Building Financial Systems for the Poor

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Center for Global Development
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Waterpoort, South Africa
nearest bank branch 100km

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GLOBE
G CASH
wallet na ang cellphone mo
P2P: PHONE-TO-PHONE
PANG-REGALO
PANGAON
PANGBAYAD UTANG
touch mobile
Text G-CASH to 2882
making great things possible
Globe

MILO
Sunkist

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- Who are these firms and why are they using technology to deliver financial services?
- What does this mean for our goal of expanding access to finance?
- Where does Net1, for example, fit in this picture?

Brazil's banking correspondents

- Socially-motivated?
- Why are they doing this?
- How make money?
- Which customers?
- What products?
- How many people served?
- What technology?
- What challenges?

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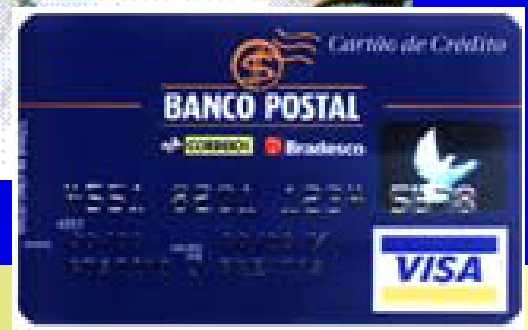
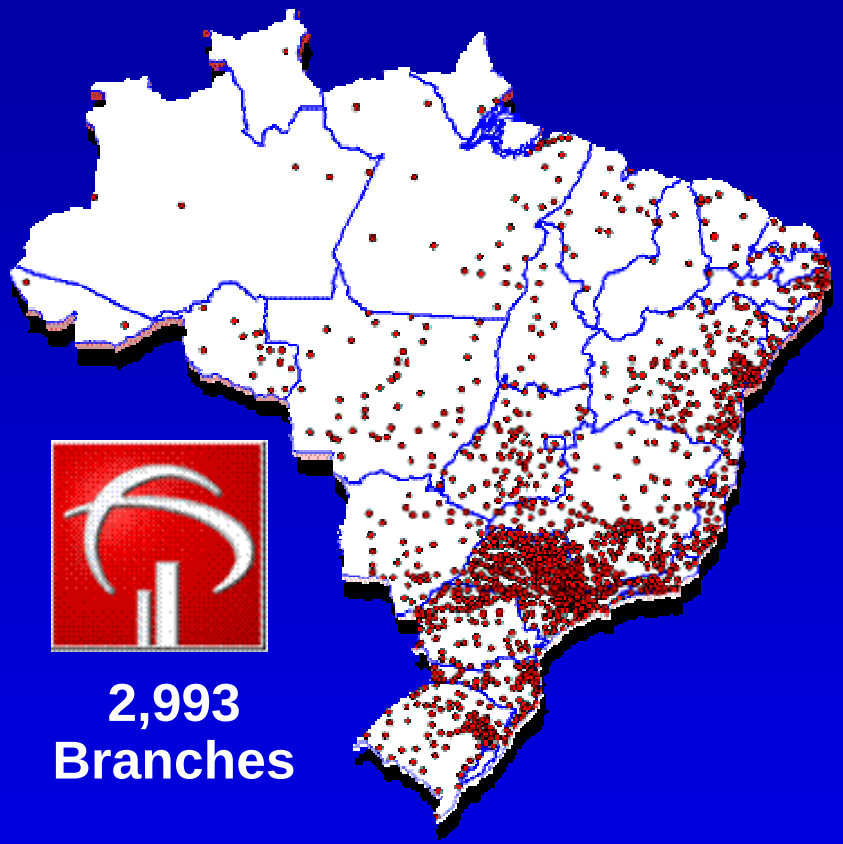
Banco Postal - Brazil

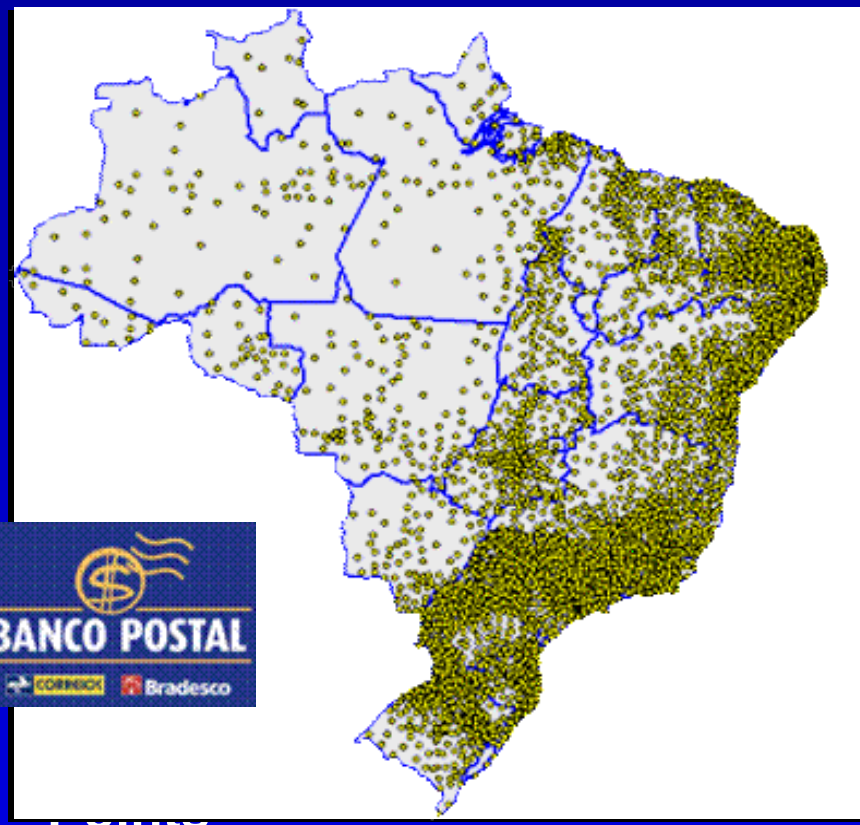


Banco Postal - Brazil

5,396 Banco Postal branches



2,993
Branches



Present in 4,732 of 5,561 municipalities

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South Africa's mobile phone banking

- Socially-motivated?
- Why are they doing this?
- How make money?
- Which customers?
- What products?
- How many people served?
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Philippines m-payments

- Socially-motivated?
- Why are they doing this?
- How make money?
- Which customers?
- What products?
- How many people served?
- What technology?
- What challenges?

Our goal – scale up microfinance

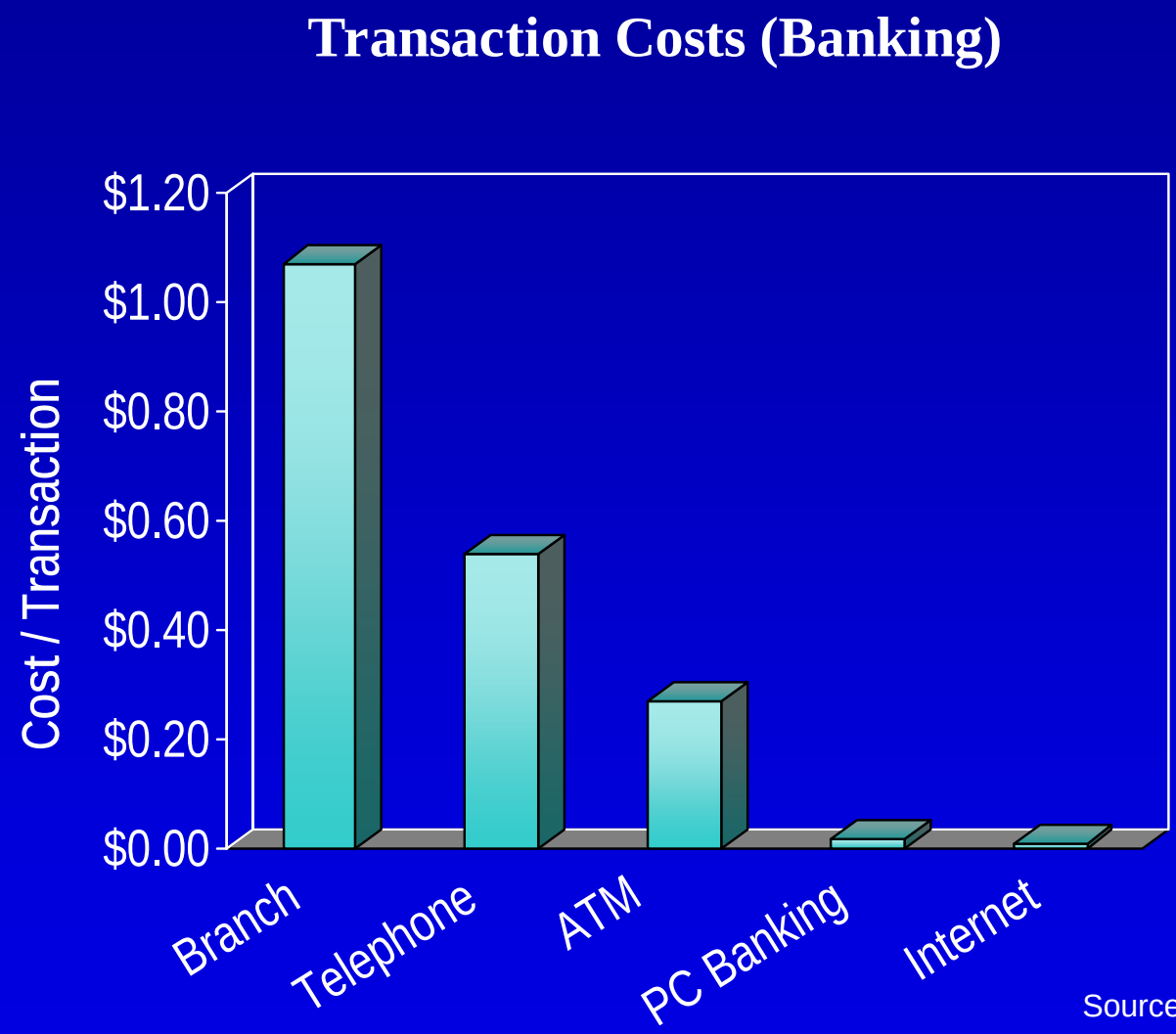
- Reach more people at low cost
- Expand the range of products
- Include everyone – from very poor up to SME, from remote to urban slum

Why Technology?

Role of Access Points:

225,000 Western Union outlets
530,000 bank branches
660,000 postal offices
1,000,000 ATMs
25,000,000 Point-of-Sale (POS) terminals
2,300,000,000 Mobile phone users

Lower transaction costs, greater comfort



Source: Booz, Allen & Hamilton

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A new model of "microfinance"

How to get from this…

…To making him your banker?

New players, much potential, but…

- Can these models fulfill poor people's financial services needs?

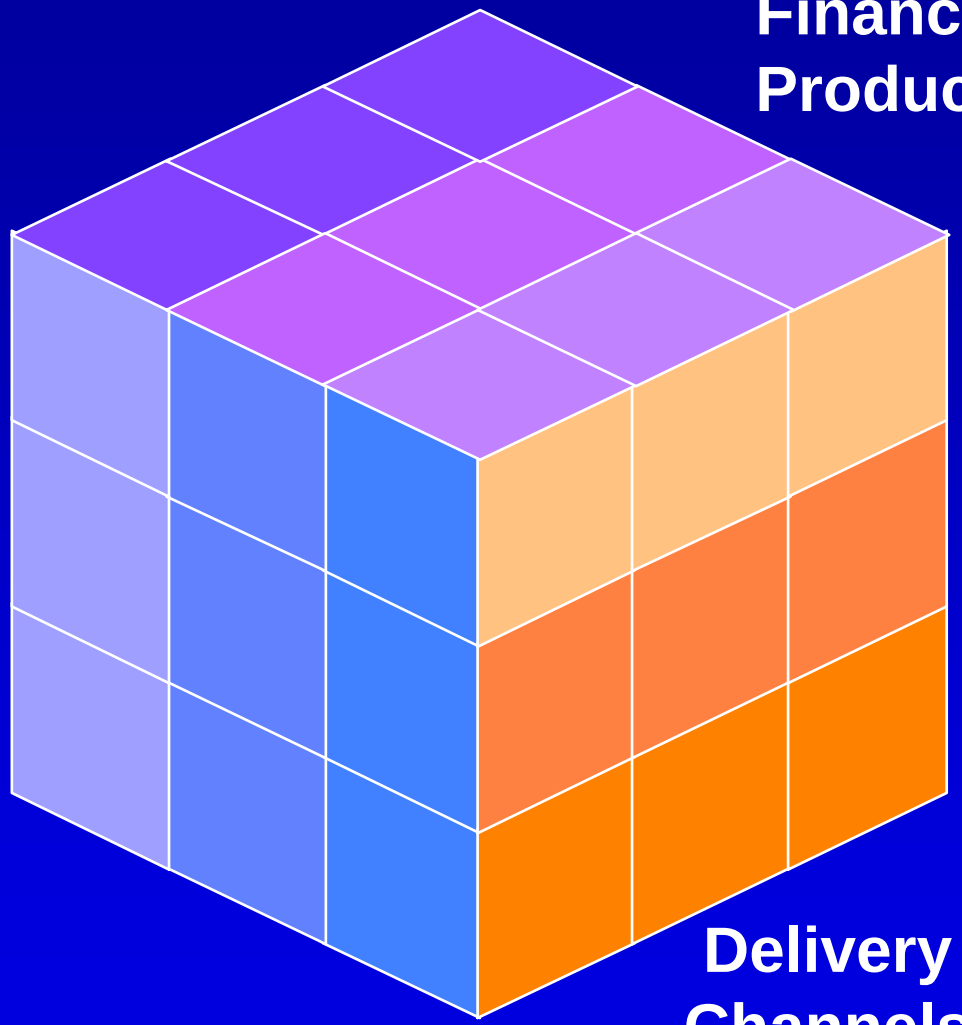
- Do they sacrifice human touch / empowerment that is vital for inclusion and development?

- Can regulators permit innovation while protecting customers and the system?

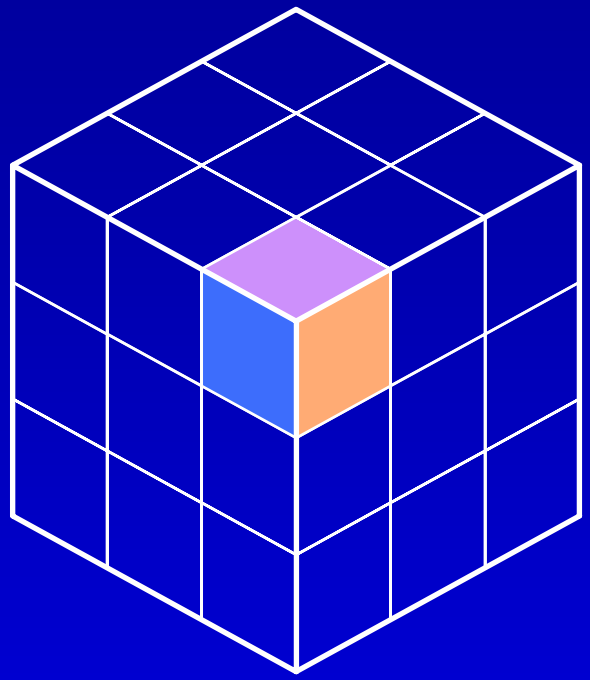
- Where do traditional MFIs fit in the picture?

- How can we work with commercial actors and entrepreneurs to ensure the poor are served?

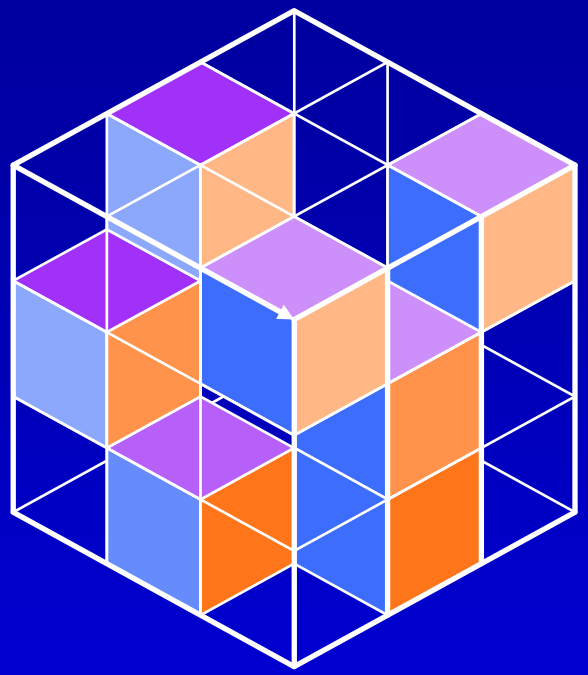
A holistic view of microfinance



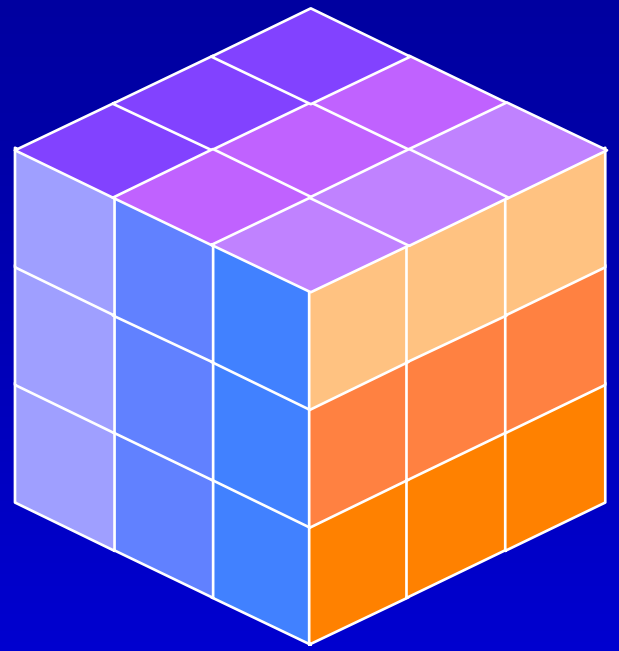
What gaps does it fill?



- MFIs
  - Few products
  - Self-employed
  - Channel = loan officers



- Banks
  - Many products
  - Poor employed
  - Channel = branch, Internet, ATM, etc.



- New Models?
  - Many products
  - All segments
  - Channel = ???

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CGAP Technology Initiative

- RESEARCH
  - **How poor and marginalized are clients of ICT channels?**
  - **Philippines, South Africa, Brazil**
- REGULATION
  - **How can regulators mitigate risks of ICT channels?**
  - **CGAP publication, roundtables with policymakers**
- RISK-TAKING
  - **Financial and strategic help to test new ICT channels**
  - **Experiments with banks, mobile operators, etc.**

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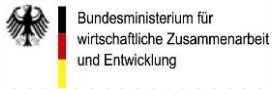
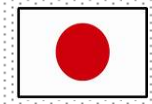
FORD FOUNDATION



- Setting standards & guidelines
- Acting as a knowledge center
- Providing advisory and training services
- Improving aid effectiveness



Argidius Foundation

KEY MESSAGES

- Start with a clear understanding of the CUSTOMER
- Technology simply enables a delivery CHANNEL
- Profitability will depend on ability to CROSS-SELL
- Costs will remain high until we eliminate CASH
- Strong synergies between ICT and downscaling

Why are we having this seminar?

- Access to finance enhances growth and helps reduce poverty
- 2 billion people still lack access to formal financial services
- Specialized Microfinance Institutions (MFIs) emerged to fill the market gap

Atendimento BB

Operational strategy

- Automated transactions
- High transaction volume through many products
- Low cost, simple account
- Channel close to customers at retail locations
- Manage risk of handling cash at shops, etc.

But… what about information gap?

Solution? Partnerships between banks and microfinance institutions

Banks have the electronic payments **infrastructure** but lack the appetite and ability to manage **risk** and **train** the target market

MFIs have the 1-1 **relationships** but no access to infrastructure

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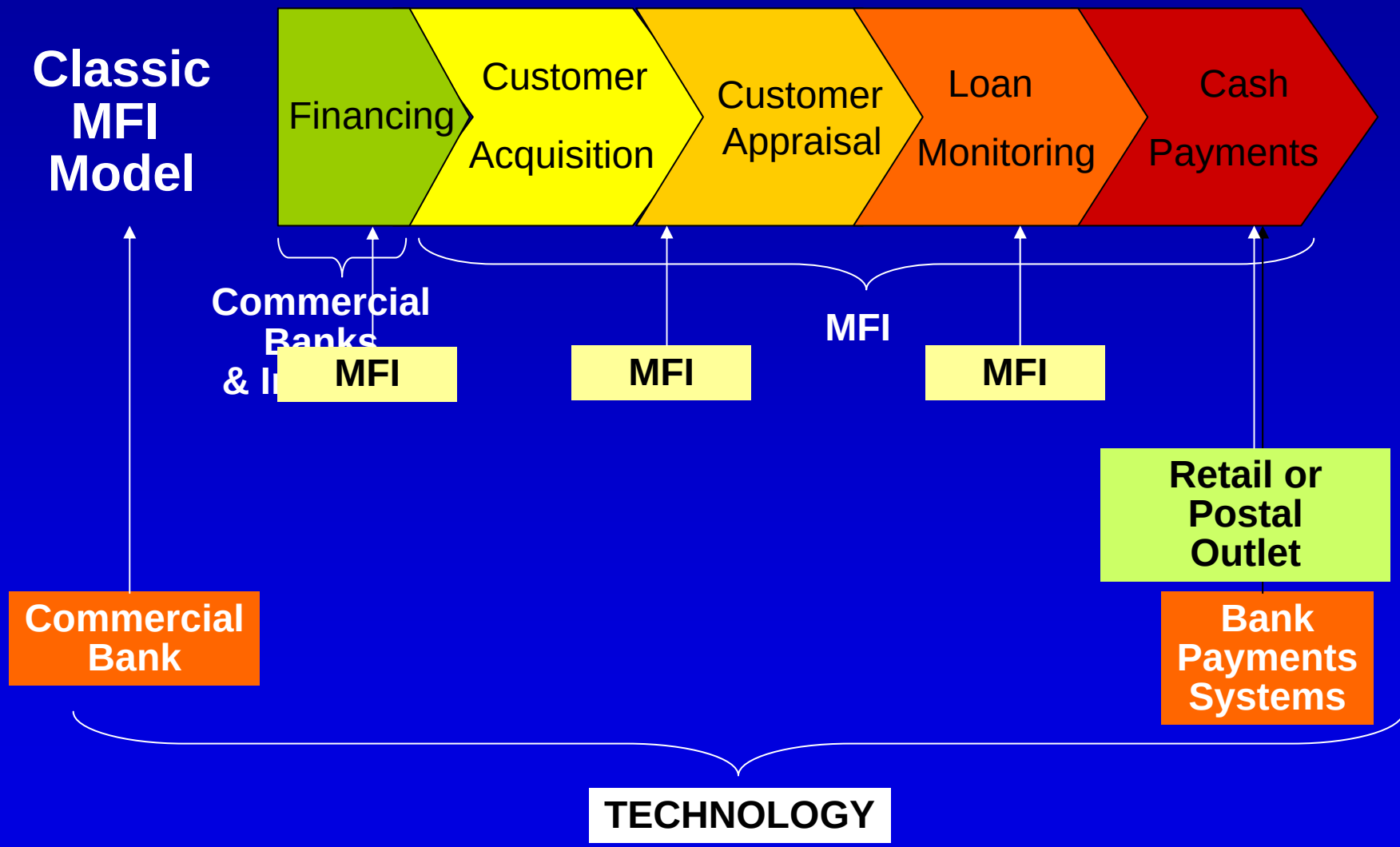
Focus on core competence