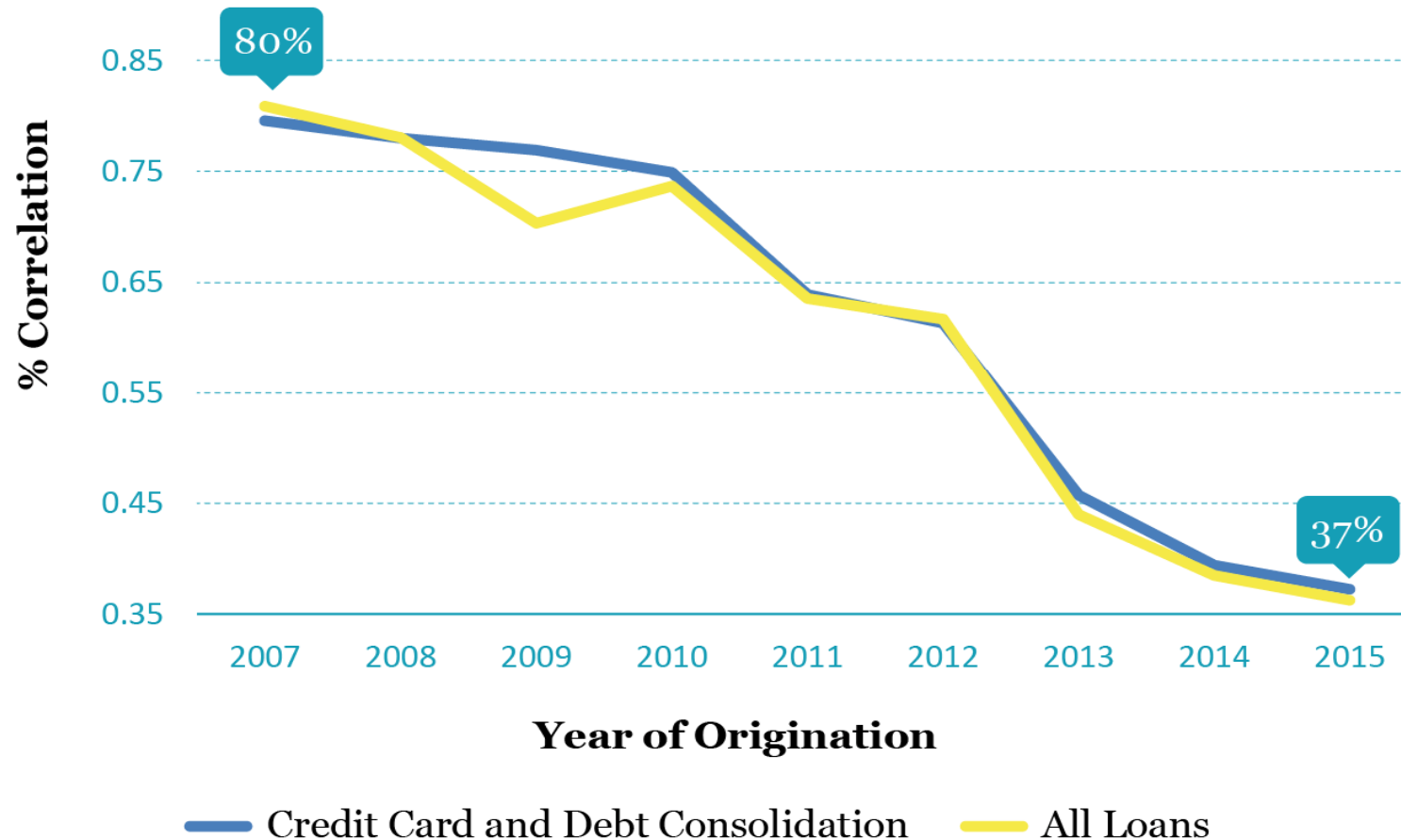


We strengthen the capacity of institutions to deliver market-led, scalable financial services:

- Guiding policy & facilitating partnerships to develop enabling eco-systems*
- Comprehensive, customised strategic advice*
- Actionable, on-site operational assistance and training*

# Digital Credit – High Potential To Financially Include

## Correlation Between Origination FICO and Rating Grade Assigned by Lending Club

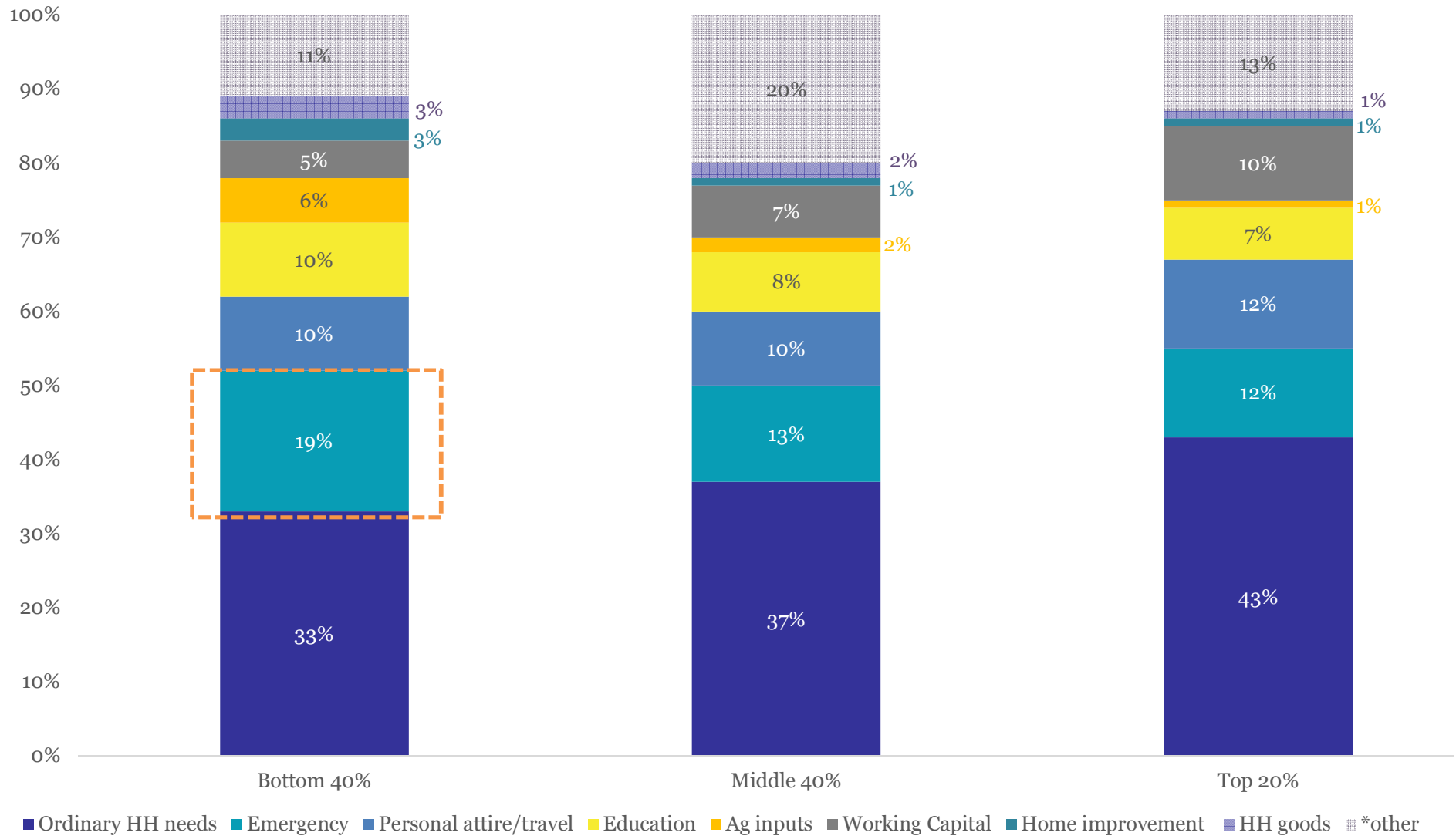






# 1. Evidence from Kenya

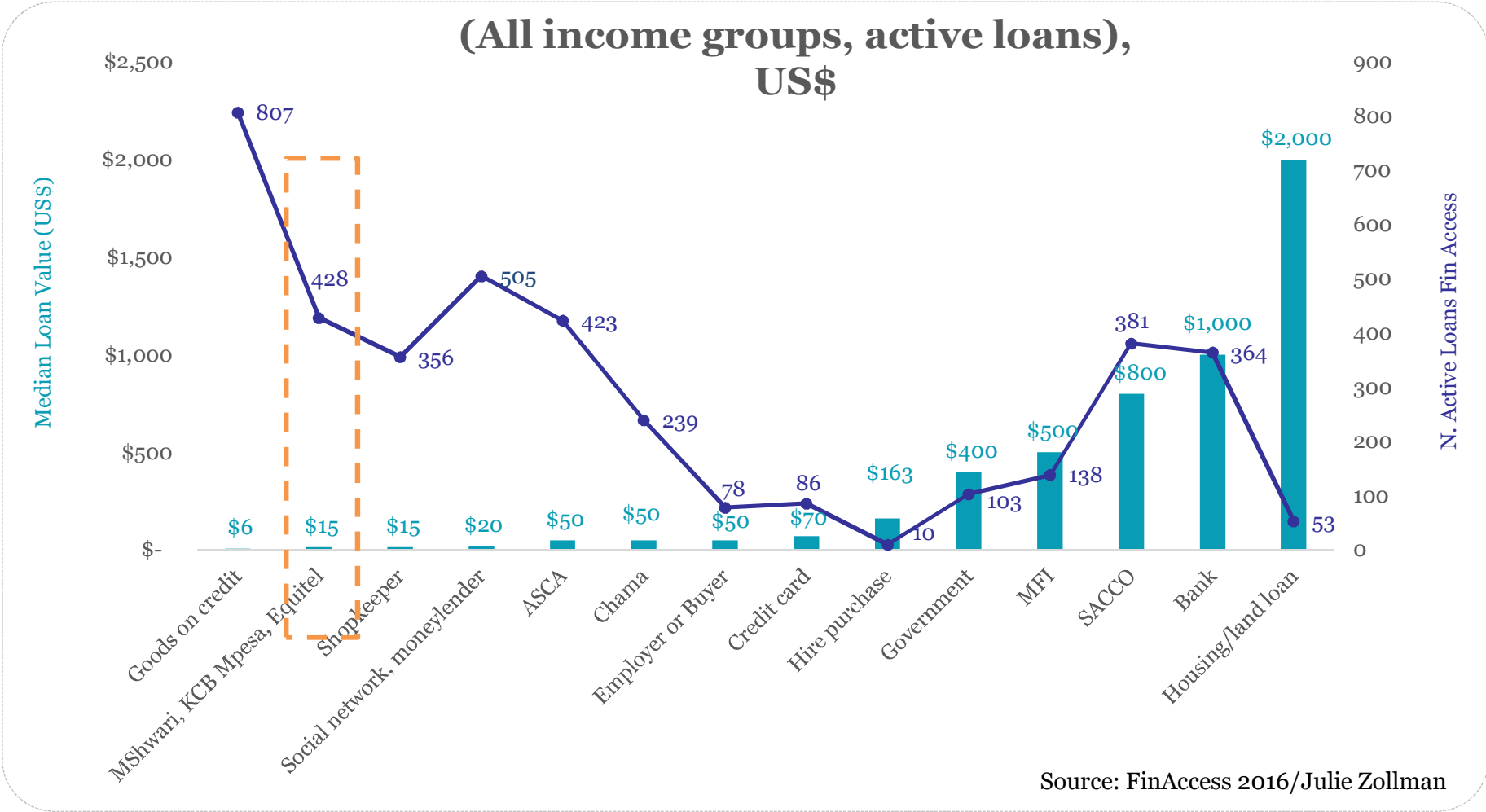
# Digital Loan Uses Similar Across Wealth Groups (but emergencies more common in low income group)



Source: FinAccess 2016/Julie Zollman

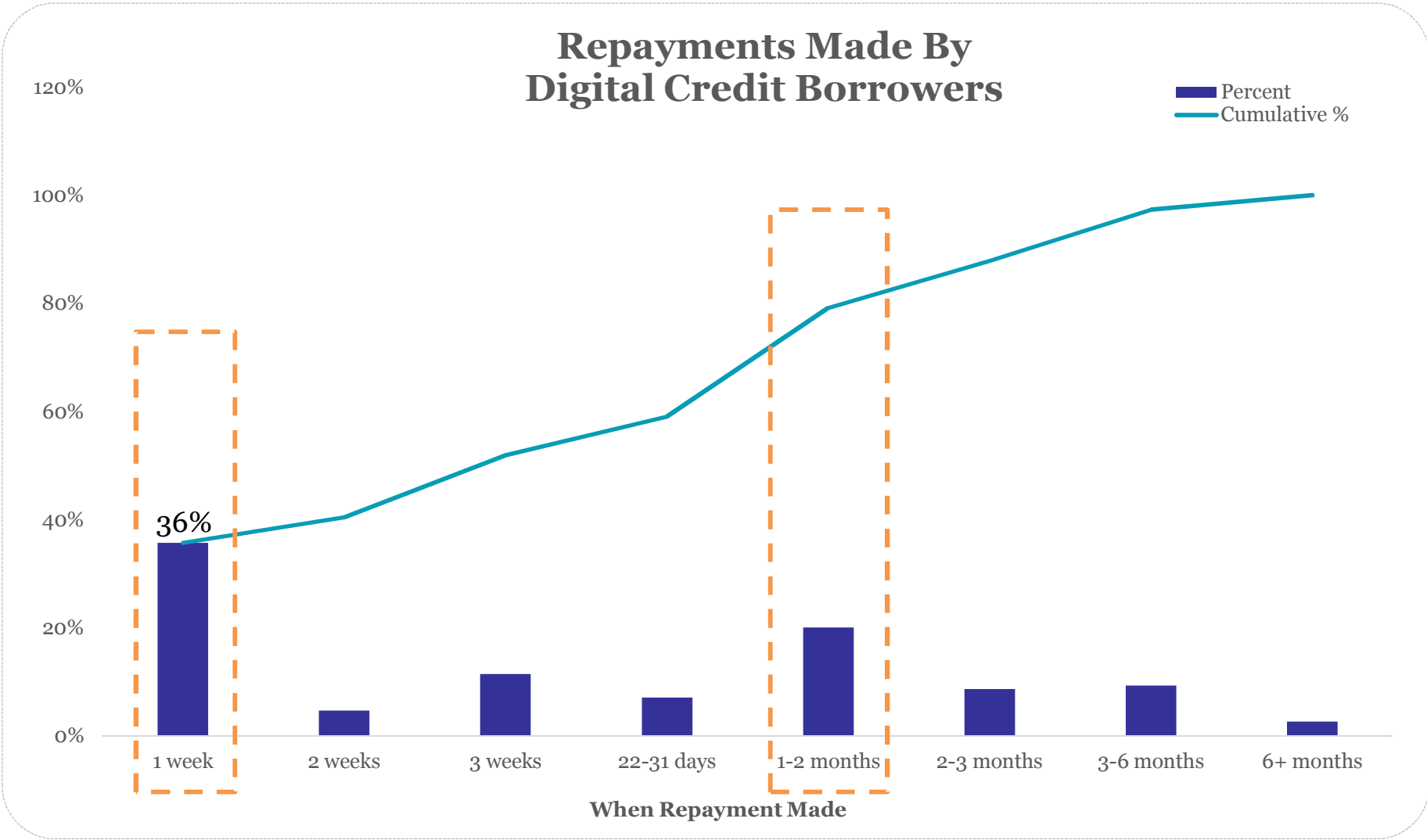


# Digital Credit ... Displacing The Informal



Digital credit is increasingly substituting shop credit, loans from family and friends and shopkeeper/moneylender loans. **Digital credit provides privacy.**

# If Paid ... 52% of Loans Are Fully Repaid With 3 Weeks



Source: MicroSave analysis of TransUnion data

# 3 Digital Credit Borrowers' Persona

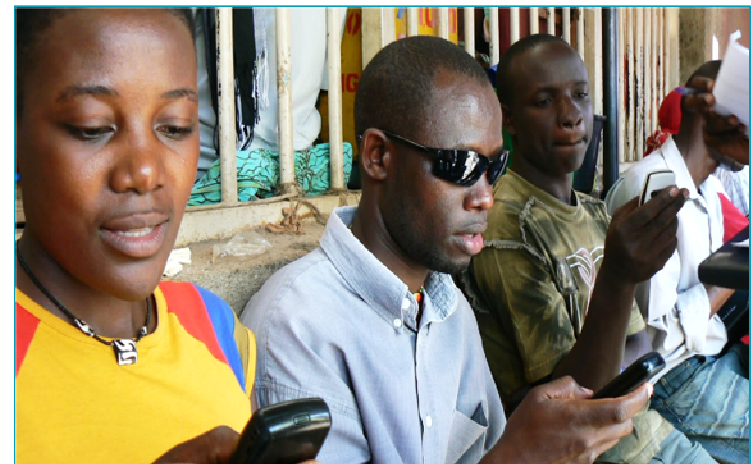
## Repayer






## Juggler



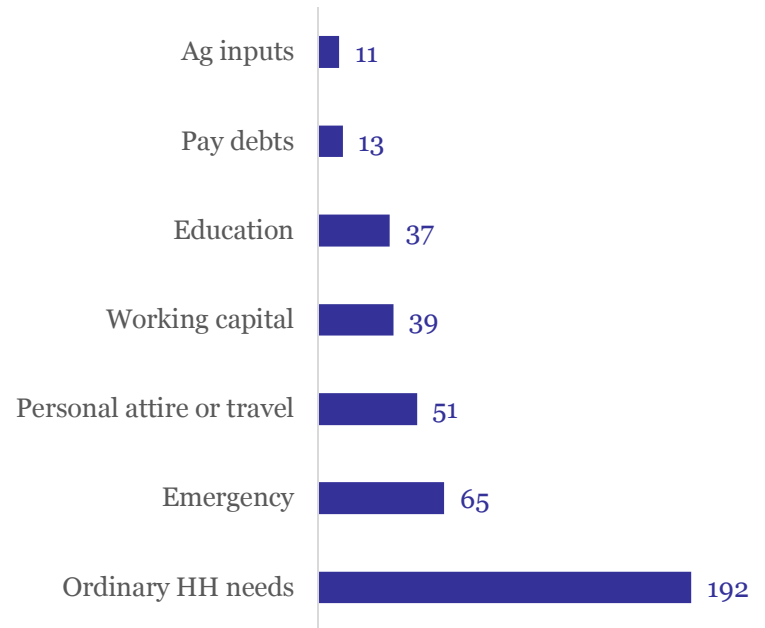
## Defaulter



# 10% of the Adult Population Now Negatively Listed

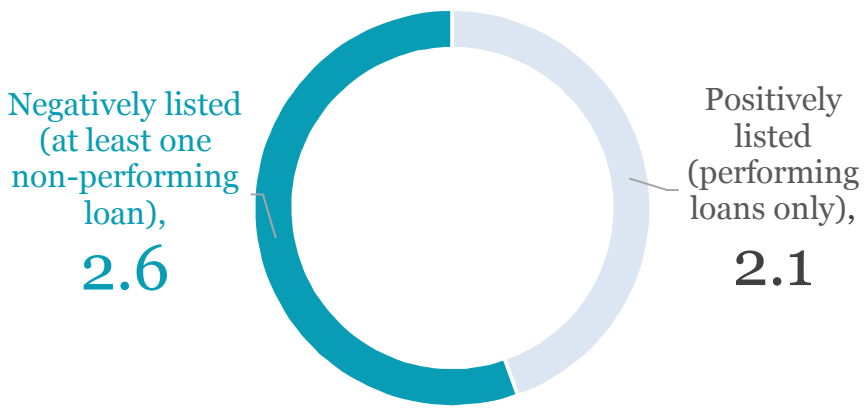
-  ~5 million users
-  Average loan size ~\$35
-  ARP Interest 50-600+%

## Most Cited Digital Loan Uses (N, more than one response allowed)



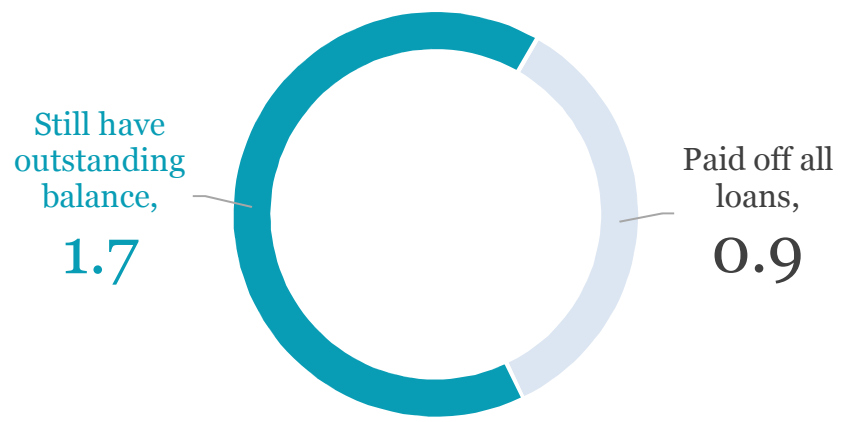
Source: FinAccess 2016/Julie Zollman

## Digital loan borrowers (millions), by listing type



Source: MicroSave analysis of TransUnion data

## Negatively listed digital loan borrowers (millions), by repayment status



Source: MicroSave analysis of TransUnion data

# So How To Respond?

## Regulators/Credit Information Bureau

- Auto submit systems to ensure consistency of data
- Nuanced credit ratings basis amount and number of days overdue
- Mechanisms for customers to check and correct credit history
- Stronger guidance/enforcement on declaring Terms & Conditions
- A ban on push marketing over SMS
- Mandate off-shore, app-based lenders to report

## Providers

- Clarity on Terms & Conditions
- Product redesign to include:
  - Overdrafts
  - Higher amounts, longer repayment terms and interest rates that reflect good credit history
- Increased human touch





## 2. Marginal Evolution in Uganda

# Customer Responsive Product by Airtel Uganda

Target Segment		Loan Amount	Loan Term	Service Fees
<b>Product Features</b>	Customers	Up to UGX. 500,000 (~\$150)	1, 2, 3 and 4 weeks	8%-18%
	Agents	Up to UGX.1,000,000 (~\$300)	1 month	5% - 6%



Offered in partnership with Jumo South Africa



Linked purely to transactions on mobile money and GSM



Launched in March 2017



Creation of risk profiles for all eligible customer (low/medium/ high)



Targeted marketing to eligible customers



Communicating top five critical T&C



Service fees vary based on loan term and risk profile



Not yet linked with any CRB for reporting purposes

## Score Cards

- ✓ **High** for top-up, P2P-sending, cash-in, utility payments, push and pull (to bank account)
- ✓ **Low** for P2P-receiving and cash-out

## Salient Features

- ✓ Customers can **choose their loan term** based on the need
- ✓ **10% on outstanding penalties** for delinquent borrowers
- ✓ **High reported repayment rates** (93/95%) basis tight initial targeting





### 3. Evolution & Revolution in India

# Lending to Merchants Against Card Sales

## Model Design

### Eligibility of the MSE

- Past one year's bank statement
- KYC
- Income Tax Records
- Accepting card based payments

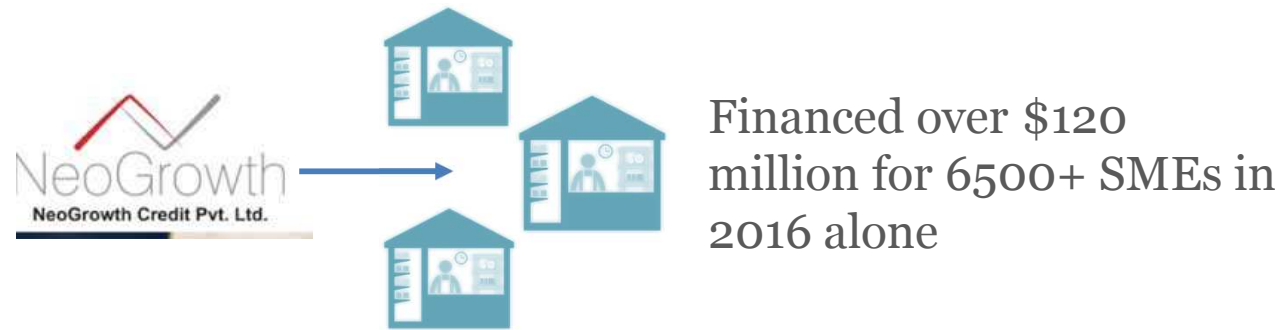


### Repayment Details

- Repayments deducted based on daily sales made on cards
- No penal charges for prepayment

# Lending to Merchants Against Card Sales

## Impact of activity



**50%**

Merchants have improved credit score

**59%**

Merchants witnessed growth in business

**51%**

Merchants experienced an increase in staff

**27.5%**

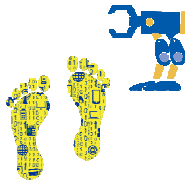
Merchants now get formal funds due to improved profile

# Lending to Merchants Against Card Sales

## Benefits of the model



Customer repayments, and collections managed remotely



Loan decisions automated and leverage nontraditional digital data

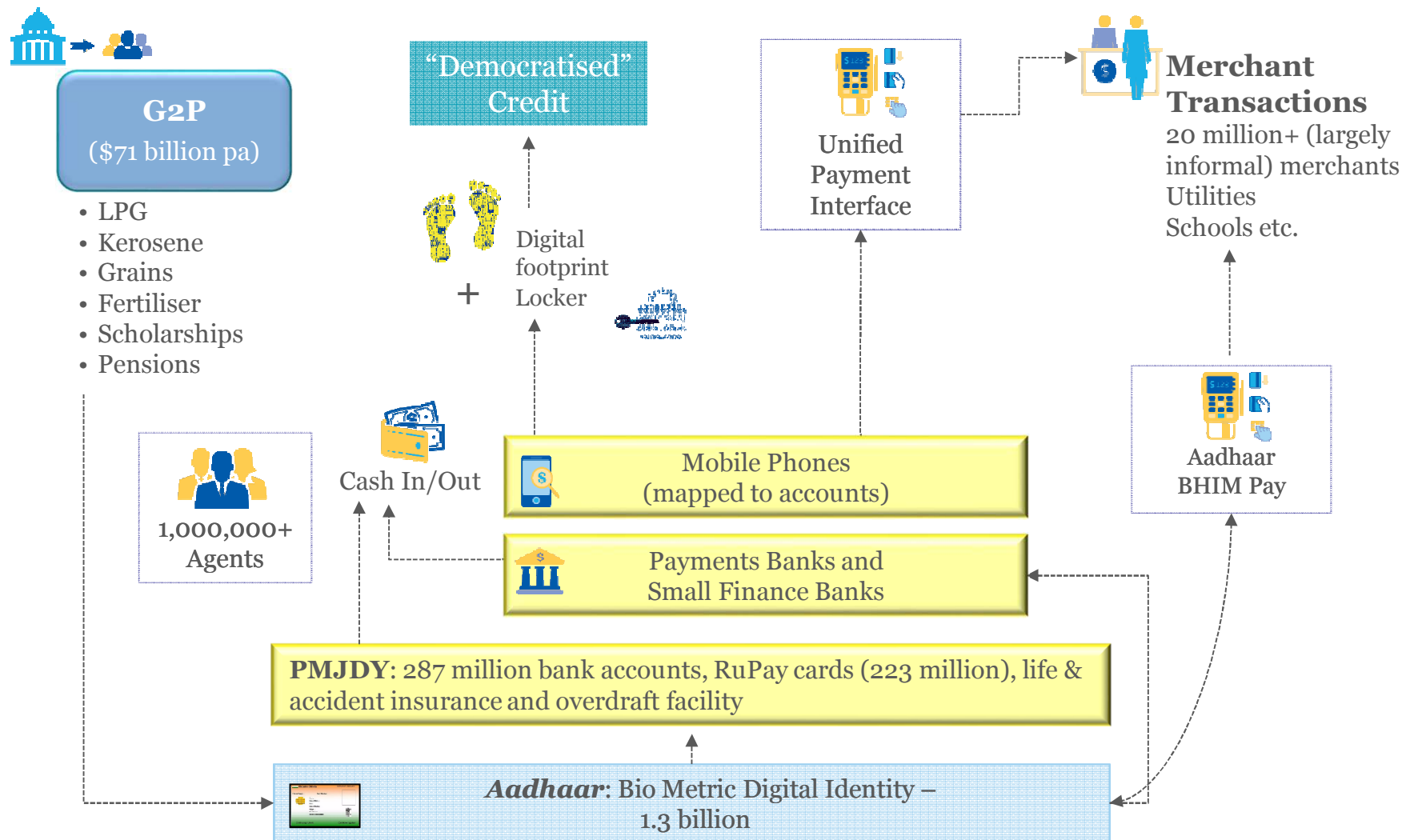


Credit history generated for MSEs



Positive and reliable change in credit rating for client MSEs

# India: An Alternative Approach ... And Outcome?





# Riding India Stack - Lending Against Digital Footprints



### Project A: Merchants

Partners	
India Stack Layers	Presence Less and Cash Less
Technology	
Key Cost Component	Physical KYC (now largely eradicated)

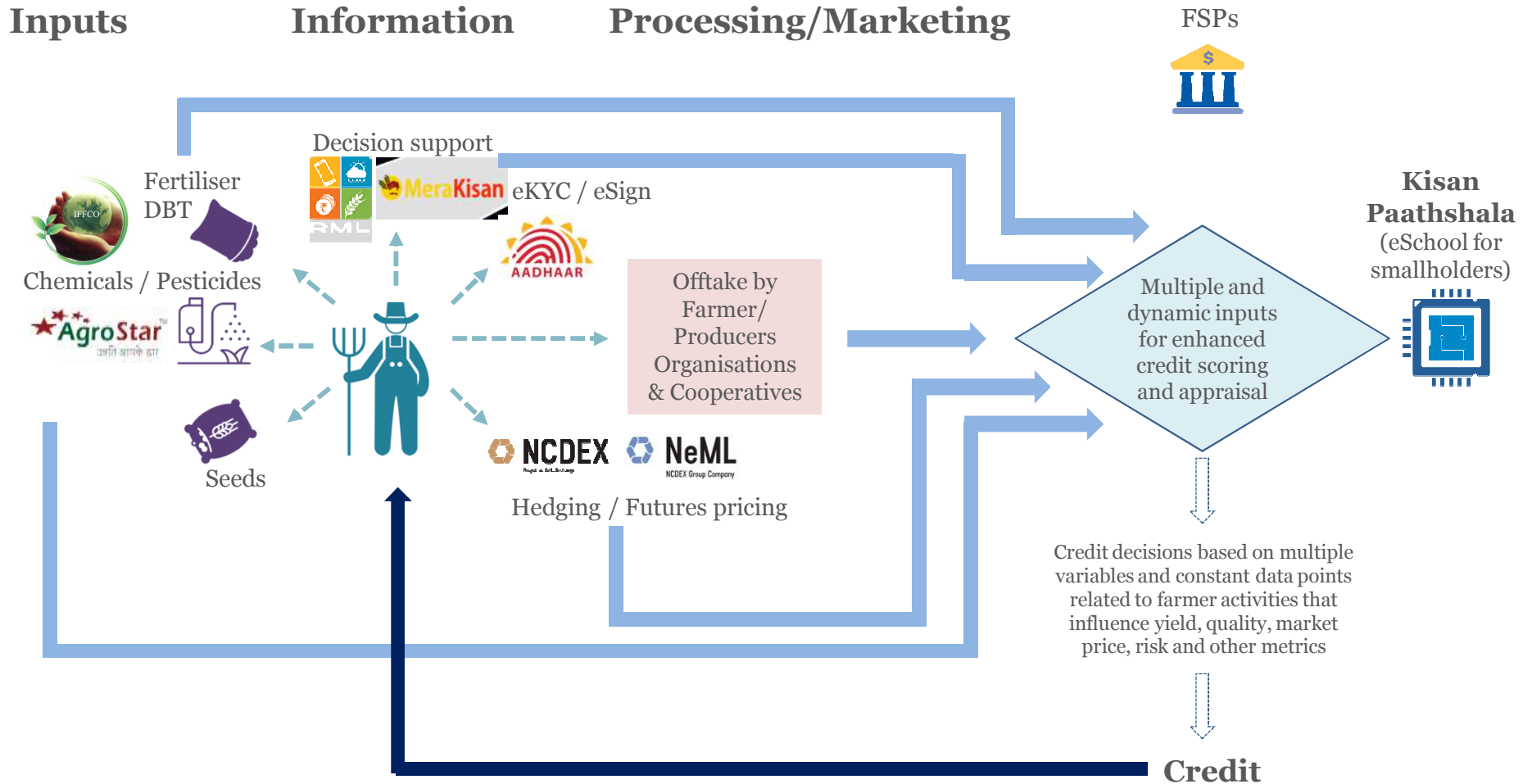
### Project B: Remitters

Partners	
India Stack Layers	Presence Less and Cash Less
Technology	
Key Cost Component	Prepaid Card

## Indicative Cost Comparison across Projects (In USD)

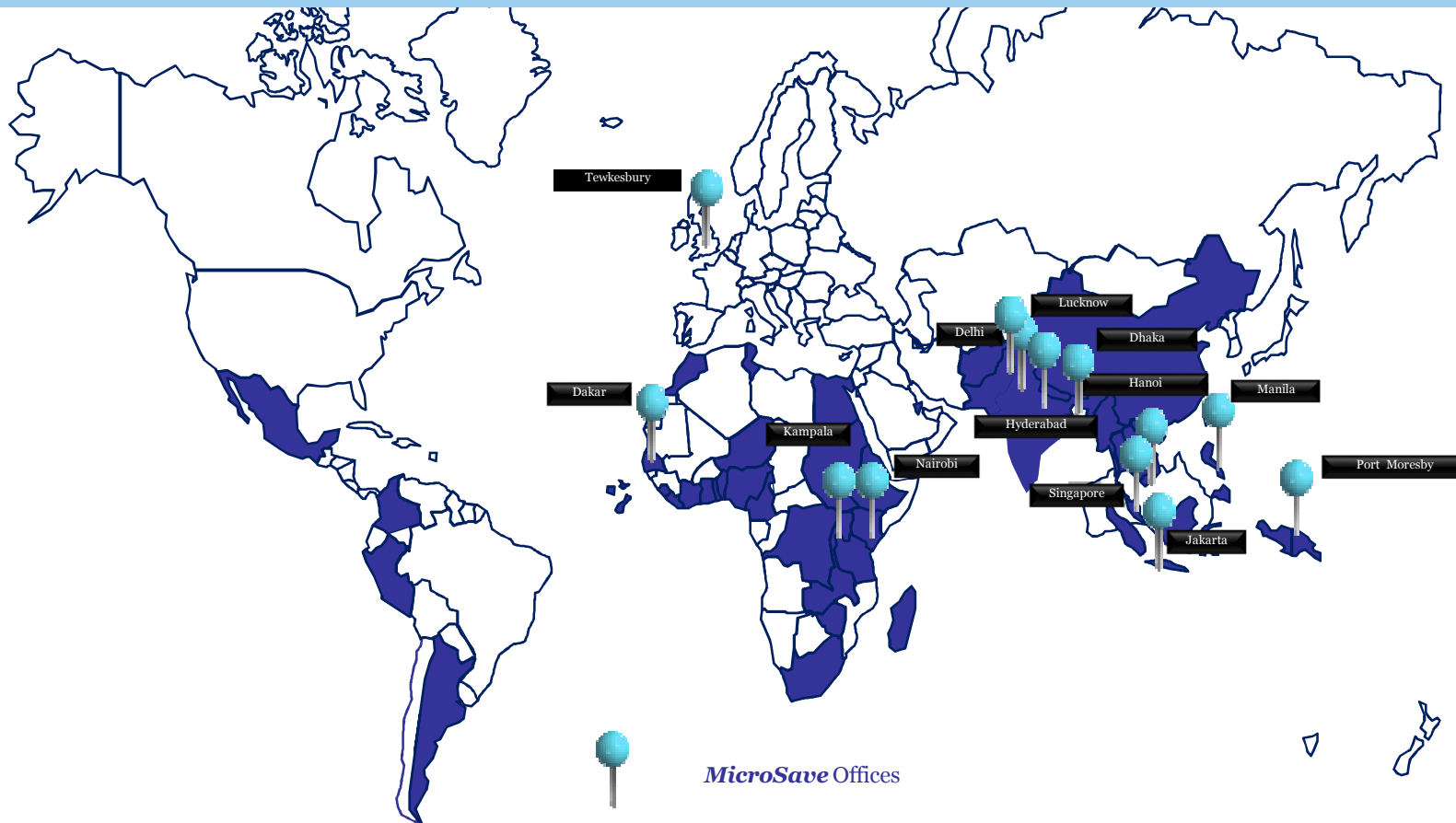


# Using The Digital Locker To Unlock Value For Farmers





MicroSave partners with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value.



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