Overview of Digitised Microcredit in promoting Financial Inclusion

Outline

A — Background on EFInA and its Access to Financial Services in Nigeria Surveys

B — Financial Access Strands and Profile of Adults who take Microcredit

C — Challenges of serving the Low Income Population and Opportunities for Digitised Microcredit

D — Digitised Microcredit Models, Risks and Mitigants

E — Case Studies – Benefits of Adequate Consumer Information

F — Conclusion and Recommendations

EFInA's Approach

Enhancing Financial Innovation & Access (EFInA) is a financial sector development agency, funded by the UK's Department for International Development (DFID) and the Bill & Melinda Gates Foundation. Set up in late 2007, EFInA's mission is to make Nigeria's financial system work better, especially for the poor, by facilitating the emergence of an all-inclusive, growth-promoting financial system. EFInA's holistic approach to expanding access to financial services for all, especially for low income households is based on the following four pillars:

Research	Advocacy	Innovation Fund	Capacity Building
• Providing credible market information on the Nigerian financial sector • Disseminate bespoke results at EFInA breakfast series, working groups & at stakeholders' events	• Work closely with regulators & policy makers in Nigeria to foster an enabling environment for innovative inclusive financial services & products for the un-banked & under-banked segments	• Host and facilitate innovation fora to trigger debate and ideas about pertinent issues. • Financial support for new ideas and approaches to expanding financial access to the un-banked and under-banked segments	• Provide linkages between local stakeholders and experts who can help with the development & implementation of inclusive products • Facilitate skills acquisition through opportunities to attend training sessions or interact with success stories within and beyond Nigeria

BILL & MELINDA GATES foundation

UKaid from the British people

Primary efforts target selected thematic areas

Women, Northern Nigeria, Non-interest Finance, Microsavings, Microloans & Microinsurance, Financial Literacy

Digitised Microcredit is a fast growing Phenomenon in emerging markets, with a huge opportunity in Nigeria

- ➢ Microcredit can enable the low-income to better withstand financial shocks and access better income-earning opportunities

- ➢ "Digital credit" refers to credit products—including digital payments products such as mobile money—that are delivered fully via digital channels, such as mobile phones and the internet

- ➢ Unsecured digitised loans have a large impact, allowing millions of low-income consumers to borrow money with just few taps on a phone menu or clicks on an app screen

- ➢ Digital credit is promising from a financial inclusion perspective, given the low access to formal credit by low-income consumers in Nigeria and the limitations of informal and semi-formal options

- ➢ Nigeria presents a huge market for digitised unsecured loans because of the high level of financial exclusion and population of the underserved

- ➢ These digitised credits business models are driven by strong customer demand, lower operating costs, and the greater reach of the instant, automated, and remote lending methodology. Because of these factors, they can scale more quickly than traditional small-loan models

About the survey

"**Relevant and reliable data on the demand for and usage of a range of financial products, both formal and informal in Nigeria**"

- Nationally representative of all adults (18+)
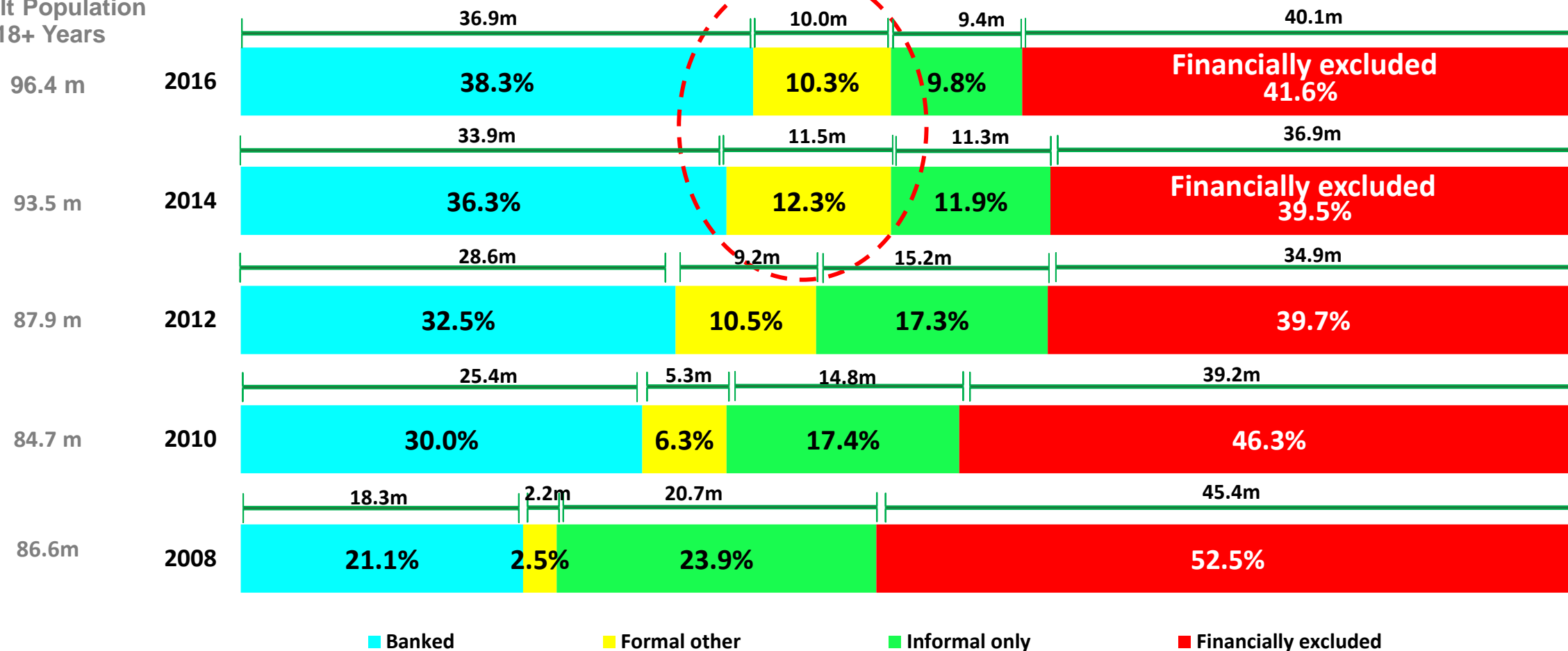- Survey conducted biennially in 2008, 2010, 2012, 2014, 2016

Objectives

To measure, benchmark, and profile levels of access to financial services by all Nigerian adults. The data provided is used by key stakeholders such as policy-makers, regulators, and financial services providers.

A2F 2016 Survey indicates a decline in Financial Inclusion which is partly seen by a decline in the 'Formal Other' band

- Between 2012 and 2016, the proportion of financially excluded total adult population increased from 39.7% to 41.6%
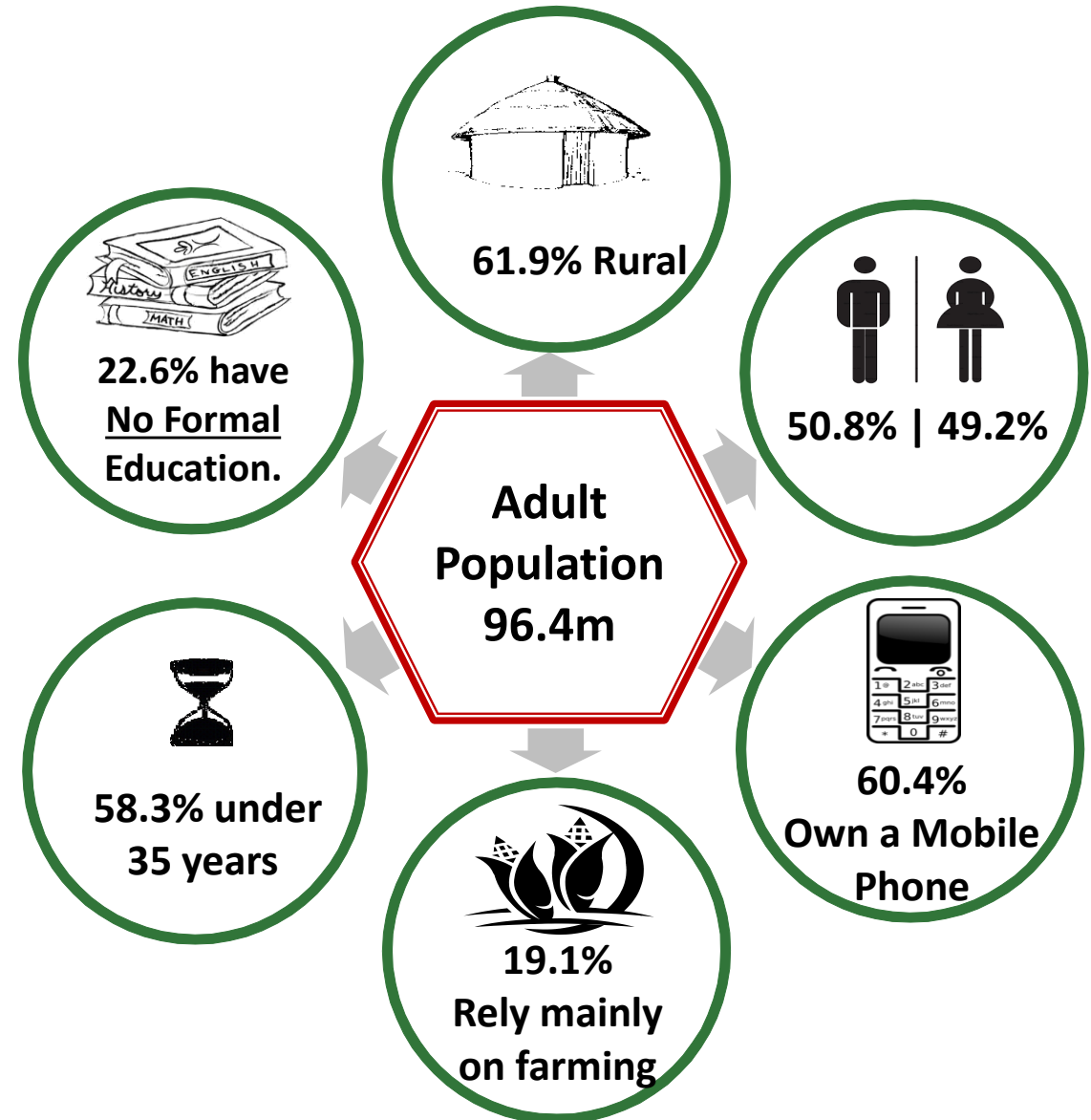

Adult Population 18+ Years		Banked	Formal other	Informal only	Financially excluded
96.4 m	**2016**	36.9m — 38.3%	10.0m — 10.3%	9.4m — 9.8%	40.1m — Financially excluded 41.6%
93.5 m	**2014**	33.9m — 36.3%	11.5m — 12.3%	11.3m — 11.9%	36.9m — Financially excluded 39.5%
87.9 m	**2012**	28.6m — 32.5%	9.2m — 10.5%	15.2m — 17.3%	34.9m — 39.7%
84.7 m	**2010**	25.4m — 30.0%	5.3m — 6.3%	14.8m — 17.4%	39.2m — 46.3%
86.6m	**2008**	18.3m — 21.1%	2.2m — 2.5%	20.7m — 23.9%	45.4m — 52.5%

■ Banked   ■ Formal other   ■ Informal only   ■ Financially excluded

Nigeria still lags behind in its National Financial Inclusion Strategy Targets

	Focus Areas	Target by 2020	Status as at			
			2010	2012	2014	2016
% of Total Adult Population	Payments	70%	22%	20%	24%	38%
	Savings	60%	24%	25%	32%	36%
	Credit	40%	2%	2%	3%	3%
	Insurance	40%	1%	3%	1%	2%
	Pensions	40%	5%	2%	5%	5%
	Financial Exclusion	20%	46.3%	39.7%	39.5%	41.6%

Source: CBN NFIS Report

Demographic Profile

The total adult population (18 years and above) of Nigeria is 96.4 million

Of this adult population:

- **59.6m (61.9%) are based in rural areas**
- **56.2m adults (58.3%) are under 35 years**
- **18.4m adults (19.1%) get their main source of income from subsistence/commercial farming**
- **18.9m adults (19.6%) get their main source of income from own business (non-farming)**
- **7.9m adults (4.2%) get their main source of income from the formal sector**
- **21.8m adults (22.6%) have no formal education**

61.9% Rural

22.6% have No Formal Education.

50.8% | 49.2%

Adult Population 96.4m

58.3% under 35 years

60.4% Own a Mobile Phone

19.1% Rely mainly on farming

Demographic Profile of the Adult Population that are Microloans recipients shows that 80.2% of them are prepared to use New Technology
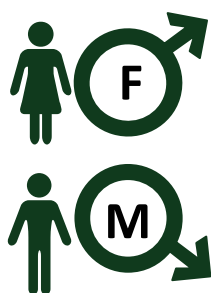
Of the total adult population, 30.3% (29.2 million adults) are Microloans recipients.
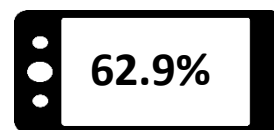
96.4m Total Adult Population

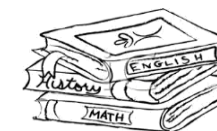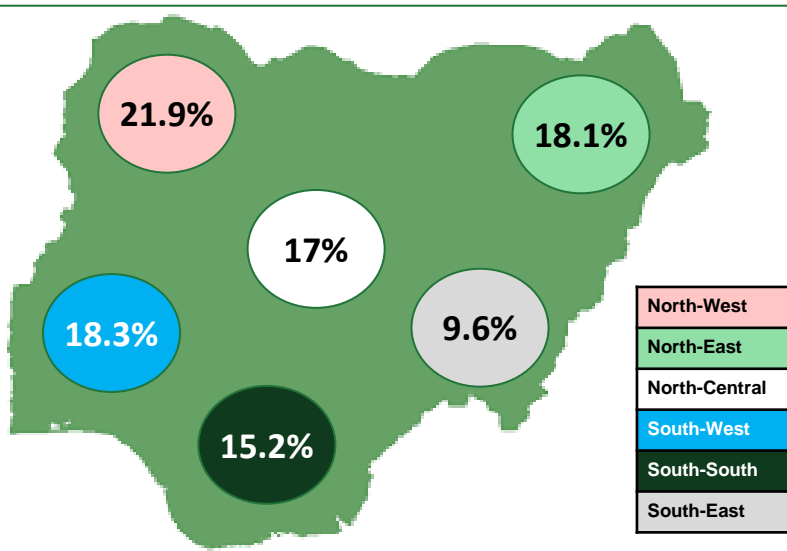**29.2m** are Microloans recipients

51.8% F
48.2% M

62.9% Individuals Own Mobile phone(s)

74.5% have formal education (primary levels or higher)

Urban 35.6%
Rural 64.4%

Region	
North-West	21.9%
North-East	18.1%
North-Central	17%
South-West	18.3%
South-South	15.2%
South-East	9.6%
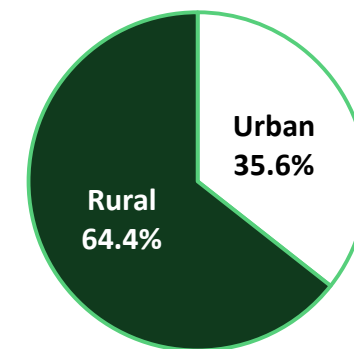
Of the **29.2 million adults** who are Microloans recipients:

- 80.7% receive financial advice from family/friends or spouse
- 61.5% are aged between 18 and 35 years
- **80.2% say they are prepared to learn how to use new technology**
- 66.9% earn N20,000 or less

Main Income Source	
Subsistence/Commercial farming	19.6%
Own business/trader (non-farming/ Services)	34.4%
Own business/trader (Agric products/ Inputs)	11%
From HH member/ Family/ Friends	18.8%
Salary/wages from individual with own business (informal sector)	6.6%
Salary/wages from a business/company (formal sector)	4%
Other, specify	0.6%

*****Microloans** *refer to loan amounts less than a N100,000 per annum*

Financial Access Strands of Microloans Recipients reveal that most of the borrowers in the North borrow from Family and Friends

North West (6.4m)

Banked	Formal Other	Informal	Excluded
18.1%	13.8%	7.9%	60.1%

61.5% are underserved

North East (5.3m)

Banked	Formal Other	Informal	Excluded
19%	7.7%	17.3%	56%

58.3% are underserved

North Central (5m)

Banked	Formal Other	Informal	Excluded
37.1%	13.7%	17.7%	31.6%

54.3% are underserved

South-South (4.4m)

Banked	Formal Other	Informal	Excluded
48.7%	8.1%	18.2%	25%

61.1% are underserved

South-West (5.3m)

Banked	Formal Other	Informal	Excluded
66%	15%	6.7%	12.3%

19.3% are underserved

South-East (2.8m)

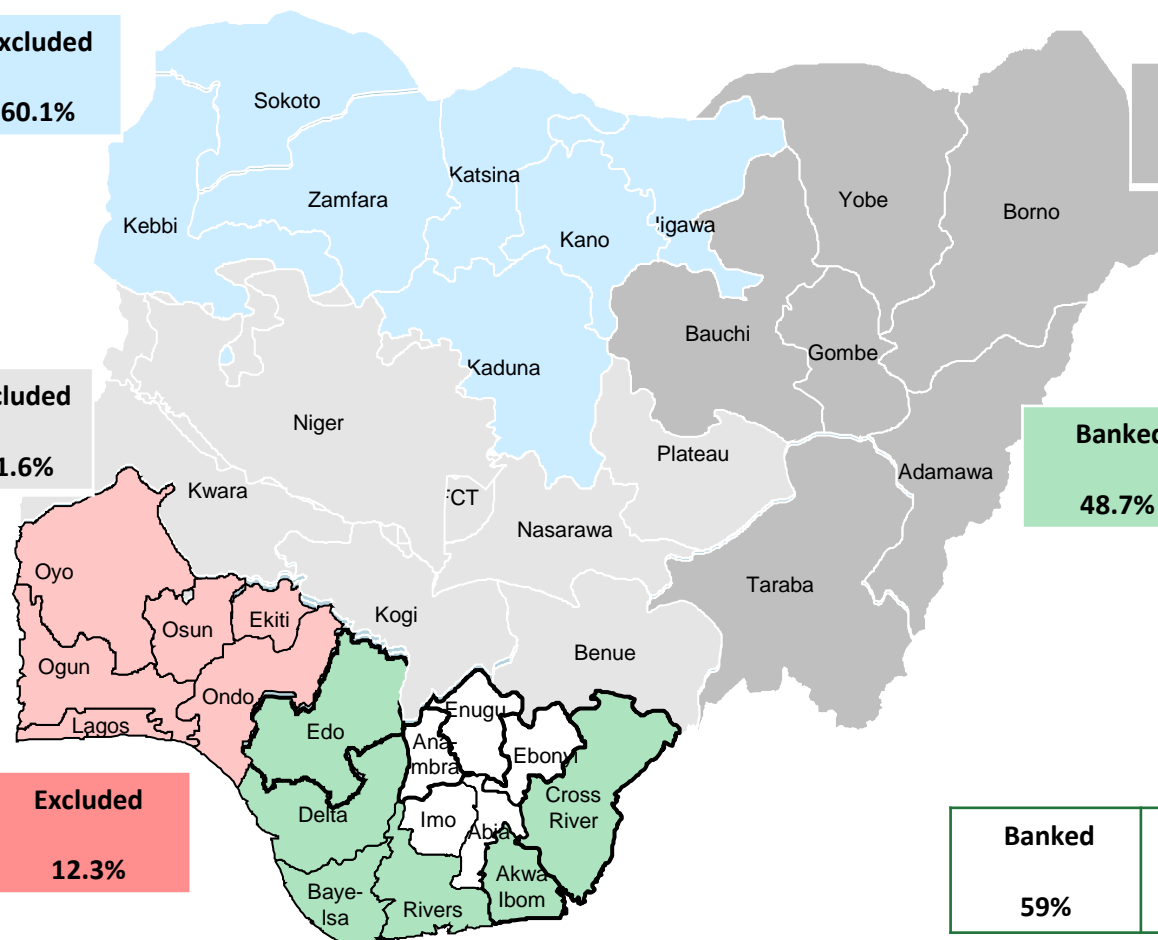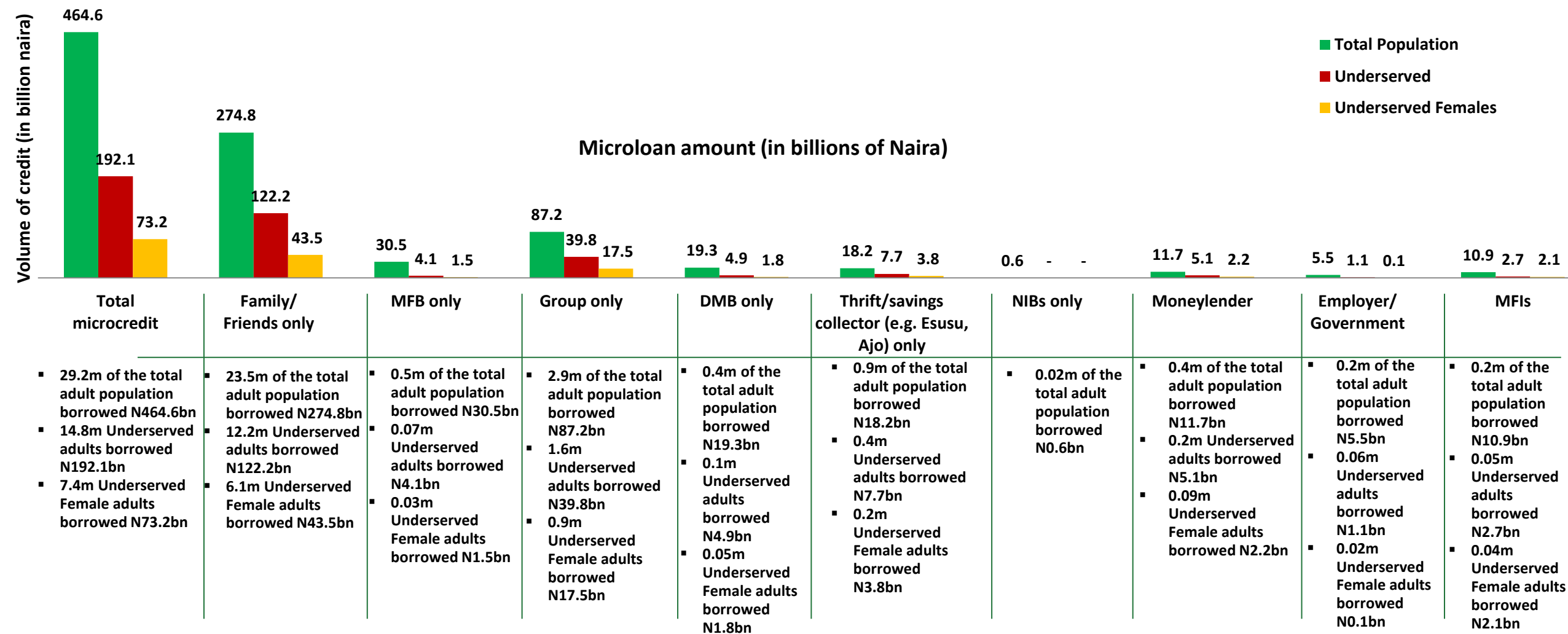| Banked	Formal Other	Informal	Excluded
59%	3.4%	19.6%	18%

48.4% are underserved

* The underserved population are adults who cannot reach any formal financial services provider in less than 30 minutes.
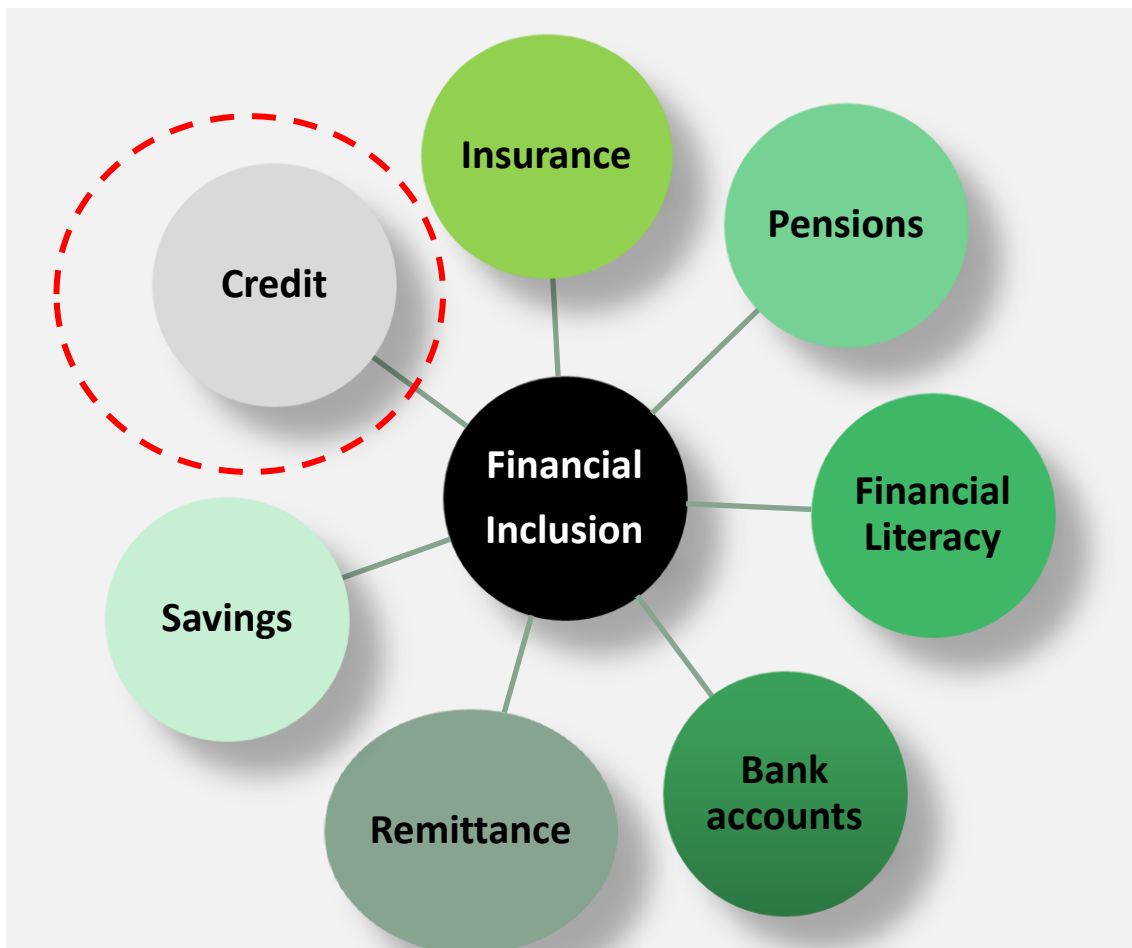
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There is a Huge Business Opportunity in providing Microloans to the Low Income Population

- In the past 12 months, N464.6bn was the microloan amount borrowed by the total adult population, half from family and friends
- N192.1b was borrowed by Underserved adults
- More than half of the microloan amount borrowed by underserved adults are from family/friends (N122.2b)

Microloan amount (in billions of Naira)

Legend:
- Total Population
- Underserved
- Underserved Females

Y-axis: Volume of credit (in billion naira)

	Total Population	Underserved	Underserved Females
Total microcredit	464.6	192.1	73.2
Family/Friends only	274.8	122.2	43.5
MFB only	30.5	4.1	1.5
Group only	87.2	39.8	17.5
DMB only	19.3	4.9	1.8
Thrift/savings collector (e.g. Esusu, Ajo) only	18.2	7.7	3.8
NIBs only	0.6	-	-
Moneylender	11.7	5.1	2.2
Employer/Government	5.5	1.1	0.1
MFIs	10.9	2.7	2.1

Total microcredit
- 29.2m of the total adult population borrowed N464.6bn
- 14.8m Underserved adults borrowed N192.1bn
- 7.4m Underserved Female adults borrowed N73.2bn

Family/Friends only
- 23.5m of the total adult population borrowed N274.8bn
- 12.2m Underserved adults borrowed N122.2bn
- 6.1m Underserved Female adults borrowed N43.5bn

MFB only
- 0.5m of the total adult population borrowed N30.5bn
- 0.07m Underserved adults borrowed N4.1bn
- 0.03m Underserved Female adults borrowed N1.5bn

Group only
- 2.9m of the total adult population borrowed N87.2bn
- 1.6m Underserved adults borrowed N39.8bn
- 0.9m Underserved Female adults borrowed N17.5bn

DMB only
- 0.4m of the total adult population borrowed N19.3bn
- 0.1m Underserved adults borrowed N4.9bn
- 0.05m Underserved Female adults borrowed N1.8bn

Thrift/savings collector (e.g. Esusu, Ajo) only
- 0.9m of the total adult population borrowed N18.2bn
- 0.4m Underserved adults borrowed N7.7bn
- 0.2m Underserved Female adults borrowed N3.8bn

NIBs only
- 0.02m of the total adult population borrowed N0.6bn

Moneylender
- 0.4m of the total adult population borrowed N11.7bn
- 0.2m Underserved adults borrowed N5.1bn
- 0.09m Underserved Female adults borrowed N2.2bn

Employer/Government
- 0.2m of the total adult population borrowed N5.5bn
- 0.06m Underserved adults borrowed N1.1bn
- 0.02m Underserved Female adults borrowed N0.1bn

MFIs
- 0.2m of the total adult population borrowed N10.9bn
- 0.05m Underserved adults borrowed N2.7bn
- 0.04m Underserved Female adults borrowed N2.1bn

Source: EFInA Access to Financial Services in Nigeria 2016 survey

Access to Financial Services

Through microcredits, the Bottom of the Pyramid (BoP) are able to access other financial services products
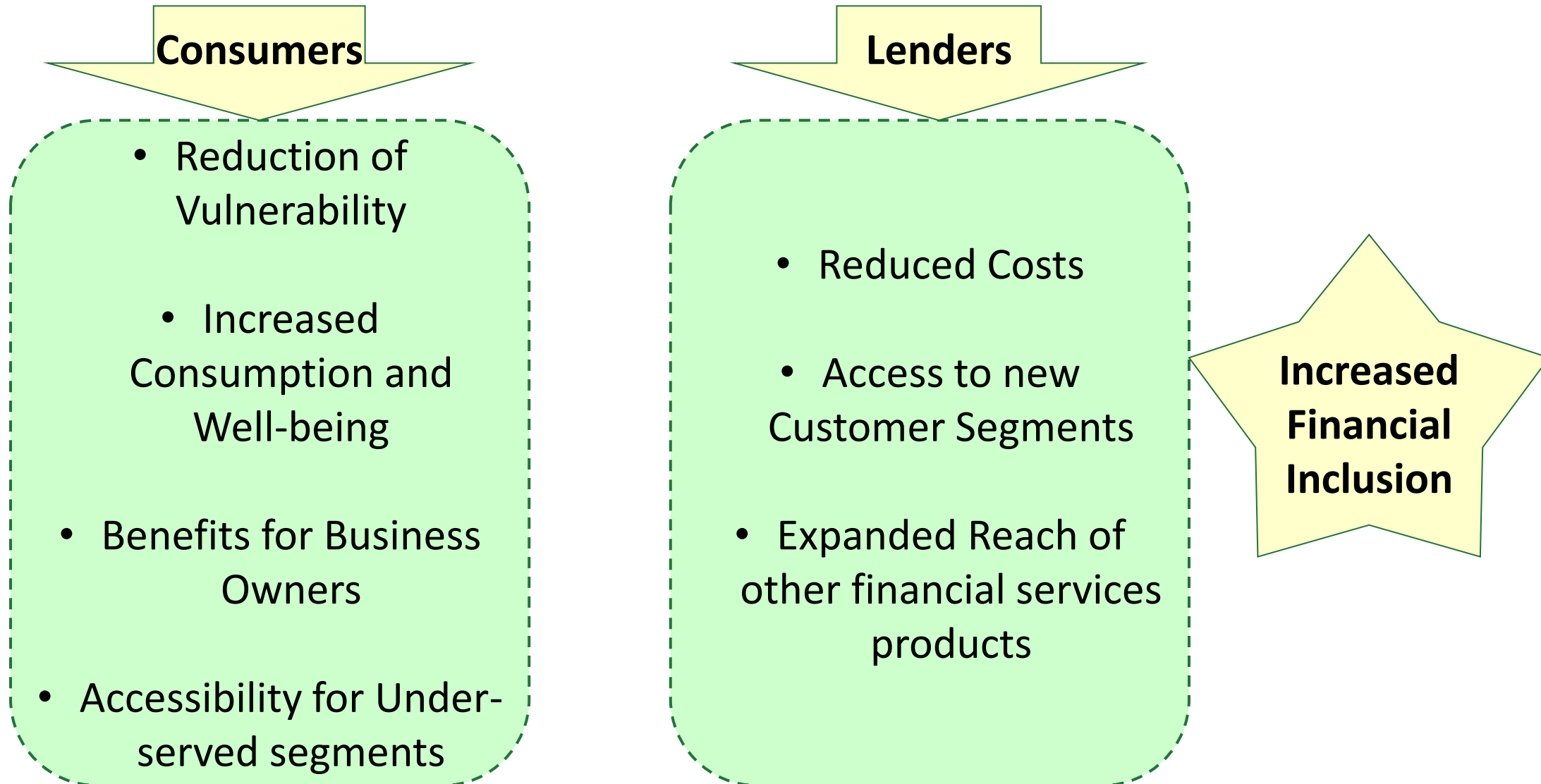
Challenges in providing Financial Services to the Low income

- Unpredictable and uneven income

- Informal workers

- Concentrated in difficult to reach areas

- Lack collateral
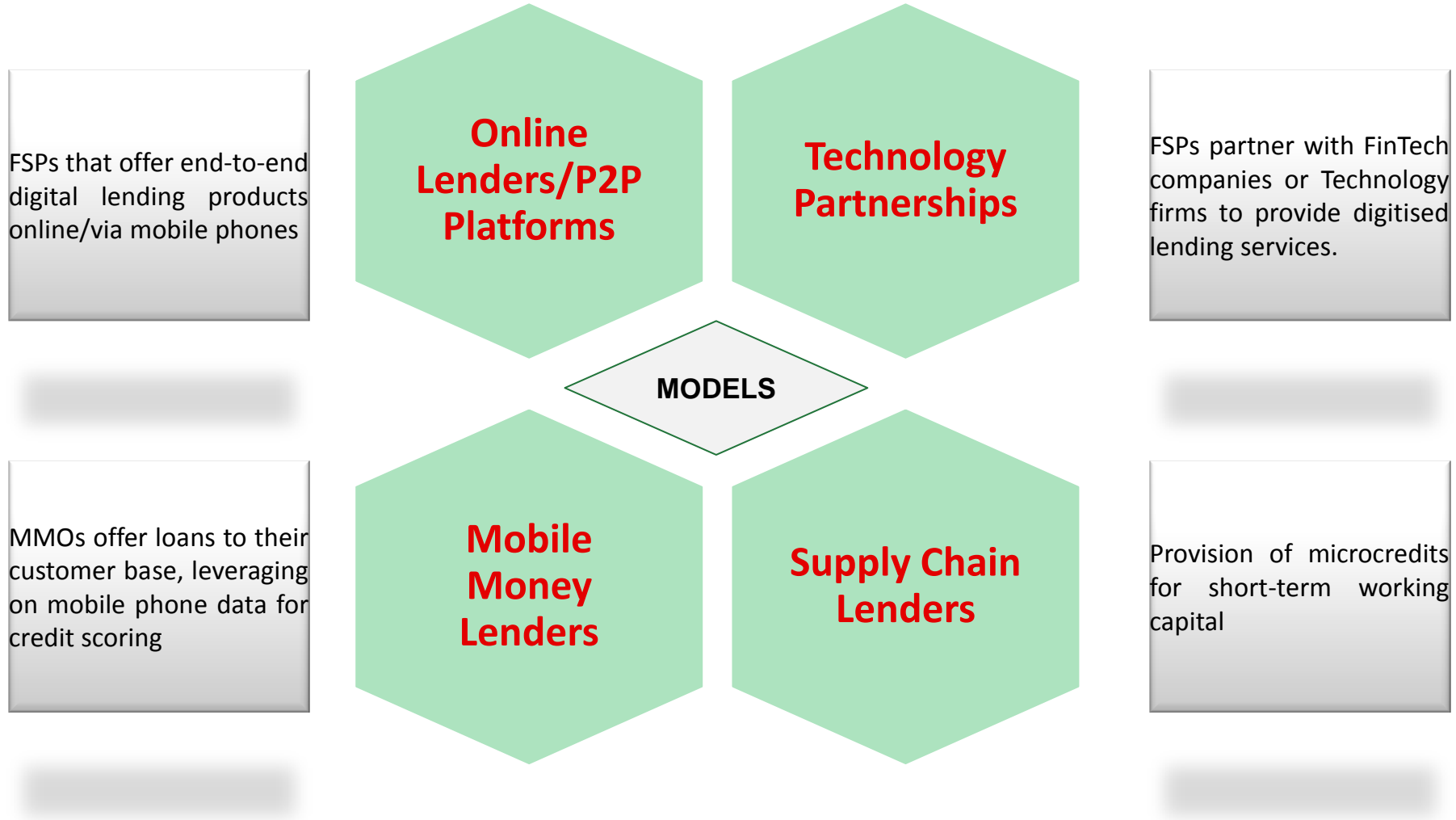
- No credit history and proper IDs

Impacts of Digitising Microcredits

- Direct Impact - Income

- Indirect Impact – More disbursements, New clients, Increased staff satisfaction, Flatter learning curve, Reduced churn rate, Higher referral

....which Digitised Microcredits can help resolve to a Large Extent

Consumers

- Reduction of Vulnerability

- Increased Consumption and Well-being

- Benefits for Business Owners

- Accessibility for Under-served segments

Lenders

- Reduced Costs

- Access to new Customer Segments

- Expanded Reach of other financial services products

Increased Financial Inclusion

Different Models of Digital Microcredit have been identified...

FSPs that offer end-to-end digital lending products online/via mobile phones

Online Lenders/P2P Platforms

Technology Partnerships

FSPs partner with FinTech companies or Technology firms to provide digitised lending services.

MODELS

MMOs offer loans to their customer base, leveraging on mobile phone data for credit scoring

Mobile Money Lenders

Supply Chain Lenders

Provision of microcredits for short-term working capital

....and they come with Associated Risks

External

- ► **Regulatory Risk**
- ► **Economic Risk**
- ► **Technological Risk**
- ► **Market Risk**
- ► **Client Repayment Risk**
- ► **Consumer Protection Risk**

Internal

- ► **Credit Risk**
- ► **Governance**
- ► **Liquidity Risk**
- ► **Operational/Strategic Risk**

- • Over-indebtedness
- • Loss of credibility of the market place

- • Use of credible data sources
- • Develop Credit Scoring tools – case for Credit Bureau and Collateral Registry
- • Advanced Analytics and Decision Automation
- • Maintaining a Robust culture
- • Being mindful of regulatory demands

Research Findings show Clear and Direct Evidence that Adequate Consumer Information is usually a Wise Business Decision

Experiments

Jumo:

- Simple changes to how costs are presented - integrated to messages
- Allowing consumers to actively opt out of viewing summary of products terms and conditions

M-Pawa:

- Provided additional educational content – simple set of SMS-based educational programs for borrowers

M-Kopa:

- Provided consumers access to and ability to correct credit history

Pesa Zetu:

- Simple changes in repayment messages
- Leveraged its peer-to-peer lending model in its repayment messages

Lessons Learnt

Jumo:

- Reduction of default rates from 29% to 20%
- Increased viewership from 9 percent to 23 percent, and resulted in fewer loan defaults

M-Pawa:

- Wide-reaching impact on borrowing and savings activity – 5.5 days earlier repayments

M-Kopa:

- Those who accessed their credit history made more payments to M-Kopa and had lower rates of default

Pesa Zetu:

- Significant impact on repayment rates – evening had 8% higher rate than morning reminders
- Messages emphasising the peer lenders funding the loans were more effective in encouraging repayments

Source: CGAP Experiments

Recommendations for Digital Lenders in building Strong Business Models and Customer Relationships

COMMUNICATION

Clearly communicate product terms and conditions – Focus on responsible lending

Full pricing disclosure - Consumer understanding of costs can improve intentionality and repayment performance

80.2%

of Microloan recipients say that they are prepared to learn new technology…

… and **62.9%** of this population already have mobile phones

AWARENESS

Build financial capability of customers – proactive engagement of delinquent customers

Education Programmes targeted at specific market segments are likely to yield greater impact

INNOVATION

More customer data – avoid mono product, one-size-fits-all digital microloans

… and employ user-centred design approaches – build products around the need of the target market
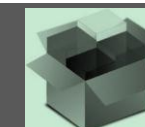
TOUCH POINTS

Leverage on agent networks for repayment of microloans

Establish and advertise clear channels for customer recourse

REPAYMENT & COLLECTIONS

Reward strong repayment performance by using incentives

Optimise effectiveness of payment reminder messages

THANK YOU