Impact of COVID-19 on FinTechs

Country: Bangladesh

March, 2021

MetLife Foundation | a2i innovate for all | MSC MicroSave Consulting

About this report

- The early part of 2020 was a nightmare for Bangladesh. The rising cases of COVID-19, countrywide lockdowns, and fear of contracting the virus have taken a toll on the physical, mental, and economic well-being of the people.
- Since March 2020 , the country and all its businesses and startups have been affected drastically by the COVID -19 disruption.
- In this report, we assess the impact of the COVID-19 pandemic on the FinTech ecosystem of Bangladesh. Until the COVID-19 struck, the Bangladesh FinTech industry was growing rapidly. It was rolling out products and services based on gaps in the existing financial services and attracted private capital at an unprecedented pace.
    - How has the pandemic affected the FinTechs?
    - What measures have the policymakers taken?
    - Are these measures impactful for FinTechs?
    - What are the investor sentiments for this sector?
- This report answers these questions. This is the first report in the series and cover April – December 2020. We expect some more changes over time. We will analyze one more phase in the coming months.
- We spoke to a mix of FinTechs and combined this data with credible public sources of information and applied data and sentiment analytics to conduct our analysis and provide insights.

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a2i and MSC conducted a country-wide study to gauge the impact of COVID 19 pandemic on FinTechs

Key objectives of the study

1. Assess the impact of COVID-19 situation on early-stage and established FinTechs
2. Understand the coping strategy of FinTechs and their survival plans
3. Determine investor sentiments and their response to the ongoing crisis
4. Analyze policy implications of government and regulators on FinTechs
5. Understand major policy and regulatory concerns of FinTech startups and bring them to the forefront

Structure of the report

Section 1: Executive summary

Executive summary

Phase: 1

April ‘20 – December ‘20

Phase: 2

January ‘21 – June ‘21

- MSC will conduct the study across **two phases** over twelve months. The current report is based on study of **phase I**.
- The next report will complement this report based on discussions and developments in the market.
- The startup ecosystem in Bangladesh started its journey in early 2010 triggered by the “Digital Bangladesh” project by Bangladesh government.
- It has progressed rapidly, particularly in last five years. As of today, Bangladeshi Startups have attracted over USD 200 million in international venture capital[1], of which 85% was invested on Ride-sharing, Logistic, and FinTech start-ups[2].
- The COVID-19 pandemic has, however, disrupted the ecosystem with lockdown of many economic activities, especially ‘non-essential’ services. Many FinTechs find themselves precariously placed in uncertain times with declining cash reserves and almost no revenue growth.

Customer sentiment

- **Risk aversion**: New customer onboarding is almost nil across all categories except some e-commerce sector players.
- **Policies**: The government has not taken many steps to assist the FinTechs who are hurting during the pandemic.
- **New trends**: Digital payments and online sales are on the rise as people are scared to go out.

Business and capital raise

- **Survival risk**: 60% of early stage startups have less than 3 months of runway threatening 1.5 million direct/indirect job losses[1]. 300 startups are staring at USD 53 million revenue losses[3]
- **Cost cutting**: FinTechs ,especially startups have slashed up to 50% of their operating costs through 25-70% staff pay cuts.
- **Fund-raising**: Investors are only supporting their portfolio companies for the time being

Silver linings

- **Product innovations**: FinTechs are using this period to innovate products and processes to make them more customer-centric during the pandemic
- **Bullish segments**: Customer are prioritizing buying essential items, including medicines, online over offline. In addition, online utility payments and mobile recharges have led to a surge in business for FinTechs in e-commerce and digital payments.

[1]Tracxn | [2]MSC Analysis | [3]LCP

Section 2: Recommendation

Based on the current pandemic situation and the anticipated new normal, we recommend a few measures that are relevant for the coming months

Challenges	Who should intervene	What should be done
More than 60% of early stage FinTechs have less than 3 months of runway	Startup teams, Policy makers	**OPEX reduction:** : Preserve cash by deferring bonuses and variable payouts. **Government support:** The total response package needs to be around USD 12.5 million (USD 500k each on average *25 Startups) at least. If the big ones survive, the benefit would trickle down to the smaller ones[2]
FinTechs with physical on-boarding touchpoints have recorded zero customer growth	Startup teams	**Remote assistance*:** Leverage video verification and messaging platforms to onboard customers via link-share **End-to-end digitalization*:** Digitalize and automate customer onboarding, engagement and back-end processes
Fear of USD 53 million loss[1] in sales/revenues, FinTechs need fresh capital to rebuild and cover the loss	Investors, Policy makers	**Survival planning:** Assist founders in planning with multiple **scenario analysis** accounting for uncertainty at all levels **Extending credit lines:** Government can provide 100% credit guarantee to banks and MFIs to make collateral free credit available to small scale enterprises which would cover a majority of startups[4]
FinTechs, logistics sector players[3] have reported a loss in revenue by 20%	Startup teams	**OPEX reduction:** Preserve cash by deferring bonuses and variable payouts. Move from license-based tools to subscription-based SaaS tools **Partnerships and mergers:** This sector can bounce back if they improve their operational plan by partnering with e-commerce companies. With the onset of lockdown, some of the e-commerce sector players have reported a 50% increase in business

[1]VCPEAB | [2]LCP | [3]LCP | [4]DataBD

Policy makers   Investors   Accelerators such as GP, Banglalink   Startup teams

However, due to uncertainties of lockdowns and pandemic's duration, the recommendations will change or strengthen based on the situation at that time

Challenges	Who should intervene	What should be done
Business models of many FinTechs have been disrupted because of the pandemic	Startup teams; Accelerators such as the FI Lab; Investors	**Strategic consolidation:** Identification of larger players with relevant use-cases for acquihires and merger and acquisitions to avoid losing negotiating power in distress deals **Mentoring and support:** Investors and accelerators can help portfolio FinTech startups to build robust and implementable business plans, switch focus from scalability to profitability
FinTechs find themselves looking at prolonged period of softened demand as consumption decreases across Bangladesh	Policy makers	**Tax boost:** Government should lower good and service tax (GST) rates on digital payments to increase adoption **Nudge**: Create awareness campaigns in localities to promote health benefits of contact-less payments
With travel restrictions, startups are struggling with new business origination	Startup teams; Accelerators such as the FI Lab; Investors	**Community engagement**: Create community engagement tech-platforms as first-stop for portfolio companies **Network:** Early-stage FinTechs should forge partnerships with established players to build for identified use-cases
Pandemic induced behavioral changes have adversely impacted customer acquisition strategies and product-market fit	Accelerators such as the FI Lab	**Technical assistance**: FinTechs should reassess user behavior to adapt their offers to optimize uptake in digital payments adoption **Product prototyping**: As consumers move towards contact-less transactions, FinTechs need to modify existing and new products to map to the newly created consumer segments

Policy makers   Investors   Accelerators such as GP, Banglalink   Startup teams

Section 3:
Role and impact of ecosystem players on FinTechs

Investors are focused on current portfolio companies and are risk-averse for new investments; however, this will change over a period of time

What are investors thinking about:

1. **Survival rate** – Investors are looking for entrepreneurs who can pivot business models to support changing consumer demands during the crisis, and those who can also explore strategic partnerships. These entrepreneurs should also be focused on cost reduction rather than just raising funds

2. **Allocation of capital** - Entrepreneurs can expect more questions and expect advice for frugal use of capital by VCs

3. **Valuations in near term** - Startups need to revise sales forecasts and do scenario analysis with cost-cuts to extend their runway. Entrepreneurs can expect more questions around RoI and profitability than ever

4. **Recovery** - The recovery stage will last more than a year with right investments from local and international investors as Bangladesh has already proved to be an enticing investment destination

Outlook on future FinTech investments

Credit FinTech	Government has announced multiple stimulus packages for SMEs including FinTechs offering credit solutions. Banks and FinTech startups need to leverage the relaxations offered by the government
Insurtech	Insurance penetration in Bangladesh stands at a meagre 0.57%, the lowest among emerging Asian countries. More attention to the mass market from the providers and regulatory reforms can increase awareness translating into demand in post COVID-19 world, insurtech is likely to see increased inflow of funds
Enablers / Payment	Digitalization of processes, post COVID-19, will increase revenues and reduce cost of the business for startups. The demand for increased digital payments, directly or indirectly, will increase in the present scenario
Established FinTechs	Bangladesh Bank's focus on leveraging MFS as emergency services will boost participation of established FinTechs to implement solutions on a large scale, hence increasing their business.

Regulators and policy makers have introduced a range of measures to respond to the crisis

The **Government of Bangladesh (GoB)** announced a generous **USD 11.7 billion economic stimulus package** with several components targeting different parts of the private sector. 27.5% out of the total fiscal stimulus package is allocated for the SMEs as working capital for next 3 years

Impact: As a result of this move, startup associations such as VCPEAB proposed the government for a grant of USD 53 million for startups out of the stimulus loans worth USD 3.2 billion allocated for SMEs

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The **Government of Bangladesh (GoB)** announced USD 58 million insurance package for frontline workers.

Impact: InsurTechs can benefit from such actions to promote online insurance facilities by designing tailored products for customers

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The **Bangladesh Bank (BB)** is working with the World Bank to introduce a partial credit guarantee scheme with an initial USD 300 million to share some of the potential losses with banks

Impact: This will support the early stage FinTechs to avail the credit guarantee scheme to enjoy collateral free loans

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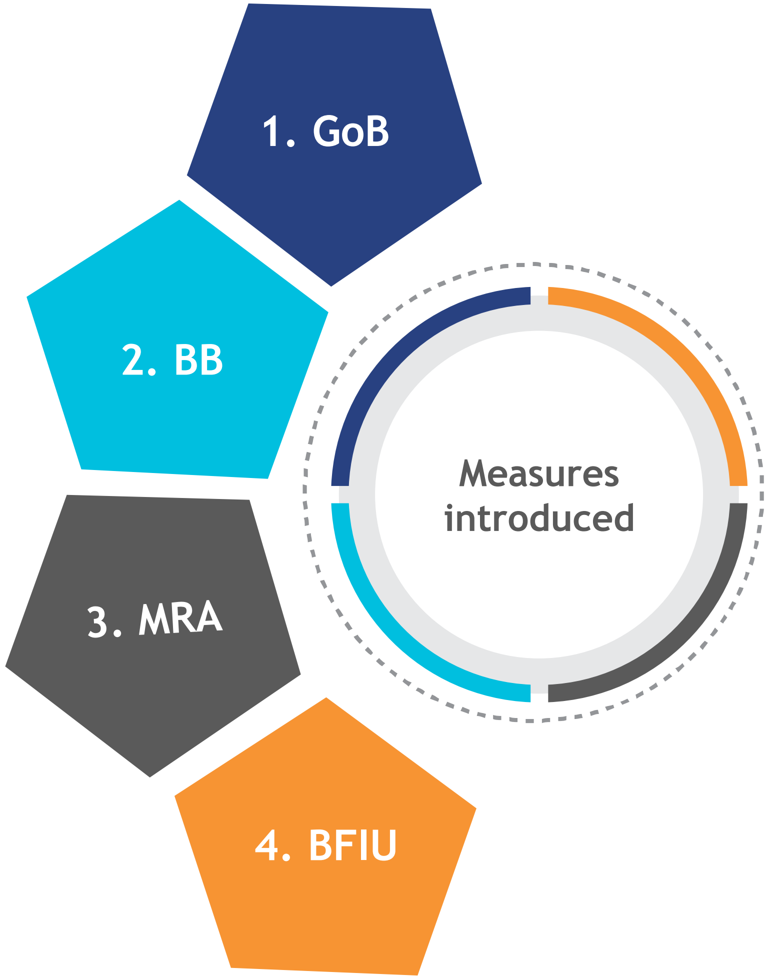
MFIs have already made use of digital wallets to start their operation in the field, therefore a large number of population will be already using digital mobile money. T**he MRA** has instructed MFIs to take such initiatives to disburse and receive funds from the customers.

Impact: FinTechs can use this opportunity to target the customers already using digital wallets. This will help them to reduce customer set up and collection costs while also maintaining social distancing practices.

BFIU has issued guidelines to promote electronic opening of accounts for illiterates. The account opening process was traditionally paper based, which required applicant's wet signatures.

Impact: This will promote use of digital means for KYC and reduce the cost of customer acquisition.



Several international and government policy measures to reduce the impact of COVID-19 have affected FinTechs in different ways

Policies	Impact		Insights
Government announced 18 stimulus packages worth USD 8.6 billion specifically for RMG workers, MSMEs and other low income groups	↑	D	The lion's share of the package of USD 7.98 billion is repayable loan. In other words, this is a liquidity support. Local startups, including new-age FinTechs, involved in the government distribution process can leverage this grant to conduct more businesses.
Government announced USD 236 million stimulus as working capital loan for cottage, micro, small and medium enterprises (CMSMEs)	↑	I	A welcome move, this is likely to catalyze injection of liquidity in smaller enterprises who are also clients or users of certain products and services of FinTechs.
USD 2.4 billion foreign fund has been fast tracked by World Bank[1] for COVID 19 support for Bangladesh	↑	I	Foreign funds would reduce the pressure on the government. Some of the funds can be used for the startups sector which has already lost more than USD 50 million in sales
Extension of repayment moratorium until March 2021	↓	D	New banks and NBFIs have lost the confidence of the people and thus lack the necessary deposits to tackle this huge challenge. Liquidity needs to be provided to all classes to avoid default by borrowers. This will put credit FinTechs at risk of delinquencies[2].
The economic recovery packages declared in 2020-2021 budget so far have totaled USD 12.15 billion	↑	I	Agriculture sector will receive a generous amount of fund according to the 2020-2021 budget. This means agritechs can also play a key role using this opportunity to introduce new and better approaches.

[1]World Economic Forum | [2]MSC Analysis D Direct impact I Indirect impact

Section 4: Coping strategies adopted by FinTechs

Most FinTechs are devising varied coping mechanisms to respond to the challenges of the pandemic[1]

01

Optimizing existing product features

- Using the existing app and platforms such as Facebook (f-commerce) to offer essential products and services
- Digitalizing more product features

02

Bracing for fundraising crunch

- Focus on positive unit economics to survive and sustain
- Prioritizing collections through digital means

03

Realigning internal processes

- Social media to monitor demands and reach out to customers in compliance with social distancing norms

04

Humanizing customer engagement

- Opening up more digital customer engagement touch-points
- Gauging customers' focus, priorities and empathizing with them

05

Adjusting staff work profiles

- Transitioning to working remotely
- Multi-skilling employees to handle varied roles

06

Increasing runway

- Layoffs[2] and pay-cuts of up to 70%
- Cost reduction in consumer acquisition
- Renegotiating fixed costs
- Cutting down variable costs

07

Targeting new customer segments

- Introducing new beneficiary segments to offer government relief using mobile wallets
- Diversification of range of products and services

08

Launching new products

- Introducing need-based COVID-19 products and services such as digital credit
- Understanding the trend of products and services on demand post COVID to design new line of products/services

Annex 2(a) and Annex 2(b) for details | [1]DhakaTribune

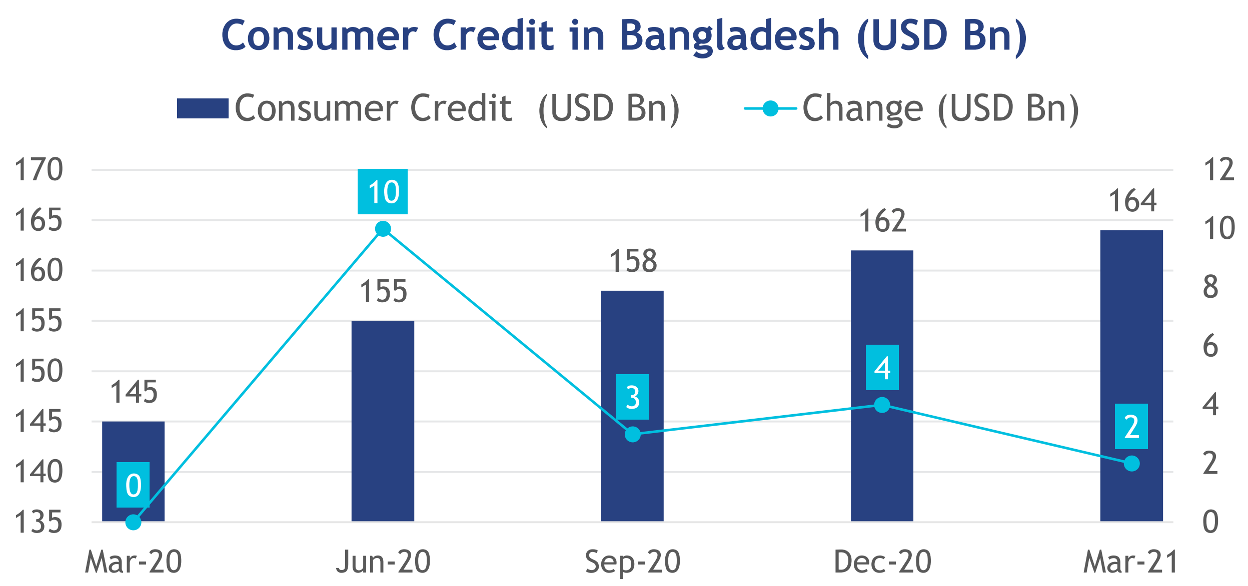
Section 5: Impact of COVID-19 on FinTechs

Digital credit startups are likely to face disruptions due to the pandemic and policy announcements[1]

The COVID-19 crisis rubbed salt in the wound for the credit sector

- Before COVID-19 arrived, Bangladesh was tipped to be one of the top performers in terms of growth and a rare beneficiary of the US-China trade war
- Fresh foreign direct investment with millions of factory jobs were shifted from China to Bangladesh which led the economists to expect an 8% growth in 2020
- While Bangladesh faced problems with bad loans with an 11.4% default rate (highest in South Asia), the increase in consumer credit from March '20 to Dec '21 shows a light of hope.
- Consumer credit in Bangladesh reached USD 164 billion (all time highest) in March '21 despite the bad debts
- When the pandemic hit, consumer credit decreased to USD 145 billion in March '20 from USD 148 billion in Feb '20.

- Consumer credit in Bangladesh defied the prediction to fall to USD 142 billion by June 20 quarter, according to Trading Economics global macro models and analysts' expectations. In actual, it reached USD 155 billion by June 20 quarter
- While repayment moratorium has helped borrowers, it has added to the liquidity crunch for lenders



[1]Trading Economics | MSC analysis

Credit startups are facing a liquidity crunch due to lockdown of the factories for two consecutive months

Key target segments

- RMG Workers
- LMI

Key products

- Consumer credit

Primary drivers pre COVID-19

- Increase in demand for urban micro-credit
- Better marketing and positioning
- Low cost of operation

Impact on Product

- Consumer credit for RMG workers to purchase FMCG items remains the main product
- No significant changes in product offerings across the board, yet.

Impact on Organizational culture

- Plans to lay-off employees if the business can not resume operations within the next month
- Pay-cuts however, have been already introduced to reduce costs and increase runway
- Focus on digitalization and automation of internal processes including employee upskilling to reduce OPEX

Impact on Business model

- Extension of payment time for existing customers has adversely affected the revenue streams, at least until the moratorium is lifted
- Some banks and FinTechs are offering credit facility to selected customer segments to avoid bad debts
- Digital purchases are encouraged rather than cash transaction to adhere to contact-less norms.

Overall credit market risk and falling repayment rates have left credit startups facing a severe liquidity crunch

Refer to Annex 1(a) for details | **MSC analysis**

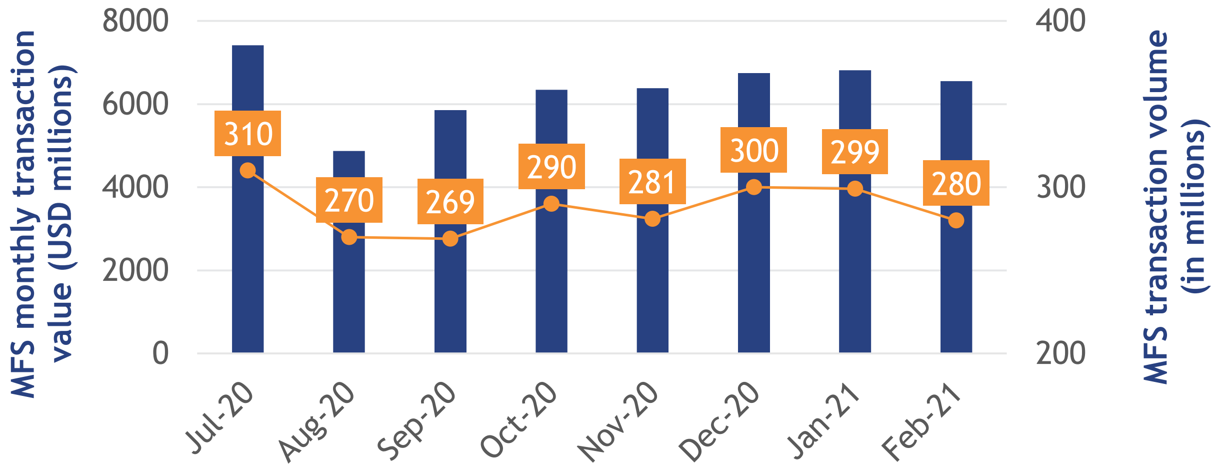
Increased adoption of digital payment platforms is helping e-commerce startups to flourish in the pandemic

Post-pandemic period could be potentially beneficial for e-commerce

- Overall, e-commerce industry could face around **USD 410 million** operational and inventory losses amid the COVID-19 shutdown.
- Financially, **82%** of the e-commerce firms have been **severely impacted**, **1.5%** of firms are **not impacted**, and about **16.5%** have been **moderately impacted** by the shutdown
- However, a number of e-commerce sites had substantial increase in online orders after lockdown.
- Online grocery stores experienced 2X to 3X growth in the number of deliveries from average **5,000** orders-per-day jumping to **10,000 to 15,000** orders-per-day
- Online purchase of medicine, safety and sanitizing kits, has increased a lot in this pandemic and panic buying has also fueled uptake and usage of e-commerce platforms
- This happened due to increased adoption of digital payments by urban and semi-urban populations
- The rural population is also increasing their use of digital payment platforms due to the lockdown

- Focus on essential items and limited quantities, as compared to buying high value, discretionary items has led to a declining trend in transaction volumes since the COVID-19 pandemic started in early 2020
- A steep decline in MFS transactions: 27% from March to April 2020 was due to the limited delivery operations during the lockdown
- Utility bill payment through MFS channel also decreased by 37% in April 2020 after the announcement by the GoB to extend bill payment time to June 2020. July 2020 saw high MFS transaction due to increase in inward remittance, salaries and bonuses
- Since August 2020, there is a steady increase in MFS.

MFS monthly transactions in value and volume



Product diversification can play an instrumental role in helping startups to recover

Key target segments

- LMIs
- MSMEs
- E-commerce

Key products

- B2B2C payment space
- B2B marketplace
- B2C payment aggregator

Primary drivers pre COVID-19

- Countrywide penetration of Facebook
- Online accessibility of products and services
- Supportive DFS ecosystem
- Rising consumption levels in general

Impact on Product

- E-commerce startups who used to provide non-essentials have started offering online medicine and essential goods
- More than 1 million electricity bill users made payments digitally since March 26, 2020. This implies more people are adopting to digital wallet in this pandemic

Impact on Organizational culture

- Payment FinTechs, owing to their more matured stage as compared to other FinTech-subcategories, have not introduced layoffs or furloughs
- However, pay cuts up to 50% to the existing employees has been introduced as standard cost-cutting strategies across the board

Impact on Business model

- Revenue streams have been restructured with the introduction of new products and services aligning with the demand of the customers during the crisis
- Cutting customer acquisition costs and capitalizing on digital collection methods are the primary focus areas during the pandemic crisis

Increase in digital wallets resulted in boom for some e-commerce FinTechs

Refer to Annex 1(b) for details | **MSC analysis**

InsurTechs can play a key role in the impactful implementation of government’s insurance incentives for Covid-19 frontline fighters

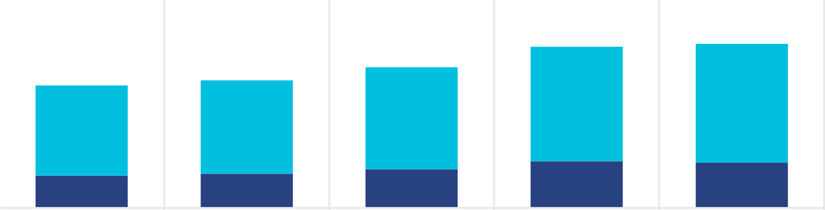
Insurance coverage in Bangladesh[1] is lowest in emerging Asia

- South Asia in general will see an unprecedented growth with over a quarter of global primary insurance premiums likely to be generated from the region
- The region is set to represent a large share of overall life insurance premiums between 2016 and 2025, rising from 11.6% to 21.7%. Bangladesh[3] is poised to capture some of this growth
- However, the general insurance sector was hit hard due to the pandemic and therefore achieving positive growth in 2020 appears to be a big challenge
- However, GoB has announced stimulus package of USD 88 million for health and life insurance for those affected while on duty during COVID-19 to keep the insurance industry moving
- Digital insurance policy has been introduced to cover COVID-19 related expenses of 100,000 individuals by Digital Health. They have already a customer base of 5 million who are potential clients for the policy.

- Pre COVID-19 insurance penetration as a percentage of GDP has witnessed a steady decline from 2015 to 2019.
- Investments in both life and non-life insurance companies have significantly declined during the period between 2015 and 2019.
- Insurance penetration (insurance premiums as a fraction of GDP) in Bangladesh has been only 0.7% in 2016.
- However, life insurance is observing a 4% slow rise from 2018 to 2019 which whereas Non-life still struggling to maintain a consistent number.

INSURANCE PREMIUMS[2] 2015 - 2019

■ Non-Life Insurance (USD million) ■ Life Insurance (USD million)



	FY15	FY16	FY17	FY18	FY19
Life Insurance (USD million)	860	893	974	1093	1134
Non-Life Insurance (USD million)	310	326	371	447	435

[1]DhakaTribune | [2]Insurance Information Institute | [3]BIABD

InsurTechs are pivoting their product, business and staff to service COVID-19 induced demands

Key target segments

- Frontline Health Workers
- Other frontline service workers
- MFI borrowers

Key products

- Digital model
- Tailored products aligning with customer needs

Primary drivers pre COVID-19

- Increased awareness
- Need for tailored products for consumers
- Digital transformation

Impact on Product

- Some InsurTechs have rolled out **need-based COVID 19 specific products**
- InsurTechs have started pro-actively informing existing customers on whether their policies cover COVID-19 related illness
- Government intervention on providing special insurance and stimulus package for public frontline workers in the fight against COVID-19

Impact on Organizational culture

- Public and private sectors who are providing services during the pandemic are eager to avail insurance for their employees as well
- Regulatory tweaks such as digital claim settlement have allowed InsurTechs to operate digitally and seamlessly

Impact on Business model

- InsurTechs that cater to LMI segments have had a physical leg in their model, typically for acquisition. The pandemic has hit this model hard with **up to 100% halt in business**.
- InsurTechs are pivoting towards digital onboarding, verification and payment collection. This helps them stay in business and also reduce operational costs

Despite the increase in leads and demand, physical distribution of LMI-focused InsurTechs has been adversely impacted

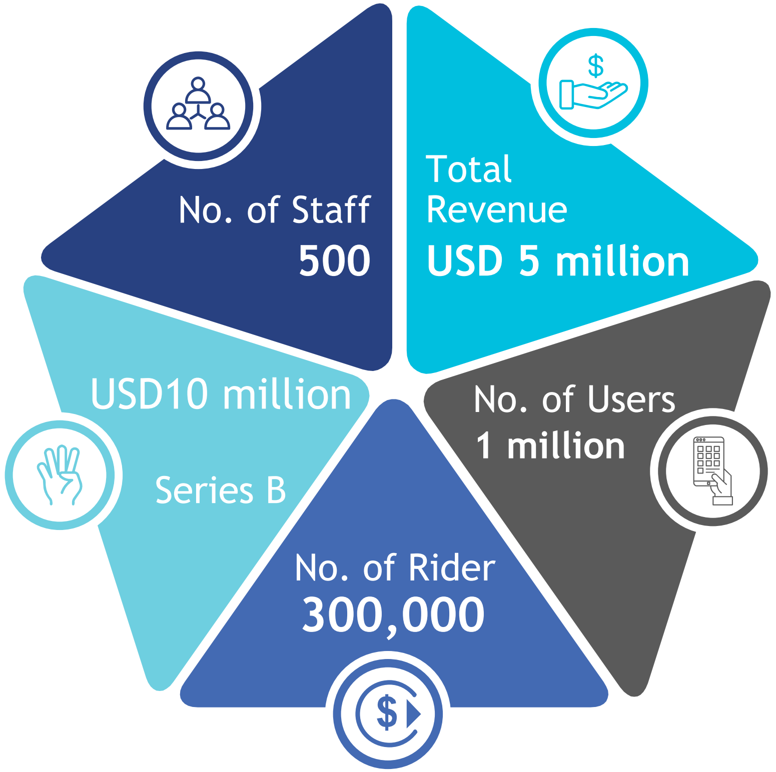
Refer to Annex 1(c) for details | **MSC analysis**

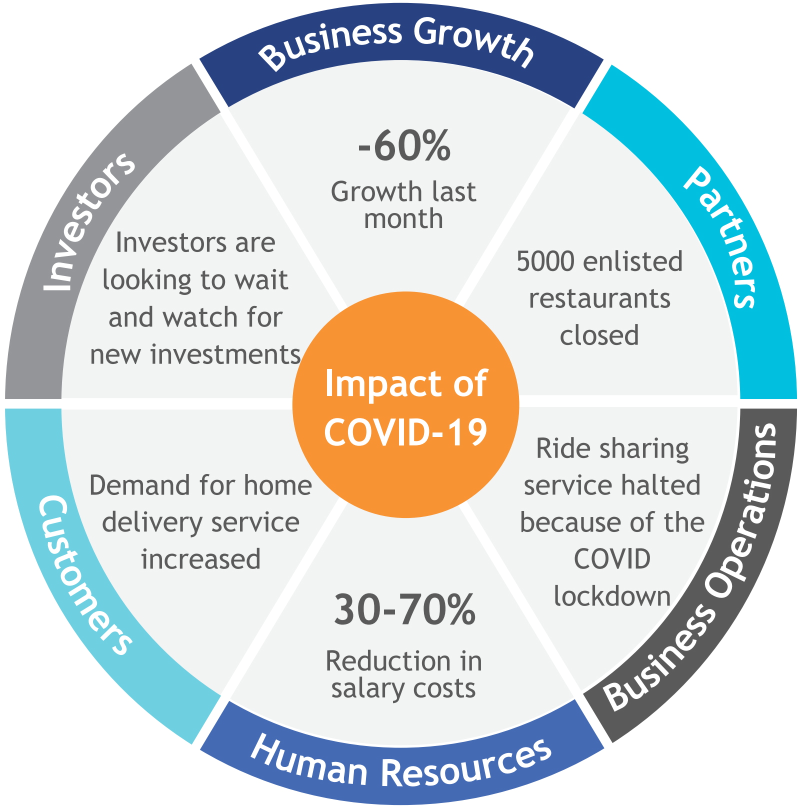
Section 6: Case studies

Case Study #1: Pathao

An on-demand essential digital platform for delivering essentials

Current Status





Coping Strategy

01 Burn Rate
Cutting down OPEX on salaries

02 Business Model
Developed new products for digitalized customer support

03 Partnership
Involvement on private and government activities

What policies should the Government introduce

- The government can fund a concessionary loan program with the loan amount based on the last six months' payroll, a tenure of five years with balloon repayments, and interest rate of 1%;
- For low income earners, a grant fund can be disbursed through and accounted for by the start-ups
- A full exemption of VAT and withholding taxes on revenue and expenses of start-ups for the current and next fiscal year may be considered in light of the crisis.

Refer to Annex 3(a) for details

Case Study #2: ShopUp

Key attributes

Year founded: 2016

Customer base: 200,000

Category of the start-up: Enabler/livelihood FinTech

Business model
Pre-COVID: Market place for online and offline merchants
During COVID: Marketplace for medicine and essential products

Key offering
Pre-COVID: Non-essential products
During COVID: Medicine and essential products

Employee strength
Pre-COVID: 500
During COVID: 500

Summary

ShopUp is a one stop solution platform for micro entrepreneurs who sell products. ShopUp's digital commerce and credit services are geared towards enabling micro entrepreneurs to start a business and avail more capital for their business easily as they grow.

Impact of COVID-19

Investors: ShopUp received some funds just before the pandemic started

Product: Focusing on deliveries of medicines and essentials

Customers: 50,000 active customers at the month of April 2020

Business Operations: Disruption on delivery due to restriction on movement by government

Rebuilding and recovering from the pandemic situation

Rebuilding focus: Operational strategies and customer behavior

Expected recovery time: 18 months

Technical support for recovery: Data and analytics

Govt. should announce support policies that differentiates startups from bigger established players

Case Study #3: bKash

Digital payment solution during COVID-19

Current Status

No. of Staff
1000

Funding
USD 56 million

As physical cash can be another medium of infection, customers feel more safe to use MFS. Therefore more people are relying on mobile financial services for daily and contactless transactions

Impact of COVID-19

Demand side

- During the emergency announced by GoB, USD 65 million through bKash has been transacted in one day
- 50,000 new wallets of RMG workers every day

Supply side

- Monthly Send Money limit has been increased to USD 2,356 from USD 883
- In order to purchase essential goods such as groceries and medicines, customers do not need to bear any charge through MFS
- "Corona Info" icon has been added to the menu of bKash app

Coping Strategy

01 **Reduce Fees**
Cash out fee reduced

02 **Partnership**
Businesses switched to online channels

03 **Digital Chain Management**
To help to achieve medium-term solutions to tackle the crisis

What policies should the Government introduce

- Central bank should increase the limit on the amount of money transferrable from a qualified account
- Government needs to ensure enough liquidity so that a situation does not arise where digital money is there but banks do not have enough liquidity for the conversions.
- Big data analysis is required for rehabilitation work during post-COVID-19 times.

Kamal Quadir,CEO, bKash

"If liquidity cannot be ensured among the agents, then services cannot be provided"

Section 7: Annexures

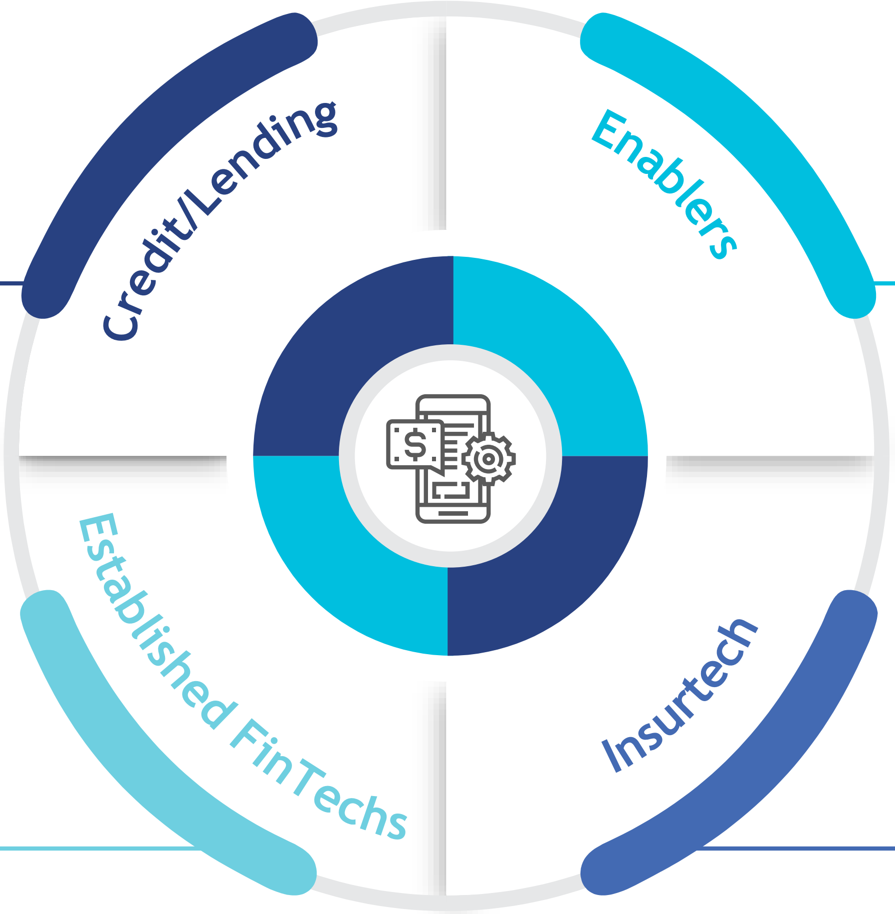
Abbreviations used in the report

	Full forms		Full forms
BB	Bangladesh Bank	LMI	Low and middle income
BFIU	Bangladesh Financial Intelligence Unit	M&A	Mergers and acquisitions
CAC	Customer Acquisition Cost	MFI	Microfinance institutions
CEO	Chief Executive Officer	MFS	Mobile Financial Service
CMSME	Cottage, Micro, small & Medium Enterprise	MSME	Micro, small & Medium Enterprise
CRR	Cash Reserve Ratio	NBFI	Non-Banking financial institutions
DFS	Digital Financial Services	NPL	Non performing loan
DH	Digital Health	OPEX	Operating expense
EKYC	Electronic-You-Know-Customer	P2P	Peer to Peer
EMI	Equated monthly instalment	PwC	PricewaterhouseCoopers
FDI	Foreign Direct Investment	ROI	Return on Investment
FI	Financial Inclusion	RMG	Ready Made Garments
FMCG	Fast-Moving Consumer Goods	SME	Small & Medium Enterprises
GoB	Government of Bangladesh	USD	United States Dollar
GST	Goods and services tax	VAT	Value Added Tax
KYC	Know-Your-Customer	VC	Venture Capital
LTV	Loan to Value	VCPEAB	Venture Capital and Private Equity Association of Bangladesh

Overview of sub-categories of FinTechs we are tracking

Credit FinTech addressing poverty in a pro-poor approach by effectively using their vast customer database and providing digital credit

Enablers generate opportunities through new products, new solutions or opening up new markets



Established FinTechs in Bangladesh provide automated and improved financial services to reach as many as 3.1 million customers

InsurTechs offer tailor-made and byte-sized insurance policies to customers by partnering with insurance manufacturers in the backend

Annexure 1(a): Data on impact of Covid-19 on credit/lending startups

Parameters	Sub-parameters	Pre-COVID-19	COVID-19 first wave
Product Offerings	Types and number of products	B2C lending	Modified – B2C lending to targeted segments who are employed in RMG sector
Customer retention and on-boarding	Number of customers	~10,000	~Zero customer as all the factories are closed down
	Demand-side behavior	Customers were keen to avail the products which were 10% less than at retail outside the factory	New customers are not interesting and the existing customers are only receiving 60% of their salaries limiting their demands for the products.
Revenues and expenses	Revenue per month	$119,048	$0
	Burn rate	$14,286	$14,286
Business model	External	Partnership with FMCG companies who provide goods in discount	Increase the timeframe of payment for customers
		Certain human touch points with customers were appreciated	Trying to digitize the whole process due to the pandemic
Organizational culture	# of employees	~40	~40
	X% average pay-cut	NA	NA

Annexure 1(b): Data on impact of Covid-19 on Enablers/skilling/livelihood start-ups

Parameters	Sub-parameters	Pre-COVID-19	COVID-19 first wave
Product Offerings	Types and number of products	• On-demand Maintenance Services Platform • Ride-sharing platform • Digital platform for micro entrepreneurs • Payment domain	Medical and essentials products are offered due to the increase in demand during COVID-19
	Third party products	Non-essentials	Medicine and essentials
Customer retention and on-boarding	Number of customers	~250,000	~70,000
	Demand-side behaviour	Customers were keen to experience new ways of consuming products	Consumption decreasing due to lack of business in lockdown and fear of being infected, therefore only availing essentials products
Revenues and expenses	Revenue	$20,000-$70,000 per month	$20,000- $63,000 in the month of March 2020
	Burn rate	$35,000-$60,000	$44,000-$60,000
Business model	Impact on model	Inclusion of women in different segment of the business	Distribution of regular items have been halted due to the lockdown
	Impact on processes	Digital transformation to make the service faster	Manual intervention in certain cases due to urgency of business
Organizational culture	# of employees	~314	Planning to downsize by 25%
	X% average pay-cut	N/A	~50%

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Annexure 1(c): Data on impact of Covid-19 on Insuretechs startups

Parameters	Sub-parameters	Pre-COVID-19	COVID-19 first wave
Product Offerings	Types and number of products	Life and non-life both	• Special insurance and stimulus package for government frontline roles in the fight against COVID-19. • New digital insurance policy to cover coronavirus related expenses for all segment of customers
	Third party products	Rural cross-selling business of financial products and services (especially MFI borrowers)	MFI operation has stopped for a few months and so has the rural cross-selling business in rural areas
Customer retention and on-boarding	Number of customers	The combined market penetration is less than 1%	The combined market penetration is less than 1%
	Demand-side behaviour	• Lack of awareness and lack of public education and trust. • Difficulties faced by customers while availing an insurance policy due to distribution challenges on the part of insurance providers.	• LMI segment finds it difficult to prioritize insurance over livelihood and debt repayment • Finding and buying an insurance policy is not a great experience for most people yet. • Lack of trust and fear of losing money
Business model	Impact on model	• As per PwC's Analysis, the non-life segment expected to grow • More industrialization led to demand for fire and property insurance	• Health insurance has been given more importance due to COVID-19. • New products are designed to cater customer need
Government Support	Stimus Package	N/A	US$60 million for health and life insurance for those affected while on duty by government

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Annex 2(a): Most FinTechs, nonetheless, have devised varied coping mechanisms as a response to the crisis (1/2)

Adjustments in product features

- Most FinTechs have already tweaked their products and services to provide support in COVID-19 crisis
- Focus on improving the current suite of products to make them more customer friendly keeping the pandemic in mind
- InsurTechs are coming up with need-based COVID 19 insurance products
- Established FinTechs are adding more features to their products and services and also assessing the norms to understand the demand pattern in the future

Adjustments in business model

- New ways of acquiring customers as physical means of customer acquisition is completely off. e-KYC can play a major role to secure new customers at low cost
- Physical legs of the value chain have been crippled as well forcing FinTechs to go completely digital.

Adjusting staff work profiles

- FinTechs have accepted that remote working is the new norm
- Glitches experienced by operation teams who front-end with regulators and incumbent financial institutions have been progressively getting smoother
- Focus on automation to gradually replace human capital intensive workflows
- Technology department across the FinTechs have seen the least amount of layoffs/furloughs

Adjustments to increase runway

- Cutting down on fixed costs as much as possible including office and associated amenities, fixed lines etc
- Upto 60% of costs can be people costs in terms of salaries and bonuses – pay cuts of up to 70% have been introduced with deferred increments and cancelled bonuses
- Reduction of workforce and laying off contractual employees

Annex 2(b): Most FinTechs, nonetheless, have devised varied coping mechanisms as a response to the crisis (2/2)

Realigning processes

- FinTechs are circumventing the physical legs of their customer journey using novel approaches. One of the enablers that we interviewed said they have gone completely digital to provide medicine and essentials to customer’s doorstep
- FinTechs have also been proactively communicating to their staff and customers regarding meetings or any important updates via social media platforms

Cutting down on OPEX

- As focus on positive unit economics increases, FinTechs across the board have slashed marketing costs- in some cases by as much as 100%
- Customer incentives and cashbacks have been rolled back to bring down customer acquisition costs
- Established FinTechs such as bKash has increased their marketing budget as digital means of payment has become extremely popular in current scenario

Targeting new customer segments

- Credit FinTechs are trying to differentiate between risky and safe borrowers to lend money. Software glitches can affect such process adversely

Launching new products

- Most FinTechs we spoke with are still analyzing the demand trends before committing to new product development
- Insurtech players have already started with tailored need-based COVID 19 insurance products
- Pathao, a ride sharing platform has relaunched Pathao "Tong", an on-demand essentials and Pathao “PHARMA”, non-prescription and OTC medicine home delivery service

Annexure 3(a): Pathao

Parameters	Sub-parameters	Pre-COVID-19	During COVID-19 -phase 1
Product Offerings	Types and number of products and services	Mobile app, website, logistics Vehicle for hire, Delivery (commerce)	“Tong", for on-demand essentials and “Pathao PHARMA”, non-prescription and OTC medicine home delivery service
Customer retention and on-boarding	Number of customers	1,000,000 users	~50%-60% decline
	Demand-side behaviour	In 2019 Pathao became the first major ride-sharing service providing company in Bangladesh leading the market	Zero demand on ride-sharing but increase in demand for home delivery services of medicine and essentials
Revenues and expenses	Revenue	$5.5M	~50%-60% decline
Business model	Impact on model	• Lack of investment • After Uber launched its motorcycle service in Dhaka, Pathao’s daily ride number came down to about 20,000	The home delivery service of medicine and essentials ensured customer safety during COVID-19
Organizational culture	# of employees	~500	~500
	X% average pay-cut	N/A	30%-70% decline

Annexure 3(b): bKash

Parameters	Sub-parameters	Pre-COVID-19	During COVID-19 -phase 1
Product Offerings	Types and number of products and services	Payment system	- Discount on medicine and essentials - Increase in send money limit - COVID-19 information icon introduced in the App
Customer retention and on-boarding	Number of customers	31million active users	50,000 new wallets of RMG workers every day
	Demand-side behavior	bKash is holding above 80 % share of the total MFS market in Bangladesh as DFS is being promoted both in rural and urban population	During the emergency announced by the GoB, US$65 million through bKash has been transacted in one day
Revenues and expenses	Revenue/Sales	US$230 million in sales	14% increase in revenue
Business model	Impact on model	Partnership with government, NGOs and private financial players Increasing digital shopping, introduction of the QR code and cash back offers Tax payment via MFS	bKash to charge only 0.4% cash out fee for wages amid coronavirus shutdown Bangladesh Bank has declared bKash as essential service provider
Organizational culture	# of employees	1,000 employees 180,000 agents	1,000 employees 180,000 agents
	X% average pay-cut	N/A	No pay-cuts or lay off

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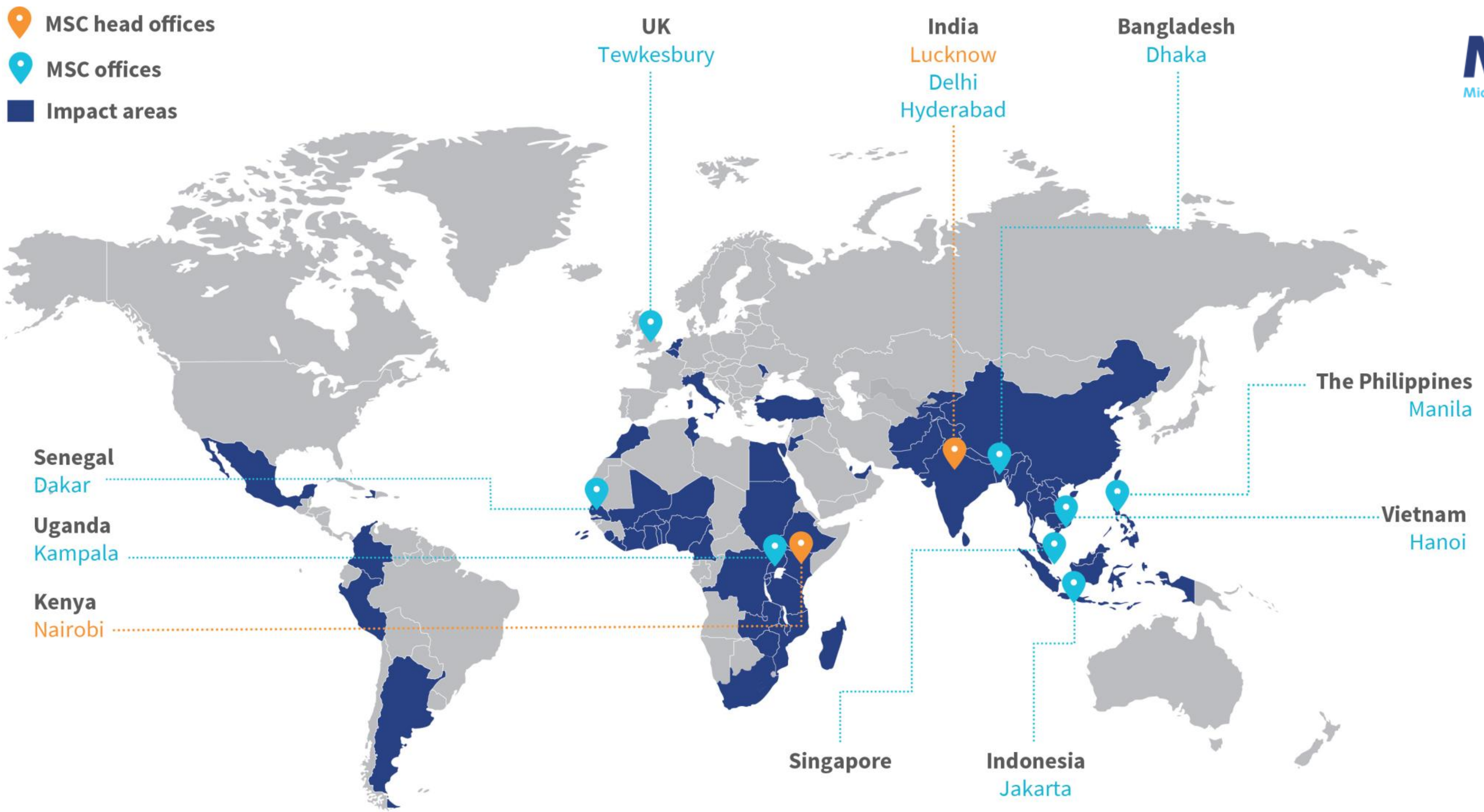

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