2015
TAKEUP OF DIGITAL FINANCE IN POOR AND UNDERSERVED POPULATIONS IN ASIA

FDC
The Foundation for
Development Cooperation

B.W T.P.
Banking With The Poor Network

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INTRODUCTION

In the nexus between development, financial inclusion and the digital economy, "digital finance" has become all the rage. The Global Partnership for Financial Inclusion – started by the G20 in 2010 – held a major conference with the Bank for International Settlements in late 2014 on digital financial inclusion. Significant organisations such as the World Bank, Brookings Institution and the Alliance for Financial Inclusion have undertaken research on the topic. Private donors have provided grant funding to expand the reach of digital financial services to the unbanked.*

The promise of digital finance is enticing. With the borderless, instantaneous and low cost delivery that all things digital represent, digital finance holds the potential to provide universal access to financial services – a long-held dream in a world where more than 30 per cent of the global population still has limited or no access to basic financial services. As World Bank Group President Jim Yong Kim stated, *"As early as 2020, instruments such as e-money cards, along with debit cards and low-cost bank accounts, can significantly increase financial access for those who are now excluded."***

Populations that are poor and/or underserved from a financial services perspective are found across the Asia Pacific region. In this context, financial inclusion refers to access to basic banking services – generally defined as transaction accounts, a formal savings account and appropriate levels of credit. Across the Asia Pacific region, the World Bank Group's Global Findex Database 2014 shows less than a third (31%) of all adults in Bangladesh, Philippines and Vietnam have or share an account, compared to Japan and Singapore where almost all (96% or more) adults have or share an account.

This paper focuses on populations that are suffering financial exclusion due to poverty. Key factors that often contribute to financial exclusion are distance to locations that provide financial services, and the tendency for the poor to have small transactions with low account balances such that private financial entities may not earn a commercial return from servicing this population. Digital finance can address these challenges through its mobile channels and economies of scale.

The promise of digital finance to expand financial inclusion is exciting – but what is the reality of developments on the ground? How widespread is the takeup of digital finance in poor and underserved populations in 2015? How far away is a future of full digital financial inclusion, and what are the opportunities and challenges in fulfilling this vision?

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For example, UNCDF and MetLife initiative in Nepal; Bill and Melinda Gates Foundation researching uses of blockchain technology for interoperable payments solutions; Mastercard and IFC partnership on risk-sharing facility for issuance of debit cards.

***Speech on 11 October 2013, http://www.worldbank.org/en/news/press-release/2013/10/11/universal-financial-access-vital-reducing-poverty-innovation-jim-yong-kim*

PULSE CHECK FROM THE FRONTLINE

Through its affiliation with the Banking with the Poor Network (BWTP), the Foundation for Development Cooperation (FDC) can access the collective wisdom of frontline practitioners in financial inclusion across Asia. BWTP is a member-based organisation with more than 90 members across 14 countries in Asia. Many of its members are themselves the peak bodies of microfinance providers. The majority of BWTP members are microfinance institutions (MFIs) and non-governmental organisations (NGOs) that are not for profit and are focused exclusively on increasing financial inclusion for the poor and underserved in their areas.

This year, FDC asked BWTP members about the takeup of digital finance amongst their customers.

The results of the survey provide early evidence as to the penetration of digital financial products and services in Asia. The survey also provides some fascinating insight into the most popular channels for access by the poor, as well as how practitioners in the field view the opportunity for digital finance to progress financial inclusion over the coming years.

OUTLINE OF THE SURVEY AND RESPONDENTS

BWTP members participated in an online survey in July 2015. Responses were received from more than 60 participants representing 10 countries in the Asian region, across Northeast Asia, Southeast Asia and South Asia. Of the respondents, just over 60 per cent were affiliated with microfinance institutions while another 25 per cent were affiliated with non-governmental organisations. The remainder were professionals in the development industry or within government organisations.

The definition of "digital finance" is important. Generally, digital finance refers to financial services or products that are offered through either an online or mobile platform. Products and services can include the "cashless" system (electronic payments, banking and wallets); digital currencies (such as Bitcoin); alternative credit or equity funding platforms such as peer-to-peer lending or crowdfunding; and digital provision of wealth services such as robo-advice.

Amongst the poor and underserved populations, the focus for digital finance is basic banking services – payments, remittances, current or savings accounts and small amounts of credit. As such, for this survey, "digital finance" was defined as the provision of financial products or services through electronic means, without paper or face-to-face contact.

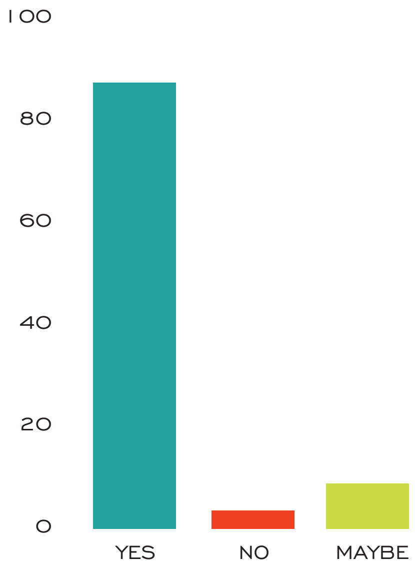
> "(Digital) reduces our financial delivery cost. It's also transparent, secure and easier."

Respondents were asked to comment on the takeup of digital finance by their customers, whether with their own institution or another company or provider. Providers of digital financial services and products may be a financial institution, but may also be another type of provider, such as a mobile network operator. Customers may interact directly with their financial provider to access financial products, but it is also typical that services are accessed through third party retail agents.

1. TAKEUP OF DIGITAL FINANCE PRODUCTS AND SERVICES

Judging from the responses to the survey, the future of digital financial inclusion has already arrived. When asked if there is an increasing use or takeup of digital financial services or products in their country, a significant majority or 88 per cent of respondents replied "yes."

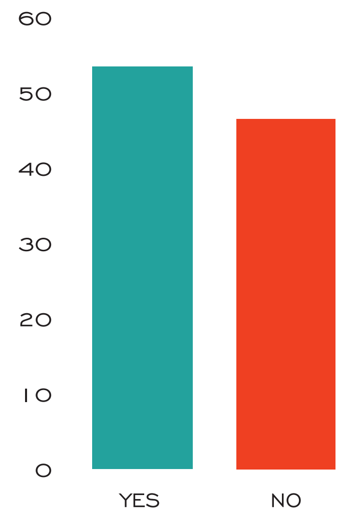
Do you believe there is increasing use or takeup of digital finance products or services in your country?



...a significant majority or 88% of respondents replied "YES".

Additionally, more than half of survey respondents reported that their organisation already provides financial products or services over digital means to their customers. Specifically, 53 per cent of respondents indicated that this was the case.

Does your organisation provide any financial products or services digitally?

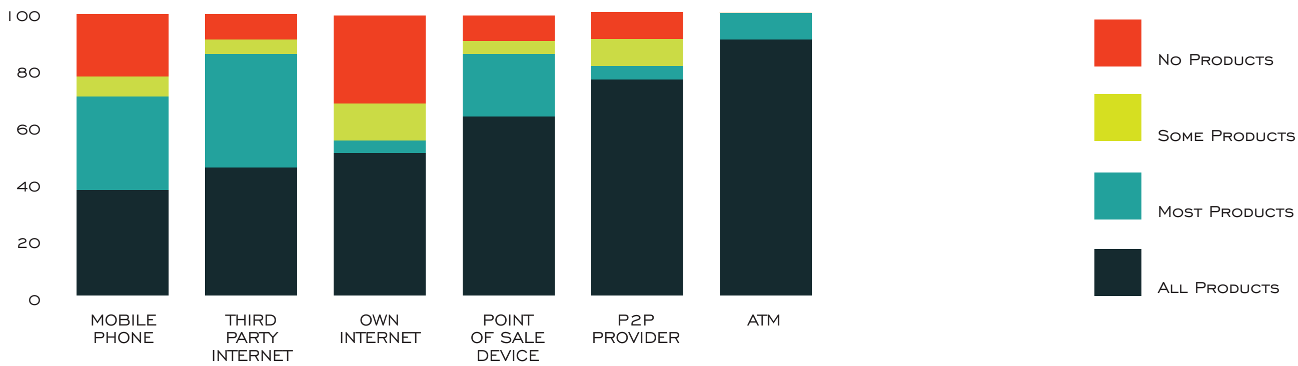


Further investigation into the channels for delivery of digital financial services or products underscores the rapid growth of digital finance. Online platforms and mobile phones are clearly the channels of choice for digital delivery, with more than 60 per cent of respondents indicating they are aware of their clients accessing at least some financial products and services through mobile phones. About 50 per cent of respondents indicated their own-sourced internet or online platforms also deliver financial products or services.

In fact, 31 per cent of respondents indicated that customers access all their financial products and services over their institution's online platform, while 22 per cent of respondents indicated that customers access all their products and services over their mobile phone.

....31 per cent of respondents indicated that customers access all their financial products and services over their institution's online platform....

What proportion of digital transactions are delivered by the following channels and communication modes?



In contrast, less than 40 per cent of respondents believe their customers access financial products or services through a point of sale device, and less than 10 per cent through ATM machines. While peer-to-peer (P2P) lending platforms have grown in many jurisdictions, less than 30 per cent of respondents to this survey indicated their customers as the underbanked and underserved populations in Asia access these platforms.

Reflecting the financial needs of poor and underserved populations, remittances were nominated as the product or service that customers were most likely to access digitally. Payments and access to credit were also nominated as products where more than half of customers sought digital access.

Respondents believed that less than half of their customers are accessing savings, wages or insurance through digital means. The remaining dominance of cash in relation to wages and other receipts suggests the majority of poor and underserved customers of BWTP members have only partially migrated to participating in the digital finance ecosystem.

2. CONSUMER EDUCATION AND FINANCIAL LITERACY

In the emerging literature and case studies on digital financial inclusion, the issue of financial literacy and capability amongst the poor is a popular topic. Financial literacy and capability is often discussed in the development literature as a necessary enabler of sustainable growth. Low consumer understanding of financial products can lead to numerous problems, including overindebtedness, risk of fraud and lack of resilience to financial disruption.

Results of this survey suggest that formal modes of improving financial literacy are having limited impact on microfinance customers. Respondents estimated that more than half of their customers learn how to use digital financial services and products through word of mouth, or contact with friends and family. A further 30 per cent of customers are believed to learn about digital finance through the provider, or a network agent. In contrast, only 25 per cent of customers serviced by providers within the BWTP network are estimated to learn about digital finance through formal education programs provided by the private sector or government program.

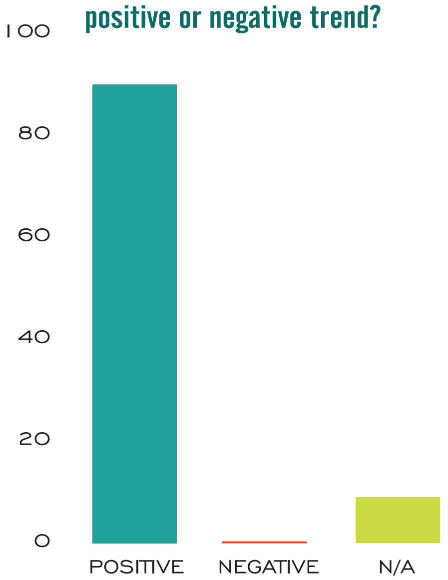
> Respondents estimated more than half of their customers learn how to use digital financial services and products through word of mouth...

The spread of financial literacy through word of mouth is a commonly observed phenomenon, and unlikely to change significantly in the near future. The role of financial providers and network agents in promoting financial literacy through their many touch points with customers is again highlighted in the results of this survey.

3. ATTITUDES TOWARD DIGITAL PRODUCTS AND SERVICES

The arrival of digital finance is viewed as a favourable development by the microfinance practitioners responding to this survey. More than 90 per cent indicated that they believe that increased digital finance takeup is a positive trend.

If the takeup of digital products and services is increasing in your country, do you think this is a positive or negative trend?



In written comments, respondents indicated their positive view is due to a range of factors, including:

- Increased speed, lower / no cost, convenience and user-friendly offering;
- Reduction of operational risk for providers with a diminishing need for movement of cash and simplification of accounts;
- Transparency and ease of monitoring; and
- Reduced risk of fraud.

Amongst respondents to the FDC survey, 62 per cent indicated the arrival of digital finance is having some impact on their business, while 27 per cent indicated a significant impact on their business. **The major inhibitor to further impact seems to be the availability of infrastructure to rural and remote communities, with about 25 per cent of respondents indicating that lack of access (either through digital connectivity or device ownership) was a major inhibitor.**

Comments on the current and potential impact of increased digital finance takeup upon microfinance businesses was largely positive. Respondents cited the push toward continual innovation, need to keep up with the competition and potential for lower operating costs as some of the main positive impacts they are seeing at this time.

One of the most surprising outcomes of the survey was how many respondents cited potential for reduction in fraud as a positive outcome of increased takeup of digital finance. In an open-ended question asking respondents about the main opportunities and concerns with mobile or digital platforms, more than 20 per cent cited reduction of fraud and safety of a digital environment as an important opportunity. Reducing fraud and increasing the security of transactions was cited after the speed, convenience and lower cost benefits of digital transactions.

Interestingly for policymakers, regulation or regulatory frameworks were not cited by respondents as either an enabler of, or impediment to, the takeup of digital finance.

In terms of challenges, lack of access was by far the most significant concern mentioned. Where there is access, stability of power supply, internet and mobile connectivity constrained use. Financial literacy – including the potential for loss of a "human touch" amongst the poor and underserved was an often- cited concern due to its influence on collection and repayment rates. Data confidentiality was viewed as a potential challenge, but one that had not yet come about perhaps due to the still limited nature of takeup of digital finance for many rural and regional communities.

4. CONCLUSIONS AND IMPLICATIONS

The take-up of digital finance in poor and underserved populations in 2015 in Asia is increasing and just over half of MFIs and NGOs within the BWTP network currently provide financial products or services to their customers via digital means. The platforms used by most organisations are mobile phone, third party internet and the organisation's own internet platform.

Remittances were the product or service customers were most likely to access digitally, followed by payments and access to credit. Products or services customers were less likely to access digitally are savings, wages or insurance (likely due to the dominance of cash in relation to wages and other receipts).

MFIs and NGOs in Asia observe that more of their customers learn how to use digital financial services through word of mouth or contact with family and friends, than through formal education programs. The implication here is the important role of financial providers and network agents in promoting financial literacy through their many touch points with customers.

> "The main challenge is how do we keep the human touch... relationship is the primary cause of having high collection in microfinance."

Full digital financial inclusion is some time away. While digital finance offers many benefits to both providers and customers (lower costs, reduced risk and fraud, greater productivity, more transparency, etc.), take-up for populations as a whole remains a function of its inclusiveness. MFIs and NGOs see clearly the benefits, but are constrained in deployment by the digital infrastructure available (and stability of power supply and internet and mobile connectivity) – particularly in rural and remote communities. Access and scale is seen as important in driving take-up, and here government has an important role in deploying electronic transactions infrastructure for government payments and receipts to underpin feasibility of the digital platform in less accessible areas.

> "Without the digital financial products in some poor areas, some work even can not go on."

MFIs and NGOs are almost unanimous in their view that the increasing take-up of digital products and services in their countries was positive both for them and their customers, but there are concerns about data security and confidentiality with increasing involvement of third parties.

There is also a sense that the traditional basis of some forms of microfinance that rely on groups to pool and secure savings and offer credit within the social fabric of local communities, is being challenged by digital finance which is seen as taking away the 'human touch'. The rapid innovation occurring in the digital ecosystem in social media and digital applications will no doubt shape microfinance and offers the opportunity for new thinking about the self-help group model of the future.

> "Electronic payments offer a secure and effective way for people to repay their loans."

ABOUT THE BWTP NETWORK. The Banking with the Poor Network (BWTP) is an Asian association of a diverse range of microfinance stakeholders committed to improving the quality of life of the poor through promoting and facilitating their access to sustainable financial services.

The BWTP Network is the largest regional microfinance network in Asia, with a total current membership of over 90 institutions – comprising MFIs, NGOs, commercial/development banks, microfinance networks, non-bank financial institutions, cooperatives, central banks and service providers.

Over the years, the BWTP Network has evolved from an action research and advocacy program into a network of diverse, but like-minded microfinance stakeholders, keen to improve the quality of life of the poor by facilitating access to financial services through linkages between financial sector institutions, NGOs and Self Help Groups (SHGs). For more details, visit www.bwtp.org

ABOUT FDC. The Foundation for Development Cooperation aims to lead a distinctive contribution to building prosperity in the Asia Pacific region, leading ultimately to a reduction in the incidence of poverty and promotion of equitable growth.

FDC works to build prosperity and reduce disadvantage in developing countries in Asia and the Pacific by researching, piloting and promoting initiatives for development that are market-based and innovative. We facilitate collaboration across the public, private, NGO and academic sectors.

Our core areas of focus are inclusive finance, Pacific-Asia business partnerships and advocating for the Australian business community's role in development in Asia Pacific. For more information or further enquiries, visit www.fdc.org.au or contact info@fdc.org.au

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