

**SPTF Annual Meeting**  
*Plenary Notes, Day 1*  
Mexico City – June 7, 2017

**What's working and what's not? An honest conversation about social performance management (SPM) in Latin America**

*Moderator: Cara Forster, SPTF (USA)*

*Speakers:*

- *Isabel Baggio, Asociación de Organizaciones de Microcrédito y Microfinanzas – AMCRED-SC (Brasil)*
- *Iván Gutiérrez, Red Centroamericana y del Caribe de Microfinanzas (Nicaragua)*
- *Guillermo Colín García, Asociación Mexicana de Sociedades Financieras Populares (México)*
  
- Cara started the session by saying it is important to link the Mexican sector to the international dialogue on the Universal Standards and their framework. She noted that we have representation of the entire Latin America region on the panel– Mexico representing North America, Nicaragua representing Central America, and Brazil representing South America. Mexico and Brazil are markets that have not been in the SPM discussion as much, but they have experiences that we can learn from.
- Iván represents REDCAMIF, the regional network of Central America.
  - SPM is included in its mission, and it has done close to 90 social audits and more than 50 PPIs. It has also done the SPI4 and recently worked to include SP data in MIS.
  - Additionally, it has worked in creating a product design methodology focused on inclusive financial services, particularly poverty and rural.
  - Institutions take part in SPM for various reasons: mission, regulators, investors.
  - The best demonstrations we've had on advantages of balancing financial and social come from the financial crises in the region LAC. The ones who have come out the best are the ones that have balanced financial and social because they have practices in place that focus on institutional sustainability and keep clients loyal. The challenge is how to balance.
- Isabel represents AMCRED-SC, which encompasses 8 million people in Santa Catarina, a region in Brazil. MFIs in Brazil are just getting started on SPM, and they have many problems dealing with legislation, working with the government. There are many restrictions.
  - The Brazil market has USD \$2.9 billion in portfolio, and opportunity to reach USD \$18 billion.
  - It was interested in knowing the risk profile of clients. People are not doing well financially. It developed a Risk Center in 2014 in response to over-indebtedness.

- It will be working in July on a guarantee fund created by the state.
- It has been started providing digital financial services, which helps reduce its operational costs.
- National regulation in Brazil is very complicated. It's difficult for them to provide products tailored to the needs of clients. They have single products and don't do savings. Many people do not understand the legislation, and many things that have to be done and approved to comply with it.
- It conducted SPM workshops in 2015, 2016, and did an SPI4 benchmarking in 2017 with CERISE and Oikocredit. It then worked with institutions to address the issues found in the report.
- The benchmarking report showed that it scored 58% on Dimension 1, 57% on Dimension 2, 65% on Dimension 3, 75% on Dimension 4 and Dimension 5, and 85% on Dimension 6.
- Cara noted that CERISE can provide regional and global benchmarks via the SPI4.
  - As a comparison, the CERISE's global benchmarks show an average of 60% implementation. The regional average is close to 70%. Here, we can see institutions in Brazil are close to these averages.
  - In Dimensions 4 and 5, these benefit from the national regulations because to comply with the laws they have to have certain consumer protection practices in place. Because of their social structure, they also do well in Dimension 6.
  - The scoring is impressive given the financial crisis in Brazil and the restrictive regulations on products. Indicators on the prevention of overindebtedness are at 90%. Despite the challenges, it is innovating in order to survive in its very difficult context.
- Isabel noted that Brazil's interested rates are also regulated by the government. They cannot exceed 4.5% per month.
- Guillermo represents AMSOFIPO. The Mexican market has changed and grown a lot in recent years. His organization's objective is to be connection between government and the community to promote and improve financial inclusion.
  - Financial inclusion policy in Mexico: There have been changes in structural policies recently. The most important one aimed to bring financial services to all parts of the country. AMSOFIPO was created to look for synergies and improve policy for financial inclusion
  - It has the main objective of strengthening financial inclusion in Mexico. In June 2016, all the work AMSOFIPO does was included in the financial inclusion policy.
    - Development of knowledge for the efficient and responsible use of financial services. The policy intends us to train population in financial services
    - Use of innovative technology for financial inclusion
    - Development of financial infrastructure in underserved areas
    - Better access of formal financial services to poor and underserved populations

- Improve confidence in the formal financial system through client protection
  - Generate data to evaluate financial inclusion efforts. The measurement of SPTF is great. The Standards and the SPI4 allow us to measure the growth we have. “What cannot be measured cannot be controlled. What cannot be controlled cannot be improved.”
- What has worked?
  - The communication with regulators to have common goals, be transparent, empower the clients and improve the participation of market participants.
  - Delinquency has gone down.
  - It is representing 80% of branches.
  - Prices are set by the market. This is a rule his organization is fighting for. Market activity has to regulate the market. It is a mature market.
  - The growth of branches has decreased and correspondents have increased. This has been part of the process whenever we have large populations. Also, technology comes in. ATMs, terminals, cell phones.
  - SOFIPOS have been able to handle their portfolios and be listed in the stock exchange, which allows them to have funding which helps with liquidity
- Challenges
  - Continue to work with the supervisors
  - Insufficient infrastructure in rural areas
  - Need to promote financial education. When you promote savings among children, it helps their understanding of finances for the future.
  - Generate information to analyze the impact of financial inclusion policy and programs, especially with SPM.
  - Challenge with technology. Want to invest in new platforms that will help them enter digitalization in a simple manner.
- Cara agreed with the importance of having a standardized tool. She said that FAS had 15 of its members fill out the SPI4, and they will be working with CERISE to publish their results in the months ahead. This standardized tool will allow the industry to analyze the average level of implementation of standards, which helps investors and networks compare members across different members.
- Cara also underscored the fact that Mexico has extensive regulation on client protection.
- Cara asked Iván to describe the challenges the Central American region is facing.
  - Iván said that through the SPI4 audits as well as qualitative assessments, they have categorized institutions into three levels:
    - High commitment institutions who apply standards in all the dimensions of the Universal Standards. Of course, there are certain gaps or concerns, but they are touching on all the dimensions. Leaders on the region

- Institutions who work on two aspects: some client protection measures (focused on OI) and defining social goals
- Institutions that respond to regulation on client protection and labor regulation.
- Iván said that institutions put more effort was being made in the area of social goals, mostly in terms of reach and scope. The priority in the region is always rural, poverty and women.
- Monitoring continues to be a problem. There are still a lot of gaps in terms of identifying outcomes through key follow up indicators.
- Regional microfinance networks are important to facilitate peer sharing, especially between the smaller MFIs and the larger MFIs, which tend to have more experience with SPM.
- In terms of client protection, need innovative policies and programs to prevent over-indebtedness of clients
  - A tool was developed in Guatemala that allows an institution to do a rating of clients before giving credit. It gives you clues about the level of indebtedness of a potential client.
  - Also, MFIs in Nicaragua created a credit bureau.
- As a positive aspect, the microfinance law in Nicaragua already includes SPM as an important aspect. This is important because the nonpayment movement almost destroyed the sector in Nicaragua.
- Another issue is the demand for ratings and audits, as a result in part of regulator or investor demand. REDCAMIF has become a smart certifier.
- Cara shared conclusions:
  - The process that we promote in SPTF is measuring. This is the path to best practices. You need to assess where you're at. The tools and the processes are available on the webpage of the SPTF site for free.
  - The guidelines and the framework for the Universal Standards are practical tools that will help you deal with how to do better.

### **Fintech: Bringing providers closer to their clients**

*Moderator:* Indira Melgar, Consultant (Peru)

*Speakers:*

- Vicente Fenoll Algorta, Kubo Financiero (Mexico)
- Vanessa Piedad, Crezcamos (Colombia)
- Marcelo Rocha, PoloCred (Brazil)
- Daniel Caramori Alves, AMCRED (Brazil)
  
- Indira started by defining Fintech: it is nothing more than finance and technology. However, the use we have made of it can provide a more efficient, less costly delivery of financial services. This panel will take a look at simple initiatives and complex initiatives.

- Vicente said that Kubo is a fully digital financial institution. It is a platform for people looking for digital credit. It's aiming to see if technology can reduce interest rates significantly.
  - Kubo charges 36% (down from 48% when it first started). The company has not adjusted interested rates; it is done entirely by mathematical algorithms, not he intuition or feeling that a loan officer has in the market.
  - Kubo has had exponential growth. We were five people in a garage, and now we're 80. We have 14,000 transactions in a month. We have investors.
- Vanessa said Crezcamos started nine years ago in the northeast area of Colombia. Its mission is focused on reaching clients in rural areas with financial services including credits, insurance, and transactions. We have coverage in 91% of rural municipalities.
  - Three types of products: Financing (services, commercial, trade, production and agriculture sector); protection (insurance); transaction (payments, remittances).
  - Crezcapay is technology they acquired. In the first phase of the pilot, want to do mobile collection focused on rural sector. It's difficult to work in cash in rural because many have a hard time going into town to make payments. We want to facilitate this process. When our officer visits with his cell phone, the people can do payment through their own cell phone. The client receives the text message as proof of the transaction.
  - It's starting with collection of payments, but hope to eventually do digital disbursement. Idea is to create ecosystem that facilitates the flow of digital money instead of cash.
  - Also have adapted microfinance product to help get more information on climate change. It has a tool that collects information on crops, trends about crops, weather, climate variables, pricing variables. This helps build data that helps us better understand the client and the crop. It goes to the credit committee. Much of the information being collected can be shared with clients in the future to help them with crops.
- Marcelo of PoloCred
  - Regulators in Brazil oversee the banking system (commercial banks) and non-banking system (cooperatives, lending institutions, regulated MFIs). PoloCred model is within the banking system.
  - PoloCred has created MicroMob, which provides services to regulated and non-regulated institutions.
    - Benefits for MFIs:
      - MFIs are able to offer new services and attend to clients' needs
      - Access to the Central Bank Financial System Risk Center
      - MFIs are able to join the payment scheme

- Benefits for the borrower
  - MFI can offer the borrower web access, mobile app, prepaid card, bill payment, money transfers
  - Financial and digital inclusion
  - Improvement of the relationship with the MFI
  - Access to new services
  - Digital invoicing
  - No account maintenance cost
  - User pays only for services used
- Question to Vanessa: What was the process of deciding to invest in technology?
  - Vanessa: For the climate change tool, the opportunity arose because we participated in a project about microfinance for the use of climate change. It came from the Frankfurt School, and the idea was to have MIS that speeds up the credit process for farmers. When the project ended, we realized we were collecting pertinent information not just for credit purposes. This could be a source of knowledge that we could continuously update with our own clients. By analyzing the information, we could see the behavior of credits and for each crop. Technology helps us identify areas where certain crops could be grown, where livestock could live, which variables are producing the best yield, etc.
  - With mobile data collection, we wanted to participate in the market in the rural area. We wanted to make it easier for each site to grow and develop without traveling long distance. Since we don't have money for that, we have to travel to those areas and become partners with banks. It's a matter of thinking of different possibilities tech is providing us.
- Irina: How have clients have benefitted and adapted to the programs?
  - Vanessa: We're in pilot process right now. Great acceptance so far because people don't have to pay to travel to pay. There is a fear when they get a text message that money is traveling digitally, but it's more fear for us than the client. We want client officers to be fully knowledgeable with technology so that when they meet clients they don't pass on fear to them.
  - The good thing about this technology is that it does not require a smartphone, just a cell phone that can receive text messages and have applications. Our credit officers use smartphones and are very familiar with them.
  - The goal is to progressively get money to move through cellular technology.
  - We have several zones we are working in. We're working in the metropolitan zone because it's closer to headquarters. When a loan officer goes to look at delinquency, when the client has the money, they pay them then. It's scaling up. Digital money will be transferred or moved through the system.

- Irina: What are the risks to the clients?
  - Vanessa: Risks are related to technology (for example when the network falls) but we do not see them as greater than the risks that currently exist. The issue of mobile collection is in fact helping to reduce risks we had before in terms of ticket fraud.
  - Once you explain it executives, they're not afraid of it anymore. We want to facilitate the process and the access to financial services to all the population. The clients want their needs to be met, and the easier it is, then great.
  - The goal is to create an ecosystem in which mobile payments are used to a greater extent. Next, we will make partial disbursements in cash and partial disbursements via cell phone. But we have to create an ecosystem so the money in the cell phone is usable. We will have to create another company that by regulation allows to capture savings accounts that allow to have savings accounts in the cell phone. We're carrying out feasibility study to see what it is to create company to comply with legislation.
  - You need to understand the culture and the way each operates. This is based on structure- based methodology. The information I want to collect should facilitate the relationship with the client. As a loan officer, they are going to be able to look not only risk management and commercial operations, but they will get to better know the clients.
- Irina: What benefits does PoloCred bring to clients?
  - Marcelo: PoloCred is a regulated institution and is allowed to provide services that other institutions aren't allowed to provide. In the context of Brazil, there are 40 million people excluded from financial system. The platform substitutes the bank account and provides services. MFIs aren't allowed to offer these services because of regulation. With the partnership with MicroMob, MFIs are able to offer these services.
  - Six banks have more than 90% of the market share. Brazil's central bank is encouraging the banking system to democratize and deconsolidate itself through mobile services.
- Irina: Mexico and Brazil are leaders in fintech. How does Kubo work?
  - Vicente: There are four big changes happening in the country:
    - Social networks. In Mexico, there are 70 million users of Facebook. People are seeing information in a different way. It's not just young users. This changes the way in which people are relating to each other. This is a paradigm shift, and it's in urban and rural areas.
    - Use of smartphones. It is very cheap today for people to get smartphones. In many places, there are more cell phones than people. That makes you think of the way you're contacting the client
    - Big data
    - Computer services
  - Do we need so many credit officers to make a loan? Clients can fill out this information themselves. If people are willing to upload photos, share

information, etc., many will be willing to fill out the credit information. This empowers the client and gives more information to company. The client is able to fill out the information and tell us the truth.

- There are entities that capture savings and we can capture that information too. People think clients aren't able to do that. We received a lot of criticism at the beginning. Kubo is successful because the comm bank taught women to keep accounts of their loans and are confident in themselves that they can do that. People do things in a simple way. We fear losing the traditional work. We hve to change this logic because we often think we know everything about the client. We need to change this.
- In terms of customer service, every week we receive messages that say "The lady on the other side of the computer is so nice!" But we do not have a person on the other side of the computer. It is just a very friendly user system.
- Most people use the platform with the phone. We had this in mind when designing the platform for the cell phone - large letters (for small screen), colors, simple letters. This changes the user experience. We use icons (drawings) instead of many letters. These details simplify information and give people confidence in the process.
- Irina: How do you minimize risk with no evaluation process, home visits, information verification, etc?
  - Vicente: It's the other way around. With our analysis process, we can see a lot of data for a person. We have cloes to 30,000 data points we can analyze in a file. GPS can tell us if she's in a popular zone for businesses. It's easier for a loan officer to lie to us than a computer. You need to adapt to each country.
  - If a lady has paid well for three years, what are you analyzing? If the credit bureau says she pays on time, then what else do I need to analyze?
  - If a person changes her answer, the system automatically says she may want to lie/cheat. There are red flags in the system. That's easier than sending a loan officer to confirm the information.
  - Today, a challenge is the cost of managing all the data.
  - Our vision is to focus on clients and on technology at the same time. We want to make technology serve the client. People can file information after hours. It's easier. If clients go to a branch they may have to wait. Here a client is filing within five minutes.
  - It's also flexible. There are people who ask us for loans for 23 weeks. A traditional bank may say either 16 or 20.
- Irina: How do you keep personal contact with clients?
  - Vicente: When clients come to pay at a traditional MFI, they wait for 50 people. That's not personal contact, that's waiting. This system allows a client to pay when it wants. And, instead of client paying 120%, they're paying 36%

- We are 97% urban. We've started to see some rural transactions. The first years we were only focused on Mexico City.
- Irina: What are Kubo's challenges?
  - Vicente: The challenge is scalability. In three years we went from five employees to 80, that's a lot in terms of management practices.
  - Fraud and identity theft is a big issue. We need more algorithms to minimize fraud.
  - It's a big cultural shift.
- Audience question: What is the profile of Kubo's average client? It seems this may not be applicable to people not already in the system.
  - Vicente: Delinquency rate is 5.2%. We reject 94% of applications that come in. Most clients have a credit history. It's mandatory that financial institutions report to the central bank. Most clients come from microfinance, and many MFIs are mad about the competition we have created.
- Audience question: FinTech solutions rely on operational network and use of data. How can you convince clients to use their cellphone data to do banking transactions?
  - Marcelo: Their information is protected. We have control over their transactions. However, we all run the risk of a network collapsing. We depend on a wifi network. In Brazil, MicroMob has an advantage because they're not dependent on big banks. They're aligned and have partnerships with MFIs which gives them an advantage in the MFI sector
  - Vanessa: Our loan officers are the ones who need to adopt this. We had to limit how they used the smartphones and only use the approved apps. Clients don't fear tech.
- Audience question: In India, many Fintechs are providing credit without any checks. This results in people being blacklisted because they don't repay as little as \$1. What's the danger of clients being excluded because of technology?
  - Vicente; Money has always been a tangible asset. I'm not certain that what the loan officer is verifying is the truth. When a person needs money, they may lie. People not paying \$1 and being blacklisted seems unfair, but I don't know how to fix that. We don't think the problem of India and Asia will come here.
  - Marcelo: Mobile money offers clients a payment account, through which MFIs can monitor where the clients are spending their money. You have access to metrics that show what they're doing with money.