Building an EU dataset of digital & sustainable practices from inclusive finance organisations (Updated results)

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6 July 2021
INTRODUCING THE "SFIDE" PROJECT

STRENGTHENING FINANCIAL INCLUSION THROUGH DIGITALISATION IN EUROPE
SFIDE: Main goals

1. Analysing 24 case studies of European inclusive financial organizations: updated results today!
2. In-depth quantitative case study of the Qredits method and systems
3. Experimental design study to improve loan assessment with the help of digitalisation
4. Future impact of new technology on the inclusive finance landscape: study on open banking in the Netherlands (to submit in July 21)
Project team & Partners

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  project manager
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  researcher Qredits
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- Prof. dr.
  Einar Rasmussen

TU Berlin
- Prof. dr. Jan Kratzer

Triodos Bank
Youth Business Int.
Building an EU dataset of digital & sustainable practices from inclusive finance organisations (Updated results)

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Digital financial services have become the leading driver of inclusion for the unbanked around the world (CGAP, 2020).

New risks of inequality and exclusion arise.

Covid – 19 pushes EU to invest €1.85 trillion to build “a fairer, greener and more digital Europe” via European Recovery Plan (EU Commission, 2020).

Building the next generations of inclusive, digital and fully sustainable financial organisations is crucial.
Building an EU dataset of 50 inclusive finance businesses

- Developing a dataset of 50 EU practices to investigate the different approaches and developments of inclusive finance / fintech organisations.
- The focus is on six metrics: digital business models, financial inclusion / health goals, impact measurement, environmental – social – governance policies, performances, national and EU policy developments.
- A questionnaire has been sent to a first group of 30+ organisations operating (also) in Europe. 25 already replied and are part of this updated analysis.
- First classification along “Tech vs Human” intensity of the business
25 companies operating in Europe

Traditional:
(high human)

Hybrid:
(tech & human)

Fintech:
(high tech)
“Tech vs Human” approaches

Human intensity

Traditional

Mikrofin, BCR Social Finance, Ustoi, PerMicro, KEP Trust, Partner, EKI

Hybrid

Adie, Microbank, Microstart, Qredits, PatriaCredit, AFI, Bizkaia, Nickel

Fintech

AideXa, Buddy Payment, Kabbage, Peaks, Tink, Plaid, Crowd, Trezeo, Ecolytiq, Tred

Tech intensity
### The questionnaire: 6 areas

<table>
<thead>
<tr>
<th>(Digital) Business Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>How is your company combining digital technology with personal interaction to provide its services in an inclusive way?</td>
</tr>
<tr>
<td>If applicable to your business model, which is your approach towards Open Banking?</td>
</tr>
<tr>
<td>Can you describe your customer’s acquisition and relationship approach (or approaches)?</td>
</tr>
<tr>
<td>Can you describe your digital and interactive approach through a specific use case / client type?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial inclusion / health (if applicable?)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which is your approach to financial inclusion? Which is your approach to financial health?</td>
</tr>
<tr>
<td>Which are your financial inclusion goals? Which are your financial health goals?</td>
</tr>
<tr>
<td>Who are your customers (individuals, microbusiness, start-ups, self-employed, SMEs, etc.)?</td>
</tr>
<tr>
<td>Do you train / mentor / coach your customers? If yes, how (digital tools, human interaction)?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environmental sustainability and governance approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you have an environmental sustainability strategy within your business?</td>
</tr>
<tr>
<td>If applicable, do you look at the environmental sustainability of your investments and/or in providing your services (carbon footprint, energy efficiency, water consumption, resource scarcity, etc.)? If yes, how do you measure it?</td>
</tr>
<tr>
<td>If applicable, do you use a governance policy (composition of the teams, governance models, gender parity, etc.) in providing your services?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you publish an annual impact report?</td>
</tr>
<tr>
<td>If you don’t publish an annual impact report, please:</td>
</tr>
<tr>
<td>- Can you provide data/measurement regarding your social impact (for example, number of underserved clients, repayment rate, growth of underserved clients, flexible repayment, etc.) for the last years?</td>
</tr>
<tr>
<td>- Do you measure long term impact of your activities (Employment created, revenue growth, Impact on communities, etc.)?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which are your revenues 2019 and revenue growth (3-5 years)?</td>
</tr>
<tr>
<td>Which is the % of revenue associated to underserved customers (2019 and last 3-5 years)?</td>
</tr>
<tr>
<td>Does your organisation receive subsidies / grants? If yes, in which percentage of the total revenues (2019 and last 3-5 years)? And who are your top 3 providers of grants?</td>
</tr>
<tr>
<td>Could you tell us which is the number of customers 2019 and customer growth (3-5 years) of your organisation?</td>
</tr>
<tr>
<td>Which is financial profitability 2019 (EBITDA, Earnings..) and over the last 3-5 years?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact of EU and National Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>What do you think about regulation (and its developments) for financial inclusion in your country and in Europe?</td>
</tr>
<tr>
<td>Is your business model going to change due to the EU Next Generation Fund (focused on digitalisation and green investments)? If yes, how?</td>
</tr>
<tr>
<td>Finally, is your business model going to change due to Covid – 19? If yes, how?</td>
</tr>
</tbody>
</table>
Digital business model

Human intensity

Traditional
- Online application only
- No Open Banking
- Face to face is key
- Digital communication, acquisition, and surveys
- Next: digital signature, online microloans

Hybrid
- Automated & human
- Pilots API to Open Banking
- Multi channel hybrid acquisition
- Engage with communities to understand clients
- Customised products and customer journeys
- SMS banking for low digital clients

Fintech
- 100% automated underwriting
- Multichannel acquisition (via API)
- Partnerships with communities
- Actionable insights
- PFM + lending/insurance/(pensions)
- APIs for simplified KYC (no IDs), risk scoring and matching activities
- Real time environmental impact assessment in payment transactions
- Impact offsetting and investing

Tech intensity
Financial inclusion / health

Human intensity

100% underserved clients (individuals and business)
Loans + advisory
Create jobs
Avoid over indebtedness of individuals and families
Financial health via coaching/training

Traditional

Hybrid

Mainly loans to businesses
Women entrepreneurship
Business & jobs creation
Tailor made support
Digital and human coach
Local / institutional partners
Simplified applications
No proof of residence to open a bank account
Digital PFM solutions
Point of Sales

Fintech

Open Banking+Aggregators = key
Cash flow - Credit Scoring
Financial health & stability
Multi-platforms dashboard
Focus on GIG / flexible workers
Online coaching
Partnership with other fintechs
Consider the environmental currency linked to every purchase

Tech intensity
Environmental sustainability & governance

Traditional

- Use of exclusion lists (Next step: green loans)
- Small loans cannot impact environmental strategies
- Internal environmental strategy

Hybrid

- Internal environmental / governance strategies
- General Environmental Screening
- No focus on environmental footprint of clients
- No focus on governance policies of the clients

Fintech

- ESG scoring / Carbon offset programs within a digital approach (for ESG investors)
- Internal environmental strategy
- Governance policy and testing protocols (A/B) to avoid disparate impact (bias)
- Supporting carbon neutrality of consumers

Human intensity

Tech intensity
Impact measurement

Human intensity

Traditional
- Impact / environmental reports
- Long term impact hard to verify
- Financial health is key

Hybrid
- CSR / Impact reports (SROI is emerging topic)
- Data on repayment rates, type of clients, long term impact, jobs created
- Number of clients key driver

Fintech
- Impact report is not standard
- Aggregated data for clients only

Tech intensity
Performance data is N/A
High customer growth vs slow path to profitability
Grants used in the startup

Human intensity

Traditional
- Customers and revenue growth (except 2020)
- High volume of customers
- Low losses
- Banks guaranteed loan key

Hybrid
- Banks owned MFI more risk adverse, bigger, profitable
- SME finance companies are more profit oriented
- MFI subsided by grants, SME finance not
- Controlled loss makers

Fintech

Tech intensity

Human intensity

Traditional

Hybrid

Fintech

Performance data is N/A
High customer growth vs slow path to profitability
Grants used in the startup

Tech intensity
Impact of National and EU policy

**Human intensity**
- Regulation differs by countries
- Distinct rules microfinance vs banks type needed (AML, KYC, proof of income)
- Laws not in line with digital
- Green&tech x impact products
- Covid boosts digitalization but also risks adversity

**Hybrid**
- EMN role is important
- InvestEU is crucial
- EU countries have different microfinance approaches
- Digitalisation & discrimination
- Next gen EU: applications for digital innovation (digital ID) and scale within underserved areas
- Covid 19 and flexible products

**Fintech**
- EU Digital Finance Strategy key
- Could react to Next Gen Fund
- Open Banking / PSD2 enabling inclusion more than regulation. Covid 19 accelerates business (higher inequality / more need of protection / more digital)
- Regulations on standardization of sustainability data needed

**Tech intensity**
Preliminary results

- Traditional MFIs still tend to be low digital – high touch
- SME finance organisations tend to be high digital – low touch

{Open Banking (PSD2) + API aggregators} are key to build collaborative, scalable and EU inclusive finance ecosystems

- Adoption of Green investments strategies driven by investors & regulation (ex. supply chain finance linked to build carbon offsetting platforms, impact offsetting plus investing at bank’s transaction level)
- Green + Inclusive digital financial solutions have still to emerge
- Uniform and simplified EU regulation is needed (digital signature, digital identity, microfinance, sustainability data disclosure, etc.)
Next steps

- Build and analyse a final **50 organisations dataset** along various classifications:
  a) *Tech vs human*
  b) *retail vs SME finance*
  c) *Environmental vs. inclusive finance*

- Extract evidence - based insights.
- Build an open repository of data for: webinars, research, policy papers, etc.
- Yearly updates for monitoring the progression of the sector towards sustainability trade offs.
Sustainability-as-a-Service® for Banks

SFIDE webinar
July 2021
Sustainability is a top priority for every bank across the globe. Ecolytiq provides the digital infrastructure for banks to create impact and fuel new revenue streams.
Consumers are crucial

Consumers are responsible for

>60% of all greenhouse gas emissions globally
(Source: Yale University Research)

Every 3rd consumer would change their bank because another bank offers a more sustainable value proposition
(Source: Bearing Point Research)
Sustainability-as-a-Service®
Through the eyes of the user

1. CO₂ impact
   - Your CO₂ balance: 705 kg CO₂ below the German average of 925 kg
   - 5% compared to the previous month

2. Context
   - Nutritional
   - Daily Menu
   - Vegetarian
   - How is your...
Sustainability-as-a-Service®
from perspective of the bank customer

1. CO₂ impact

2. Context

Transaction Detail

-117,40 €
Sasha's Steakhouse

101 kg CO₂e
= 430 km driving by car
evolved with your restaurant visit

Climate friendly eating tip
Change beef for white meat

White meat is more environmentally friendly: producing 1 kg of beef causes 4x more CO₂ emissions than the same amount of chicken meat.

3. Feedback

Nutritional Habits
What does your daily diet normally look like?

- Daily Meat
- Mixed
- Reduced Meat
- Vegetarian
- Vegan

How is your shopping behavior?

- Normal
- Seasonal/Regional

How does the calculation work?

Support one of our projects.

Save preference

4. Context

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Sustainability-as-a-Service®
from perspective of the bank customer

1. CO₂ impact
2. Context
3. Feedback

Compensation

- UN Gold Standard projects
- Regularly audited
- Open marketplace

ecoAware  ecoEngage  ecoAction
Sustainability-as-a-Service®
from perspective of the bank customer

1. CO₂ impact
2. Context
3. Feedback

ecoAware  ecoEngage  ecoAction
Every transaction has an impact.

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