Proven Strategies for Making Fintech Inclusive

Wajiha Ahmed, Director, Customer Insights, BFA

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CATALYST FUND

BFA JPMorgan Chase & Co. Bill & Melinda Gates foundation Rockefeller Philanthropy Advisors

Catalyst Fund seeks to uncover how inclusive fintech companies are creating new and superior value propositions, and to determine whether they are driving financial inclusion deeper and further. We work with early-stage fintech companies that span the globe and push the boundaries of innovation in sectors as diverse as lending, agriculture and insurance. Run by BFA, Catalyst Fund provides fintech innovators with grant funding and tailored technical assistance to complement their skill sets. In turn, the startups help us learn about how to advance financial inclusion among low-income populations in the markets where they operate.

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Having delivered hands-on technical assistance to 15 companies so far, we have observed that innovative fintech startups have an advantage over banks and other legacy players in several key areas. Having a customer-centric mindset, capitalizing on the specific characteristics of modern technology, and building critical partnerships in the ecosystem enable these startups to deliver financial inclusion that is more accessible, appropriate, and affordable.

what is catalyst fund?

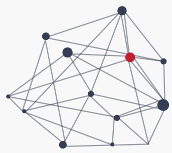
Catalyst Fund accelerates inclusive fintech startups in emerging markets that are improving the lives of low-income customers by providing affordable, accessible, and appropriate financial products.

GRANT MAKING ..... **$2.3 million** *disbursed since inception*

TAILORED ADVISORY SERVICES ..... **$850,000** *value of TA deployed*

NETWORKING & LEARNING ..... **41** *investors in our network*

20 Number of inclusive fintech companies in Catalyst Fund



725,222 Number of new low-income customers reached

three key ways that inclusive fintech companies are broadening and deepening financial inclusion:

01 *Tech + Touch: New Interactions to Reach & Keep Customers*

02 *Tangible & Appropriate Value Propositions*

03 *Reducing Business Costs*

01 Tech + Touch: New Interactions to Reach & Keep Customers

ToGarantido, a Brazilian start-up that enables customers to purchase low-cost life insurance bundles with health benefits, boasts that 90 percent of its current customers are accessing insurance for the first time. WorldCover, a crop insurance provider in Ghana that services smallholder farmers, has enabled 95 percent of farmers in their coverage areas to access crop insurance.

What are these companies doing differently to recruit these new customers? Design and affordability are important, but the key differentiator here is the creation of new and more appropriate interactions for customer acquisition and retention. Since many of our companies' customers are not yet ready for a fully digital customer journey, they have adopted **a mix of "tech + touch" to onboard customers and increase their level of trust in services.**

Hybrid Customer Acquisition

While fintech's promise depends on using social media and AI technology, such as chatbots, to reach more customers at lower costs, the human touch is not totally dispensable. A number of the Catalyst Fund Latin American companies would not have been able to jumpstart their reach without tech like Facebook or Google advertisements. But even in Latin America where there's generally a more internet savvy user base, a hybrid acquisition strategy that includes the human touch is at times more appropriate. **Customers want a human touch to help them assess how much they should trust the product**, and to ask questions or resolve issues.

Togarantido uses a chatbot - a channel that is popular with Brazilian consumers - to onboard clients and to walk them through the purchase process. Even then, not everyone wants to close transactions online. "If the user is not confident in buying a product online, they can be redirected to a call center, that is focused purely on digital customers," says CEO Felipe Cunha.

click **here** to access the

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Trust Toolkit

The Design for Trust Toolkit is a resource for tech startups to increase trust among customers by applying trust creation principles along their journey with digital products & services.

This mix of tech+touch ensures that ToGarantido is reaching and recruiting these new customers. In sub-Saharan Africa especially, most Catalyst Fund companies feature a strong human component during customer acquisition. Asaak, a collateralized mobile fintech lender in Uganda, leverages a "human-enabled digitization model." Loan officers in Uganda meet new clients in person to review loan applications and establish trust.

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Tailored Engagements for Retention

Landing on the right mix of tech + touch requires a tailored approach to engaging customers. For example, WorldCover faced a rural user base with only 50 percent phone ownership and 20 percent literacy rates. To communicate with and retain clients, the company used lean research to identify key customer segments, and refine a tailored communications strategy. For illiterate users without a phone, WorldCover organizes group meetings with local leaders who play important voice messages to the group on a speaker phone. This mix of tech + touch ensures sufficient trust while still benefiting from the cost advantages of tech.

Deep research to find customer segments → **A tailored strategy for each segment, explored & tested via lean experimentation**

own a phone + literate (ENGLISH/FRENCH): ***SMS*** *in either French/English via a global messaging app (Twilio).*

own a phone + literate (OTHER): ***Voice message*** *recorded in the local language via a global messaging app (Twilio)*

don't own a phone: ***Weekly group meetings*** *led by community representatives, who either play a message recorded in the local language or repeat the same to the group.*

02 Tangible & Appropriate Value Propositions

Users of traditional financial services have long complained about lengthy waiting periods, hidden fees and terms, and confusing user interfaces. We've seen that faster pilots, iterations and pivots can enable fintech firms avoid these pitfalls. In addition, Catalyst Fund companies have adopted design principles that help them get into the shoes of the user and design products that are appropriate, simple, and easy to use, from activation to usage.

FOUR *insuretech companies reaching low-income consumers:*

WorldCover — CROP INSURANCE + MICROPAYMENTS

Tô Garantido .com.br — LIFE INSURANCE + HEALTH SERVICES

COMUNIDAD 4UNO — HEALTH INSURANCE + MEDICAL VISITS

MobiLife — LIFE INSURANCE + FOOD COUPONS

Creating Tangible Value Propositions

Inclusive fintech companies are creating new and tailored value propositions directly related to product design. For example, while the mainstream insurance industry is traditionally structured - often agent-based and rooted in regulatory requirements rather than the customer - **inclusive insurtech has put the customer at the center of design**. Our insurtech companies have tied insurance with tangible services, such as medical visits, health services, food insurance, discounts on lab services. These add-on services make their value propositions tangible - which is important for driving the low-income customer segment's willingness to pay.

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ESCALA, a higher education savings program for lower- and middle-income families in Colombia, has worked to make the value proposition for saving more tangible using a goal-setting program. CEO Jonathan Duarte explains that his staff goes deeper with clients and asks "which school, when, what sort of payment, let's save this much in the first step, we'll make the payments for you, etc." These questions help add weight to the future benefits of saving and drive usage. In addition, user research told Jonathan and his team that customers recognized the importance of saving, but got discouraged when they didn't meet their savings goals. ESCALA introduced employer matching when customers reached particular milestones, which drove customers to work even harder to save. By making the value proposition of saving more concrete and more financially attractive, ESCALA has been able to appeal to low-income customers.

Faster Services

Inclusive fintech startups also use the latest tech to enable faster services, which creates tangibility in contrast to slow, bureaucratic process which feel distant and abstract to low-income customers. Asaak has created a smoother verification process for customers to access credit, a major issue for traditional lenders. The company built a mobile tech stack to verify applicants' collateral via an API integration with the Uganda Ministry of Land. Ugandan entrepreneurs and farmers can now access Asaak's mobile-based collateralized loans in hours, rather than weeks.

TOGARANTIDO

7–12 mins

Time now to process policies versus **several weeks**

Offering Flexibility & Micro-Increment

Similarly, traditional products and services often lack flexibility and can be disbursed in large units, which are more appropriate for wealthier users. **Inclusive fintech new value propositions allow low-income customers to purchase smaller increments of products or are accommodating deadlines as a core part of the product design**, thus making them appropriate for first-time purchasers.

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PayGo Energy, a pay-as-you-go solution for cooking gas in Kenya, understood that gas products were designed to be sold in bulk and that traditional value propositions were not appropriate for low-income users. For people who cannot predict their income on a day-to-day basis, planning their energy usage is difficult so buying in bulk is not feasible. In response, PayGo Energy developed its own smart metering technology that records gas consumption, monitors user credit and shuts off the valve when the user runs out of credit, thus creating a value proposition that appeals to low-income customers.

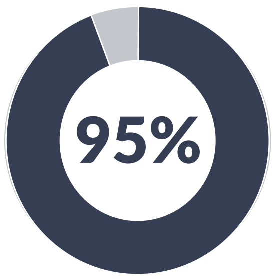
For Mobilife, a South African insuretech that offers life insurance products adapted to the needs of low-income customers, the key change was introducing flexibility in premium payments. "When people don't pay one of the premiums, we let them just skip payments while the industry starts reviewing their credit profiles instead," says CEO Frank Schutte. The company has a 3 percent lapse rate compared to an industry average of 50 percent, validating that customers find the value proposition both tangible and appropriate. In a similar vein, Rukula, a digital lending start-up that enables small vendors in Sri Lanka to sell consumer good on credit, does not charge late payment fees or other penalties. Customers are encouraged to repay within the duration of the loan, but if they need to skip payments, the company focuses on the longer term goal of full repayment rather than adopt coercive collection practices. The extreme flexibility has paid off: 95 percent of loans are paid off within two years.

PAYGO ENERGY

Pay-per-use gas paid for using mobile money and charged in small amounts that customers can afford versus:

RUKULA

Payment flexibility results in high repayment



repayment rate

03 Reducing Business Cost

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Alternative Credit Scoring

Alternative credit scoring automates the loan origination process, thus enabling emerging market fintech companies to reach new customers and serve those traditionally left out of the financial system more cheaply than traditional players. In traditional finance, consumer credit worthiness has historically been judged based on ownership of large assets or access to predictable income streams. But inclusive fintech players, including later-stage start-ups, like

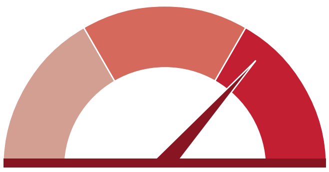
TALA, Lenddo, and DemystData, are piggybacking on non-traditional sources of data, such as mobile phone data or social networking to bypass these barriers.[1]

Destacame, a Catalyst Fund company in Latin America, uses a proprietary algorithm to build credit scores for underbanked customers. Since 2014, 320,000 users accessed a credit score for the first time using the service, and banks can then use these scores to lend to a new consumer base. Based on utility payment data, Destacame has given graduation loans to 200 clients at low interest rates. They boast an 80 percent repayment rate from these very low-income customers, who pay an annual interest rate of 20 percent compared with the 30 percent market rate in Chile.

DESTACAME

320,000

users obtained credit score for first time to access loans from a bank



In Sri Lanka, Rukula customers are able to access loans to purchase household durables and electronic items within 15 minutes. The company scores customers using a proprietary credit scoring algorithm which calculates a proxy for "stability." Based on this stability score, the company estimates the loan amount and repayment ability of each customer. Rukula makes the application process easy and accessible to low-income customers by waiving the need for guarantors or pay slips. The start-up has reached over 18,000 customers and has grown in profitably month-on-month as it expands its user base.

Social Media for Lower CAC

Some companies have been able to reduce their Customer Acquisition Cost (CAC) by pursuing tech-powered strategies - namely, social media and digital advertising. For companies like Destacame, ESCALA, and Comunidad4Uno (4Uno in Mexico offers financial inclusion packages for a vulnerable group of employees, domestic workers), Facebook and Google advertisements are a key factor driving down costs. Destacame, which has reached 650,000 users, boasts a CAC of 50 cents (USD), savings that it can pass on to customers. However, lowering CAC remains a formidable barrier and finding ways to make the make sure the unit economics work will be a key factor for reaching scale.

[1] TALA, Lendoo, and DemystData are not Catalyst Fund companies.

how far can inclusive fintech push their markets?

The innovative approaches discussed above are open to all providers and are powerful agents of inclusion to learn from and cultivate. In fact, traditional and larger actors in the ecosystem are working with and learning from our companies to better understand users and move to the forefront of better product design. But the ultimate role that inclusive fintech will play in emerging markets remains to be seen.

Will they continue **to be owners of these enhanced value propositions?**

And can they continue to **maintain and improve offerings as they scale?**

Catalyst Fund, an initiative at the forefront of inclusive fintech, is managed by BFA with the support of the Bill & Melinda Gates Foundation and JPMorgan Chase & Co.

To learn more about Catalyst Fund, visit www.catalyst-fund.org

catalyst@bfaglobal.com *@cf_bfa*

catalyst-fund

BFA is a global consulting firm specializing in using finance to create solutions for low-income people. Our approach is to seek out, create, and implement financial solutions to help people manage challenges and seize opportunities. We partner with cutting-edge organizations that touch the lives of low-income consumers such as financial institutions, fintech companies, and information providers. In creating solutions, we integrate our deep expertise in customer insights, business strategy, new technology, and growth-enabling policy and regulation. Founded in 2006, BFA's clients include financial institutions, technology companies, donors, investors, and policymakers. BFA has offices in Boston, Medellín, Nairobi, New Delhi, and New York. For more information, please visit: www.bfaglobal.com.

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