TAMING THE STRANGE BEASTS: SERVICING & THE FUTURE OF PAYGo

Geoffrey Manley & Daniel Waldron
March 5, 2019

Zay Yar Lin, CGAP Photo Contest
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Speakers

Michael Nyaga  
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CEO  
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Hugh Whalan  
CEO  
PEG Africa

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Investment Director, Debt  
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PAYGo firms are “Strange Beasts” managing tasks across two distinct value chains

**Durable Goods Value Chain**
- Design
- Manufacture
- Inventory Management/Distribution
- Marketing
- Sales/Distribution
- Customer Support

**Lending / Leasing Value Chain**
- Liability Management
- Origination
- Underwriting
- Collections
- Loan Servicing
- Portfolio Management

**Supporting Activities**
- Customer Research
- Customer Base Expansion
- Data Collection and Analysis
Over time we have seen the durable goods value chain begin to de-couple…
Over time we have seen the durable goods value chain begin to de-couple…

Durable Goods Value Chain

Inventory Management/Distribution → Marketing → Sales/Distribution → Customer Support

Lending / Leasing Value Chain

Liability Management → Origination → Underwriting → Collections → Loan Servicing → Portfolio Management

PAYGo FinCo
PAYGo OpCo
Over time we have seen the durable goods value chain begin to de-couple…
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This trend has been dubbed PAYGo 2.0
But lending value chain decoupling - PAYGo 3.0 – has proven more elusive
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We recognize this would not be for everyone, but it could allow firms to innovate and scale more rapidly through new partnerships
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- Resource Constraints
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But the key barrier is the connection between servicing of the PAYGo loan and servicing of the solar unit itself.
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What do we mean when we say *servicing*?

“All the various activities that the originator would have, in normal course of business, performed...sending invoices, monitoring collections, sending reminders, taking recovery action, and so on...and all the activities in relation to distribution of the cash so collected to investors are covered by the catchall word *servicing*.” (Fabozzi & Kothari, 2008, italics theirs)
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A servicer acts as an intermediary between end borrowers (in this case, energy poor households) and investors.
What does PAYGo servicing look like?
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PAYGo Investors → Debt and equity investment → PAYGo Company → Energy services, other products → PAYGo Household

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Returns to investors → Deposit and top-up payments

Servicing enables PAYGo households to receive and pay for energy services, which allow PAYGo companies to pay back investors.

CRM System → Call Centers → Field Staff

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Okay, but why is it important?
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For the customer it is a bundle of interactions w/ a single entity

PAYGo Provider

PAYGo Customer

SMS Reminders/Credit Follow-ups
Mobile Payments
Unlock Codes
Product/Payment Queries
Warranty Service
Okay, but why is it important?

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On the business side, it is:

Servicing function

- CRM System
- Call Center
- Field Staff
Okay, but why is it important?

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For the customer it is a bundle of interactions with a single entity:

PAYGo Customer

- SMS Reminders/Credit Follow-ups
- Mobile Payments
- Unlock Codes
- Product/Payment Queries
- Warranty Service

PAYGo Provider

On the business side, it is:

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1. The bridge between the two value chains
2. Technically complex
3. High-touch
4. One of the key determinants of receivable value
Servicing is not just the linchpin of PAYGo solar’s success, it drives receivables financing options.
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On-Balance

Off-Balance / Securitization

Captive Finance

Spectrum of Financial De-Coupling

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- **On-Balance**
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- **Direct FI Financing**

### Spectrum of Financial De-Coupling

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Servicing is not just the linchpin of PAYGo solar’s success, it drives receivables financing options.

In which of these models is the lender dependent on the PAYGo OpCo today?
Which of these models would benefit from more robust backup servicing?

ALL OF THEM
Which of these models would benefit from more robust backup servicing?

- Off-Balance / Securitization
- Direct FI Financing
- Captive Finance
- On-Balance

**ALL OF THEM**

Value chain decoupling and/or developing backup servicing has the potential to mitigate risks and unlock more capital.
Servicer risk in the PAYGo Sector

Whether you are trying to:
Servicer risk in the PAYGo Sector

Whether you are trying to:

Calculate your loss-given default
Servicer risk in the PAYGo Sector

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The question you need to answer is: can anyone other than the originator service these loans?

If the answer is no, then you are lending to entire PAYGo value chain, and any servicing disruption will impair the value of your security.
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…However, the truth of the sale might turn out to be a **gl"ib illusion** if the servicing platform is so intimately originator-dependent that it is difficult to perceive its transfer."

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This is a problem
How can PAYGo firms (and their investors) reduce servicing risk?
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Backup Servicer Functions:

Tier 1: CRM/SMS  
Tier 2: Call center  
Tier 3: Maintenance  
Tier 4: Collections
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- Financial institutions
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Cross-cutting challenges: systems compatibility, data sharing, etc.
Recommendations

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• PAYGo providers: find a way to standardize and outsource certain activities without disrupting their overall functions.
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• Debt investors: understand the bets you are taking, and push PAYGo companies to better mitigate servicing risk.

• PAYGo providers: find a way to standardize and outsource certain activities without disrupting their overall functions.

• FIs: if you want to expand your retail operations, develop partnerships with PAYGo companies to combine strengths.
Discussion

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Hugh Whalan
CEO, PEG Africa

Michael Nyaga
General Manager – Digital Lending, Equity Bank
Q&A

Please submit your comments and questions using the chat box. Be sure to send them to “All Participants.” Thank you!

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Thank you

To learn more, please visit
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