



Mwangi Kirubi | CGAP Photo Contest

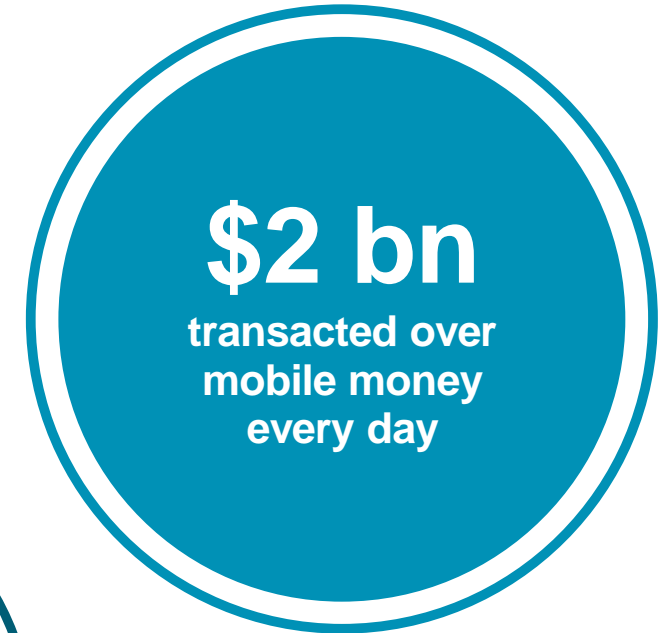
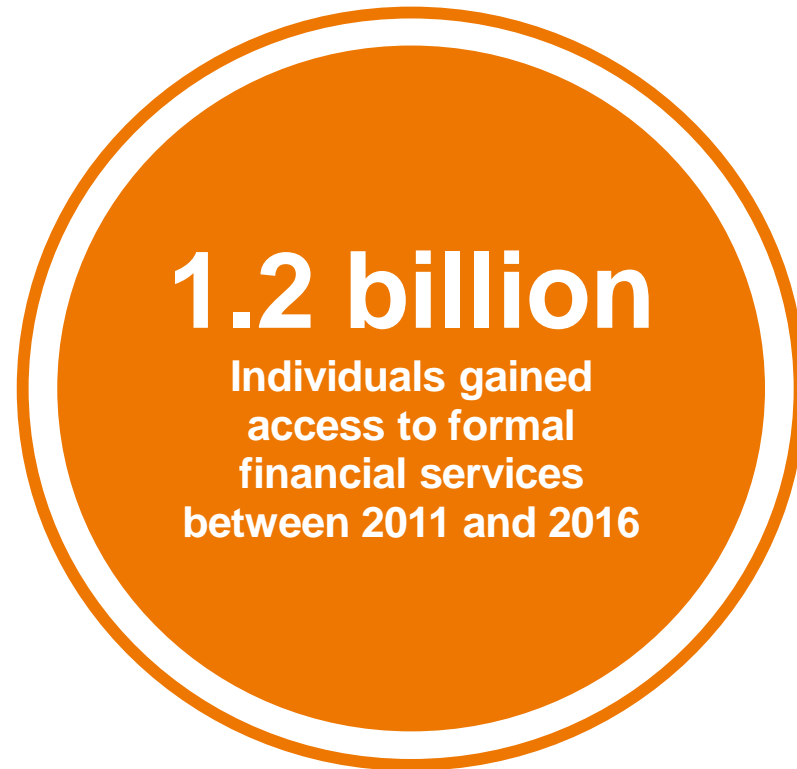
How digital banking models are changing inclusion

November 2020



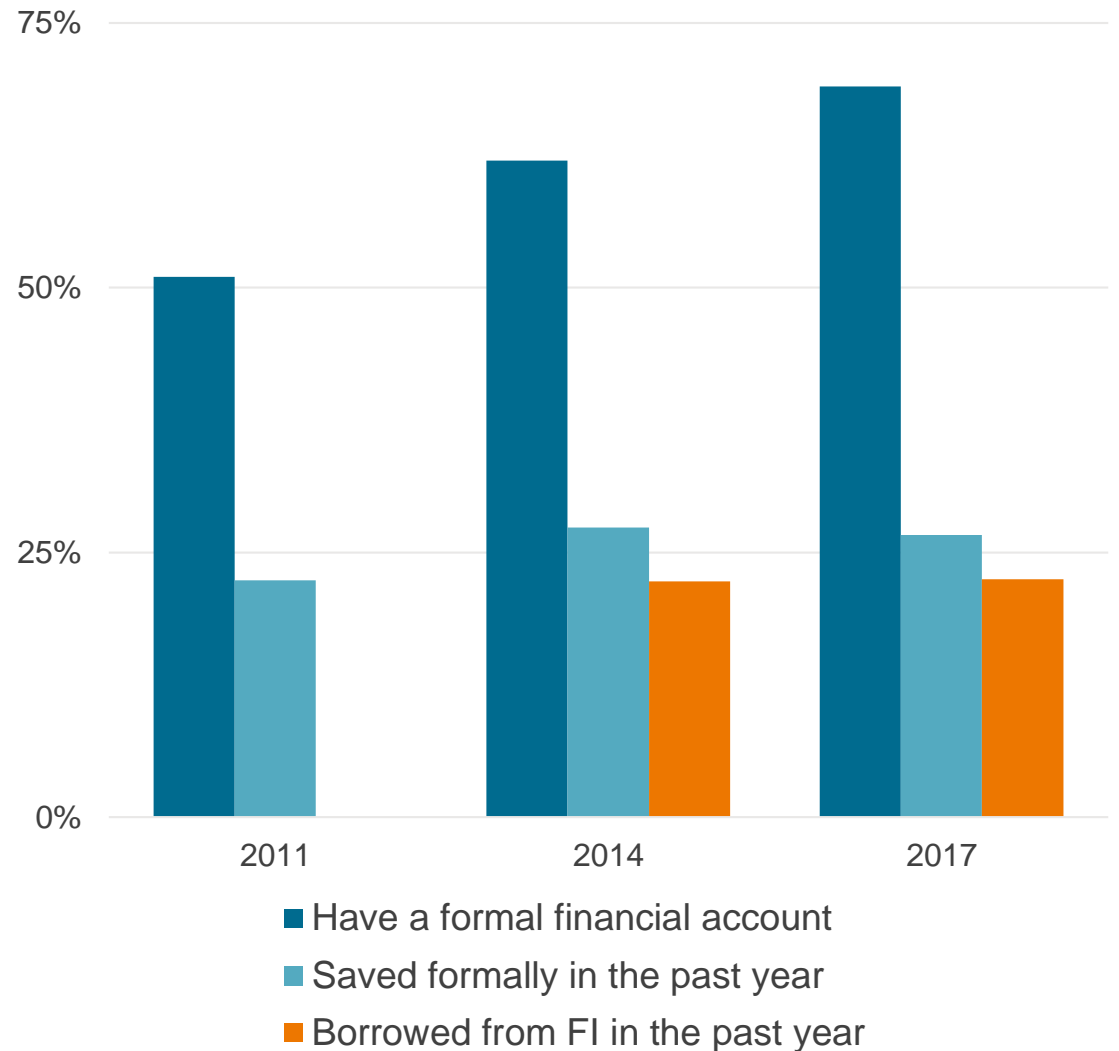
Peter Zetterli, Ivo Jeník, Arisha Salman

Over the past decade, digital technology has helped advance financial inclusion



Financial inclusion progress has been broad, but shallow

- 70% of adults had a basic financial account in 2017—likely more today.
- **But progress on savings, credit and insurance has been far slower,** barely rising at all even as accounts become more commonplace.
- This lack of financial depth limits the usefulness of the accounts and the progress towards full inclusion



Source: Findex (World Bank, 2017)

The financing gap for MSMEs in developing countries is vast

**65
million**
formal MSMEs
lacked credit in 2017

**Tens of
millions**
of informal MSMEs
also lack credit

40%
of all formal
MSMEs lacked
credit

**\$8
trillion**
total financing gap
formal + informal

Inclusive providers face constraints in their business models



Banks in developing markets are often limited by legacy operational models.


- Distribution is a major challenge for banks that depend on costly branches.
- IT systems often are outdated and expensive, which limit banks' ability and flexibility to improve products or develop new ones.
- Product management practices have been slow to adopt agile approaches, human-centered design methods.



Mobile money providers are often constrained by their revenue models.

- The revenue model centers on transaction fees, limiting the options MMOs have for creating broader offerings.
- Regulation typically limits the ability of MMOs to offer services beyond basic payments.
- Almost none have acquired a full banking license, and strategic partnerships with banks often are slow and difficult.



N26  @n26 · 1h



Visiting a bank branch is absolutely essential for opening a new bank account, changing your address, or ordering a new bank card. These banks also won't charge hidden fees! 🏛️

📌 Official sources stated that is false and misleading



We explore inclusion relevance in four dimensions

In what way the model makes financial products or services more affordable for providers to offer and for underserved customers to use.

- Lowers operating costs
- Lowers end user fees
- Offers more flexible payments
- Reduces the need for expensive devices
- Requires less or cheaper connectivity
- Reduces the need for collateral

In what way it makes financial products or services more accessible and useable to underserved customers.

- Expands eligibility through innovative means of CDD
- Expands eligibility through innovative means of risk assessment
- Requires less interaction at physical transaction points
- Expands or improves the distribution of physical transaction points

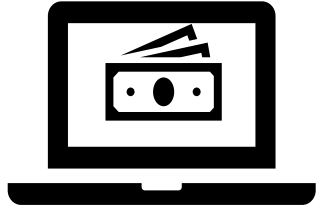
In what way it makes financial products better suited to the needs and wants of underserved customers.

- Addresses a customer need not served by typical products
- Aligns better with the needs and wants of underserved customers
- Allows greater customization to different contexts, user needs and preferences
- Has a higher degree of suitability for target customers
- Enjoys higher general trust and satisfaction from users

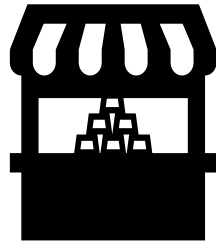
In what way it makes financial products better suited to the needs and wants of underserved customers.

- Has product features that are easier to access, understand and compare
- Has an interface easier for most customers to understand and use
- Delivers clearer value to users
- Helps users identify, understand and resolve problems
- Gives users control over data
- Stronger technical security

We've identified three new business models in digital banking with that are genuinely new and promising



Fully digital retail bank



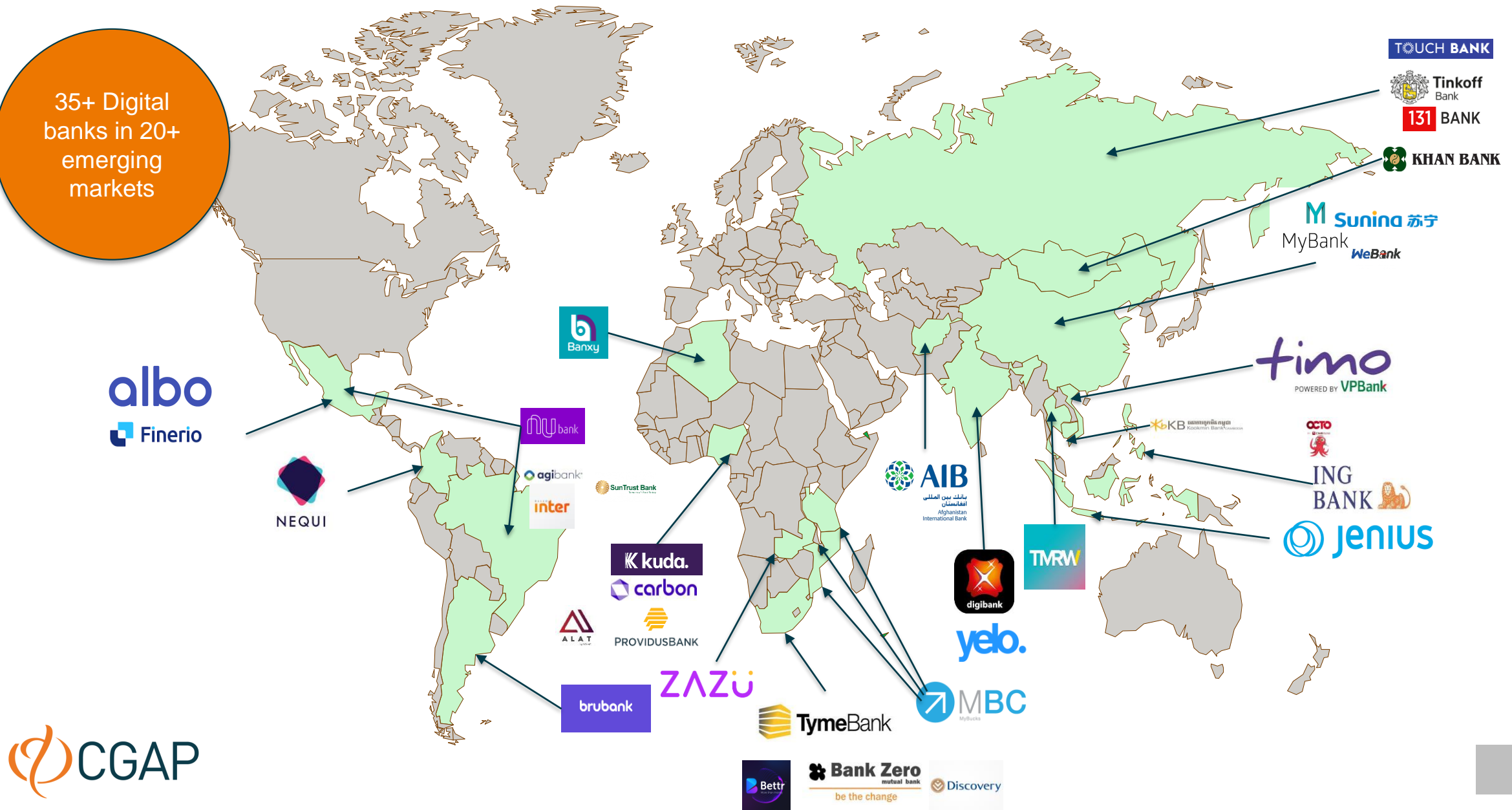
Marketplace bank



Banking-as-a-Service

These models aren't just an advanced economy phenomenon

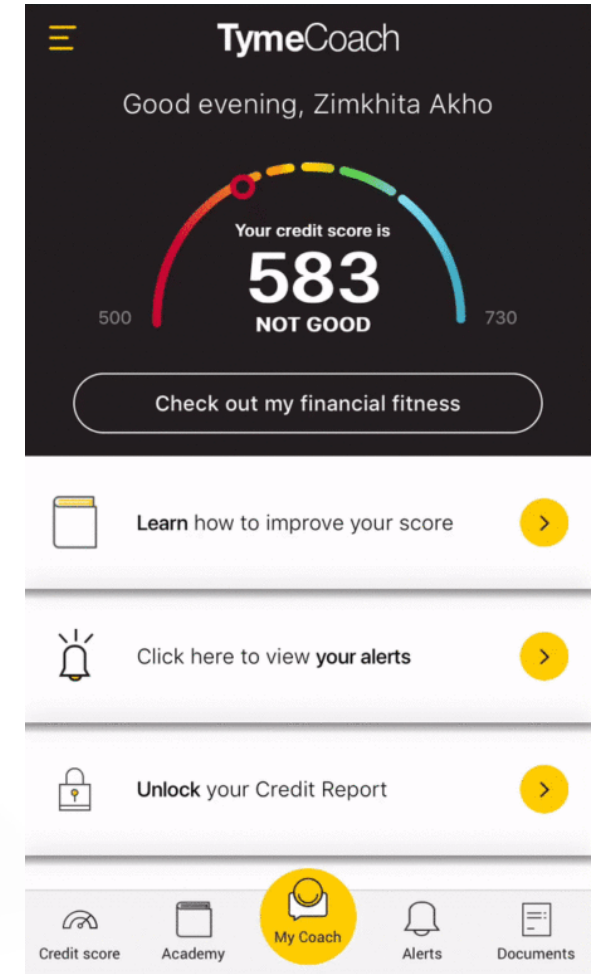
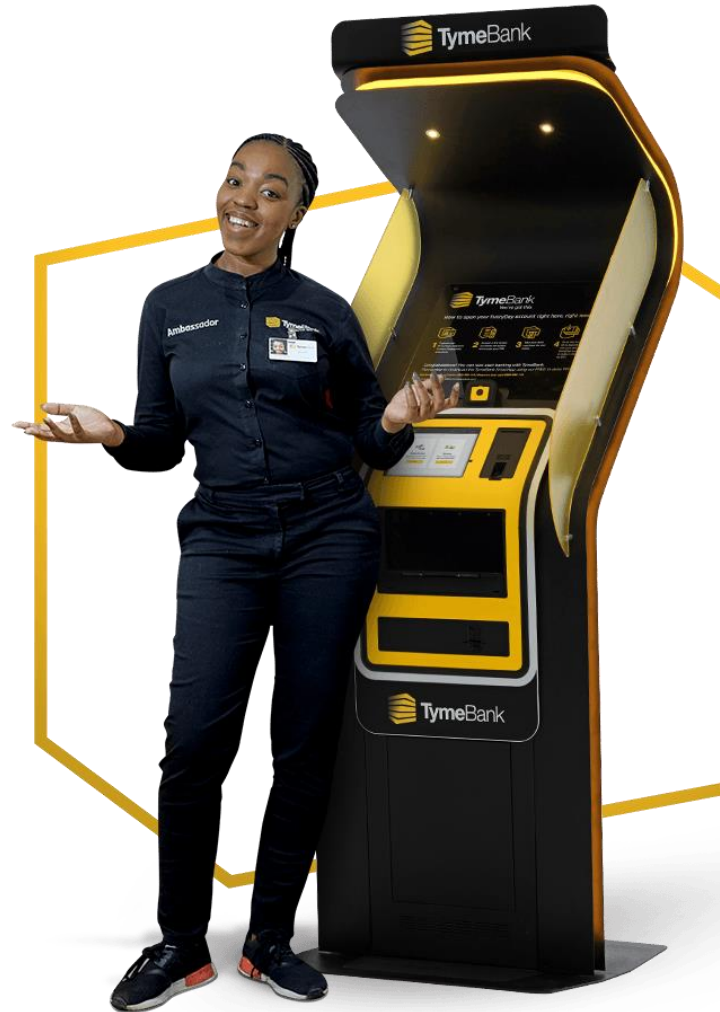
35+ Digital banks in 20+ emerging markets



Tyme Bank (SA): Fully digital mass market bank

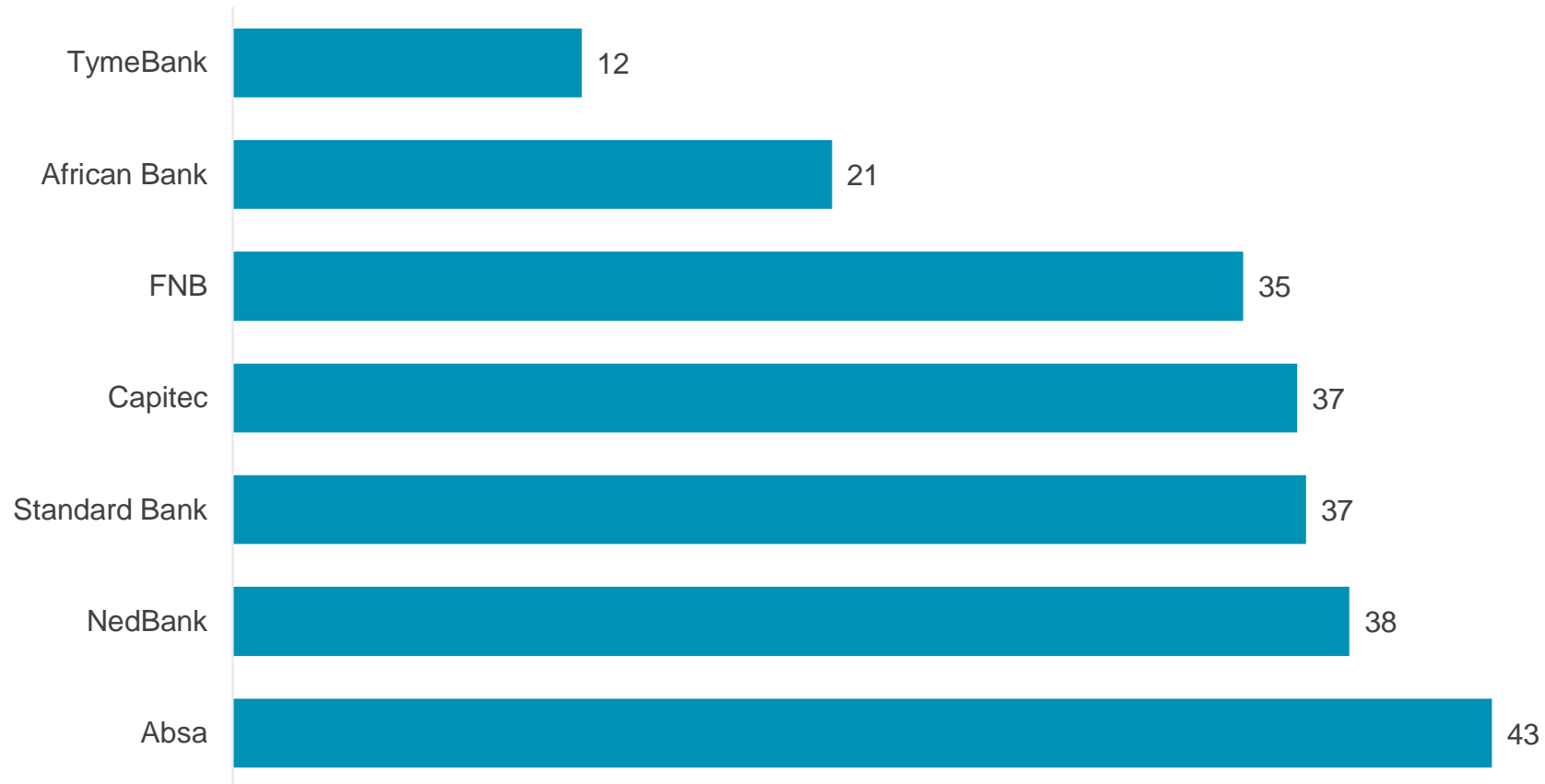


- Very sophisticated, self-built, cloud native tech stack
- No branches but 1,500 touch points in partner retail stores across SA
- On-boards customers in under 5 minutes through digital kiosks staffed by Tyme Ambassadors
- 2m customers in < two years and growing at 110,000 / month
- Offers significantly better rates than the rest of the market



Tyme Bank is significantly cheaper than the incumbent banks

Transaction fees on 12 transactions (ZAR)





Fully digital retail bank



Cost

- Lack of physical infrastructure significantly lowers operational cost
- Automation of back-end and front-end functions reduces op. cost
- RegTech lowers compliance cost
- Cloud native solutions reduce barriers to scaling
- SaaS models shift CapEx to OpEx, keep the cost base proportional to usage

Lower, more flexible startup & operating costs enable a lower floor for pricing



Access

- Digital channels make services available to customers 24/7
- Distribution partners can give far larger footprint than usual branch networks (and closer to users)
- Alternative data and innovative scoring models expand eligibility (e.g., access to credit)

Banking gets closer to wider segments of the population



Fit

- Service-oriented tech architecture enables flexibility to tailor products (incl. catering to niche segments)
- Agile and data-driven product development practices drive continual product iteration
- Integrated personal finance management tools help customers gain insight and take control

Financial products and services that are more relevant to more people



Experience

- Products and interfaces are easier to understand and use effectively
- Simplified user journeys through technology and automation
- Greater control and transparency increases customer trust
- Behavioral nudging promotes beneficial consumer behavior

Customer-centric approach to products and overall experience



2. Marketplace Banking

Who?

What?

How?

Target customers

B2C
Individuals
MSMEs
 (front-end)

+

B2B
3rd party FSPs
 (back-end)



Product or Service

Account, cards, app-based interface + comparison tools, financial advice

+

3rd party products

- Credit
- Savings
- Insurance

Value proposition

Front-end customers:

- One-stop shop for a variety of best-in-class financial (etc) products
- Curation and vetting of product providers
- Seamless onboarding

Back-end FSPs:

- Access to new market segments
- A low-cost delivery channel for scaling up
- Potentially access to customer data

Revenue Model

B2C:

- Same as fully digital retail bank: freemium; interchange; NIM; subscription model

B2B:

- Commissions on referrals
- Fee per API call
- Product revenue share
- Subscription model

Business logic

- Focus internal effort on core product; partner for all others
- Shift from sales role toward an advisory relationship with user
- Increased customer loyalty and stickiness
- Potentially significant new B2B revenue

Dependencies

- Reliance on 3rd party product providers
- IT stack must enable real-time integration and customization
- Superior UX and simplifying complexity are core capabilities

Electricity bill

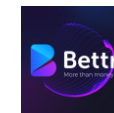
Examples

N26

BNXT



STARLING BANK

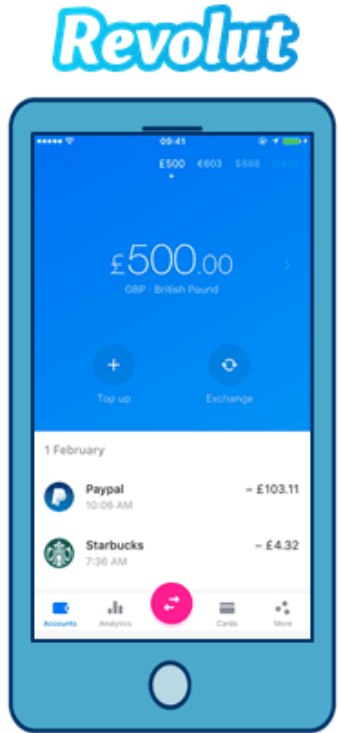


fidor BANK

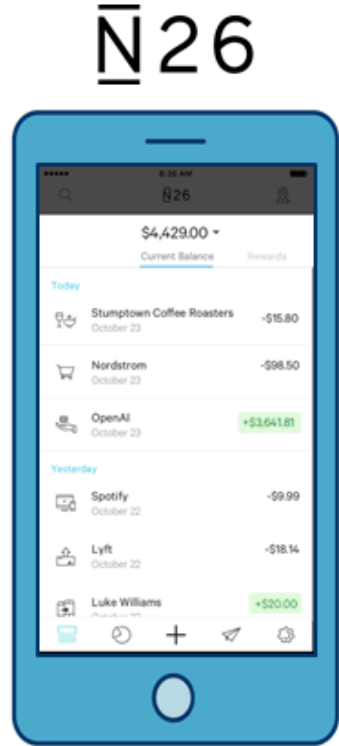


month. Reduce this?

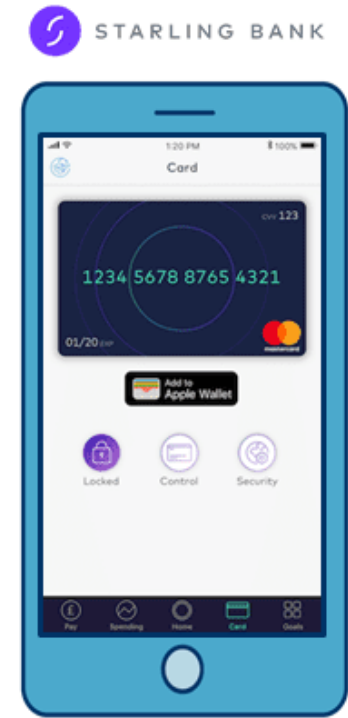
Many of the leading “neobanks” have taken this approach



- PARTNERS**
- Pensions
 - PensionBee
 - Mortgages
 - Trussle
 - Real estate investing
 - bricklane.com
 - Insurance
 - Lending Works
 - Line of credit
 - simple insurance
 - Wealth management
 - ETFmatic



- PARTNERS**
- Payments
 - Barzahlen
 - TransferWise
 - Insurance
 - CLARK
 - Lending
 - auxmoney
 - Savings
 - raisin.
 - Wealth management
 - vaamo



- PARTNERS**
- Pensions
 - PensionBee
 - Personal finance
 - YOLT
 - Digital receipt
 - flux
 - Loyalty & rewards
 - yoyo™
 - Loyalty & rewards
 - Tail
 - Wealth Management
 - moneybox
- UNDER DEVELOPMENT**
- Insurance
 - KASKO
 - Mortgages
 - HABITO
 - Wealth Management
 - Wealthsimple

CBINSIGHTS



We're now seeing this in developing markets too



Bill

Features ▾

Marketplace ▲

Help



Services pay

Recharge your cell phone and pay for your services without leaving home



Insurance

Whatever you do, put your safety first.



[See all products](#) →



Loans

Do you need financing in a simple way?



Health Chat

Consult doctors and specialists without major expenses.



Savings and Investment

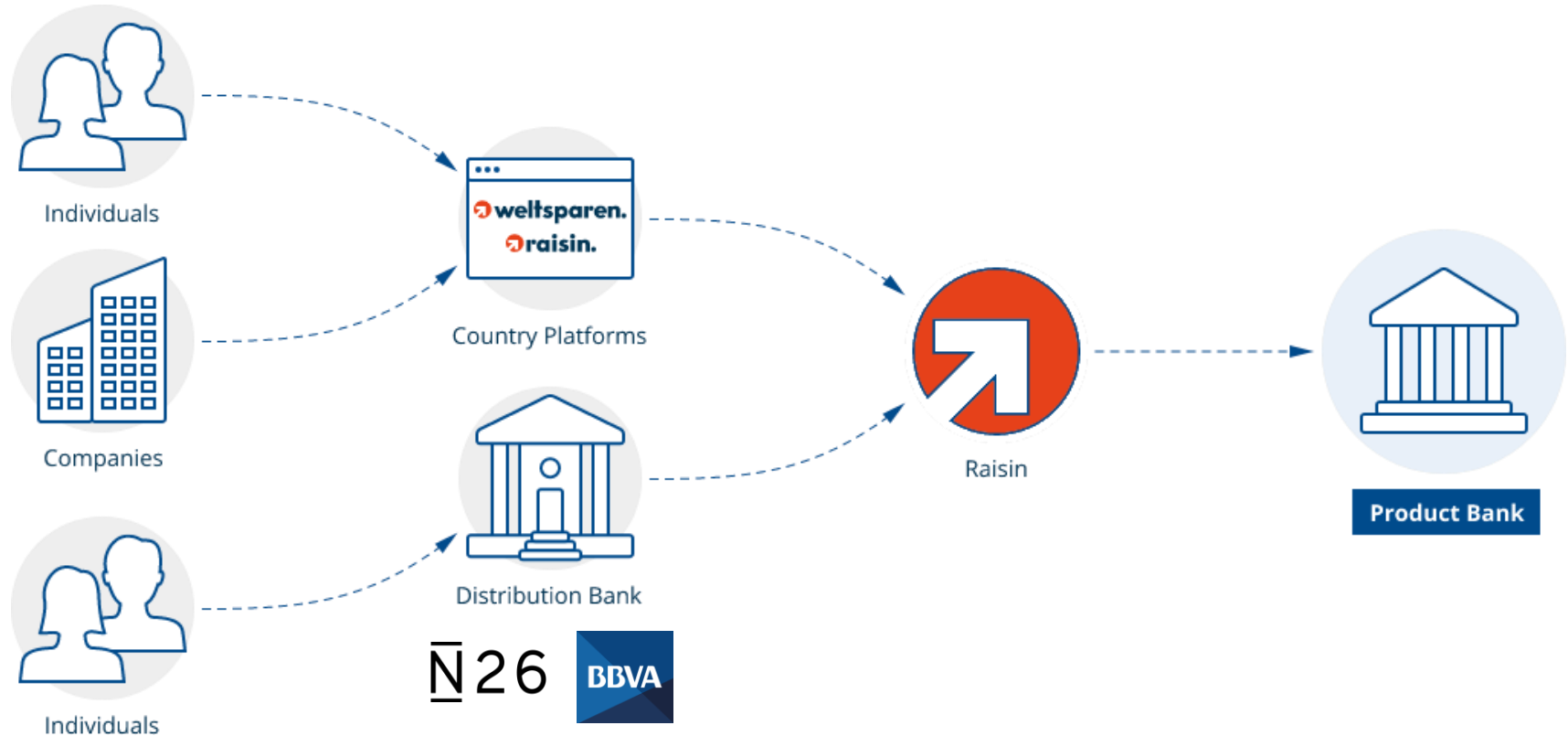
Investing and enjoying your savings has never been so easy.



Some banks focus narrowly, but go for volume



- Marketplace for retail deposits (savings)
- Channels funds from savers to banks all across EU
- Onboards customers end-to-end
- Both B2C & B2B
- 92 partner banks
- EUR 13bn invested



Ant Financial illustrates one end of the marketplace spectrum

Payments



Wealth



Yu'e Bao



Insurance



相互保

Xiang Hu Bao

Lending



招财宝
蚂蚁金服旗下

Credit scoring



- 120 mutual fund managers
- 4,000 wealth mgmt. products

- 100+ insurers
- Thousands of products

- 100+ bank partners
- Thousands of products



Marketplace bank



Cost

- Limits bank costs to core product development and delivery
- Lowers cost of client acquisition and product delivery for partners
- Drives specialization & competition among product partners

Drives specialization and competition on product, driving user pricing lower



Access

- Increases consumer access to a variety of products and services
- Enables comparison shopping and product discovery
- Reduces search & switching costs and friction for consumers

Improves availability and accessibility of a broader range of financial services



Fit

- Widens product offering, allowing for a wider choice and better fit
- Personalized offering and advice
- Customizable products

Empowers consumers to find and adapt services to best fit their needs



Experience

- One-stop shop for a variety of financial needs
- Blends in non-financial services in intelligent and efficient ways
- Manage range of products in real time with a single UI/UX
- Seamlessly integrates with other digital tools that customers use

Brings convenience and simplicity of a supermarket to financial services

We can expect players such as mobile money and other e-money providers (e.g., MTN, Safaricom, bKash) to implement a similar model, to expand and deepen their product offering.



3. Banking-as-a-Service

Who?

What?

How?

Target customers

B2B
 Non-banks
 Fintechs
 Digital brands
 FSPs

Product or Service

White label banking products and capabilities + Banking license + Balance sheet

Value proposition

- Lower barriers to entry into banking
- Low cost “vanilla” products or
- Highly customized bespoke products

Revenue Model

- Pay-per-use fees on volume / API calls
- Monthly subscriptions
- Product level revenue share
- Risk underwriting

Business logic

- Creating economies of scope & scale by commoditizing core elements of banking
- Specialization in back-end capabilities (technology and compliance) rather than front-end B2C
- Embedding financial services in any digital consumer context

Dependencies

- Full banking license
- Sophisticated tech stack and capacity
- Strong compliance and due diligence capabilities
- Trusted relationship with regulators

Examples



fidor SOLUTIONS



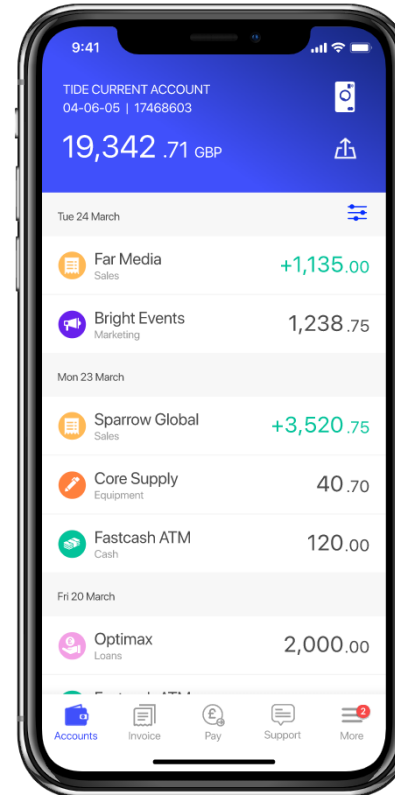
Clear.Bank®



Tide (UK): Fully digital retail bank for MSEs



- Fully digital retail bank focused on MSEs
- Offers integrated suite of MSE solutions
 - Banking: Accounts, cards, payments, credit
 - Non-banking: (See right)
- Consider themselves “at 10% of the planned feature set”
- Launched 2017 and have grown to 250,000+ small business clients (~5% market share)
- 10-12% of all new business bank accounts in the UK are opened with Tide
- ...but they are not a bank.



More than just a business account

Our app is packed with features which save you time and money.

Auto-categorisation

We automatically tag your income and spending. Customise the labels to suit your company.

Easy expenses

Upload receipts, auto-match them to transactions, add a note if you like and it's all stored digitally.

Sync with your accountancy software

Link your account to software like Xero, QuickBooks and more.

Send, pay and track invoices

No need for a separate system, keep on top of your invoices directly in our app.

powered by **Clear.Bank**[®]

Affirm (US): E-commerce lender and facilitator



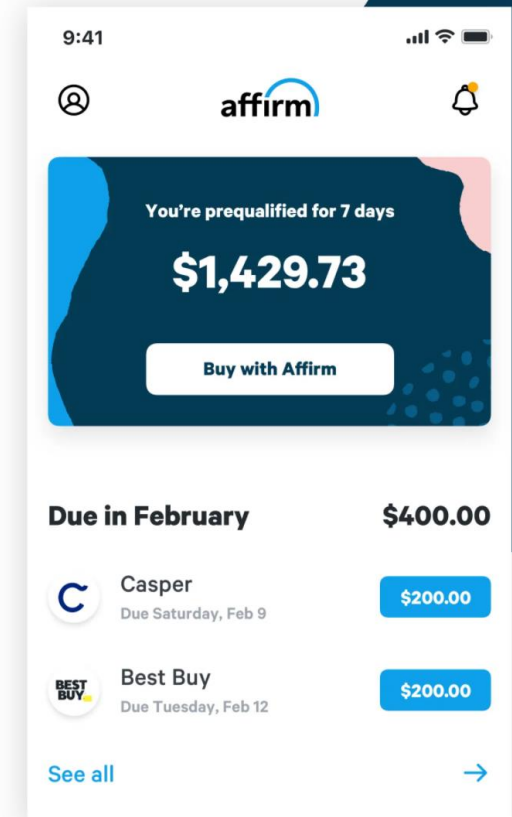
- **Point-of-sale payment option for “buy now, pay later”**
 - Max \$17,500, average \$750
 - Higher orders, lower risk
 - Easy e-commerce integration
- **Savings account**
 - 1.3% APY = 20x national ave.
 - No fees or minimum balance
 - FDIC insured

...but they are not a bank.

\$333.33 /month 3 months		
APR	INTEREST	TOTAL
0%	0.00	\$1,000.00

\$174.03 /month 6 months		
APR	INTEREST	TOTAL
15%	\$44.21	\$1,044.21

\$90.25 /month 12 months		
APR	INTEREST	TOTAL
15%	\$83.01	\$1,083.01



powered by  **cross river**[®]

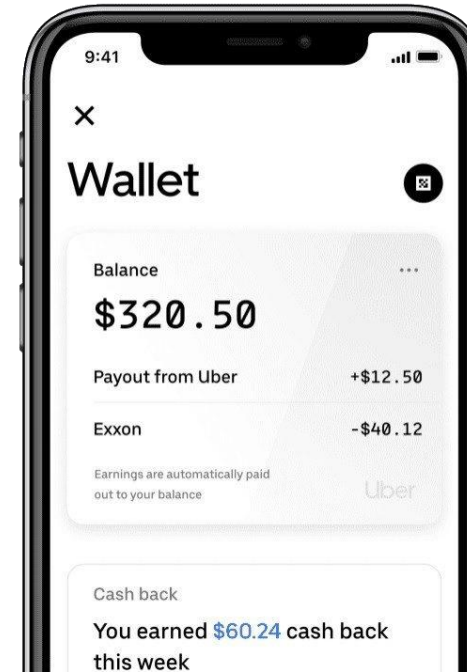
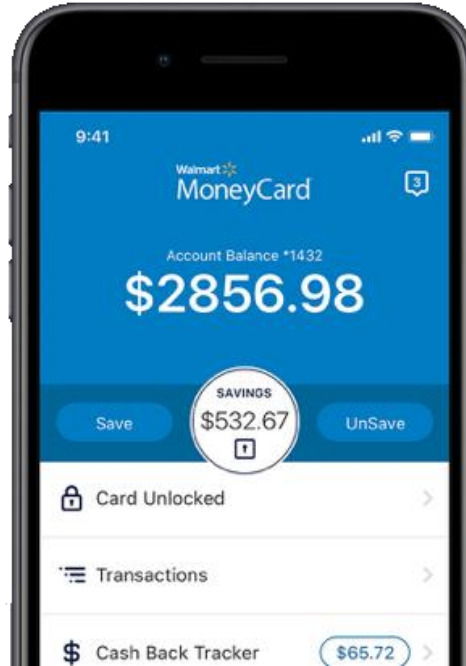
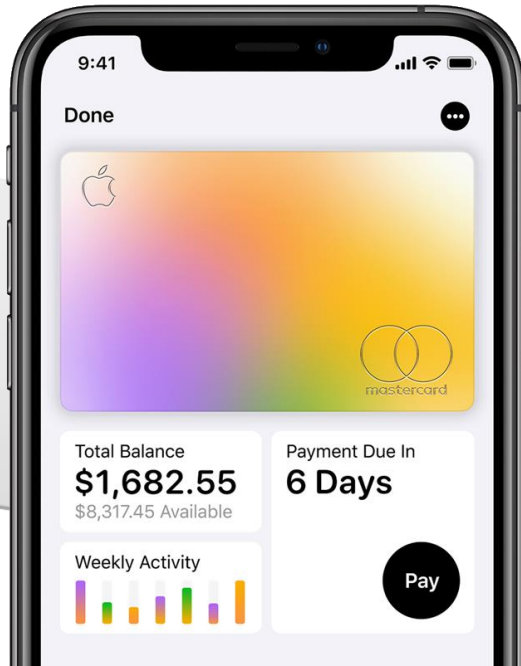


+85%
Average order value

+20%
Repeat purchase rate

Reduce risk
You get paid in two business days, and we help take on financial risk—from costly chargebacks to fraud.

BaaS injects massive scalability into financial services





Banking-as-a-Service



Cost

- Lowers cost of entry for 3rd party providers into financial services
- Brings economies of scale by enabling many partners that aggregate customers
- Reduces cost by commoditizing a standard set of financial services
- Enables efficiency by specialization on front-end vs back-end

Builds cost efficiencies via scale, specialization, and commodification



Access

- Enables a wider range of providers to offer banking services
- Enables financial services to be integrated in non-financial contexts

Embeds financial services naturally in contexts where many consumers already are



Fit

- Enables partners to create new and bespoke solutions relevant for their customers

Financial services better aligned to real world needs



Experience

- Seamless integration into existing UI and process flows of partners
- Simplified onboarding

Financial services embedded seamlessly into partner service

Banking is changing—what will it mean for **inclusion**?

The world around us is changing rapidly. New technologies and business models are upending long-established markets across virtually every major sector. Financial services are no exception, as traditional retail banks are joined by a growing number of digitally native partners and challengers.

What will be the implications for incumbents, for regulators, for investors? And what will it mean for financial inclusion and the many stakeholders working to make universal access a reality?

In mid-2018, CGAP launched an effort to understand this change and how it may alter the very nature and structure of banking.

This initiative focuses on three broad innovation spaces defined by different sets of actors.

- **Digital banks** from the plain startup challengers to radically new business models like Banking-as-a-Service.
- **Platforms** like the big tech giants in the US and China as well as local goods or services platforms in emerging markets.
- **Fintech startups** and the funding + innovation ecosystems that enable them.

It also describes the structural implications of that innovation and the **modularization** of financial services that it is resulting in.

Thank you

To learn more, please visit
www.cgap.org