

Digital Credit: Pricing and pricing transparency

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Part 1: Digital Credit – Something(s) old, something(s) new

- Some of the conversations around price in digital credit echo debates from microfinance in the 1990s and early 2000s
- But the digital delivery/collection channels and new data sources also make possible product and pricing innovations not feasible with traditional in-person microfinance

Digital Credit: Something old

Wow, the interest rates on these loans are high! Why are these loans so expensive?

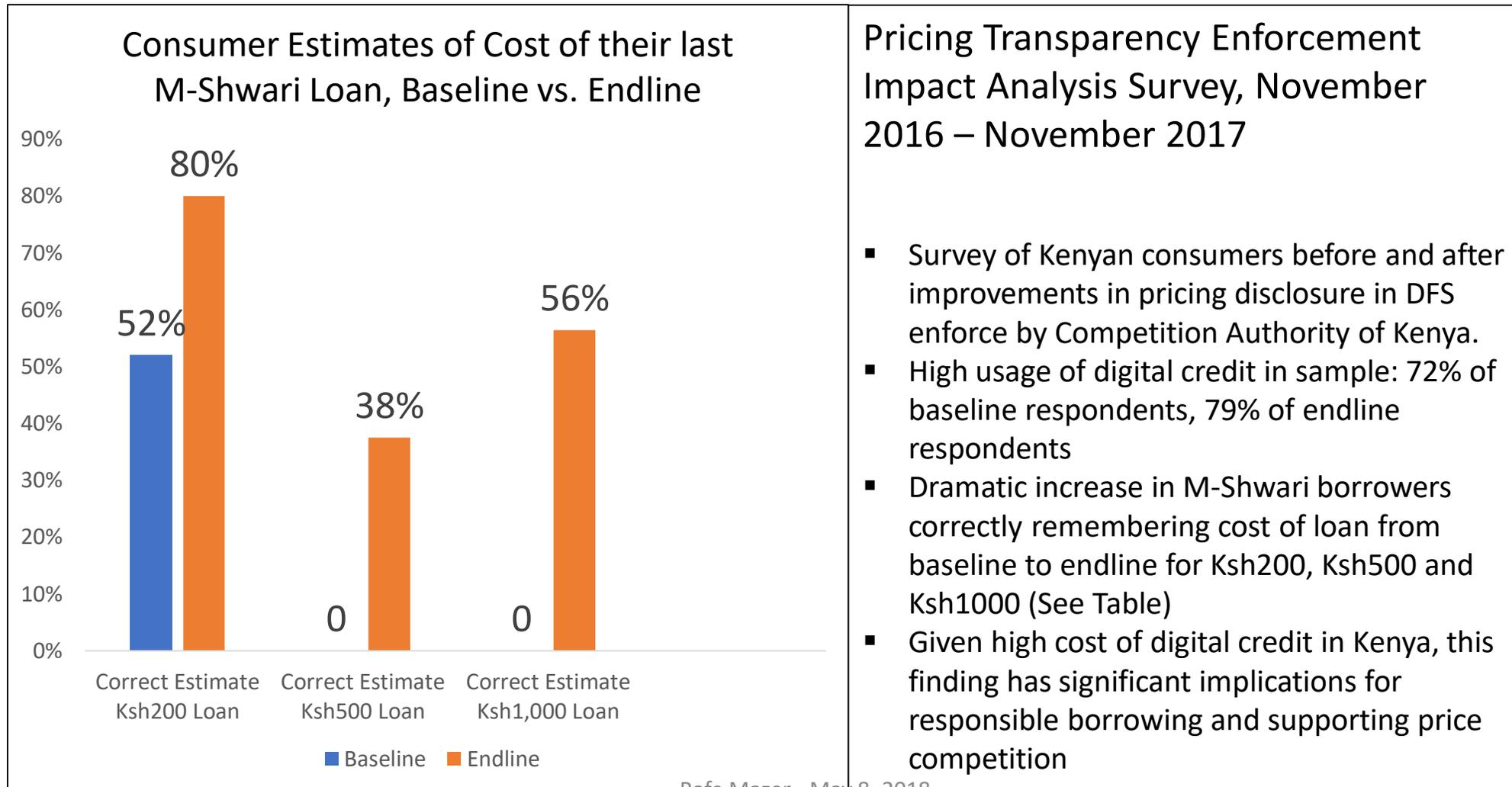
Provider	Loan Range (Ksh)	APR
Equitel Eazzy Loan	250 – 50,000	12-170%
KCB M-Pesa	50 – 1,000,000	49 – 73%
M-Shwari	100 – 20,000	91%
Saida	Up to 25,000	91% and up
Tala	500 – 50,000	61 – 243%

Source: <http://www.cgap.org/blog/digital-credit-kenya-time-celebration-or-concern>

Note: Mazar, May 8, 2015

Digital Credit: Something old

Do consumers even understand what they are signing up for? How do we make prices transparent and meaningful?



Source: <http://www.cgap.org/blog/kenya%E2%80%99s-rules-mobile-money-price-transparency-are-paying>

Digital Credit: Something old

Are these loans helping the poor and underserved?

Tanzania Digital Credit Survey (CGAP, 2017)

- 21% of Tanzanian phone owners have taken a digital loan
- Borrowers are more likely to be male, younger, and urban, and 3x more likely to have a bank account
- 33% report using the loan for business purposes, 37% for ordinary household needs and 36% for airtime
- 31% of borrowers have defaulted in past, and 56% have paid late
- 27% of borrowers report paying fees they didn't expect, didn't understand, or had money directly withdrawn from mobile wallet
- 9% report having reduced food purchases to repay a loan

Digital Credit: Something old

Who is monitoring all these new providers and product types?

- Mix of regulated banks and MNOs and unregulated lenders offering digital credit
- In some African markets where they have scaled consumer protection regulation and supervision is limited

PRODUCT	LENDER	REGULATED BY FINANCIAL SECTOR AUTHORITY?	OTHER PARTNERS
M-Pawa	Commercial Bank of Africa	YES	Vodacom Tanzania
Tigo Nivushe	Jumo	NO	Tigo Tanzania
Airtel Timiza	Jumo	NO	Airtel
Tala	Inventure	NO	
L-pesa	L-Pesa Microfinance Tanzania	NO	None (but use e-money payment channels)
Branch	Branch	NO	None (but use e-money payment channels)
Get Bucks	Get Bucks Microfinance Limited	NO	None (but use e-money payment channels)

Digital Credit: Something(s) new

Loan tenure can be more flexible

- Kopo Kopo offers merchant loans with no fixed tenor—the repayment is made as a percentage of each merchant payment transaction. So loan repayment happens on pace with business activity.
- Similar models could be developed to reflect seasonality in various sectors of economy

Digital Credit: Something(s) new

Loan terms can be adapted to include new repayment and penalty structures

- Jumo offering pay-as-you-use daily interest rates
- Easy to apply declining balance interest
- Branch not charging penalty fees
- Small-value repayments economically viable

Digital Credit: Something(s) new

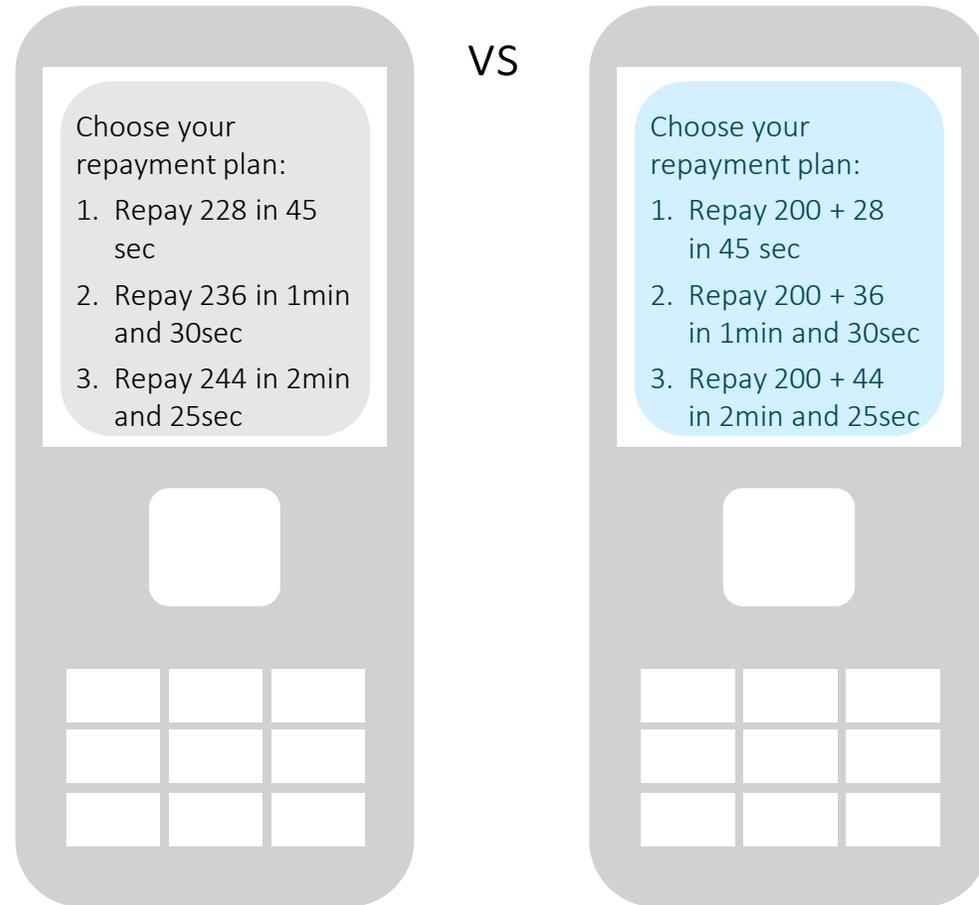
We can more easily test and measure efforts to improve consumer understanding

M-Pawa Interactive SMS Experiment in Tanzania:

- Increased savings balances by Tsh4,447
- First loan payments Tsh1,730 larger
- Repaid loans 5 days sooner

Digital Credit: Something(s) new

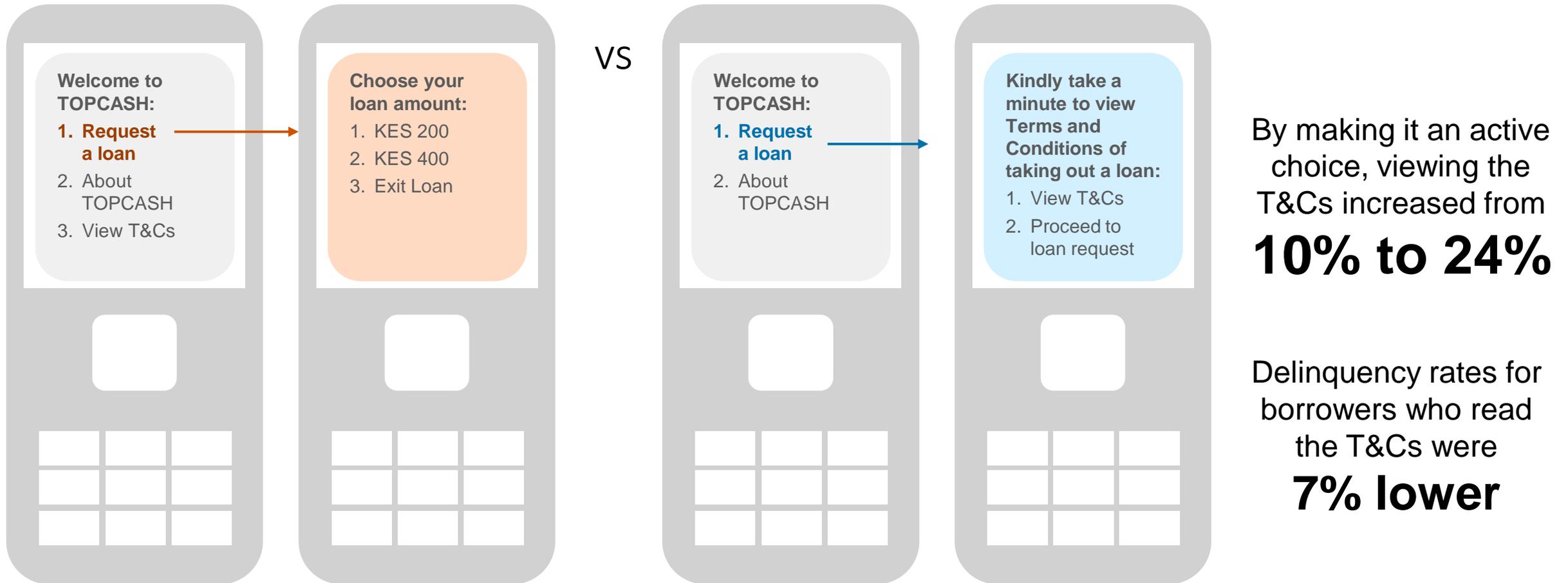
We can more easily test and measure efforts to improve consumer understanding



Separating finance charges from principal in a lab experiment **reduced default rates from 29% to 20%**

Digital Credit: Something(s) new

We can more easily test and measure efforts to improve consumer understanding



Digital Credit: Something(s) new

We can find new ways to gather data and apply customer segmentation

0.0K/s 28% 14:14

TALA

56%

What would you like to use your loan for?

Business Expense

Personal Expense

CONTINUE

0.0K/s 27% 14:17

TALA

78%

Please describe your main source of income

When did you start doing this?

On average, how much do you earn from this in KSh?

Per
Select Answer....

Do you always earn the same amount from this source?

Yes, I always earn the same amount.

No, the amount I earn sometimes changes.

The Provider Perspective

Let's now hear from our two digital credit providers on their thoughts regarding pricing and price transparency in digital credit

Part 2: Digital Credit – Can we improve pricing?

Question 1: The cost of lending

- Is there more space to drive down costs not related to risk (e.g. capital, disbursement, collection)?
- What are the most promising ways to reduce risk further—and in turn reduce cost?

Part 2: Digital Credit – Can we improve pricing?

Question 2: Digital data and lending

- What do you think are the most meaningful types of data for digital credit?
- Do you think we are sufficiently addressing issues of data privacy and protection in digital credit? If not, what more can be done?

Part 2: Digital Credit – Can we improve pricing?

Question 3: Increasing competition

- How do we increase competition, choice and product diversity in digital credit?
- Do we need any policy reforms—existing or new—to achieve the potential of digital credit?

Questions from the audience?