Microfinance in Asia
A mosaic future outlook

powering responsible finance

MICROFINANCE INSTITUTIONS NETWORK

Contents

MFIN CEO's message

Ratna Vishwanathan
CEO - MFIN

Financial Inclusion today is not just a concern limited to the developing or underdeveloped countries alone but also that of developed economies. As an enabler, greater financial inclusion contributes to development goals of poverty reduction, economic growth and jobs, greater food security and agricultural production, women's economic empowerment, and health protection.

The financial inclusion movement in developing economies especially that of Asia and South-East Asia is gaining momentum. In Asia alone, fewer than 27% of adults have an account in a formal financial institution and only 33% of enterprises report having a line of credit or loan from a financial institution. Microfinance is typically defined as a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group.

With this underlying understanding that microfinance is a viable model in realising access to financial credit, MFIN has been organising an annual Conclave to provide practitioners, policy makers and other relevant stakeholders a platform to share best practices and knowledge across countries. The Conclave is positioned as a knowledge sharing platform which provides Microfinance practitioners and other relevant stakeholders to connect, network, showcase and deliberate on practises and solutions and find new ways to stay relevant in the sector.

The second edition of the MFIN International Conclave was very well accepted and we were oversubscribed across both the days of the Conclave. This year we brought in speakers and participation from South Asian and South East Asian countries of Vietnam Myanmar, Philippines, Indonesia, China, Cambodia, Russia, Bangladesh, Laos and Pakistan. Apart from the varied models of microfinance in these countries, discussions focussed on digital enablement of the unbanked and underbanked, importance of media and building external perceptions, role of banks in microfinance and the importance of digital literacy. It set the stage for a lively and vibrant dialogue among diverse entities across the Asian region with a view to sharing, building and strengthening practice and innovations in this space. The visibility of MFIN as an organization enabling knowledge as a tool for financial empowerment has grown post the event and today there is a robust communications strategy that works effectively both at the national and regional level. The convergence of this and the resultant synergy contributes to an organisation that is ideally poised to take forward inclusion.

This study is an outcome of the Conclave and dwells on the future of Microfinance in Asia. The report was commissioned by MFIN and written by PwC. We do hope that the report would give its readers an insight into the different models of Microfinance across Asia and learnings on best practices and policies.

Foreword by PricewaterhouseCoopers

Jamuna Rao Verghese
Senior Advisor
PwC | Financial Services (Inclusive Markets)

It gives us immense pleasure to partner with MFIN for the International Conclave, Microfinance in Asia: A Mosaic. There were a variety of speakers from Asia and India and the discussions were insightful. Based on this and our analysis, we have shared our perspectives on the future of microfinance in India and Asia. The report outlines a snapshot of the challenges and opportunities that the industry faces and the role that the regulator can play in supporting the industry.

Technology will play a key role in changing the way various players interact in the microfinance ecosystem. Can new age technology provide new products, mitigate risks, and reduce costs to bring about a paradigm change in the microfinance sector? Will regulations enable further growth of the sector? Will the group lending model and mono-product model continue to be relevant? What role would Small Finance Banks and Payments Banks play, which has an impact on the microfinance sector?

Backed by our understanding of the microfinance sector, domestic and international case studies and hours of research, we have attempted to answer these and many other questions. We have elaborated on the role that regulations need to play, the potential of exponential growth through new technology and FinTech partnerships and the trends that will shape the future.

We would like to thank MFIN and their team for this event and also thank each participant for sharing their insights and perspectives.

We do hope you will enjoy reading this as much as we enjoyed working on it!

Executive Summary

Microfinance has reached an important inflection point in India and other Asian countries. Most large and established MFIs have transformed into Small Finance Banks and will have access to deposits and greater operational leverage. FinTech is reshaping financial services and particularly the MFI sector in many ways. New age players are disrupting the micro-credit segment using digital data and technology. MFIs will need to respond to these transformative changes in the ecosystem by embracing technology, establishing enduring partnerships, diversifying product portfolio and moving beyond the traditional group lending model.

There are areas in which MFIs will see major transformation. (i) MFIs will need to broaden their range of loan products to include housing loans, clean energy loans, working capital loans, as well as other financial products such as micro-insurance. This will necessitate diversifying the customer segments from the current group-lending segment to adjacent and more affluent segments (ii) As the loan process gets unbundled, the MFI industry will see Fintech becoming an integral part of the microfinance ecosystem. New age players will use data, machine learning and artificial intelligence to help MFIs with digital on-boarding and more efficient credit assessment (iii) MFIs will need to build strong partnerships to offer more products and services and enhance efficiencies. (iv) MFIs will need to look at models that enable relaxation of formal group liability, although the group structure will continue to facilitate interaction and offer incentives for peer support (v) With the advent of mobile-wallets and electronic-money, financial literacy has become dependent on digital literacy and MFIs will need to invest in technology and establish a strong online presence through interactive applications.

We also see that though MFIs, like any other business, are prone to shocks, which can be political, environmental, economic or financial and such events affect the repayment capability of MFI customers. Although such jolts are natural to any model and are manageable through caution and provisioning, the current regulations and business models of MFIs have no such provisions. The regulators should consider allowing MFIs to accept deposits. Given the high operating cost model and future investments that MFIs will have to make in technology, it is necessary to explore models that ensure the viability of the MFI business model.

Despite technological advancements, some level of human touch and intervention will remain indispensable. As MFIs adopt technology and develop capabilities to lend through complex algorithms, they must not abandon their offline model. Loan officers capture anecdotal data by closely observing customers and make critical assessments on the person's ability to repay. They also help in spreading financial literacy and bring repayment discipline. This model is unique to the MFI industry and critical to the success of the sector.

Technology, consolidation and new financial entities will redefine how microfinance is delivered in the future.

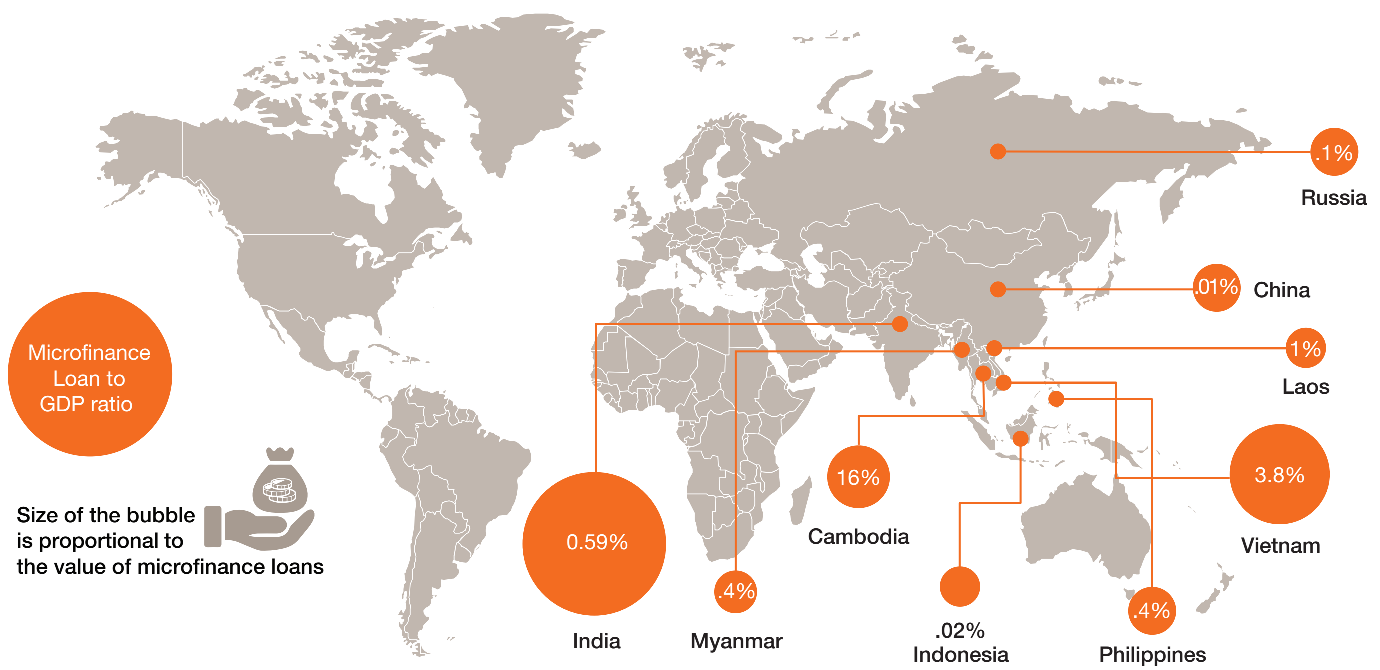
1

Microfinance in India and Asia

Microfinance in Asia and especially in India has seen its fair share of ups and downs. The industry as we see it today is increasingly gaining legitimate recognition as a provider of credit to populations who normally may not be able to access credit through formal systems of lending. In countries such as Bangladesh, India, Philippines and Indonesia the industry is mature, whereas in other Asian countries such as China, Myanmar, Russia and Laos, the sector is still establishing itself.

One of the measures of financial inclusion in a country is the state of the microfinance industry and its related policies. These have contributed significantly to the improvement of financial inclusion in most of the Asian countries, i.e., Philippines, Vietnam, Sri Lanka, Nepal, Bangladesh and Thailand[1]. Although microfinance is a source of funds for income generation of the lower income population, it still does not contribute significantly to overall lending in some countries. While there is a concentration of MFIs in mature markets, there is a lot of scope for growth in under-penetrated markets. An indicator of the tremendous growth in the sector is the comparison of the ratio of microfinance loans to the GDP (Gross Domestic Product), which is low even in mature markets such as India, Philippines and Indonesia. However, going by the sheer size in microfinance loans, India tops the charts with gross loan portfolio of USD 12.3 billion for MFIs (Microfinance Institutions).[2] Bangladesh is high not only in the size of the microfinance loan portfolio but also in the contribution of this loan size to GDP.

Figure 1: Microfinance Penetration in Asia (Loan to GDP Ratio)



Source: MixMarket, World Bank, UNCDF

1 *Economic Intelligence Unit*
2 *https://www.themix.org/mixmarket/countries-regions/india*

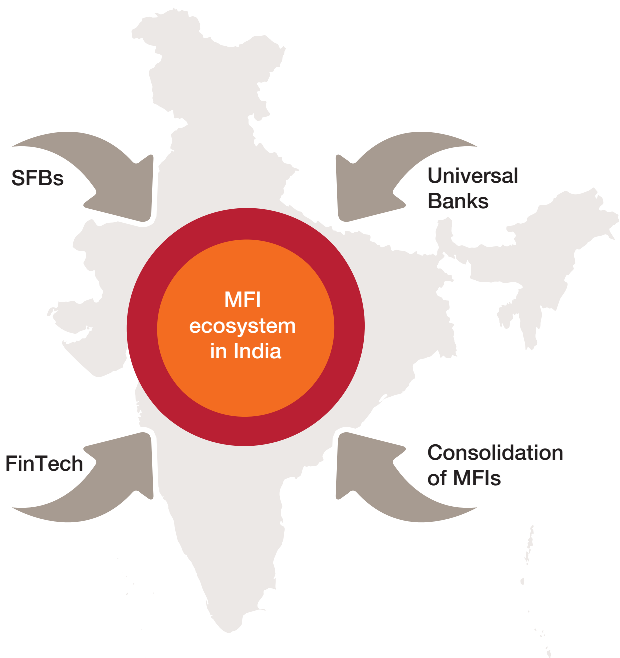
> In terms of microfinance, the rest of the countries are today where India was two years ago. The creation of Small Finance Banks and Payments banks has tectonically shifted India into a new era of financial inclusion and microfinance
>
> **– Prof M S Sriram,IIM, Bangalore**

1.1. A process of reinvention

Financial inclusion and policies: Its impact on MFIs in India.

1. A majority of the large MFIs are being converted to differentiated banks, the Small Finance Bank (SFB). The seven SFBs such as ESAF Small Finance Bank, Jana Financial Services, Ujjivan Small Finance Bank account for 46% of MFI lending sector in India and their loan portfolio reaches around $4 billion as of 31 December, 2016.[3] This will create a temporary vacuum in the MFI space. The sector will still require special attention, as it employs and serves many clients from the lower income segments. The SFBs, like all banks, are well funded and with the additional resources, technology and access to deposits they will challenge the smaller-to-medium MFIs today. The microfinance sector will remain relevant as the SFB model is un-tested with most of them still raising funds and leveraging on the microfinance borrowers. MFIs in turn can respond to them by building strong partnerships or becoming niche players
2. FinTech, a global phenomenon, is re-writing the rules of engagement of financial services in India. Many new digital lending players are providing micro-credit loans to the under-served and un-served markets viz. small business selling on e- marketplaces based on digital data, cab drivers based on aggregator's data and small retail shops based on PoS (Point of Sale) data. Capital Float, Neo Growth Credit Limited, Indifi Technologies Pvt Ltd. are a new breed of such FinTech lenders. The market segments they are addressing are adjacent to the MFI sector and could soon overlap. The microfinance sector can embrace such technology or partner with FinTech companies. MFIN in association with Microsave has performed a study on the different cash-lit products available in the market.
3. MFIs are facing competition from universal banks and other entities such as NBFC's and Section 8 Companies, which are growing their own portfolio in microfinance, as it is a good revenue opportunity and will help accomplish the mandate of 40% of the priority sector lending. MFIs can partner with universal banks to help them with acquisition, credit assessment, disbursal and collections.
4. With interest from larger banks to grow inorganically, consolidation is expected in the MFI industry. Given this, MFIs can focus on growth either organically or inorganically.

Figure 2: Forces affecting MFIs in India

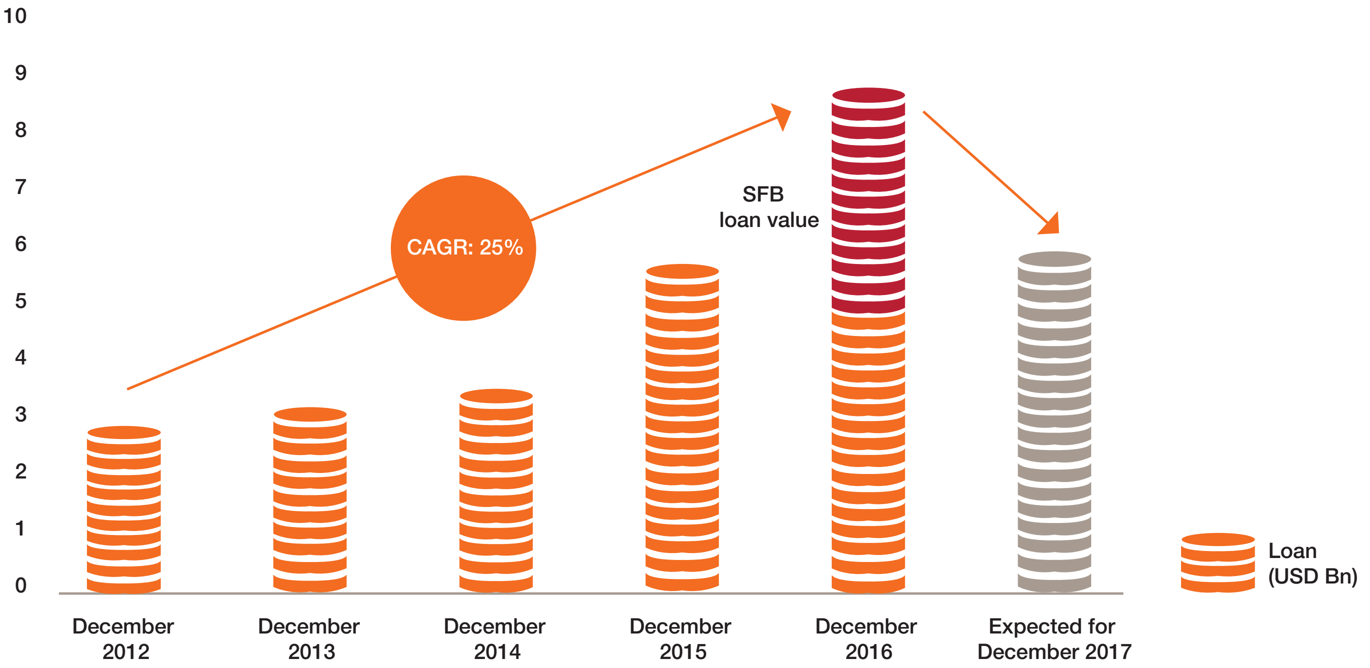


3 http://mfinindia.org/wp-content/uploads/2016/10/Micrometer-Issue-20_Q3-FY-16-Feb-2017_public_16th-Feb-2017.pdf (The data comprises of MFIN members, mostly covering the major players in the industry.)

The MFI sector in India has grown aggressively over the last five years. The total loan portfolio of the NBFC-MFI sector as on 31 December 2016 has reached USD 8.4 billion,[4] with a compounded annual growth rate (CAGR) of around 25% from December 2012 to December 2016. Currently, MFIs are catering to around 4 million customers.

Figure 3 shows how the microfinance sector will look in 2018 once all the SFBs are fully functioning. At that point, the share of microfinance lending will be as follows: total NBFC-MFI lending will reduce to 28%, SFB lending will increase to 27% and banks will become the largest lenders.[5]

Figure 3: Growth of MFI loan portfolio



Source: Micrometer MFIN

4 http://mfinindia.org/wp-content/uploads/2016/10/Micrometer-Issue-20_Q3-FY-16-Feb-2017_public_16th-Feb-2017.pdf (The data comprises of MFIN members which mostly covers the major players of the industry.)
5 http://mfinindia.org/wp-content/uploads/2017/05/Micrometer-Issue-21_Q4-FY-16-17_18th-May_Public.pdf

1.2. Asian countries have different frameworks for microfinance institutions

Usually, the banking framework is reasonably standard in most countries. However, this is not the case for the microfinance industry and countries in Asia have different frameworks. This is primarily due to the regulatory environment. Examples of different kinds of institutions are as follows:

- deposit taking non-banking financial companies (NBFC- D)
- non-deposit taking NBFCs (Non-Banking Financial Companies)
- banks
- co-operatives
- digital finance companies and
- non-governmental organisations (NGO)

The reason for this wide variety in the types of institutions providing microfinance is that it is recognised as an attractive business opportunity as well as a tool for social good. Figure 4 is a snapshot of the type of institutions in microfinance and regulators in Asian countries.

It is relevant to note that:

- Deposit taking microfinance companies dominate in many countries such as Cambodia, Bangladesh, Nepal, Laos, Myanmar, Philippines and Vietnam. However, in India, regulations do not allow NBFC MFIs and NGO MFIs to take deposits.
- In Philippines, the microfinance NGO sector has been dominant. The relationship of these microfinance NGOs and their group along with the regulator's role has ensured the development of the Philippines microfinance NGO sector.
- In Indonesia, commercial banks have played an important role in microfinance. This has primarily been due to a mandate given in 2007 by the government to banks to give 20% loans to the MSME (Micro, Small and Medium Enterprises) sector. The regulations have permitted banks to create smaller units that act independently in remote areas to provide loans to the poor and underserved population. In the last few years, Islamic microfinance has been developing to serve the large Islamic population of the country.
- In the majority of the countries, the central bank is the regulator for the microfinance sector. Only in Myanmar, the ministry is in-charge of the microfinance sector. The central bank as a regulator can control and mitigate risks by controlling growth and reviewing expansion of microfinance institutions in an objective manner. The regulator and the regulatory environment in each of these countries has played a crucial role in the development and shaping of the microfinance sector.

Figure 4: Snapshot of the type of institutions in microfinance and regulators in Asian countries

Country	Institutions	Regulator
India	NBFC-MFIs, Banks, NGOs	Reserve Bank of India Self-Regulating Bodies- MFIN, Sa-Dhan
Bangladesh	MF- NGOs, Specialised Institutions, Commercial Banks	Microcredit Regulatory Authority
China	Deposit-taking Village and Township Banks, Micro-credit companies, Digital Financial companies, Rural Credit Companies, MFI-NGOs	Unregulated
Russia	MFIs, Credit Consumer Society, Agricultural Cooperatives	Unregulated
Cambodia	MFIs deposit taking, Banks	Cambodia Microfinance, Association/ Central Bank
Laos	Non-Deposit Taking MFIs, Village Funds, Savings & Credit Unions	Bank of Laos
Vietnam	Vietnam Bank for Agriculture and Rural Development & Vietnam Bank of the Poor	State Bank of Vietnam (limited)
Indonesia	Banks Commercial Banks	Indonesian Financial Services Authority
Philippines	MFI NGOs Banks Cooperatives	Central Bank of Philippines
Myanmar	State-owned Banks Cooperatives Agriculture Development Companies	Ministry of Finance and Revenue

2

Regulations can make or break the industry

It is said that China saw a revolution in digital finance as it was earlier too small to be regulated and then it became too large to be regulated! While it is not recommended that the microfinance sector should be free from regulation, it requires a balanced regulatory environment. In fact, considering the value that the microfinance sector provides to a large low-income population, it can be argued that the regulations should be very favourable.

MFIs emerged in India in the late 1970s and the liberalisation of the economy in the 1990s led to growth in this sector. In the 2000s, MFIs started to grow at a rapid rate due to the basic need of the low-risk and low-income customer segment for collateral free loans. The Andhra Pradesh microfinance crisis of 2010 triggered a strong response from the RBI, which led to the formation of the Malegam Committee to study this sector. Based on this, new regulations were formulated in 2011 and the sector continued to make good progress. Seeing the growth of these MFIs and future opportunities, RBI opened licenses for a new category of banks, i.e., Small Finance Banks. Seventeen microfinance institutions applied for a Small Finance Bank license. Of the ten licenses granted, eight were to microfinance institutions.

While microfinance has lent to 4o million women in India, it has insured more than 80 million individuals when we take into account the households that have been helped indirectly by MFI loans

– Rakesh Dubey, President, Microfinance Institutions Network (India)

2.1. Creation of a Joint-Committee will boost the microfinance sector

Bangladesh is an example of a dedicated regulator for the microfinance sector, which has indeed contributed to the growth of the sector. Creation of a Joint-Committee with key stakeholders will help the MFI industry in other Asian countries as well.

In India, the microfinance sector provides the important service of lending to the excluded sector where banks do not necessarily reach; the regulator needs to help this industry thrive. Demonetisation further affected the health of MFIs, as it a primarily a cash intensive business. Misleading political messages also contributed to the same. It is recommended that the regulator create a joint-committee for the microfinance sector, which could comprise of Deputy Governors of the RBI, representatives of MFIN, Self-Regulatory Organisations (SROs) and end customers. This joint-committee could be given powers to review the lending rates, inflation and other events that affect borrowers and MFIs.

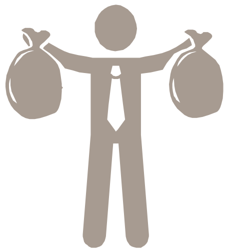
Bangladesh is the only country with a dedicated regulator

The Microcredit Regulatory Authority was created by the Microcredit Regulatory Authority Act, 2006. The Regulator has powers to supervise and investigate the activities of microfinance institutions. Licenses for new MFIs are provided by this authority and not by any central bank or government department. **This has played an important role in creating a safe and vibrant microfinance ecosystem in Bangladesh.**

The success of MFI deposit taking in Bangladesh

MFIs in Bangladesh have become largely self-funded owing to their deposit-taking ability.

Indonesia: Other ways to reduce cost of capital



Indonesia - The government of Indonesia provides banks with special capital called Kredit Usaha Rakyat (KUR), which means people's credit. Using this credit, banks help ease the cost of borrowing of MFIs by providing cheaper working capital loans to MFIs. This in-turn helps MFIs to lend at cheaper rates.

2.2 Regulators need to evaluate deposit-taking MFIs, a successful model in Asia

In most Asian countries, microfinance institutions are deposit-taking in nature. Examples are Bangladesh, Cambodia, Laos and Vietnam, where the ability to garner deposits has been instrumental in providing better service and cheaper access to funds for the poor. MFIs in India have matured and reached their third decade and now face stiff competition from Small Finance Banks and Payment Banks. They also face constant criticism for high interest rates, one reason being the high cost of funds. Allowing Indian MFIs to accept deposits will provide them with cheaper access to funds, and consequently, allow them to lend at cheaper rates. The data on depositors will also help MFIs structure and sell other products and balance risk.

In Vietnam, microfinance institutions are in direct competition with the Vietnam Bank for Social Policies, which provides loans at rates between 1-8%. MFIs provide loans at higher rates and face criticism from people that their loans are more expensive. This creates intense pressure on MFIs in Vietnam to reduce interest rates even when their operating cost is higher and creates an unhealthy environment.

– Nguyen Thi Tuyet Mai, Managing Director, Vietnam Microfinance Working Group (Vietnam)

2.3. Regulator should provide tax breaks and incentives to the microfinance sector

MFIs serve a social good of lending to the poor. Usually the cost of funds for MFIs is high, as they need to borrow from banks. MFIs reach the remote areas of the country through loan officers. They have a large staff force, which makes their costs around 10%. This makes MFI lending very expensive. As the MFI sector is getting ready to compete with the SFBs, the sector must remain vigilant to external shocks such as demonetisation and natural disasters. Demonetisation has shown that the sector is still vulnerable to black swan events. To provide a boost to the MFI sector, it is recommended that tax breaks be given to incentivise and help this sector grow.

The Philippines and Vietnam provide tax breaks to MFIs, which have helped them grow and lend at cheaper rates. Policy makers and governments across Asia need to assess the applicability of this in their countries.

Tax breaks given in Asia to microfinance

Philippines - Tax for MFIs on gross receipts is lesser than banks and this is given only if they are serving social goods and re-investing their profits.

Vietnam – While the corporate tax rate in Vietnam is 20%, a 3% tax break is given to MFIs resulting in a tax rate of 17%.

2.4. Regulations to provide sandbox for MFI sector

Microfinance needs to embrace FinTech for which it needs a more open regulatory environment to experiment. Issues of high interest rates can be solved using technology to reduce last mile delivery costs and using Big Data analytics.

A regulatory sandbox policy for MFIs will encourage more innovation and experimentation for MFIs to use new technologies. Indonesia and Australia have taken a step in this direction. Indonesia's sand boxing policy provides relaxed regulatory requirements for start-ups and Australia's sand boxing policy enables firms to manage regulatory risks during the testing stage.

Indonesia Sand Boxing Policy, 2016

Indonesia came up with branchless banking rules in 2014 to allow banks to use agents and allow microfinance to have new products. The regulator followed by bringing the sandbox policy in 2016. FinTech players can now register their start-up and work within relaxed requirements to test their technologies and innovations before they formally expand:

- Start-ups with $75,000 can register and test their products with less oversight.
- To apply for a business license they will need to raise their capital to $188,000.
- There is no cap on interest rate
- Foreign ownership is limited at 85%.

Australia Sand Boxing Policy

The Australian policy aims to enable firms to manage regulatory risks during the testing stage, reducing the costs and time to market. It also provides for important customer outcomes, such as fit and proper checks, dispute resolution and customer redressal arrangements. The regulatory oversight is also tailored to the scope of start-up business.

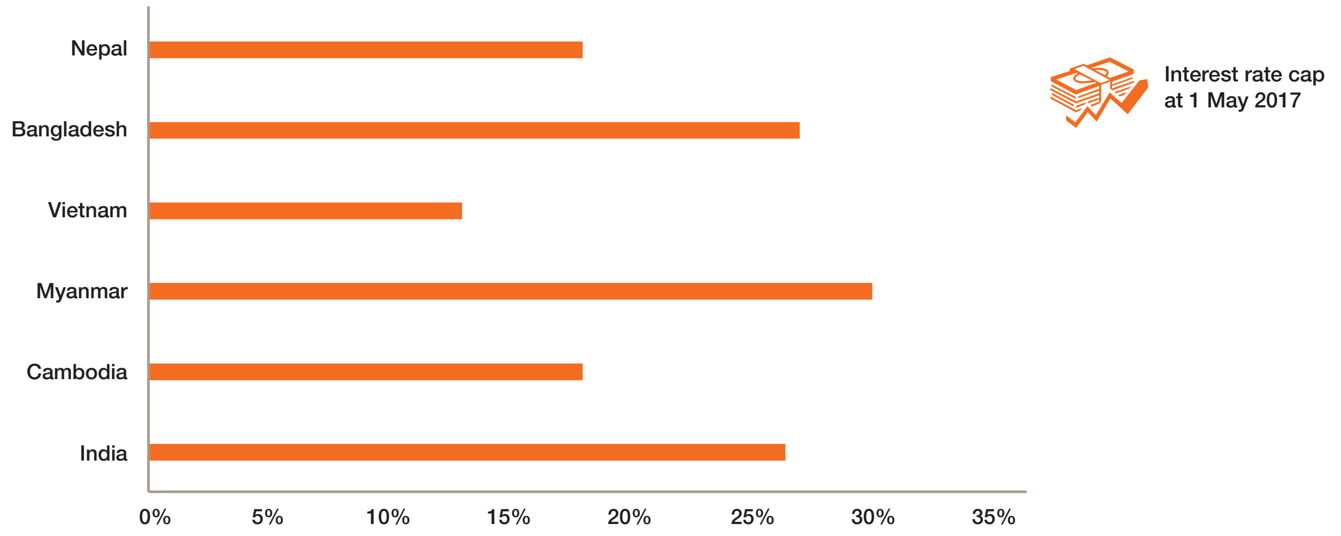
The legislative framework makes it possible for the Australian Securities and Investments Commission (ASIC) to grant waivers (or relief) from the law to facilitate business. During 2014-15, 1473 applications of relief were granted.

Australia takes an average time of 60 days to grant a credit or financial services license.

2.5. Interest caps on MFI loans to be made dynamic

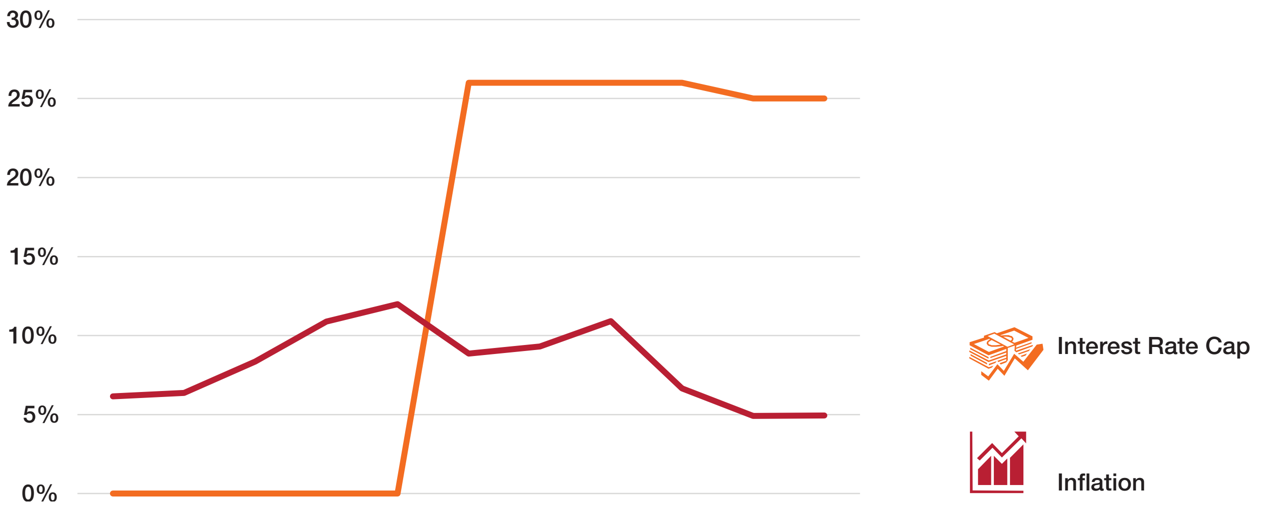
To protect borrowers from exorbitant rates of interest, most Asian countries have adopted a regime of interest rate caps on MFI loans. These interest rate caps vary between about 13% in Vietnam to 30% in Myanmar.

Figure 5: Interest rate cap in some Asian countries



An interest rate cap that is reasonably fixed causes problems of either over-charging or under-charging depending on the inflation rates. It is recommended that the interest rate caps are not fixed but are more dynamic in nature.

Figure 6: Inflation rate versus interest loan cap in India 2006-2016



Sources: Inflation - World Bank Interest Rate Cap – RBI

India's interest rate cap on microfinance loans is among the highest in South-East Asian countries. This is despite India having a developed and active micro-finance sector. The regulatory precedence of microfinance in India has led to MFIs taking the sanctioned interest rate caps as the price floor and not the price ceiling. This created many challenges for both the low-income borrowers and MFIs themselves.

Even the recent change in the MFI interest caps is not of much help, as it depends on the cost of borrowing

and prime lending, which has not varied much. There is an immediate need to re-examine the MFI interest

caps and create a mechanism that makes MFI interest flexible and adjustable to double digit inflation, other downward shocks as well as upward progress. This will help MFIs to price the risk better and offer loans at appropriate rates.

3

Time has come for MFIs to diversify from being just mono-product and mono-customer segment lenders

MFIs in most Asian countries have focused on the group lending model and have been primarily mono-product and mono-customer segment. The strength of MFIs lies in the network of loan officers who have strong relationship with their customers. The loan officers' network can be used to sell not just group loans but multiple products and expand to adjacent customer segments. In Nicaragua, MFIs have diversified to provide housing loans, mortgage loans, micro insurance, and micro-pensions. ESAF microfinance in India provides loans to purchase efficient cooking stoves and solar lamps.

In India, with the onset of the Small Finance Banks and Payment Banks, MFIs need to build new products to stay relevant and profitable. MFIs could also look towards diversifying from traditional group lending models to individual lending models. A twin approach based on expansion of both products and consumers will be critical in keeping microfinance institutions relevant.

3.1. Move from Group Lending Model to Individual Lending Model

The group lending model has enabled individuals who were earlier not eligible for loans to access credit. This model is not equipped to provide customised loan products and services that some credit-worthy individuals would require. Additionally, individuals are no longer ready to be jointly liable for another person's risk. There has been a growing trend across Asian countries to move some customers towards individual lending. The traditional group lending model of microfinance was developed in Bangladesh; however, in 2002, they started experimenting with new lending methodologies, products and services. They moved from group guarantees to providing individual loans and now include men as customers. In Cambodia, MFIs have been group lending as well as individual lending.

Technology is going to improve efficiency and create new business models

- Stephen Rasmussen, Global Head, Inclusive Markets, C-GAP (Asia and Africa)

Microfinance needs to get into the sun. It must provide unsecured funds to people hungry for entrepreneurship. Microfinance must now cover the macrocosm members who have been helped indirectly by these loans

– Ratna Vishwanathan, CEO, MFIN

3.2. New lending products for new customers

The group lending model restricts the nature of loans that can be disbursed. These are primarily loans on which the group will be able to keep a check and also pay, in case of an individual default. This does not leave room for disbursement of other kinds of loans. There is an opportunity to provide other kinds of loans to the microfinance company's more affluent customer segments. These include:

- Housing loans
- Working capital loans
- Emergency loans
- Sanitation loans
- Education loans
- Health micro-insurance
- Payment products
- Investment products

Examples of diversification in Asia are AMK Microfinance Institution PLC in Cambodia, which provides micro-insurance products at cheap rates to its borrowers. Tao Yeu May Fund Microfinance institution in Vietnam has a micro-pension product. In India, affordable housing is one the key areas of focus for the present government. In the budget, the finance minister announced that the National Housing Bank will refinance individual housing loans of about INR 20,000 crore in 2017-18. MFIs can leverage their loan officers' network and provide housing finance loans to the more matured MFI customers. This, in addition to other products, will help MFIs diversify their portfolio.

> Products should be simple and have technology support. Failure of technology spreads like wildfire
>
> **- Subir Jha, Associate VP, Bajaj Allianz Life Insurance**

3.3. Reaching new customers through digital means

The focus of microfinance institutions on group loans as risks is mitigated by social pressures. With the advent of digital channels and tools, this presents an opportunity for MFIs to use data to manage risks. Credit assessment parameters such as mobile bills, electricity bills and customer location can provide new ways of credit assessment for individual loans. These loans use digital channels such as mobile money to not only disburse but also collect repayments. The channels can be used to reach new customer segments different from the existing customer base of group lending models. Examples of new customer segments for microfinance could be beauticians, shop owners and garage owners who want to expand their business. Microfinance in Kenya and the use of mobile money through M-Pesa for individual loans demonstrates the strength and potential of digital channels for expanding portfolios and customers. M-Shwari provides access to micro credit directly to the phones of M-Pesa users.

Janalakshmi is one of the first MFIs in India that has begun providing individual loans. Janalakshmi uses EFL's credit scoring mechanism, which uses psychometric data, mobile phone data and social data to create an individual's credit scores. Janalakshmi provides nano loans, home improvement loans and loans for education to individuals.

3.4. Financing of clean energy products can be an area of growth

Given the vastness and topographical limitations of India, providing electricity to remote areas has been a challenge. While there has been progress, much more is needed. On the flip side, although urban areas in India are largely electrified, they still face frequent and long power cuts, especially during summer. Clean energy solutions such as smokeless biomass stoves can lead to healthier and longer lives.

Clean energy devices such as solar mobile chargers, solar power packs and solar lighting can play a critical role in the income generating activities of the lower income population. MFIs can use their network to provide loans for clean energy products to their premium customer segment. Across Asia, MFIs have been developing product offerings to sell clean energy products. MFIs in Cambodia and Philippines are leading the way in this area.

Clean Energy Initiatives

Cambodia - Prasac is Cambodia's largest microfinance institution and has been successful in offering loans that improve energy efficiency and promote the use of renewable energy. Given the institution's outreach, the offering targets a very broad section of the population. Focus areas include loans for energy-efficient agricultural equipment, household appliances and rooftop solar installations.

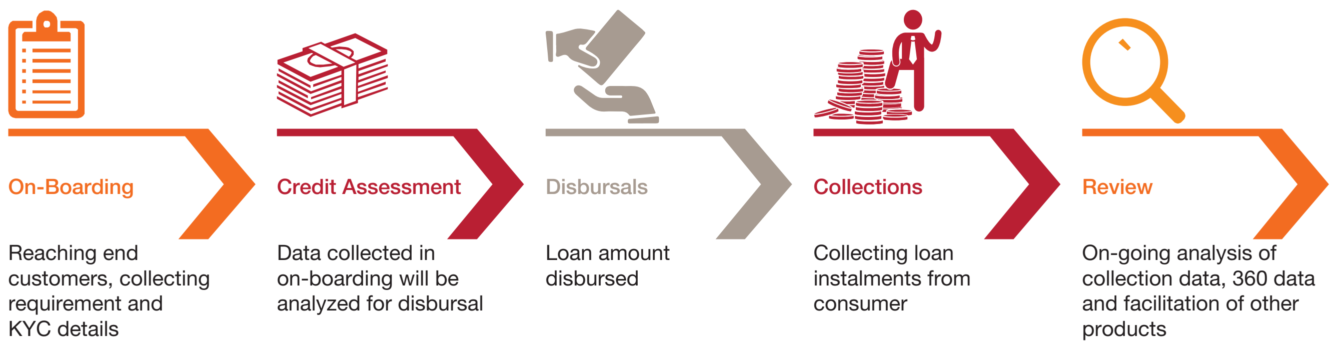
Philippines - The Energy Inclusion Initiative (EII) in the Philippines is a joint program between the largest Philippine microfinance network – the Microfinance Council of the Philippines, Inc. (MCPI), the Luxembourg NGO Appui au Development Autonome (ADA) and Micro Energy International (MEI). The EII focuses on the potential of microfinance mechanisms to provide clean energy solutions in regions with poor energy infrastructures, reaching triple bottom line results. By enabling access to green energy through inclusive financial services, the EII contributes to local economic development, improved energy access of MFIs, diversification of MFI portfolio and the mitigation of climate change.

4

Unbundling of microfinance with the advent of FinTech and technology

Globally, the financial services landscape is going through a FinTech revolution. MFIs will not escape this and must embrace technology. While this has been slow, it is imperative that MFIs adopt technology faster to reduce costs, be nimble and drive customer experience. This would result in the unbundling of some of the processes. FinTechs specialise in areas such as customer on-boarding, credit assessment, loan disbursal and collections.

Figure 7: Unbundling of microfinance institutions



Today, most microfinance institutions in Asia are using technology in one form or another. In India, there are multiple examples in which on-boarding (including e-Know Your Customer) and disbursal of loans is achieved using technology. In Bangladesh, many MFIs facilitate on-boarding through smartphones and tabs. ASA Microfinance of Bangladesh successfully piloted a mobile tab program in 2015-16 to digitise its grassroots operations.[6] Indonesia is moving towards branchless banking, using mobile phones and agents. China is the leader in digital finance. Ant Financials' Alipay is the world's largest mobile and online payments platform, which has revolutionised payments. Ant Financial has also planned a strategic investment in CFPA Microfinance Management Co. Ltd (CFPA Microfinance), and a joint venture with China United Insurance Holding Co. Ltd. (China Insurance).[7] Ant Financial will use an online and offline credit model by working with Alibaba's rural shopping partners and CFPA Microfinance to provide financial services to rural China, while through its partnership with China Insurance, it will provide financial services to growers and farmers.[8] BC Finance in Myanmar became the first microfinance institution to complete migration to a private block chain with the help of Japanese technology firms Infoteria and Tech Bureau. This will help BC Finance in maintaining its accounts and recording transactions in an accurate manner.

> Online finance cannot compete easily with offline. Both need to co-operate with each other. E-commerce companies in China cooperate with MFI NGOs to reach remote rural areas
>
> **– Sun Tongquan, Associate Professor of Rural Development of China Academy of Social Sciences**

6 *http://www.asa.org.bd/wp-content/uploads/2016/11/Annual-Report-16.pdf*
7 *http://www.chinadaily.com.cn/business/2016-12/22/content_27740290.htm*
8 *https://www.chinatechnews.com/2016/12/27/24622-ant-financials-rural-strategy-focuses-on-chinas-microfinance-opportunities*

Figure 8: Indian example of unbundling

Unbundling Partner	MFI	Objective
Artoo	Ujjivan Small Finance Bank	Artoo, a technological company helps Ujjivan (an MFI and now a Small Finance Bank) in on-boarding customers through "doorstep digitisation." It uses a data bank, a sales management portal and customer acquisition and verification device to reduce time to disburse loans.
Oxigen Sevices (India) Pvt. Ltd.	Sonata Finance (P) Ltd.	Oxigen Money and Sonata Finance Ltd., a microfinance company, Grameen Foundation have partnered to deliver mobile financial services and education to Sonata's female microfinance clients in Uttar Pradesh using a human-centric design approach.
EFL Global Ltd.	Janlakshmi Financial Services	EFL, a psychometric credit assessment start up, has been helping Janalakshmi Financial Services in credit assessment since its microfinance days

Going forward, with a plethora of new banks, i.e., Small Finance Banks (SFB) and Payments Banks (PB), MFIs may need to partner with them to play niche roles. An MFI could do the on-boarding for a Small Finance Bank. Another MFI could do only credit assessment and lending and leave the on-boarding and collection to a Payments Bank.

4.1. MFIs need to use open API platforms to overcome cost barriers of technology

One of the key changes required by MFIs is to view technology as a long-term investment. Technology is expensive, as it is updated and becomes redundant every few months or years. Technology brings far more benefits than just reduced costs. Technology is a long-term commitment, which brings in efficiency, better risk management and better data analytics to create and sell more products to more customer segments. It is true that in terms of hardware and other damages, replacements can be expensive. In addition, software updates and anti-viruses make software systems expensive. However, as a solution to these problems, MFIs can use common platforms through APIs (Application Program Interface). An industry body such as MFIN in India can be the enabler and bring together MFIs to create common technology infrastructure and provide open APIs, which can be used by various MFIs on a cost-sharing basis. Open source architecture will be the key for MFIs in adopting technology at low costs. MFIs will be able to pool their resources and invest in Cloud Based Computing Systems (CBS) and open CBS with open APIs. In Philippines, MFIs use an open CBS platform through open APIs. This also allows the regulator to pull data and reports of MFIs from the open CBS and open APIs used by them. This reduces the reporting time and reporting costs for the MFIs.

4.2. Adoption of technology should not remove the human touch

While going faceless in some processes and using technology will help microfinance improve efficiency, microfinance will still need a loan officers' network. The trusted face of the loan officer cannot be done away with. Loan officers are still required to ensure that customers understand the product and issues involved in using the product. Using a system of technology and loan officers will create immense synergies for MFIs. Kanopi, an Indonesian FinTech company has been helping MFIs in Indonesia use front-end as well as back end technology to make it easy for them to monitor accounts and transactions.

The big advantage with the loan officer is that when they go to collect or disburse loans to the consumer, they can see the number of people buying from the shop. They build a rapport, can focus on consumer education and get anecdotal data

– Kavita Nehemiah. Co-founder & COO, Artoo

4.3. Product creation through technology

Technology and data will lead to creation of new products. Microfinance institutions have primarily focused on micro lending. They need to diversify to individual loans, which require a different framework of risk assessment and management. Data is critical for this. MFIs already have data about the customers they serve, which they can leverage to sell new products or cross sell products of other financial institutions.

Technology is going to improve efficiency and create new business models. Unbundling will take place where MFIs will specialise in part of the process like on-boarding, loan disbursal, collection and underwriting.

- Stephen Rasmussen, Global Head, Inclusive Markets, C-GAP (Asia and Africa)

M-Shwari, Kenya

M-Shwari is already granting instant loans using algorithms and telephone bills. Loan officers do not play a role in this process.

5

Client protection and risk management

Over the past decade, MFIs across Asia have invested in developing internal controls, policies and code of ethics to serve their clients. Whistleblowing and grievance redressal mechanisms have become an integral part of MFIs. As the world moves towards digital money and e-KYC, the next paradigm in client protection and risk management is going be based on the twin pillars of digital financial literacy for the customer and the use of technology and data for risk management.

5.1. Financial literacy is dependent on digital literacy

Traditionally, literacy for financial inclusion has focused on financial literacy. A number of financial literacy programs have been conducted across Asia to educate customers on credit and saving discipline. However, today, many of the financially illiterate are also digitally illiterate. It is imperative that any efforts in financial literacy include an agenda of digital literacy.

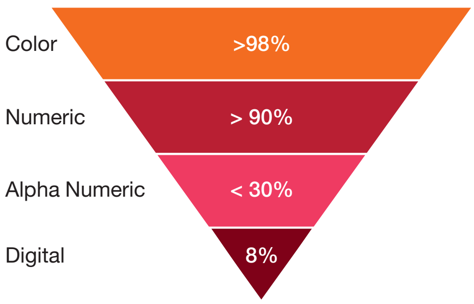
Several MFIs are already taking initiatives through digital tools. More MFIs should work with start-ups and create digital financial literacy lessons, which can be broadcasted at low bandwidths to remote areas that may lack good connectivity. In Bangladesh, BRAC has been holding training programmes for women on numeracy and mobile money, which has resulted in positive impact on the use of mobile money.

Historically, the RBI in India has required banks to conduct financial literacy camps, the success of which is not clear. Thus far, financial literacy has focused on opening bank accounts, savings and loan products. With demonetisation, the focus has now moved to “digital literacy,” i.e., going digital, mobile payments, mobile banking and UPI payments. Unfortunately, a large segment of the Indian population is digitally illiterate. The Literacy Pyramid shows the long road ahead to accomplish digital literacy with only 8% of the Indian population who are literate enough to work with digital mediums. RBI has now made it mandatory for the financial literacy camps to focus on digital financial literacy and update the customers on digital money and digital transactions.

Engagement with private sector is key to create knowledge and skills for poor people. We cannot use a complex approach for literacy. We need to bring literacy beyond the classroom. We need to interact with people and understand the theory of learning. Single approach will not help

– Mohamed Nazirwan, Senior Financial Sector Specialist, IFC F&M World Bank Group (Indonesia)

Figure 9: Literacy Pyramid in India[9]



MFIN, as the Self-Regulatory body in India, has taken a step in this direction. MFIN’s mobile literacy app is a one-stop multilingual voice and image based literacy application. The application can also broadcast messages in remote parts of the country where networks are a big challenge. This gives MFIN the ability to update MFI customers about new products and new regulations in real time.

9 *Digital Empowerment Foundation*

5.2. Continuous customer education to reduce defaults

When MFIs first started their operations, customers were imparted a week or ten days' worth of training before loans were disbursed. The group had regular meetings where feedback was shared and the loan officers' gave additional training if required. The discipline around repayment and low levels of non-performing assets (NPAs) in the MFI industry are a result of a strong training foundation. Today with increased pressures, the training period has dropped to a day or even a few hours and the number of interactions between the loan officers' and creditors has reduced.

For microfinance to continue with its low level of non-performing loans, the focus on literacy needs to be increased once again. Even for individual lending models, there will be a need for on-going training. Over the past few years, the emphasis on training has decreased. MFIs can invest in technology-backed communication delivery systems to educate their customers. They can leverage the synergies of loan officers and technology platforms for protecting customers. The technology delivery system can deliver communications to remind customers to be prudent and aware of the expenses they undertake. It can remind customers of timely repayments. It has been found that there is a significant positive relationship between client protection and financial returns.[10]

Communication delivery system

Juntos: Assists customers of financial institutions through an SMS based system that is constantly upgraded through engagement with sample groups. The SMS sent is in the vernacular language and helps create a culture of savings for the customer. The automated system is developed to have a humane approach, which fits with the community.

Awaaz De: It has developed a voice-based system to communicate with MFIs customers. The voice-based system can communicate in different vernacular languages.

5.3. Dynamic risk monitoring mechanism

Technology developments in Artificial Intelligence (AI) and algorithms have made computing smarter. Technology will analyse data and depict trends that can predict upcoming defaults. Examples are trends on mobile bill payments or crop damage due to weather changes. By integrating such data with their own systems, MFIs will be able to predict defaults before they happen and can take corrective measures before the default takes place.

Currently, MFIs in Africa are lending using algorithms and telephone bills without the use of any loan officer and also using this data to monitor credit risk. This has actually led to lower default rates.

5.4. MFI's need to move towards "360" degree data analytical model

When microfinance started decades ago, handwritten data were collected on paper. This was a time consuming process and the data quality was poor. Storing this data was also a challenge. With technology, various platforms have come up that can collect data in an efficient manner. Data can be stored safely, securely and can be analysed for trends using complex algorithms.

"360" data means all the credit reporting of an individual whether it be credit for goods or services and not limited to banks and telecom data

– Colin Raymond,
Lead Financial Sector Specialist,
Finance & Markets, World Bank Group.

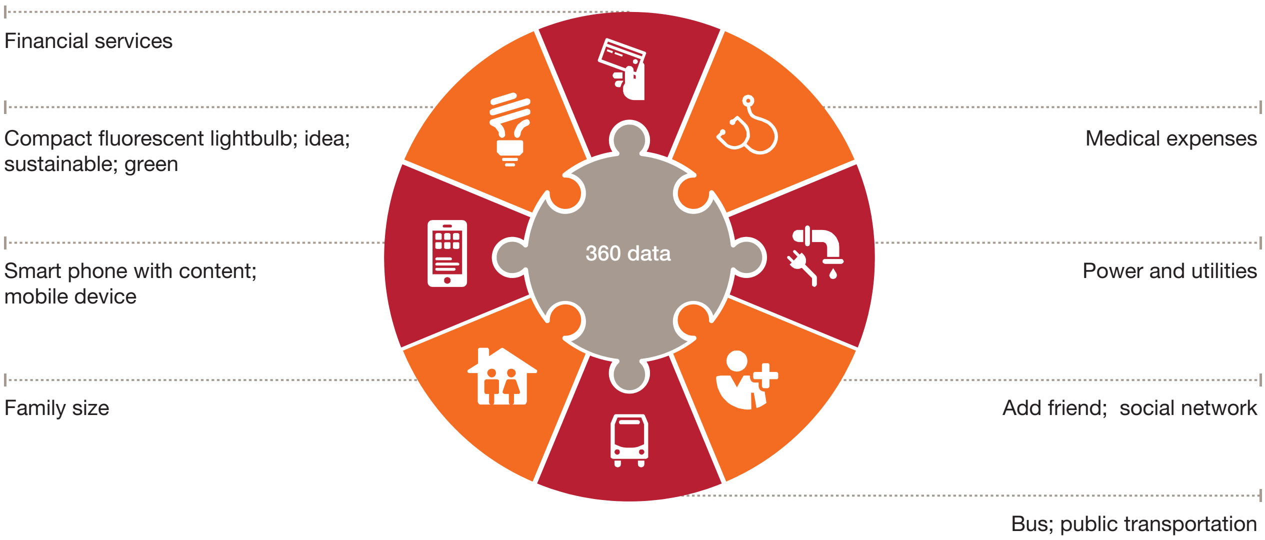
As technology has progressed, proxies for lending data have been developed. One such proxy is the airtime of mobile users and the billing cycle. Defaults in paying bills would disqualify customers from microloans. Similarly, payment cycle of electricity and water bills have become new proxies. If the payment cycles were free of defaults, there would be no issues in lending.

"360" data would also be employee analytics to see which loan officer has brought the most red flags

– Director, Credit Services Experian India Credit Bureau

"360 data" uses proxy data, which prima facie might not look relevant to lending but in reality are of tremendous value. Tala in the Philippines offers microloans based on data collected through an app. This helps them monitor the risks based on information such as customers' location, calls made and messages sent. Mili, a FinTech company in Russia has been helping microfinance institutions give loans to the active users of social media company. The credit decision is made in a few minutes and money is then transferred immediately. "360 data" will also help in better risk analysis and prediction of loan defaults.

Figure 10: Areas touched by 360 data



5.5. Reinsurance for microfinance institutions

The past decade has shown that the number of natural disasters occurring in the world has been increasing. Global warming and climate change has increased the number of cyclones, droughts and forest fires across the globe. Many countries in Asia lie on seismic plates and are perpetually at risk of earthquakes and tsunamis. Along with these natural disasters, there are manmade disasters such as oil spills and wars. This disproportionately affects the poor and the income generation activities of the MFI clients, which will impair their ability to repay loans. In an ideal world, these customers need more loans to re-build their lives. However, at these very times, MFIs face liquidity shortage and higher levels of non-performing loans.

To mitigate the risk of disasters that MFIs are exposed to they need reinsurance. The reinsurance product will provide fixed disbursal to the MFI during a disaster, based on the intensity of the disaster. With this money, MFIs can offer grace periods or new loans for rehabilitation, repairs and reconstruction to existing as well as new microfinance customers. Swiss Reinsurance Co. Ltd and the World Bank have created such a product for earthquakes in Indonesia.

5.6. Data security and privacy to protect MFI clients

The data of clients is very sensitive and in the hands of the wrong people can be extremely destructive. Recently, there have been many data leaks across the globe. MFIs too face this threat. It is imperative that the policy makers create a strict framework around data security and data privacy for the MFI sector. These regulations will outline the boundaries within which data sharing and data sale can take place.

China, Singapore, Japan, Malaysia and South Korea are the only few Asian countries that have a strong data protection regime in place. In India, the current Information Technology Act, 2000 has been amended from time to time, but it has failed to keep pace with fast growing technology and data. The law does not explicitly deal with data security and privacy. In fact, the issue on the existence of the right to privacy as a constitutional right is still being argued in the Supreme Court.

Indonesia earthquake reinsurance product for MFIs

Swiss Reinsurance Co. Ltd has partnered with PT Asuransi Wahana Tata (Aswata) and Mercy Corps in Indonesia to provide the first parametric insurance solution benefiting MFI's in the earthquake-prone provinces of Aceh and West Sumatra. The insurance amount paid depends on the strength of the earthquake and it is directly paid to the MFI immediately after the earthquake. The MFI has full autonomy on use of these funds. They could lend it, offer grace periods or do nothing with it as per their assessment of the situation.

Appendix

List of speakers

S.No	Name	Country	Organisation
1	Mr Nhan Phan Cu	Vietnam	Vietnam Bank For Social Policies
2	Ms Pham Thi Van	Vietnam	Vietnam Women's Union (TYM)
3	Ms Dinh Thi Anh Tuyet	Vietnam	VietED Centre
4	Ms Nguyen Thi Tuyet Mai	Vietnam	Vietnam Microfinance Working Group
5	Mr Nguyen Manh Cuong	Vietnam	General Economic Department, Government Office - Vietnam
6	Mr Brindley De Zylva	Myanmar	LOLC Myanmar Microfinance Company Limited
7	Ms Aneth Lim	Philippines	Citi Philippines
8	Fr Jose Victor Lobrigo	Philippines	Microfinance Council of the Philippines
9	Mr Mohamad Nazirwan	Indonesia	IFC F&M World Bank Group
10	Mr Sun Tongquan	China	China Academy of Social Sciences
11	Ms Sophy Pum	Cambodia	Angkor Microfinance Kampuchea
12	Dr Pavel Shoust	Russia	Russian Electronic Money Association
13	Mr Md Fayzer Rahman	Bangladesh	Associate for Social Advancement
14	Mr Alexis Lebel	Hong Kong	Open CBS
15	Mr Colin Raymond	Australia	World Bank Group
16	Mr Thorsten Fuchs	Laos	GIZ
17	Mr Stephen Rasmussen	Asia & Africa	C-GAP
18	Ms Céline Georges Picot	Hong Kong	ResponsAbility
19	Dr Sabine Spohn	Philippines	Asian Development Bank
20	Ms May S Dawat	Philippines	CARD Pioneer Microinsurance Inc.
21	Mr Phanthaboun Xayyaphet	Laos	FIS,Bank of Laos
22	Ms Ratna Vishwanathan	India	MFIN
23	Mr Rakesh Dubey	India	SV Creditline Private Ltd.
24	Mr Shekhar Gupta	India	India Today
25	Prof M S Sriram	India	IIM - Bengaluru

Appendix

List of speakers

S.No	Name	Country	Organisation
26	Mr Sivashankar TS	India	Rohatyn Group
27	Mr Abhishant Pant	India	Fintech Expert
28	Prof Alok Misra	India	Management Development Institute
29	Ms Sucharita Mukherjee	India	IFMR Holdings Ltd
30	Mr R. Baskar Babu	India	Suryoday Small Finance Bank
31	Mr Srinivas Bonam	India	IndusInd Bank
32	Mr Jayesh Modi	India	HSBC Bank
33	Mr Ajay Desai	India	YES Bank
34	Mr Dilip Cherian	India	Perfect Relations
35	Mr Sukumar Ranganathan	India	Mint at HT Media Ltd
36	Ms Jamuna Rao Verghese	India	PwC
37	Mr Manoj Mittal	India	SIDBI
38	Mr Sateesh Kumar AV	India	D.Lite
39	Mr Vijay Mahajan	India	BASIX
40	Mr Parag Jariwala	India	Religare
41	Mr Elliot Rosenberg	India	Awaaz De
42	Mr Uday Bhat	India	Samsung India
43	Mr V Ratnakar	India	National Payments Corporation of India
44	Mr Sagar Kirpekar	India	I-exceed
45	Mr Rahul Tyagi	India	Lucideus
46	Mr Manoj Sharma	India	Microsave
47	Mr Satish Pillai	India	CIBIL
48	Mr Sunder Arumugam	India	Equifax
49	Mr Vidya Shankar Krishna	India	Havells
50	Mr Sahil Khanna	India	Greenlight Planet

Appendix

List of speakers

S.No	Name	Country	Organisation
51	Mr Yogesh Gupta	India	Bajaj Allianz Life Insurance Company Limited
52	Mr Alok Prasad	India	Sector Expert
53	Mr Ravish Suri	India	Evolute group
54	Mr Rajeev Ahuja	India	RBL Bank
55	Mr Darshan Shah	India	Experian India Credit Bureau.
56	Mr Sriram Kalyanaraman	India	National Housing Bank
57	Mr Pankaj Jain	India	Department of Financial Services, Government of India
58	Mr N S Vishwanathan	India	Reserve Bank of India
59	Mr Devesh Sachedv	India	Fusion Microfinance
60	Mr Udaya Kumar	India	Grameen Koota Financial Services
61	Mr Ramaswamy Venkatachalam	India	Fidelity National Information Services Inc
62	Mr Tamal Bandyopadhyay	India	Live Mint
63	Mr Subir Jha	India	Bajaj Allianz Life Insurance Company Limited
64	Mr G Satish Raju	India	Swiss Reinsurance Company Ltd, India
65	Mr Gautam Chikermane	India	Observer Research Foundation
66	Mr Kavita Nehemiah	India	Artoo
67	Mr Sudhakar Ramasubramanian	India	Aditya Birla Idea Payments Bank Limited
68	Mr Vivek Sengupta	India	Edelman India
69	Mr K. Paul Thomas	India	ESAF Small Finance Bank
70	Mr Chandra Bhushan	India	Cenre for Science & Envoirnment
71	Mr Raul Rebello	India	Axis Bank
72	Mr Sriram Vinjamuri	India	Axis Bank
73	Dr Ajay Verma	India	Future Generali India Insurance Company Limited
74	M. Neeraj Maheshwari	India	DHFL Pramerica Life Insurance Co. Ltd.

Appendix

List of speakers

S.No	Name	Country	Organisation
75	M. Ram Iyer	India	Deloitte Touche Tohmatsu India LLP
76	M. N S Srinivasan	India	Sector Expert
77	M. Ramesh Dharmaji	India	Small Industries Development Bank of India
78	M. Prakash Kumar	India	Small Industries Development Bank of India
79	Mr Rajiv Bansal	India	Department of Electronics & IT, Government of India

Appendix

Sponsors

Abbreviations

AI	Artificial Intelligence
AMK	Angkor Mikroheranhvatho Kampuchea Co. Ltd
API	Application program interface
ASA	Association for Social Advancement
BASIX	Bhartiya Samruddhi Finance Limited
CAGR	Compounded Annual Growth Rate
CBS	Cloud Based Computing Systems
CEO	Chief Executive Officer
CFPA	China Foundation For Poverty Alleviation
C-Gap	Consultative Group to Assist the Poor
CIBIL	Credit Information Bureau (India) Limited
COO	Chief Operating Officer
EFL	Entrepreneurial Finance Lab
EII	Energy Inclusion Initiative
FIS	Fidelity National Information Services Inc
FY	Financial Year
GDP	Gross Domestic Product
GIZ	German Development Cooperation
HSBC	Hongkong and Shanghai Banking Corporation.
HT	Hindustan Times
IFC	International Finance Corporation
IFMR	Institute for Financial Management and Research
IIM	Indian Institute of Management
KYC	Know Your Customer
NGOs	Micro Finance - Non Government Organizations
MFI	Micro Finance Institutions
MFIN	Microfinance Institutions Network
MSME	Micro, Small and Medium Enterprises
NBFC	Non -Banking Finance Company
NBFC- MFI	Non- Banking Finance Company- Micro Finance Institutions
NGO	Non- Government Organizations
NHB	National Housing Bank
PoS	Point of Sale
PwC	PricewaterhouseCoopers
RBI	Reserve Bank of India
RBL	Credit Information Bureau (India) Limited
SFB	Small Finance Bank
SIDBI	Small Industries Development Bank of India
SMS	Short Message Service
SRO	Self-Regulatory Organisation
UNCDF	United Nations Capital Development Fund
UPI	Unified Payment Interface
VP	Vice-President

About MFIN

Background

Micro Finance Institutions Network is the industry body for RBI regulated NBFC-MFIs. Established in October 2009, MFIN was appointed as the Self-Regulatory Organisation (SRO) for the sector by the Reserve Bank of India (RBI).

MFIN, through its members, helps provide financial services to low income households in a responsible and transparent manner, thereby helping them build sustainable livelihoods. MFIN also works closely with regulators and other key stakeholders and plays an active part in the larger financial inclusions dialogue through the medium of microfinance.

Genesis

MFIN was established in October 2009 under the Andhra Pradesh Societies Registration Act, 2001.

As per its byelaws, all financial institutions that are "substantially engaged in the business of microfinance" and are registered as NBFC-MFIs with the Reserve Bank of India, are eligible for membership to MFIN. Structured as a Self-Regulatory Organisation (SRO) of the RBI regulated NBFC-MFIs, MFIN has been supporting an effective framework for responsible lending and client protection for the industry.

Vision

To be an engine of inclusive growth for India and help provide financial services to 10 crore low income households by the year 2020, in a responsible and transparent manner.

Objectives

MFIN's primary objective is to work towards the robust development of the microfinance sector by promoting: responsible lending, client protection, good governance and a supportive regulatory environment.

Contacts

Ms. Vaishali Mishra

Head – Communications & Marketing

Email: vaishalimishra@mfinindia.org

Phone: 9971998327

PSP 4-004, 4th Floor, Emaar Palm Spring Plaza, Golf Road,
Gurugram – 122003, Haryana, India

PwC - Financial Services

The sector is now at a point of inflection, undergoing multiple regulatory and reporting changes. One of the biggest challenges is the move to Basel III, which includes strengthening bank capital requirements and adopting new regulatory requirements of liquidity and leverage.

Basel III, together with the broader regulatory change agenda, is set to redraw the banking landscape. It will have a profound impact on profitability and force banks to transform their business models. Another key transformation in the financial services industry is the transition to IFRS. The landscape of financial reporting will be transformed with the adoption of IFRS, ultimately leading to an impact on business decisions. Following are the areas on which PwC focusses, within the domain of financial services:

- Asset management
- Fintech
- Inclusive markets
- Banking and capital markets

The Inclusive Markets team specialises in the business and policy aspects of providing financial services to the emerging middle class and poor segments. The team has considerable experience of working on digital financial products such as digital payments, digital lending and digital investments. The team has worked with a variety of new players in financial services covering FinTech's, new banks such as Payments Banks, Internet giants and funds. Business assessment, product design, customer segmentation, regulatory applications and policy papers are some of the areas covered.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 2,23,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com

In India, PwC has offices in these cities: Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune. For more information about PwC India's service offerings, visit www.pwc.com/in

PwC refers to the PwC International network and/or one or more of its member firms, each of which is a separate, independent and distinct legal entity in separate lines of service. Please see www.pwc.com/structure for further details.

Contacts

Akash Gupt

Partner and Leader, Regulatory Services
PwC India
Email: akash.gupt@in.pwc.com
Phone: +91 12 4616 9602

Jamuna Rao Verghese

Senior Advisor, Financial Services
PwC India
Email: jamuna.r.verghese@in.pwc.com
Phone: +91 12 4616 9606

Team members

Avnee Gupta
Varun Chauhan
Aishwarya Agarwal

pwc.in

AK/October2017-10826