Accion Webinar: Reimagining Group Lending (July 15, 2020)

On July 15th, Accion hosted a webinar on group lending with CO (DVARA KGFBRAC) and Christian Bano (CASEA and Board Member of Bina Artha Ventura (Indonesia) and One Puhunan (Philippines)). During the event, attendees had the chance to pose questions to both speakers in the virtual chatbox. Below are the responses to these questions in full.

Questions for Chris:
1. It's good to see a model based on the client and her/his family. In order to be able to offer additional and better products and services, do you plan to build additional partnerships with other kinds of partners, such as commercial banks, telcos, digital/mobile money providers, other fintechs, payment platforms, etc.?
Chris' Response: Yes, absolutely. We are currently assessing what product and services we can offer directly and what we will offer through partnership. In Indonesia, for instance, obtaining an e-money license is extremely complicated and the regulator (OJK) is basically not issuing any more licenses. Hence for payment services and e-wallet we will likely partner with third parties. For similar reasons, we will partner with third parties (we are already in advanced discussions with some) to offer more advanced insurance products. However, as we will be the company interacting with the clients and we will be fully responsible not only for selling of the product/services, but also perceived as responsible for their quality and the performance of the partner, we will try as much as possible to adopt a white-label approach and be the single interface with our clients.
2. Who will operate the service hubs? Is that a progressive customer or some customer service provider? How feasible is it to have such service hubs cater to all microfinance customers if we are providing them incentives to continue their service?
Chris' Response: The approach we are favoring for now is to initially make our loan officer run them with limited frequency (matching the one of center meetings) and gradually train center leaders to become "super experts" in using the engagement application and some of the product and services we are offering. They will be allowed to run the service hubs at greater frequency under supervision of the loan officer (both remote and in-person) and gain fees to further incentivize them.
3. What is your estimated cost of servicing your customer digitally vs the physical service centers?
Chris' Response: We are still working on the cost structure of the different models which are dependent on the service/product offered. For limited contact services, such as insurance, the cost of fully digital service will be lower; however, we might miss out on a large chunk of potential clients, who might not be able to understand the product or apply for it without support. For credit, it is mostly dependent on the cost of covering the credit risk. Though digital loans (or loans assisted by our "super experts"/agent) are less costly for acquisition and repayment, because they are handled autonomously by clients or agents, they usually have lower repayment rates and higher write offs, which affect the overall cost of offering such loans. We feel that, generally, loans with some level of physical contact, especially at the time of collection, will lead to better repayment rates and therefore will be overall less costly than fully digital loans.
4. Is credit for families without business easy to redeem?
Chris' Response: We only offer working capital loans. However, it can happen in group lending, as the type of businesses serviced are generally basic and seasonal,

meaning that clients close (usually temporarily) their microbusiness to work in a factory or in a rice field during the harvesting season. These clients usually struggle to attend center meetings and their repayment rates drop at levels lower than average. For such clients, especially if more women in a center are affected, often we organize center meetings close to factories/rice fields before or after the clients' work shift.

Questions for Joby:

1. Do you offer agriculture insurance such as index-insurance for crops?

Joby's Response: We have started specific crop loan products which are multi tranche and linked to different stages of cultivation based on satellite image data captured in the last year of the pilot where we have previously not offered index-insurance. However, there is government insurance that is available for the farmers under various government schemes.

2. How do you collect the data about one new customer for the 30-40 fraud patterns you identified?

Joby's Response: In India, the Credit Bureau (CB) report is very exhaustive and captures the last 10 years of microfinance credit history. It includes customer history details such as the loans taken, name of financial institution, their address details & mobile numbers, as well as their repayment track record. We have automated the capturing of such details from the CB report & we couple these with the details submitted for applying the current loan & analyze the same to arrive at any default patterns. There could be customers who has availed 5 loans during this period but does not have a repeat loan with the same entity over this period. This could be an indication of micro default by the customer, where the group members would have come together to repay on behalf of this customer. The CB report will not show this default, whereas these details would be available with the entity who has given this loan & therefore does not want to provide a repeat loan. There are other patterns such as a customer who migrates so frequently that his address details will reflect different address at the time of application of each loan & these customer are perceived to be high risk.

3. Can we replace a physical group meeting to a video call-based meeting keeping the content of meeting same as we provide in physical method?

Joby's Response: Once we are able to completely move on from cash-based collections to digital collections, then conducting a video-call based meeting will not be a challenge from the organization's perspective. As we speak, we are conducting the group meetings through audio calls due to lack of smart phones across all our customers. But it will not be hard to find at least one smart phone per group or in a household not necessarily owned by the customer.

4. How does psychometric assessment work? Is it helpful in forecasting the quality of customers if there are deviations in the set pattern?

Joby's Response: While the Credit Bureau reports household income/expense/wealth data etc., allows us to measure the capacity to repay of the customer, the psychometric assessment helps us measure the customer's willingness to repay. Primarily the test is done by asking a few questions at the time of enrollment. There could be customers who apply for an unsecured loan with an intent not to repay without clearly understanding its impact on their Credit Bureau Score. By running psychometric test, we would be able to identify this set of customers. Currently we don't use this score to reject any customer but is used to understand the customer behavior for a longer period of time.

5. Your views on providing emergency crop loans (digital) to farmers based on cashflow from farming activities is interesting. How can we make it seamless for farmers?
Joby's Response: Unlike a regular standardized term loan, the funding requirement of a farmer is staggered over a period of time and is dependent on their needs. Some of these might include crop cultivation, land preparation, sowing of seeds, irrigation, harvesting & post harvesting. Once we decide on lending to a farmer after physically verifying the farmland and looking at the crop yield pattern for the last few years using remote sensing satellite imaging & other associated technologies provided by one of our companies (Dvara E Registry), we release the initial tranche of loan to the customer & then we release the subsequent tranches of loan in accordance with the crop growth. Thus, we intend to keep the interest burden on the farmer at a minimum, so subsequent tranches may not be released in case any natural disasters occur. The amount, frequency, and number of tranches can vary based on the size of land, type of crop etc.

Questions for Both:
1. How difficult do you think it is to shift behavior to new repayment modes, cash v/s digital?
Joby: The difficulty of shifting behavior to new repayment methods arises from the fact that most of the microfinance customers earn their employment wages in physical cash & there are no easy & inexpensive means for them to convert it into digital cash. Once this issue is addressed, there are various ways to use payment modes available in India that can help microfinance customers to transact seamlessly. These modes are very user friendly & does not require any complex understanding of transaction banking. As we speak, we are investing in converting cash to digital funds using Banking Correspondence Network, Agent Network & AEPS Banking. It is also crucial to design relevant incentive policies such as cash incentives to the customer to adopt faster to the digital mode.
Chris: I reckon the change will be extremely difficult, unless specific circumstances happen. Clients appreciate being able to pay in their village instead of having to travel to a bank or an agent outlet to repay as most of them do not have a bank account. Even if clients have a bank account, most of them receive money in cash and maintain a very low account balance, so to repay digitally they would be forced to first go and deposit money or upload money in the e-wallet through an agent and pay before or during the center meeting. Therefore, I could only see this shift in the way money is collected occurring under two conditions: 1 - that there is an e-payment ecosystem which allows the clients to receive e-money and pay with e-money. 2 - that we find other ways to maintain the relation based on trust between the clients and the MFI.
2. Will the digitization of group lending lead to both mission and social drift?
Joby: For us financial inclusion is the ultimate goal & physical or digital are just two different means to reach that goal. So as long as we are customer-centric and are able to utilize new technologies that are easy to use & more convenient, we hope this will help us to retain the group cohesion & social collateral. Transaction data going forward will be the way that we understand a customer.
Chris: It is possible, especially if the adoption of digital platforms is radical. However, if we adopt a hybrid phygital concept, as mentioned during the webinar, we should be able to keep including the clients who cannot or do not want to shift to

digital while maintaining the relationship needed to better understand client's needs and serve them properly.
3. Do you think client selection and approval will be affected by digital transformation as loans are usually proposed at the group meeting by the group members which help the staff to make decision?
Joby's Response: As there is a lot more customer-centric data available about the customer, the industry may pivot into individual lending from the group lending mode. In India, apart from the Credit Bureau, we are seeing an account aggregation framework which will enable institutions to obtain the transaction data of the customer with his/her consent. This will result in a lot more customer-centric data becoming available to the institutions. Today's technology allows us to conduct peer rating, which in a way will help the social bonding among customers.
Chris' Response: Yes, and in order to avoid a significant increase in the default rates, it is fundamental that we find ways to make sure clients are able to still participate in the selection and approval of their group members, even if the process is somehow digitalized. Adopting WA groups or including mechanisms in the onboarding app for cross reference within a group of clients who live in the same village could be possible solutions to at least partly maintaining the advantages brought about by self-selection and social collateral.
4. How do you build strong value propositions for clients to use digital channels? Especially in situations where clients are already using the digital channel for other services i.e. P2P or bill payments but are not willing to use digitization for repayments and savings?
Joby's Response: One strong value proposition, in terms of providing flexibility to the customer, is fixing the repayment/group meeting dates for their loans. Currently, it is the institution that decides a group's monthly meeting date based on the convenience of their staff to collect on that route. (Each day of the month, these staff will take a different route and collect from all the groups in that particular route.) Due to this, many of the group members will have to forego one day's labor/business to attend this group meeting. Through a digital approach, this constraint is diminished, and the group has the flexibility to choose their own repayment/group meeting schedule. Secondly, we need to ensure that the digital transaction is very smooth & easy to use even for customers who have a very basic education. Thirdly, we could incentivize them by lowering our interest rates for customers who adopt digital payments, since staff travel will be reduced. Also, we can establish digital touch points near customer households as agents so that they might guide customers in adapting the new repayment behavior.
Chris Response: Firstly, it is fundamental that there is a digital payment ecosystem in place. In order for clients to be willing and incentivized to pay digitally, they should also receive at least part of their payments digitally. Once clients have availability of e-money and use it for payments other than repayment of their loans, then I do not see huge challenges in incentivizing clients to also pay installments directly with their smartphone. For instance, gamification is very common in Indonesia and also for our clients there could be a system of stars for each payment done digitally and once a certain number of stars is reached, they could receive discounts/waivers on the last installment, vouchers, etc.
5. How does digital transformation impact the high touch social linkages in group lending methodology?
Joby's Response: As of now, microfinance in India is highly digitized in much of its process except cash. Even though the group meetings may not happen due to social

distance norms, the digital modes (including WhatsApp or calls) help the customers stay together & keep the social collateral intact.

Chris' Response: The impact could be great and this in turn could affect our ability to understand clients. The trust clients have for MFIs leads to short term business relations and higher defaults, which could eventually bring about an increase in interest rates or (in the worst-case scenario) future exclusion of a certain segment of clients.

This is the reason we need to find way to digitize part of the process but maintain the physical touch, for instance using a phygital approach.

6. Would digital lending create an opportunity for groups to "self-select" or "self-form" based on anonymized performance data so that good performers would no longer be burdened with poorer performers they may currently have to resort to borrowing with because of geographic constraints that digital can overcome? What would be the pros/cons?

Joby's Response: Currently, groups are formed based on geography and they exist because of social collateral & transactional convenience. As the digital economy is growing, we will have new sources of data available to understand the customer better & the discipline on the Credit Bureau data will create new behaviors in the minds of the customers. What social collateral & peer pressure have previously done , we will now see credit bureaus taking on in future. So we will see more of a transition from group to individual loans based on individual data, as well as groups involved in similar businesses forming (eg., farmer groups, artisans groups etc.,) to grow & scale.

Chris' Response: Do you mean forming groups with other women in different geographies they do not know? I do not think this is an option as there would not be incentive for women with virtual groups to repay the others unless they know each other and there is a certain degree of "social return" that they gain for helping other women in the group to repay (and visibility that the money could be recovered from internal interactions amongst group member which live in the same village). What could have a positive impact (and it is already happening in India with the consistent use of credit bureau there) is for clients to receive information about other women who might be already overburdened with debt and therefore choose not to select them to be part of their JLG group.

7. When you began your journey, was there any rapid assessment of the customers' readiness in adopting digital solutions? What has been the adoption rate? And if they have already started using the tool, are you monitoring their usage and how active they are on the platform?

Joby's Response: In India, there was a huge adoption of digital platforms because of the mobile penetration in the country, digital identity through Aadhar & easy modes of payments through UPI (Unified Payment Interface) & mass bank account opening through Jan Dhan (PMJDY) Scheme. There has been a huge increased in smart phone adoption in India. All of those, coupled with easy-to-use technology platform ushered in a spike in the usage of digital platforms. Starting from government, most of the services including the Direct Benefit Transfers (subsidy transfers to people below poverty line), which began through digital means a couple of years back, giving confidence to the industry in adopting digital platforms.

Chris' Response: We ran both qualitative and quantitative client' insights. It was found that although a very high percentage of clients own a smartphone and regularly access social media, the adoption of digital solutions is pretty low. For instance, only 16% of clients used the phone to access banking/financial services (such as sending and receiving money or making payments). We have not yet launched the customer

engagement application, so we do not have data on client's usage. We can have a follow up discussion a few months after the launch of the platform (towards the end of 2020) when we will have some significant understanding on the usage of the app by clients.
8. It's a good initiative to engage clients digitally but microfinance works with the poor people. What steps you are taking to help poor people cope with the high cost of digital transactions?
Joby's Response: We should put a lot of digital touch points near customers to walk them through adapting the digital platforms before they are ready for self-service mode. We are seeing a robust agent network which is ready to support the customers across rural India. This adoption to digital mode will benefit greatly to the customer in terms of cost/ customer time/convenience etc.,
Chris' Response: This is an important aspect. We see potential to negotiate better rates on behalf of clients with e-money/e-payment as the number of transactions they conduct through our platform might be significant. At the same time, if clients' adoption of digital platforms brings about cost efficiency to Bina Artha we might be in the position to share part of the cost of such transactions with clients (for instance, for clients who repay in any Alfamart outlet, we cover 50% of the cost of the payment transaction). Finally, when clients can enjoy a digital payment ecosystem, performing digital transactions might decrease the costs needed to undertake a payment or access to certain services (for instance they will not have to travel to a bank to make a money transfer or a payment).