

Financial services for all

A CSFI 'Banana Skins' survey of the risks in financial inclusion

It's all about strategy



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Preface

First of all, I would like to thank The Center for Financial Inclusion at Accion and the Citi Foundation for continuing to fund this series of surveys, now in its sixth edition - and for encouraging its evolution. The first five surveys looked explicitly at microfinance; this year's survey takes a broader look at financial inclusion.

The reason is that microfinance has changed. Originally, it was seen as a way of making very small loans to groups (primarily of women), relying on group dynamics and social cohesion to ensure timely repayment. It proved extremely successful - so successful that, in some ways, it outgrew its original rationale.

This year's survey recognises that. It now embraces the wider challenge of financial exclusion and inclusion – bringing basic (appropriate, affordable) financial services to the underserved in developing countries around the world, sometimes on a commercial basis but often with some form of subsidy, subvention or pump-priming by agencies either in-country or in the more developed economies of the world.

The result is a broader mix of respondents. The cost may be a certain loss of focus, but the benefit is real: we are looking at efforts to address the issues around financial inclusion as they are today, not as they were a decade or so ago. And, as we go forward, we can expect that the issues will again come more sharply into focus. For this year, it is very clear that the big concern is the problem of developing and carrying out a strategic plan in an industry that is, of its very nature, expanding and changing all the time. Note that not only is 'strategy' the No 1 concern, but 'risk management' and 'change management' are Nos 2 and 3 – all of them (in my opinion) emphasising the same cluster of concerns, all of which are 'internal' in the sense that they are under the direct control of the financial institutions themselves.

And then there is technology – No 4 this year, but sharply up from previous microfinance surveys. This is a more sophisticated industry than traditional microfinance, and the concern about technology reflects that.

In any case, the report is (as always) a lively and provocative read, with a serious message for the industry – and lots of pithy quotes and solid numbers to back it up. In short, the industry is developing (expanding, changing) so fast that it risks running ahead of the strategic direction and management skills that it needs if it is to avoid dissipating its energy in too many directions and/or risking the kind of blow-up that did great damage to microfinance.

As always, my thanks also go to my colleague, David Lascelles, for his exceptional work pulling all the responses together, and to Keyur Patel, for his manifold contributions this year and in previous editions. *Finance for all Banana Skins survey* is a major piece of work, and I am in awe at how they manage to do it year after year.

Andrew Hilton
Director
CSFI

This report was written by **David Lascelles** and **Keyur Patel**
Project consultant **Sam Mendelson**

Sponsors' foreword

This *Banana Skins* survey strives to identify the changing risks of a growing sector – one that is evolving and becoming more complex every year and whose greater reach is reflected, in part, in this report's new name. Rapid change and exponential growth, driven both by established providers and new entrants capitalizing on fintech innovation, mobile money and other technological advances, have redrawn the landscape both for institutions and their clients

Given such developments, it comes as no surprise that strategy ranked in this year's survey as the No. 1 risk – the greatest concern among those who deliver financial services to low-income clients. It reflects financial service providers' uncertainty about the future, and what the transformational changes now under way might eventually imply. Technology and new entrants are reshaping not only the availability and quality of services for clients, but also the efficiency – and effectiveness – of those who serve them. This includes changes in the enabling infrastructure (such as the credit bureaux, payment systems and mobile money) and regulatory environment. A case in point: as of January of this year, fully 92 percent of India's population had been assigned unique Aadhaar numbers which will promote enhanced client identification of data tracking and service needs.

It is no surprise, then, that the No. 2 and No. 3 risks identified among those surveyed were, respectively, change management and technology.

We extend our thanks to David Lascelles and Keyur Patel for developing and managing the 2016 *Finance for all: Banana Skins survey*, and thank the many respondents – from no fewer than 60 countries – who shared their expertise and perspective with us. The report is designed to open dialogue, raise debate, improve understanding and advance the thinking about risks in a growing sector that expands access and quality of financial services for all.

Philip Brown
Citi Inclusive Finance

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Center for Financial Inclusion at Accion

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Abbreviations

BoP:	Base of the pyramid
CEO:	Chief executive officer
CFO:	Chief financial officer
CIO:	Chief investment officer
DFI:	Direct foreign investment
DFS:	Digital financial services
IT:	Information technology
KYC:	Know your customer
MFB:	Microfinance bank
MFI:	Microfinance institution
MIV:	Microfinance investment vehicle
MNO:	Mobile network operator
NBFC:	Non-bank financial company
NGO:	Non-governmental organisation
PAR:	Portfolio at risk
QE:	Quantitative easing
SHG:	Self-help group
SME:	Small and medium sized enterprises
SPM:	Social performance management

What happened to *Microfinance Banana Skins*?

Since 2008, the CSFI has produced regular surveys of the risks facing institutions which serve the microfinance market. Under the *Microfinance Banana Skins* label, these highlighted the dangers in an industry that was fast-growing and exciting, but also advancing through new territory and encountering unexpected shocks. The surveys, based on responses from hundreds of practitioners and close observers in dozens of countries, flagged up risks to microfinance such as growing consumer indebtedness, political interference, poor regulation, weak governance and risk control, and exposure to global economic ups and downs. Yes, a lot of it was bad news. But this was an industry where the honest identification of risk was arguably a much-needed service.

This year is different. The survey is still the same - we ask people to tell us where they see risks and why - but we change the focus to reflect the advances that are going on in the provision of financial services to people in emerging markets. The goal now is *financial inclusion*: reaching people whose access to borrowing, saving, investment, payment services and insurance is either limited or non-existent¹. This is a bigger story in which microfinance - the provision of financial products to the poor - plays only a part alongside the ranks of new service providers who are entering the market: commercial banks, technology companies, telephone and communication companies bringing know-how and resources which are transforming the way these services are put together and delivered.

Hence *Financial services for all, a CSFI “banana skins” survey of the risks in financial inclusion*. We grant that the title is not elegant, but it describes what is in the tin: an examination of the risks in a defined industry, using the CSFI’s successful *Banana Skins* methodology which combines qualitative and quantitative analysis of risks (Banana Skins), as perceived by those active in and close to that industry. Many of the risks we examine are different from before: they have to do with survival in a fast-changing market, like change management and venture risk. Some have evolved in focus, like strategy and technology. But some are familiar: the quality of management and governance, the macro-economy and regulation. And some are old ones in new clothes, notably “repayment capacity” which addresses the perennial problem of overindebtedness in this industry but also the broader risk of lenders failing to measure up their potential borrowers. These changes mean that year-to-year comparisons can’t always be made, though the rankings from previous years are contained in the Appendix.

As the report shows, the effective management of risk could result in financial inclusion transforming the lives of people whose number is estimated at 2bn by the World Bank. But failure to manage risk could equally well cause financial inclusion to stumble or turn sour as it loses sight of its purpose.

David Lascelles

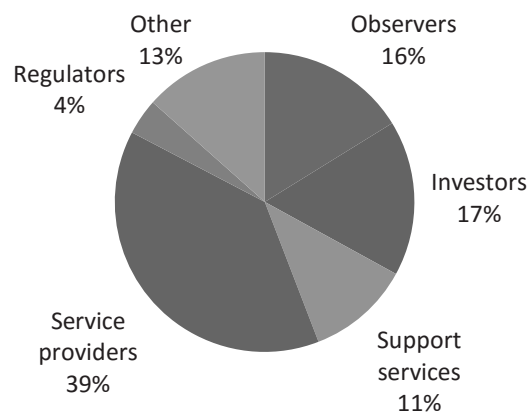
¹ Financial inclusion is defined by The Center for Financial Inclusion at Accion, Washington DC, as the provision of “a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients”.

About this survey

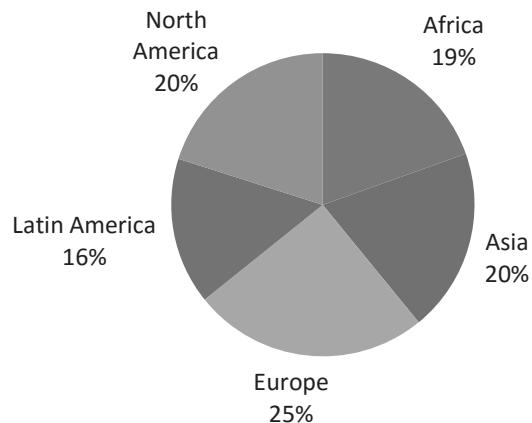
Finance for all Banana Skins survey describes the risks in the provision of financial services to people in emerging markets whose access to these services is either limited or non-existent. The findings are based on survey responses from 179 practitioners, investors, regulators and observers in 60 countries in March and April 2016.

The questionnaire (reproduced in the Appendix) was in two parts. In the first, respondents were asked to describe, in their own words, their main concerns about the sector over the next 2-3 years. In the second, they were asked to rate a list of potential risks by severity on a scale of 1 to 10. Replies were confidential, but respondents could choose to be quoted by name.

The breakdown by type of respondent is as follows:



The breakdown by geography is as follows:



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The breakdown by countries is as follows

Afghanistan	1	India	11	Philippines	3
Argentina	1	Indonesia	1	Poland	1
Bangladesh	1	Iraq	1	Romania	1
Belgium	1	Isle of Man	1	Rwanda	1
Bolivia	2	Italy	2	Serbia	1
Bosnia & Herz.	1	Kazakhstan	3	South Africa	2
Brazil	2	Kenya	3	SE Asia	1
Burundi	1	Lebanon	1	South Sudan	2
Cambodia	2	Madagascar	1	Spain	3
Cameroon	2	Malawi	1	Sweden	1
Canada	2	Mali	1	Switzerland	1
Colombia	6	Mauritania	1	Tanzania	1
Costa Rica	1	Mexico	4	Togo	1
Ecuador	1	Nepal	2	Tunisia	1
Egypt	3	Netherlands	5	UAE	1
Ethiopia	1	Niger	1	UK	21
France	1	Nigeria	6	USA	34
Germany	5	Pakistan	4	Vietnam	1
Ghana	4	Palestine	2	Zambia	1
Haiti	1	Peru	10	Zimbabwe	1

Summary

Financial Inclusion 2016 rates the risks in the provision of financial services to people in emerging markets whose access to these services is either limited or non-existent. The findings are based on survey responses from 179 practitioners, investors, regulators and observers in 60 countries in March and April 2016.

What is immediately striking about the results is that nine of the top ten risks are “internal” - that is to say, they are within the control of management, which is an encouraging message. However, they also relate to the capacity of an institution to stay on top of a fast-changing business, underlining the importance of clear-sightedness and strong governance.

Chief among these risks is the ability to design and implement a **strategy**, without which the chances of success - let alone survival - are rated small. Closely linked are the functions of **managing risk** and **change**, of mastering the risks in **new technology**, and of designing the right **products** for clients. Much of this comes down to the **quality of management** and **governance**, where weakness and resistance to fresh thinking are still seen to be present.

The only “external” risk in the top ten is the **macro-economy** (No. 6) where global uncertainties could threaten these markets, particularly through recession, commodity price volatility and unstable currencies. The financial inclusion market is not insulated from events at a global level.

Conventional banking risks appear in positions No. 5 and No. 8 with **repayment capacity** and **credit risk**. The responses here reflect concern about the quality of lending in the sector, much of it to relatively unsophisticated borrowers who may have a poor repayment record. A major risk is that the arrival of new entrants will intensify competition and drag down lending standards, and that lenders will fail to take proper account of the repayment capacity of their clients as they compete for business. Much of the concern is about the high level of **overindebtedness** which persists in these markets (and was rated No. 1 risk two years running in the earlier survey series).

Financial Inclusion Banana Skins 2016 (2014 position in brackets)*		
Rank	Risk	Score out of 10
1	Strategy (6)	7.19
2	Risk management (4)	6.90
3	Change management (-)	6.77
4	Technology (15)	6.66
5	Repayment capacity (-)	6.64
6	Macro-economic risk (13)	6.60
7	Product risk (12)	6.60
8	Credit risk (2)	6.58
9	Governance (5)	6.53
10	Management (8)	6.51
11	Financial capability (11)	6.31
12	Political interference (7)	6.28
13	Competition (3)	6.23
14	Client relationships (14)	6.16
15	Staffing (10)	6.08
16	Regulation (9)	6.04
17	Venture risk (-)	6.02
18	Reputation (-)	5.95
19	Funding (18)	5.76
20	Criminality (-)	5.08

*In the survey *Microfinance Banana Skins 2014*

These risks are also reflected in the quality of **client relationships** (No. 14) and **financial capability** (No. 11) where the issue is the extent to which lending institutions maintain “high touch” relationships with their clients, including knowledge of their ability to manage their finances, or yield to competitive pressure to degrade them. One concern here is that the quality of these relationships will fall as they become more automated and depersonalised.

Key points from the responses

1. Nine of the top ten risks are “internal”, i.e. under the direct control of financial institutions.
2. Chief among these is the risk that institutions without a sound strategy could face marginalisation, even extinction.
3. The financial inclusion sector is widely exposed to the ups and downs of the global economy, therefore many of these risks could become more severe, notably credit risk, if recovery falters.
4. New technology could improve the quality of lending but also make access to credit easier and therefore increase indebtedness.
5. The entry of commercially-driven competitors should increase the supply of services to the underserved, though these new entrants could withdraw if they find the business unprofitable.
6. Practitioners of financial inclusion services believe that reputation risk is low, but observers of the industry believe it is high. This is a troubling discrepancy.
7. Criminality (fraud, cyber crime, money laundering) is seen to be low risk. However a recent CSFI *Banana Skins* survey of the commercial banking industry put it among the top risks. This suggests that criminality is a risk that is in danger of being under-rated.

The risk of **political interference** in the business (No. 12), which has been strong in recent years following lending controversies, appears to be receding, though worries about fresh attempts by the authorities to rein lenders in through interest rate caps and forced debt forgiveness persist, particularly among the service provider group for whom this was the top risk. Notable is the low position held by **reputation risk** (No 18) due largely to the fact that service providers, the largest response group, believe it to be manageable. Other response groups were more doubtful. A strong concern is the risk of **mission drift**, in particular that commercial pressures will drive service providers away from promoting financial inclusion.

In a related area, **regulation risk** (No. 16) is seen to be comparatively mild as the regulatory authorities strive to create conducive environments for the growth of financial inclusion, though the detailed record here obviously depends on individual countries.

Given that many of the new initiatives in this market consist of alliances between financial service providers and technology companies with very different cultures and ways of doing business, **venture risk** makes its appearance, but in a low position at No. 17. Respondents said that the possibility of failure was high but that it was known and usually accounted for.

Notable among the lowest level risks are **funding** (No. 19) where concern about the availability of capital for development is low at a general level (though high in specific markets), and the threat of **criminality** (hacking, cyber crime, money laundering etc.) is almost entirely dismissed at No. 20.

A breakdown of responses by type of respondent and geography throws up some interesting differences.

By **type**, service providers were more likely to give a high ranking to “external” risks such as political interference and economic shocks, and a low one to “internal risks”, particularly those to do with management, governance and reputation. Other groups were more likely to see risks in the quality of institutional management and controls than in external risks. This is in line with a long standing pattern in these surveys. These other groups also ranked technology risk higher than service providers. However service providers shared the general concern about strategy risk, and focused strongly on credit risk.

By **geography**, the sharpest differences lay in the assessment of macro-economic risk with Africa rating it top, Europe, Latin America and North America rating it middling and Asia rating it low. All regions recognised the challenge of change facing the industry, placing strategy in their top four. Latin America, as has been the case for some years, saw competition as a high risk while other regions tended to downplay it. The risks from criminality were seen as low in all regions.

Health warning

A number of points should be borne in mind when drawing conclusions from this report. One is that the results reflect the perceptions of respondents and are not forecasts or measures of likelihood. There is also a tendency, in surveys of this kind, to focus on the negative and overlook the positive. Linked to this is the risk of generalisation in a varied business.

What people are saying

This selection of quotes from responses highlights many of the themes in this report

“I feel that the biggest risks facing the industry today stem from the need to change and adapt relatively quickly in order to keep up with the fast-paced tech (DFS) services now available in the market and growing every day. This will require significant process changes: delivery channels, technology, more innovative products and services more tailored to clients' needs.”

Chief financial officer, US investor

“Non-performing assets are almost always the downfall of financial services businesses. As pressure increases on traditional players to take advantage of underserved segments, they may take an aggressive approach toward underwriting which could adversely affect the credit quality of the underserved segment. We may also find that some of the more automated approaches linked to fintech are not as effective as believed.”

CEO, NBFC, India

“The financial inclusion sector is facing the challenge of decelerating economies, particularly in Latin America. Inclusion is not an end *per se* and the sector needs to be creative and offer a variety of relevant services to its customers, far from the well-established mono-product model. Diversification will be key for client retention and to reach true inclusion.”

Banker, Brazil

“In many markets, macro-economic and socio-political forces pose tremendous challenges to financial institutions. Against this backdrop, the key question is whether service providers have the right governance structures and management teams in place to confront these challenges. Strategic decision-making and managing change, when adapting to new complexities, will become a decisive skill set. At the same time institutions have to make sure not to miss the innovation agenda.”

Investor, Europe

“[A main risk is] the dogmatic emphasis on mobile money solutions that claim to improve access to financial services but have yet to answer whether the services they provide are relevant to poor people (outside of bill payment) nor that they are effectively including rural people and women, the very people they claim will benefit from their products. They have the model wrong, and too much money is chasing after the *status quo* and not a new game changer.”

Consultant, USA

“Pakistan is currently facing the brunt of global warming by being subject to heavy rainfall and flash floods. Since 2010, microfinance providers have been encountering huge losses at the hands of the devastating floods, particularly in rural areas.”

Microfinance network, Pakistan

Who said what

Service providers: *People who work in financial inclusion service provision, e.g. banks, non-bank financial institutions, payment services, telecommunications etc.*

- | | |
|----|------------------------|
| 1 | Political interference |
| 2 | Credit risk |
| 3 | Strategy |
| 4 | Macro-economic risk |
| 5 | Risk management |
| 6 | Product risk |
| 7 | Change management |
| 8 | Repayment capacity |
| 9 | Competition |
| 10 | Technology |
| 11 | Client relationships |
| 12 | Management |
| 13 | Governance |
| 14 | Regulation |
| 15 | Staffing |
| 16 | Funding |
| 17 | Financial capability |
| 18 | Venture risk |
| 19 | Reputation |
| 20 | Criminality |

People who provide financial services to the financially excluded stressed the external risks to their business, in particular those on the political and economic fronts over which they have less control. They were the only group which saw political interference as the dominant risk. Summarising views, a respondent from Africa said: “Slower economic growth will put pressure on governments to drive for more socialist interventionist policies such as introducing subsidies, interest rate caps etc.” Concerns on the macro-economic side included exposure to volatile markets, particularly commodities and currency, and their impact on credit demand and quality.

Credit risk was the other top concern, as befits lenders. Respondents focused on the high level of existing indebtedness and on the possibility that economic recession would make it worse. A respondent from Nigeria said: “Credit risk is increasing [here] because of the reducing *per capita* income of borrowers which will affect their capacity to repay. The general adverse economic outlook may lead to job cuts, failing businesses and other reducing financial and business indices in the economy.”

Service providers were less worried than other groups about internal risks such as management, risk management, staffing issues and product risk. However they did share broader concerns about the importance of strategy. A respondent from the Middle East said: “Most institutions do not have strategy for next three or five years”.

However the industry attached only a low importance to reputation risk which came one from the bottom. Although respondents stressed the importance of a good reputation and client trust, the view was that this risk was manageable. A respondent from Nepal said: “MFIs have a good reputation in society - except its pricing - and their contribution towards clientele development is always recognized by society and politicians, so, the chances of reputation damage in the industry are low.”

Support providers: *People who support financial inclusion service providers as suppliers, networks, NGOs and support programmes*

- | | |
|----|------------------------|
| 1 | Technology |
| 2 | Governance |
| 3 | Strategy |
| 4 | Change management |
| 5 | Risk management |
| 6 | Competition |
| 7 | Management |
| 8 | Credit risk |
| 9 | Product risk |
| 10 | Repayment capacity |
| 11 | Macro-economic risk |
| 12 | Financial capability |
| 13 | Staffing |
| 14 | Venture risk |
| 15 | Client relationships |
| 16 | Reputation |
| 17 | Political interference |
| 18 | Regulation |
| 19 | Funding |
| 20 | Criminality |

Respondents from companies which provide support to the financial inclusion business – e.g. technology, networks, consultancy and logistics – think that technology contains the greatest risks. One said: “It is hard to sort through all the noise in terms of IT developments to understand and prioritize which developments are the most critical to your business.”

These risks were closely linked to the quality of institutions’ strategy and their ability to manage change. Here, a respondent observed: “I see far too many institutions who do assessment after assessment of what their challenges are. What I see less of are institutions taking the knowledge of the challenges and using that as an asset to see through key changes within the institution.”

The ability to handle these risks also depends on the capability of the institution – particularly governance and management – in an increasingly competitive industry. One respondent said: “Roll-out of new technologies and channels would be increasingly well-executed if management teams and boards understood the ins and outs of the business models. Many institutions... are having to learn on the fly.”

This group was less concerned about the day-to-day business risks of financial institutions such as credit, product risk and client relationships. It did however bring up the issue of reputation risk. One respondent said: “If the industry does not address the balance between financial and social bottom lines in a serious nature this will continue to be a threat to the sector.”

Investors: People who invest in financial inclusion

- | | |
|----|------------------------|
| 1 | Strategy |
| 2 | Macro-economic risk |
| 3 | Technology |
| 4 | Change management |
| 5 | Risk management |
| 6 | Credit risk |
| 7 | Repayment capacity |
| 8 | Governance |
| 9 | Product risk |
| 10 | Venture risk |
| 11 | Management |
| 12 | Financial capability |
| 13 | Regulation |
| 14 | Reputation |
| 15 | Political interference |
| 16 | Funding |
| 17 | Competition |
| 18 | Staffing |
| 19 | Client relationships |
| 20 | Criminality |

Geographically, the investors who responded to the survey were mostly located in North America and Europe, but investing in emerging economies.

Investors' main concerns were about the transition of the industry to new and sustainable business models that can achieve growth. Strategic risk, and the management of change and new technology therefore came high on their list. A US investor said he was "concerned about the failure to adopt effective and profitable new strategies in response to technology and regulatory changes".

Because of this, concerns about the quality of governance, management and product risk also ranked high. An investor in Germany said: "Very few shareholders are able to cope with a changed world where a vision is required. Boards are in many cases too reserved and should play a more active role."

Investors were particularly concerned about the economic outlook, ranking macro-economic risk No. 2, much higher than the average. A respondent from Brazil, a country facing deep economic and political problems, saw "macro-economic volatility leading to a reduction in domestic demand, a reduction in remittances, limited funding and declining portfolio quality." Closely linked to this was high level concern about credit risk and the repayment capacity of borrowers.

The perception of reputation risk was also higher than the average. A European investor said: "Issues of transparency, responsible pricing, profitability, achievement of goals (impact or social performance) take too long to be really taken up and implemented globally. There is too much promise and often too little real change of doing. Sector coordination and global buy in by all actors needs to increase to avoid past errors and risk the reputation of this industry."

As the suppliers of funds to this market, these respondents were relatively unconcerned about the prospects for continued funding. However they did worry that investment is becoming too "faddish", chasing opportunities in "glossy" markets and risking "mission drift" as needy markets got left behind.

Regulators: *Officials who regulate financial institutions active in the provision of financial inclusion services*

1	Financial capability	<p>Respondents from the regulatory field focused primarily on the risks in lending, and on one aspect in particular: the ability of borrowers to repay their loans. Their comments suggested that lenders do not make the best use of information to assess the quality of their borrowers, and that borrowers too often fail to repay their loans either deliberately or because of a failure to understand their obligations.</p> <p>A supervisor in Africa said: “Financial institutions are expanding financial services to low income people but at the same time non-performing loans are increasing mainly due to:</p> <ul style="list-style-type: none">• the fact that borrowers lack willingness to pay back loans coupled with financial illiteracy;• non-repayment of loans is not taken as a penal issue and people do not have fear for non-repayment;• inappropriate repayment capacity assessment of borrowers by MFIs”. <p>Regulators also attached importance to macro-economic risk because of the potential impact of recession on credit quality and on funding.</p>
2	Risk management	
3	Strategy	
4	Credit risk	
5	Client relationships	
6	Macro-economic risk	
7	Product risk	
8	Funding	
9	Technology	
10	Management	
11	Staffing	
12	Repayment capacity	
13	Change management	
14	Venture risk	
15	Regulation	
16	Political interference	
17	Governance	
18	Reputation	
19	Competition	
20	Criminality	

Regulators ranked these credit concerns equally with the strategic issues identified by other types of respondent. On strategy risk, one of them said: “Working without a strategic plan and an annual business plan accompanied by a clear action plan is a common feature of many service providers...they work spontaneously”. Another wondered whether institutions fully understood technology risk. She warned that there would be “slow growth if the institution does not embrace technology and innovation.”

Observers: *People who observe the financial inclusion business as academics, consultants, industry experts etc*

- | | |
|----|------------------------|
| 1 | Strategy |
| 2 | Financial capability |
| 3 | Risk management |
| 4 | Management |
| 5 | Governance |
| 6 | Product risk |
| 7 | Change management |
| 8 | Staffing |
| 9 | Client relationships |
| 10 | Repayment capacity |
| 11 | Reputation |
| 12 | Venture risk |
| 13 | Regulation |
| 14 | Credit risk |
| 15 | Technology |
| 16 | Macro-economic risk |
| 17 | Competition |
| 18 | Political interference |
| 19 | Criminality |
| 20 | Funding |

Observers of the industry held a wide range of views about the risk landscape.

Although they shared the overall consensus that strategy is the most important risk, this was for a variety of reasons. Many respondents felt that institutions needed to embrace change, and would suffer if they did not. For example, one feared there was “a reluctance to change a working business model... until it is too late to change to a new one.” But others saw the risk that new strategies might undermine rather than support the cause of financial inclusion by making the business too commercial. One said that there was a tendency for financial institutions “to reach for the better off” and “not enough support for approaches that can truly reach the most vulnerable.”

Similarly, they agreed that the financial capability of customers was a potential source of risk, but again for different reasons. One was the commercial point that lenders who did not assess their borrowers’ financial capability risked losing money. The other was the more social one that the success of financial inclusion depended on service providers understanding their customers’ financial needs.

The observer group linked these risks closely to the quality of governance and management within institutions. One said: “A major challenge may be the inadequate depth of management with the experience and resources to recognise the changes in the industry and the institution's own business profile.”

Observers also put reputation risk higher than the average. One respondent said: “Despite all the focus on client protection, social performance measurement, and regulation, the reputation risk for microfinance (or broader financial inclusion) remains very high. The same mistakes - high competition, high profits, fast growth - continue to be made.”

Africa

- | | |
|----|------------------------|
| 1 | Macro-economic risk |
| 2 | Technology |
| 3 | Strategy |
| 4 | Product risk |
| 5 | Governance |
| 6 | Risk management |
| 7 | Funding |
| 8 | Management |
| 9 | Credit risk |
| 10 | Change management |
| 11 | Regulation |
| 12 | Staffing |
| 13 | Financial capability |
| 14 | Competition |
| 15 | Repayment capacity |
| 16 | Political interference |
| 17 | Venture risk |
| 18 | Client relationships |
| 19 | Reputation |
| 20 | Criminality |

Respondents in Africa considered macro-economic conditions to be the most severe risk facing the industry. “Many African countries are reeling with the issue of the rising dollar against local currencies making the cost of imports very expensive, [with] a number of currency devaluations resulting in rising inflation. These are not favourable conditions for the providers of financial inclusion”, one investor said.

They were also concerned with how the industry is responding to new technologies, especially when it comes to product development. “The 21st century organizations that do not invest adequately in technological innovation incur a real risk of capitulation and disappearance”, said one respondent, though others worried that costs were too high and the pace of change too fast to keep up with.

Concerns about poor governance are easing across much of the world but remain prevalent in Africa because of a perceived lack of skills and experience to manage difficult conditions. Funding is also seen as a much higher than average risk, particularly in the least developed countries. One

respondent said: “The insufficiencies in governance and management skills may affect the capacity of service providers to attract investors. The lack of transparency is another blockage”.

The risk related to repayment capacity was lower down Africa’s rankings because of the feeling that clients are reluctant to take on too much debt. The strength of client relationships was also a less prominent concern, seen to be not necessarily at odds with the trend towards more automation.

Asia

- 1 Risk management
- 2 Change management
- 3 Repayment capacity
- 4 Strategy
- 5 Technology
- 6 Management
- 7 Credit risk
- 8 Product risk
- 9 Client relationships
- 10 Financial capability
- 11 Competition
- 12 Political interference
- 13 Governance
- 14 Staffing
- 15 Macro-economic risk
- 16 Venture risk
- 17 Funding
- 18 Regulation
- 19 Reputation
- 20 Criminality

Asia's response stressed the difficulty of risk management in a rapidly changing environment. "Very few organizations look at risk in a comprehensive way instead of realizing that it forms the foundation of their strategy", warned one industry observer. Another respondent said that many companies who are substantially increasing their use of technology "don't appreciate the extent of business alignment needed to achieve this".

One risk that stood out in Asia was clients' repayment capacity which respondents said was becoming weaker "due to the economic downturn and devaluation of currencies" and "a consequence of the over-emphasis on access rather than usage". Another was related to their relationship with service providers – especially the lowest income clients, who could have the most to lose if digitisation reduces personal contact.

The assessment of boardrooms was mixed: some respondents saw improvements in governance, but others worried that boards lacked professionalism and were short-sighted

in their outlook and their appointments. One respondent said: "The challenges facing management have changed, but the management chosen by founders often has not; this impacts their ability to attract the right talent". Quality of management was seen as a higher than average risk.

On the other hand, macro-economic risk ranked lower because penetration is still low and markets have room to grow. Regulation was not a high concern across Asia as a whole, though this varied by jurisdiction – one respondent warned of "regulatory arbitrage as different players and different services fall under the scope of different regulators".

Europe

- | | |
|----|------------------------|
| 1 | Strategy |
| 2 | Risk management |
| 3 | Reputation |
| 4 | Political interference |
| 5 | Macro-economic risk |
| 6 | Repayment capacity |
| 7 | Change management |
| 8 | Credit risk |
| 9 | Governance |
| 10 | Product risk |
| 11 | Regulation |
| 12 | Management |
| 13 | Technology |
| 14 | Client relationships |
| 15 | Competition |
| 16 | Venture risk |
| 17 | Financial capability |
| 18 | Staffing |
| 19 | Criminality |
| 20 | Funding |

Europe's rankings were heavily influenced by respondents from the UK, who made up almost half the total but aimed their comments at the developing regions of the world. The biggest concern by some distance was strategy, in the face of "multiple entrants in the sector, from banks, MNOs and fintechs. MFIs have to adapt and develop new business models beyond brick and mortar to remain relevant", one respondent said.

Reputation risk ranked No. 3 in Europe, strikingly higher than its No.18 position worldwide. Reputation was seen to be damaged by overindebtedness in some markets and the perception that the industry had promised more than it delivered, though one respondent said: "The public, regulators and politicians often have a limited understanding of the specific needs of non-standard customers and why niche models may be required to serve this group".

Elsewhere, Europe was largely in line with the global rankings, with high concern about risk management, macro-economic risk, and clients' repayment capacity. On the global economy, one

respondent said: "High unemployment, recession, lack of entrepreneurship, low competitiveness, lopsided economic structures, corruption, and fragile institutional and legal frameworks will have lasting negative effects on MSEs, households and institutions that serve them".

Lower than average risks included those related to competition and technology. One investor said: "The risk here is less new technology – particularly customer service software – but old technology: the loan systems and payment systems, which are generally poor for the established banking system".

Latin America

1	Credit risk
2	Repayment capacity
3	Strategy
4	Competition
5	Macro-economic risk
6	Financial capability
7	Product risk
8	Political interference
9	Change management
10	Governance
11	Risk management
12	Staffing
13	Technology
14	Venture risk
15	Funding
16	Reputation
17	Client relationships
18	Criminality
19	Management
20	Regulation

The response from Latin America diverged markedly from the global rankings, with a strong focus on credit risk and repayment capacity. One respondent said: “Overindebtedness remains the main risk for service providers to the sector. Availability of funding and programs applied to the sector make it easier to obtain credit from different sources. A lack of customers’ credit information and loose credit risk management policies have increased the incidence of this risk”.

Macro-economic concerns were also seen to be significant, including “economic deterioration, less income from commodities, adverse exports/imports relations, the risk of depreciation, and less investment from public and private sectors”.

Though appearing low in the global rankings, competition risk at No. 4 was seen to be high in Latin America. One respondent said: “Markets have become more competitive and MFIs are struggling to attract new clients while keeping current customers. In their aim to grow, some MFIs have lost their controls and/or moved into

new markets, increasing their risk exposure.”

Political interference was also a higher than average risk, seen as particularly acute in pre-election periods or if there is an economic downturn. Conversely, regulation was at the bottom of the table, described by one respondent as: “quite flexible... and not present[ing] an impediment to innovation and development”.

North America

- | | |
|----|------------------------|
| 1 | Strategy |
| 2 | Change management |
| 3 | Technology |
| 4 | Management |
| 5 | Macro-economic risk |
| 6 | Regulation |
| 7 | Product risk |
| 8 | Governance |
| 9 | Risk management |
| 10 | Repayment capacity |
| 11 | Venture risk |
| 12 | Financial capability |
| 13 | Client relationships |
| 14 | Staffing |
| 15 | Credit risk |
| 16 | Competition |
| 17 | Reputation |
| 18 | Political interference |
| 19 | Funding |
| 20 | Criminality |

As with Europe, respondents from North America had a global focus. The dominant theme related to how the industry will cope with change. One risk manager said: “Strategy related to new business models is especially relevant these days with the innovation around new technology. Many institutions do not understand the business models of new technologies and in many respects are having to learn on the fly”.

A couple of other risks were notably higher than average. On No.4, management, one investor said: “More attention is required on the human capital side – training, capacity building, structuring compensation to promote retention”. Another respondent said that “supervision of regulations is an expensive proposition. I’m not sure there are currently sufficient solutions to address this within this sector”.

Traditional banking risks, repayment capacity and credit risk, were middling concerns. One respondent said: “This comes down to proper training of loan officers and other front line staff to adequately and knowledgeably assess clients... and an in-depth knowledge of client

businesses. Ideally, we should find a way to work together and pool our resources and collectively decide to do something about it, on a country by country basis”.

Lower order risks were broadly in line with the global rankings. One exception was political interference, at No. 18. A support provider to the industry took the view that though this could be a risk at the local level, “financial inclusion has become too big and too hot for politicians to meddle with”.

The Banana Skins



1. Strategy (Previous position 6)

The risk that service providers will fail to develop business models which make them relevant and competitive in a changing marketplace

The greatest risk facing institutions in the financial inclusion business is not having an effective strategy to deal with an exceptionally difficult environment, according to respondents to this survey. Such is the speed of change in terms of innovation, technology and competition that institutions which fail to create and implement a sound strategic plan risk becoming sidelined and ultimately extinct.

What adds to this risk is the view that a significant segment of the industry, particularly the more traditional players, lack not just a strategic plan but the capacity to develop one. In the worst cases, such institutions ignore the need for strategy altogether.

Deborah Drake, vice-president at the Center for Financial Inclusion at Accion in the US, said that “there appears to be a high risk that current service providers may not be able to remain relevant because they are not able to adapt their strategy to reflect changing customer preferences and new competitors.”

The ability to understand changing market structures was ranked high on the list of priorities, particularly the growth of competition from new types of player, such as banks and telcos, and the impact of new technology on client management and service delivery. A US development official said that “if providers are not thinking about how fintech will change their business model and competitive landscape they could face disruption”.

Emmanuel Asiedu Appiah, non-executive board member of First Allied Savings and Loans in Ghana, commented that “the development of plans and strategies does not appear to me to be something that is very well understood by institutions in these parts. Consultants also charge exorbitantly for such services making it impossible for most institutions to access them”.

However, this risk is also related to the relative sophistication of local markets. Diego Fernandez-Concha, president of Cooperative PRISMA in Peru, said the risk there was “low given the maturity of the micro financial system in Peru”.



2. Risk management (4)

The risk that service providers will fail to identify and manage the risks in their business

Concern about the quality of risk management in service providers continues to rise up the rankings, despite the large amount of work being put into it. In 2012 this Banana Skin was No. 6, in 2014 No. 4, and now No. 2.

Many reasons are given for this disappointing result: a failure by institutions to understand the importance of managing risk, difficulties in accessing the necessary expertise, and more recently the emergence of new and unfamiliar risks resulting from innovation and change.

Reflecting a view common to many responses, Georgina Vázquez, senior manager at Omrix in Costa Rica, said: “Not all institutions are aware of the importance of good risk management, and many still deem risk management as an extra cost with no value-added”.

Elijah Chol Yak, managing director of the South Sudan Microfinance Development Facility said that “risk is fast becoming dynamic in a very unpredictable industry. Management needs to be on constant lookout for new risk characteristics so that they can easily be identified quite early and a mitigation plan devised. Many institutions do not yet have an internal risk department; they depend on external audit which most of the time does not get to the bottom of the issues that are exposing the institution [to risk]”.

Daniel Rozas, senior analyst at e-MFP/MIMOSA, Belgium, said that the basics of risk management were in place in many institutions for traditional risks, but not necessarily for the growing complexities created by market-level risks such as competition and growth. “Meanwhile, the rapid growth of digital finance is creating a whole new category of risks that are largely unknown. As always, lessons will be learned through hardship.”



3. Change management (-)

The risk that service providers will fail to keep up with the pace and scale of change and its impact on their business

The pace of change in the industry is itself a risk if institutions cannot handle it, and this year we rank it for the first time. The fact that it emerged No. 3 underlines its importance. Hamma Hamadou, strategic adviser to Asusu SA in Niger, said that “entities that are unable to adapt to the important and rapid changes in their industry cannot be competitive and [are] naturally exposed to the risk of extinction.” A respondent from Kazakhstan said this was “a very high risk for the sector in the face of new disruptive business models”.

One theme in the responses was that the capacity to manage change will almost certainly be greater among the larger and more sophisticated institutions which possess the necessary understanding and resources, a point made by a respondent from India: “Bigger organizations with capital back-up find it relatively easier to adapt to change while for smaller organizations it becomes really hard to accept the change and devise new strategies.”

Many respondents mentioned funding as one of the constraints holding back the capacity to manage change or encouraging institutions to adopt what one called “a wait-and-see” attitude. A respondent from Germany said that “management capacity is scarce, so is change management capacity”. A Latin American regulator made the telling point that while the changing environment requires financial institutions to keep up to date to avoid losing clients, “the capacity of regulated Institutions to cope with change is less than that of non-regulated providers.”

If there was a dissenting view about the pressure of change, it came from those who questioned its urgency in a sector where traditional practices are still very effective. For example, Bhoj Raj Bashyal, general manager of Nirdhan Utthan Bank in Nepal, said: “Since MFIs work with the lower strata of society, which are not so sensitive to economic variables, [the business is] more stable compared to commercial financing, and MFIs are more reluctant [to engage] in change management”.



4. Technology (15)

The risk that service providers will fail to capitalise on new developments in IT or will suffer losses from IT mismanagement

Technology is the fastest-rising risk in this survey; it is also the most pervasive in terms of its potential impact.

Two competing themes emerged. One is the risk that service providers will lack the resources or expertise to take advantage of new technology, and may become sidelined as a result. The other is the hype factor: institutions rushing to adopt technology for the sake of keeping up with innovation, without considering how much it really benefits clients.

On the first, the point was made that the quality of service providers’ IT infrastructure is key to the success of business models, of innovation, and retention of clients and employees. Yet, as a respondent from an MFI network in Poland said, “traditional MFIs are very slow at adopting technological advances. Some of them are too small to see the business case”. The chief impediment is cost because rapid innovation can quickly render expensive investments obsolete. “The timing of adopting new technologies is important and not always easy to get right”, said Barry Firth, director at VisionFund International.

But a large number of responses were sceptical about the benefits of new technology. Barbara Magnoni, president of EA Consultants in the US, thought the real risk was “the dogmatic emphasis on mobile money solutions that claim to improve access to financial services, but have yet to answer whether [they] are relevant to poor people (outside of bill payment), or whether they are effectively including rural people and women – the very people they claim will benefit from their products”.

Invasion of the disruptors

A prominent trend over the last few years has been the growing number of fintech start-ups in the financial inclusion market. This creates opportunities, but also new risks for the sector that need to be carefully examined. Gil Lacson, director at Women's World Banking in the US, said: "Regulations; the market and the clients; the institutions and their management and staff; the auditors; the support organizations – they are all playing catch-up [with technological developments]. The risk of the unknown coming so quickly from disruptive technology, if not managed well, could end up disfiguring the ecosystem".

For many respondents the biggest risk was the conservatism of established service providers, and their unwillingness to venture beyond "safe" markets and traditional financial services. Veena Mankar, chairperson of Swadhaar in India, said the new players offer "vastly improved user friendly, convenient ways of delivery, not only for non-credit products but also loans. Unless they adopt newer technology or collaborate with new service providers, [MFIs] face risks of client attrition and high costs".

Others, however, were more apprehensive about these emerging disruptors. Reasons included the less rigorous regulations they are typically subject to, a lesser focus on customer relationships, security and data privacy concerns, mission drift, and the potential for over-saturation of markets. In addition a respondent in South Africa warned about "a potential distraction with so many fintech/big data quick win solutions undermining or leapfrogging core credit methodologies instead of complementing them".

Andres Calderon, vice president of risk at Accion in Ghana, said: "Fintech start-ups which are developing 'innovative' tools being offered indiscriminately to many financial inclusion service providers without proper testing or validation, overpromising and in many cases misleading on their real effectiveness... These start-ups are being fuelled by unlimited resources where access to capital had become a synonym of capacity. The consequences of poor implementation to the financial inclusion [sector] will be extremely negative."

As for the "disruptors" themselves, these were not specifically identified as a class in the responses. But, using its own subjective judgment, the CSFI categorised a number of respondents as belonging to non-traditional MFI service providers and investors. Their rankings were very similar to the rest, with strategy risk in No. 1 position, closely followed by risks associated with change: managing risk, getting products right, and dealing with technology. They also saw the risk of a deterioration in credit quality due to competition and unfamiliarity with new markets. One of them said: "I think traditional risk management is probably still very sound. The issue is to add new risk dimensions to keep up with the rapid evolution of the industry especially around user experience and quality."



5. Repayment capacity (-)

The risk that clients will fail to settle their accounts because they have borrowed too much or are unwilling to pay

The problem of borrowers who cannot pay off their loans continues to be a major risk in this industry despite many initiatives to reduce it. Some of our respondents fear it may even be growing as more lenders enter the market and new technology opens up access to credit.

The risk was widely traced to multiple lending, implying a failure in systems designed to measure repayment capacity either because they are non-existent, ineffective or, more likely, because they are being overridden by lending institutions in their drive to generate business.

A respondent in South East Asia said that “multiple lending continues to increase in mature markets, with little discussion around how much is too much. With the exception of a handful of countries where there are credit bureaux, a lot of markets have little idea about their clients’ true repayment capacity as the number of loans they borrow increases”. A respondent from Ecuador told a similar story: “Overindebtedness remains the main risk for service providers to the sector. Availability of funding and programs applied to the sector make it easier to obtain credit from different sources. The lack of customer credit information and loose credit risk management policies have increased the incidence of this risk.”

Many respondents made the point that credit bureaux are only effective if they are used. A respondent from Ghana said that “The setting up of credit bureaux should help address this problem, but it’s a high risk especially in situations where, because of competition, financial institutions overlook critical issues in carrying out credit assessment.”

Due to competition in India, especially in the microfinance markets, many MFIs disburse loans, relaxing due diligence norms and without providing any capacity building or enterprise development facilitation services to their clients, which leads to the use of a major part of the loan for consumption and not for productive purposes. Hence, clients are borrowing beyond their capacity and do not have incremental income to repay the higher debt. This is emerging as the major risk in many hotspots.

Dr. N. Jeyaseelan
Group chief executive officer
Hand in Hand, India

Since this is a risk within the control of the lending institutions themselves, it should be susceptible to better management. Susy Cheston, a consultant on global financial inclusion based in the US, said: “I think [it] can be mitigated through a variety of strategies such as data analytics, embedding financial capability, and new models that begin with nanoloans and then increase loan amounts with good payment performance.”

Is overindebtedness getting worse?

The changes affecting this industry could increase rather than diminish the problem of client overindebtedness, one of the top concerns over recent years. Several respondents feared that the expansion of fintech would attract new technology-driven firms with money to lend but without a commitment to customer care. They would also heat up competition and force down lending standards.

Respondents from many parts of the world listed overborrowing and overlending among their top concerns, among them Peru, Ecuador, Colombia, Brazil, Cambodia, India, Nepal, Bangladesh, Nigeria, Madagascar, Rwanda, Poland and Tunisia.

The chief financial officer of a lending institution in India said: “Overindebtedness is the main risk because of the presence of multi institutions and a lack of financial literacy and counselling on the proper use of money.” From Nepal, a respondent said that “multiple banking resulting in over-indebtedness is becoming more challenging day by day”.

The managing director of a US venture capital firm observed that “the number of institutions, particularly in some markets, provides an opportunity for a struggling borrower to make his or her situation worse by adding more debt. Institutions who aggressively seek to grow their portfolios are complicit in that effort. Even worse, those rapidly growing MFIs may tempt a borrower into excess debt, causing a good borrower to become a bad one. These problems are not unique to emerging markets.”

Ron Bevacqua, managing director of Access Advisory in Cambodia, said that overindebtedness was symptomatic of deeper flaws in the financial inclusion approach, where the emphasis was on reaching clients rather than on ensuring that they were using financial services wisely. “The short-term result is over-indebtedness, but the long-term impact of paying little more than lip service to the mission of financial inclusion as a contributor to poverty alleviation is likely to be a drop in public approval (and possibly even public sector and regulatory support) for the movement.”

Con Keating, head of research at financial firm Brighton Rock, warned that “as interest rates start to rise, the high levels of individual indebtedness will begin to bite widely. When combined with benefit cuts, the prospects for the bottom 10% do not look good. Very little of the fintech avalanche addresses this group.”



6. Macro-economic risk (13)

The risk that service providers and their clients will be damaged by trends in the wider economy, such as inflation and recession

Concern about macro-economic risk is rising, though its level varies from one region to another. For example, this was the top risk in Africa and No. 5 in Latin America, but No. 15 in Asia. Europe and North America (i.e. mostly investors and NGOs) both ranked it No. 5.

The rise is linked to the increasing exposure of the microfinance/financial inclusion sector to changes in economic activity, as seen in fluctuating commodity prices, currency volatility and worsening credit quality. The head of a US microfinance research firm said: “Macro-economic risk factors in today's global environment are more likely to impact service providers than previously as global economies are increasingly linked.”

Commodity prices were much mentioned as a concern because of the heavy reliance of emerging economies on production, extraction and trade. So was currency risk, with memories of the recent collapse of the Azerbaijani manat due to declining oil prices. Andrew Pospelovsky, an independent director in Egypt, said there was a risk of a downturn in the global economy “impacting negatively on local economies, driving currency devaluations resulting in portfolio quality issues and difficulty in sourcing local currency funds at reasonable cost.”

The direct impact of worsening economic conditions is on the lending business, both as to credit quality and loan growth. Respondents from many parts of the world said this was happening or foreseeable. Idowu Oshokoya, managing director of Echo Microfinance Bank in Nigeria, said: “Given the economic downturn currently being experienced in Nigeria, those at the bottom of the pyramid are the first to feel the heat, and as such, it will affect loan repayments and service consumption by this segment of the economy”.



7. Product risk (12)

The risk that service providers will lose business by failing to offer the right products to their clients

Concern is rising that service providers are failing to offer the right products to their clients either out of conservatism or ignorance of what they really need.

Respondents saw stagnation in product development among the more traditional, established players – service providers reluctant to adapt “one-fits-all” products that have been profitable in the past. “Unfortunately, plain vanilla expensive credit products continue to be offered to large number of clients”, said a respondent in Cambodia.

The director of an impact investment company in Germany said: “Many institutions have aligned their product offering, limiting it to relatively simple and streamlined value propositions for their clients. However, with products being so similar, it is difficult for service providers to remain relevant and run a sustainable business”.

The counter argument – aimed in particular at tech-driven new entrants – is, as one respondent put it, that: “Many customers have fairly simple product requirements – there is no need to over complicate”. Guy Stuart, executive director at Microfinance Opportunities in the US, warned that the industry “continues to face the risk of misunderstanding the people it is trying to serve, undermining efforts to promote financial inclusion through the deployment of inappropriate products and services and/or doing harm to low-income and vulnerable people with products that extract resources and do not add value”.

Many respondents saw this risk as a test of whether service providers were genuinely interested in addressing financial exclusion, or were merely in quest of profit opportunities or innovation for its own sake. As one put it: “We need to focus on ‘what does the client need’ and not so much on ‘what do I need to sell’ to remain an impact industry that creates products adapted to clients, and not that creates needs adapted to products.”

Oscar Graham, director general of financial markets at Peru’s Ministry of Economy and Finance, said that “in an environment of increasing competition and declining financial margins, designing products for unbanked sectors is the principal challenge. However the lack of information on these segments and the increased risk may limit this expansion.”

Moving beyond credit

Many of this survey’s respondents saw the financial inclusion sector moving away from primarily providing credit towards a much broader range of products and services: insurance, investment, remittances, etc. “Micro-credit was often used as a substitute for other more appropriate products, such as insurance and savings. This is about to change”, observed a respondent in India.

Zubyr Soomro, CEO of Hikmah Consulting in Pakistan, said: “The lower hanging fruit in the industry has been reached in most markets and competitive pressures, particularly between non-profits and for-profits, can drive the sector into less familiar territory. This can be geographically, as outreach is extended to areas less easily covered, and into new segments like agri-finance and housing finance. These will require changes in product structures and in the tenor of loans, either way increasing risk profiles”.

A concern is that clients will bear the risk if this expansion creates new markets artificially, rather than being led by demand. Eduardo Mendoza, CEO of Tulay Sa Pag-Unlad in the Philippines, said: “Microinsurance is temptingly lucrative, especially if it is bundled as a must-buy with other services or products, where the supposedly-insured are more interested in the other product/service. This is an abuse of the principle and spirit of microinsurance, and misleads us into thinking that this is a financial inclusion success story”.



8. Credit risk (2)

The risk that providers will suffer losses from lending to businesses and consumers

Credit risk has slipped some way down the rankings since the days when it came top of this survey, one reason being that better lending controls are steadily being applied. But it remains one of the most fundamental risks faced by lenders, and is often the consequence of other weaknesses in the system, particularly the management of risk.

Among many issues cited by respondents in this complex area, a number stood out.

- Credit risk is strongly driven by the state of the economy, which is deteriorating in many of the markets where providers of financial inclusion services are active;
- Losses attributed to credit risk continue to be caused largely by poor credit management, due to weak internal procedures and competitive pressures;
- Credit risk may rise again as market changes attract new competitors, or force existing players to experiment with new techniques and markets.

Economic pressures were widely cited as a generator of credit risk in the current environment because of uncertainty about the global outlook, weak commodity markets, and an unusual interest rate environment created by quantitative easing, all of which could lead to declining economic activity and rising unemployment. A further economic driver was climate change and increased risk of drought and flood.

Adrian Rossignolo, actuarial manager at Provincia Vida in Argentina, said that “service providers in emerging and frontier markets must follow closely the economic environment and act in consequence, particularly considering the impending risk posed by the rise in interest rates in the US, which will undoubtedly lead to capital exit in local markets. This, in turn, will produce a rise in domestic interest rates, therefore leading to increases in credit risk.”

Economic pressures are largely outside lenders’ control, but the quality of credit management is not. Respondents said that, for a variety of reasons, lenders in this market did not always make sound lending decisions. Reasons included insufficiently robust management systems, competitive pressure, adoption of poorly understood innovation and mispricing.

Financial institutions are expanding financial services to low income people but at the same time non-performing loans are increasing, mainly because

- borrowers lack the willingness to pay back loans coupled with financial illiteracy;
- the non-repayment of a loan is not taken as a penal issue and people do not have a fear of non-repayment;
- inappropriate repayment capacity assessment of borrowers by MFIs;
- poor follow up and monitoring mechanism;
- inappropriate products and delivery mechanism; and
- inappropriate collateral or enforcement mechanisms in the case of default.

**Director of microfinance supervision
Central Bank, Africa**



9. Governance (5)

The risk that the boards of service providers will fail to provide necessary oversight and strategic direction

The fact this risk has again fallen – it was No. 2 in our survey of the microfinance industry in 2012 – suggests that concern about the quality of boards is easing somewhat. As with management risk (No. 10), there may even be some complacency within the industry: service providers ranked this risk No. 13, while those outside put it at No. 5.

Respondents' main focus was on whether boards were up to the task of guiding their institutions through difficult conditions ahead. One risk is that they do not encourage fresh thinking at a time it is desperately needed. "Of all the players, the boards are probably the farthest from the technological shift that is taking place," was a much-echoed sentiment. A respondent in Pakistan complained that boardrooms are still: "dominated by first generation founders who discourage probing discussions in board meetings".

An obstacle to instilling more relevant skills into boards is the persistence of cronyism. Several respondents worried about the appointment of owner-directors or family and friends with little understanding of their role and few skills to contribute. A respondent in the Philippines said: "Many shareholders are not suitable for providing oversight to larger institutions... but are unwilling to relinquish control for personal pride issues".

The demands of governance have also become more complex because of the greater variety of businesses now active in the field. Syed Mohsin Ahmed, chief executive officer of the Pakistan Microfinance Network, said: "It is important for the board of deposit-taking MFBs to keep a trade-off between their owners that are telco-led with a focus on transactions, versus [those with a focus on] core banking services. Similarly, it is important for non-bank MFIs to see risks that will emerge as they deal with banks, insurance companies and telcos/digital platforms".

If boardrooms are improving, it is because they have more independent directors, and their members undergo more training and regulatory oversight. The regional director of an investment boutique in South Africa said: "Board composition is mixed – strong in the larger more international-type institutions but weak across most local MFIs".



10. Management (8)

The risk that poor management in service providers will damage the business

While management quality is seen to vary widely by institution, the broader concern is that many management teams lack the skills and flexibility to navigate the rough seas which the financial inclusion industry will have to cross over the next few years. This impression is more acute outside the industry: observers ranked this risk much higher (No. 4) than service providers (No.12).

The risks are essentially twofold. One is that management will have difficulty adapting to an environment containing "new disruptors, technology and evolving

client needs”. A respondent in Germany said: “Macro-economic and socio-political forces pose tremendous challenges [to management teams] ... Strategic decision-making and managing change, when adapting to new complexities, will become a decisive skill set”.

A concern is that boards and owners may be unwilling to make the necessary changes to personnel to avoid tinkering with business models which have been effective in the past. Nepotism is also seen as part of the problem, potentially hampering service providers’ ability to attract the right talent at less senior levels. “New generations of staff within organizations require a different management style and leadership”, said a respondent from a service provider in Colombia.

The other risk is that management will be diverted from delivering on the financial inclusion front by competition and profit pressures. Respondents warned that a short-sighted focus on unrealistic profit targets and growth could force management to make poor lending decisions, as with microcredit crises of the past.

Striking the right balance between business development and social welfare is seen as key. “Do-gooders and profiteers [are] a toxic mix”, said one academic bluntly. An investment specialist at a bank in the Philippines said: “The landscape is changing and it will require institutions and regulators to change with them. Management needs to have real banking skills”.

There are, however, grounds for optimism in this area, including the growing professionalism of management and a greater focus on capacity building and knowledge sharing. But respondents also pointed to specific cases where recent institutional failures could be attributed to poor management. “Many competitors have come to this segment of the market with very low capabilities and underestimating the knowhow [required]”, said Carlos Labarthe, chairman of Gentera in Mexico.



11. Financial capability (11)

The risk that clients will not be able to make informed decisions because of lack of financial knowledge

Financial capability remains a middling risk this year, though there was a striking split between service providers, who had it near the bottom of the table, and industry observers who ranked it No. 2.

Those who ranked it low argued that the financially excluded were more knowledgeable about finance than was generally believed, being well-positioned to understand their local markets, and possessing the ability to make sophisticated money-management decisions. The point was made that people within the formal financial sector do not generally have better capability, but suffer less from the consequences of the mistakes they do make.

For many respondents, a bigger risk than general financial knowledge is that clients cannot understand the specific products they are offered. If they are unable to distinguish those which are suitable for their needs, they could be open to exploitation. A supervisor of MFIs said: “Unaffordable loans are most of the time linked with lack of bargaining power of client and a lack of financial capability to make arbitrage between available products/services and institutions; financial

literacy and capability is therefore key”. From a service provider’s perspective, the CEO of an MFI in Nigeria said: “An educated client base provides an easier market to handle and reduces delivery costs”.

Unfamiliar technologies could exacerbate this risk, particularly if they result in less face-to-face contact with service providers. Timothy St. Louis, research fellow at Opportunity Fund in the US, said: “The issue is that life is complicated and diverse, but financial products that reflect this complexity are not comprehensible or accessible for the people who need them the most. Balancing intricate tools against the financial knowledge of under-resourced populations is a huge challenge”.

On the other hand, “with technology may come timely information and informed decision-making”, said one respondent. The director of a charity in the UK said: “Modern social network technology...should allow clients to understand the full implications of a product”.



12. Political interference (7)

The risk that intervention by politicians will harm the sector and distort the market

The middling position occupied by political interference in the ranking conceals wide differences in evaluations of this risk, both geographically and by type of respondent. The most striking is that service providers see this as the most serious risk they face, while the remaining respondents rank it down at No. 18, in other words as of little consequence. Geographically, it was seen to be highest in Latin America, but was among the lowest risks perceived by North America and Africa.

In Latin America, where this has been a strong concern for several years, a respondent noted that “politically motivated policies have already impacted the sector in countries like Bolivia and Nicaragua”. A service provider in Colombia singled out “government and/or international aid programs for financial inclusion that do not respect basic bank principles and promote moral hazard among the Colombian poor population. This would certainly be a huge barrier for further sustainable financial inclusion offered by private providers”. Specific concerns were also raised in other countries including India and Myanmar.

If a common thread did emerge, it was that a global economic slowdown could trigger political populism. A respondent in Brazil worried about “populist governments squeezed by poor economic performance who respond by capping interest rates, or other more direct interventions in microfinance institutions”. Speaking about the Caucasus and the Central Asian region, the director of a US NGO said: “My biggest concern is political uncertainty in the countries in which we operate – that even an institution with a well-thought out strategy for growth and diversification of product lines could fall apart if the government changes its policies for microfinance institutions and funders precipitously”.



13. Competition (3)

The risk that the growth of competition will cause service providers to lower their business standards

As the financial inclusion market evolves to include new players, views about the value of competition are also beginning to change. In past surveys, the risks from competition, particularly from “excessive” competition, were seen to be high in the areas of pricing, customer relations and in the reckless pursuit of market share. This year, the balance of opinion is swinging towards the more positive view that competition brings innovation, efficiency and better service for customers.

For example, a supervisor in Latin America said: “We do not believe that competition causes service providers to lower business standards. Instead, greater competition will benefit clients because providers will have to constantly adopt better standards and practices to offer innovative products and services and thus create more value for customers, always under the same regulation and supervision schemes.”

Nonetheless, concerns remain strong. One feature of the new market is a sharp rise in the number of non-bank service providers on the lending side, and this could lead to what one respondent described as “a deteriorating credit culture” as firms compete for business. Christina Juhasz, chief investment officer of Women's World Banking Asset Management, said that “technology-based providers will increase competition and potentially over-lending.” Other respondents made the point that new entrants created risk by using untested business models which were liable to fail under pressure.

New actors are entering the sector. Whereas Enda used to have the monopoly on the whole territory as the only NGO authorized to grant micro-credit, several new actors have started their activities since 2014.

For the time being, this competition remains limited but is growing. Most of it does not target the substantial share of Enda's market which is home-based income-generating activities and remote rural areas. But there is a risk of over-indebtedness, at least until an effective credit bureau is in place.

That said, the rise of competition would be rather an opportunity since it should:

- foster the development of the micro-finance sector in Tunisia,
- push us to monitor and improve the quality of our services, and
- pressure the whole sector to reduce interest rates.

Walid Jebili

Enda Tamweel, Tunisia



14. Client relationships (14)

The risk that poor client management or developments such as greater automation will lead to a deterioration in client relationships

One of the main risks to client relationships is that the automation of banking services will de-personalise and eventually damage them. Respondents recognised this risk, but considered it exaggerated, which is why it comes some way down the table.

The case for concern was put by Dr Steve Ogidan, CEO of Successory in Nigeria, who said: “I am concerned that the financial inclusion industry hasn’t fully realized the impact that going digital will have on the way financial services are provided. Microfinance has always been high-touch with lots of opportunities for financial service providers to interact with clients through loan officers, group meetings, and branch interaction. As we increasingly utilize lighter touch methods of interaction, such as mobile banking and agent platforms, there will be many benefits to clients - but do we fully understand the downsides of that transition?”

However the opposite case was put by Miguel Herrera, partner at Quona Capital Management in Peru. “Greater automation should help not make the problem worse, by freeing up resources to spend on better customer support, service, call centres and having products that are better designed for a digital generation who can less and less afford or want to take time off from work to go to a physical branch to solve their financials needs.”

Some respondents pointed out that reduced face-to-face interaction with clients is becoming the norm in most industries. If financial inclusion service providers can use big data and tap into more low-touch ways to understand clients’ needs and behaviour, the argument goes, how necessary is the hands-on approach? One objection to this is that the absence of personal relationships may disrupt “the client’s willingness (as opposed to capacity) to repay the loan”, in the words of an industry observer from Canada.



15. Staffing (10)

The risk that service providers will fail to recruit and retain suitably qualified staff

This risk has dropped down the rankings because even though markets are growing, the general feeling is that the industry isn’t having major difficulties finding suitably qualified people – though *retaining* them is more problematic.

When it comes to talent acquisition, many respondents are more concerned about filling senior positions. Valerie Kindt, vice-president of Training and Capacity Building at Accion in the US, said: “Staffing is not so much a problem. Recruiting talent at the highest level which can in turn motivate and guide staff is a much bigger risk”.

Others pointed out that challenging macro-economic conditions mean that qualified staff are not in short supply. This can quickly change, however. An observer of MFIs in the US said: “To thrive these days and recruit the right talent, especially in rural areas, MFIs have to be the employer of choice. Otherwise, as economies improve,

staff have more and better choices, and I don't blame them for leaving if MFIs continue to treat them poorly or overwork them”.

The main concern was not recruitment but retention – in particular staff getting “trained and poached”. An investor in service providers at a global bank said: “For established players in established markets, the revolving door from one organisation to another is prevalent, especially at the client officer level”. A regulator in Kenya said: “There is very high staff turn-over in small institutions as staff look for green pastures”, while an investor based in Germany warned of “talent drain in some regions towards developed economies”.

On the whole skills and qualifications were seen as satisfactory. But some respondents envisaged shortages in newer areas of the industry. Destouches Benoit, finance director at the Aga Khan Agency for Microfinance, said: “There will be changes in competencies with new business models, so the risk is to identify, train or recruit those new competencies”. A senior adviser at an international development company in Germany said: “The industry will consolidate in certain countries. Staff will be available but new areas of expertise need to be built up (security, IT for digital finance). In those areas, expertise, at the requested level (experience, orientation) may remain behind demand”.



16. Regulation (9)

The risk that the sector will not develop because of a lack of appropriate supervision and regulatory co-ordination

Concern about regulatory risk seems to be easing, thanks to improvements made to regulation in many parts of the world. But this remains a risk about which it is hard to generalise, and the more negative responses reflected concern that regulation was becoming excessive and holding back industry change.

The good news is that respondents in many regions said that much was being done to create regulatory regimes that provided a constructive environment for inclusive finance. For example, the CEO of an African microfinance network said that “most countries have developed regulations that are conducive to financial inclusion.” A banking supervisor in Latin America said that “regulation regarding the supply of inclusive financial products is quite flexible, and does not present an impediment to innovation and development. The [authority] is constantly studying and reviewing international standards to be in line with market’s needs, and following up with innovation.”

However the quality of regulation is clearly mixed. Respondents from Ghana reported regulatory lapses which led to the collapse of a number of institutions in that country, leaving thousands of depositors at risk, and highlighting one area of widely identified weakness: consumer protection which one respondent said “remains rare”.

The broader risk, in many respondents’ view, is that regulation is moving towards excess and is potentially stifling growth: know-your-customer regimes, capital requirements, compliance, and reporting. Nsoh Cho Wallace of the Pyramid Polytechnic in Cameroon, said that “the regulation of financial institutions, mobile communication companies, technological providers by the government in many developing countries today is getting way too high. At this rate, these services may

become too expensive for the poor to afford, thereby slowing the development process and hence the improvement of financial services in those countries.”

Lynn Exton of Exton & Partners Risk, Governance & Analytics in Canada, said that “growing regulatory compliance costs add to the industry’s already high expense base and risk forcing the MFIs to go up-market or become part of a commercial bank - with the risk of losing their original focus on the unbanked.” Aldo Moauro, executive director at MicroFinanza Rating in Italy, said that a stricter regulatory framework could reduce lenders’ risk appetite and “lead to a reduced effectiveness of the main drivers of microfinance: outreach and innovation”.



17. Venture risk (-)

The risk that new business initiatives will fail, for example because of their cost and complexity, pricing difficulties, partnering tensions, poor management etc.

The number of business partnerships in this market is growing as different types of service provider team up to bring technology, financial capability, communication and distribution together. This creates the risk that these ventures will fail, for various reasons.

Its relatively low position in the ranking suggests that this risk is not seen as critical, but might it rise as ventures proliferate? Possibly, though the counter view is that the accumulation of venture experience will deal with many of the current reasons for failure.

What was clear from the comments is that the failure rate is high: one respondent said that only one out of ten ventures “hits the jackpot”. Participants should be aware of this, and make provision for it, so the financial risk need not be excessive, though some respondents also brought up the reputational cost in the failure of a venture aimed at the mass market.

Reasons for failure that were mentioned included the culture clash between traditional firms and fintech developers, unrealistic expectations about potential returns, contractual complications, short termism, and even the excessive availability of venture funding. A respondent from Germany said that “new ventures need supervision and management capacity - both are lacking in many cases.” However Danielle Piskadlo of the Center for Financial Inclusion at Accion said: “Many will fail, but I’m okay with that because that is the only way we as an industry will learn and grow.”



18. Reputation (-)

The risk that the industry will suffer a poor reputation or lack of public trust

Reputation risk lies low down the scale, which may come as a surprise after the storm of bad publicity surrounding the microfinance industry in recent years. This is due to the low risk score given to it by service provider respondents, the largest single group, who placed it at No. 19. But other worried comments we received suggest people are giving this issue thought, and in Europe it was ranked No. 3.

Mission drift

One of the risks in the advances in financial service provision is that they could reduce rather than increase services for those most in need of them because of a process known as “mission drift”.

Several respondents feared that the structural and technological changes reshaping the industry, including the entry of commercially-driven institutions, would make it more profit-seeking, less philanthropic, and therefore less inclined to see the financially excluded as a worthwhile market.

Kevin Fryatt, director of the US-based Risk Management Initiative in Microfinance (RIM), said that “the industry needs to take on a double bottom line view of risk, including financial losses, but also losses to the social performance of the institution. Without this view of risk, institutions will be motivated and incentivized to act largely through the lens of financial performance, ultimately at the expense of the end client.” Jeffrey Ashe of the Carsey School of Public Policy at the University of New Hampshire believed there was a “crisis” in the industry symptomised by the focus of discussion “on institutional survival and profits instead of improving the lot of those whom these institutions are supposedly serving.”²

Others were concerned that the financial inclusion idea had been taken up so widely that it risked becoming what one of them called a “fad” or a mask for something that did not really exist. Diego Guzman, Accion regional head for Latin America based in Colombia, saw the possibility that fintech could become “a fashion losing contact with the client at the base of the pyramid”. A social performance analyst at a large Dutch investment firm saw a process of standardisation taking place “which means offering products to market areas that are easy to reach or to administer but that are not relevant to clients' needs.”

One view is that the financial inclusion industry – especially microfinance – has delivered “too much promise and often too little real change of doing”. The expectations of donors and clients are growing: “There is more demand for objective data rather than anecdotal evidence to support industry claims”, said an industry observer.

The industry’s image was seen – unfairly, according to some – to have been tainted by overindebtedness and accounts of rapacious lending. Meanwhile, the fast growth, high profits and fierce competition that have occurred in many markets have led to accusations of mission drift, and the charge that the industry too often defines risk in terms of potential financial losses to service providers rather than bad outcomes for clients. (See box).

The consequences could include a loss of confidence among clients or a backlash by politicians and regulators. Investors could quickly withdraw their funds if a major market tainted by overindebtedness suffers a full-blown repayment crisis.

² Mr Ashe criticised this survey for omitting any questions about the risks to clients. We would point out that the purpose of this report is to identify risks to service providers. *Editor.*

From a client’s perspective, it was noted that lack of trust is one of the main obstacles to participation in the formal financial system, and a bad first experience may discourage further engagement. A banking supervisor in Kenya said that poor reputation is “a result of bank failures. Pro-activeness of the regulators and governments are key to building public trust of financial institutions”.



19. Funding (18)

The risk that service providers will fail to attract and retain diversified sources of debt and equity

The low position of this risk suggests that, broadly speaking, funding is not an urgent issue: there is plenty available and the outlook is not unfavourable. But it also depends on who and where you are talking about and what type of funding.

The risk that most people worry about is a shortage of funding. Here the concern is that funding policies are now focusing increasingly on profit-making opportunities, particularly those with scale and fintech features in stable economic and political environments. Other institutions are finding life increasingly difficult. One respondent said this was “more of a risk for those in non-glossy geographies and traditional microfinance institutions that have not achieved compelling scale.”

There is also concern among the more committed segments of this market that funding is focusing on the short-term single bottom line and neglecting those institutions that have more of a mission to spread financial inclusion. Michael Rothe, managing partner of SmartMoney International, said that “the risk is compounded by market distortion caused by large international donors who provide significant grant funding to the large mobile network operators from which we have seen very little product innovation in the last couple of years.”

Some respondents felt the problem was not too little funding, but too much. Jurgen Hammer, CIO and head of social performance management at Grameen Crédit Agricole Foundation in France, said that “funders continue to run very much in the same direction: some countries, some regions, some sectors - which become quickly overfunded, while others have to struggle. It’s an appeal to funders to get out of the box and look larger.”

Margins continue to go down (also because of increasing hedging rates), provisioning levels go up mainly due to macro-economic circumstances and political interference. This creates an unhealthy environment for (private) investors. If this trend continues investors may eventually turn their backs on the financial inclusion space.

Mark van Doesburgh

Managing director, Triple Jump, Netherlands



20. Criminality (-)

The risk that service providers will be damaged by threats such as cyber-attack, money laundering and tax evasion

A new addition in this year's survey, the threat posed by criminality ranked bottom of the table by a considerable distance. But in the words of one widely-echoed respondent, "it's a matter of time before this risk grows in importance". It is worth noting that in a parallel survey of the commercial banking sector by the CSFI, criminality was ranked No. 2, mostly due to cybercrime.

The chief concern is that opportunities for criminals are tied up with the new technologies that service providers are clamouring to adopt, often before they grasp the security risks. "In Nigeria, mobile money is the main driver of financial inclusion, where issues such as identity theft and counterfeit KYC are faced by operators mainly due to internal control failures related to governance, IT, and continuous monitoring", the CEO of one MFI said. Another respondent warned of "a rush to use data creatively to allow access to services without sufficiently addressing the very real concerns about data privacy and data security".

Cybercrime is an area where size matters. The upshot for small service providers is that they offer criminals a less enticing bounty than mainstream banks or insurance companies. But they could also be seen as easy targets. A respondent from Ecuador said digital crime is "especially applicable to the lower range of units serving the sector as they need improvements in processes, controls and personnel capacity".

Others focused on threats emanating from within institutions themselves. A respondent in Malawi warned about "staff colluding with clients to take money from other clients unlawfully." Philip Brown, managing director of Citi Inclusive Finance, said that "fraud, including that related to institutional governance, remains significant."

Some respondents wondered whether crime itself was less of a threat than over-scrutiny from the authorities. Tom Schmittzehe, director of Uberis Capital in Southeast Asia, said: "The risk is from governments, primarily the USA, exaggerating the risk and using unrefined and heavy handed approaches with many unintended consequences on benign practices/markets, such as remittance of small amounts [of money] from foreign workers to their poor home communities".

APPENDIX 1: The Top Ten since 2008

2008	2009	2011
1 Management quality	1 Credit risk	1 Credit risk
2 Corporate governance	2 Reputation	2 Reputation
3 Inappropriate regulation	3 Competition	3 Competition
4 Cost control	4 Corporate governance	4 Corporate governance
5 Staffing	5 Political interference	5 Political interference
6 Interest rates	6 Inappropriate regulation	6 Inappropriate regulation
7 Competition	7 Management quality	7 Management quality
8 Managing technology	8 Staffing	8 Staffing
9 Political interference	9 Mission drift	9 Mission drift
10 Credit risk	10 Unrealisable expectations	10 Unrealisable expectations
2012	2014	2016
1 Overindebtedness	1 Overindebtedness	1 Strategy
2 Corporate governance	2 Credit risk	2 Risk management
3 Management quality	3 Competition	3 Change management
4 Credit risk	4 Risk management	4 Technology
5 Political interference	5 Governance	5 Repayment capacity
6 Quality of risk mgt.	6 Strategy	6 Macro-economic risk
7 Client management	7 Political interference	7 Product risk
8 Competition	8 Management	8 Credit risk
9 Regulation	9 Regulation	9 Governance
10 Liquidity	10 Staffing	10 Management

Results are for *Microfinance Banana Skins* 2008-2014 and *Financial Inclusion Banana Skins* 2016

The history of the top ten risks identified by the *Microfinance/Financial Inclusion Banana Skins* surveys since 2008 shows important shifts in risk perceptions.

The first survey in 2008 was dominated by concerns over the quality of management and corporate governance in MFIs, while credit risk ranked down at No. 10; MFI borrowers paid their loans back. This was to change dramatically over the next two years. Growing concerns about the quality of microfinance lending propelled credit risk to the top of the list, where it stayed until 2011. By then, concern had crystallised around overindebtedness as the chief risk facing the sector. In parallel, concerns about the risk of political interference in the industry and its reputation rose into the top five.

Meanwhile worries about institutional weaknesses in MFIs persisted, with corporate governance and management holding their places in the top ten, and the quality of risk management becoming a prominent issue.

The rankings began to change in 2014 when strategy risk made its first appearance, pointing to the changes that are now visible in the industry as it undergoes transformation into a more technology-driven financial inclusion business.

APPENDIX 2: The questionnaire

Financial inclusion 2016 A CSFI 'Banana Skins' survey

Each year we ask practitioners and observers of the finance industry to describe their main concerns about the risks facing the business as they look ahead 2-3 years.

The focus of this year's survey is on institutions which provide financial services - or provide support and products for such institutions - to low income, self-employed individuals, or micro and small enterprises. These include non-financial institutions such as technology companies and telcos, as well as academics, consultants, ratings agencies etc.

1. Who you are:

1. Name
2. Institution
3. Position
4. Country where you are based
5. Whether you are willing to be quoted by name

2. Please select what best describes your role in the industry:

1. I work for a service provider (e.g. a financial institution, a technology company or platform, a mobile money operator or any other company that provides a financial service to the underbanked)
2. I invest in service providers.
3. I provide support to service providers as a network/association
4. I work for an organisation which regulates or supervises institutions which provide financial services.
5. I am an observer, academic or consultant.
6. Other (please state)

3. Please describe, in your own words, the main risks you see facing providers of financial inclusion services over the next 2-3 years.

4. Risks

Below is a list of potential risks to service providers grouped by where they originate, from the service provider, the client or the public environment. Please rate the severity of each on a scale of 1-10 (1 being negligible, 10 being acute), and provide comments.

SERVICE PROVIDER

1. **Governance.** The risk that the boards of service providers will fail to provide necessary oversight and strategic direction.
2. **Management.** The risk that poor management in service providers will damage the business.

3. **Risk management.** The risk that service providers will fail to identify and manage the risks in their business.
4. **Staffing.** The risk that service providers will fail to recruit and retain suitably qualified staff.
5. **Strategy.** The risk that service providers will fail to develop business models which make them relevant and competitive in a changing marketplace.
6. **Credit risk.** The risk that providers will suffer losses from lending to businesses and consumers.
7. **Product risk.** The risk that service providers will fail to offer the right products to clients, for example because they fail to understand their needs.
8. **Technology risk.** The risk that service providers will fail to capitalise on new developments in IT or will suffer losses from IT mismanagement.
9. **Venture risk.** The risk that new business initiatives will fail, for example because of their cost and complexity, pricing difficulties, partnering tensions, poor management etc..
10. **Change management.** The risk that service providers will fail to keep up with the pace and scale of change and its impact on their business.

CLIENT

11. **Client relationships.** The risk that poor client management or developments such as greater automation will lead to a deterioration in client relationships.
12. **Repayment capacity.** The risk that clients will fail to settle their accounts because they have borrowed too much or are unwilling to pay.
13. **Financial capability.** The risk that clients will not be able to make informed decisions because of lack of financial knowledge.

BUSINESS ENVIRONMENT

14. **Competition.** The risk that the growth of competition will cause service providers to lower their business standards.
15. **Funding.** The risk that service providers will fail to attract and retain diversified sources of debt and equity.
16. **Macro-economic risk.** The risk that service providers and their clients will be damaged by trends in the wider economy, such as inflation and recession.
17. **Political interference.** The risk that intervention by politicians will harm the sector and distort the market.
18. **Regulation.** The risk that the sector will not develop because of a lack of appropriate supervision and regulatory co-ordination.
19. **Criminality.** The risk that service providers will be damaged by threats such as cyber attack, money laundering and tax evasion.
20. **Reputation.** The risk that the industry will suffer a poor reputation or lack of public trust.

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Brigade Electronics	MacDougall Auctions
C. Hoare & Co.	Nabarro
CISI	NM Rothschild
Cognito Media	Nutmeg
EBRD	Obillex
Embassy of Switzerland in the United Kingdom	Oxera Consulting
Endava	Raines & Co
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