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## REPORT ON THE FYXA SRI LANKA PROOF OF CONCEPT



**“Development consists of the removal of various types of unfreedoms that leave people with little choice and little opportunity of exercising their reasoned agency. The removal of substantial unfreedoms, it is argued here, is constitutive of development.” (Amartya Sen, Development as Freedom, 1997)**



## Introduction

In a field survey of 290 men and women (32% and 68% respectively) living in low (USD 356+ pcm) to extreme (USD 0-59 pcm) poverty across Sri Lanka, extent of poverty was not a determinant in the desire for access to more financial services, nor in the understanding of digital financial services, nor in the reported propensity to use financial services delivered through the convenience of digital applications.

Overwhelming response received from the unbanked and financially underserved people in villages and communities across Sri Lanka during this recent FYXA Proof of Concept is that FYXA offers great value by giving them the freedom of access and choice to portfolios of financial services so far unavailable to them and helping them to overcome various financial challenges they experience today.

This has confirmed our assumptions that the people who constitute the unbanked and financially underserved sector are not just ready for digital financial services, they are waiting for them.

This report provides an overview of both consumer and agent responses to a survey on the FYXA value proposition to Sri Lanka's poor.

## What is FYXA?

In simple terms, FYXA offers a portfolio of affordable financial products and services through a digital platform, meeting the multifaceted financial needs of the circa 1.5B underserved across Asia, and providing opportunities for the low income and/or informal sectors of the economy to participate in, and enjoy the benefits of, economic, financial and digital inclusion, through for example:

- access to savings and digital wallets
- the convenience of digital payments
- the ability to access a portfolio of financial services within the one mobile application
- financial planning and goal setting features
- online tutorials on running a business, financial management, savings, insurance etc
- access to a trade marketplace

Working through Microfinance Institutions (MFIs), FYXA will provide access to digital services not currently available to the poor and in doing so, will fundamentally change the value MFIs can offer to their consumers. It will also allow formal institutions, such as banks and insurers, to provide effective and affordable services to a currently difficult-to-serve consumer base.

Working with Regulators and policy makers, FYXA can help to influence

reforms to policy in the different economies of the region where it will be implemented, including reforms to institutional frameworks that can address and enable inclusive growth and development opportunities for the region's poorest.



## Executive Summary

Three primary tests were conducted on consumers in the sample:

1. Understanding of, and appetite for, different financial services planned to be offered by FYXA
2. Ease-of-use of the prototype FYXA Consumer application
3. Demand for other services not currently offered in FYXA

Overall the responses showed a clear understanding of, and strong preference for, the convenience of digital financial services across a spectrum of services tested in the Proof of Concept. Overall the responses showed very high receptiveness to the FYXA Consumer application which are described in further detail in the report, but most notably:



Few other services not already provided through FYXA were suggested by the respondents, the most common being:

- medical information, such as geo-location of doctors and clinics, as well as general tutorials on health and wellbeing issues
- online shopping, mainly grocery shopping
- transport services.

## Consumer findings

As an emerging market, Sri Lanka has some distinctive attributes that should be considered in terms of digital financial solutions. Primarily it is the relatively high levels of education amongst all citizens classified as living in a poverty bracket, with 85% of respondents having attended school and 10% having completed a higher education. The other is the quality of the mobile networks and connectivity across the country.

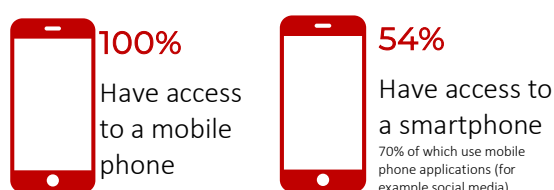
## Mobile phone penetration

Sri Lanka has a population of 20 million people and over 22 million mobile phones are in active circulation. While FYXA can be accessed via a feature phone, the



richness of its features and functions are more apparent using a smartphone. The relatively low percentage of respondents who currently own a smartphone is skewed by the high to extremely high poverty segment, most of whom use feature phones. In some of the low to moderately poor areas, smartphone access was at around 75%. Moreover, it is predicted in the coming 12-24 months that Sri Lanka will see the number of smartphones increase overall, as prices are reducing and interest in the features of smartphones, such as social media, are becoming better known.

In the low-income segment (the segment of the population that sits above the “poor” classifications surveyed here), smartphone ownership is close to 100%. The low-income segment is a viable extended consumer segment for FYXA.



## FYXA Services

### Savings

Access to savings accounts was recognised as very desirable but not as a possibility; by opening up the access to formal savings, there was a perception that FYXA providing such a service was heretofore an unimaginable opportunity.

**87%**

Have informal savings



**75%**

Of those would like to manage their savings digitally and view the balance online

### Insurance

Across all economic strata of Sri Lanka, insurance penetration is low. The main reason for this is that insurance is sold and distributed via an agent network, which not only has introduced trust and integrity issues, but also the agent commissions on premiums range between 50-85%.

For many, the agent’s commission makes insurance unaffordable. Many MFIs offer life or loan insurance as a mandated subscription with the loan (to protect the MFI in case of death or default). Insurance products that provide security such as health, crop, home, vehicle etc are not generally available to this segment.



**40%**

Have an insurance premium

**80%**

Of those have life or loan insurance

**20%**

Have health, home, vehicle or other

**75%** of all respondents report that insurance is important to have

**47%** of all respondents said they would be more inclined to purchase insurance if:

- it was offered at an affordable rate
- they had readily available information on how to make an

insurance claim (such as video tutorials); and

- they could make payment and claims using their mobile device

## Remittances

The remittance industry in Sri Lanka is 8.8% of GDP, at January 2019 USD532M per month (USD6.4B pa) and expected to reach USD750M per month (USD9B pa) in 2020. The significant informal international remittance market in Sri Lanka masks the true size of the remittance industry.

While it is difficult to put a number on the informal remittances market, it is known that it is of a size that the commercial banks wish to capture by means of deposits.

Poor service, time and technology are reported as the three primary issues in the remittance services industry that the banks need to fix in order to capture the opportunity – issues that FYXA helps resolve; a conclusion which the respondent data supports.



## Online Loan Application

As the majority of the respondents surveyed were consumers of the

participating MFIs, many reported having a microfinance loan. FYXA does not offer loans as part of the services suite but did build a loan application and repayment process into both the consumer and field officer/agent apps.



73% of these said receiving notifications of pending due dates and amounts via the app would be useful

80% said they would use the app to automate the loan application and repayment processes for speed and convenience

54% said they would be happy with digital receipts

## Pay a Bill / Pay Someone

This feature attracted the most positive response overall.

76% of all respondents indicated the most convenient feature of FYXA would be the ability to pay bills online (saving money on transport, spending more time working on their business and avoiding late penalties)

## Mobile Top Up

This feature is already widely and easily performed in Sri Lanka with a strong cash payment network

already in place. It was seen as not a driver to use FYXA, but most respondents said if it was offered, they would consider mobile top ups via FYXA as opposed to their current practices (supermarket or agent); again, for convenience.

### Trade Marketplace

FYXA also aims to enable micro entrepreneurs and merchants to access new markets and supply chains to increase opportunities for income generation. Existing and aspiring entrepreneurs in particular demonstrated significant interest and enthusiasm in the solutions offered by FYXA.

**41%** own a small business, with a further 14% being small-hold farmers (ie 55% self-employed)

**34%** of the sample reported earnings from employment in textile (14%), construction (9%), shop (9%) and domestic (2%) work

**11%** reported performing “office work” – for example, working for an agent

When asked what other services they would like to see in the app the highest response was access to a supply chain enabling them to sell and move their business products, or to buy goods online.

### KYC/e-KYC

Through the implementation of robust KYC protocols and verified identity, FYXA will help drive both financial and digital inclusion, and overcome the intractable issues associated with the lack of a financial profile, a digital profile, and a lack of access to other vital services offered by greater connectivity, particularly for the Nano-Micro-Small enterprise sector, and most particularly the large population of women who represent the micro-merchant sector.

**94%** of respondents said they would like to use biometrics, such as a thumbprint, for identity verification.

### Goal Setting

Overall the respondents were unfamiliar with the term ‘goal setting’ but once explained, the majority of respondents report that they set and animate short-term savings goals, for example, children’s clothing, children’s school tuition, and new inventory for their business.

Some set long-term savings goals, for example, retirement funds and funeral plans.

Seeing the opportunity to set goals for different ‘animations’ and monitor progress via an app held great curiosity for the respondents, but it was a feature that will need



education and the use of examples to bring to life.

### **FYXA App – Consumer Experience**

FYXA has been designed specifically with a customer-centred philosophy and this contextualisation has borne out in the feedback that many of the traditional assumptions around lack of usage and uptake that are attributed to literacy and trust can, in fact, be better attributed from this study to context and meaningfulness.

Overall the response to the app was extremely favourable:

**81%** liked the layout of the app

**97%** understood the features of the app

**89%** said they would use the app for, in order: pay a bill / pay someone, apply for a loan, savings

**31%** reported feeling confused at any point in navigating the app (first time user being the most common reason)

**91%** reported being easily able to follow the prompts of the app

**68%** would make no changes to the app with the remaining 32% evenly distributed across 1) changes to symbols, 2) increasing the size of the icons and 3) use of different colours. In total, **78%** of respondents reported they needed the FYXA app

### **FYXA App – Field Officer/Agent Experience**

Across the board, the responses from the Field Officers/ Agents surveys was that the FYXA app would introduce significant value to their day of operations planning, work, reconciliations and reporting. Key feedback is:

- Significant time saving and reduction in manual and duplicate processes and reporting
- Access to dynamic information on the consumer
- Ability to communicate easily with the consumer via the app (eg appointment scheduling / rescheduling, geo-location clusters, loan application processing)
- Increased ease in achieving performance targets

Reservations were primarily concerned with the training time required to transition their existing manually intensive work into full automation, but they were not averse to the change. Most of the agents also expressed literacy of the consumers as a potential barrier to uptake.

Given that many of the consumers surveyed were from the same MFIs as the agents, from this study literacy did not emerge as a barrier in consumer understanding or uptake; however, it is noted that in using the real application there may be training

and support required over time, while consumers gain comfort with the app and the features.

## Summary

The FYXA solution places emphasis on the important and powerful role of community and connectedness and has replicated aspects of this in a digital mode. An innovative business model delivering a holistic solution via enabling technologies, FYXA brings transformational benefits to the poor, not only in opening up the access to portfolios of services, but also in its contemplations of income drivers through adjacent offerings such as trade marketplaces.

Through establishing threshold protocols on KYC, individual verified identity, and the ability for consumers to access their financial profiles, including their financial achievements, gaining access to financial systems and social advantages will become materially easier. Using the embedded goal setting and financial progression attributes of the solution, couple with the ability to simulate financial trajectories out of poverty, it is hoped that within the coming years more families will see their way out of poverty and into sustainable livelihoods, including the ability to realise economic inclusion in the form of mainstream financial inclusion, asset ownership and more secure financial prospects.





It is well understood that many of the challenges of poverty reduction sit outside the realm of financial inclusion and the opportunities presented simply by digital financial services, including for example, the poor, the regulatory environment and the constraints that policy and regulation can have in addressing the circumstances and needs of well researched and documented are the increasing risks evidenced by increasing emerging market debt across the region, dramatic climate events, the need for climate finance and microfinance, risk transfer events and programs, the prospects of major issues such as food scarcity, water rights, and so forth; the major and more severe impacts of which will be felt most acutely by the region's poorest.

However, it's our thesis that breakthrough has to start somewhere, and we are encouraged by the feedback so far, that FYXA provides the right solution, and offers the first glimpse of hope, by helping underserved communities make sense of finance and in doing so, offers them access to the formal system via the FYXA gateway. Ultimately, FYXA's benefits of connectedness, identity and financial opportunity will bring with them many advantages not covered in this Proof of Concept but imagined in the roadmap for FYXA; greater resiliency

against the abovementioned risks amongst them.

Based on feedback we have received from varying stakeholders across the region, from this exercise and from our socialisation of FYXA in general, and including our own observations, we believe if we are successful it will be one of the more transformational interventions applied to the issue of poverty the region has seen, particularly at the proposed scale.

