News and Trends in Fintech and Digital Microfinance: Why Are European MFIs Invisible?

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Abstract

European microfinance suffers from a visibility deficit. It is rarely mentioned in the media. Our research question is 'Why does European microfinance suffer from a lack of visibility in the press?' This study looked at news reports and press releases over a 18-month period (2016–2018) to check if European microfinance and its innovations were in the news. The study finds that, indeed, there are a lot of new innovations in finance. But, first, in Europe, the highly talked about fintech innovations are taking place outside of microfinance institutions (MFIs). Second, the innovations that are talked about in microfinance are taking place in developing countries out of Europe. The study followed this up by examining websites of some of the leading European fintech firms to see what they were doing that made them so visible. We share some best practices in the use of digital technologies by highly innovative fintech firms in areas that could be of use to MFIs in diverse sectors such as mobile payments, credit scoring, card readers, ATMs and management information systems. To become visible, European microfinance may need to demonstrate that it is doing new things and that it is using innovative technologies that helps it reduce costs, increase outreach and, thus, have an impact. Forii such as the European Microfinance Network and the European Microfinance Platform need to promote these innovations by offering appropriate awards. Finally, collaborating with training and educational institutes may help add to visibility.

Keywords

Fintech, digital, microfinance, financial inclusion, credit scoring, crowdfunding

Introduction: Appropriate Technologies for the Poor

A stylized fact in development studies is that the poverty trap of poor countries is linked to inappropriate technologies (Singer, 1973). Some countries, such as Korea and Taiwan, have been able to get out of poverty by using advanced technologies (Ranis, 1977). It is considered that globalization, technology and entrepreneurship may be change agents if technology could be provided to poor countries along with appropriate institutions such as an appropriate national innovation system that can align technological developments with the livelihood needs of the poor (Casadella, 2018; Hall, Bockett, Taylor, Sivamohan, & Clark, 2001). Solidarity movements (Healy, Borowiak, Pavlovskaya, & Safri, 2018), a culture of learning and experimentation (Ashta & Mor, 2017), and the use of appropriate financial service systems such as microfinance or cooperative finance can help in fostering inclusion so that the poor can access the technology (Abate, Rashid, Borzaga, & Getnet, 2016; Alam, Alam, & Mushtaq, 2016). The above discussion is captured in Figure 1, and it indicates that poverty is impacted by multiple inter-related external forces. The link between all the forces is provided by the two-way circle in which the forces are embedded. For example, financial services may finance technology, and technology may deliver financial services faster. Financial services develop faster if the country is open to globalization. The development of financial services may foster entrepreneurship, and entrepreneurs may choose to deliver financial services by working as correspondent banks. Proper regulations may boost financial services while protecting the poor.

One social innovation of financial services is microfinance, the provision of small amounts of credit and other financial services to the poor and the excluded. Certainly, microfinance could use technology to increase speed of processing, increase outreach through faster diffusion and reduce costs (Vandeputte & De Toffol, 2017). Yet in the days of rapid changes in technologies, we do not find much news of European microfinance institutions (MFIs) embracing technology for the poor. Of course, this is not easy. First, the technology is useful only if the poor

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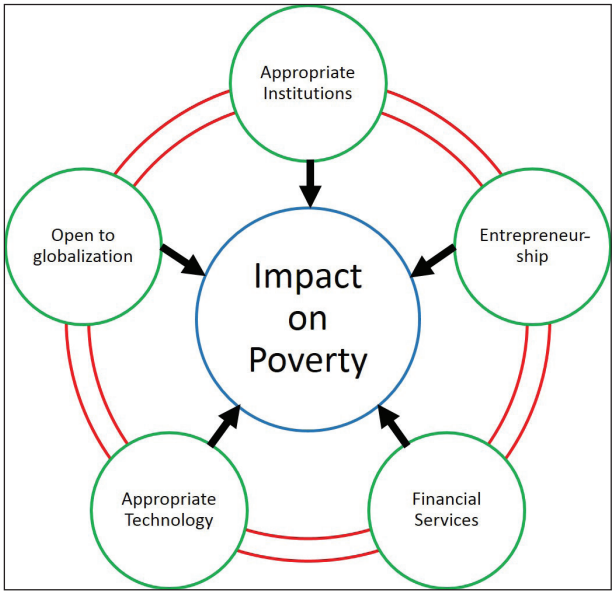

Figure 1. Examples of Complementary Forces that can Create an Impact on Poverty

Source: The author.

participate and explain their needs (Clarke, Wylie, & Zomer, 2013). Second, the uptake of new technologies has been found to be dependent on the specific topic involved (Nielsen & Heffernan, 2006). Third, owing to the digital divide, the benefit often goes to the middle-class rather than to the poor (Haenssgen, 2018; Howell, van Beers, & Doorn, 2018; Kuriyan & Ray, 2009). Fourth, the benefit of information and communication technologies (ICT) for development depends on whether the impact evaluation has been included in the project design (Heeks, 2010). Fifth, the benefit may be greater if the outsourcing is to a social enterprise (Heeks & Arun, 2010). Sixth, the technology will not be used unless there is some work done on convincing the targeted users that it is useful (Gollakota, Pick, & Sathyapriya, 2012) and if subjective norms of peers reinforce a positive attitude (Bryson, Atwal, Chaudhuri, & Dave, 2015). Seventh, an appropriate technology needs to be usable for the poor as well as the field agents, keeping in view their general or computer illiteracy (Ratan, Chakraborty, Chitnis, & Toyama, 2012). Finally, the poor may not have the necessary culture of learning and experimentation (Ashta & Mor, 2017).

Still, to include the poorest, there is hope to combine microfinance with technology (Ashta, 2011; Ashta, Barnett, Dayson, & Supka, 2015). However, there is a need for great care in designing the technology-enabled package so that users can perceive it as usable (literacy), enjoyable (well-being) and useful (empowering) (Bisht & Mishra, 2016; Rahman, Taghizadeh, Ramayah, & Alam, 2017), and with low risks (security and privacy) (Behl & Pal, 2016). One example of a digital technology is the creative adaptation, appropriation and use of messaging services involving SMS (Loudon, 2016). It is possible that, in line with the reverse innovation concept (Govindarajan & Trimble, 2012), these technologies are being tried in the developing countries but their major target audience, after initial development, might be in developed countries which do not want early innovation risks to their financial systems (Ashta, 2017; Loudon, 2016). In any case, with the immense growth of data availability, it is possible to use the power of ICT to reduce the information asymmetry problem, understand the financial services customer and provide better services (Loufield, Ferenzy, & Johnson, 2018). A significant problem in rural areas remains that poor people may feel that they do not need banking services (Behl, Singh, & Venkatesh, 2016).

We explored the relationship between technologies and financial services that have developed exponentially during the past few years (Bruggink, 2016, pp. 6–12). Google Trends provides data on web-searches made on Google in comparison to other searches and we used this platform to compare the interest in microfinance with that of fintech. As we can see from figure 2, five years ago, there were relatively few searches made for fintech. However, after February 2016, there was more public interest in fintech than in microfinance. The green line at the bottom shows the interest in microcredit, as opposed to microfinance, included just for reader interest.

From the above, we find that these fintechs have caught the interest of the online media and public and have overtaken microfinance, but that microfinance is still as interesting as it used to be. This could be because fintech is of interest to a wider range of commercial interests. However, a review of the press (as opposed to a Google search) finds that banks, telecoms and big tech operators are certainly in the news, but that the poverty reduction objective and microfinance operators have been marginalized.

Figure 3 provides a conceptual vision of the perspective we get from the press reports found on the Europresse database of offline and online media reports. The perspective is perhaps biased by years of research on microfinance. It includes some major big operators (banks, technology firms and telecoms) and a lot of little fintech firms nibbling away at their business (Ashta & Biot-Paquerot, 2018). These fintech firms will eventually be bought out by some of the big operators. Microfinance firms are standing on the sidelines, aspiring to become banks and partnering with telecoms to grow big in developing countries, but are largely ignored by the financial media of developed countries. Our research question is 'Why have MFIs lost press visibility?'

Literature Review: On the Importance of Visibility in the Press

Visibility in the press is important to corporations because it impacts the reputation and stakeholder perceptions, which in turn impacts the cost of capital. This is why firms provide

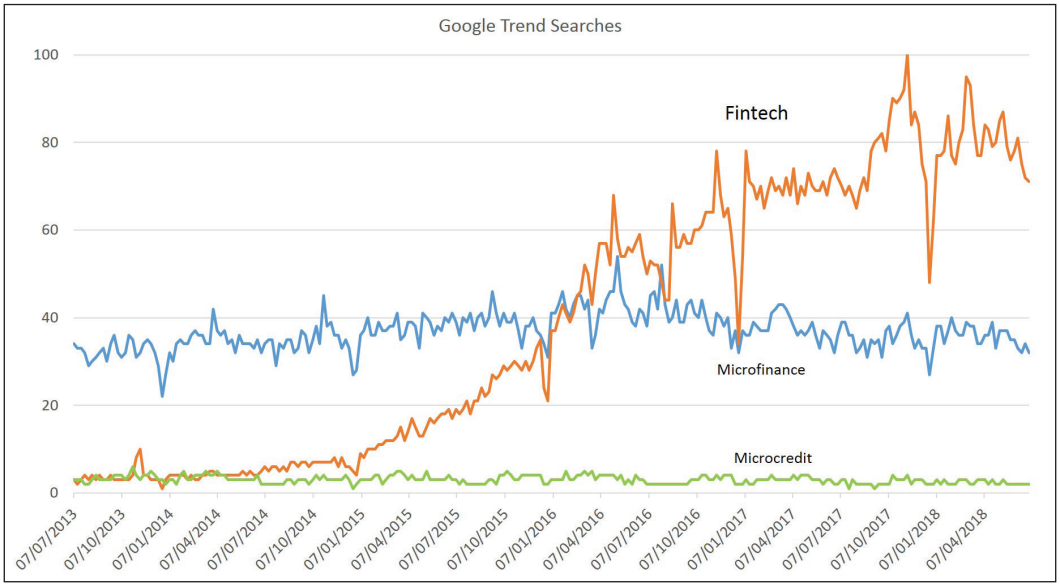

Figure 2. Public Interest in Fintech Versus Microfinance

Source: The author, based on Google Trend data downloaded on 5 July 2018.

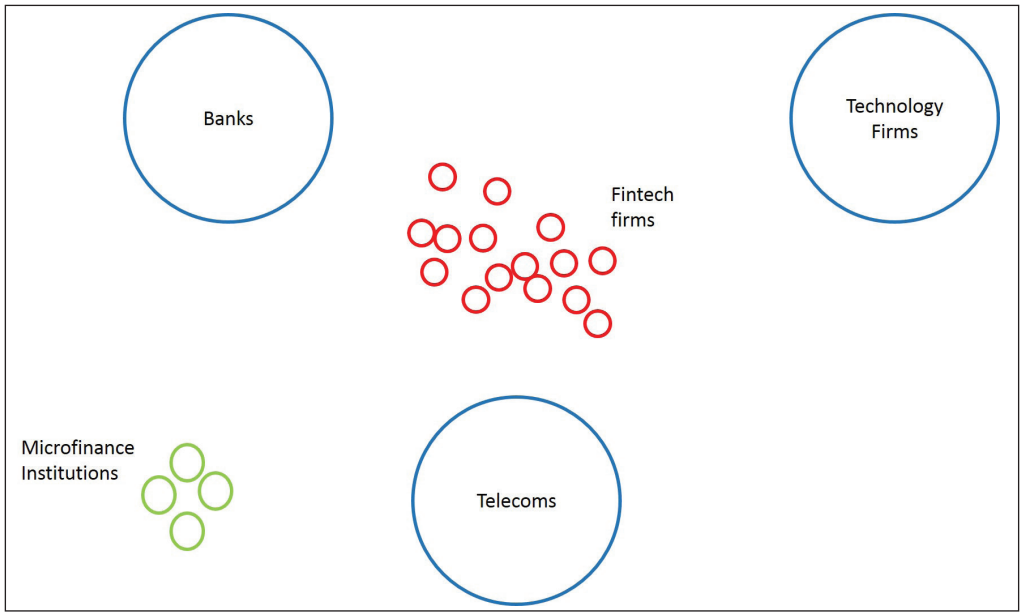

Figure 3. Microfinance Sidelined

Source: The author.

information to the press through press releases. There is a positive association in efforts to increase visibility and a firm's size, media visibility and social performance (Brammer & Pavelin, 2004). Notably, the CSR ratings of firms seems to increase with their media visibility, size and the link of the industry to sensitive environmental issues (Reverte, 2009). Smaller, less visible firms may be interested in investor relation exercises to increase the chances of institutional acquisitions (Bushee & Miller, 2012).

Positive visibility enhances reputation and trust, reduces the cost of capital and increases donations to social enterprises. In fact, firms disclose their accounting information to the press because the financial sector is interested in this information, and a lot of information that is disclosed by firms depends on what the financial sector is interested in (Edwards & Shaoul, 1999). The value of an organization to acquirers can increase if they can see the value of the firm's growth opportunities, and this can be signalled through an IPO (Reuer & Tong, 2010). It has been found that high asymmetric information and low trust related to international acquisitions can be mitigated if the foreign targets are highly visible (Benou, Gleason, & Madura, 2007). More visible organizations also tend to provide more corporate philanthropy (Brammer & Millington, 2006).

Negative visibility can create increased stakeholder attention and can lead to increased controls and consequent transaction costs. Negative visibility is a major concern for directors since it can lead to their exit (Harrison, Boivie, Sharp, & Gentry, 2018). Firms that have negative visibility may engage in more CSR and corporate philanthropy to change their public image through the press (Jia & Zhang, 2015). Some firms, such as SKS Microfinance, changed their names after being subject to negative visibility.

Firms are therefore interested in positive visibility. At the same time, firms do not want to give away information which their competitors may use (Ashta & Patil, 2007). Therefore, often the information that is provided is that which has no social value so that free riders do not gain (Morris & Shin, 2002).

If visibility is important to attract capital, we should expect European MFIs to be in the news for their use of innovative technology. Otherwise, we need to ask why they fail to attract media attention to their efforts to use technology to increase the impact on the poor.

Methodology

This study started by looking at news on microfinance and digital or fintech) that came out after 21 November 2016 and is reported in the Europresse database as well as miscellaneous newsletters on financial payments and fintechs. There were far more results for digital and microfinance compared to fintech and microfinance in the Europresse database.

However, the recognition of the importance of fintech has been maintained by many awards being provided to these industries and rankings in media such as the *Financial Times*. In May 2018, this research was then extended to include the highly innovative fintech operators of Europe and to compare their news to what is happening in developing countries, based on the list of the *Financial Times*. Judgment was used to exclude operators whose work may not be directly applicable. For example, a UK-based firm registered in Malta, Smarkets, is using financial trading principles and technology to improve the gambling experience. Similarly, peer-to-peer bitcoin trading platforms such as localbitcoins.com may be a great financial innovation, but the relevance to microfinance is not visible yet. A UK-based fintech, Kantox, started offering a technology-based automated platform for dealing with currency risk. MFIs can use this platform, but few are directly managing this for their clients. Similarly, innovative operators such as WDX, or Wealth-dynamix, are providing specialized customer-marketing software to acquire, onboard and manage the wealth of their clients. Yet such solutions are still targeting the middle classes and not quite the poor.

We found that the technological innovations of European MFIs were not in the news much. Perhaps they need to learn what the press is interested in. In the sections that follow, first, we provide a few case studies of European fintech operators and their amazing growth. Then we provide the experiences of non-European MFIs with technology and the efforts being made to diffuse this information. Finally, we provide a few implications for European microfinance Operators.

European Case Studies in Fintech for Financial Inclusion

The study brought out a large number of innovating fintech applications. The highly innovative European fintech firms in our sample, based on the *Financial Times* list, are providing over 7,000 jobs and have a combined turnover of over €17 billion.

After excluding the cases mentioned in the methodological note, the five sectors that could be relevant to financial inclusion and which were expanding the fastest were digital payments, credit scoring, card readers, ATMs and information systems.

The Growth of Mobile Digital Payments

The person-to-person payment and transfer market is booming. The competition is thick but the market is huge and most of the operators are growing. These include PayPal, Tencent, Square, Circle Internet Financial Limited, clearXchange, Snapcash, Dwolla and TransferWise, among others. Each may have a different model: some use trusted internet portals for transferring money from a bank account or credit card to another's account; others use an online interface to indicate the amount of money to be transferred.

One of the fastest growing fintech operators in Europe is TransferWise. This is a payment transfer service, started in 2010 by Estonians living in the UK, which competes with Western Union and banks for international payments. By the end of 2017, they had 300 employees, 170 million clients and a turnover of €79 million. Their unique selling proposition is that they match payment needs within a pair of countries and then transfer money in each country locally, avoiding currency conversion and international transfer charges. The clients get the middle rate with no spread, but a transfer charge is taken. Its charges are only one-sixth to one-eighth of those of banks. Although the popular press indicates that these have lowered transfer costs considerably from Western Union,[1] we did not find this to be true. In fact, even on TransferWise's website, for amounts less than €250, Western Union showed up cheaper than TransferWise for an international transfer to India. In 2017, TransferWise started offering multi-currency accounts and MasterCard debit cards. In 2018, TransferWise became the first fintech group to gain direct access to the Bank of England's interbank payments systems.

A second new player in the payment space is GoCardless, a UK-based firm that is now also present in France, Germany, Sweden and Spain. It has set up an app that allows the customer to be debited on an agreed date, once a preliminary authorization has been established. Therefore, for small amounts, there is no need for a small business to chase up payments. GoCardless takes 1% for its service, capped at £2, deducted directly from the payout. If the payment fails, it automatically retries periodically. About 30,000 small businesses are using their app.

A third player is Lemon Way, founded in France, which provides an e-wallet, permitting the collection and distribution of small amounts of money for a project. It is free for cash out within Europe but charges 1.2% for Euro payments and 2.9% for payments from the rest of the world. Rates are lower for a turnover of over half a million euros.

A fourth player is Fonix, a UK company, which is ensuring the connection between mobiles and being billed by the telephone operator. They indicate to their business clients that conversion rates increase when clients pay on their telephone bill rather than by credit card. They also permit consumers to send money by SMS to charities or subscriptions and get billed by their operator.

Figure 4 provides a perspective to capture the situation of these multiple actors in the mobile payment landscape.

Such new fintech players are putting pressure on banks. The banks are fighting back by bringing in distributed ledger technology. Santander Bank claims to have already developed multi-country payments in a few seconds using this technology.

Microfinance firms have made responses, but European microfinance seems to be largely absent, in our press survey, perhaps because our research was limited to English-language media.

Transforming Microcredit: Data-Driven Credit Scoring for the Unbanked and the Poor

Since the poor do not have a credit history, there are no records on the basis of which banks and financial systems can assess them. However, it is possible to develop credit scoring systems for the poor based on biometrics and facial recognition for identity checks as well as behavioral characteristics captured on their telephone, including calling histories and financial transactions. The Gates Foundation, Opportunity International and MyBucks are collaborating on such a project in Kenya (Crosman, 2017).

These models have already been implemented in Europe. The Hamburg-based Kreditech, founded in 2012 and now working in five countries, claims to have found a wide niche of financially excluded people between pawnshops and payday loans on the one side, and credit card and bank loans on the other. It is now offering six products in this niche: microloans (max. €800 for 30 days), micro-instalments (for three months), instalments (max. €5,000 for 24 months), POS financing (max. €5,000 for 48 months), prepaid cards and marketplace financial services. Since European definitions of microfinance go up to €25,000, all these are well within the microfinance sphere. Their markets are Mexico, Spain, Poland, Czech Republic and Russia, and they are spreading fast to India. They issued loans of €9 million in 2013, and this has now multiplied to €185 million in 2017,[2] serving 780,000 customers.[3] This leads to an average loan size of about €237,

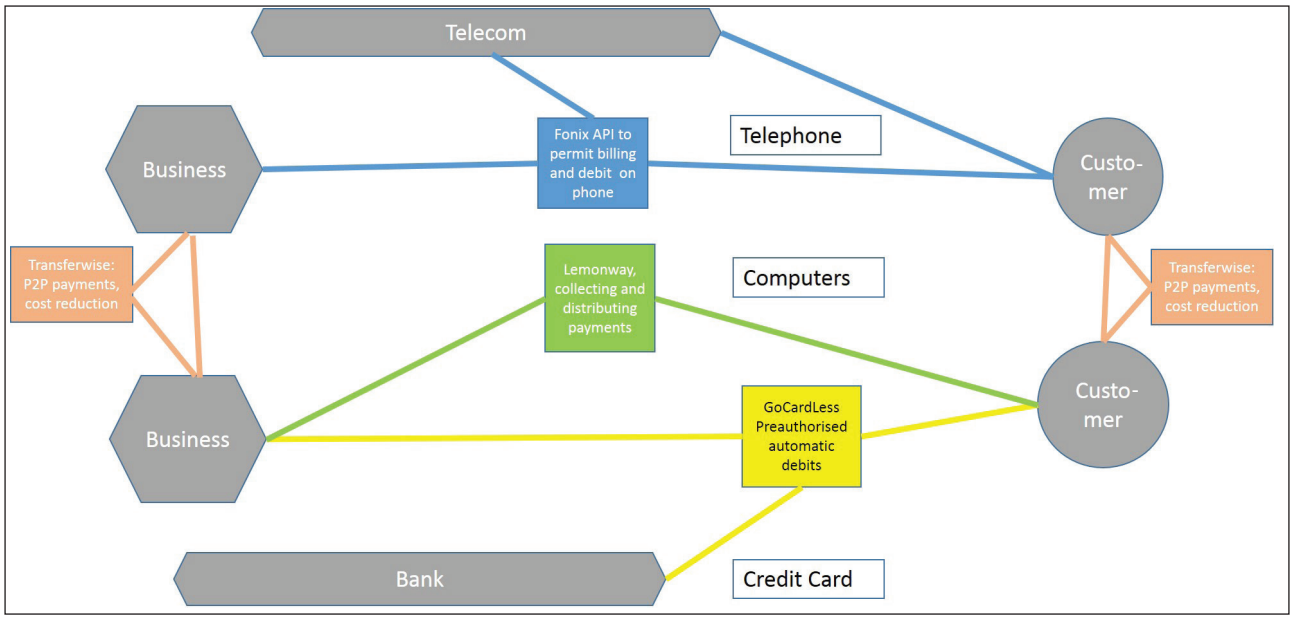

Figure 4. Situating Our Case Studies in the Mobile Payments Landscape

Source: The author.

clearly a microloan and therefore likely to be for 30 days to 3 months, closer to payday lending than to a bank loan. Investors, including the International Finance Corporation (IFC) and Peter Thiel, have provided €324 million in equity and, €200 million in debt.

How do they do this? How are they going where banks fear to tread? The key is their innovative credit-scoring model which does not look at past loan behavior but at psychometric testing to posts on Facebook or LinkedIn. Technology allows them to examine 20,000 data points of any applicant and provide a credit score to them in 32 seconds. Loan issuance is immediate. Being backed by private investors and not deposits, they do not need to have a banking license or observe prudential norms. Despite the fast growth, Kreditech is burning cash at a high speed. Its total income in 2017 was €68 million but this led to a loss of €55 million. Undoubtedly, having 400 employees comes at a huge cost, and even charging 0.8% to 1% a day[4] does not compensate for this.

Kreditech is not alone. A host of crowdfunding players with similar models and results are all over the European marketplace and are slowly moving from Europe to emerging markets in Latin America and Asia. One such player is ID Finance, a Spanish headquartered company which originally started in Russia and is now in nine countries. It is already profitable and made $6.5 million in 2017.[5] It has almost a million customers. It too uses data analytics and consumer behavioral metrics to issue loans. Its non-performing loan has gradually fallen to less than 10%, thanks to machine learning.

The role of deep learning and artificial intelligence for microfinance may go further in the near future. Donors and MFIs have been trying to show that their efforts are directed to the poor. For this, they are using poverty scoring (Bumacov, 2012; Bumacov, Ashta, & Singh, 2017; Schreiner, 2010; Schreiner, Matul, Pawlak, & Kline, 2005). But scoring on an individual basis adds to the overall costs of the transactions. Today, with deep learning and using satellite images, researchers have found how to identify poor neighborhoods even in poor countries. This information, based on publicly available data, can be used by MFIs to target their products to appropriate neighborhoods.

Card Readers and Advances for Business

PayPal, one of the big payment fintech firms, is paying $2.2 billion to buy out iZettle, a Swedish firm founded in 2010, and already operating in a dozen countries. Its gross revenue in 2017 was only $110 million, with losses at about $26 million.[6] iZettle has 0.5 million merchants, compared to about 20 million for PayPal. Since PayPal is valued at about $96 billion, iZettle seems to have been valued proportionately based on this metric.

In eight years, iZettle has brought out card readers which allow any business person to take payment anywhere, as long as they have a Bluetooth connection to a phone. iZettle partnered with all the major card companies. Its major competition is Square, which was started by a co-founder of Twitter. iZettle also provided apps for customer analytics and small business loans.

The small business loans are provided, since 2015, to customers for a fixed fee and are repaid from credit card sales at a variable rate. The customer can take a year for repayment. The amount of the loan is based on the previous credit-card-based sales information to ensure that repayment is never more than 25% of expected credit card sales. The example provided on the iZettle site shows that the fixed fee is of 13% of the amount lent, approximately 26% on diminishing balance method.[7] Since iZettle's customers are mainly small businesses, the advance is directly competing with what microfinance firms would offer.

These customer-sales-based credit lending to business seems to be less risky than the social and psychologically scoring for consumer lending being used by Kreditech. iZettle's example shows, once again, that European fintech operators can succeed. However, our study did not reveal the presence of initiatives of brick and mortar MFIs in this space.

Stimulating Innovation for Financial Inclusion…Out of Europe

Having seen the growth of fintech, it is important to understand that this growth is actively being stimulated. This stimulation is provided by donors and financial markets as well as by regulators. However, the case studies which are found in this press survey are invariably related to the Global South, although lesser known initiatives are taking place in Europe too.

Mobile Payments

One major innovation which is still in the news is mobile payments. For example, in Pakistan, only 12% of the population had access to financial services in 2008: this had risen to 23% in 2015 thanks to mobile wallets and payment.[8] More specifically, we can see that the sector is modernizing itself. The mobile payment operator Easypaisa, a subsidiary of Telenor, has now launched Easypay NFC. Mobile internet is growing in Pakistan, with 38 million mobile internet subscribers. JazzCash has a presence in 70,000 retail outlets and has 1.5 million users. It has recently partnered with Daraz, an online retailer.

More and more, the poor are accessing financial services without going to a brick and mortar MFI. For example, FINCA Impact Finance's network of 21 microfinance banks and institutions are using mobile and agency banking. In FINCA Impact Finance's subsidiary in the Democratic Republic of Congo, 75% of transactions are now taking place outside traditional branches, saving clients time and money.[9]

ATMs for the Poor

How can financially illiterate people withdraw money from an ATM? With today's biometric technologies, it is now possible. In India, for example, Ujjivan (a small finance bank) is going to set up machines which can read thumbprints and compare them to the one on the identity card. For this, Ujjivan has teamed up with Financial Software and Systems (FSS), a global payments and fintech services provider. FSS today manages over 30,000 ATMs for over 30 leading public and private banks across India, out of a total of around 207,000 ATMs. FSS also has over 10,000+ of its own ATMs which are deployed for various banks. They plan to allow poor people to deposit and withdraw small amounts like a hundred rupees (about $1.50). The menu can be in 24 languages and is also voice-enabled. These machines provided by Ujjivan will mean that the poor can access cash anywhere, anytime and limit it to small amounts, thus reducing crime and insecurity.[10]

Although cashless transactions through check, credit cards, mobiles and internet are reducing the growth of ATMs worldwide, in poor countries, the growth rate of ATM is fuelled by a very low initial base. In India, for example, ATMs are growing by 10% per year, but transactions through ATMs are growing by 33% per year. This divergence is because as ATMs come closer to the poor, they withdraw less money more frequently. At the same time, ATM manufacturers such as Diebold Nixdorf, NCR Corporation, CMS Information Systems, and AGS Transact Technologies are launching more intelligent ATMs, permitting bill payments for utilities, loan applications and loan repayments, check encashment, mobile recharge and other services. Most of the ATMs are linked to banks: white label ATMs need government authorization, and only eight operators have a license (Oluka, 2017). In the world of ATM industry, there is a strong competition between banks and white labeled ATMs. Banks charge a higher transaction fee for consumers who withdraw money from a white labeled ATM rather than a Bank ATM. The reason consumers may prefer white-label ATMs, despite a service fee, is lack of availability of adequate bank ATMs.

Information Systems for Microfinance

Since a lot of research has already presented management information systems for microfinance (Ashta, 2011; Ashta et al., 2015), here we just remind the reader of the primordial importance of this field. Even if Enterprise Resource Planning systems are generalized in some industries and may no longer be a source of competitive advantage (Seddon, 2005), not using them may lead to competitive disadvantage and lack of visibility. Finca reported that it took 22 days for them to process loan applications when they were operating in paper mode. However, they were able to reduce this to two days through digitalizing the application. In fact, they are able to reduce this to zero days except in countries where the regulation requires a paper contract.[11]

In March 2017, Khushhali Microfinance Bank in Pakistan became the 11th MFI in Pakistan to adopt Temenos' core banking software. This will enable it to lower operating costs. The implementation of the software will be done by a fintech consultancy firm. Temenos, headquartered in Geneva, is a leading provider of banking software.[12] Oradian is making software (Instafin) especially for MFIs. Its offering is based on the cloud as a software-as-a-service package. It now has over 30 clients (Oluka, 2017).

Many MFIs are now sharing their in-house information systems with other smaller MFIs. This enables them to help financial inclusion and recover some of their development costs.

Discussion: On the Increase of Visibility

The press seems to be also interested in reports that tend to increase size and signal quality and provide information.

Increasing Size through Investments, Alliances and Acquisitions

Everyone is investing into fintech: private equity is buying large equity stakes expecting to get a high return in three-to-five years. Mobile telecoms are buying banks and MFIs to be able to offer services without going through the delay of applying for a banking license. They are partnering with banks to provide their services. This is now catching on in Europe too, and Orange Telecom has formed an alliance with Groupama Bank to start their Neobank in 2017.

The Internationional Finance Corporation (IFC), part of the World Bank Group, has been investing in technologies to help expand access to financial services. As of March 2017, IFC had invested about $200 million in 28 fintech companies around the world. This is in addition to billions of dollars already invested in MFIs. For example, it invested $3 million in Moni, a Buenos Aires-based fintech platform, to expand its credit and bill payment products to underbanked consumers in Argentina. Moni uses technology to transform the process of applying for a loan and paying for telecom, utility and other bills, through a simple and user-friendly mobile app. Moni will use IFC's investment to accelerate its growth in Argentina. It will also help the company further improve the borrowing conditions for its customers with lower interest rates and more sustainable credit products such as micro instalment loans.[13]

Alliances in the mobile banking or mobile payment sector are being formed, as expected, between banks and telecoms. For example, in Pakistan, the National Bank of Pakistan (NBP), Telenor Pakistan and Telenor Microfinance Bank Ltd (formerly Tameer Microfinance Bank Ltd) have formed a strategic alliance to further financial inclusion.[14] Under this arrangement, Telenor's USSD channel, Easypaisa's agent network and NBP's transaction bases will all be used jointly to fulfil the needs of banked as well as the unbanked population of Pakistan. This will be an easy-to-use account called the Asaan Mobile Account.[15] This may primarily help in both B2P, P2P, P2G and G2P payments such as salaries, transfers, bills and tax collections, and security contributions, respectively. The software solution will be provided by Inov8, who provides software as a service as well as proprietary licenses. This software solution would allow all Inov8 users (other commercial banks) to use the agent network of Easypaisa.[16]

Microfinance firms are also merging to become larger players. One of the 10 Indian operators who got permission to start a small finance bank is Disha Microfin, who was financed by a private equity firm, TrueNorth in 2010. Disha recently merged with Future Financials to get a larger financial base. The merged company would become a small finance bank as soon as it gets a final banking license. This bank, called Fincare Bank, would be operating mostly in rural areas and would have challenges in providing digital services: lack of internet and customer comfort. However, with the spread of internet and customer education, along with incentives for the customer to use digital channels within the product design, the organization hopes to achieve a 97% offering by digital means, mostly to women.

Awards and Incentives for Fintech to Signal Quality

One of the key ways business improves visibility and trust is by winning awards that signal quality. These awards may be promoting technology, innovation, microfinance or something related. An example in Europe is the famous European Fintech awards.

Islamic microfinance is producing a lot of hype but seems to be spreading slowly. Therefore, AlHuda Center of Islamic Banking & Economics distributed 20 awards to Islamic microfinance organizations in Kenya in November 2017 (CIBE, 2016). Of these, one was for fintech. One award winner was using Islamic charitable giving to crowdfund projects in Arab countries such as Narwi and HumanCrescent.org as well as platforms such as Growmada.com that link artisans to consumers in developed countries. Another award was won by an Islamic wealth management platform which allows investors to provide resources to Sharia-compliant target companies.

Kashf Foundation in Pakistan won the European Microfinance Award for its work in financing private education schools so that they could provide infrastructure or basic technology like computers for their teachers and students to use.[17] The CEO of the MFI is clear that the future for cost reduction in microfinance is through the use of fintech and automated credit scoring models.

All these awards are helping the individual early innovator MFI as well as the industry because the reward and the free advertising created by the award may be viewed as repayment for revealing and diffusing its best practices to other MFIs which have the opportunity to adopt these early instead of discovering these overtime. However, what could help the poor is if such awards were provided by the MFI to poor entrepreneurs. Imagine that an MFI is serving many entrepreneurs and it creates an award for the best entrepreneurial practice and indicates that one of its customers would get this award. This would help stimulate awareness and diffusion of best practices within its customer base.

Sources of Information and Education on Financial Access

Sometimes, visibility is created by simply creating rankings such as the *Financial Times'* list of the fastest growing European companies, which contains a column for the kind of product and service including fintech and financial services. Providers of digital financial services have also obtained a new credibility. The IMF publishes an annual survey called Financial Access Survey. For this, it now uses data not only from banks and MFIs but also from providers of digital financial services such as mobile money (IMF, 2016).

Education and training is required at all levels since NGO employees often lack this (Mohammed, R. T. White, Wang, & Kai Chan, 2018). The Helix Institute of Digital Finance, Kenya, was founded in November 2013 as a partnership between MicroSave, the Gates Foundation, IFC, FSD-Africa and the UN Capital Development Fund. It provides courses in digital financial services and risk management in digital financial services as well and in new products and development and rethinking marketing for digital financial services.[18] This is in addition to education providers such as the Boulder Institute of Microfinance that provide risk management knowledge to CEOs of leading MFIs (McNally, 2016).

The Better Than Cash Alliance is a partnership of governments, companies and international organizations that accelerates the transition from cash to digital payments in order to reduce poverty and drive inclusive growth. Based at the United Nations, the Alliance has over 50 members, works closely with other global organizations and is an implementing partner for the G20 Global Partnership for

Financial Inclusion. The Alliance publishes reports and case studies on how countries are digitalizing payments.

Concluding Remarks and Recommendations

The work is important because of its recent nature and because it summarizes the best practices that are being used by highly innovative firms. It will be useful to European MFIs who are looking for ideas on how to use technology for microfinance, improve their visibility to attract funding, and improve their impact through cost reduction and outreach increase.

This study of recent news of innovations in the digital finance landscape finds that European microfinance operators have been absent in communicating effectively on their achievements. Part of the reason is that the news media focuses on the novel and the spectacular. Microfinance may now just be old news, and its growth is no longer spectacular. Since financial markets are always searching for extraordinary profits, they look for high growth industries with new stories that can be told. The average annual growth rate of the European fintech operators that we examined was 108% during the 2013–2016 period. This is radically different from the modest growth of the microfinance sector which has dropped from 30% to 10% per year.

This does not mean that there is no future for microfinance operators. First, solving poverty will remain an interesting issue. However, for microfinance operators to show that they are working towards this end, they need more studies highlighting how they are making a difference. For this, more energies need to be devoted to micro and small business lending where banks may find difficult to venture, owing to their prudential risk regulations and norms.

Second, many of the technological advances need to be embraced by microfinance operators sooner rather than later. Many of these advances, such as information systems, may directly affect their operating capabilities. Awareness, education and training in technology need to start at the top but later these need to percolate to junior management and lower levels too.

Third, since visibility depends on size, European MFIs may need to merge by forming European companies such as Societas Europaea. Those who are first at doing this may get incremental visibility.

Fourth, appropriate lobbying for uniform legislations in Europe may be required to reduce the cost of doing business for large pan-Europe MFIs.

Finally, a culture of learning and experimentation needs to be fostered in the MFI as well as in its business clients. Wild ideas need to be tapped. For example, we could suggest inverting the smarket.com lottery model mentioned in the section 'Methodology'. Instead of making millions of users pay to play and having a few winners and profit for the platform, we need to develop platforms where millions of poor people receive money to play and develop their capabilities at the same time. This may be local talent competitions, but if we think really wild, we could couple this idea with writing autobiographies and revealing information about themselves. This revealed information may entitle them to payment from operators such as Facebook or others who want to control data or other organizations who want it for marketing purposes. If each European MFI does it with its customers, it would give them information to develop their credit scoring models. The best autobiographical stories may be entitled to bigger awards, thus, encouraging people to develop their storytelling skills. If a part of the vote is mass-based, it would encourage people to read the stories of others and in the process learn from each other. After all, if humans are social animals, it is because they want to grow from each other through social sharing. The role of the European Microfinance Network, the European Microfinance Platform and other such bodies may be to act as an intermediary between its member MFIs and corporates wishing to participate in such activities either to fulfil their CSR, for cause marketing or to purchase data.

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Notes

1. 'Skype Meets Cash': *Forbes*, 21 June 2016, p.102.
2. https://www.kreditech.com/wp-content/uploads/2018/01/Kreditech-Factsheet-2018.pdf
3. https://www.kreditech.com/press_release/kreditech-announces-strategy-2018/
4. https://www.ft.com/content/12dc4cda-ae59–11e5-b955–1a1d298b6250. 1% a day compounded works out to 3678%, which is similar to that charged by pay day lenders.
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