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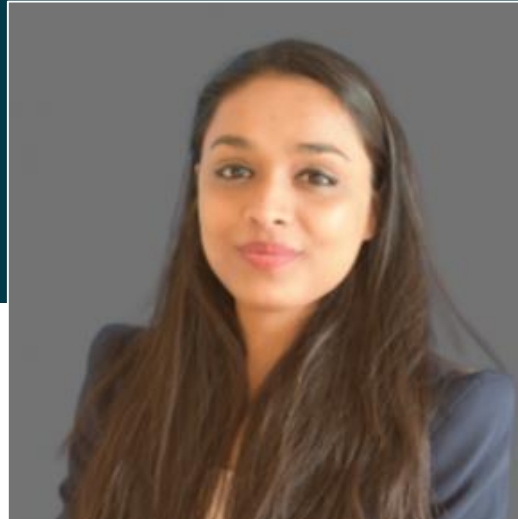
# Inclusive Digital Banking

Arisha Salman

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# Speaker



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# Introduction

Persisting Exclusion & Digital Banks

# A new generation of digital banks is emerging to offer banking solutions to mass market customers



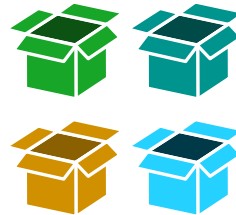
Reach underserved clients through alternative distribution channels, innovative KYC, and alternative credit scoring



Offer products that are tailored to the needs of unserved or underserved customers, transparent, and user-friendly



Price products more attractively than competitors

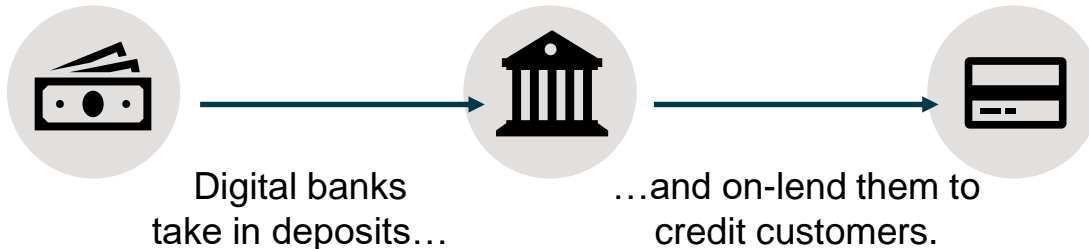
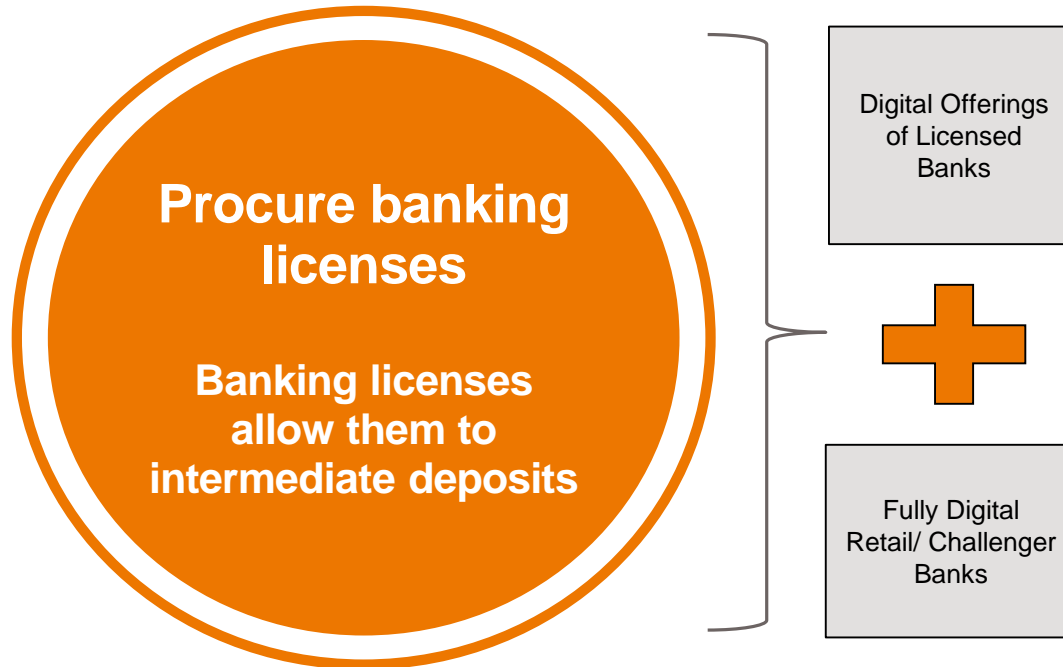


Offer a greater variety of products than existing mass market providers



# CGAP makes a distinction between “Digital Banks” and “Neobanks”




## Digital Banks



## Neobanks



# Three promising business models in digital banking

		EXAMPLES	KEY CHARACTERISTICS
	<b>Fully digital retail bank:</b> A traditional banking business model improved with latest digital technologies to offer a better banking experience for lower cost.	TymeBank (S. Africa) 811 (India) UnionBank (Philippines) Ila Bank (Bahrain)	Cheap, Fast, Convenient
	<b>Marketplace bank:</b> A banking response to e-commerce and fintech competitors in the form of a one-stop shop for financial services run by a bank, offering easy access to a variety of products/services.	Starling Bank (UK) UnionBank (Philippines)	Economies of scope and scale
	<b>Banking-as-a-Service:</b> Tech companies with a banking license that represent the vision of banks as market utilities. Improves access to cutting-edge technology and brings economies of scope and scale.	Banxy-Fidor (Algeria) Accendo (Mexico)	Cutting-edge technology



# Case Studies

## Overview



**TymeBank**



# Modern technology enabling creative solutions for inclusion

## IMPACT

  
**2 million**

customers in  
less than 2 years



**110,000**

approx. number  
of customers  
added monthly

## PRODUCT

Transaction/ Savings account	✓
Debit/Credit card	✓
Remittances	✓
Consumer credit	✓
PFM	✓
MSME products	✓
Other	X

## VALUE PROPOSITION

- Lower pricing and competitive savings rates in comparison to competitors
- Convenient access via a combination of digital channels and a vast network of physical touch points (in retail stores)
- On-boarding of customers in under 5 minutes through digital kiosks
- Incentive programs to promote certain customer behavior

## EDGE



Distribution  
through kiosks  
in 800+  
retail stores



Lower  
pricing and  
competitive  
savings rates



Advanced  
customer  
data analytics

811



**kotak**

Kotak Mahindra Bank



# An incumbent bank testing a digital play to expand market share

## IMPACT

**2X**

increase in KMB's  
customer base  
since launching 811  
(Growth from 8 to 16 Mn  
Customers)

**8 million**

Number of new  
customers added  
since launch

## PRODUCT

Transaction/Savings account	✓
Debit/Credit card (KMB)	✓
Remittances (KMB)	✓
Consumer credit (KMB)	✓
PFM	✗
MSME products	✗
Other: Investments (KMB)	✓

## VALUE PROPOSITION

Simple and affordable products

- Zero-balance savings account
- Free transactions (within monthly limits) and limited fees

Real time, digital onboarding

- Biometric led (Aadhaar enabled) digital eKYC
- Video KYC

## EDGE



Video  
eKYC



Prominent  
marketing  
campaign

# Traditional banks are launching as well as powering new digital solutions in the Arab World



Tunisia

Fully digital online banking solution developed by **Amen Bank**; Offers AmenPay which allows customers to pay in just a few clicks



Morocco

Digital bank created by **Attijari Bank**; Offers life insurance and check remittances



UAE

Digital bank created and powered by **Emirates Bank NBD**; Offers 1.5% interest rates and a rewards program



Algeria

Digital bank created by **Natixis Algeria**; Banxy Bank is built on Fidor's Banking-as-a-Service platform



Bahrain

Digital bank (mobile only) powered by **ABC Bank**; Offers a rewards program, spend tracking solution, and a virtual credit card

Unlike Amen First Bank, L'bankalik and Liv that are created by banks; Ila Bank is not owned by ABC Bank

Currently, digital banks cannot operate on a standalone basis in the region; all digital banks rely on licenses of existing banks





Photo by Hailey Tucker

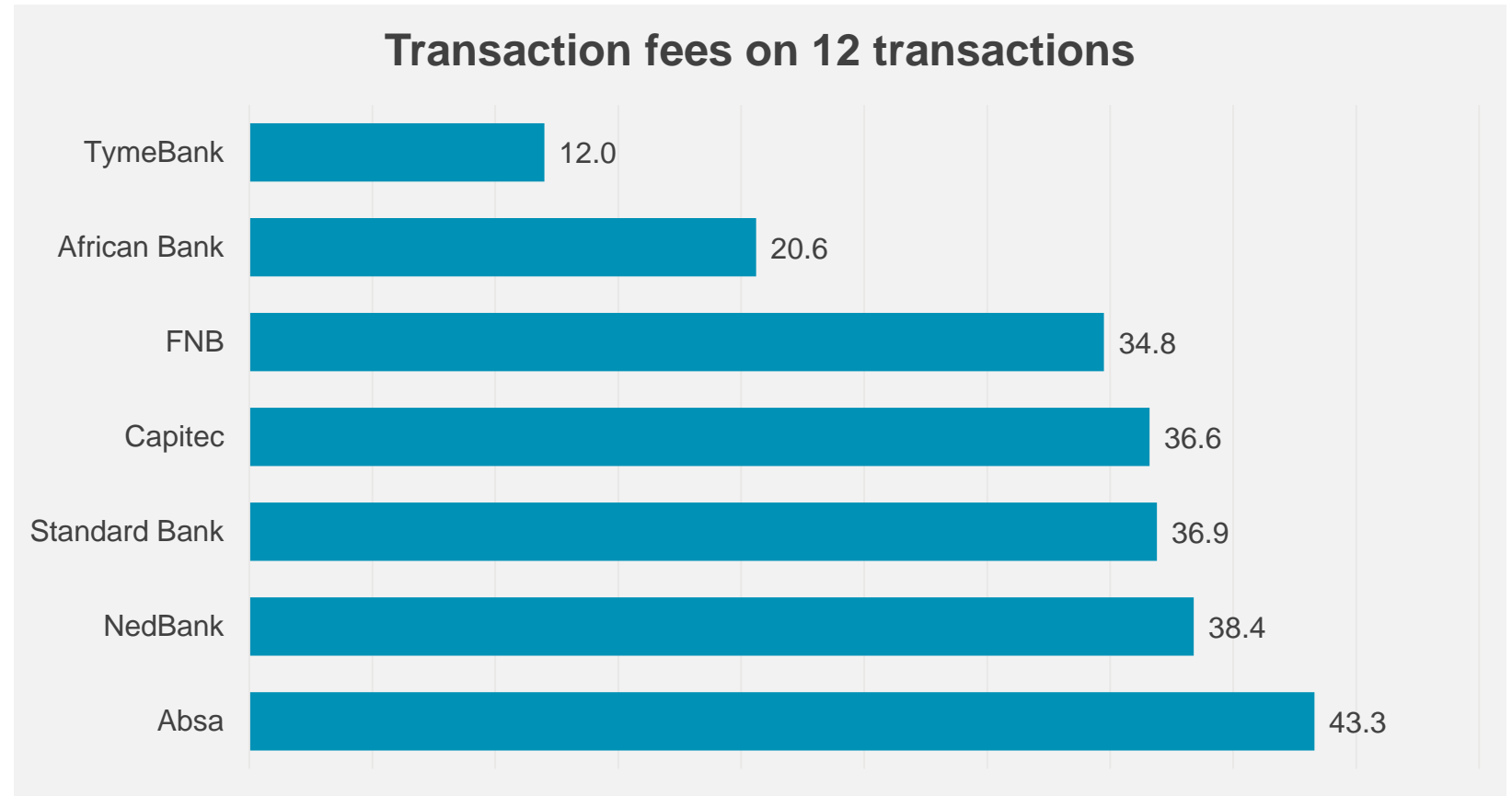
# Accelerating Financial Inclusion through New Digital Banks



# Digital banks offer products that are better priced than competitors' products



Example: TymeBank charges a significantly lower transaction fee than competitors: Its customers pay 40% less than those at the next most affordable bank for 12 transactions



Source: UBS 2019



# Digital banks cater to the most critical financial needs of customers by offering essential products



Key products offered by digital banks

Example: **Kotak811's flagship product is a savings account**



## 811 Zero Balance Savings Account

- No account opening fees
- Free virtual debit card
- 1 free deposit & withdrawal monthly (US\$134)
- Physical debit card (US 2.5/year)
- Up to 4% p.a. interest yield
- 5 free monthly withdrawals from ATMs



## Offered through KMB






- Short-term loans
- Credit cards

# Digital banks also have other characteristics that allow them to cater to underserved customers

## Improved understanding of customers through data

-  Data enables more flexible business intelligence
-  Frequent iterations of products (daily / weekly)
-  360° view of customer data
-  Customer feedback loop integrated in design process
-  Test-and-learn approach
-  Non-financial data

## Innovative distribution models

-  Alternatives to in-house brick-and-mortar branches and agents
-  Blended solutions (offline-online) leveraging the advantages of both
-  Leveraging players with existing footprint (rural banks, grocery stores)
-  Innovative solutions (integration with till machines, kiosks)
-  Increasing diversity of distribution channels

## Remote on-boarding of customers






-  Overcoming physical distance
-  Using alternative methods of customer identification and verification
-  Minimum friction, speed and convenience as key design principles
-  Biometrics and data sharing among key enablers
-  Cost efficiency for the provider and for the customer





Photo by Nicolas Réméné

# Business Model



# Digital banks typically have the following core revenue streams



Interchange fee on  
card transactions



Transaction fee



Intermediation revenue  
(Net interest margin)



Physical debit card  
issuance fee

While still being in their growth stages, the studied firms have clearly defined pathways to profitability



### Kotak811

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KMB is expanding the “size of the pie” through 811. The customer base grew from 8Mn to 16Mn in 18 months

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Once on-boarded, customers embark on any of three paths to KMB products:

- Credit-driven
- Deposits-driven
- Investment-driven

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Cross-selling helps improve ARPU for the KMB as a whole (inclusive of 811)



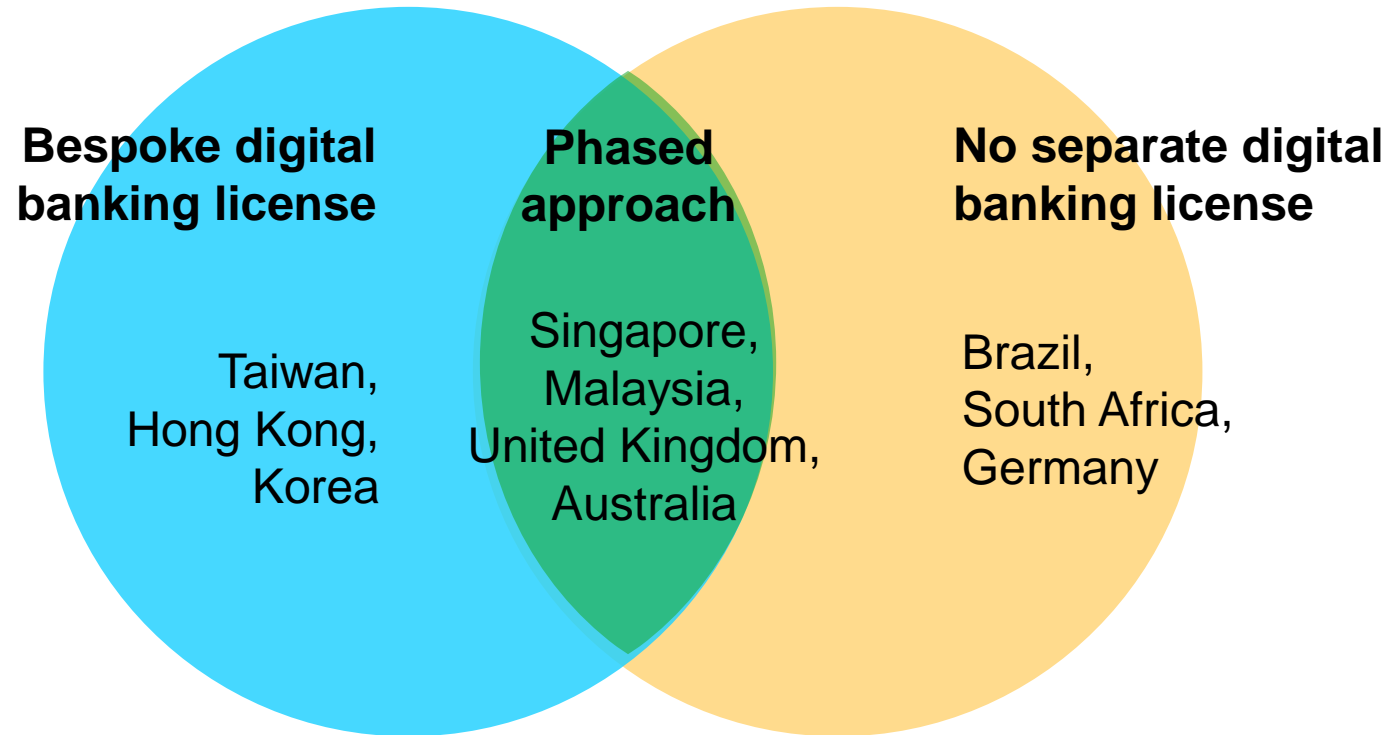


Photo by Francisco Javier Soto Plascencia

# Enabling Factors



# Regulation: Globally, regulators are adopting different approaches to welcome new digital players and encourage innovation



*Common characteristics of bespoke digital banking licenses*



Restrictions on banks  
physical presence



Unaltered fundamental  
requirements for banking



Focus on  
financial inclusion

# Infrastructure: Markets that are ripe for disruption by digital banks share common characteristics



High Internet  
Penetration



National ID  
Coverage



Growing Smartphone  
Adoption



Robust Payments  
Systems

# Technology Stack: Leveraging modern technology platforms to overcome challenges associated with legacy systems

## Modular Architecture

Improved control over front-end channels for user interfaces, business rules to configure products and services

Stack integrates easily with 3<sup>rd</sup> party providers, including FinTechs

## Cost Effectiveness

Digital banks book their tech stack costs as operating expenses

Tech-related expenditures can be calibrated with the growth of the business

## Scalability

Most, and sometimes all, of a modern stack is cloud-based

Cloud-based stack make it possible to scale according to business needs

Partnerships offer a lever for scale

## Effective Management of Data

Data is more easily managed in a modern tech stack

The orchestration engine in a modular stack can be integrated with a data environment to extract and use data in real time

## Agile Product Development Culture

Driven by company culture and organization that cultivates continuous product development

Microservice architecture that allows product features to be built or modified in their own containers, minimizing disruption to the system





Photo by Doaa Mohammed NasrEldeen

# Q&A

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