FINTECHS AND FINANCIAL INCLUSION
Past the hype and exploring their potential
Speakers

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Fintech: Where is the potential?

CGAP Pilots and Research
Fintech companies can affect financial inclusion but we need to get past the hype

• Fintechs exist within a larger environment of tech-based innovation by banks, telcos, ICT companies, superplatforms, etc. But they, more than others, may be wired to push boundaries in innovation.

• Not all fintechs are relevant to financial inclusion. But there is a cohort of companies that offer services for underserved segments or resolve complex pain points in financial inclusion efforts.
Answering three questions, one at a time

**How does the technology solve a financial inclusion challenge?**

- Sample: Can satellite data lower costs for farmer insurance?
- Sample: Can better UI/UX drive payments use?

**What business models are sustainable?**

- Insuretech
- Digital Payments
- P2P Platforms

**Is there measurable impact to financial inclusion efforts?**

- Sample: What percentage of unsecured lending to individuals and MSMEs is through fintechs?
- Sample: Has insuretech expanded access to previously uninsured farmers and microbusinesses?

Based on conversation and collaboration with the Catalyst Fund
Linking technology to a financial inclusion “proof point”

• We worked with 18 fintech companies to test if the use of technology makes a difference to a real financial inclusion challenge.

• We concluded that five innovation areas display the potential for fintechs to impact financial inclusion.

Find this report and other articles at:
https://www cgap.org/topics/collections/fintech
-refocusing-on-the-poor
1- Can financial services for the poor be interactive?

Innovation 1
Interactive customer-engagement

Challenge: Financial services are not interactive because engagement is expensive

Solution: Real-time, cheap SMS or other communication with customers for complaint resolution, feedback gathering, and information dissemination to encourage trust, use and loyalty.
2- Can low-cost, intuitive payment apps drive usage?

Innovation-2
Smartphone-based payments

Poorly designed user interfaces contribute to dormancy in payment accounts

Engaging apps with low data costs & storage to encourage use cases.
3- Can the strength of our connections make us creditworthy?

Low-income people cannot easily access cheap, timely credit to fill cash-flow gaps

Leverage social and digital connections to build creditworthiness

Innovation 3
Connections-based finance
4- Can understanding a farmer’s location unlock cheaper credit and insurance?

Most of the world’s 500 million smallholder households cannot be appropriately assessed by traditional credit and insurance service providers.

Innovation 4
Location-based smallholder finance

Satellite data and machine-learning for cheaper insurance and credit to smallholders.
5- How can we finance big, unexpected expenses with lowered risk?

Innovation 5
De-risked non-productive finance

Low-income people often must meet sizable, unexpected expenses that are hard to finance through traditional credit.

Digital features to reduce risk of financing or insuring unexpected or big expenses
The pilots also revealed macroscopic lessons

- Fintechs face a universal set of internal challenges
  - An innovative idea is only the first step. The real challenge begins when a new fintech starts to assemble the right team, partnerships, and technology to bring a service to market.

- Funders have a role to play in catalyzing fintech’s effects
  - Unlock innovation and produce relevant lessons for the financial services market.
Being an inclusive fintech
Wins and roadblocks

Bernie Akporiaye
Co-founder and CEO
MaTontine
Unlocking access to financial services for the financially excluded in Africa
MaTontine digitizes traditional savings circles in order to provide access to financial services like small loans via a basic, feature phone.

Thereby reducing the cost of borrowing by 75% or more.
To succeed, MaTontine must make tontine payments more convenient but also fit into its customer’s life and business value chain.
Forming partnerships and complying with regulations

To provide its multi-sided, digital financial services platform, MaTontine must partner with a wide variety of other actors.
What funders can do
Addressing gaps and guiding the market

Questions:

• What is a funder’s role in the fintech ecosystem?
• What are the insights driving your work?
  • (beyond payments and credit)
• What does success look like?

Yaw Mante
Investment Associate
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We focus on high engagement, strategic finance products and productive + responsible digital credit

- **Focus**: Mature markets, high competition, will be captured by internet giants. Unclear unit economics. ON capital not catalytic.
- **Focus**: Highest impact – true FI, requires behavioral insight and product expertise, internet giants likely to do distribution for innovative manufacturers.
- **BE OPPORTUNISTIC**: Key infrastructure broken in emerging markets limiting utility and adoption of B2C propositions.
- **Areas of focus**: Leverage experience from other regions to back ventures providing unsecured SME credit (using data to underwrite), solutions that address the lack of wholesale funding, and those providing financing for income generating activities (including asset financing).
- **Too specialist? Few global players with high regulatory and capital entry barriers? Not suitable for VC?**
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For further reading

Main paper
summary lessons

Case studies
showcasing pilots with
18 fintechs

https://www.cgap.org/fintech
Thank you

To learn more, please visit
www.cgap.org