Digital Finance – A New Wave in Payments and Remittances

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Financial inclusion landscape in Philippines

As of 2013....

• Number of e-money issuers (EMIs) has grown from 21 to 32 EMIs

• Number of e-money transactions (inflow and outflow) grew from 138 million in 2010 to 217 million by end of 2013

• Total active e-money accounts (mobile wallet + cash cards) increased from 18.4 million to 24 million by end of 2013
  - mobile wallet: 5.4 million
  - cash cards: 18.7 million

The numbers above indicate the importance of DFS and its centrality to the cause of financial inclusion

The Philippines has a relatively advanced mobile industry, Q3 2014

Smartphone adoption is around 25%, implying high demand for mobile internet services from both low and higher end consumers

Financial inclusion landscape in Philippines

The market is fairly well-developed where a very large number of players offer a variety of financial services for low-income segments.

The growth in transaction outlets is concentrated around digital financial services providers or e-money agents who will help scale up outreach and drive adoption of financial services among the un/under-served segments.

Additionally as on December 2014, the top 7 MFIs provide credit services to more than 2.3 mn customers and have a total portfolio outstanding of PhP12.5 bn.

There is 30% YoY growth in e-money agents in Philippines, followed by ATMs at 19%.

Though, the number of service providers is high, their distribution is generally skewed towards populous and highly urbanized areas.

As of January 2015, there are more than 10,000 banking offices nationwide; however, 36.5% of the 1,634 cities and municipalities are unbanked.

Source: BSP, Q2 2014
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Source: BSP 2014
Source: BSP; MIX Report, 2014
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Opportunities

Access to Financial Services

Payment centres, ATMs, pawnshops, money changers, and remittance agents are perceived to be nearer and easier to reach.

Length of travel time and cost of travel is lower for access points such as remittance agents and payment centres.

Financial Transactions

Rural clients tend to transact with community-based access points such as cooperatives, microfinance NGOs, e-money agents over other access points.

Similarly, clients from lower economic class such as ‘Class D’ and ‘Class E’ tend to transact with community-based access points than others.*

Challenges in moving towards digital payments

Lack of financial literacy and financial product education among clients in the low-income segment – where they require handholding to gain confidence and develop trust in using digital financial services

Lack of interoperable system that ensures reliability and accessibility of financial services

Lack of risk-proportionate know-your-customer (KYC) requirements for marginalised groups

Lack of diversification beyond over-the-counter product offerings

A research study conducted by MicroSave on financial capability gaps and financial well being of microfinance clients show that clients...
• Trust financial services mostly used in their community
• Prefer a service point where success of transaction is guaranteed
• Make financial decision based on opinions from the remittance sender, family members, and other influential opinion leaders in the community

Source: Brookings, 2015 - http://brook.gs/1MEqo8D;
Customer Journey

The transition from traditional payments systems to digital payments is not automatic. The customer undergoes a journey before s/he starts using the service regularly. The journey is full of decision points wherein the customers decide whether to adopt and continue using the service or not.

- Awareness
  - Value proposition
  - Range of services
  - Safety and reliability
  - Procedures

- Registration
  - Proximity of outlet
  - Experience at the outlet
  - Hassles

- Trial
  - Service quality
  - Success of carrying out transactions
  - Realisation of perceived value proposition

- Regular Use
  - Suitability and diverse range of services
  - Superior customer service

Factors that influence adoption of DFS:

Perception about the service
- Perceived risk
- Relative advantage

User profile
- Education
- Age

Source:
Our Approach

- Piggy-back on the physical and social infrastructure of MFIs
- Leverage customer relationship to educate about digital financial services
- Engage with community to create opinion leaders who can support community members tread the customer journey
- Support MFIs to diversify their product base with minimal cost

Closed loop remittance product

Value add services
- Bills Payment
- Airtime Top-up
- Ticketing services
Future Plans and Product Innovations

Increase outreach and facilitate financial literacy among clients through partner-MFI's

Innovate product offering to boost savings (through partnership with other service providers)

• Voluntary savings tied to specific goals
• Insurance
• Remittance proceeds tied to usage – purchase of medicines

Transactions analytics to offer customised credit products (sponsored by MFIs)

• Short term credit to non-MFI customers

OK Remit’s partnership with MFIs will be a stepping stone to help clients adopt DFS
Establish a community agent network
Offer additional income opportunity for MFI clients

Deepen access to financial services

Create savings buddies
• Tailored financial education to encourage customers to increase of inward remittance to savings and handholding them to adopt mobile financial services

OK Remit with its in-house technology and an agent network with outreach in deep rural areas is positioned to partner with an EMI and offer full range of financial services
About OK Remit

Opportunity Kauswagan Remit (abbreviated as OK Remit) aims to operate as a pro-poor remittance company in the Philippines.

Aims to adopt an innovative business model that will address the top three challenges in rural remittances – accessibility, reliability and affordability.

OK Remit is supported by Opportunity International, a global coalition of organisations dedicated to using microfinance to provide opportunities for people in poverty to transform their lives.

In the Philippines, OK Remit is promoted by the two leading microfinance institutions in the country, Alalay Sa Kaunlaran Inc. (ASKI) and Taytay Sa Kauswagan Inc. (TSKI).

OK Remit is head quartered in Fort Bonifacio, Manila, Philippines and aims to be a leading remittance service provider among Filipinos to securely send home their hard earned money at affordable rates.