Digital Financial Services (DFS)
Financial Services provision utilizing technology

Financial Service Providers
- Banks - Digital Bank as a priority client (Domestic / International)
- NBFIs, MFIs, PSPs, Platform/Service Provider/Tech Startups/ MNOs

Products
- Savings, Investment
- Lending (incl. Factoring, Supply Chain Finance)
- Payments, Remittances, Transactional Accounts
- Insurance

Channels
Alternative Distribution Channels (ADC) enabled by technology:
- Online/internet, cards/ POS, tablets and Mobile in combination with agent networks (Branchless banking)

Customers
Unbanked and underbanked segments particularly in frontier/rural areas:
- MSMEs (including women-owned) in underserved geographies
- Individual consumers/retail customers
Demand Side: What are WBG’s and IFC’s goals in Universal Financial Access?

By 2020: 1 billion clients by WBG, of which 600 million clients by IFC

- The World Bank Group is committed to providing access to finance for **one billion** people by 2020. As part of this ambitious goal, IFC has committed to help provide access to **600 million** financial transaction accounts by 2020.
- IFC's goal is to increase the reach and breadth of financial services to the world’s un- and underbanked on a massive scale, while simultaneously reducing the cost to serve by fostering and supporting innovative and sustainable financial services providers.
- **DFS is critical in achieving this goal.** IFC wants to reach **250 million clients** through Digital Financial Services in FIG by 2020.

WBG’s Goal in Universal Financial Access (UFA) 2020

= 1 billion

= 50% of 2 billion financially excluded
25 Focus Countries of UFA*: 73% of the world’s unbanked

Countries prioritized based on share of unbanked, IDA, and FCS: 2014 FINDEX

India
20.6%
(of the world’s unbanked)

China
11.6%

Indonesia
5.6%

Pakistan
5.2%

Bangladesh
3.7%

Nigeria
2.7%

Mexico
2.6%

Egypt
2.4%

Brazil
2.4%

Vietnam
2.4%

Philippines
2.2%

Turkey
1.2%

Colombia
1.1%

Ethiopia
2.1%

Tanzania
0.8%

Peru
0.8%

Myanmar
1.5%

Morocco
0.7%

Yemen
0.7%

DRC
1.5%

Egypt
2.4%

Afghanistan
0.5%

WBG’s UFA’s focus country selection based chiefly on top 20 countries by share of world’s unbanked plus additional countries selected on criteria including IDA commitment (14 IDA countries), FCS focus (2 FCS countries), regional balance, and inclusion of ‘demonstration’/strategic engagement countries (e.g. Rwanda)

IDA countries:

% Access:

0% - 25%

26% - 50%

51% - 100%

M: Mozambique 0.4%; K: Kenya 0.3%; Z: Zambia 0.2%; R: Rwanda 0.2%
Demand Side:
Increasing adoption of digital services, faster than banking penetration

- 2.5 billion mobile subscribers
- 1.55 billion active Facebook users

Sources:
IFC Enterprise Finance Gap Database (2011), FinScope, IFC
IDG Targets for Micro/Retail and MSMEs.

Source: ACCION, World Bank
Supply Side: Why should Financial Institutions focus on DFS?

**Big Opportunities:**
- $5.8 trillion annual income by bottom 40% of world population by 2020*
- They indeed save small amounts, send and receive money from relatives, pay bills, and borrow through informal channels.

**Company (Banks):**
- **Cost Reduction**
  - Operational cost - by reducing branch cost
  - Cost of funds - by collecting cheap deposits
- **Revenue growth**
  - Reaching new segments in mass market
  - Offering new products and services enabled by technology

**Customers:**
- Reach larger number of customers untapped by existing delivery model
- Improve quality of service
- Increase efficiency of delivery

**Competition:**
- Take first mover advantage and be a market leader against other conventional banks
- Be ready to face competition from disruptors and acquire and/or adapt new technology to leap forward

As an example, banks in Europe risk losing out on €22bn of revenues to digital disrupters with the retail payments sector.** The same trend is happening in emerging markets.

Source: *Center for Financial Inclusion, **Financial Times*
Supply Side: How are leading Banks/FIs responding to emerging trends?

Emerging Trends and Disruption

**Virtual Wallets**
- Growing global adoption. 183 mn people in Africa alone own a mobile wallet
- More mobile wallets are becoming interoperable

**Data driven/Internet Lending, Savings**
- P2P lending, Platform lending
- Alibaba’s MYbank, an online lender that also takes deposits
- Comparison/fulfillment portals
- Personal Finance and Wealth Management
- Wealthfront took only 2 years to reach US$1bn in AUM

**Financial e-commerce**
- mPoS as a medium of transaction + lending
- White label ATMs
- Payments gateways, switches

**Infrastructure**
- Mobile wallets and other prepaid instruments, NFC-enabled payment systems
- Banks have tied up with Telcos - India Payments Banks, Mbank-Orange Poland
- Banks are adapting to online lending and credit underwriting (CBA, Barclays); also entering ecommerce to retain customers (China banks)

Banks’ Response

**Aware & Active**
- Aditya Puri, CEO, HDFC Bank – “…the only way we could be disintermediated is if we buried our heads in the sand and did not come out with our own solution”
- Agricultural Bank of China’s Innovation Lab; Wells Fargo Startup Accelerator, Citibank Innovation Lab etc.

**Launch products**
- Mobile wallets and other prepaid instruments, NFC-enabled payment systems
- Banks have tied up with Telcos - India Payments Banks, Mbank-Orange Poland
- Banks are adapting to online lending and credit underwriting (CBA, Barclays); also entering ecommerce to retain customers (China banks)

**Invest / Acquire / Partner**
- Acquiring FinTech start-ups – BBVA Santander acquired Simple; HSBC, Citibank, Mandiri have VC like structures in place for FinTech/DFS
- Citigroup has partnered with Lending Club to lend US$150 mn through its online platform
- Specialized digital subsidiaries – ING Direct, First Direct HSBC, B-Kash (Brac Bank)

However, most banks have not yet fully responded to the emerging threats and opportunities
DFS can target broad types of existing and potential clients

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Why DFS?

- To capture new market segments
- To reduce costs
- To improve and differentiate

- To create new business models
- To extend reach to mass market clients
- To provide credit more efficiently

- To reduce churn
- To increase ARPU and earn additional and non traditional Telco revenues
- To cross sell new payment services

- To create new business models
- To extend reach to mass market clients

* Only if the technology/service is core enabler/ building block for banking operation