The MasterCard Foundation Symposium on FINANCIAL INCLUSION 2014 with the Boulder Institute of Microfinance

The MasterCard Foundation Symposium on Financial Inclusion: Clients at the Center

Day 3 ~ July 18, 2014

Why are We Needed in the First Place?

Roger Morier ~ Emcee

Just think, if you are a traditional or conventional microfinance institution, you see mobile banking coming along, you see agent services coming along, you see retail and consumer financing coming along, and your whole operating environment suddenly is becoming a lot more competitive. So this panel is going to try and answer the question, "Is there a continuing role for conventional microfinance institutions, and what is that role going to be?"

The panel is moderated by Matthew Bishop. He's the US Business Editor and the New York Bureau Chief of *The Economist*. He confounded and advises the #GivingTuesday campaign, and the Social Progress Index. He is a member of the World Economic Forum's Global Agenda Council on the Role of Business. Matthew is a prolific author. He's authored several books. But right now, he's busy preparing a report for the G8, a report on the Task Force on Social Impact Investment, and that report is scheduled to be published in September.

Matthew, you have the interesting challenge of leading this panel and answering the question, "Why are we needed in the first place?" Over to you.

Matthew Bishop ~ The Economist

Thank you very much. Quite a topic that we've been given this morning, and the panel, let me introduce them first of all. To my far right, your far left, is Kamal Quadir who is the CEO of bKash, which is a mobile money service owned by BRAC Bank, the IFC, and the Gates Foundation, among others, and operating in Bangladesh. To my immediate right is Greta Bull who is Program Manager for the Partnership for Financial Inclusion, advisory work at the IFC, and has been very much involved in microcredit and microfinance for probably longer than she'd care to remember. And to my immediate left is Stephen Peachey who is Program Technical Advisor at the World Savings Bank

Institute Facility, and very much involved in trying to extend savings banks to the very poor.

Let me just talk a bit about the context for this discussion. I know I've met a number of you before during the International Year of Microcredit back in 2005, for which I was a member of the advisory group. This was an interesting group that I think reflected the general mood of optimism about microcredit and microfinance at the time. The membership of the group spanned a couple of European princesses who are now both queens I think, and retained an interest in microfinance and financial inclusion, all the way across to the head of the UNDP and Faisal Abed of BRAC, and was chaired by Stan Fisher who at the time worked for Citi Group and went on to become the Governor of the Central Bank of Israel, and is now a Deputy Governor of the Federal Reserve Bank in the United States. And very much, he led us in a discussion that was really about how do we get away from the narrow focus on microcredit to really talking about financial inclusion and offering a much broader range of financial services. And that was very much the message that the advisors group was putting out through the recommendations that we issued during that year. And it was a lot about how do we change banking regulation to be more open to for-profit business models, and how do we move away from the reliance on philanthropy, how do we help take cost out of the system?

During the course of that year, I was lucky enough to meet Nate Hughes who at the time was working for Vodafone on what we're seeing as a very small pilot project in Kenya funded by the Department for International Development from Britain to experiment with mobile money. I guess that has now gone on to become M-Pesa and so forth. At the time, he said, "Well, it's going quite well, but I'm not sure we at Vodafone want to become a bank." Other telecom companies may not have had such limited ambitions.

Since then, how do we reflect on where that story about microfinance has gone since then? I do think that there has been a general recognition that focusing on the broader range of microfinance is better than the narrow focus on microcredit. The *Portfolios of the Poor* book that Jonathan Murdoch and others produced, I think was very significant in showing that we had to take a broader perspective and really confirming what I think the advisors group had felt back in 2005. We then saw the general discussion around SKS and the IPO in India and the subsequent fallout from that, which I think in general if you took the typical member of staff at *The Economist*, that was probably the last time

anyone was really very interested in microfinance, and it's allowed a lot of people to say, "Well, nice idea, but probably not as good as it's cracked up to be."

And then the other narrative that's really emerged has been that of M-Pesa and electric money, and mobile money, and I guess there's a sort of general sense that M-Pesa has been a great success, but rather puzzling that it's not spread very much to other countries. And I think probably that externally is what the narrative is around microfinance. If you look to people who are in the development field now, they're much more interested potentially in whether impact investing is a rather broader category, is the thing to get excited about if you were a queen or princess nowadays. And I guess currently as I'm trying to write this report for what was the G8 Task Force and is now a task force started by what was the G8—I mean, as we sit and write that report, actually trying to get any reference to microfinance at all in it, even though I think it's seen as the pioneering impact investment has actually proven quite a struggle because people don't want to associate with something that's seen to be somewhat tainted as a brand.

So that, by way of context, is kind of a sense of the last ten years and where we have come to from a perspective of people who are not deeply in the field. And so I think my first round of questions will be sort of to ask our panelists how do they view that narrative as to where we've come over the last ten years, and where we are today? And then I'm going to have a second round of comments which is going to be about, okay, a lot has happened in the past ten years, let us try and think about what the narratives ought to be over the next ten years, and to what extent do traditional microfinance institutions have a role to play, and if so, what should that be?

I'm going to start I think with Greta. Kick us off with the last ten years and where we are today.

Greta Bull ~ International Finance Corporation (IFC)

Bob asked me to be on this panel because I have worked not only in microfinance quite extensively, but also we do a lot of work with MNOs, with payment services providers. I've done this in both Latin America and Africa which gives very contrasting views of how the ecosystem is developing. And I think coming to Africa about three years ago, everybody was very excited about M-Pesa and what Safaricom has done. And I think we've all sort of used that as our bellwether in terms of where we're taking the industry, and what's possible to do in the industry. But I think while Safaricom and M-Pesa gave

us an insight, I don't necessarily think it gave us a template. And I think a lot of us have made the mistake over the last few years of thinking we just have to do exactly what they did in Kenya and then it will magically work in Nigeria. And I think the last three years has proven that that's actually not the case.

So as somebody who is actually very committed to microfinance, we've been very involved in the microfinance space. And when we started our program with The MasterCard Foundation, a lot of people said to me, "Why are you doing this with microfinance institutions? They're not going to be the next M-Pesa. They're not big enough to be the next M-Pesa." And we felt like actually the microfinance community is really important in this scenario. This is an ecosystem that's evolving. Right? So M-Pesa built one thing. There's some other things evolving, and it's more an ecosystem with multiple players. So microfinance institutions certainly have an important role to play in this, but so do the Kopa-Kopa's of this world who are doing merchant payments, so do the distributors of services over the wires. I mean, it's an infrastructure that people can deliver financial services on, and that's really the important insight.

So using the twin pillars of technology and fundamental distribution, that's a really important part of the topic right now. How do you get financial services, and products like electricity into the hands of the poor that enable them to grow and better their lives? We think actually all sorts of different players are important in this ecosystem, all have a different role to play, and all offer services in a different way. So we're really excited about the possibilities of what M-Pesa sort of put on the table, but I think it's going to evolve in really weird and wonderful ways, and we can talk about that more.

Stephen Peachey ~ World Savings and Retail Banking Institute (WSBI)

I'll be honest. The last ten years, the last few years rocked us back. But to borrow this morning's analogy, we can either go sideways down or the only way is up. Our program is called "Doubling savings accounts in the hands of the poor." It's not been easy. We've been running it for six years with Gates Foundation money. Actually nine out of the ten projects are with traditional postal savings banks. They're not the fastest movers in the world, but actually we've just broken through our doubling savings accounts benchmark, and we've actually had to renew the entire customer base. We have recruited half a million customers in Kenya to keep half a million customers, but they are now almost 90% unambiguously in the target market.

I think one thing, if you want to call yourself a double bottom line institution, and you still need to make a profit because it's the only way we ever get capital, but you want to deliver something socially useful, it's now the extreme poor that we have to aim for. There is no point pretending that the market can't resolve the needs of the moderately poor or the near poor in low income countries. Slightly different in middle income countries where there's a lot of unbanked low income households that are above the poverty line. But in the low income countries, we really have to aim at the extreme poor. That means people not $1.25 a day. Those are PPP dollars. It's people on 50 cents to a dollar. And where the real need is out in the rural areas, and that's 50 cents a day. So if you want to take 50 cents as a fee from someone, you're actually asking to take an entire day's living from them. So you have to use a technology and you have to use the partners to make a service work at 50 cents a day. But it does put the M-Pesa experience in context. End to end, to send money into cash-out is 50 cents. It's a once a month luxury purchase for the median Kenyan. It's not a daily thing.

To do savings, we clearly have to be able to collect really small amounts of money at really high frequency daily. So we're going out into the villages and partnering with village level savings and loan groups. We're not terribly good yet at partnering with other formal players, but we are doing really well out in the village with village level savings and loans groups, and we're actually rebuilding our mobile banking offer entirely around the way they work.

Matthew Bishop

Now just to pick up on your point that you feel the last ten years have been sort of sideways or maybe a bit backwards, although there's been …

Stephen Peachey

For the savings bank movement.

Matthew Bishop

For the savings bank movement in particular. Why did that happen, do you think?

Stephen Peachey

I think we stuck with a traditional product, and we thought we were modernizing just by turning a passbook into a card account. And we weren't really doing the human-centered design. We weren't looking at the way people actually save money in the villages. Our competition is not other banks. We have to leave that behind. Our competition is informal, in cash. Someone said it yesterday. I think it was Strive said it yesterday. But the competition is cash. We have to look at the way people handle cash, move it around. Seventy percent of the money in a Kenyan village moves within a kilometer. Eighty percent of the transactions. But what shocked me is it's 70% of the money is within one kilometer. Now, you can't move that on mobile money. We have to find some way of letting people move that around, maybe by touching phones, that works for transactions that are under a dollar. So we've literally just been sitting in the villages with our partners from the VSLA movement just trying to learn now how people save money, how they get those little surpluses that they put aside, and when they pull them back out.

Matthew Bishop

Greta, again, just how you would characterize the last ten years. Do you feel that there has been a stalling of the development of the microfinance industry relative to obviously the excitement that we've seen about the telecom sector where the mobile phone is really quite, to everyone's surprise, really has become the driver of so much positive development activity?

Greta Bull

I think the microfinance industry has continued to develop, and it's continued to mature, and I think there was sort of a sense that we needed to become full service banks and do the necessary transformation that would enable that. But I do think the whole M-Pesa story has been incredibly disruptive. But this was an industry in need of disruption. And that's not just microfinance. It's the banking industry as well. And in some ways, banks have been slower to the table than microfinance institutions. And actually the numbers really show it.

So if you take the case of Kenya and Tanzania, what M-Pesa and mobile money have done in these markets is remarkable, not only for what it's done in terms of formal financial services, but for what it's done in the banking system. So, in Kenya, from 2006

to 2013, you went from 27% of the population having access to any formal financial service to 67%. But the more incredible shift is that in terms of access to bank accounts, it went from 13% to 29% which is a massive shift for an industry that's been sitting there for 100 years and not offering bank accounts to most of the population. You know, we're all a little tired of talking about the Kenya story, so let's look at Tanzania. In Tanzania the story is exactly the same. And since 2009, we've gone from 16% of the population having access to 58%, and the banking system shifted from 10% to 14%. So, the microfinance industry is working up to this. They're understanding that they need to change. It is a huge cultural shift.

So we work, for example, with FINCA in the DRC. They are the biggest financial institution in the DRC in terms of customer numbers, but they could be so much bigger. And the conversation we're having with them, having helped double their customer base in the last year, is how do we take it to a million clients and more? But the cultural change in that institution is so profound, you have to sort of build the tracks, moving at top speed while hoping that the wheels don't fall off. So it's really helping build the institutional foundation that enables the kind of growth that we haven't seen so much in microfinance with a few exceptions.

Matthew Bishop

Now Kamal, I want to bring you in. Now you're the disruptor, you are not a microfinance guy, but you've come in and built up 30 million customers for your mobile money in Bangladesh. Now, first of all, how do you respond to the history of the past ten years, from the perspective of providing financial services to the poor and extending financial inclusion? What is your reaction to what you've heard as a telecom guy who's achieving some success with poorer customers?

Kamal Quadir ~ bKash

Thanks for the introduction. In fact, I was thinking of referring to a conversation I had with Bob last year when I got a call and I said I don't know much about microfinance, and he said, "Well, that's why we ask you to come." (Laughter). So in the last year it has not improved much about my understanding of microfinance. But what I would tell you is that the customers are ready to adopt new tools. And to give a little history of how bKash started, what we looked at in Bangladesh, to provide any basic service through a bank, whether to give a leaflet to somebody or to cash a check, it costs $1.60.

And an average ticket size is around, what bKash's experience is, is around $11.00. So when your customer's ticket size is $11, and bank costs $1.60, there is no way you can serve the customer with existing banking infrastructure. So fundamentally what we have done is we have taken that to the retail level. So, a shop, basic mom and pop store, grocery, medicine, airtime, tobacco, they have financial services now. And we do around 40 million transactions per month.

So what it allows is that people can send money from one part to another part. People can make their repayment of any loan, any small purchase. But what we need to also, and coming from Bangladesh, and I heard at another event like this is that microfinance's official language is Bengali. So what I do learn from my colleagues from BRAC and other institutions is that microfinance is not just about giving money and taking money back. There's lots of coaching involved, lots of human intervention is involved. So if those interventions can be properly designed with the tool that is available today, I think a lot of things are possible. But I mean, I was hearing mentioning about people having energy, combining mobile money for example M-Kopa in Kenya. So if there's a very clever way it could be designed thinking about the customer and the client, this kind of tool could be used very effectively. There is this massive debate about telco-led and bank-led kind of things, but as a smartphone penetrates into common people's hands, that debate will disappear gradually.

Matthew Bishop

Let me just jump in on that because I think that debate is something that I'd love to get your perspective on because I can think back a few years and there was this general frustration. I remember interviewing Bill Gates about this, and he just could not understand why is M-Pesa working in Kenya and not working, not taking off anywhere else. And the answer seemed to be something to do with the lack of competition to the providers in Kenya allowed it to do some stuff that maybe you couldn't do in more competitive telecom markets elsewhere. And now you've achieved some traction with a different model, Tanzania is somewhat different. What are we learning about what it takes to get mobile money to really grow in a country?

Kamal Quadir

I think it's a … you know, CGAP did a study that I think 197 mobile money initiatives took place in the last 7-8 years, and very few of them went beyond 200,000. I think

regulation is the key. It's very clearly laying out the stakeholders and their roles are very important. In developing countries where other basic element that we expect in developed economy to work very smoothly, whether that is KOIC or whether that is social security number, there are challenging situations that we work under. So there, if we do not take the regulatory part seriously, it becomes quite difficult to function. So if we have the regulations very clearly laid out, that happened in Bangladesh. Central Bank, for example, it took a very clear and bold position there defining the role of the financial regulator, the role of the network provider, and customers, and eventually the service provider. And when those stakeholders mapping is done clearly, and if the players are adequately rewarding each other, a fantastic ecosystem can develop.

In Bangladesh we have 80% of our revenue goes to the agents and the distribution who takes tremendous risk in the market. Seven percent of our top line revenue goes to the mobile operator, and 13 percent stays with the service providers. From there, we are providing all our costs. So that kind of economic model can provide adequate incentive for everybody and that's when the ecosystem will grow. I mean, one element we often miss is the customer, the clients where this discussion is so much focused. Clients in Bangladesh, I mean, we were doing the math yesterday, 100 million mobile phone users, each handset on average cost $30, so clients have invested $3 billion dollar just buying the handsets. We need to give the clients a choice, where they will go and how they will go rather than boxing them into different pieces.

So I think if we can have a very clear regulation, that is I think is the key. And just to add with this point, this regulatory part, whenever we talk in a free economy, we immediately get allergic about the whole thing. But I think while we need to see things from the birds-eye view, we also need to see it from the worm-side view of realty, where we are operating and what challenges we face there. And that's why delivery is very difficult.

Matthew Bishop

So Greta, let's try and now roll forward and say what should we be aiming for for the next ten years? What could be achieved, what need to be the priorities, should this be MFI led, should it be telco led, is there some happy marriage between the two?

Greta Bull

Well, I'd like to jump in on the regulatory point because I think that's actually critical for the future as well. I agree completely that getting the regulation right is important, and it's important in a couple of ways. Getting it right today, and getting it right going forward makes a big difference. And it's sort of a Goldilocks thing, right? You can have too much regulation. If I take the case of Nigeria, it's over-regulated. It's stagnating the market. If I take the case of Kenya, some would argue that it's under regulated, and you have a monopoly that's not behaving in a very competitive fashion.

Matthew Bishop

When we talk about regulation. I guess immediately is the question that if it's too regulated, at least you've got the financial regulators and the telco regulator, and I guess in Nigeria they don't really talk.

Greta Bull

And there's the competition authority and various. I go back to my days in Peru in microfinance and I think in a way Peru has the ideal kind of regulatory framework because it's full of information, they've got a regulator that listens to industry, they adjust as they go along, and it's an evolution. And so regulators need to sort of get the starting point right today, because what you really want is an ecosystem that is open, interoperable, has an even playing field for all players, is competitive and therefore low cost, you have multiple players who can engage. And a smart regulator will listen to industry and will make sensible decisions on behalf of consumers. And then you can start, once you get the beginning point right, you can start tackling issues like interoperability which I think are critical going forward. As and when it's appropriate to do that, you engage with industry, and you can make the regulatory framework add up and make sense for all the different players in the ecosystem because it is an ecosystem and it involves multiple partners. And if partners are coming out just trying to eat each other's lunch because the regulatory framework encourages that almost, then you get nowhere.

Matthew Bishop

So what's the goal for the next ten? So where do you see this going?

Greta Bull

For the industry? I think really competitive, even playing field, lots of different people can plug into an ecosystem. We talked yesterday a little bit about how actually the agent network and the tech are almost rails that you run everything else on. I agree with that, and I think there are certain utility functions for example on the interoperable side—switches and schemes that allow for multilateral payment agreements. This is the infrastructure on which other services can run. So you get the M-Kopa in Kenya because you have that infrastructure in place. In other markets we don't have that distribution infrastructure yet. So I think regulators in particular need to think about how you develop that infrastructure before they figure out what services you can run over it.

Matthew Bishop

I guess the process of financial inclusion is often seen as just lowering the ceiling in the sense to include more and more of the people, lower down the income structure. To what extent is that just continuing to lower the strategy or should we be really targeting the very bottom of the pyramid a lot more aggressively?

Greta Bull

Well, I might take a slightly different view from Stephen on this. But I think what you need to do is … we work with commercial entities in IFC and I think what we are trying to do is, as Mark Flaming said the other day, is help the microfinance industry understand how they can become a mass market industry, providing banking services for the mass market. And so that's not about just credit; that's about transforming your institution so you can provide multiple services as a bank. But then it is really lowering the level that you serve at. Some will go to the bottom of the pyramid. Others will just sort of gradually go down. But I think the beauty about the technology and distribution that we're seeing right now is that it really does lower the entry barriers to serving that population and it does make it actually feasible. So again, as Mark was saying, he reached, particularly in Africa where it's very rural, you reach the limits of branch infrastructure very, very quickly. And so agency and mobile banking, it doesn't have to be M-Pesa. It can be from a bank perspective. You can serve those lower income customers cost-effectively by using those sorts of technologies.

Stephen Peachey

Let me come back. The reason I say I think for the double bottom line institutions it's going for the extreme poor is that they are the bottom half of the market in low income Africa. It's different in middle income countries. But I love the way Kamal talks when he's talking about mobile money. I don't necessarily love some of the other experiences I have. I think the future, and Reeta said this right at the beginning, I think there was a phrase, "Dare to trust." We're going to have to move to a stage where we start sharing our business models with partners. And actually the double bottom line thing is not about parceling out one bottom line; it's about arbitraging the different profit functions.

There are things that I can do for village groups that cost me virtually nothing. Village groups can do KYC at a cost that I just can't imagine, it's so tiny. They can bring me customers ready to be KYC'd in bulk.

Matthew Bishop

Know Your Customer.

Stephen Peachey

Sorry, yes, Know Your Customer. My version of Leon's badge all the time is to wear the front line tee shirt of the members we work with. And guys, I hope you can get the back of this. This is "Grow the numbers through village banking." Now our Uganda member …

Matthew Bishop

Are you selling copies of the tee shirt?

Stephen Peachey

No, this is a special edition. I think this is a two-finger salute tee shirt because our Ugandan member had been telling us they wanted to do linkage banking into the villages. I fought them to a standstill over two years on an $800,000 investment because we couldn't agree the conditional future tense about activities and inputs and outcomes. We just couldn't make the language work. So we gave them $160,000. I went to Ian Radcliffe the program director, and I said, "For $160,000 we can't even afford an airfare. There's certain no consultancy. But we just give them the money, we

tell them spend it on village level banking initiatives, and when they've got a certain number of customers, 85,000, they can come back." This tee shirt is to celebrate the fact that they've gone from 50,000 poor customers to 125,000. So they've done 95% of the target a year ahead, so we've given them the next chance. I don't know whether it's a two finger victory salute or it's the other way around to sort of say, "Peachey, you know, why didn't you just let us have our head?" But it's worked because they've taken their mobile banking product, but they've rebuilt it around the way the village groups work. We have now funded the software so that all of the village groups that they work with, and these are 100,000 members of these groups, who are not all yet connected with a bank will have an electronic sub-account. When they have an electronic sub-account, first of all there's a parallel electronic audit trail. If something goes wrong with a paper trail, we too will have a record. We have auditors in the bank. They're sitting there. They're a fixed cost. We can offer it as a service. We're not going to charge for the electronic account holding. What we will do is allow people, and half of them we reckon are already signing up for the bank account, to transfer money between their bank account and their electronic sub-account.

Now the next step is to say, okay, rather than message and validate every transaction, if someone puts too much cash into their village sub-account, it's a behavioral hint that they might want the money to go into their bank account. If someone puts too much e-value into the electronic sub-account, it might mean I would like cash out in the village please. That way, we're absolutely minimizing the cost of messaging to a level where we can offer it in single cents. And that suddenly takes the mobile banking, mobile money product right out into the villages because only about 30-40% of Ugandans are within, or rural Ugandans, are within two or three kilometers of a mobile money outlet. So we can't just do it with mobile money. We have to take the technology and get it into the villages in a way that works out single cents, and we have to say if you want to put it on to your mobile money account, that's fine. It's an electronic transfer. Basically electronic transfers cost me nothing.

Matthew Bishop

So Kamal, if we look at the last ten years, the evolution of the mobile phone has just gone much faster than many people would have imagined, and the sense in which it's transforming the lives of the very poor is also a very surprising development. Where do you see now, bearing in mind that it's very hard to predict the future, what do you see as

being the next phase of evolution in terms of what's going to be possible in terms of mobile money for the mass market and the bottom of the pyramid?

Kamal Quadir

Well, Matthew, whatever we predict will be proven wrong. So, I'll put it this way. I live and work in Bangladesh, and mobile phone is perhaps the most powerful democratizing tool we have witnessed or mankind has witnessed in the last 100-200 years. It's so powerful, and everybody can afford it. I'll give an example from my operation. So because we are a telco-agnostic financial institution, regulated by Central Bank, we initiated our service with pure financial service, namely cash-in/cash-out, people deposit, people get interest, people make payment. And after two and a half years of our operation, we first launched Airtime. So we basically on top of our system, we put another layer. In three weeks, we reached around 400,000 transactions. So what it says is that if the technology platform can handle it, people are ready for different things.

Matthew Bishop

And so what's going to happen? Are we going to see a lot more sophistication in the phone industry than we have now?

Kamal Quadir

Yeah, so I think if we can design the product properly, and I think proper product design is the key here, so if you want to reach a certain segment whether it is microfinance or microinsurance, if we can design it properly, then people will adopt it for its new tools and new channel, for more efficient distribution of income, wealth and whatever you call it. While I appreciate it very much, but when people call M-Pesa or bKash financial inclusion, I think it's an overkill. Because we are basically a tool that could be used for real financial inclusion where loan could be available for people, resource could be available for people. But what I can also add is that what is happening, something super exciting that I haven't even thought about because I have limited thinking capacity, is that when we were thinking about bKash after seeing that tremendous innovation at M-Pesa, we thought this is great, this could happen in Bangladesh, so why would not Bangladesh experience this thing? Precisely that kind of mindset pushed us for this kind of initiative. Poor people started using it, and the combined float today is a significant amount of money which is being used for other capital opportunity. BRAC

Bank is investing probably in hospital, in industries, creating jobs, creating schools. That kind of possibility, that very poor people put in 50 cents, taking 50 cents out in the process, creating a massive pool, and creating a national opportunity for poor people to directly participate in a macroeconomic activity, I think that is a very exciting thing. So that kind of exciting initiative can take place where very, very, very small deposit, very poor people can directly participate in real activities, real macroeconomic action. And that I think is there are many such possibility to develop and the airtime example I just mentioned is just evidence of how quickly people will adopt it.

Matthew Bishop

So there's this question that's being raised of whether we should really be looking for the mission driven MFI industry to be driving this innovation, or is it going to be telco led and there's examples of telco companies using microinsurance as a loyalty program and so forth in parts of Africa. What needs to happen? Is this something where this industry can really play the leading role? Or is it really going to be a [inaudible] …

Kamal Quadir

Yesterday when I heard EcoCash speaking, the scenario he was describing, I think it's quite unique and in such a scenario, I think telephone company can make tremendous intervention. And that's going to add value to society. But in a country like Bangladesh, $250 billion economy, with a very robust regulation, they will have a different kind of role. So I think place to place, country to country it can vary. We have learned a lot from M-Pesa. I think learning from everybody, and applying and designing something that is uniquely fitting for each ecology I think is the key.

Stephen Peachey

I'd like to come in there because this is also not just a low income country issue either. Middle income countries need some of this as well. We were a bit slow on M-Pesa as the "aha" moment, but M-Shwari definitely is an "aha" moment for us because saving is now the electronic squirt at the end of the phone, and people can do it literally whenever and however they want. But it's waking us up. We have a Colombian member here in the audience. They've come up with a fantastic daily sort of version of the regular savings plan deliberately stripped down and linked to mobile in a way that will work at the very edge of poverty in Colombia. And there's a lot of unbanked, low income households that don't count as poor, but are relatively poor. It is definitely waking us

up. And I don't think it's an either/or moment. Just like yesterday's debate about high-touch/low-touch, it's not a pure binary choice. But the poor will not forgive us for sort of trying to fight the mobile money industry to a standstill. What they wanted to do is to use the rails.

Matthew Bishop

And Greta, you could make the case that actually it's in the telco's interest to make these services available. So maybe MFI's will be redundant. What's your reaction to that?

Greta Bull

I think we have get away from this idea of telco-led or bank-led. I mean, that's gone. There are lots of different people building this kind of infrastructure, and at the card companies are coming into this space now. So there are multiple players. PSPs, payment service providers, are also building important agent networks that provide the distribution that you need to support the technology. So, I think anybody can play. It's an ecosystem that anybody can play in. And if you look at the structure of Africa, yes. MNOs have played a leading role. If you look at Latin America, MNOs are late to the game. They're really not doing that much in Latin America, so the banks are doing a lot more. So I think we have to stop thinking about it either/or. I completely agree with Stephen. And I think really people in this industry, the "access to finance" industry, have to look at this as a huge opportunity whether you're an MFI, whether you want to deliver electric solar chargers to people in rural areas, this is an opportunity for you, but you have to wake up and figure out how you operate in this ecosystem sensibly today. And so that to me is the real challenge to the industry because the industry has not grown as fast as any of us would like on the microfinance side. But now there is a real opportunity to really grow quickly and provide services to people further and further down the bottom.

Matthew Bishop

And how much does a sense of mission matter in the next ten years?

Greta Bull

I think sense of mission matters, but in the conversation for example that we're having with FINCA in terms of how they're evolving and really transforming, to me, you know, we have to get away from where we started. We give microcredit to poor people because it's a good thing to do. I think really it's know your customer in a different way. It's not KYC. It's know your customers. Follow your customers. Give them what they want. There is, as you were saying, there's a lot of economic value at the bottom of the pyramid. It's just very disparate and fragmented. But there's the same demand for convenience, the same demand for services, and if you understand what your customers want and follow them, you really can't go too wrong.

Stephen Peachey

The money is huge. We've worked out in the ten countries we're in, we have 300 million unbanked, 300 million poor. The overlap is 250 million. They are living on $5 billion dollars a week. I've got some countries in the portfolio where if I could just keep that money for three days, I would double the institution's balance sheet. It's not an either/or on profit. It really is a double bottom line.

Matthew Bishop

Unfortunately our time is pretty much up. I could go on for a lot longer because there's so many questions. But I just wanted ask each of you just if you had to identify one priority to focus on over the next year, one development that you think if that happens next year we're really moving in the right direction to dramatically expand financial inclusion, what would that one thing be? I'll start with you.

Kamal Quadir

I'm going to need a little more time than 15 seconds. So the issue would be product designing, and here I'm going to tell you a story. I met one of my customers. She was cashing out only 500 taka which is less than $6 in Bangladesh. And I asked her "What are you going to do with this?" She said, "I'm going to do grocery." And I said, "How was bKash?" I just asked her. Obviously she didn't know what I do. And she said, "It's good, but too good is not good." And then she walks away. And I started following her, and I said, "What do you really mean?" And then she says, like, "You know, my husband and my son are rickshaw pullers, they work in Dhaka in the city and in the

past, every two weeks they used to come and visit me. And now they send the money and that's it." And it really made me see the whole thing totally differently. Here we are thinking of solving this problem, we are working, you know, we are addressing this issue and trying to have the product design as good as possible to serve the client, and we failed. So, again, there are many millions of positive stories but there are some stories like this as well, which made us think how critical the product designing is.

Matthew Bishop

So you would like to see more emphasis on?

Kamal Quadir

More emphasis on exactly segmenting clearly, who are you trying to serve, and how you are serving the customer, and then are we really meeting that end goal? And as this lady was telling me, that yes she is happy, it's good, but it has caused some other problem. And it's very important that we be sensitive about designing the product the right way, whether through regulatory help, whether through proper commercial design between telephone company and the bank, or with the distributor, but at the end of the day it's very important to understand what does your client really want.

Greta Bull

Gosh there are so many priorities in this industry. I think obviously knowing your customers and following your customers is a really important part of it. But for me, the big struggle in the upcoming year is around business models. I think a lot of people are struggling with business models and that is true for MNOs, large banks, microfinance institutions. We have to build much more robust platforms to be able to do this. This is a scale business. And you have to have good systems in place. I mean, Strive was saying this yesterday. You know, it's almost scary how fast they grow. You have to have the systems in place to be able to reach people. And there's a lot of talk in the industry, for example, about big data. Can we start with small data please? Most of our customers actually don't know what they've got in their core banking systems or in their data systems. So I think there's a lot of work to be done in terms of understanding what we've all got to begin with.

Stephen Peachey

I have a very parochial one. We know from our work on business model that we need about a million active customers to amortize the IT systems. Do they have to be our customers? If in a year's time, I had one member who was actually hosting other people's customers and they worked out some trust mechanism. Because they're not our customers or your customers or … you know, they're their own people. It's not a form of financial bondage just to access your own money. If I could persuade one member to actually host another microfinance institution in the way that we're partnering informal, because we've got to stop squabbling with each other because even in Kenya there are more new adults coming into the population than are being banked. So we're not …

Matthew Bishop

And what would the hosting mean in practice?

Stephen Peachey

There might be a microfinance institution that does credit that we're never going to do. And also wants to take a particular kind of savings. Maybe we take the sort of in/out savings, and they take the kind of savings they want. Or maybe they just want funding, and we take the savings to a nice protected savings account, and give them wholesale funding. It's that kind of sharing the profit function. This is what I can do for you, but this is what I need to make this model work. Because if we're out in the villages, then that's value.

Matthew Bishop

Great. Well, I'd like to thank the panel for a very stimulating conversation. It seems to me there's lots of reasons to be optimistic over the next ten years. But I very much feel one of the lessons that we should take from the last ten years, and this applies I think broadly to this whole field of impact investing as well as financial inclusion, is that we do need to retain the sense of mission. Because actually extending markets to poor people does require sensitivity and knowing your customer, but it also is helping to educate customers so they don't make the mistakes that we know people make when they often get the first chance to experience the life of the market. And so I do hope it's not just going to be telco-led and bank-led, but there will be a very vibrant role for

people who've really been driven by the sense of mission to come into this field and I hope that in ten years time, we're sitting back and really saying we've delivered on that great promise. So thank you very much to the panel for an inspiring conversation. (Applause)

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