



CDC-SPTF FINTECH WEBINAR SERIES FOR INVESTORS

Brief 5. FinTech Investments: Evaluating Technology Risks and Opportunities

Many investors want to better understand opportunities in the FinTech space but do not have a roadmap for how to evaluate such investments for their risks and benefits to clients. [Industry-wide standards exist](#) for evaluating the consumer protection and social performance management (SPM) practices of *traditional* financial service providers and can be a starting point for FinTech providers as standards and guidelines are being adapted. In the meantime, investors are seeking answers to the questions: *During due diligence and monitoring of FinTech investments, how do we evaluate client protection risks? How do we assess the value for the end consumer?*

SPTF and CDC Group have designed a [webinar series](#) for investors to help answer these critical questions. SPTF is coordinating with experts including the Smart Campaign, MicroSave, and others to develop content for the series.

This brief presents key lessons from the fifth webinar. During the webinar, Monica Brand Engel of [Quona Capital](#) discussed how their institution evaluates technology risks and opportunities in FinTech investments, with the goal of creating value for the end client. Rick Levenson of [RippleWorks](#) also joined the call to discuss how it works with investors to help them manage technology risks.

Listen to the full recording [here](#). To sign up for the webinar mailing list, contact [Katie Hoffmann](#).

Monica Brand Engel began the call by saying that Quona’s goal is to leverage technology to catalyze financial inclusion in emerging markets. She provided three cases that exhibit inclusion through technology:

1. **Yoco** is a mobile point-of-sale company in Africa that helps solve the digital payment acceptance gap for micro and small businesses. For digital payments to take place in small businesses, there needs to be an incentive for those businesses to accept them. Yoco is helping with this by allowing the small businesses to access accounts to store value and to conduct transactions in safe and cost-efficient ways.
2. **Coins** is a payment company in the Philippines that leverages the latest technology in blockchain for cross-border remittances. It worked with the two largest mobile network operators in the country to create a wallet-like mobile payment system that allows customers to seamlessly conduct several transactions – such as paying bills or topping up airtime – that otherwise would have required them to go to different locations to complete.
3. **Konfio** digitizes the entire process of providing working capital loans to SMEs, which lowers the costs of the loan and increases convenience to the customer. Additionally, because it can access



digitized data such as invoices, it is better able to verify clients' daily cash flow than traditional microfinance. That helps it better match the size of the loans with cash flow, which in turn reduces over-indebtedness.

Part I: How can investors make sure technology is used as a force for good?

Monica reiterated that technology can catalyze financial inclusion, and the important question to address is, "How can you make sure technology is actually used as a force for good?" Quona uses its core focus and then a multi-step investment process – with a specific focus on technology during due diligence – to achieve that.

- **Focus.** Quona only invests in Series A growth-stage companies, with at least USD \$1-3 million in topline revenue. "It's not just a risk mitigant," Monica said. "It allows us to see that they've achieved product-market fit and that there's a value proposition to the end client." Quona specifically looks at recurring revenue, retention rates, average balances, "and any other indicators that show customers aren't just buying the product but they like what they see."
- **Sourcing.** Investors should get to know entrepreneurs and establish that there is mission alignment with their goals. Direct relationships and utilization of referrals are critical in mitigating this risk. "Technologies can be used for bad as well as good. There are bad actors out there," she said. "Make sure the person at the wheel really is mission-aligned."
- **Screening.** It's easy to let excitement over innovation cloud a clear-eyed view on the business model and technology being used, she said. To combat this, Quona:
 - Has introductory phone calls with the company to determine the basics of the business.
 - Brings in a second partner to check any positive bias.
 - Looks for co-investors.

As part of this screening process, Quona forms an investment thesis asking if the business is able to radically improve access and quality of financial services to the unbanked. If the answer is not a "resounding" yes, it does not move forward.

- **Due Diligence.** To conduct due diligence, Quona uses site visits, third-party referrals, and partnerships. Partners are often brought in to do deep dives into accounting, legal, and technology sectors. Quona looks at several areas related to technology risks during this stage:
 - **Technological expertise.** Verify the team's technological expertise and a resounding intention to create a strong social impact. Quona also looks at the designation of team roles and responsibilities.
 - **Platform/Product.** Assess use cases, traction, and short-term/long-term scalability. Is it a closed loop, or is it interoperable? Is it scalable or bespoke to a certain client segment? Is it differentiated, or are the barriers to entry low?
 - **Usability.** Analyze the human element. Monica noted the biggest challenge Quona faces with companies are human, not technological. For example, people are often uncomfortably adopting new technology. "Technology is only as good as it's usability," she emphasized.



- **Customer Protection & Empowerment.** Ensure the value proposition has been built with the customer at the center. This involves looking at problem areas in traditional microfinance, such as evaluating ability to pay, collections practices, complaint resolution, and regulatory alignment.
- **Data Security.** Preserve customer interests and follow best practice. This involves creating a system for identifying, signaling, and reporting red flags, as well as determining how the company will manage and respond to the situation. Investors should verify an IT team and data security policies are in place. “This is as much of a people and policies issue as it is a technology issue,” Monica said.
- **Regulatory Compliance.** Certify that the company is compliant with the various local/state/federal regulatory requirements while maintaining a positive relationship with the regulators. Investors should also assess the status of company licenses and benchmark against other players in the market.
- **Closing and Portfolio Management.** The Portfolio Management process is initiated through KPI collection and tracking, governance and oversight activities, and value creation engagement. “People put a lot of work in getting the deal done, but the hard work starts when the disbursements happen,” she said. “There’s an important piece of venture in picking winners. But there’s another important piece in making sure they grow effectively, maintain their mission and ultimately find a suitable exit.”

Part II: Leveraging partnerships to address technology risks

Monica emphasized Quona’s use of partnerships to support companies as they scale, particularly in relation to technology risks. “Our strength is the business model that technology enables, rather than being Java experts or being able to analyze Python,” she said.

One such partnership is with RippleWorks, which is a Silicon Valley-based philanthropic foundation that partners with investors to provide deep, post-investment support to impact-driven enterprises. It works with the companies to define a specific, operational challenge, and then Ripple Works finds a Silicon Valley veteran with expertise in that specific issue. The expert works with the enterprise for 3-4 months to address the specific problem. All services are pro-bono.

Rick Levenson explained how RippleWorks worked with **Coins.ph**, a Quona investee, to combat fraud:

- **Problem:** Coins.ph identified a common problem in southeast Asia of rampant fraud as a result of increasing scale of micropayments. As it scaled, it needed to ensure strong security standards while not increasing friction in onboarding new customers.
- **Partner:** Ripple Works and Quona partnered Coins with former PayPal Vice President Alok Bhanot, an expert on building and scaling fraud systems. Over four months, they jointly created a process and framework for how Coins should think about fraud and then piloted that fraud platform.
- **Key lessons learned about fraud and security for FinTechs.** Investors should make sure FinTech investees:



- *Invest in infrastructure upfront.* “Too many early stage companies underinvest in infrastructure and then try and make a somewhat shaky system secure and fraud preventable,” Rick said.
- *Have flexible technical capabilities to expand fraud tools.* It’s not just an issue of what technology to use, but also the ability to build a technology platform that can evolve as the regulations and technologies change as well.
- *Define what they mean by fraud.* Make sure all team members are clear with terminology.
- *Use volume to detect patterns.* For Coins, the goal was to flag 30 cases daily to investigate.
- *Leverage agents,* who interact daily with customers, to identify new fraud patterns and bad behavior.
- *Learn and listen to the people on the ground,* who understand the culture and context the company is working in. “Technology is never the answer. It’s simply a tool,” Rick said. “Blockchain and big data might be the right tools, but they’re not the answer.”
- *Focus on fraud processes and policies as much as the technology.* Rick described a case where AT&T said it had built the most secure data center in the world. A couple days later, someone called the front desk and said that he was the Vice President but had forgotten his password. The receptionist gave him the password over the phone. “You need to think through the technologies as well as the processes,” he said. “You can’t fight human nature.”

Other RippleWorks partnerships have included bringing in the Chief Security Officer of Slack to help M-KOPA with data security and matching Yelp’s sales head with NeoGrowth to help the latter learn how to acquire customers digitally. The majority of problems Ripple Works encounters are tech-related – such as data infrastructure, data science, scaling systems, and data security – but they also concentrate in other areas, such as assisting enterprises solve [human capital](#) issues.