

Responsible Digital Transformation for Increasing Financial Inclusion: ADB Perspective

MCPI@20: Transforming
Microfinance through
Digitalization

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How Digital Technology is Transforming Financial Institutions

- **Pervasive digital payment and mobile money programs and data trails** have created a **strong base** to bring more products and services to **scale**.
- **Global digital revolution** is largely responsible for fueling changes to financial services particularly for mobile phone enabled financial services.
- Technology is helping financial institutions and systems to:
 - Innovate with new **core banking** systems
 - Onboard **new clients** in new efficient and innovative ways
 - Conduct quick, easy, less expensive **credit scoring** and **risk assessment**.
 - Make it **easier for clients** to pay loans, make deposits, pay bills, buy insurance, submit claims, receive payouts, make and receive remittances

Obstacles to a Digital Transformation

- Must ensure that digital does not only help to expand access or usage, but that **financial products are safe for consumers**.
- Stakeholders need to understand types of **digital divides** to overcome such as gender, location (urban/rural), age, education level or income levels, in addition to linguistic and sociocultural divides.
- Financial services aimed at the **vulnerable and newly included** must be done **responsibly**.
- **Data protection** must be kept in the forefront.
- Regulators must keep up with the **risks** and support development of responsible financial services.
- Industry level efforts such as **codes of conducts** and standards are key to complementing regulatory initiatives.

ADB Approach to Digital Transformation

- ADB supports the financial sector's digital transformation because of what it **can offer clients**.
 - How to engage in **responsible** digital transformation?
 - How to be **strategic** about the transformation and ensure it is sustainable.
 - How to ensure that **clients needs** are considered **throughout** the transformation.
- Digitalization is inevitable but technology is a **means to an end**.
- Financial institutions which do not begin to think about digitalization will be **left behind**.

Key Tips for Considering Your Digital Transformation Strategy

- Be clear on what the **end goal** is of the transformation and the **vision** for how it will happen.
- Digital transformation will not be successful without **buy-in** from **every person** in the organization, from board members down to field staff.
- Always look for ways to be more **efficient** in your processes and more effective for your clients. If you do not **prioritize innovation**, you are unlikely to survive.
- Digital transformation is not just about implementing technology. It is about **business models** and **strategy** and how you **innovate**.
- Think about how to bring in the full range of your **customers** and **involve them in the journey**.

Key Tips for Considering Your Digital Transformation Strategy

- View partnering with fintechs as an **opportunity** to achieve your **goals**.
- A partnership will fail unless both parties benefit **financially** from the arrangement, both parties have the same **vision**, and both parties are very **clear** about who has **access to the client** and in what context.
- Partnerships are key in helping to offer a greater, **superior value** to your **customers** when you as an institution don't have all the skill sets or technical capacity to offer it.
- In partnership, there needs to be **alignment of vision** and **alignment of monetary value** in the partnership as well.

Where to Start Your Digital Transformation

- Conduct a **technology/digital readiness assessment**.
- Look at **examples** of similar institutions – learn from what worked and what didn't.
- Do your **research**. Meet with a range of service providers and do extensive due diligence.
- Carefully consider your **partners**.
- Consider **regulatory constraints** or permissions needed.
- Develop a **strategy** and **budget**, carefully weighing the different options including short and long term costs and the amount of time expected to implement the strategy. **Be realistic**.
- Discuss proposed approach with everyone in your institution. **Do not underestimate the change management needed throughout your organization.**

What Next – Further Options for Support

- Find support from networks, other MFIs or financial institutions, like-minded service providers.
- ADB can help with learning, dissemination and strategic financial support:
 - Example: Cantilan Bank pilot project
 - Conferences such as the Asia Finance Forum
- ADB and other development partners can help FIs take on some initial risk and demonstrate what is possible.
 - Matching grant technology fund

What Next – Further Options for Support

- While early on in Cantilan Bank pilot project - **positive results** to date.
- Based on feedback from Cantilan, other financial service providers and BSP, ADB is developing a **matching grant technology fund** which would support similar pilots for other financial service providers.
- Starting with Rural Banks, fund will also be open to MFIs, cooperatives, and thrift banks which can demonstrate how initiative could help reduce cost, increase efficiency and increase outreach – particularly to the most excluded or underbanked populations or in the agriculture sector.
- Could include individual entities or a consortium of providers
- Could support a range of technology innovations including for example cloud banking, block chain technology, or mobile enabled products and services.

Best wishes for your
particular digital
transformation
journey!

Maraming Salamat
Po!

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Background on Cloud Core Banking Pilot

Cloud-based core banking in the Philippines

Challenge

Financial inclusion



Only 3 out of 10 Filipinos have a bank account

41% of the unbanked are in Mindanao



Lack of efficient technology infrastructure in rural and remote areas and archipelagos



Higher costs of reaching and servicing clients for rural banks in high-risk frontier areas

Solution

Cloud-based core banking system

Offer

new opportunities to save, make a payment, get a small business loan, send a remittance, or buy insurance.

Provide

personalized and efficient services

Mitigate

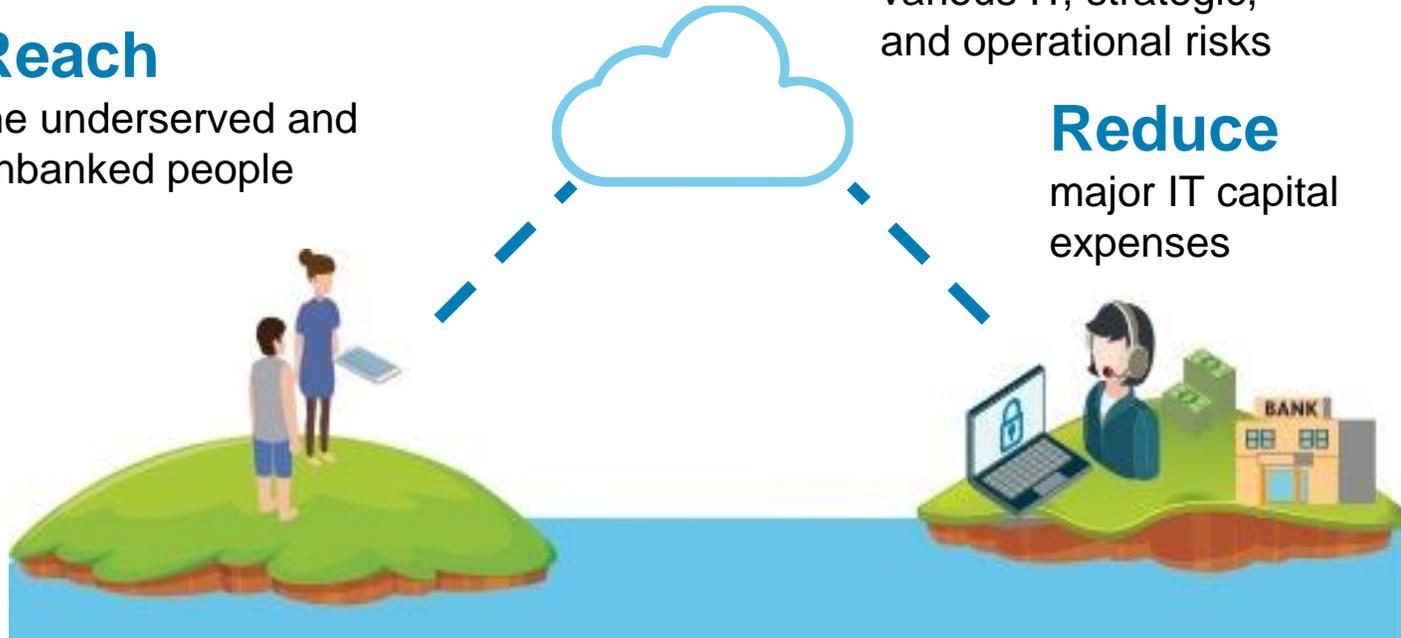
various IT, strategic, and operational risks

Reach

the underserved and unbanked people

Reduce

major IT capital expenses



Financial inclusion context



● **Cantilan Bank Inc.**

24 branches **19** ext. offices in 12 provinces in four regions in Eastern Mindanao and Visayas,

Strongest presence in the **Caraga region** (Region XIII) with 17 of 24 branches.

● **Caraga Region**

30.8%
family poverty incidence



Only 1 in 4 families have bank deposits

● **In the Philippines,**

90% of total domestic deposit

97% of total domestic loan volume

came from **27 high-access provinces**, in which Cantilan Bank Inc. is not present

Customer cost & convenience



17 minutes

Average time per client to travel to the branch, average cost 22 pesos.

The client visited on average 72 times



More than half of the respondents live **within 5 minutes** travel distance to the branch office. It costs them less than **8 pesos** to reach the branch. On average they visited the branch almost **100 times**.



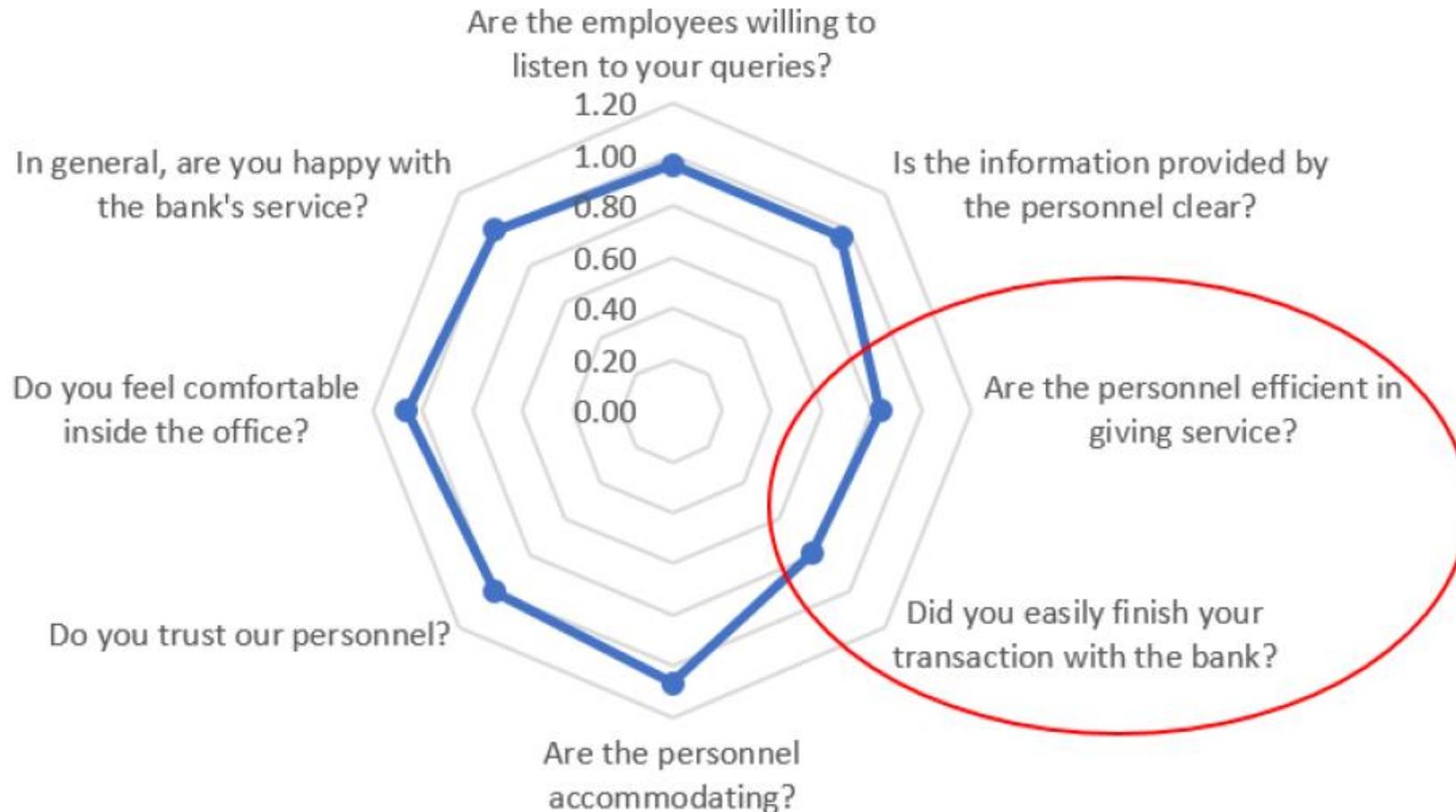
Only 13% of the survey respondents live **farther than 30 minutes** from the branch. It costs them on average **87 pesos** and they visited the branch **13 times**.



*With a more mobile system, more transactions can be made in the field, **increasing cost & convenience** above all for more **remote clients**, and **increase access** for the **unbanked and underserved**.*

Customer satisfaction

Customer satisfaction Q2-Q3 2017 average, rating 4/4



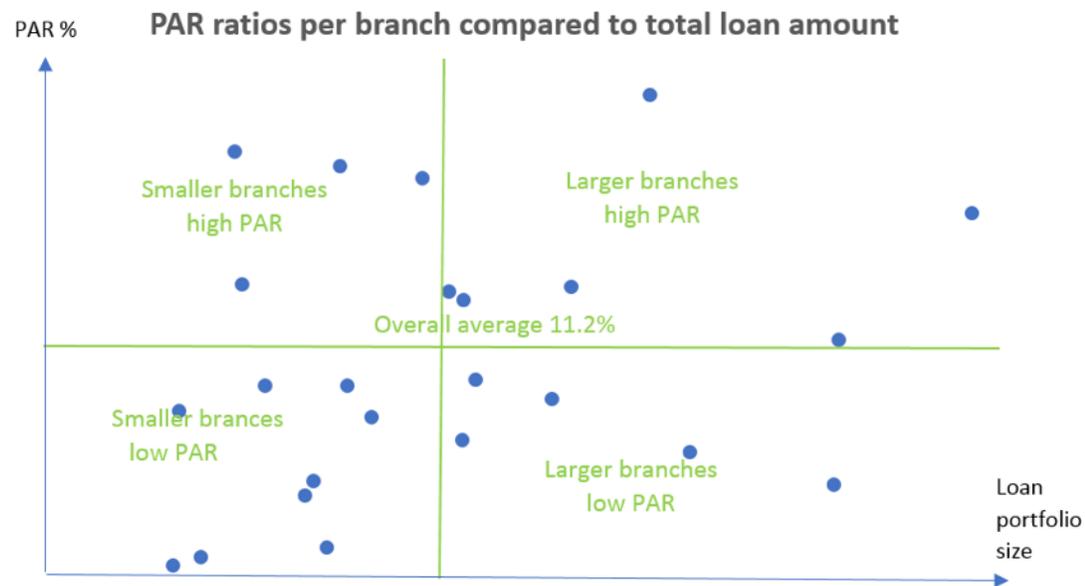
- A **friendly and trusted** bank
- Somewhat **slow services**
- Lower rates for **efficiency** and **ease of finishing transactions.**
- More likely due to **system and connection issues** than staff inefficiency.



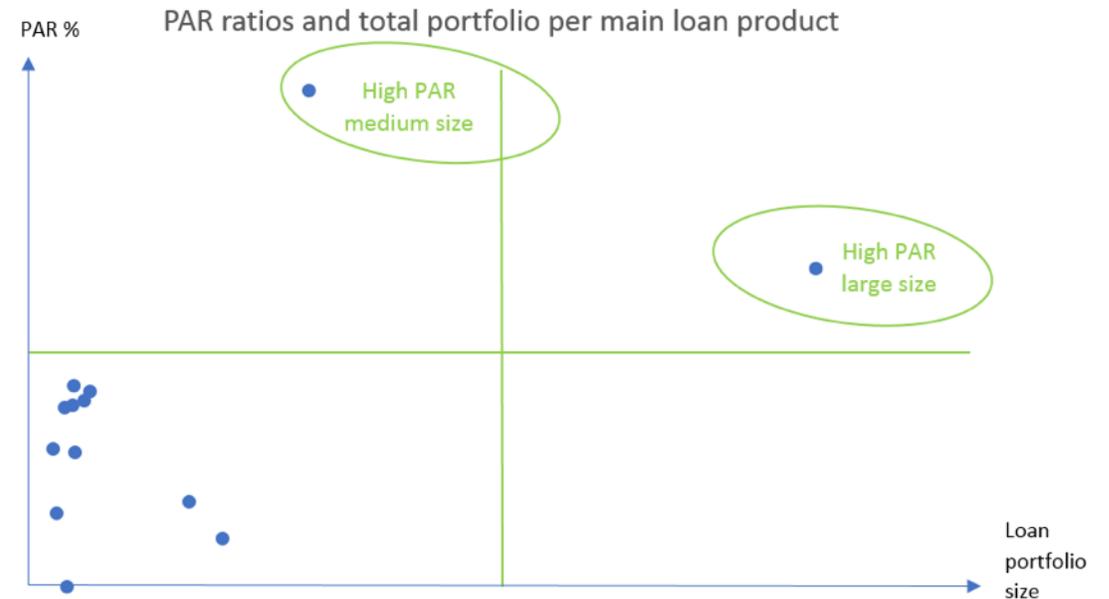
*With a more **stable connection**, service should be **more efficient** and transactions completed **faster**.*

Portfolio at risk (PAR) ratios

- **Broad range** of high/low PAR ratios, depending on branches and products
- **TARGET:** Decrease overall ratio by 20%
- *With real time data and automated reports, targeted actions can be taken to decrease the most crucial high PAR ratios*



● = branch



● = loan product

A note on gender



70%

of surveyed clients

women

80%

of clients conducting
loan related transactions

women

Philippines

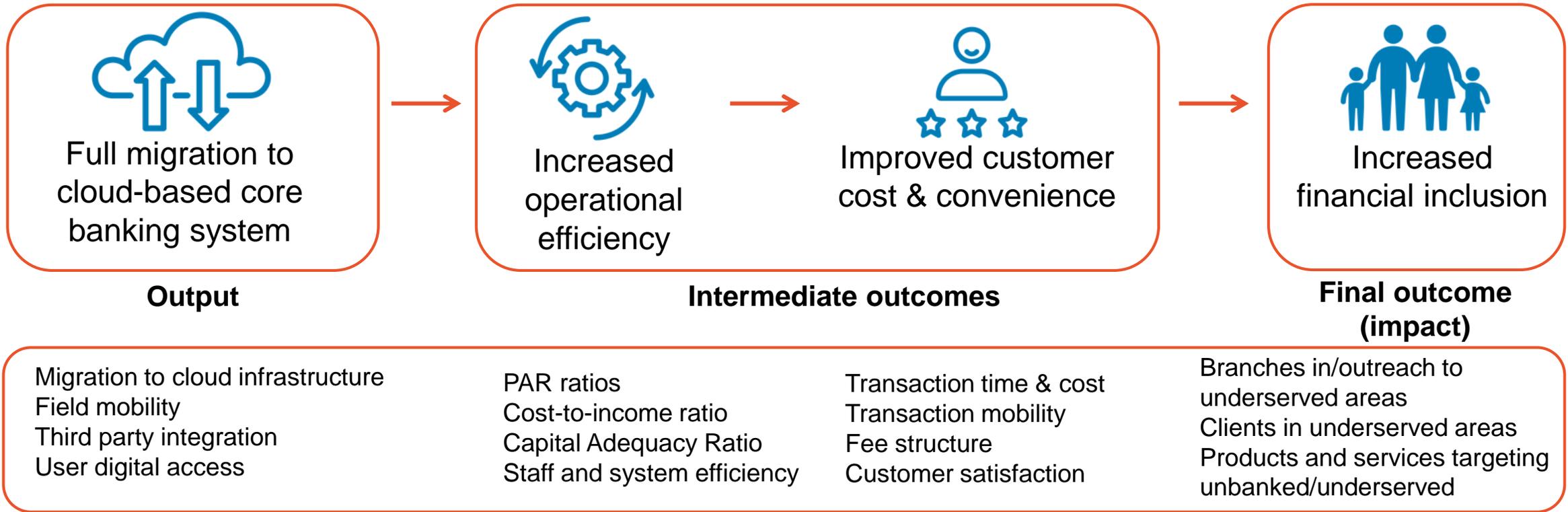
Women more likely than men to be **bank account holders**

Main issue

Overall high level of unbanked population
(cash dominance and distance to branch/point of service)

High concentration of total domestic deposit and
loan volume to a few high-access provinces

Expected outcomes & impact



Indicators

Focus on

measuring outcomes and impact as well as capturing learnings

Implementation

Progress

Stage 1. Full migration to cloud infrastructure

Started June 2017
90% complete July 2018

Stage 2. Mobility in the field

Started March 2018
65% complete July 2018

Stage 3. Integration with third parties

Started end 2017
ATM integration complete
July 2018

Stage 4. End-users' direct digital access

Starting Nov 2018

Stage 5. Measuring impact

Ongoing since Nov 2017
Baseline report May 2018
Initial findings report Dec 2018

Challenges & learnings

Challenges



Data extraction & preparation and network stability

Lengthier than expected



Company specific business processes and product features

Need to be incorporated into new system



Risk assessment and network security

Thorough security assessment and VAPT necessary



Integration of third parties

ATM integration lengthy process

Key to success

Change management

Buy-in from senior management

Branch staff and management feedback mechanism

Buy-in at branch level

Financial inclusion strategy

Coherence between Cantilan vision and ADB/BSP objectives