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

Day 2 ~ July 17, 2014

Debate on the Best Way to Interact with Clients: High-Touch or Low-Touch

Roger Morier ~ Emcee

We're going to move into a debate format rather than a panel discussion now. The whole thesis and the premise behind this debate is that many microfinance institutions, many banks have scaled up their products and services because they've been using simple face-to-face interactions with clients. And of course we all know, because of technology, because of ATMs, because of mobile, that there are a lot more ways to interact with clients. And a lot of people in this sector think that the future of interaction with the clients is going to be almost entirely digital. So we've asked Kim Wilson to moderate a debate that's going to highlight the different perspectives on both sides of that issue. The proposition that's going to be put to the debating teams is this: The future of financial services for the poor will rest primarily on highly automated low-touch models for reaching them.

Kim Wilson is on the faculty of the Fletcher School of Law and Diplomacy at Tufts University. She's a co-author of the book, *Financial Promise for the Poor: How Groups Build Microsavings.* She's a visiting Fellow at the Feinstein International Center, as well as a Senior Fellow and a member of the Council of Emerging Market Enterprises, so a perfect person to help moderate this debate.

So Kim and Bob are behind me, the stage is yours. Over to you.

Kim Wilson ~ Tufts University

Well, thank you very much. Bob and I decided that to get everybody excited, we would reach into our memories and take a stroll down the lane of deep controversy.

Robert Christen

Which would be foreign to me, right?

Kim Wilson

Exactly. Bob doesn't know controversy. So let us take us back through the decades and look at just three controversies we thought actually are still debatable.

Robert Christen

So near and dear to our heart is this conversation we've been having about the role of profits in financial services for the poor, and for so long this has been a debate that I think actually continues to this day. Right? On the one side, there are folks like us, some of us, who have argued strenuously that profits drive growth, drives outreach.

Kim Wilson

But others feel, "No, no, no. In fact, we lose our mission. We lose our focus on the poor if we become about profits, that in fact profits move us away from what our original intent was which is to provide essential services for the poor and the very poor.

Robert Christen

That's right. So basically if you're concerned about profits, it drives out the ability to really focus on what's right for poor people, right? And that's a debate.

Kim Wilson

And that hasn't gone away.

Robert Christen

That really hasn't, has it? I mean, again, we have a conversation about profit.

Kim Wilson

And I would say especially true in organizations that try to straddle the double bottom line. Some organizations are clearly commercial and they don't have to wrestle with this. Others are non-profit and they do have to wrestle with it. So that's a debate I think that's still very much in play.

So let's move to another debate that's still heated and filled with controversy.

Robert Christen

Savings. Right? I mean, Dave wouldn't say it's controversial, but there is a line of thinking that we can solve the savings problem. We can actually build deposit services that work for the poor if we can only get the products right that ride on the right rails, right?

Kim Wilson

Exactly. Savings services is doable, it's viable. That's the key. That's what a lot of us are betting on, that there's a whole lot of detractors out there and they say, "No way. No matter what you'll do, you'll never get the product right. It's too expensive. It's simply not viable. Consumer education is required, products that go down easy are required, lots of marketing is required and it just isn't going to turn a profit, and therefore, let's not even bother."

Robert Christen

Yeah, and that's not solved, right? We're not really clear yet how we're going to mobilize a dollar a day from somebody in anything other than maybe some of the village savings and loans groups, that are doing it in a semi-formal way.

Kim Wilson

Yeah, but you know, some would say those are just not viable, that here today, gone tomorrow. And others would say, "No, those are the engines of economic change and probably the most durable things around." But again, we haven't really finished off that debate. It's still rife with lots of controversy out there. How about this one, Bob?

Robert Christen

Well, there's a conversation about what funders ought to be doing in this space, right? Have we kind of solved the financial excess issue? We've built the infrastructure, the institutions, right, if you look at Roodman's sort of conclusion in *Due Diligence*. He says, "You know, we've done it. We've built this network of institutions that are providing financial services for the poor." Funders maybe don't have much of a role in the kind of classic sense. Right? And so is it time for funders basically to just get into

the business of building infrastructure? You know, is this the next generation of rails? Is it like railroads or electricity? Communications? Is that their role?

Kim Wilson

Yeah, and I think by funders, we're talking not just about governments. We're talking about, for example, some of the big foundations. Should they in fact be putting their precious dollars in infrastructure which could be commercial banks, or it could be MNOs, or a lot of different commercially viable organizations that, sure, are going to scale, but is that really the role of the funder? And I think others would argue no, it's absolutely not the role of the funder, at least not the subsidized funder; that in fact where funders should be placing their money is in things that can't get funded any other way. There's no possibility that certain things could get funded. For example, what about some experimental pilots where we just don't know the answer? These could be pilots coming from where? What kind of pilots?

Robert Christen

Well, you've got a lot of work on the savings side exactly where formal institutions are trying to figure out as Strive talked a little about this morning. You know, will those balances start to accumulate or will the low balance accounts be fundamentally transactional in nature? Are there things we can do on the design side, on the behavioral side, to push those account balances to grow? And that's the kind of work there's a question about. How is that going to be funded? Will it be funded by individual institutions? Do they need a little bit of a nudge to start exploring this territory?

Kim Wilson

So Bob, I have a question for you on this debate, which is, are we assuming on the opposition, the proposition is pretty clear. But are we assuming on the opposition that ultimately these pilots would be commercially viable? Is that the direction that the arrow was always pointing in? Or, could you have a pilot that isn't necessarily going to be commercially viable?

Robert Christen

Well, isn't this kind of the interesting debate? Where does commercial approach end in terms of how poor or how well off people are? Is there sort of a floor to what we've accomplished through commercial institutions? Is there some kind of combination of commercial non-profit to reach certain client segments? Maybe commercial reaching on the transactional bit, but the origination of services in the non-profit? I think there's a real fruitful space to explore on the lower end of commercial with relation to this question. You know, how do you figure that out, and should we?

Kim Wilson

How would you feel, for example, if a pilot proved successful in terms of there was demand? It always had to be subsidized if it was going to scale. But let's say a government stepped in and said this is going to be a public good, what would you say to that?

Robert Christen

Wow, isn't it really interesting, right? I mean, it seems like we're coming full circle in the debate we started 30 years ago where we tried to get government out of the provision of any financial services. And now it may well be that there is a role for some sort of conversation in a certain sort of client segment. Anyway, I think it's intriguing.

Kim Wilson

You've been in the role of funder. How did you make those decisions between, let's say, these last two? What were the kind of arguments that came up, you know, sitting around shoulder to shoulder at the staff meeting? How did you make those decisions?

Robert Christen

Well, it's really interesting when you're sitting on philanthropic funds today because you have a public/private interest issue around the fact that you might believe that infrastructure in many places and many pieces along the value chain of the delivery of financial services for the poor is going to be connected with the government and what's your role with that, because a lot of it is private too.

So we move on to the final?

Kim Wilson

I think, oh well, the final one is going to be … (Gong sound, laughter).

Robert Christen

So is this my cue to get out of here?

Kim Wilson

This is your cue. Exit stage right. Thank you very much. (Applause).

We have assembled an amazing debate team here today and they're going to be debating this issue: The future of financial services for the poor will rest primarily on highly automated, low-touch models for reaching clients. So these two members of my team—I'm going to introduce them in a moment—are going to be arguing that yes in fact that's true. And they're going to argue vehemently that the opposition which is going to say, no it's not true, they're dead wrong, and vice versa. So you're going to see a heated and steamy debate. And by the way, these aren't academics. These are people that are living their work and they're living this debate with all their heart and all their passion. Let me start out by introducing Eric Muriuki. And Eric is the General Manager of the Commercial Bank of Africa. And in just a moment, he's going to give you a two minute overview of exactly what that means.

Then, I have Katie Nienow, and Katie is with Juntos Finanzas. She is co-founder and she is going to be telling you about this exciting, and it's way beyond the experiment stage, initiative that is very high-tech and very low-touch.

On the left-hand side of the room, we have Bindu Ananth and Andrew Youn. And they are going to be telling you why these people are wrong. Bindu is President of IFMR Trust and many of you may know of KGFS which is an exciting program. She's going to tell you more about that. I don't want to steal your thunder, Bindu.

Andrew is Founder of the One Acre Fund. Again, some of you may have heard about that. I think we had a breakout today on the topic. But he's going to review what he does before we move on.

So let me just repeat before they introduce themselves. The proposition says that the future of financial services for the poor will rest primarily on highly automated, low-touch

services. I want to be clear. We're not talking about automation per se, automation in the back room. Of course, there's automation everywhere. In fact, all your programs rely on that. We're talking about customer facing automation, meaning face-to-face interaction versus using technology to interact directly with the client. So that's what we're going to be arguing. And let's kick us off with two minutes from you, Eric, on what your organization does.

Eric Muriuki ~ Commercial Bank of Africa

Thank you very much. My name is Eric Muriuki. I work for the Commercial Bank of Africa which is a mid-sized, or used to be a mid-sized bank in Kenya, and the largest privately owned bank in Kenya. Our pedigree, we have a pedigree of a purely corporate bank, and it's just very recently that we went into retail. That's in 2005. And when we went into the retail market segment, we specifically focused on the high net worth, and the bank has been fairly successful even in that market segment. But we were faced with an opportunity which we thought was very worthwhile to commercialize, which was pretty much given the relationship that we have with Safaricom. We've, since the inception, have been the M-Pesa settlement bank. And I think a lot has been said about how M-Pesa has been used as a money transfer service and there's definitely an opportunity for now moving to the next level and moving from mobile money into true mobile banking. So it's not just mobile banking as a channel, but as a customer experience.

So we launched the M-Shwari service in 2012, at the very end of 2012, and we've operated the service for 18 months. M-Shwari effectively is mobile-centric savings and loan service. I say mobile-centric because all customer engagements, the full customer experience is fulfilled over the mobile channel. We've been able to attract 7.5 million customers in a period of 18 months. They're onboarding our customer, how we onboard a customer, it takes us about 30 seconds, and with that we are able to get the full KYC (sp) of the customer name, gender, age, and six months of your telco profile. On the savings side, we have been able to, of the 7.5 million customers which today are sitting on deposit balances of about 5.6 billion Kenya shillings. On the lending side, everyday we're disbursing 50,000 micro loans to individuals, enough to say with that, our NPL is performing than the industry. We have an NPL of about 3% against the industry average of 5.8%.

Kim Wilson

Very impressive. It's going to be hard to argue with that. Katie, let's hear from you.

Katie Nienow

Fantastic. Thanks, Eric, for starting us off talking about mobile-centric customer engagement. Juntos makes SMS personal financial management tools that drive engagement and usage of financial services. I'll tell you three pieces of the Juntos product. First, the user experience is entirely SMS based experience. It's what you might call a low-touch experience it's entirely mobile. They never have a personal interaction with an individual. But for the individual users, the experience feels warm, it feels personalized to their particular experience. On the back end of the Juntos service though, we have complex algorithms that are guiding the conversations that our users have. Every response that our system gives to an individual user is automated and based on the complex kind of behavioral economics and algorithms that go into the design of the content of our products.

And then the partner-facing side. Juntos doesn't provide financial services. We partner with financial service providers, and our partners come to us with a question of: relationships are very expensive to maintain, they cost a lot of money to maintain but they're very costly to skip out on. How do I scale a low-cost solution for maintaining relationships with my customers in this new digital world? If we're going to reach our customers at greater and greater distances, and lower and lower balances, how can I do that in a way that maintains this understanding of our customers?

Our partners come to us asking for KPIs like decreasing their dormancy rates, increasing their active client rates, increasing balances, increasing usage, decreasing churn. And our results so far have been astounding. Kim gave us a little bit too much credit of being beyond experimentation. We finished our first international pilot this year. And what we found so far was that the KPIs the customer was looking for was an increase in active client rates and an increase in average balances in the accounts. And after just six months in a pilot with 40,000 of their customers, we had a 33% higher active client rate, and 50% higher average balances in accounts compared to the control group.

Kim Wilson

Impressive! Okay, the opposition. Bindu, let's hear a little bit about your organization.

Bindu Ananth

Thank you, Kim. I'm Bindu Ananth. I'm President of an institution called KGFS. KGFS is a financial intermediary. It acts as a bridge between a household that lives in a small village in India particularly, and a broad range of financial institutions that includes banks, insurance companies, mutual funds, pension funds. And this architecture is designed so that the customer at the last mile is facing a full service financial services environment. So you can walk into a KGFS branch, and do the whole range of functionality from opening a savings bank account to opening a pension account to borrowing working capital if you're a shopkeeper. So that's kind of the core architecture.

The last mile of the KGFS, just to give you a sense of how servicing works, is a highly trained, locally hired high school graduate. And we deliberately call this person a "wealth manager" because when this person gets up and goes out into the community we want her to be actively thinking that her job is about increasing the wealth and the financial wellbeing of customers that she serves. So the wealth manager uses software that we've built to generate a customized financial plan for each and every single household. So we don't expect the wealth manager to be thinking on her feet, but she uses software to take a financial wellbeing report, and actually work with customers to execute the plan, be it buying insurance or putting money into a long term savings account, whatever that may mean. And our belief is that very often we know what is the right answer. We know that a particular customer needs to buy life insurance, but there's a big gap between intention and action. And the wealth manager is crucial to closing that gap.

The KGFS model has been very successful, well past initial pilots. It's private equity funded and growing quite rapidly. We serve 500,000 customers and customer households every day across three very distinct regions of India. Look forward to the debate.

Kim Wilson

If you ever want to open up a branch in Boston, please see me. This sounds amazing service. Andrew, let's hear from you about One Acre Fund.

Andrew Youn

Thanks. One Acre Fund is an organization dedicated only to serving farmers, and we take advantage of an amazing opportunity which is that the majority of the global poor are actually farmers. So that never ceases to amaze me and I want you to consider an analogy. What if the majority of the global poor were tailors? What an incredible opportunity that would be. In that case, it would be absolutely insane to offer a low-touch model as our opponent has proposed. At that point, it would make a lot of sense to provide, along with a loan, very simple tailoring training. Maybe you want to buy sewing machines, 50,000 at a time at a great discount and distribute them. At that point if everyone you're serving has the same profession, it makes a lot of sense to provide value-added services.

Given that the majority of the global poor are farmers, we have designed a generalized model that includes microfinance, but includes other services as well, that enables farmers on average to double their farm profitability. So if you can look at our infographic here, we provide credit certainly, but we also actually deliver farm inputs within walking distance of the people we serve. We have more than one thousand distribution points across east Africa. Then, we also provide simple farm training. Again, all of our customers are engaged in the exact same activity, so we enable them to become a lot better at that activity. And then last, we help them in a limited way with some selling of harvest.

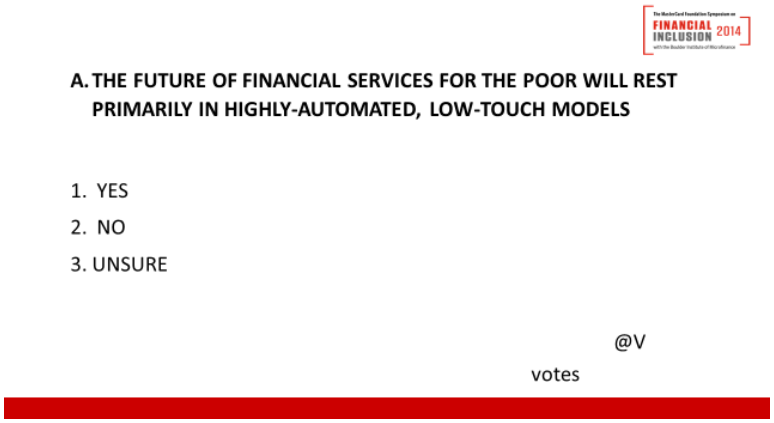
We really believe that this complete value chain is very important to provide, which is a very high-touch kind of a model. We're still pretty small. We're in 200,000 farm families this year, but hope to grow very quickly. As a side note, we also do a lot of this work together with African governments. But look forward to demolishing the opposition in this debate.

Kim Wilson

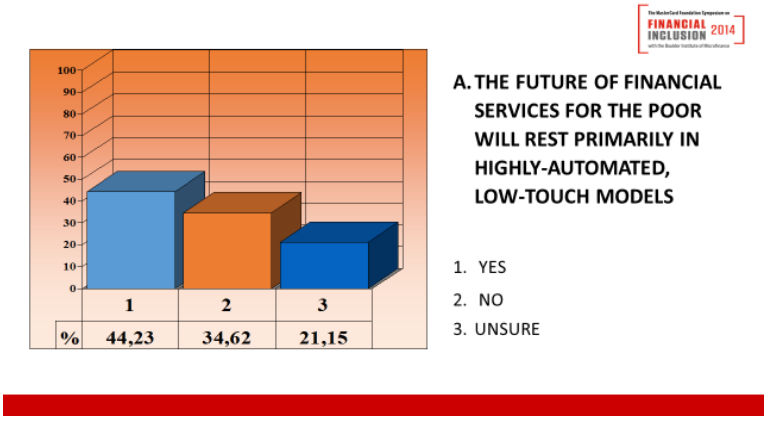
Thank you. So these are real boots on the ground people here that have come to debate the issue. Now who here has heard of an Oxford style debate? Who among

you? Okay, so this is not that. This is a … I don't know. You've heard of "better than cash," this is "better than Oxford". I think we can call it a Boulder/MasterCard Foundation/Tufts medley of different debate items.

The first thing we're going to do is to ask you to participate, which is you've heard these fantastic introductions. Let's take a vote. What do you think? So, get out your clickers, and in fact debaters are welcome to vote as well. So this is what you're voting on. The future of financial services for the poor will rest primarily on highly automated, low-touch models. One for yes, two for no, or three for unsure.



Okay, let's see what that takes us to. Okay, a few more I think coming in here. Great all right. Now we have a pulse on the crowd. We know what you think.



We think that, yes, the future of financial services for the poor will rest primarily on highly automated, low-touch models. You've got your work cut out for you. So let's see, all right, we are going to let the fur fly.

Eric, may I start with you? Eric is going to defend the proposition. You're saying yes, in fact, the future rests with highly automated, low-touch models.

Eric Muriuki

I think the case for low touch is already made. I find it interesting that Youn calls us insane to even think of low touch. But if you look at the slide I put up, our numbers are insane. I'll just go through them very quickly: 7.5 million customers in 18 months. We're signing up 10,000 customers every day. We're disbursing 50,000 loans every day, including Sundays. Now, I think we don't just focus on the 7.5 million customers and the simple product that we have today. But it's to ask ourselves, what is the platform we've built? A platform in terms of, if you have 7 million customers, how else do you stretch your value proposition to these customers? And I think that's the opportunity that the low-touch presents. And I think we need to continue being insane about our thinking because when you look at the challenge that we're trying to address, 2.5 billion people in the world are still unbanked; 2.2 billion of those people lie in Africa and Indonesia; 1.2 billion of them live below $5. Now if you ask yourself with a high-touch model what is your cost of servicing the customer who has at best $5, and how much are they able to spare in terms of savings. So the approach you've taken, yes, it could be termed as insane.

But I think when you look at it from a cost structure point of view, it costs us 0.0-something US cents to fulfill a customer's transaction. It costs us about a half a dollar to onboard a new customer. And I would like to see us being able to … I would like to challenge our colleagues to just demonstrate to us, if the challenge is 2.5 billion customers, how are you going to achieve that without a low-touch model? And microfinance or financial inclusion has been an agenda for many years, and I think it's time we completely turn it on its head and say, "Look, we need to approach this thing differently lest we become caught up in the face of Samsung or Google." And I like the direction that Visa's taken in the sense that we no longer talk about microfinance, but it's now financial inclusion.

But to take a bit of history, somewhere in the 70s, 80s, that's when development organizations or NGOs were really coming into intervene in the "poor" poor. And that continued to evolve and they became financial institutions that are now properly regulated as depositing microfinance institutions. And the reality of it is with technology banks are now coming in, telco's are now doing it. And at the end of the day, the customer will choose who is more efficient, who is more effective at delivering value to me. And value in my view, or at least the approach we've taken at CBA, we don't try to create products. We are looking at solutions. And one problem I have with high-touch model is when you're coming to sell to a customer and selling to the customer, meeting the customer every day, you actually run the risk of mis-selling to the customer as opposed to offering a customer in a way that he actually has his own experience with the service and chooses how best he wants to apply that service to a particular purpose in his life. And that's what we've been able to achieve with M-Shwari.

Kim Wilson

I think you've been tossed quite a challenge. And let me say that cloud is looking pretty comfortable from where I sit. Pretty embracing, pretty cozy. Bindu, are there any shadows in that cloud? I'd like to hear from you.

Bindu Ananth

So let me start by sort of laying out what high-touch means to me, and why I think it's impossible not to mention highly undesirable to think about financial services without high-touch. And before that, Eric did the sneaky thing of equating low-touch with scale. This is not about scale, so let's take scale off the table. You know, we also have plenty of customers every day. For Heaven's sake, I'm from India. I'm told every day that there are a billion people that are out there to be served. So this is not about scale. So to me, high-touch or lack of it really is about, as Kim laid out, what happens at the customer-facing interaction. To me, high-touch is about saying, ultimately you take responsibility for what happens to the customer. It's being focused on customer outcomes and not just X number of bank accounts, Y number of remittances, Z number of life insurance. And it's a very fundamental difference between the high-touch and the low-touch camp, that "what is the end game?" I think all the high-touch people are really coming from the perspective that if this is less about customer outcomes, than you need more than a mobile phone.

Let me give you some more examples. Low-touch to my mind is selling health insurance, you know, as an example. Using your old fashioned life insurance agent in a village, or even an M-Shwari type service which is purely mobile. But high-touch has the insurance as being there for the customer when the claim happens six months later, and making sure that the expedience of the hospital is predictable, is seamless, because those of us who do finance know that the moment of truth is not this sale of the service; it's really the servicing. So I think that's an important distinction to make.

Another example I think a low-touch loan is simple, easy to do, $100 overdraft line against your savings account, perhaps backed up by some transactional analysis at the back end. That's good. I'm sure that helps several people. But high-touch means that you can sit there as a CEO of the institution, hand on heart, and know that not a single loan of yours is being mis-sold to a single customer. That's hard to do if you don't have an assessment type mechanism.

And to me, the heart of this sort of debate is really that we are ending up putting payments, credit, insurance, everything in one bucket, and to me that's a real problem. Payments should absolutely be ubiquitous. It should be customer self-initiated, don't ever see a human being. That makes complete sense to me. But credit and insurance are a completely different ballgame. Those of you who have been in that business understand that, and the difference is that one is transactions. Payment is a transaction. Credit and insurance is underwriting, is intermediation. Intermediation is fundamentally different than a transaction. It has a transaction leg to it, which is to say that I underwrite you for a loan and eventually the loan needs to get disbursed maybe through an M-Pesa agent, but who underwrites? And I think that's a very important distinction. And as long as underwriting exists, high-touch exists.

I want to end my comments with a little bit of a note of caution. I think the cult of low-touch providers are going to take us down a path of very simple, highly standardized products for everybody. So the $100 loan overdraft on your savings account, the $1,000 life insurance. But often customers' problems are not going to be solved by simple problems. I mean, Andrew is going to tell you about his farmer clients. Their farmers need to deal with seasonality. Seasonality cannot be handled if you don't understand your customer well.

So let me end by saying that real finance is about solving geo-problems and that you have to have the stomach to be high-touch.

Kim Wilson

Wow, this is tough. It's getting rough. There's some rough riding going on here. And I have to just say something about healthcare. I live in the US, and $2.3 trillion is going into education around health insurance. So clearly, somebody doesn't think that's high tech and low touch. You nicely trounced these fantastic arguments about scale, about cost, about mis-selling. But Katie, let's hear what you have to say.

Katie Nienow

I'm ready. I think "trounced" is a little bit of a strong word. I'm going to start off with two comparisons of numbers that you've heard that have floated a little bit on both sides here. One that you didn't hear yet. One Acre Fund has been around for about eight years now, and they have 200,000 clients. M-Shwari has been around for 18 months and they have 17.5 million clients. Bindu would have you believe that this is not an argument about scale. There are 2.5 billion people out there who need financial services. This is an argument about scale. I want to reach every single one of them.

She's also told you that it's impossible to serve those customers low-touch. In her model, they have 900 staff members serving five million clients in India. And M-Shwari, they have 27 staff members serving 7.5 million people. This is an argument about scale; it's an argument about efficiency; and it's an argument about the value you can return to the customer if you have great efficiency at scale.

One of the things that I've noted as I've looked, I love the programs that both of them run. I think they're wonderful. I think the idea of high-touch is a really beautiful thing. The cost structures that Bindu faces in India are not the same cost structures you face in the places where you live and work. I've lived and worked in Africa, and those were not the same cost structures that we worked with. Putting up branches and staffing people, she said that her staff members, her 900 staff members are highly trained. That is a very expensive endeavor. That branch infrastructure is also a very expensive endeavor.

So from my perspective, from the Juntos perspective as we look at this issue, we say that financial inclusion for a long time focused on access to financial services. Because of some innovations in banking we now have mobile services, we have branchless banking, we have agent banking. All of these things are allowing for access to financial services to millions and billions of people around the world who previously had no

access. The challenge that that's presenting, which is what brings this debate here today, is that those advances and innovations in banking have created this distance between the customer and the provider. And that distance means that the financial services are in danger, as Bindu just mentioned, of being commoditized. Everyone's offering the same services. Everyone's offering a simple service to every single one of their customers. And so the challenge to the low-touch model is how do you leverage technology not to replace relationships, but how do you leverage technology to scale relationships? How do you leverage the innovations in technology, the machine learning, the artificial intelligence, that allow you to have true and deep relationships so that you know your customers at scale?

Bindu and Andrew would have you believe that in a low-touch model, at scale, where technology drives the relationship between you and the customer, where you never have any contact but SMS with your customer, that you can't truly care for each individual customer. But I'll tell you that the customers of Juntos who we communicate with only via SMS on a daily basis through an automated system tell us things about their lives, like that they're saving enough money so that they can provide a kidney transplant for their children. They're saving for a pregnancy that they have. They're allowing us to walk into their lives. They're telling us things like, "Because of Juntos in my life, I no longer feel alone in my financial services." That's with a low-touch model, highly scalable, low cost, efficiency. We're returning that value to our customers. Thank you.

Kim Wilson

Whoa! So, the idea of scale is not to be dismissed so easily. That's what I'm taking away here, and that's some very powerful arguments in the favor of scale. But Andrew, I think you have the penultimate word, actually the ultimate before we get to the penultimate. Let's hear from you.

Andrew Youn

Thank you. I would argue that the goal here is scale with impact. And I agree completely where there is more than a billion people that we need to reach, we need to start thinking of our models in terms of hopefully one day reaching tens of millions or hundreds of millions of people and not just hundreds of thousands. So I could not agree more with the scale proposition.

But very critically, it's also about scale with impact. And I think in certain contexts, I think I agree low-touch is actually preferable. For example, in Kenya which is far and away the dominant venue where mobile money has taken way, there is a lot of built infrastructure. And I agree completely. If we're generating savings which are proven impactful for the poor, absolutely we should shoot for low-touch models. But for the majority of the world's poor people, farmers, certainly I don't think that low-touch is any significant future for impact in the near future.

So just to illustrate that point, I'd ask you to close your eyes actually and pretend for just two minutes and a half that you are a small holder farmer. So please close your eyes. And you're a mother with five children. I'm sure you've visited many families like this before. And your remaining food for the year is in the corner, it's lying in a couple of sacks, and you need some of that for your seed. And your only tool at hand is a metal hand hoe sitting in the corner. One of your kids is sick. You have a very chaotic life. And you do have a mobile phone, and bing, you just got a loan on that phone and some nice kind messages and things like that.

And I agree, in many, I don't mean to belittle these things. In many contexts I agree this is far preferable to a high-touch model. It's much more scalable. But in the farming context, what do you do with that loan? Well, you probably, you've got to find your way to an input supplier. So you transport yourself into town. Already, you've lost a dollar out of your loan. Then you wander around to three input suppliers. Two of them are out of stock. One of them has some questionable looking seed in the corner, and you spend, you know, your carefully accumulated $60 hoping that you're getting a pretty decent deal but you really have no idea. Then you put that on to the top of a van or motorcycle or something like that, and you spend your last remaining cash getting all that stuff back to your farm. In that case, that's just the beginning really. So then, now how do you use this stuff? The package says use 50 kg of fertilizer per acre, but that's useless. It's hard to even translate that into actually using these basic technologies correctly.

And so our research indicates that most farmers just stand and stare at these bags kind of bewildered and don't really know how to properly use them. Time after time, in country after country we have shown in our studies that the use of seed and fertilizer, basic farm inputs, result in zero net improvement in profitability. So you're going to go to your field, you're going to apply these things, and for every dollar you spent on seed

and fertilizer, you're going to get one dollar of harvest back. You're not going to improve your profitability at all.

So you can open your eyes. You can sort of imagine now this context of a loan on your phone is in this particular context, for the majority of the world's poor people, is certainly highly scalable, but it's not going to be particularly impactful. So I actually agree with the proposition in certain contexts, in contexts where mobile money is advanced, where there is very good mobile phone penetration and things like that, it's an incredible proposition. I mean you can't argue with more than seven million customers in 18 months. That's a wonderful thing for the planet. But in many contexts, where the majority of the world's poor people live, having scale with impact does require person-to-person, reasonably high-touch work.

Kim Wilson

Andrew, thank you. I hear human. Human beings are important, and what you're talking about, my sense is it's beyond just financial services, that you're offering the touch. It goes way beyond that.

All right. What we're going to do now is we're going to let these teams confer with each other for about 20 seconds. We're switching it up a little bit, and what we'll do right after is I'm actually going to ask the opposition to give a quick summary, to change it around a little. And the proposition will give their final summary. I think we've heard two very evenly matched teams. They've been able to talk about the numbers, they've been able to give you those personal stories that allow for some color so you really get a sense. And I think what we're hearing is some context issues. And be thinking yourself how you're going to vote right after this because you're going to get one more chance, actually three more chances, to weigh in as an audience.

All right, may I turn it over to you two. What are your takeaways that you want this audience to know about your points of view?

Andrew Youn

We're going to tag team this one. So we just want to reiterate again that we think the goal is scale with impact. And we believe that our high-touch, highly impactful models are actually very scalable. Think of what human society is able to achieve. If you fly, think about all those airports, all those airplanes. Like, there's an extraordinary amount

of investment out there. And as a society, we're capable of accomplishing great things at great scale. Flying is a pretty high-touch proposition. You cannot fly through the internet. So we believe that our high-touch models are quite scalable, we're very optimistic about the future.

Bindu Ananth

And I just want to reiterate that, please do not think about financial services and financial inclusion as only payments. It's a great important problem to solve, but there's an equally big problem around credit and insurance, and it's definitional. If you accept that financial services is about more than payments, you're with us, that the future is high-touch.

Kim Wilson

Case closed. Very, very convincing summary. Thank you. Opposition, your remarks are very appreciated. I'm going to turn it over now to the proposition, and they will give their final summary.

Eric Muriuki

Thanks, I've definitely enjoyed the debate. I think some great specific things I want to go back to is we are meeting here in beautiful Turin to address a real problem. We don't keep meeting here and we still have 2.5 billion people unbanked. We have to address that, we have to grab that by the horns. And I think we need to understand each other. We foster, M-Shwari has nothing to do with payments. It's purely savings and loan. And it is actually also insurance, it is also working capital, it is also a financial advisor because customers have used that piece of technology in that way. And I think that what we have done is to use technology, to mimic real world experiences, and remove the inefficiencies in service delivery.

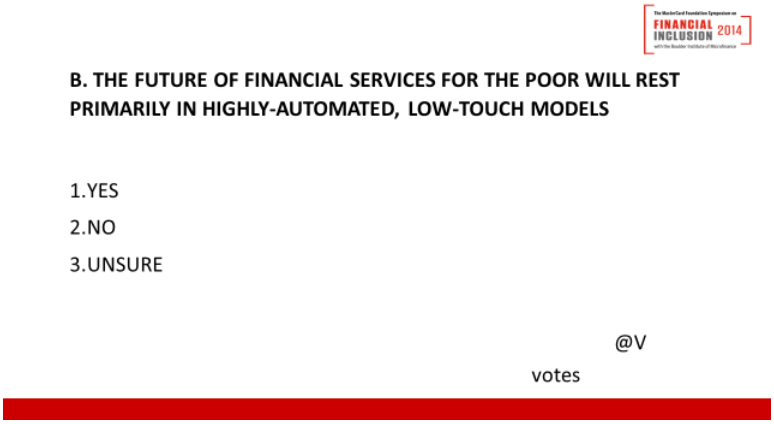
To give you a very specific case. Savings groups, things that we are all very familiar with. And using savings group, for example, we're actually trying to put technology into those savings groups without obliterating the savings groups. People will soon to need to meet for other social reasons, but technology is what removes the bank out of that savings group operation.

And just to close, I think we need to recognize that factors of production as far as delivery of financial services have shifted, and we better change.

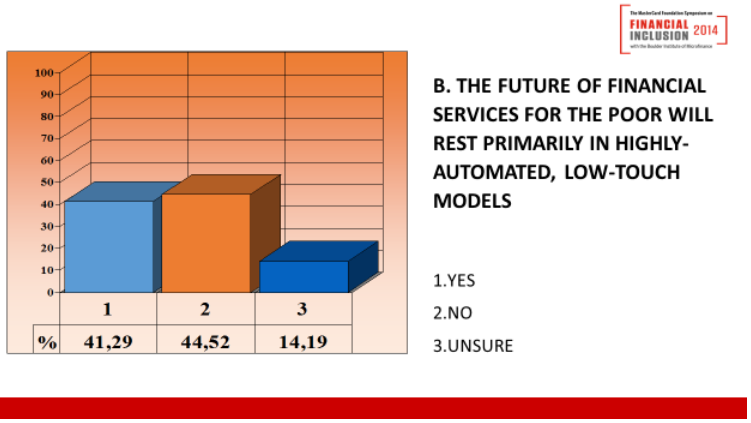
To close, I think it was Bill Gates who said that banking is necessary, but banks are not. And really what he means is your bank manager doesn't need to come to you, but you need to do banking.

Kim Wilson

We hear you, and you can hear the sound of the gong. And that actually concludes the back and forth. It's now up to you. So, you can see this, right? This is what we're going to be deciding on in the next three slides. So, get out your clickers, and you'll have three different chances to vote. The first decision you have to make is after hearing this debate, the future of financial services for the poor will rest primarily in highly automated, low-touch models. Yes, 1; no, 2; or 3, unsure.



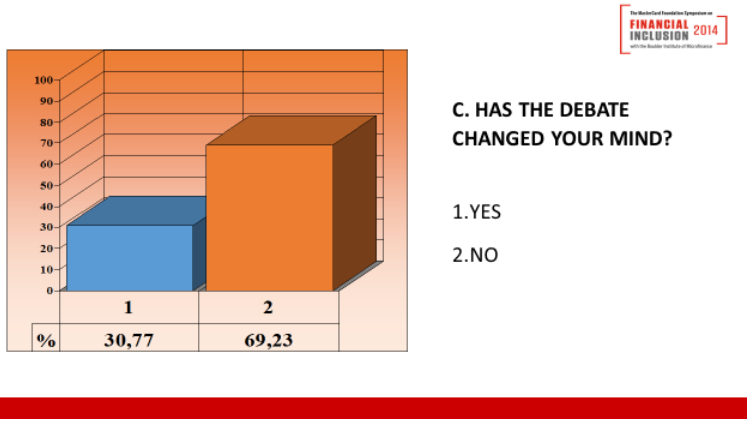
Let's see what you said. (Audience reaction: "Whoa!") Oh! (Applause).



No, not necessarily. Not necessarily. Hold the applause. You have two more decisions to make. Okay. Things are looking promising for the opposition, but the jury is still out, and you're that jury. Let's go to the next decision. Get out the clickers.

Has the debate changed your mind? Were you thinking differently when you came into this than you are right now? So yes, 1; no, 2.

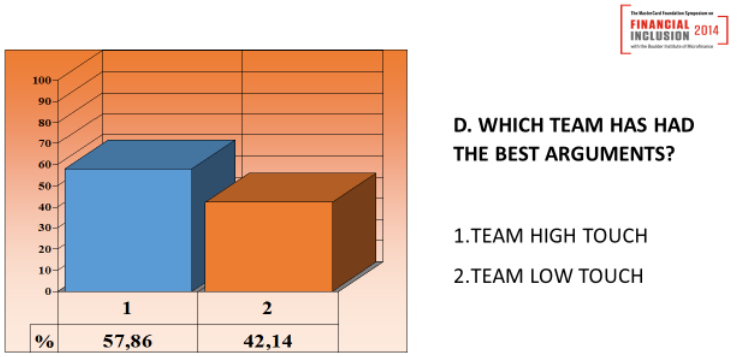
No, you've got to know your own mind. We're asking you that much. A few more seconds here, and we'll gather everybody's opinion. Anybody on the fence? Be sure to vote. Did you change your mind, yes or no?



Oh, okay. Yes, no. But we still don't know the answer. We're just taking a read off the audience. Now here's the decision you have to make, and this is the one that's going to point to the winner. The last vote. Let's have it.

Which team had the best arguments? 1 for high-touch; 2 for low-touch?

There's no unsure. You've got to know your mind. I'm nervous. I'm white-knuckling it here. They're creeping in. Are we ready? Abra-cadabra, abra-cadabra! (Applause). Oh my! Whoa! Bravo! (Applause).



May I present to you … winners come and take your statues. (Applause).

I think we could have equally given these out equally. They did a fantastic job, both of you. Thank you. (Applause).

That concludes our debate. Thank you very much. We're now going to turn it over to you, and we're going to do some lightning round comments. What I'd like to do is get a show of hands for anybody, just raise your hand if you were for the proposition, meaning yes it's going in the high-tech direction. I think Jen, I see your hand up? Just maybe state your opinion and why.

Jen (Audience Participant)

(off-mic, hard to hear) I was very convinced by this debate [inaudible], but I think [inaudible].

(On-mic) Is that low-touch is not inconsistent with high engagement, and that is what made me think. And besides that compelling number that we have to reach, that we're being a little too precious about it. Actually we need both, and one does not exclude the other, but we've got to reach out of our boxes, and we've got to go for, and try the larger touch.

Kim Wilson

Thanks very much. Somebody else for the proposition. Yes. High tech, low-touch. Stephen.

Stephen Peachey (Audience Participant)

It was the last comment. I don't think it has to be either/or entirely, but we really have to fill the gap and we're only going to do by mixing low-touch with probably outsourced high-touch interventions. But that may reflect my background as a sort of mass savings banker.

Female (Audience Participant)

I think the low-touch is necessary to get to the scale that we need, but this is all presuming that we don't have the capacity to segment customers into those that need high-touch and those that need low-touch. And every high-touch institution could offer lower-touch services if it knew how to identify the people who would be satisfied with those services and be successful with them, and then you can reduce your costs overall. So I think a lot of this comes down to customer segmentation.

Kim Wilson

Thank you very much. Let's hear from the other side. Let's hear from, no, it actually really is about high-touch, low-tech. Get at a couple of points of view here. Barbara.

Barbara Magnoni (Audience Participant)

Just to piggyback off of the segmentation comment, we did a very small study with the MILK project in Columbia looking at a high-touch, and a less high-touch, so not totally low-touch mechanism for insurance sales. And I wrote the numbers down because I didn't want to forget. But we did find that on the low-touch, only 46% of the clients who we were taking up were women versus 75% on the high-touch. We also found that 71% of the high-touch were poor, versus 22%. So there are some segments that may be excluded because of lack of education, lack of prior experience with financial services, with just the purely low-touch mechanism.

Kim Wilson

That's a really interesting comment. I would love to get your feedback on that, the exclusion factor. Another hand up for high-touch? Yes.

Male (Audience Participant)

I always thought it was high-touch that is required, but I thought the argument was that high-touch is too expensive. So I would like to propose a Robin Hood model where you take from one side and give it to the other side. Think of how Coke sells regardless of the expense of transportation at the place where they manufacture the bottles versus when it sells at the top of the Alps at the same cost. So you could do that probably. Thanks.

Pina (Audience Participant)

I think this is a really interesting argument because I think we go back to this whole conversation on segmentation and who your customer really is. And I think that we also have to keep in mind that the technology is an enabler. So when we look at high tech, we have to remember that it does not replace that personal relationship, but it facilitates it. And remember that some people, like myself for example, if the technology isn't there, if the standards aren't there so that the products are accessible, you are still required to bridge it with high-touch solutions for people.

Kim Wilson

I'd love to actually hear both teams respond to some of these comments, and Katie can I just turn it over to you spontaneously?

Katie Nienow

So I think at this point, it's probably a good moment to dissolve the teams. You know, in the initial call when I was invited to participate in the debate, I kept coming back to Bob and Maribel saying, "But we're high-touch AND high-tech. It's scale AND high-touch." I think it's a both/and. And despite the hard lines we drew for the debate, I think we all agree that there's a place for both. And I think segmentation is one of the strongest words for that, that there is a massive population who could benefit from a low-tech, low-touch delivery of services. But from my background, I would also say that there are ways that are yet largely unexplored to use technology to scale high-touch at a low cost, that there are ways to use technology to drive deep and personal relationships, that some of the things that we used to believe, you have to send somebody out in the field to walk hand-in-hand with somebody, to teach them how to do these things. There are

ways to use technology to make that much cheaper, much faster, and far more scalable. And I think we really need to push the envelope there.

Kim Wilson

And I think the story you gave about people, or stories it sounds like, about people saying their life has changed with Juntos Finanzas in it is extremely powerful and I would not have guessed that. That was a surprise.

Eric, would you like to make a comment?

Eric Muriuki

I think for me, just to rephrase that, what we're debating about here is not where we are today, but the future of financial services for the poor. And the poor can be described in many different ways, and I think if you are to profile the people who are unbanked, the majority of them [inaudible]. In the parts of the world where these people live, their demographic profile is heavily concentrated between ages 15 and 22. So, I'm bringing these points up because the challenge with low-touch, high tech is education, to lower that barrier, to let me experiment. And the profile we're talking about for the future is very comfortable with a mobile phone. A mobile phone penetration in most of these markets is at 80%, and if you measure it between ages 15 and 22, it's way more than 80%. So if we're here debating about the future, I think my view is we definitely have to recognize that the shift has happened. And low-touch is a way to go.

I think the lady who made the first comment and said, "Look, low-touch doesn't necessarily mean low engagement." She has shown the case. We have the experience that we can achieve high engagement by just being a bit more creative and by asking ourselves, okay, technology is here, what do we do with it? What has it changed about how people interact with their bank? And that is the reality. The future of financial services is going to be low-touch.

An interesting debate would be "done by who"? And if you think for a moment, if banking wasn't regulated, because of regulation, then we are protected as a people who are already providing financial services. But if there's no regulation, if anyone could offer financial services, probably Google would be the biggest bank. And that's just the reality.

Katie Nienow

And one quick comment on that too. Eric has said we're talking about the future and the young people who will be the future of using financial services are very comfortable with technology. In Juntos' experience as well though, our initial customers are not necessarily comfortable with technology, and yet we still teach them how to use that technology via low-touch, via SMS, even though they start out in a place where they may say, "I don't use SMS very often. I'm unsure how to use the SIM menu to access my financial services on my phone. We're still able to engage them via SMS, teach and train them to use that, and to become comfortable with that technology even in the here and now, not just the future with people who are already comfortable with it.

Kim Wilson

Would you like to respond?

Andrew Youn

Oh yeah. I think just like I sort of feel like we're both right, and both models have a place. And there was a great comment about segmentation and context. In general and personally I believe that given the right context that low-touch is far preferable. Like, M-Shwari I think will stand as one of the great achievements of our decade. It's impact at incredible scale. But that said, there are many contexts I think where high-touch will have a very important role of providing some of that supporting infrastructure that makes economic activity possible. And I really do again feel optimistic that as a society we're capable of building very large institutions and, if you will, like a whole industry, like we're all doing, that's capable of having extraordinary reach and reaching billions of people.

I thought that comment about segmentation and context was very good, and I think all of us have a role to play in different contexts.

Kim Wilson

Bindu, do you see a point in the future where you will be including more technology in your program? And if so, what would that look like in terms of the face-to-face interactions with customers.

Bindu Ananth

I want to say that it's not about technology. We probably use more technology in our branches than Citibank uses in Bombay. Every customer is biometrically authenticated. There's not a shred of paper in the branch. All transactions are [inaudible] through [inaudible]. So the wealth managers are not spending time chasing paper. The wealth manager is not spending time kind of doing the routine stuff that doesn't add value. What does the wealth manager spend time on? The wealth manager spends time persuading single earning member of the family who has lots of dependents in the family who really should be buying insurance. She knows it, we know it, we have to close the loop.

We use SMSes for reminders for payments. If somebody's insurance is up for renewal, we don't send somebody out. We send an SMS. So I think the debate needs to be framed differently. It's not about technology. I mean, technology is changing the way all of us do finance. That's fundamental. But it's about saying, vis-à-vis your customer interaction, what are you going to take responsibility for, and what are you going to let go? To me, that's kind of the heart.

I was kind of giving you this example of the whole simple product. And in India we certainly see this as a very big concern because in the quest for sort of mechanical skill, including the central bank, you're hearing comments such as, "Let every citizen be given a savings bank account with $100 overdraft." Boom, financial inclusion done. If you take a farmer, going back to that issue, put yourself in the farmer's shoes. I have very seasonal cash flows, combined with fundamental uncertainty vis-à-vis [inaudible]. Now you have two products. So one product is very simple, very easy to understand. It's a $1,000 pay a certain amount every day, pay at your nearest M-Pesa agent, very simple, very easy to understand. Product B could look like, okay, here is the loan Mr. Farmer. You pay us back depending on what happens to rainfall in your area. It's not a simple product. In fact, it is a loan combined with the rainfall derivative at the back end. So it's complex for the provider to synthesize. But as far as the farmer is concerned, the message is you pay us, then you have cash.

So my concern is that this quest for simplicity is producing standardization and it's kind of … to me, finance is not just that. Finance needs to solve problems, and that means sometimes taking on tough, uncharted work.

Kim Wilson

And it sounds like you've put so much into the back end to make the front end friendly. Lots of resources and research and testing and trial.

Bindu Ananth

But just as Eric was saying that low-touch doesn't mean low engagement, I think similarly high-touch doesn't mean high cost. You know, with all of those bells and whistles we are cheaper than any microfinance institution in India because I think that's a way to think about the business case. So you put in all this effort, clearly at the end of the day, if you're just doing a micro loan, economics doesn't add up. So you need to do things that fundamentally competition cannot do because they have less information about the client, they have less understanding, they are more risk averse. So I think high-touch also does not necessarily mean high cost. You know, what's kind of the right-hand side of that equation. It has to be a deeper relationship with customers than you could otherwise imagine.

Eric Muriuki

We probably need to continue shifting the debate. I don't think I'm trying to frame it as a cost issue. Nobody discussed costs during the boxing match that we had. But it's very much about value. And what I believe, when we think about what is the future financial service provider going to look at, one, I'm very convinced that it's definitely going to be specialization. The wholesale bank in my view is going to disappear, and people will start identifying their niches, where they specialize.

Your institution, for example, is a very specialized organization. You're not the owner of the product, and probably not even the owner of the relationship. But as an intermediary, you bring a very specialized service. And at the end of the day, high-touch in my view is more expensive whichever way you look at it. The issue is if you have a high-touch business model, then you completely need to shift your value proposition so that you're able to extract more to pay for that. But I think I was trying to restrict myself to, we are trying to bank the poor. And you cannot sell to them a very high value product because you have a high-touch business model. You have to sell them something that is right for them.

An earlier point I made about at times, particularly with simple products or the traditional banking products, but the relationship delivered service at times tends to create bias. We know there are lots of cases of mis-selling because your agents have targets to deliver. They want to sell the loan. But that's not the loan that guy needs, or that's not when he needs the loan, or that's not how much of a loan he needs. But if you're able to remove yourself as a banker and offer the service, let the customer customize it for himself, and what you end up with as a service provider is mass customization.

Katie Nienow

I think mass customization is one of the important details to hone in on here, and I think you talk about not wanting a simple product. You know, it's one size fits all for everybody, and I think there's a way to use low-touch as a one size fits all solution because we want to be low-touch. But the reality is with the innovations in technology that we have today we're enabled to have mass customization, where before maybe high-touch meant that you could have 15 different products, and low-touch meant you had one.

Now you can have a low-touch product that has an infinite number of products because you know so many details about your customers and clients because of the technology behind it, because of the data that you're collecting, because of the ability to scale in my opinion. Even the warm relationship that you can have with a customer to learn the details about the customer you need to know about who needs insurance, but isn't yet buying it? What are people's concerns about their future? Where do they feel the most risk in their lives? You no longer need a person to walk into somebody's life to ascertain that, but you can learn that through technology which enables you to deliver a mass customized product.

Kim Wilson

I'd like to take a moment. Would anybody like to ask a question of the team? If so, please raise your hand. I see a hand up here, Amy?

Amy (Audience Participant)

Well, no one really talked about costs. So how much do these services cost your clients effectively?

Kim Wilson

The reason you're asking that is to find … because potentially … what if the answer is that high-touch is more costly? How does that affect what you're going to think next?

Amy (Audience Participant)

I'll tell you when I get the answer. Because we think this is a more efficient model. But is it more expensive for the client? And this is maybe a less efficient model, but maybe it's a fairer price for what they're getting. So I just, you know, nobody talked about the cost structure. So I don't know if you can answer that question.

Eric Muriuki

I can speak about our product. It was a question on costs, and it's difficult to compare because we don't know what the value proposition is, and you cannot compare our service with their service until you understand the value proposition.

As a savings a loan service, we pay interest on the savings on a graduated scale between 2% to 5% interest upon them. And that compares within Kenya the average savings account pays about 1.6%. So we're able to pay 5% from as low as 50,000 Kenya shillings. On the credit side, I know we get a lot of [inaudible] on this, we are charging 7.5% for a 30-day loan. Now some clever guy will multiply that by 12 and say that's 90%. First I'll say it's not, it's only my view all a matter of value exchange. So even a microtrader, and you need 5,000 [inaudible] to close this deal, to give you a 40% margin on that transaction, and without this service, we don't do the business. But with this service, you get your 40% margin, and you effectively retain 32.5% margin. So when we look at how we've structured our business, we always ask ourselves, okay, how much value are we putting into the customer's hands? What is the customer going to pay us for it? And what do we retain by way of margin? And we have been encouraged enough with M-Shwari to go beyond Kenya. We've now gone into our second country, Tanzania, and we're continuing to grow because it's a business model that we think has a buy out there.

Kim Wilson

Would you like to respond to the cost question, and then we probably have to wrap it up.

Bindu Ananth

I think like Eric said, the comparability issues are hard, risk free rate in India versus risk free rate in Kenya. But just to give you a rough sense, you know, prices really, if you are a customer that's buying term life insurance from us, it costs you 0.1% by way of premium because it's a pure risk, no fancy stuff going on. On the lending side, we have a portfolio of services, depending on perceived expected losses, etc. Interest rates can be on an annualized basis from 18% to 24%.

Andrew Youn

In our case, to provide services costs between $20-30 per customer, inclusive of cost of capital, training 20 sessions per year, delivery within walking distance of 100 kg of material, crop insurance, etc. And definitely, that's why I say like in most contexts if there's a lower touch option available, and it's proven impactful like savings is, I agree that it's preferable to use that. But anyways, in this context I think that's important.

Kim Wilson

And I think you both bring out really good points, which is this debate has been a bit artificial in the sense that we're talking apples and oranges in some cases. But with that, I appreciate and acknowledge the passion with which you argued your side, and everybody please feel free to approach the team during the break that we'll have in the afternoon. Thank you again. (Applause)

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