

# Retail client in microcredit: New kind of interactions

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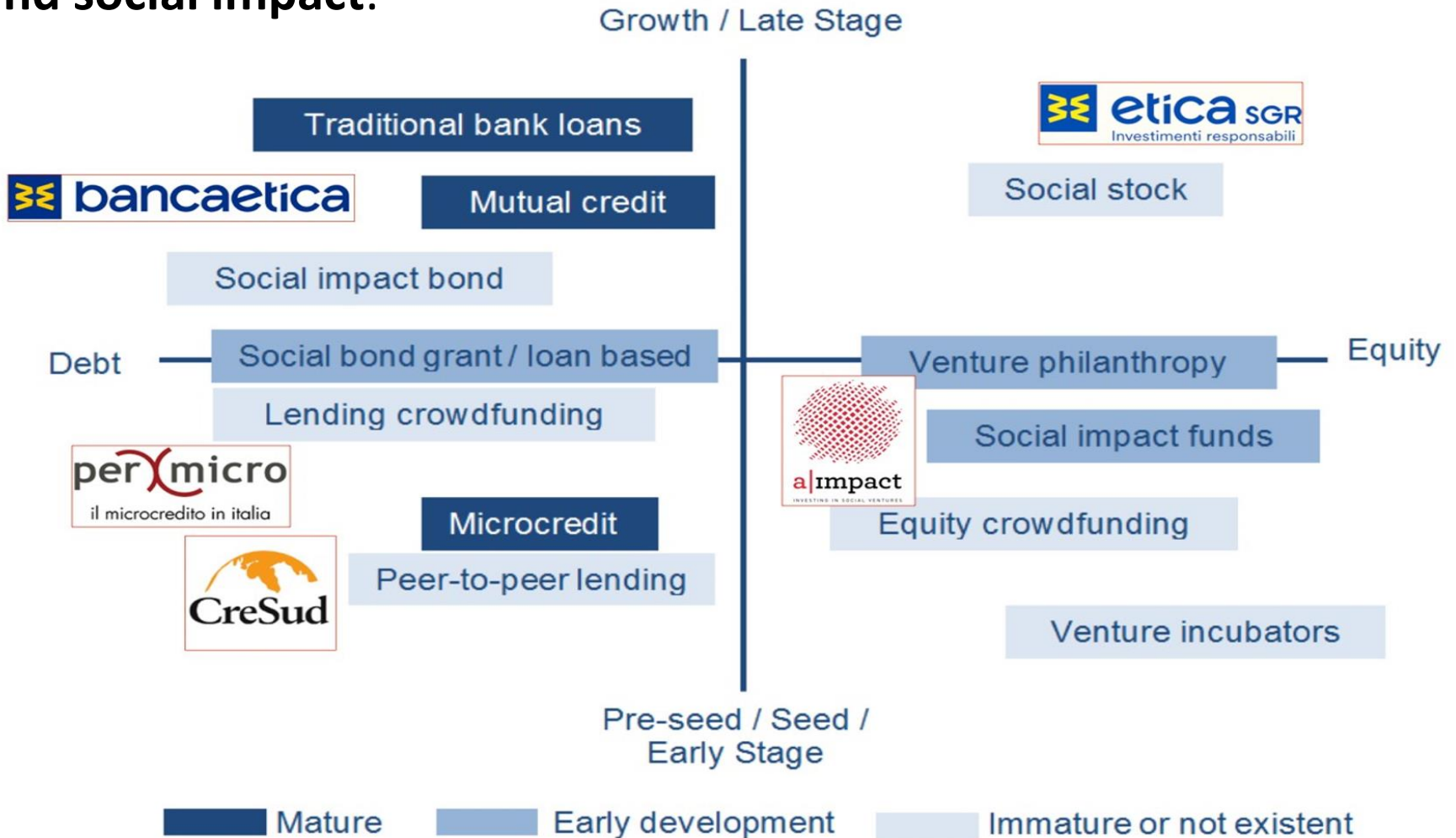
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**Banca Etica's group:** Banca Etica (1,6G€ assets), Etica investment fund (4,3G€), Cresud microcredit vehicle (5M€)

20 y of ethical finance **ALL loans** evaluated for their **environmental and social impact.**



## Banca Etica also :

- Finance microcredit in Italy
- Support microcredit institution mainly via Oikokredit (NL) & SIDI (FR)
- Is part of **Global alliance for banking on values** an international network that join value based banks: *banking with environmental and social purpose*



[www.gabv.org](http://www.gabv.org)

*Gabv has 54 member bank around the world between microcredit and sustainable banks:*

A Russian bank is in the network: Center bank from Rostov

# How do the retail financial world is changing?

Everybody has a Smartphone:

everywhere reachable and connected

Everybody is practicing disintermediation in all field of economic and social interaction:

no need or refuse of visiting offices and physical contacts

Digital economy is driven by Big Tech company:

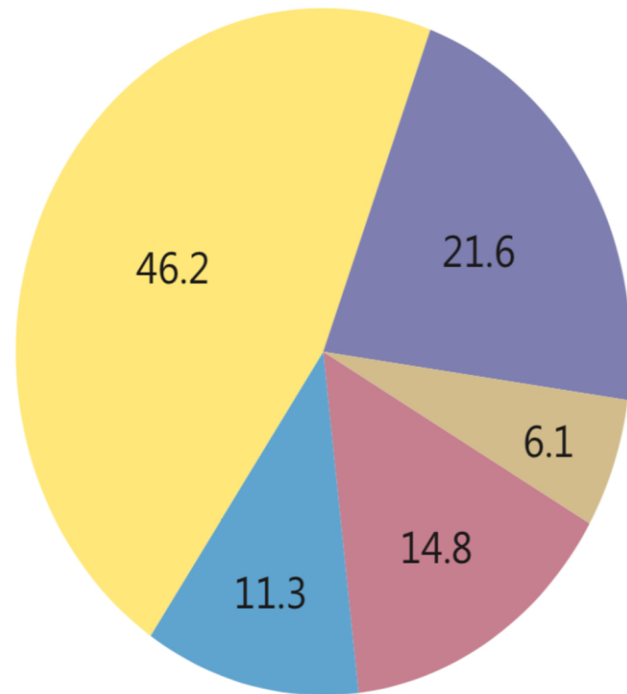
who control/own digital platforms control the market

Datascience and big data management reduce need of relationship

**Let's see some trends...**

# Digital economy just start to play with financial services in the world

Big techs' revenues by sector of activity<sup>1</sup>



The sample includes Alibaba, Alphabet, Amazon, Apple, Baidu, Facebook, Grab, Kakao, Mercado Libre, Rakuten, Samsung and Tencent.

Communication services  
Consumer goods  
Information technology<sup>2</sup>  
Financials  
Other<sup>3</sup>

Fonte: BIS

BIS, Annual Economic Report, June 2019, <https://www.bis.org/publ/arpdf/ar2019e.pdf>

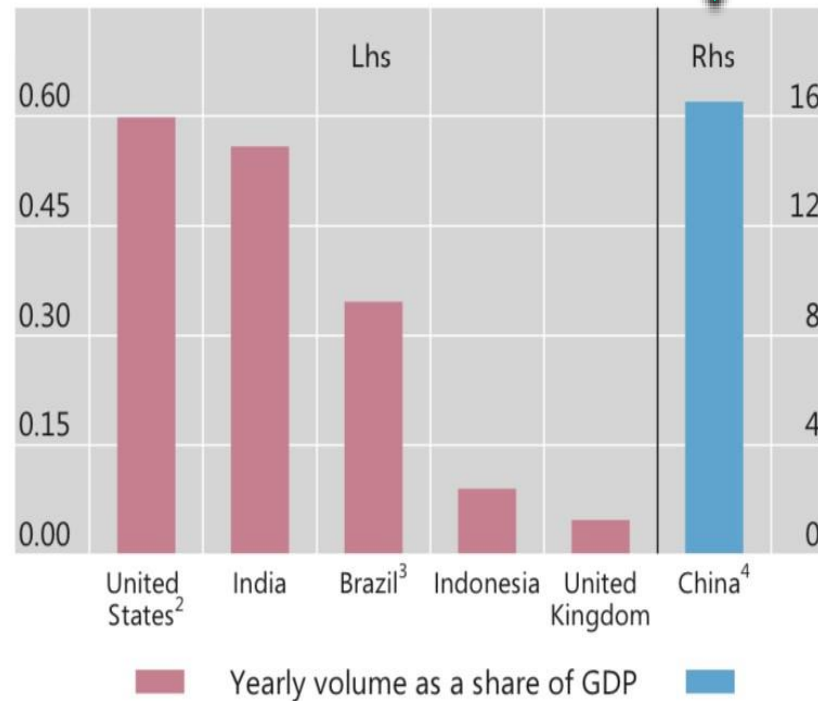
# But... they already change the banking market!

Mobile payments and bank accounts<sup>1</sup>

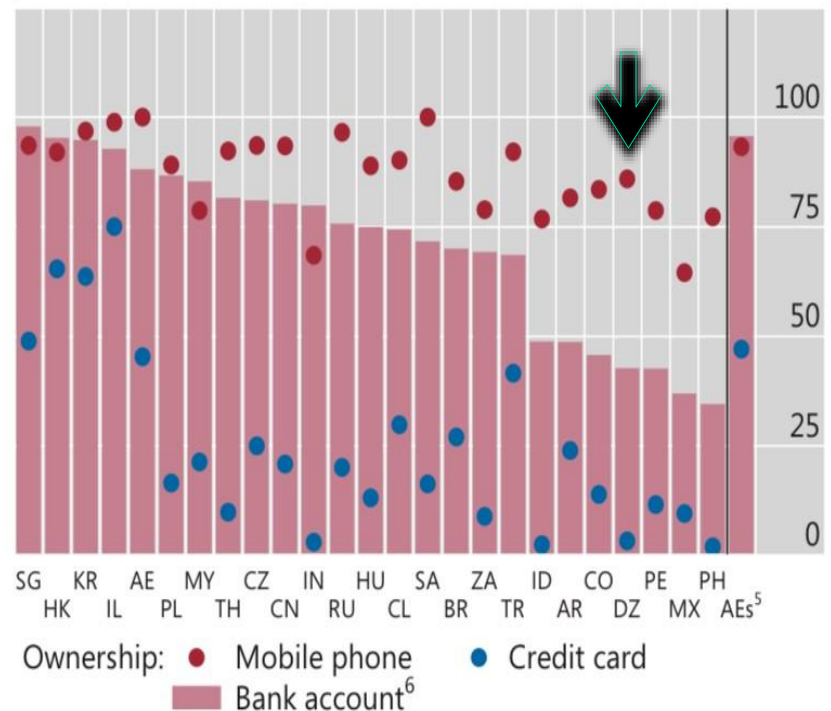
In per cent

Graph III.2

Big tech mobile payment services



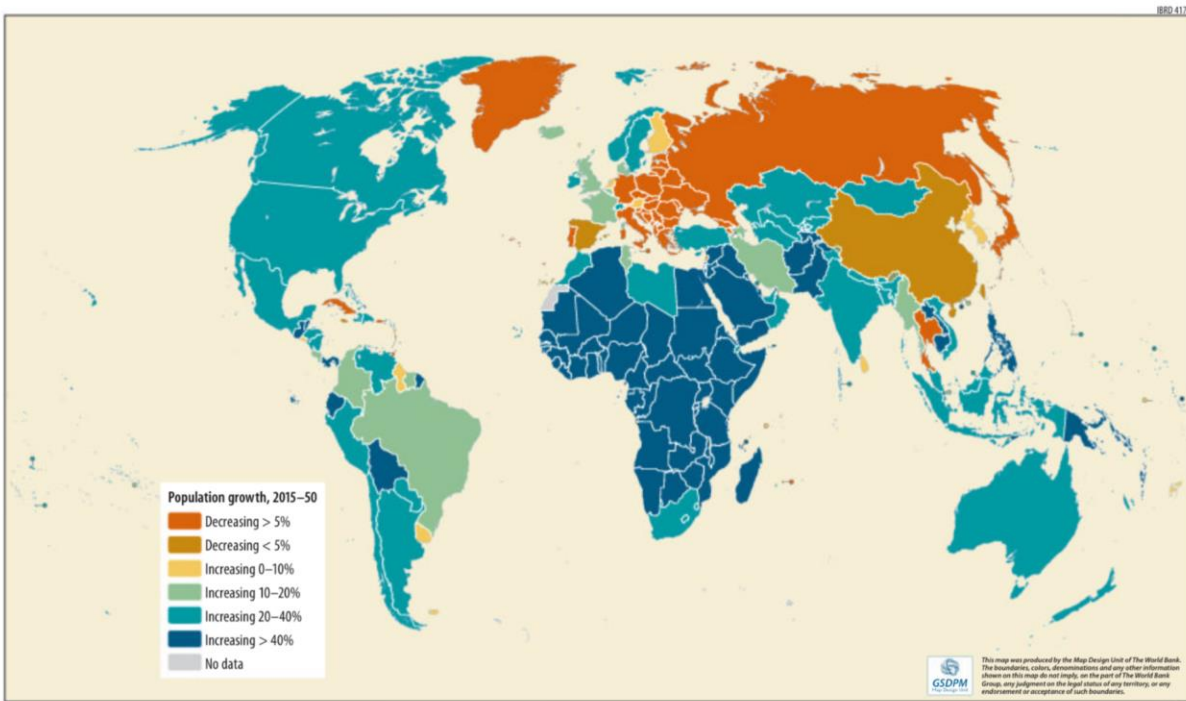
Fraction of population with bank accounts, mobile phones and credit cards



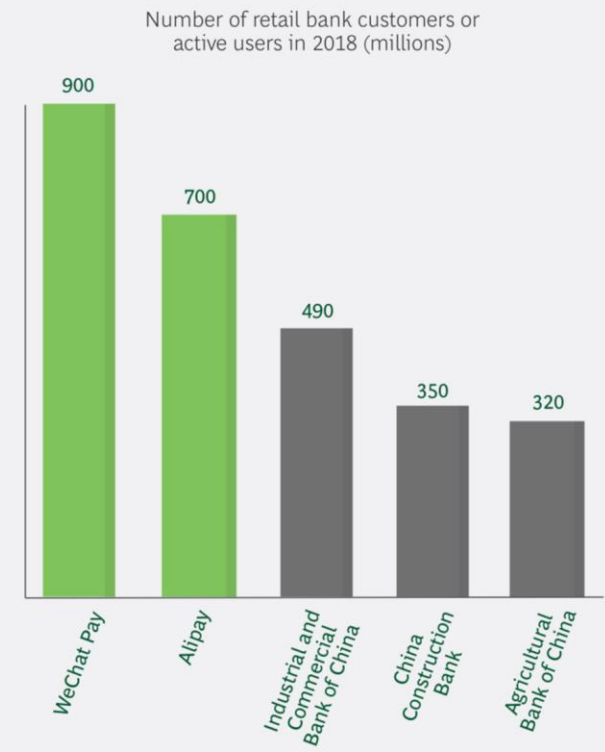
Russia: < 25% credit card; 95% mobile; 75% banking account

# New generations just go digital

## Global demographic trend will push the transition

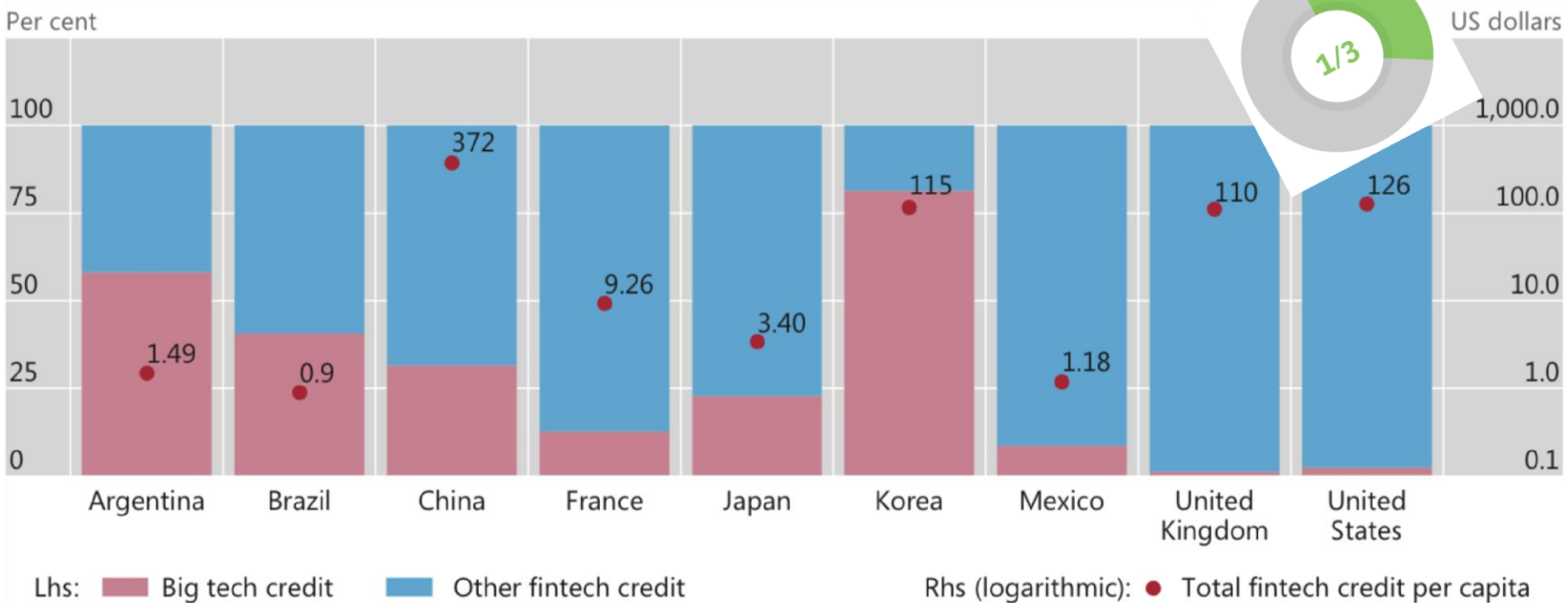


Big Techs have the customer base to rival huge Chinese incumbent banks



# Digital Credit is more complex, but growing

Big tech and other fintech credit in selected jurisdictions<sup>1</sup>

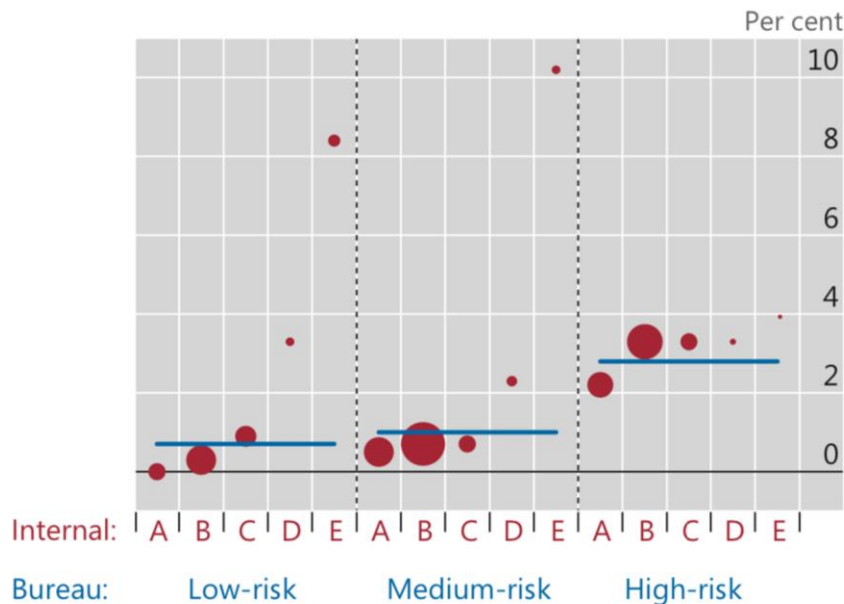


Other fintech than big tech company have most part of digital credit

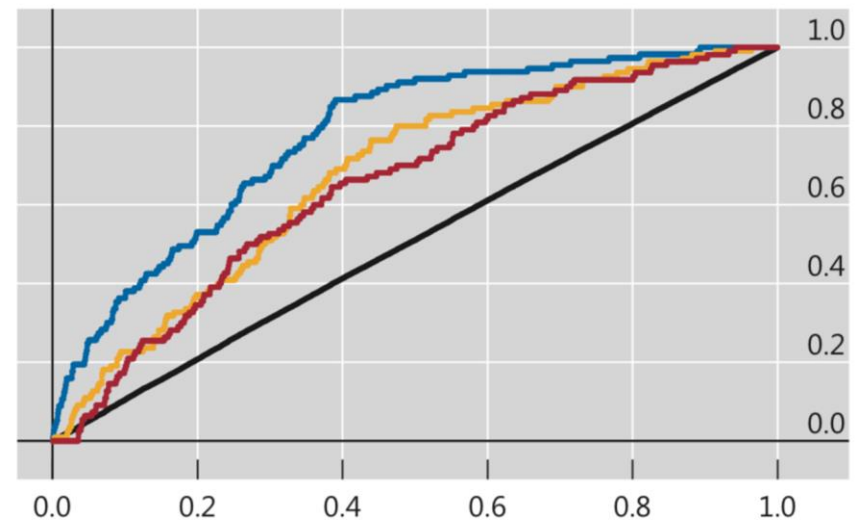
# Machine learning for credit analysis

## Credit assessment and big data analytics

Loss rate<sup>1</sup>



Receiver operating characteristics (ROC) curve<sup>2</sup>



Model:

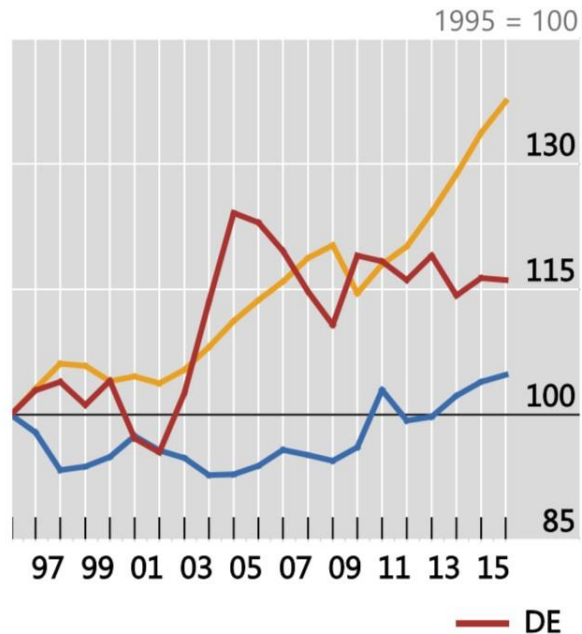
- I - Logistic, only bureau score
- II - Logistic, bureau score and borrower characteristics
- III - Machine learning, only Mercado Libre credit score
- Random

# So far costs for retail customers don't drop... ...but they will, as fintech market share grows against banks

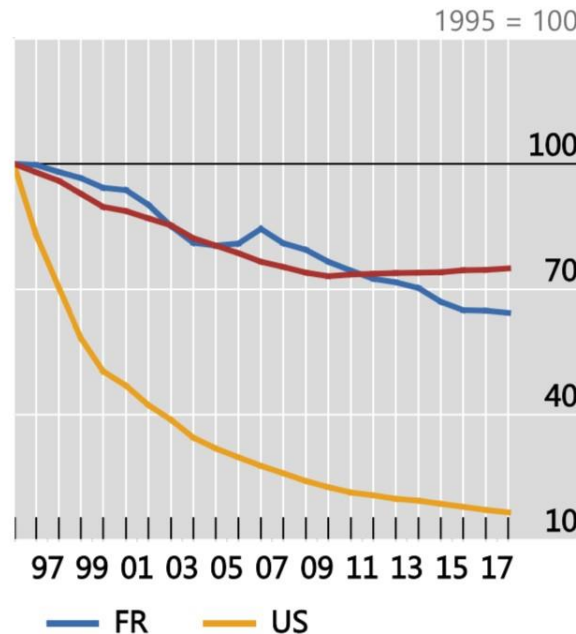
Low-cost information technology has not yet brought down the price of financial services

Graph 1

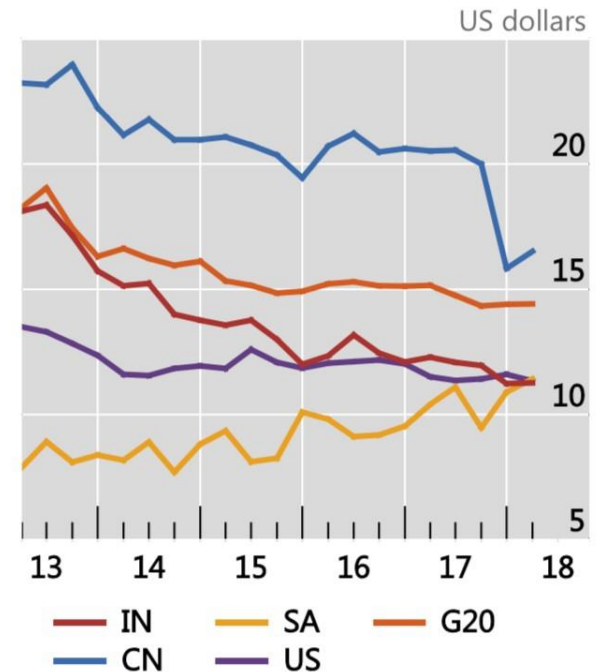
Prices of financial services have not come down...<sup>1</sup>



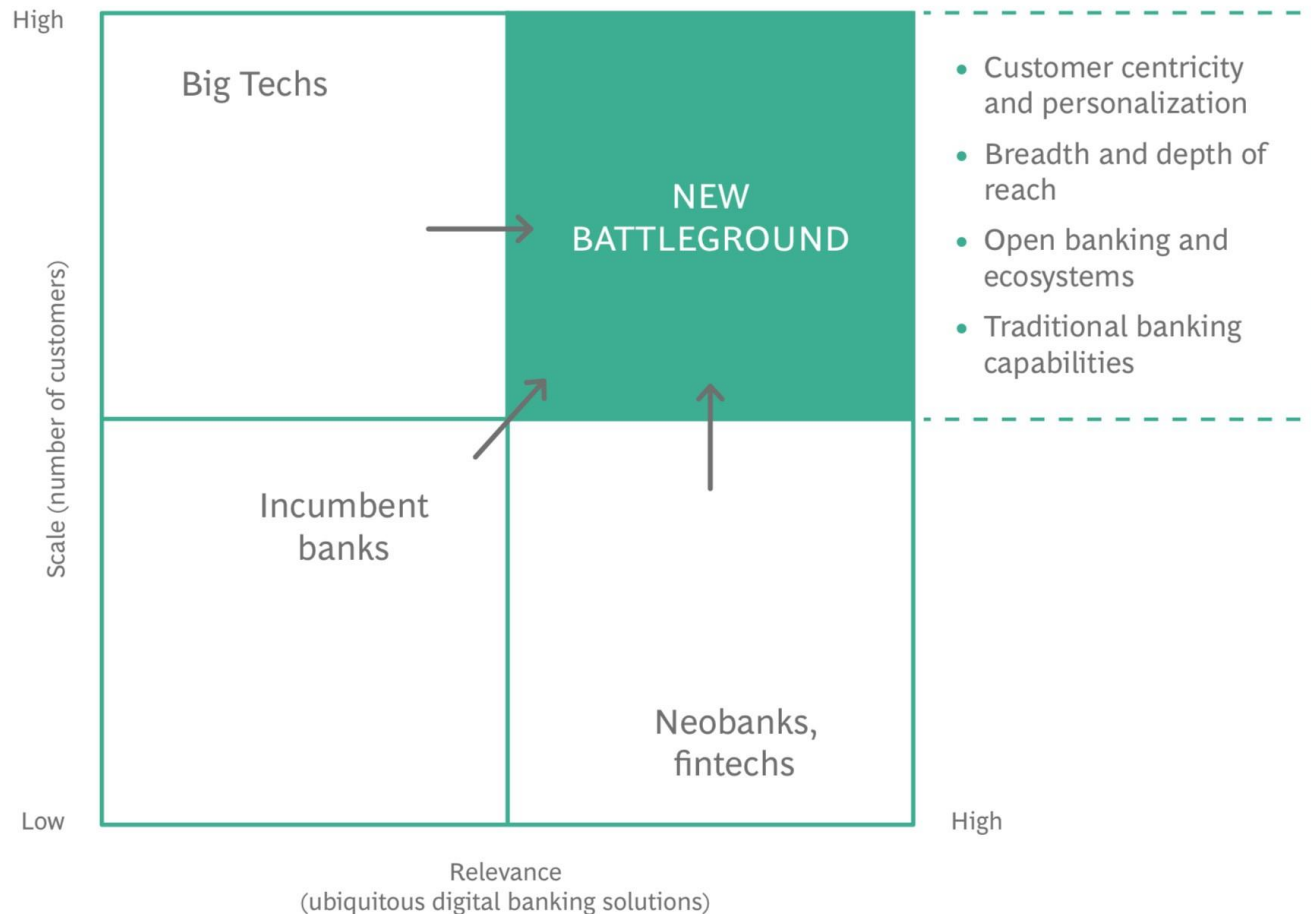
...despite availability of low-cost IT<sup>1, 2</sup>



Cross-border payments are particularly costly<sup>3</sup>



# Competition area will be on big customer numbers and smart digital banking This will happen also for microcredit



Source: BCG analysis.

# So what are the challenges in retail microcredit?

Banking services and environment to be more and more digitalized:

P2P peer to peer lending is already working online, fintech already produce microcredit services without banking or financial institutions: trough payment system platform with much less regulatory needs and less capital requirement needs

Mainstream or Big Tech digital platform will act as monopolist and will offer more and more simplified financial services, also disbursing credit

## ...challenges in retail microcredit ....

So MFI will have to reduce interests margins in future.

This will happen both because of fintech revolution and for maintaining and achieving social goals

To compete or survive there will be a need for bigger number of customers, smarter IT, customer retention strategies.

Machine learning for credit evaluation is working but:

It will stress the criticism for un-bankable people that are at risk to be not reached by face to face relations

It will reduce the “relationship guarantee” in favour of a data driven decision that could generate new kind of un-bankable

(by social, geographic, or even racial and gender categories)

# There are some new opportunities

## **A stable and engaged community**

Maintaining or developing new tools of relationship with and between retail customers will help credit portfolio stability and guarantee. *Not just customers, but a community:* clear sustainable and social policy, transparency about loans and responsible managing policies, new possibility for mutual fund, solidarity, social services, trust driven by participatory opportunities as shareholder of the financial institution.

# There are some new opportunities

## **Risk management: what about reputation?**

Reputational issues will become strategic in a digital environment: changing financial institution will be more and more easier for customers.

Fairness with customers and also social and environmental performance of financial institution will be evaluated for reputation.

*Reputational risk management will be as important as financial risk evaluation*

# **Thank you for your attention!**

Ugo Biggeri