Day 2, Session 7 - The MasterCard Foundation Symposium on Financial Inclusion Debate

Tilman Ehrbeck, Omidyar Network:

Welcome. It's the end of a long afternoon so we will try to keep the energy levels up and to do so, we do a debate. The idea of the debate, obviously, is two-fold. The first idea is we want to really force these guys to sharpen their arguments. We want them to be black and white, not be afraid of hyperbole. And then, the second objective is to all of us to have a little bit of fun.

I had hoped that we could have a debating-style arrangements with podiums on both sides, etc., but from a lighting and from a video perspective, that was not feasible. So, when you guys need energy, if you want to stand up and address the audience directly, please absolutely stand up. I might do the same and I think for moderating the Q&A I might use the podium if that is possible. So, that's the debate that's coming up. I will introduce these guys in a second.

I would like to get the proposition beamed onto the screens. So, the proposition is: "digital finance is the most effective way to build the financial health of low-income clients." So, at one level this doesn't need much introduction. We talked about many of the aspects over the last two days. We heard yesterday about the promise about technology and data. But we also heard about regulatory concerns, consumer protection concerns, privacy. Also, yesterday and today we heard about the success stories of KCB, M-Pawa, M-Kopa, but we also heard about the importance of the good-old operational ground game. So, the stage should be well set for this debate.

I would like to emphasize two elements of this proposition. The first one is this notion of most effective. We are not asking, the proposition is not digital finance is one way of doing things, that would be boring. We are saying the most effective. And, we want you to argue in favour and argue against that part.

And, the second part that's important is this notion of financial health. I think most folks in the room would agree, and I heard the discussion a little bit earlier today, that financial services are only a means to an end. Ultimately, what we, of course, want is for clients to have a better life. And financial health is pushing our dialogue from financial inclusion, which is still a bit paternalistic if you think about it, right? We include you. It pushes it from that to a notion of outcomes that we would love to see and that our clients deserve, which is the notion of financial health. So, the statement, very purposefully is, digital finance is the most effective way, not just one. And, it is the most effective way to build financial health of low-income clients.

So, the roadmap for the next hour or so is the following. I will introduce the panel, of course. We will then do an opening poll where we will ask you. We take the temperature in the room, how you feel about this statement, whether you're in favour or against this motion. We will also ask you whether you are willing to change your mind so that these guys know what the undecided voting base is, if you will. [*Laughter*] Then, we do two rounds of arguments, an opening and a rebuttal on each side. Then, we open it up to you all. We do a little bit of town hall as well, not just debate. And, what I will do is so that you know that the mic will come your way, we'll probably go down, sort of, clockwise. I liked, Roger, how you did this this morning. Then, the mics know where to be and we tried to cover the room.

We do as many rounds as we can. You can ask any questions. You can make comments. You can make comments disguised as questions - we are all good at that. [*Laughter*] Everything is allowed as long as you identify yourself and you are pithy. Don't ask three questions. Behavioural science would tell you people forget the first two. Make one point, one question. And then, we give the panel a chance to answer, both sides, to the questions as they are being raised. We go back as much as we can with the time that we have. And then, at one point we'll take it back to the teams and they will make a closing argument based on what they heard. And then, we do the poll to see how you feel after the debate and to see whether some of the undecided voters or the swing voters have actually changed their mind. That's the plan.

So now, I shall introduce. You have the full bios in the app. Since we talk technology, I trust you all mastered the app. This is a very experienced panel. Each of them has 15-20-years of experience in a broad range of areas. I will only highlight the key element that explains why they are on the panel. And, I start with the pro side and I start with you, Amanda Donahue, to my right. She is the Vice President, East Africa of Tala. Tala is one of the alternative data-driven short-term credit providers that we heard about yesterday. You do it with your own balance sheet, right?

Amanda Donahue, Tala

That's correct. We do all of our own lending.

Tilman Ehrbeck:

And, you started in Kenya. You're expanding across the continent and you extended so far $20 million worth of loans, 250,000 customers. To Amanda's right is Sabine Mensah. Welcome. Sabine works with the mobile money for the Poor Program of UNCDF based in Dakar, covering most of West Africa, French speaking only…largely?

Sabine Mensah, United Nations Capital Development Fund:

French and English.

Tilman Ehrbeck:

French and English. And, she will speak to us in English, thankfully. Thankfully for me, because I might understand half, and that's dangerous. And, as a technical specialist with the program, you work with government regulators, service providers, funders, and building the broader digital financial ecosystem.

Sabine Mensah:

Absolutely.

Tilman Ehrbeck:

So, that's the pro side. On the con side, to my left, we have two senior representatives of more traditional providers. We have Stephen Mukweli. Stephen is the Managing Director of Post Bank Uganda. I looked up your website. You have the explicit vision to be the leading financial institution for the mass market in Uganda. And that commitment comes from the top. The boss man is here, the managing director. I hope you are not going too statesman-like, in this debate. No press. And then, of course, William Derban. William is from Fidelity Bank in Ghana. William is the director for Inclusive Banking and Strategic Partnerships. And, in that capacity he is one of four business units. You are also reporting directly to the CEO, so another sign of real top management commitment. Good. So, that is your two debate teams.

So, let's start with the polling, if we could get the question up. And, you know what to do. You are clicking those clickers. The voting is open. The motion is, digital finance is the most effective way to build the financial health of low-income clients. Yes, No, Unsure. One thing I learned yesterday when we were waiting for the outcome is how long two minutes can be. Wasn't that amazing? [*Laughter*] And wasn't she amazing doing all these things at the same time? I wish somebody had told me my hair's messy and we fix it. [*Laughter*] Five seconds left. So, click your buttons.

Okay. Can we see the in-going…wow, look at this. [*Laughte*r] Oh, I love it. [*Audience applause*] Fantastic. This does not require commentary. You guys have the floor wide open unlike other elections. Okay. Now, we already have 30% - 31%, even, unsure. But, we also asked…let's ask the second question. So, of the 70% of you who are split, are you willing to change your mind based on the discussion and the debate? The vote is open. And, there's only two options, yes or no. There's really no reason why this should take 45 seconds, [*Laughter*] during which I have to now invent what to tell you. Still 30 seconds just in case you are still thinking.

Results are ready. Yeah, look at this. This is fantastic. So, 30% unsure and two-thirds on top - 74% open minded. So, with that, we should just get going. And, I think, Amanda, you are starting.

And, these opening statements and then the rebuttals are three minutes each and you guys are seeing the time here. Amanda, over to you.

Amanda Donahue:

Thank you. So, I'm here talking on the side of pro, so I'll start. How do we reach out when 85% of the unserved population lives outside of recognized rural areas? How do we do this costly and effectively? With digitalization we are able to shape families and communities in ways we haven't done before by offering choice, control, security, opportunity, and improvement in a person's daily life. With digitalization we are able to provide access to services never available to those in the rural areas due to logistics and cost. Such as instant loans, savings accounts, pay as you go for critical services, access to health services and education. A financial identity that can be used to seek more formal financial services, community groups and access to national networks. And, on top of this, employment opportunities.

I would like to talk about Mary, a Tala customer for the last six months. Mary has three children and she takes care of her niece. She owns a beauty shop in Bungoma County, Kenya. Mary discovered Tala when one of her customers, Salima, was telling her how she had just gotten a loan, instantly, by just using her smartphone. Salima found the app on the Google Play Store and decided to give it a try because she had nowhere else to turn. She hadn't saved long enough with M-Shwari and she didn't have any family or friends that could bail her out. She was given a financial identity in an instant credit decision with $20 being deposited into her mobile money account, within minutes. She was able to send her daughter back to school the next day and she was able to cover her mother's rent for that month. Salima was able to pick the terms at which she wanted to repay and over the next 30 days, the loan was paid back, her limit was increased by $10 and she was positively reported to the CRB. That's giving her a more secure financial identity.

Every day, people have to make the gut-wrenching decisions to decide what gets paid first and what must wait another day. After Mary received her Tala loan, she had discovered a whole new world of products that were offered digitally right at her front door. Mary was able to secure a life insurance policy for $2,500. She joined a community savings plan that allowed her to access using a group app. Gone were the days where she had to trust her money in a metal box in somebody's closet. She purchased a solar lighting system for her shop so now she was able to service customers well into the evening hours. She was able to connect with other salon owners in the community so that they can pool their purchasing power to get discounts on services, tools and products. Mary is just an example of one of the 500,000 clients that access the Tala app platform.

And, Mary's story is not unique. Her story is seen across the world by many people who need access to services so that they can have control, choice, security, opportunity, and improvement in their daily life. Thank you.

Tilman Ehrbeck:

Okay. Thank you very much. Stephen.

Stephen Mukweli, Post Bank Uganda:

Thank you. I will stand and hope you hear me better. Mary must be living somewhere in an urban area or peri-urban area. This debate is about reaching the low-income people. And, we know that the majority of the low-income people are in the rural areas far from town. The basic tool for digital access is a phone. Where it is for her, there is probably no phone. If there is a phone, there is no power to charge the phone. And, if there is a phone and there is power, chances are that it belongs to the man, and the man will not let the wife touch it because the contacts there are personal to him. [*Laughter*] So, how do you reach a client like that with low-income? And, another thing is that these clients are borderline poor. Maybe just above the poverty line struggling to make ends meet. Chances are that they are illiterate. They are undereducated, they are not exposed. So, even using technology is still a challenge.

Financial inclusion, and this debate is about building the financial health. Not just access. Not to have an account or to be able to move money from P2P. But, how do we get services to these people? Financial inclusion, or getting people to acquire services, we know that financial services are built on trust. Minus trust, there is no financial service. People must trust the provider. How are you going to trust a system which you don't understand? Yesterday during the session of consumer protection, we saw the challenges of technology. You have a client who is illiterate, assume he is lucky to have access to this phone and there is no connectivity. Bandwidth is a challenge. Then, you have dropped transactions. How do you explain? He can't complain to a phone. He needs to complain to somebody to deal with the problem. So, we need different means of reaching the low-income countries to be able to build their financial health. Thank you.

Tilman Ehrbeck:

Okay. Thank you very much, Stephen. [*Applause*] That was pretty civilized so far. [*Laughter*] So, essentially saying superior products, more convenient at lower cost. Cleverly humanized, the entire angle, with the Mary story, I noticed. Stephen wondering whether infrastructure is there and consumer adoption is a challenge. So, you set the stage for your colleagues. Sabine, your rebuttal.

Sabine Mensah:

Well, I've heard the arguments of the other side. But, let me start with the story of Miriam. Low income, living in rural Rwanda like millions of women in this world. Miriam has a phone and that phone actually changed things in her life in ways that you can't imagine. First, Miriam can now put her money in the phone. Nobody knows how much money that is. Nobody knows where that is, either. And, there's not a chance that, if there's a fire in the house, the mattress goes away. Miriam can also now click here and have access to a loan. Money that she can invest back in her business and grow more income for her and her family. Oh, by the way, she just realized also that because of this phone, she has access to insurance. Have you heard of BIMA? Have you heard of M-Shwari? Have you heard of M-Pawa? And, that's not all. With this phone, she can now pay in small installments for things that matter to her and her family. She can have light. Have you heard of M-Kopa? And pay as she goes. As she can. When she can. When she needs it. Now, that's not all. What this phone has given Miriam is control that she has not had in her life in the past. Control to make the decisions for herself, for her family. This phone, what has it given Miriam is the capacity for prosperity by herself and for her family.

So, what am I saying? Now, with this phone, Miriam has access to a safe savings. Now, with this phone she can have access to a loan. She is covered by insurance and she can pay by small installments what matters for her. Control, prosperity for her and the rest of her family. She has waited for 50 years for banks to do that for her. Here I am!

Tilman Ehrbeck:

Thank you. [*Laughter] [Applause*] Yes, that is great story telling. Thank you very much. Ahead of time, again. Ladies, my compliment. William, your rebuttal.

William Derban, Fidelity Bank, Ghana:

Thank you. I think for this one, I have to stand as well. [*Laughter] [Applause*]

I'm very happy for Mary. I'm very happy for Mary. But, let's look at the statistics. You know, DFS, digital finance, has come to stay. There are many people who are using digital finance, or who have access to digital finance. Like Mary. But, check usability. And we've heard that, how many people are actually using this service? We know from statistics it's about 20-30%. And remember the debate. You are voting for the debate. We are saying today, 2016, digital finance is the most, the most effective. If 20% are using such the service, is it the most effective? If even 50% were using that service, would it be most effective? If even 80% were using that service it would still not be most effective. So, we are saying that it's a service, it's out there, but it's not <u>the</u> most effective.

You talk about Mary. I'll talk about Mimouna. [*Laughter*] Mimouna is a lady that I met in the north of Ghana, okay? Mimouna doesn't have a phone. But, luckily, the husband has the phone. So, she has a digital product. Every text message she gets, every transfer that is made, guess who gets the message? The husband. The husband gets the message. So, I would say, vote for Mimouna. Don't say the only way she can get financial services is through digital finance, because it's not effective for her. Every message goes to the husband. I don't know how many people here would like their spouses to know everything they are doing on their phone, their finances on their phone wherever they are. So, it's not the most effective service today, as we see it.

Now, on the supplier side, those banks and institutions that are supplying digital finance, it's not cheap. You know, if you try and get the system in your bank, it can cost you anything from a few hundred thousand, I've been quoted a million dollars for that system. How many small organizations that are doing good work, supported by The MasterCard Foundation and trying to reach people? How many of them can afford such a system? It's expensive. And on top of that, you have very expensive consultants who do not speak the language, APIs and stuff that you do not understand. [*Laughter*] They are also expensive. [Applause] What happens, you put that on the price, it becomes expensive. People don't use it. What are we doing? It is not the most effective system today. So, I would encourage you and urge you to vote against this motion today. We are in an election season, you know… [*Laughter] [Applause*] I encourage you to vote against the motion. Thank you.

Tilman Ehrbeck:

Okay. Is it okay if I go to the podium? I will do that. I will start with one question each for each side and then we will go around the room. So, if the mics could go to the left-lower quadrant and then we'll also rev up the lights in a second. I would like to start with the pro side, if that's okay.

Sabine, you talked about the privacy within which Mary can actually start building towards her financial health. And, William mentioned, oh, the phone is shared and the husband might get the SMS first. This notion of trust. How do you build trust in a digital-only world? My question to you, two minutes max, and I'll take time here.

Sabine Mensah:

How do you build trust? Well, it's funny because some could say that people trust mobile phone providers and banks. Well, guess what? It is giving them voice. Communication. My colleague here mentioned, well, the usage. In 50 years of banking in Sub Saharan Africa, what are the rates of bank population that we've had in those 50 years? Twenty percent for the higher side. Five percent for the lower side. Take your pick. [*Laughter*] So, but we have millions of people who have a phone. Eighty percent of the people, I would say, would have a phone, or access to a phone. They've been using it to communicate, so they trust the phone provider, that basic communication medium. And now, this provider is telling them, guess what? You don't need to walk the miles to that bank. I will bring the bank to your phone, where you are, and I will give you the capacity to put the money in it, to secure it for yourself and I will go beyond that to give you the capacity to also invest back in what's important for you. So, trust is earned. And, mobile operators have done great things by first getting our trust that we can communicate to people around us, what matters. And from there, they have given us that they can do the other things, financially, and we can trust them. [*Applause*]

Tilman Ehrbeck:

Okay. So, telcos more trusted than banks. Banks, after 50 years are nowhere. Do you care to rebut, one minute?

William Derban:

Yes, just very quickly. I think my colleague here is trying to play with your minds, [*Laughter*] some behavioural science. The question here has nothing to do with banks. The question is simply, is digital finance the most effective way of doing this? That's where the issue is. It's not whether banks are, or telcos are. Is it the most effective? We say phones. Not everybody has got a phone so how can it be most effective? People aren't using the system. If everybody is using it, then maybe we wouldn't have a SoFI 2017, because we would have…we would have solved our problems. You know, so it is not the most effective. And, that would then allow us to go and find the most effective. If we agree that we have found the most effective, then we can all go home. But, we haven't found it. And so, we have to go and look for it. So, I will still say, don't let them sway you, and just vote against that motion. [*Laughter*]

Tilman Ehrbeck:

Okay. A little bit of a dodge there, William. And Stephen, I stay with you. Same thing. Question for you. You can rebut, then we open up. Again, I looked at your website. Thirty-seven branches, I saw for the Post Bank. I couldn't find for Fidelity. How will you ever reach the entire country with the traditional infrastructure?

Stephen Mukweli:

Okay. So, we have about 75 branches. And, we do have agency banking, about 1,000 agents. So, we use digital finance and that is why we can say it is not the most effective. [*Laughter*] If we didn't use it we couldn't say that. We know the challenges we face. We know…my colleague has talked about the downtime. It is sad for people like Mary or Mimouna to go to an agent and they will tell them that I can't get my money because the system has failed. How do they understand what my system has failed? At least with their branch, when they go there, they can get their money. So, it is definitely not the most effective system. [*Laughter*]

Tilman Ehrbeck:

Okay. Insider information. Do you care to amplify the message?

Amanda Donahue:

Yeah. Well, maybe if you guys knew what an API was, you wouldn't have downtime. [*Laughter*]

Tilman Ehrbeck:

Okay. Gloves off. Any quick comment from you, Stephen?

Stephen Mukweli:

Yeah. I think what we have to appreciate is that you have different market segments and you don't use the same channel to reach every segment. There are those segments you can use branches. There are those segments you an use mobile phone banking. There are those segments where you can reach them through the linkage with the VSLAs or savings groups. Depending on the dynamics and what is obtained. And, the debate here is whether digital financing is the most effective. It assumes it cuts across everybody. Our argument is that the limitation is that it cannot reach some market segments.

Tilman Ehrbeck:

Sabine, any last comment?

Sabine Mensah:

Absolutely. [*Laughter*] The most effective, why? Because it can take what you are offering in the bricks and mortar and takes it to the last mile. Next to that person where she is and where she needs it. She doesn't need to come to the branch. Spend one hour in the traffic and then wait, perhaps, for three hours to get service. No need. We'll take it to her where she is. That's why we are saying it is the most effective. Because it provides that channel to reach a larger audience than we've been able to do it in the past with bricks and mortar. And, you can do it. It is cheaper for you to do it than create another branch. And, you can get that close to Miriam and the village.

Tilman Ehrbeck:

Thank you. Let's open it up. I promised to start in the left-lower quadrant. And, we'll take a few questions, comments. Comments disguised as questions. And, we'll give both parties a chance to reply. Go ahead.

Cameron Gordie-Scot, Musoni System Services:

A very simple question. I think no one's focussed on it so far in this debate, but it's obviously been a topic over the last two days. A huge amount of improving financial income and financial health in low-income people is financial literacy training. And, that's often something that you need people to do, in person. So, if you could address how effectively you will use a digital channel to do financial literacy training, please?

Tilman Ehrbeck:

Thank you. Financial literacy. We'll continue that way. Any question, lower-left quadrant?

Renee Chao-Beroff, PAMIGA:

Yes. I'm wondering about the risk side of effectiveness. The risk for the institution but also the risk for the client. How do you measure the risk for the client using digital finance to improve the health, her financial health?

Tilman Ehrbeck:

Thank you, Renee. Okay, one more question from the gentleman there in the middle. And, then we go to you and we'll go each side, all three topics.

Ivan Murenzi, Access to Finance Rwanda:

From both sides, no one has defined from their perspective what effectiveness is. And, so I would want to just hear from that and that would help us judge.

Tilman Ehrbeck:

Okay. Thank you, Ivan. Okay. So, three questions. Both sides have a chance to answer. We'll try to keep it fast-moving, so we'll do roughly a minute. You have a good sense by now what that means. Financial literacy. Digital versus in-person. Who wants to go first? Amanda?

Amanda Donahue:

Yeah. I think this is where, you know, we need to all come together as a community. There's amazing organizations out there that are providing digital education on financial literacy. And, as we all sit in this room with each of our specialties, in order to make this work it does take everybody. And, it takes partnerships and opportunities of all of us coming together to make it work more successfully. It's not just on one person's plate to make this successful. It requires the telcos, it requires the banks, it requires lenders, it requires educators, it requires facilitators to make all of this successful and to make sure that the customers can understand the application and the process so that it can be more effective to them. Ultimately, we're just trying to provide services to a wider range of people that can't be done with the traditional brick and mortar. And so, this is where we all have to come together. And, there's some wonderful organizations invested, Out of Ghana, actually, does a great job in translating these topics in a way that people can understand whether your 70 or 7. And, that's where it has to happen.

Tilman Ehrbeck:

Okay. Minute is up. Stephen.

Stephen Mukweli:

Yes. I think it's very difficult to deliver financial literacy through a digital platform to a market segment where illiteracy levels are high and they have no access even to the telephones or let alone connectivity. You are going to need other channels, like (*unknown*) had mentioned, where you can interact with a community and raise their level of understanding on how to manage finances and how to select the products which work for them.

On risk management, that's where I have a lot of worries with the digital (*unknown*).

Tilman Ehrbeck:

We'll come to that question next. So, on literacy?

Stephen Mukweli:

Literacy. So, I think you need people. You need the human touch.

Tilman Ehrbeck:

Okay. Human touch. Clear statement. Okay, the risk question. So, risks, both. Renee asked both. Risks to institutions and clients, digital versus physical world. Do you guys want to go first this time?

Stephen Mukweli:

Yes. I can start. You see, from the risk perspective, you have to look at who is the most vulnerable in this whole game? And, to me, it's the client. If this client loses money, I believe that it means a lot to this client and it can undermine the whole confidence in the financial system. So, we have to be very, very careful when you are offering solutions.

Now, look at it this way. If this customer lost the phone, he has no idea where to go and he's maybe 300 kilometres away from the mobile phone operator. It's all confusion and it's like money lost. It's different for those who are in urban areas but we are looking at low-income people. That segment which is very vulnerable. So, the risk of losing money is very high. Number two is the…

Tilman Ehrbeck:

Okay. Thank you. Your minute is up, if I may? Okay. There will be other chances. How do you manage risk in a digital only world?

Sabine Mensah:

That's a good question. [*Laughs*] It’s a good question. I want to jump on the fact that you said, if you have a phone and you lose the phone. For that client, that doesn't mean losing the money. We all agree on that, I hope so. It is very far. Your bank is further. It is very far, but to get to you it's even further. So, I think we are not saying here that digital is solving everything. What we're saying, it is making it easier for the consumer to have access to financial services. Yes, it comes with risks, both for the provider and for the client. What it calls for is for all of us to put our resources and efforts together to make this safer for that client so that the trust in the system is still there. The mechanics is there. The rails are there. The tool is here. It works.

Tilman Ehrbeck:

Thank you, Sabine. Okay. Third question was around, what do we actually mean by effective? I go with the ladies first this time. What is your definition of being effective?

Sabine Mensah:

It works.

Tilman Ehrbeck:

It works.

Sabine Mensah:

That's what it means for me to be effective. I can, with the phone, get the money in, move it, pay, receive my payment. That's what I mean by being effective. Something that works, scalable, can reach a broader, maximum number of people that we wouldn't be able to do with physical infrastructure. It works. It can take me farther. It can improve my life. It allows me to prosper for me and my family. That's what it means.

Tilman Ehrbeck:

Okay. Thank you. Stephen? Effectiveness. What does it mean to you?

William Derban:

In fact, I actually agree with Sabine at this point that it works. But nobody is using it. [*Laughter*] So, for me, how can it be effective if many people aren't using the service? And, we've heard a lot about client centricity and things that we need to figure out why they aren't using it. So, for me, effectiveness is not just the fact that it works. It's the fact that people are using it and are using it to improve their lives. Their lives cannot be improved through digital finance if they are not using it. So, effectiveness is not just, it works, but it also includes usage.

Tilman Ehrbeck:

Okay. Thank you very much. You guys are getting pithy, 40 seconds each this was. We are going to back, as promised. Lower back left, I see an arm up. The lady first and then we go there and then we go to you…we start moving to the middle. Gentleman in the white. We come to the front last.

Lesley Denyes, IFC:

I wanted to ask you, so in the question there was a couple of operative words I thought, where it said financial health. And, we spend a lot of time talking about financial services and it seems like we've been kind of using this financial services in exchange for financial health. So, I'm wondering to all the panelists, what does that mean to you; financial health? Is that financial services? And then, how does it relate and how does digital make it better?

Tilman Ehrbeck:

Thank you, Lesley. Okay. Financial health and digital. We have the gentleman to the left.

Ross Nathan, VisionFund Rwanda:

This question, I want both of them to answer. Can we create a true value in customer lifetime value in digital finance when there is no human interactions? Thank you.

Tilman Ehrbeck:

Okay. Thank you. We have the gentleman in the back.

Wayne Hennessy-Barrett, 4G Capital:

I thank all the debaters. I have one slight challenge and I'd like to take you beyond the strict parameters. Digital or analog, those are surely just channels. The real issue is, is your product designed to help the customer or for your own business? And, how do you look to deliver the right product, regardless of the channel? And then, the second point is, if that customer owns a smartphone, are they actually poor? If there's only 10% smartphone penetration, are they really the people most in need? And, how do you deliver those people just using feature phones?

Tilman Ehrbeck:

Okay. Thank you, Wayne. So, we start with Lesley's question around another one, definitional. What do you actually mean by financial health and how can digital improve that? Would you like to go first? Amanda is nodding. Go. One minute.

Amanda Donahue:

So, financial health is really allowing people to reach their goals, objectives that they have set for themselves in their life and, you know, that is obviously subject to each person. But, how this is making is it better, is we're providing people with choice and opportunity. Whether it be to pay for their children's education, whether it be for them to access insurance products that will help save their business in a time of need. It is a very broad subject but I think it can become very personal for our customers, and being able to have multiple solutions in one location is really how we can look at improving their entire financial health and whatever that means to them.

Tilman Ehrbeck:

Okay. Thank you. Financial health. What does it mean to you, and presumably you don't think that digital is doing a better job?

Stephen Mukweli:

Yeah. I think you took that from Post Bank, because you talk of importing customers. So, to me, financial health is the customer should feel better after using this service. It should add something to him or to her. It should not leave that customer in misery or disappointment. The service should be able to create opportunities for her, like, when you go around you are able to exploit opportunities and make more money. Or, save and keep your money safe and use it at the right time. So, to me, that's the health which accrues from financial services.

Tilman Ehrbeck:

Okay. Thank you. The second question was on how can you have true customer life-cycle value in a digital world? I start with you again, if that's okay. Sabine?

Sabine Mensah:

Yes. Actually, I think that the phone - and I'm coming back to the mobile phone. I think the mobile phone gives you the opportunity to keep that constant contact with the client. We've talked a lot about data and how, with data, we can understand better the client's needs. And we are able, perhaps, with that, to anticipate, to communicate proactively with the consumer on these needs and offer alternatives through digital for them to meet these needs. So, I think we can. We have been doing it. There is obviously opportunity for us to find better ways to do it, but this tool, the contact is there. We have to mine it. We have to look at what the customer is doing. What their needs are. The information we can get from the tool, the phone, can now direct the way we service them better on the needs that they have. So, I believe we can build the value for the customer through digital.

Tilman Ehrbeck:

Okay. Thank you. Gentlemen?

Stephen Mukweli:

Yeah. I think I agree with the gentleman from 4G. That a client with a smartphone may not necessarily be a low-income client. We are talking about clients who actually can't even afford a smartphone. Probably can't even afford a simple phone. And, this you cannot do financial education on a digital platform. You need to engage them through other means so that they can, you know, be part of the financial space. So, I think that's why you have limitations with digital approach. They are those we are focussing on now, the low-income clients. We are not talking about others who are above that market segment.

Tilman Ehrbeck:

Okay. Stephen went ahead to the question, the third question, actually. Why don't we just stick to that? The question that Wayne asked was, isn't the channel discussion the wrong discussion? And is it really the wrong product? And in that context to people with smartphones, are they actually poor? Amanda, Sabine?

Sabine Mensah:

Yes. Actually, I would like to take that. I agree, it's not the channel, it is really finding what the consumer needs and designing products that meet their needs and that are more convenient, perhaps, than the informal systems that they are using right now. Now, the channel enables you to reach a broader number of people with the service. So, agreed, it’s design, it starts with the consumer, designing the product that meets their need and then leveraging the channel to offer the product.

Tilman Ehrbeck:

Thank you. William? Wrong debate about channel because product matters?

William Derban:

No, I think I agree that it's true. It's not too much about the channel. It's also about finding the right kind of product. But, the channel also is quite important because digital finance, the key tool is the phone, you know. And as we've said, not everybody has got a smartphone. And, even on their old phones - in Ghana we call them yams, you know. On that phone, sometimes the operating system is even not known. You don't even know what operating system that phone is on for you to be able to put any kind of application, any sort of service on. And, maybe it's time to bring the telcos, those who produce the phones, into the financial inclusion picture because they need to provide better handsets or cheaper handsets. Then, digital finance would have a chance. But, without that, then it will still be a struggle.

Tilman Ehrbeck:

Okay. Let's do a third round. We go to the back on the right and then come forward. Okay, so I see a gentleman with a blue shirt. Then, we stay at that table with Kavita and then we go in the middle and we try to do a fourth round. Go ahead. And please be pithy.

Timothy Ogden, Financial Access Initiative, NYU:

Less a question than just a statement that where we talked about digital as a penetration mechanism reaching a lot of people, the best comparison to that of existing technology in other places is the credit card.

Tilman Ehrbeck:

Is what, sorry?

Timothy Ogden:

The credit card. Widely available, everybody uses it. Allows access to a lot of services. I don't think there's a single person here who would say credit cards are a great tool for advancing people's financial health. We have a microfinance industry that grew out of actually trying to help people build better financial lives and build their financial health. I don't know of a single MNO who has anything about helping poor people in their mission statement.

Tilman Ehrbeck:

Okay. Since that was a statement, not even disguised as a question, we take three more. Thank you, Tim. [*Audience laughs*] Kavita first, then we go to the gentleman in the middle, and then we go to the lady here to the right. One of the two, you figure it out, okay?

Kavita Nehemiah, Artoo:

Okay, hi. I'm Kavita from Artoo. So, my question is, if digital financial services are really the most cost-effective way to do it just specifically in terms of credit, why is it so expensive? Because from what I know, the interest rates are really high.

Tilman Ehrbeck:

Okay. Pointed question, thank you.

Sasidhar Thumuluri, Basix Sub-K iTransactions:

Well, part of my question was…sorry, I'm Sasidhar from Basix. But, part of my question was about the cost effectiveness. Interest rates are so high so are they really effective? But, the other question was, do we even know what are the risks of the data security that are involved here? Do our customers know what they're getting into when they're doing these transactions on-line? Do we have proper mechanisms to protect the data in place? Do we even know about these risks that are associated with it?

Tilman Ehrbeck:

Okay. Data security. Okay. Please, the lady in the red shirt. Thank you so much.

Veronica Karoki, Kenya Women Finance Trust:

Thank you. My name is Veronica from KWFT. My points are on the question of focusing on the most effective and health finance in the low-income. And, looking more specifically to the credit and the appraisal process. How will the digital platform be able to appraise this client taking care of the financial appraisal and the social appraisal? Are we having…these clients most of the time they don't have the relevant documents. They are not bankable. When you go to this digital platform, are they going to be more healthily impacted? Will they get the amount that they deserve or will we give them the amount that we think we are comfortable and not risky about?

Tilman Ehrbeck:

Okay. Thank you, Veronica. Lots of questions for you. You will get a chance to chime in. Probably, Amanda, you should start. If digital is so effective why are credit rates so high? And, maybe interest rates so high? Maybe you tell us first what a typical Tala interest rate is.

Amanda Donahue:

Yeah, so with Tala, the interest rates range between 5 and 15% depending on how long you're taking the loan and how much you're taking. [*Audience interruption*] No, it's for the life of the loan. Again, it depends on the customer's terms. The APR is …

Tilman Ehrbeck:

Okay, continue.

Amanda Donahue:

So, again, what we do is we put choice and control into the customer's hands. They are able to select the interest rates and the term of the loan that best fits their specific situation. Ultimately, you know, a lot of these people are unbanked, they don't have a formal credit history, they don't have land, they don't have a house, they don't have cattle to give up as collateral. So, walking into a formal financial institution, they're basically shooed right out the door because they don't have the documentation necessary. So, what we're saying is that we're giving a chance to this person to be able to prove that they are a credit-worthy individual and they can build a financial identity for themselves that they will then be able to take to a bank.

That doesn't come for free, right? I mean, there is definitely a high risk that's involved. But, on the flip-side of it, many of the banks charge much higher interest rates. In Kenya, until about a month ago, the interest rates were 18, 20%.

Tilman Ehrbeck:

Okay. We went over a bit to you. We'll come back to the notion of data security and appraisal and give you a chance to think about that. Quick comment on cost of operations, digital versus physical world.

Stephen Mukweli:

I think you look at the cost from the pricing. And, the part Amanda has been avoiding is to tell us exactly the annual cost of credit on their platform. It's definitely much higher than the banks charge or the financial institutions. That means it's very expensive to deliver. When a product is expensive to deliver, you'll see it in the pricing. When a product is cheaper to deliver, you see it in the pricing, the pricing will be low. And, I think that's where it should be and understood.

Amanda Donahue:

Some banks charge 200 plus percent annual percentage rate. I mean, it's definitely up there and if you don't believe so then you haven't spent much time in Africa. Because if you walk into many of the institutions that's what you're going to see. And you have to remember, most of the customers we're serving don't have access to banks. The banks won't even talk to them, they won't let them through their front door because they don't have collateral, they don't have land to give up. So, until the banks change their policy and remove the bias that currently exists, then customers are forced to find alternative solutions. And, that's what we're providing, an alternative solution that gives them the ability to create a financial history for themselves that they have not been able to create up to this date.

Tilman Ehrbeck:

Can I ask a follow-up question, Amanda? Can you break down how much of the interest rate is because of the funding cost? Because you don't have the advantage of being deposit taking.

Amanda Donahue:

Sure.

Tilman Ehrbeck:

How much of it is credit risk and then how much is operational cost-savings, presumably?

Amanda Donahue:

So, right now, because we work through telco's, about a third to two-thirds go to the actual transaction costs. So, you have to think we're doing low-cost loans, right? So, we're giving $20 and so, we're charging, you know, $1 or $2 for that $20. So, the telco's that we operate through obviously have their transactional costs that are involved. And then, we do our own lending at our facility just like many of the other competitors do their own lending. And so, you know, obviously there has to be the cost for the technology that is put into place to allow this to happen.

Tilman Ehrbeck:

Okay. And funding cost?

Amanda Donahue:

Funding costs, I'm not sure of those numbers.

Tilman Ehrbeck:

Okay. Good. There was the question around data security. Sabine, do you…? Or, we can go back to Amanda. I just want to give her a break.

Sabine Mensah:

Oh. On the data security side I think I'm going to refer back to my panel.

Amanda Donahue:

So, I mean, again, not just with my organization but with many organizations, we're, you know, collecting massive amounts of data on our customers. And so, it becomes our responsibility to make sure that, as an organization or as a telco provider or as a bank, you're providing that level of data security. And, ultimately, you know, the customers have to do their research to find out which companies have the processes and data security in place that they feel most comfortable operating with.

You know, many organizations may cut costs on data security while others take it extremely seriously. So, at Tala, it is one of our, you know, kind of core competencies to make sure that our data is 100% secure. We don't sell or trade the data. And, we take that very seriously. And, it's important for our customers for us to live up to the obligations that we have.

Tilman Ehrbeck:

Okay. You both have digital channels even though they don't work so well. What do you do about data security? And, before you do that, just to give you a chance to prepare, we are running out of time so we won't do a fourth round. Sorry about that, I really thought we could. After your response on data security, we go to the closing. One each on each side, three minutes. I hope you have agreed who that is. And then we vote back.

Stephen, quickly, data security in your digital channels. Oh, sorry, William.

William Derban:

Okay. So, I think with data security, I mean, back in the day it would be nice if you wanted credit you'd go and see your branch manager. You talk to somebody, the person talks to you trying to understand where you are. And, this is relationship building. And, we understand that in this modern age trying to go to scale, that is difficult. And that's a huge challenge and it costs money. But, the other side, you know, of digital finance where you never see the person and you don't really know the person, that has got risks. And, I think, it's a fast-growing area and we haven't really understood what can go wrong yet. So, somewhere there is a happy medium, you know, in the middle. I'm not saying that the old style is also ineffective because you can't scale that model. But the other end is also quite risky. So, that's why we will say that's still not the most effective. The most effective is somewhere in the middle. It's neither here and it's not at the other end, as well.

Tilman Ehrbeck:

Okay. I sense rapprochement. Very good. Okay. We are coming to the closing remarks. Three minutes. I think you started the first round so this time I go with you gentlemen first. So, you will have the last word. Who of the two does the closing remarks? Okay, Stephen, you are up. Three minutes. Give Stephen the timer.

Stephen Mukweli:

This morning we heard from the Governor of the Central Bank here how they've been able to drive financial inclusion. And, a lot of that is the market we are looking at the low-income people. Putting a SACCO in every sector or village has been able to bring in more people effectively in financial space than waiting for digital.

I will also give you a story of Akello. Akello was abducted by Congolese rebels. She managed to escape but she came back with three kids. She's in the village which has no power, which as no bank, which has no connectivity. So, she's totally locked out of the financial space. Thanks to Care International they went there and formed village savings groups. Akello is one of the members in those groups. And they're able to save and lend among themselves. But, even then, there was still a disconnect with the formal banking system and Post Bank moves in, we're engaged, and we have now linked with this VSLA. As a result, many of the Akello's are able to access banking services, both savings, loan and the like.

In that program alone, we have over 30,000 groups. We have over half a million members who were previously excluded and are now able to access services. Not digital, through social capital. Twenty percent of those members have individual accounts with us in the system. These are practical solutions which can bring effective inclusion to the excluded. Digital has yet to catch up. There are first challenges like I mentioned, literacy levels, connectivity, electrification where you charge the phone. Until those things are in place it will not be effective to bring the low-income people in the financial space using digital platforms. So, vote “no” when it comes to voting on this motion. Thank you. [*Applause*]

Tilman Ehrbeck:

Thank you. Okay.

Amanda Donahue:

So, we’ve talked a lot today about who uses it. And, you know, the numbers are quite clear. In Kenya, M-Shwari, for instance, does 500,000 loans a day. So, there’s quite a few people who use it. We’ve done 650,000 loans on our platform since we started. And, I think, you know, we talking about low-income and people not being able to have a cell phone, a smartphone on low-income. How many low-income have land or houses, or collateral to put up so that a traditional bank can give them a loan? If we’re trying to debate the low-income and what they have and what they don’t have, getting a smartphone or even a feature phone to access an M-Shwari account versus land for collateral with a traditional bank, it’s pretty clear-cut.

We talk about accessibility. If you have a phone, you have access 24/7. What happens when your money is at the bank and your child gets sick in the middle of the night and you need to take them to the hospital, but, your branch is 20 kilometers this way and the hospital’s 10 kilometers this way? Well, the branch is closed, so how are you going to access it? We know that the hospital won’t even treat you unless you pay. But having the digital capabilities of accessing a loan within minutes gives you the ability to treat your child when the need is there, not during 9-5 hours at which most banks operate.

We’ve talked about risk, we’ve talked about interest rates, we’ve talked about training, literacy. We’ve talked about privacy, security. There’s no perfect solution but the question is, what can help the most people? How can we reach the most people and how can we provide a service that will allow them to enter into a market where they haven’t been able to? There’s 2.5 billion unbanked persons in this world today, 2.5 billion people that don’t have access to credit through the bank.

So, again, you want to talk about who uses it. I’ll let you answer that.

Tilman Ehrbeck:

[*Applause*] Thank you. Okay. We started with the story of Mary, we almost ended with the story of Akello. You guys are great debaters. Before we vote, a big applause to all four of them.

[*Applause*]

I will not try to editorialize or summarize, it would be impossible. I can’t do that on the fly and I don’t want to either to not influence. And, I’m actually torn. So, why don’t we get the vote going.

So, here is the same question that as before. "Digital finance is the most effective way to build the financial health of low-income clients." Yes, no, or still unsure. Remember we had a 35-35-30 split in-going, so let's see how this debate has evolved. And, you have ten more seconds to click. I think the last votes…if you are switching, I hope the last vote counts. That's how these systems are supposed to work. And, here we go.

Okay!

[*Audience reaction to results and applause*]

You both…oh well, we need to see that for one more second. Can we see the graphs? We…you both pulled people over from the undecided. So, very well done. And, this…it's a marginal race, I'd say with a slight margin for "no" for this notion that we articulated quite purposefully as…with a bit of an edge to it, this notion of "most effective." I already heard a bit of rapprochement and I'll give you a chance to comment, all four of you, after we quickly do the second vote. And, that is on whether you changed your minds. So, has this debate changed your mind? We already know that that's the case because we moved people out of the unsure column. But then, there may have been flipping also. So, let's see. Has it changed your mind? Yes, or no? And, you have 20 more seconds to make that hard choice.

Okay. Ten more but I think we can close as well. Yes, results are ready. Okay, so, 37% of you changed their mind. I think that's pretty high. Who has experience with this, would agree with this? Okay. So, that is again testimony to both of you. So, again. [*Applause*]

We have a few more minutes. So, the second presidential debate in the U.S., if you saw it, the second, not the third—I did not see it. The second one, despite all the acrimony ended on a surprisingly high note. And, that is because the moderators asked, or the last question that the town hall participant asked, was, "can you say something positive about the other side." And, they both managed. And so, a variation on that question is, as you listened to the other side, what was the one argument, the one insight, the one probe where you said, "yeah, they really have a point here." And, I ask all four of you, and I start with William who looked at me. And then I go to Sabine and then Stephen, Amanda. Okay, so you're forewarned.

William Derban:

Yeah. Okay. So, I think, digital finance, first thanks for voting. You did right. But, I think, digital finance has got the opportunity. You know, it's got the opportunity to do great things. The fact that it can touch health and can touch education, and all those things, I think are fantastic and I would encourage that we continue to make it more effective. We should listen to the arguments that come from the other side that people do not have these phones. People don't have the gadgets. Connectivity is an issue. All these things are what make, you know, digital finance, not effective today. But, I think it has great potential and I would encourage that we continue to make it more and more effective.

Tilman Ehrbeck:

Okay. Thank you. Sabine.

Sabine Mensah:

I really think that digital finance gives us the possibility to reach more people. To provide financial services to people who did not have access to these services before. And, faster. We can reach these people much faster than we've been able to do it in the past because of the technology. We can give people who have not been able to get…

Tilman Ehrbeck:

There was an argument from the other side that was convincing? Sorry. And, you have 30 more seconds.

Sabine Mensah:

It has the potential. We need to all work together through partnership to leverage the access that we have through digital and provide financial services that will help people improve their lives.

Tilman Ehrbeck:

Okay, thank you. Stephen, one argument point, observation from the other side that you thought was a good one.

Stephen Mukweli:

I think it's correct to say that you can reach people but convenient…I mean, there are not any restrictions. Like you said, if a child is sick and in the middle of the night, you can access the money or can use it to pay the doctor. But, again, not yet Uhuru. There's still a number of things to be done for that to happen to everybody. Now it can happen for a few who are in bad areas but yes, I think that was a good argument that you don't have to even wait, go to an ATM or to a bank to get money. You can use your phone to access the money and pay a doctor to treat your child. That was a good point.

Tilman Ehrbeck:

Okay. Thank you. Amanda. Something that was convincing from the other side.

Amanda Donahue:

I mean, I think that only having a human element as well to banking is something that most people value. You know, knowing their banker and in most of the communities, the banker, or the branch manager knows everybody. They know all their comings and goings. And, you can't replace that with digital. You know, having that human touch is really valuable. And so, we're looking to complement that, not, get rid of it. But, that branch manager can't reach 500,000 people.

Tilman Ehrbeck:

Okay. We have ten more seconds to go. As you can tell from my accent I'm of German heritage. I'm going to bring this to a precision landing [*Audience laughs*] at precisely 17 hours at this point. Thank you very much, again. [*Applause*]