From Microfinance to Financial Inclusion

This article is an extract of the CH&Co.'s Fintank yearly publication on Innovation for Financial Services. The 2018 edition addresses ways for incumbents to collaborate with Fintechs, Insurtechs and Regtechs through technologies driving the industry’s digital transformation.

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...in New York and London but also in Shanghai, Rio or Lagos.

In our modern societies, we often take for granted the ease of access we have to credit and banking services. However, according to the World Bank, this is not the case for half of the world's adults. Even in the USA, almost 7% of households were considered unbanked, and an additional 20% underbanked in 2015 (FDIC).

"FinTech is the future of financial inclusion. Through digital wallets and other innovations, more and more consumers will find themselves in a better financial position thanks to financial inclusion."

Rachel Schneider and Jonathan Morduch, The Financial Diaries

WHAT IS TRADITIONAL MICROFINANCE?

Microfinance provides people who are excluded from traditional banking activities with access to Financial Services, from low-income individuals, to entrepreneurs and small business owners who have limited collateral. Microfinance clients are often just below or above the poverty line, commonly defined as earning $1.25 a day. Over the past decade, financial institutions have been developing a range of products to meet the needs of this underserved market.
Due to patronage from financial institutions, the main activity of Microfinance has been granting micro-credit: loans to support small scale economic activities.

Today, Microfinance is a $9 billion industry, and is expected to grow 19% annually over the next 4 years to $14 billion in 2019 (Responsibility Research).

According to TechCrunch, there are about 10,000 Microfinance Institutions (MFIs) globally – and as many as 100,000 when you add credit unions, co-ops and other informal institutions – serving 150 million people worldwide.

MFIs have been operating in China and India for many years but recent FinTech innovation, and better access to mobile technology, especially in Africa, have made it easier for MFIs to expand their services in line with FinTechs. In turn, FinTech start-ups are able to leverage pre-existing MFI networks to access untapped markets.

CH&Co. has outlined 4 key trends in FinTech that will help Microfinance transform into global financial inclusion in the next 5 years.

Payroll

A lot of brain power and money have been poured into FinTech, especially lending and payment areas, but Payroll is getting also a lot of traction, as a key components of the credit quality.

London-based start-up DoPay has started offering a mobile payroll service for the unbanked in India, the Middle East, and parts of Africa. The cloud-based service lets employers electronically remit salaries to their staff’s DoPay account, which comes with a debit card.

But payroll is also a mature economy topic; New York-based software start-up FingerCheck specializing in time tracking and payroll, is the latest to introduce a feature that makes online payroll completely automated. The platform internally processes payroll for all salaried employees, and hourly employees based on its own time clock data.
Payments and Remittances

China is one of the more advanced emerging markets when it comes to P2P payments and remittances, with players like Alibaba’s Alipay and WeChat Payments dominating the market. There are also FinTech start-ups meeting the demand for alternatives to traditional remittance services like Western Union, especially on the booming African landscape.

Cellulant is a leading digital payments service provider that prompts, collects, settles and reconciles payments in real time.

IMB offers a wallet with remittance capabilities, enabling users to buy airtime, pay for electricity, metrorail tickets and other mobile services.

Nomanini is an enterprise payments platform provider that enables transactions in the cash-based informal retail sector.

Credit Checking

The biggest problem with being unbanked is the lack of credit history needed to access Financial Services. This is especially an issue for entrepreneurs that need support to start or expand their business. Therefore, FinTech start-ups are harnessing data from other sources to form an alternative credit history:

U.S. companies like First Access and Demyst Data are now finding ways to use someone’s mobile payments history, or social networking activity, as a credit scoring solution for emerging markets.

In Africa GetBucks allows users to manage credit profiles and budgets, offering personalized credit based on positive behavior, allowing better repayment terms and declining rates.
Cryptocurrencies

Digital currencies like Bitcoin have been blazing a trail in emerging economies for over a year now. However, given the volatility of Bitcoin, its real value in the short term is as an instrument for payments and money transfer.

For example:

**Bitspark**

BitSpark has built a bitcoin-based platform to process Asian remittances at a discount.

**BitPesa**

BitPesa, a remittance start-up which serves the UK’s African diaspora.

**BitPagos**

BitPago has been inspired by hyperinflation and currency volatility in South America and offers a Bitcoin-based alternative.

**Bitsoko**

Bitsoko is an Android mobile wallet that implements Blockchain technology in Africa.

**Kobocoin**

Kobocoin is a digital currency and payment system similar to Bitcoin, with an African heritage. Kobocoin is a Blockchain-based P2P payment system in Africa.

WHAT ABOUT MICROINSURANCE?

Insurers are slower to adopt innovation, but seeds are sprouting in incubators around the world.

**WorldCover**

Worldcover is a Peer-to-Peer investment platform providing insurance to farmers in developing regions around the world. It connects a growing pool of investors who seek uncorrelated investment returns and impact from their capital with a huge and growing need for a natural disaster insurance in the developing world. The unique funding and pricing model allows them to underwrite farmers in the developing world profitably and confidently. It also uses satellite technology to automatically make payments to the insured in the case of natural disasters.

As the first mobile Microinsurance partner in the Middle East and Northern Africa, Democrance provides cutting-edge proprietary financial technology solutions and advisory that open the door to the underserved segments across the region.
Acknowledgements & Contacts

CH&Co. Digital Expertise

We are deeply involved in growing the global FinTech community and use our knowledge to enhance our public Fintank.net database. We cofounded FinTech hubs, such as FinFusion in Montreal or Finance Innovation in Paris, and regularly co-organize FinTech meetups in New York, Singapore, France, London and Geneva. The events unite leaders from the Financial Services industry, startups and other innovators featuring panel discussions, demos and insights from our FinTech experts that are among the world’s top influencers.

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The Innovations That Matter

Our comprehensive database of company profiles covers a full range of financial services solutions from FinTech start-ups to large corporations. Each case study contains a thorough overview of the company’s solution, business plan and strategy. We also know that implementation is key and we strive to provide a repository that will help inspire the development of disruptive innovations by sharing insights on breakthrough ideas blossoming all over the world, including best practices and recent trends.

FinTech Directory

Want to invest in FinTechs? Fintank is the place to get an international list of start-ups in the Financial Services industry.

CH&Co. Lab

The CH&Co. Lab is an incubator that develops prototypes based on our best ideas and convictions. We develop solutions and share them with our clients, such as Highway-to-Mail.

Innovation Booster

CH&Co.’s methodology around crystalizing energies in corporate organization to foster innovation - inspired by start-ups’ approaches and business practices.

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