Financial Inclusion in Post-COVID Southeast Asia:

Accelerating Impact Beyond Access

Centre for Impact Investing and Practices

This study is conducted by CIIP, in collaboration with:

HELICAP

UNCDF Impact Capital for Development

Supported by:

60 _ decibels

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This study is conducted by CIIP, in collaboration with the United Nations Capital Development Fund (UNCDF) and Helicap, supported by 60 Decibels (60dB).[1]

1 CIIP is a non-profit centre established by Temasek Trust to foster the impact investing and practices ecosystem in Asia and beyond. UNCDF is the United Nations' flagship catalytic financing entity for the world's 46 Least Developed Countries (LDCs). Helicap is a leading investment group providing debt financing to traditional and digital non-bank lenders and other venture-backed businesses in Southeast Asia. 60dB is a global, tech-enabled impact measurement company that brings speed and repeatability to social impact measurement and customer insights.

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The contributors to this report are listed below in alphabetical order:

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CIIP	UNCDF	Helicap
• Dawn Chan, Chief Executive Officer • Koh Lin-Net, Director • Hiu Chii Fen, Associate Director • Aaron New, Associate Director • Jonathan Chan, Manager	• Maria Perdomo, Regional Coordinator for Asia • Danielle Hopkins, Digital Financial Capabilities Expert	• Quentin Vanoekel, Co-Founder and Chief Investment Officer • Zhang Quan Gan, Vice President, Investments • Akın Deniz Heper, Investment Associate

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List of Acronyms

Acronym	Definition
60dB	60 Decibels
AFMGM	ASEAN Finance Ministers and Central Bank Governors' Meeting
AFTECH	Asosiasi Fintech Indonesia (Indonesia FinTech Association)
ASEAN	Association of Southeast Asian Nations
B2B	Business-to-business
B2B2C	Business-to-business-to-consumer
BNPL	Buy-now-pay-later
BPI	Bank of the Philippine Islands
BPRs	Bank Perkreditan Rakyat (Rural Banks)
BSP	Banko Sentral ng Pilipinas
Bank BTPN Syariah	Bank Tabungan Pensiunan Nasional Syariah
CAGR	Compound annual growth rate
CGAP	Consultative Group to Assist the Poor
CGC	Credit Guarantee Corporation Malaysia Berhad
CIIP	Centre for Impact Investing and Practices
CMA	Cambodia Microfinance Association
COA	Certificate of Authority
DFS	Digital financial services
ECF	Equity crowdfunding
EMI	Electronic money issuer
EWA	Earned-wage-access
FSP	Financial service provider
IMM	Impact measurement and management
IPO	Initial public offering

Acronym	Definition
KYC	Know-your-client
LDC	Least developed country
MFI	Microfinance institution
MSME	Micro, small, and medium enterprise
NBC	National Bank of Cambodia
NBFI	Non-bank financial institution
NEC	Nippon Electric Company
NPL	Non-performing loan
NPS	Net Promoter Score
OJK	Otoritas Jasa Keuangan (Indonesia's Financial Services Authority)
OPEX	Operating expenses
P2P	Peer-to-peer
QRIS	Quick Response Code Indonesia Standard
SAP	Strategic action plans
SEA	Southeast Asia
SET	Stock Exchange of Thailand
SME	Small and medium enterprises
SMS	Short Message Service
SPTF	Social Performance Task Force
TYM	Tinh Thuong One-member Limited Liability Microfinance Institution
UN SDG	United Nations Sustainable Development Goal
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNO	UnionDigital

Executive Summary:
Preamble

Access to financial services does not equate financial inclusion. We must look beyond to impact.

Financial inclusion is defined by the World Bank as **access to useful and affordable financial services and products that meet the needs of individuals and businesses, delivered in a responsible and sustainable way.**[2] Beyond the **unbanked**, or those without accounts, there are also the **underbanked**, namely individuals who may have a basic financial institution account or mobile wallet, but lack access to broader services such as credit. Access to credit is a powerful bedrock of financial inclusion, enabling job creation and providing gateways to education, nutrition, healthcare, and tangibly improving livelihoods.[3]

Innovations by impact-oriented financial services providers (FSP) have sought to address these unserved and underserved segments across heterogenous Southeast Asia.[4] However, it is necessary to look beyond basic measures of access to understand impact outcomes that can help realise responsible and sustainable financial inclusion. For example, UNCDF has put forth the concept of financial health, a broader lens that includes:

1. **Financial security:** The ability to meet short-term commitments, such as access to electricity, water, and sanitation, education, and home improvement.
2. **Financial resilience:** The ability to cope with unexpected or adverse events such as illness, natural disasters, or other shocks.
3. **Financial control:** Being confident of one's finances, now and in the future.
4. **Financial freedom:** The ability to meet long-term financial goals and desires.

In the same vein, 60dB published its inaugural global Microfinance Index in June 2022, which assessed and measured the impact of microfinance on end-customers across several impact metrics. This included **access,**[5] **business impact,**[6] **household impact,**[7] **financial management,**[8] **and financial resilience.**[9] While there are some differences in the definitions of financial health between the frameworks by the UNCDF and 60dB, both are aligned in their intention to **go beyond access to financial services** as an indicator of **true financial inclusion**. The inaugural 2022 index by 60dB provided a useful picture of the impact of microfinance on customers in Southeast Asia relative to the rest of the world. However, there were limitations to providing a deeper analysis of the Southeast Asian data, which was to be expected given the global orientation of the 60dB index.

This study aims to build on existing research, such as 60dB's global Microfinance Index, to understand the impact of different types of FSPs, including traditional non-bank financial institutions (NBFIs) and FinTechs, who are working to expand access to financial services, **specifically credit**, in Southeast Asia. Between May 2022 and May 2023, we conducted 50 industry interviews, collected enterprise data (enterprise survey and anonymised loan data) from 27 FSPs, and surveyed 6,524 end-customers of 28 FSPs across Southeast Asia. **Here is a summary of what we learned**.

2 World Bank (2022): Financial Inclusion.
3 Global Policy Forum (2007): Credit for the Poor: Poverty as Distant History.
4 Our sample includes FSPs and customers based in Cambodia, Indonesia, Myanmar, The Philippines, Thailand, and Vietnam. Southeast Asia in this report is taken to refer to our sample. A more detailed breakdown can be found in Appendix 1 and Appendix 2.
5 Access: A measure of the degree to which MFIs are serving previously underserved customers. 60dB focuses on two main areas: the poverty profile of respondents, and whether respondents have or had access to a similar service other than the one provided by their MFI. Definition based on 60dB.
6 Business impact: A measure of how much MFI loans increase customers' ability to earn an income from their business, and how much customers increase their number of employees after becoming customers. Definition based on 60dB.
7 Household impact: A measure of the impact MFI loans have on customers' quality of life, their ability to invest or cover household expenditures, and the degree to which customers can achieve their financial goals. Definition based on 60dB.
8 Financial management: A measure of the degree to which customers are informed of the MFI's loan conditions prior to borrowing and the impact loans have on customers' ability to manage their finances. Definition based on 60dB.
9 Financial resilience: A measure of the degree to which customers are financially prepared for an unforeseen economic shock, and the impact the MFI's loan had on the customers' preparedness. In addition to measuring improved customer resilience, this dimension also checks for negative impacts, by asking customers whether they are making sacrifices to cover the cost of loan repayments. Definition based on 60dB.

Key Takeaways

1 There is a large, untapped market in Southeast Asia and great potential to catalyse investments to deliver financial inclusion to the region's unserved and underserved.

The UNDP's SDG Investor Maps **highlight financial services, especially access to credit or financing, as a common investment opportunity area across Southeast Asian markets to drive impact with returns.**[10] The potential of financial inclusion in Southeast Asia as an investment opportunity is supported by several factors.

First, the region has a **large, untapped market** of unserved and underserved customers. As of 2021, **225 million Southeast Asians continued to lack access to a financial account, while more than 350 million had no access to formal credit.**[11] This represents around **45% and 70% of the region's adult population respectively.**[12]

These individuals continue to face barriers to financial inclusion, from insufficient funds and long distances from financial institution branches to lack of credit history and low levels of financial and digital literacy. In addition, the funding gap faced by **39 million of over 70 million MSMEs in Southeast Asia is estimated to be as much as US$300 billion.**[13] Ranging from microenterprises to SMEs, these enterprises face a bevy of challenges to financing, including a lack of collateral, scarce transaction history, and inadequate record keeping. Unlocking this untapped market potential represents significant opportunity for impact-minded businesses and investors.

Second, financial inclusion is a **priority area for all governments in the region** – all have a national financial inclusion strategy, either as a standalone or as part of a broader financial sector blueprint. Third, there is **substantial private sector innovation** being undertaken to address this untapped market, with FSPs developing commercially viable business models to achieve this. Fourth, financial inclusion holds clear potential to **achieve positive impact**. These will be discussed in depth in this report.

In short, the key components are in place for the sector to thrive and provide transformative opportunities for the low-income and underserved across the region to achieve financial stability.

225 million
adults do not have a financial account

350 million
adults do not access formal credit

39 of 70 million
MSMEs unserved or underserved

10 Launched in partnership between Temasek Trust, the UNDP, and governments of various countries in the region, the maps provide information for investors to make data-driven decisions on identifying impact opportunities which can generate positive and measurable social and environmental change alongside a financial return. Temasek Trust (2022): Investor Maps: Highlighting Investment Opportunities Across Asia.
11 World Bank (2022): The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19; Financial account includes financial institution (bank) and mobile money accounts. 2021 figure for adults in Vietnam without an account is extrapolated based on 2017 data as no data was available for 2021. No access to formal credit refers to adult (15+) without formal borrowings, excluding Brunei and Vietnam because data was not available. Calculations by CIIP.
12 World Bank (2022): The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19; 2021 figure for adults in Vietnam without an account is extrapolated based on 2017 data as no data was available for 2021. Calculations by CIIP.
13 SME Finance Forum (2018): MSME Finance Gap.

2

Accelerated by COVID-19, digitalisation is playing a key role in improving access to credit and other financial services. Partnerships are further enabling scale.

Since the pandemic began, **100 million new internet users in Southeast Asia have come online**, bringing the total number of internet users in the region to **516 million (around 80% of the population)** in 2022.[14] Smartphones have become the primary access point to the internet for many in the region.

This has spurred an emergence of DFS providers such as FinTechs, embedded financing providers,[15] and digital banks. Traditional FSPs, including banks and microfinance institutions (MFIs), are also digitising rapidly to bring down costs and provide better quality products. This increase in digitalisation is accompanied by new partnerships, between traditional and digital players, and across sectors, enabling a broader swathe of customers to access a more holistic suite of financial, business, and other services through integrated digital ecosystems and platforms.

Our survey indicates that **digitalisation and technology are playing a significant role in expanding access** to financial services. 74% of customers interviewed reported experiencing that their use of financial services has improved because of technology such as mobile phones and internet.[16] Importantly, 82% feel safe doing so.

DFS providers are also expanding access to new customer segments, especially within urban, low-income, and male customers. Our survey indicates that **FinTechs are reaching the underserved at a higher rate compared to traditional FSPs**. FinTechs are more likely than traditional FSPs to reach first-time borrowers (63% vs. 46%) and to provide a scarce service, with 57% of FinTech customers saying they could not find a good alternative compared to 40% for traditional FSPs.

516 million
Southeast Asians are online

74%
of customers report improved access to financial services because of technology

82%
feel safe using technology to access financial services

3

FSPs are innovating to meet customer needs and lower barriers to financial inclusion in Southeast Asia.

Both traditional incumbent and insurgent digital native FSPs are innovating to address barriers to credit access.[17] These private sector innovations have been fuelled by favourable regulatory actions such as sandboxes and licenses, though such practices have been uneven across time and the region.

First, FSPs have been innovating to **expand availability and reach of services through new (digital) channels and partnerships.** The boom in mobile wallets has enabled safe and effective loan disbursement and repayment. FinTechs are going 'phygital' and partnering local players such as rural banks to reach rural

14 Statista (2022): Number of internet users worldwide as of 2022, by region.
15 Embedded financing integrates financial services into the platform or model of a non-financial company.
16 This includes responses for those who indicated that their incomes had 'slightly improved or 'very much improved' in response to the question "How has your use of financial services changed because of technology (for example, mobile phones and the internet)?"
17 Digital native businesses have a digital-first approach and tech-driven operating models. International Data Corporate (2022).

customers, while traditional players are beginning to digitise their operations.

Innovations have also included actions to **improve product-market fit by designing specialised, customer-centric products.** These loans are better suited to the needs of specific customer segments, such as MSMEs who need working capital but lack collateral or smallholder farmers who need loans aligned with their harvest cycles. Embedded financing methods, such as earned-wage-access (EWA) and buy-now-pay-later (BNPL) facilities, which seamlessly integrate financial services into retail, commerce, or human resources platforms, are also emerging for individuals and businesses.

Finally, FSPs are also investing in **building customer capacity to address gaps in financial and digital literacy and entrepreneurial savvy**. To do so, FSPs are proactively delivering training courses, running public campaigns, and bundling services to build customer exposure to financial and business products beyond credit. Through these actions, FSPs are attempting to elevate both financial and digital literacy among their customer segments.

4 **This is being achieved alongside a focus on commercial returns and long-term financial viability.**

In order to make the unit economics of their business models work, FSPs have actively sought solutions to **bring down costs and risks to serve to achieve scale and ensure long-term financial sustainability.**

Costs and risks to serve are being driven down by:

a) **Digitalising backend processes,** particularly by automating know-your-client (KYC) processes, underwriting, loan disbursements, and reminders for loan payments. In doing so, FSPs are addressing customer pain points such as slow disbursements and complicated application processes. While this entails a significant upfront investment, in the long term, this will enable FSPs to achieve economies of scale and reduce costs to serve.

b) **Using alternative data for underwriting**. FSPs are developing efficient credit scoring methods using data such as mobile app behaviour, e-commerce data, harvest data, and agronomic data to better assess risks of a customer segment that typically lacks credit history and transaction data.

While FSPs are adopting these processes, it is worth noting practices in Southeast Asia remain somewhat nascent compared to other markets, indicating opportunity for differentiation for those who push further.

Secondly, FSPs are investing in the **foundational building blocks of their business models** over the long term, by:

a) **Establishing guardrails for client protection** to ensure fair treatment and prevent customer overindebtedness. Apart from strong governance and codes of conduct, FSPs are also regularly training employees, implementing loan caps, and providing debt management services.

b) **Improving customer retention and lowering delinquency and default rates through continuous engagement** in the form of educational initiatives and frequent touchpoints with customers.

c) **Intentionally integrating impact into their business mission and strategy.** Most FSPs have integrated a financial inclusion goal into their strategy. However, fewer have incorporated impact into their business operations or implemented impact management and measurement protocols.

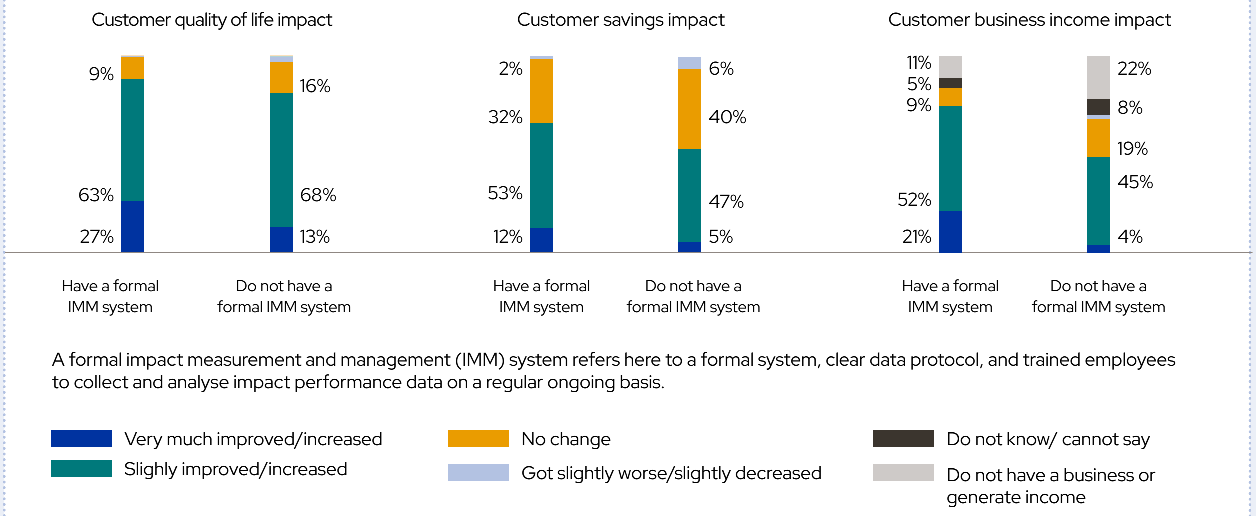


Figure 1. Customer impact outcomes based on FSPs with and without formal impact management and measurement systems. N=9 FSPs; 1,854 customers. FSPs who responded 'Partial', 'In the Pipeline', and 'Prefer Not to Say' not shown.[18]

Importantly, FSPs who have implemented robust systems for managing and measuring impact report greater impact in terms of customers' quality of life and business incomes. Our survey results indicate that by operationalising an impact intention through active impact measuring and monitoring, FSPs may see positive results on the end-customer level.

As most FinTechs are in the earlier stages of the business life cycle, we see that many have prioritised growth over profit. However, in recent years, they have shown a promising ability to reduce operating expenses (OPEX). We also see that traditional NBFIs serving the underserved have continued to maintain stable profitability. These indicate that impact oriented FSPs are able to target commercial returns and ensure that their businesses remain sustainable.

5 Client protection is embedded in financial services in Southeast Asia.

Across various dimensions of client protection, Southeast Asian respondents to our survey **typically perform well,** though there remain areas for improvement.

First, most customers surveyed indicate that they have a good understanding of loan terms, including fees, interest rates, and penalties. 92% of customers surveyed agreed terms and conditions are easy to understand and clear, though only 53% strongly agreed.[19]

Further, most customers surveyed indicated that they do not experience difficulties with loan repayment. **86% of customers surveyed did not have a problem paying back their loans and did not consider them to be a burden, surpassing the global benchmark of 65%**. 88% of customers are able to make repayment obligations using business income and wages, with the remainder likely to repay by cutting back on household expenses or borrowing from informal lenders.

18 For business income, customers who answered "do not have a business" were excluded.
19 This includes responses for those who indicated that they 'somewhat agree' or 'strongly agree' to the question "To what extent do you agree or disagree with the following statement: "[FSP]'s fees, interest rates, and penalties are easy to understand and clear?"

92%
of customers understand loan terms

86%
do not consider loans a burden

78%
always able to pay in full, on time

93%
agree FSP agents treat them fairly and respectfully

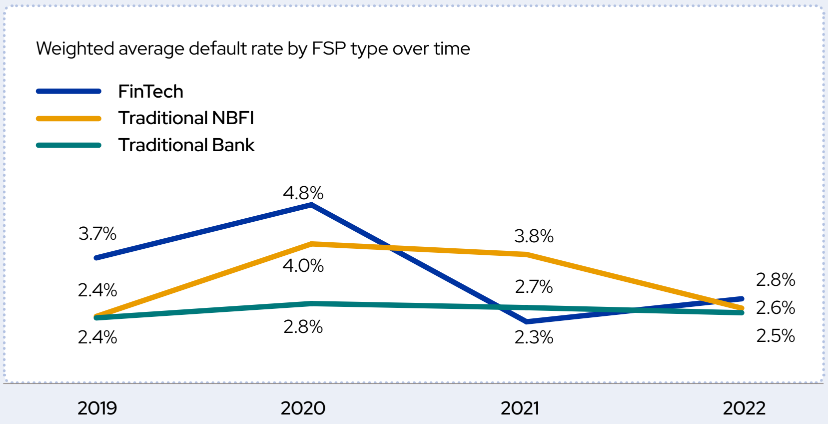


Figure 2. Weighted average default rate by FSP type over time. Based on central bank data from five countries in Southeast Asia.[21] Average is weighted by loan book size.

78% of customers report being able to pay off the full balance of their loans all the time. This indicates that a majority of customers have taken loans that are well-suited to their needs and that they comprehend their loan's terms and conditions. Lastly, 93% of customers surveyed agreed that FSP agents treat them fairly and respectfully, suggesting good practices by the FSPs in our study.[20]

Correspondingly, the default rates of both traditional NBFIs and FinTechs are only slightly higher than banks.

Within our sample, most FSPs have established governance, management commitment, practices to ensure client protection (e.g., loan caps), as well as codes of conduct and employee training.

The implementation of effective client protection policies corresponds to better portfolio health (e.g., lower default rates for FSPs with loan caps) and customer impact outcomes and satisfaction (e.g., customers who 'agree' that FSPs agents treat them with respect gave a much higher Net Promoter Score (NPS) (60%) compared to those who disagree with the statement (-18%).

Nevertheless, there remains room for improvements to better serve the segment of customers experiencing difficulties, for example by simplifying loan terms to ensure full understanding and avoiding overindebtedness. Notably, fewer FSPs in our sample conduct mandatory financial literacy training for customers, which may be an area for attention.

6 Overall, there is positive impact of credit on Southeast Asian customers' outcomes, including the ability to grow businesses and improve financial security such as increasing spending on education and food.

At a regional level, **access to credit has a demonstrably positive impact on customers** in Southeast Asia across various dimensions, including **business and livelihoods, household and quality of life, financial resilience, and financial agency.**

Broadly speaking, Southeast Asian customers report increases in business incomes as well as the

20 This includes responses for those who indicated that they 'somewhat agree' or 'strongly agree' to the question "To what extent do you agree or disagree with the following statement: "[FSP] agents always treat me fairly and respectfully?"
21 OJK, National Bank of Cambodia, Bangko Sentral ng Pilipinas, State Bank of Vietnam, Bank of Thailand.

78%
of customers increased income

89%
improved quality of life

76%
improved ability to face a major, unexpected expense

69%
increased savings

58%
increased decision-making abilities

number of paid employees. 78% of customers surveyed reported income increases as a result of receiving loans from an FSP,[22] 7% of customers reported increasing employment, which is slightly below the global average of 8%.

In terms of quality of life, 89% of customers surveyed indicated some level of improvement,[23] while 19% of customers reported that their lives had 'very much' improved. Increased incomes, increased ability to afford household expenses and bills, and business growth were the top three drivers behind quality of life improvements.

Southeast Asian customers in our sample also used credit to **improve their ability to spend on household well-being, especially education (62%) followed by food (59%).** These results help to validate the notion that access to credit can **serve as an enabler to the achievement of SDGs** such as Good Health and Well-Being, Quality Education, and Zero Hunger. This also suggests that specialised products such as education loans could be well received in the Southeast Asian context.

Clients also reported **significant improvements in financial resilience**, or the ability to manage their finances and meet emergency situations. 76% indicated that their ability to face a major expense has improved because of their FSP,[24] while 69% and 84% indicated their savings and ability to manage their finance have increased respectively.[25]

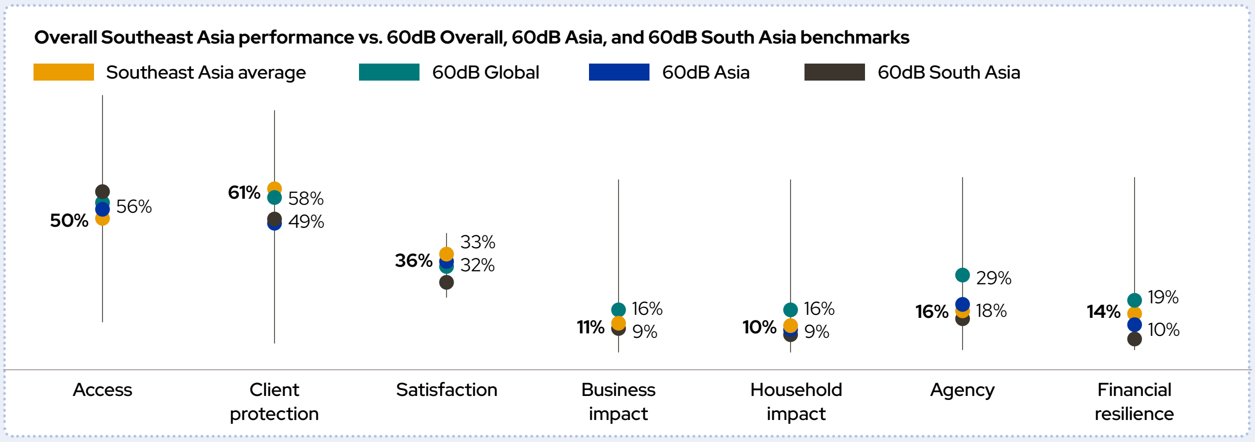


Figure 3. Overall Southeast Asia performance across impact dimensions compared to global and regional benchmarks.[26]

22 This includes responses for those who indicated that their incomes had 'increased' or 'very much increased' in response to the question "Has the money you earn from your business changed because of [FSP]?"
23 This includes responses for those who indicated that their incomes had 'slightly improved or 'very much improved' in response to the question "Has your quality of life changed because of [FSP]?"
24 This includes responses for those who indicated that their incomes had 'slightly improved or 'very much improved' in response to the question "Has your ability to face this major expense changed because of your FSP?"
25 This includes responses for those who indicated that their incomes had 'slightly improved or 'very much improved' in response to the question "Because of your FSP, how has your ability to manage your finances changed?"
26 Benchmarks based on client outcomes provide a yardstick by which to judge impact performance with comparable client metrics. 60dB global and regional benchmarks are based on aggregated data 60dB researchers have collected over the years in the financial inclusion sector. The 60dB Global MFI benchmark is made of 37,050 customers of 122 FSPs from 45 countries. The 60dB MFI Asia benchmark is made of 12,459 customers of 45 FSPs from 11 countries. The 60dB MFI South Asia benchmark is made of 2,513 customers of 8 FSPs from 4 countries.

This could indicate not only the importance of credit in allowing customers to address emergency situations such as extreme weather events or healthcare emergencies, but also the effectiveness of embedded financial education during the delivery of financial services.

Importantly, most customers in our sample reported improvements in their sense of financial agency, such as their confidence to make financial decisions and ability to meet financial goals. 80% reported increasing confidence[27] and 58% reported increases in their financial decision-making abilities.[28]

Compared to global benchmarks, **Southeast Asia performs well for client protection and satisfaction, but are slightly lower for other dimensions of impact**, including access, business, household, agency, and resilience. This indicates that while FSPs in the region are delivering high quality services in a responsible way, more can be done to deepen the reach and impact of these services on customers' lives beyond initial access.

7 Women in Southeast Asia experience greater impact, consistent with global trends.

Across the board, **women reported experiencing greater impact.** This is true across the dimensions of business impact (81% for women vs. 69% for men), quality of life (90% vs. 85%), and improved ability to face emergencies (78% vs. 71%). Women are also more likely to use loans for business purposes (78% vs. 59%) and increase spending on household well-being such as children's education (67% vs. 50%) and quality meals (63% vs. 50%). Further, 60% of female customers indicate an improved ability to make financial decisions independent of their spouses, compared to 52% of men.

This is consistent with one of the fundamental theses of modern microfinance, that women tend to be more responsible borrowers than men, and confirms this insight for Southeast Asia. Lending to women in Southeast Asia can, as elsewhere, drive transformational change and thus be a crucial sector for gender-lens investing.

8 Greater depth of impact is associated with better customer satisfaction, which deepens over time.

Across our sample of Southeast Asian FSPs, the **depth of impact across various dimensions is typically correlated with high customer satisfaction**. **Customers who report a 'very much improved' quality of life gave a much higher net promoter score compared to those who mentioned 'somewhat improved' quality of life (79% vs. 59%)**. A similar trend was observed for other household impact metrics

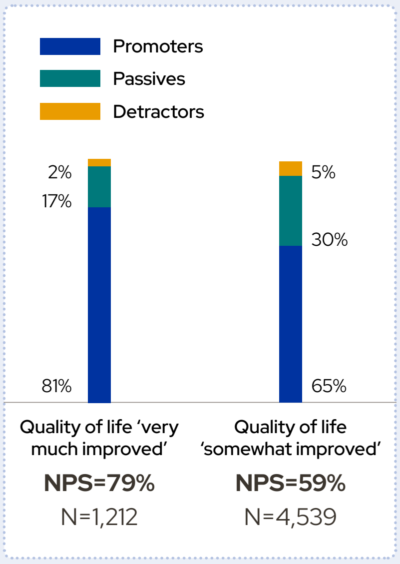


Figure 4. NPS by quality of life. (N=5,751). NPS is derived by subtracting percentage of Detractors from percentage of Promoters.

27 This includes responses for those who indicated that their incomes had 'slightly improved or 'very much improved' in response to the question "Has your confidence in yourself and your abilities changed because of their FSP?"
28 This includes responses for those who indicated that their incomes had 'slightly increased or 'very much increased' in response to the question "Has your ability to make decisions on what you do with your money (i.e., spend or save) without consulting your spouse/another adult changed because of your FSP?"

such as amount spent on home improvements (74% NPS for those who report 'very much increased' vs. 63% for those who report 'slightly increased'), education (73% vs. 63%), and quality of meals (79% vs. 64%).

We also found that **customer satisfaction deepens over time**. Customers who have been with the FSP for more than four years report higher satisfaction levels (NPS of 69%) than those who have been associated with FSP for less than four years (55%). This indicates **that customer impact, satisfaction, and retention are intrinsically linked.** Therefore, there is a commercial case to be made for FSPs to try to establish themselves as trusted actors and deepen their positive impact on customers. This also has business case implications for FSPs to take a long-term perspective to sustainability, especially as they look to improve customer engagement and retention.

9 **There remains opportunity for further impact. Key recommendations include ensuring digital equity, providing holistic services beyond credit, and developing segment-specific approaches to build customer capacity.**

While Southeast Asia has made strides in financial inclusion and FSPs have innovated to improve access to financial services, **more can be done to ensure equitable reach and increase depth of impact**.

First, as digitalisation continues to expand the reach of financial services and provide access to underserved customer segments, it is necessary to ensure that this does not deepen the digital divide. To this end, it will be necessary for FSPs to **operate with digital equity in mind**. Today, DFS are typically reaching male, urban, and higher-income customers who are more likely to have access to smartphones and the internet. To achieve digital equity, it will be necessary not only for FinTech companies to **extend their focus to rural, women, and lower-income customers,** but also for traditional FSPs to **continue to digitalise their processes** to deepen their reach.

Promisingly, there have been successful examples of such initiatives in our sample. Hybrid approaches, embedded financial and digital education, and partnerships between FinTechs and rural traditional FSPs are emerging as key approaches to address underserved segments. The adoption of such methods can be encouraged among a larger number of FSPs.

25%
of customers access non-credit services

Most valued services:
- Business-related
- Savings
- Insurance

Secondly, there is scope to further **encourage customer adoption of a more holistic suite of financial and business services beyond credit.** FSPs in our sample do currently provide non-credit services, which customers are accessing on a small scale **(25% of the customers we surveyed are accessing non-credit services from their FSPs).** Customers find business-related services, such as business development and e-commerce related services, most valuable, while insurance and savings are the most accessed non-credit services.

Importantly, there are early indications that **accessing a holistic suite of services leads to better impact outcomes** for customers. For example, customers who access non-credit services report increased savings (74% vs. 64% for those who access non-credit services vs. those who do not), improved resilience (80% vs. 72%), and increased spending on quality meals (60% vs. 55%) and home improvements (47% vs. 41%).

Thirdly, FSPs can work with broader industry actors (investors, policy makers) to **develop tailored financial and digital literacy initiatives that target specific segments**.

For example, given higher reported stress levels and lower ability to cope with emergencies among women, literacy initiatives targeting women may require a focus on building resilience, alongside basic financial literacy. Business-related training is also highly valued and would improve female microentrepreneurs' ability to growth their businesses and increase employment. By contrast, initiatives focused on men may encourage more productive and household-related use of loans.

For rural customers, in-person workshops can complement efforts to improve the use and understanding of smartphones. It is also important to build relationships with community leaders and village elders to help drive education and awareness. Further, broader socioeconomic support (e.g., business support, subsidies) may be required to alleviate financial stress felt by this community.

Key Concepts

Financial Inclusion

Financial inclusion is defined as access to useful and affordable financial services and products for individuals and businesses to meet their needs. These services and products include transactions, payments, savings credits, and insurance, delivered in a responsible and sustainable way (World Bank, 2022).

Financial Health

The well-being that is associated with the financial life of individuals. Being financially healthy entails being financially secure and resilient and having financial control and freedom (UNCDF, 2022).

The Unbanked or Financially Excluded

Adults who do not have an account at a financial institution (World Bank, 2022)

The Underbanked

Those who are not well-served in financial services or have unmet needs. For example, while they may have bank accounts and access to rudimentary financial services, they may lack access to credit cards or have no long-term savings products or insurance (Bain & Company, Google and Temasek, 2019).

The Unserved and Underserved

Used in this study to describe both individuals and MSMEs who lack or have limited access to finance. Used initially by the World Bank (2023) to describe MSMEs that lack or have limited access to finance.

Financial Literacy

The level of knowledge about financial concepts that is useful for a person to make financial decisions (ASEAN, 2021)

Digital Literacy

The ability of a consumer to use a variety of digital financial services with self-assurance and full trust in their benefits (ASEAN, 2021).

Introduction

Financial Inclusion: Paving the Way to a Sustainable Future

Financial inclusion is defined by the World Bank as **access to useful and affordable financial services and products for individuals and businesses.**[29] These services and products include transactions, payments, savings, credit, and insurance, and are complemented by embedded pathways to financial education and literacy. Combined, these factors contribute to an individual's ability to make choices that **facilitate financial stability and health**. Financial inclusion allows people to participate meaningfully in economic activity and reap the benefits of economic growth. It can increase incomes, help communities weather shocks, and empower women.[30] Critically, as described by the United Nations Capital Development Fund (UNCDF), financial inclusion is a base enabler of seven of the seventeen United Nations Sustainable Development Goals (UN SDGs).[31]

In Southeast Asia, financial inclusion is also an important contributor to the goal of equitable development post-pandemic. As the region looks ahead, it can also act as a **critical gateway to an equitable transition and climate security**. As Andy Kuper, the CEO and Founder of LeapFrog Investments explains, these financial tools "can also lead to greater sustainability on an environmental level where consumers can leapfrog straight into climate-friendly solutions".[32] For example, access to credit can help MSMEs defray the costs of addressing ESG risks in their operations and processes and can also help smallholder farmers mitigate the risks of unexpected emergencies including erratic weather patterns and climate events.

Over the last five years, Southeast Asia has made clear strides in financial inclusion. This is in part accelerated by widespread digital adoption during the COVID-19 pandemic. Account ownership – with formal financial institutions and mobile money providers – **increased from 48% in 2017 to 55% in 2021**[33] on a regional level, according to the Global Findex Database[34]. Account ownership, which enables users to store, send, and receive money safely and affordably, is a well-tracked measure of financial inclusion.

National level data from the ASEAN Finance Ministers and Central Bank Governors' Meeting (AFMGM) also suggests that Southeast Asia reduced financial exclusion levels from **30.2% in 2020** to **27.9% in 2022**, surpassing the 2025 target of 30 percent in the Strategic Action Plans (SAP) for Financial Integration.[35]

However, account ownership, while an important stepping stone, forms only one part of financial inclusion. Beyond the **unbanked**, or those without accounts, there are also the **underbanked**, namely individuals who may have a basic bank account or mobile wallet but lack access to broader services including credit. According to a 2022 survey of 90,000 respondents by the World Economic Forum and Sea, including individuals and micro, small, and medium enterprises (MSMEs) in Southeast Asia, while 74% of respondents had savings accounts, only 21% have all three advanced financial products – namely credit, investment and insurance.[36]

225 million adults in Southeast Asia are unbanked or have no financial account. Even more are underbanked – for example, more than 350 million adults in Southeast Asia have not borrowed any money

29 World Bank (2022): Financial Inclusion.
30 60 Decibels (2022): The 60 Decibels Microfinance Index.
31 UNCDF (2023): Sustainable Development Goals.
32 Centre for Impact Investing and Practices, Accenture, and Singapore Management University (2022): LeapFrog Investments and HealthifyMe: Identifying Opportunities in Asia to Serve Unmet Healthcare Needs.
33 Account ownership data for Vietnam was not available in the Global Findex Database 2021. Hence, account ownership rate was kept the same as in 2017.
34 World Bank (2022): The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19, calculations by CIIP.
35 ASEAN Finance Ministers' and Central Bank Governors' Meeting (2022): Joint Statement of the 8th ASEAN Finance Ministers' and Central Bank Governors' Meeting (AFMGM).
36 World Economic Forum and Sea (2022): ASEAN Digital Generation Report: Digital Financial Inclusion.

from a formal financial institution or used a mobile money account, suggesting an underserved credit market.[37]

39 million of Southeast Asia's MSMEs are also unserved or underserved by traditional lenders, including those in the "missing middle".[38] These are SMEs that make an annual turnover of US$ 100,000 to US$ 1 million, meaning they are too large for microfinance loans but still ineligible for loans from large banks. Cumulatively, MSMEs in the region face a funding gap of roughly US$300 billion.[39]

Access to credit is a powerful bedrock of broader financial inclusion. Credit can enable creation of self-employment and provide gateways to nutrition, healthcare, and education.[40] The ability to access loans and working capital enables individuals to meet day-to-day expenses and overcome emergency situations. It also enables enterprises to scale, thereby tangibly improving livelihoods.

The ability to expand enterprises and deal with crises through emergency funds have long-term impacts on the socioeconomic mobility of borrowers, especially in allowing many to gradually ascend to the middle class and gain control over their lives and decisions.

The region's vibrant financial inclusion sector – made up of banks, tens of thousands of MFIs, cooperatives, pawnshops, and village banks, and a growing number of DFS players such as FinTechs and digital banks – is well positioned to address this gap and opportunity.

The Rising Role of Digitalisation

From the 2010s, the increased penetration of smartphones, as well as the emergence and proliferation of DFS in Southeast Asia has provided alternative pathways to financial inclusion. Smartphones have become the primary access point to the internet for many users in Southeast Asia, leading to increased ease of access to mobile banking, digital payments, e-commerce, alternative lending, digital banks, insurance tech, and other services.[41]

The **rise of DFS players since 2010 has acted as both a complement and disruptor to traditional financial institutions** in the region. In the face of COVID-19 restrictions in the region, digitalisation drove an increased adoption of DFS across income groups, geographies, and genders. This wide array of innovative business models emerging amongst FSPs has been effective in addressing specific needs of different customer segments. By providing tailored business solutions, these FSPs hold the potential to deepen financial inclusion in the region.

37 World Bank (2022): The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19; 2021 figure for Vietnamese without bank account is extrapolated from 2017 figure from World Bank database. No access to formal credit refers to adult (15+) without formal borrowings, excluding Brunei and Vietnam because data was not available. Calculations by CIIP.
38 Funding Societies (2021): Your Funding Societies | Modalku Economic Impact Survey 2021.
39 SME Finance Forum (2018): MSME Finance Gap.
40 Global Policy Forum (2007): Credit for the Poor: Poverty as Distant History.
41 Pew Research (2019): Use of smartphones and social media is common across most emerging economies.

Moving Beyond Access to Impact Outcomes

To realise responsible and sustainable financial inclusion, it is necessary to look beyond basic measures of access to **understanding impact outcomes**.

UNCDF's concept of **financial health** provides a holistic framework to address this, encompassing **financial security, resilience, control, and freedom**. Similarly, **60dB's global Microfinance Index 2022 includes several impact metrics, namely access, business impact, household impact, financial management, and resilience**. Both frameworks are aligned in their intention to go beyond access to financial services as an indicator of financial inclusion.

Given the global focus of 60dB's index, representation of MFIs across regions is understandably small. For Southeast Asia, the 2021/22 study featured nine institutions from across Cambodia, Myanmar, Indonesia, and The Philippines. However, the study did not cover DFS providers, which have emerged as key players in Southeast Asia's financial inclusion landscape. 60dB's global benchmark is based on its interviews with 17,956 customers from across the world, with 2,276 customers from Southeast Asia. By contrast, this study interviewed 6,524 customers from Southeast Asia.

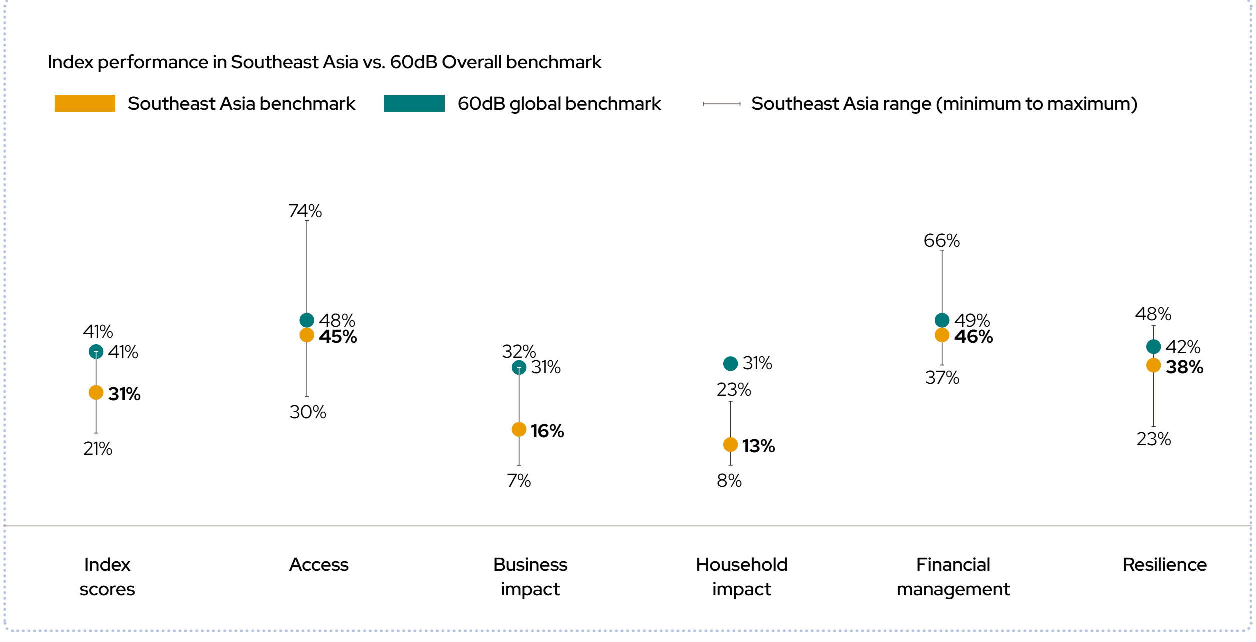


Figure 5. Southeast Asia benchmark relative to 60dB's Global benchmark.[42]

42 60 Decibels (2022): 60 Decibels Microfinance Index (2022).

This Study

Responsible and sustainable financial inclusion and health necessitates access to a suite of holistic, suitable, and affordable financial services and products. Given the multi-faceted nature of this study, we have had to **focus on credit** (individuals and MSMEs). This was a priority given that access to credit continues to be vital to creating self-employment and serving as a gateway to nutrition, healthcare, and education.[43]

To adequately define, illustrate, and examine impact outcomes through financial inclusion in Southeast Asia, it is necessary not only to draw on prior data that highlights the size of untapped markets and access to financial services, but to analyse impact data at the enterprise and end-customer levels.

To do so, we engaged with a range of FSPs from incumbent traditional institutions such as MFIs, banks, and other NBFIs, to insurgent DFS providers, such as FinTechs and embedded financing providers. **We complemented insights data from FSPs with data from our customer survey, in order to ensure that we understood the perceptions and experiences of the end-customers of credit providers, thereby allowing the industry to glean insights regarding their impact in Southeast Asia.**

Research Purpose

This report is part of a **multi-phase study with the objective of deepening financial inclusion** in Southeast Asia. In this first phase, the objective is to make available a public report which will:

- Provide an overview of financial inclusion in Southeast Asia post COVID-19
- Paint today's competitive landscape and compare business models of key actors today, namely credit providers such as traditional FSPs and DFS providers
- Highlight best practices among FSPs innovating to achieve positive impact incomes for the unserved and underserved while remaining commercially viable
- Share deep customer-level insights into the impact of credit
- Indicate potential areas to expand reach and improve impact

In future phases, we will build on insights from this report to develop regional capacity building initiatives, generate more insights into effective business models and actions, and dive deeper into some of the issues which require collective action.

Study Methodology

Geographic focus: This study covers **Southeast Asia** as a region, with particular focus on Cambodia, Indonesia, Philippines, and Vietnam, based on needs and potential size of the markets.[44]

Participants: In total, **60 organisations** and **6,524 end-customers** contributed time, data, and insights to this study. Contributing organisations were made up of **46 FSPs, seven investors, and seven ecosystem enablers or industry associations.** We worked with FSPs with a range of business models, including MFIs, banks, and FinTech and other DFS players who provide credit or loans to individuals, microentrepreneurs, and SMEs.[45]

Data collection method: This study collected data on multiple levels, to gather and synthesise perspectives from a holistic set of stakeholder groups namely through management interviews, enterprise level data, and customer surveys. We are grateful for 60dB's work in the end-customer surveys because it meant that where relevant, we could draw comparisons to data from other parts of the world.

See the Appendix for further details on sample breakdowns.

43 Global Policy Forum (2007): Credit for the Poor: Poverty as Distant History.
44 A more detailed breakdown of FSPs and customers by geography and type can be found in the Appendix.
45 It must be noted that the FSPs needed to devote time and effort to participate in this study. Hence many of the FSPs that agreed to participate in our study are typically larger than the average FSP on the market.

Our approach
Data collected at multiple levels

60 organisations contributed in total

Management interviews

Deep, **qualitative industry perspectives** on:

- Organisation mission and strategy (business and impact)
- Best practices including responsible lending / consumer protection practices
- Opportunities and limitations of digitalisation
- Market opportunities and ecosystem challenges and needs

12 Indonesia, 11 Philippines, 7 Vietnam, 5 Cambodia, 15 others/regional

50
industry interviews with FSPs, investors, and industry associations

Enterprise level data

A) **Enterprise survey** and

B) **Loan book data** (anonymised) to better understand:

- Scope of services and products (financial and non-financial)
- Impact integration, operating model, and governance processes
- Overall loan book impact and reach
- Customer segments and cost / risk to serve
- Financial / business performance
- Level of digitalisation

10 Indonesia, 6 Philippines, 6 Cambodia, 3 Vietnam, 2 Thailand

27
FSPs contributed through enterprise survey (24 FSPs) and/or loan book data (22 FSPs)

Customer insights

Customer surveys carried out via **phone interviews** in **8 local languages** with **an average of ~230 customers per FSP**, to understand:

- Impact of loans on business / livelihoods
- Impact on quality of life
- Improvements in financial health (security, independence, literacy, management)
- Potential overindebtedness, burden of repayment, and fair treatment by FSPs
- Role of digital in improving access

11 Indonesia, 7 Cambodia, 7 Philippines, 2 Vietnam, 1 Myanmar

6,524
customers of
28
FSPs

Figure 6. Data collection methodology and sample size.

Intended Audience

This study is targeted primarily at business and investment communities with an interest in financial inclusion in Southeast Asia. This includes FSPs with an interest in understanding best practices which will enable them to achieve positive end-customer impact while running a financially viable and sustainable business, and investors looking to direct capital to areas with both high impact and returns potential.

Limitations to the Study

This study set out to provide a comprehensive view of FSPs in Southeast Asia and the impact of their credit services to customers. However, there are several limitations to this study that should be noted.

Firstly, this study is limited in its representation of all Southeast Asian countries. While this study has expanded the sample size of FSPs significantly and includes more players from countries which were unrepresented or underrepresented in the 2022 60dB Microfinance Index, it still does not provide a comprehensive view of the whole of Southeast Asia. Customers from Brunei Darussalam, Lao PDR, Malaysia, and Singapore are unrepresented, though some perspectives from industry associations and ecosystem players in Singapore and Malaysia are captured. We will endeavour to ensure more comprehensive representation in future studies.

Secondly, there are limitations to our study's research methodology. In particular, the customer surveys provide deep insights into the experiences of end-customers over the last year, but we do not have a control group to be compared against and may be subject to response biases. To this end, we have sought to corroborate and complement customer insights with enterprise-level data. Nevertheless, we believe this data reveals important insights into the financial inclusion landscape in Southeast Asia, especially through the eyes of the end-customers.

Thirdly, while some important insights into policy issues emerged over the course of this study, we do not want to detract from the focus of this report, namely insights which can catalyse more private sector actions. We will continue to study relevant policy issues an delve into these in other fora.

What this Report Covers

This study will provide an analysis of the **impact of access to credit on the financial health of individuals and MSMEs across Southeast Asia.**

In **Chapter 1**, we outline the **state of financial inclusion** in Southeast Asia, including **progress driven by digitalisation**, and **key investment opportunities** in this market.

In **Chapter 2**, we describe the key **challenges and barriers** to accessing financial services across customer segments. These are present both from **the demand side**, or challenges faced by customers, and **the supply side**, or specific issues that FSPs are engaged with.

In **Chapter 3**, we highlight how **the landscape of FSPs is continuously evolving and innovating to address the challenges to financial inclusion** in Southeast Asia. Entrepreneurs and business leaders have been innovating to improve their business models, products, and services. FSPs have undertaken key innovations to expand the availability and reach of their services through digital means. They have also digitalised processes to bring down risks and costs to serve, improved customer capacity, and integrated impact into their business missions and strategy.

In **Chapter 4**, we provide a window into the **experiences of customers** themselves through our customer survey. We indicate the different impacts that FSPs have had in terms of **business/livelihoods impact, household impact, financial agency, and financial resilience**. This provides an insight into the solutions that have been successful in terms of driving positive impact. They also outline specific areas where product design and delivery can be improved.

To conclude, we distill insights from our report and indicate how the industry can work together to drive forward financial health in Southeast Asia.

Chapter 1: Significant Market Opportunity to Address Needs Amidst Progress

Financial inclusion has been a **top priority for Southeast Asia**. The Association of Southeast Asian Nations (ASEAN) Economic Community Blueprint 2025 lays out plans to enhance the region's financial ecosystem by establishing credit bureaus, expanding digital payment services to promote cost-reducing technologies, implementing financial education programmes and client protection mechanisms, and promoting distribution channels to improve access to and reduce the cost of financial services. **All governments in the region have a national financial inclusion strategy**, either as a standalone or as part of a broader financial sector blueprint. These strategies address both unbanked and underbanked segments as well as gaps in account ownership and access to credit.

Country	Policy Framework	Vision
Brunei Darussalam	Financial Sector Blueprint (FSBP) 2016-2025[46]	Enabling a dynamic and diversified financial sector with a sustainable financial ecosystem.
Cambodia	National Financial Inclusion Strategy 2019 - 2025[47]	To support the effective implementation of the Financial Sector Development Strategy 2016–2025 (FSDS) in order to address domestic demand for financial services, support the sustainability of economic growth, increase people's incomes, and reduce poverty.
Indonesia	National Strategy for Financial Inclusion 2020[48]	To encourage economic growth, speed up poverty reduction, and reduce inequality between individuals and regions so as to realise the welfare of the Indonesian people. A 90% financial inclusion target has been set for 2024.
Lao PDR	Financial Inclusion Roadmap 2018-2025[49]	To improve household welfare by improving and ensuring broad, convenient, and deep access to financial services; meeting livelihood development needs; increasing economic efficiency for households and enterprises; and supporting national growth by increasing financial inclusion.
Malaysia	Financial Sector Blueprint 2022 – 2026[50]	Finance for all, for transformation, and for sustainability.
Myanmar	The Myanmar National Financial Inclusion Roadmap 2019 – 2023[51]	To ensure that stakeholders work together towards common objectives that will see the greatest number of individuals, particularly in the low income, small business, and farming segments, benefit from improvements in financial access.
The Philippines	National Strategy for Financial Inclusion 2022-2028[52]	Financial inclusion toward inclusive growth and financial resilience.

Table 1. National financial inclusion strategies and policies across Southeast Asian countries. More details of each country's strategy including key pillars can be found in Appendix 4.

46 Autoriti Monetari Brunei Darussalam (2016): Financial Sector Blueprint (FSBP), 2016-2025.
47 Royal Government of Cambodia (2019): National Financial Inclusion Strategy 2019 - 2025.
48 The Audit Board of the Republic of Indonesia (2020): Presidential Regulation (PERPRES) on the National Strategy for Financial Inclusion.
49 Bank of the Lao PDR (2019): Lao PDR Financial Inclusion Roadmap (2018-2025).
50 Bank Negara Malaysia (2022): Financial Sector Blueprint 2022 – 2026.
51 Making Access Possible (MAP) Myanmar Programme 2018 (2020): The Myanmar National Financial Inclusion Roadmap 2019 – 2023.
52 Bangko Sentral ng Pilipinas (2022): National Strategy for Financial Inclusion 2022-2028.

Country	Policy Framework	Vision
Singapore	Financial Services Industry Transformation Map 2025[53]	Singapore as a leading financial centre in Asia, connecting global markets, supporting Asia's development, and serving Singapore's economy.
Thailand	Strategic Directions in 2023[54]	To ensure inclusive and sustainable growth of the Thai economy.
Vietnam	National Financial Inclusion Strategy 2025[55]	To ensure all citizens and enterprises have access to financial products and services in a convenient way and at affordable prices, particularly for low-income and vulnerable people and MSMEs.

Table 1. (continued) National financial inclusion strategies and policies across Southeast Asian countries. More details of each country's strategy including key pillars can be found in Appendix 4.

From the 2010s, **increased smartphone penetration and the ascent of DFS** in Southeast Asia have provided **alternative pathways to financial inclusion**. By 2020, the **unique mobile subscriber penetration rate hit 70% in Southeast Asia**, slightly above the global average of 68%.[56] For many in the region, smartphones have become the primary access point to the internet. This has led to an increased ease of access to a variety of financial services, including e-commerce, mobile banking, digital payments, alternative lending, and digital banks.[57] Further, it has allowed many communities to leapfrog a reliance on ATMs and in-person banking and skip desktop computers altogether. These advancements in DFS are **underpinned by key government actions to improve the digital architecture** in their countries and across the region.

53 Monetary Authority of Singapore (2022): Financial Services Industry Transformation Map 2025.
54 Bank of Thailand (2023): Bank of Thailand's Key Strategic Directions in 2023.
55 60 Ministry of Finance, Vietnam (2020): PM approves national financial inclusion strategy until 2025.
56 The GSM Association (2021): The Mobile Economy Asia Pacific 2021; Statista (2023): Unique mobile subscribers penetration rate as share of population worldwide in 2022 and 2030, by region.
57 Pew Research (2019): Use of smartphones and social media is common across most emerging economies.

- **2004**: **The Philippines** was among the first in the world and in Southeast Asia to launch a mobile money system via the release of GCash by Globe Telecom, an SMS-based money transfer service to assist citizens working abroad to send money back. From the mid to late 2000s, other Southeast Asian countries began to develop and expand their own FinTech landscape to promote DFS within their economies.
- **2013**: **Thai** financial platform TrueMoney launched TrueMoney E-Wallet to facilitate transactions and provide financial access to the unbanked population.
- **2014**: **Vietnamese** FinTech company FPT Wallet launched e-wallet V-FPT, which aimed to provide an easy and reliable way to pay monthly bills and make e-shopping purchases.
- **2016**: **Indonesia's Gojek** launched Go-Pay, a digital e-wallet that facilitates safe cashless transactions and allows e-commerce merchants to accept consumers' payments for online purchases.
- **2016**: **Brunei's** Progresif partnered Bank Islam Brunei Darussalam to launch the country's first mobile wallet, Progresif PAY. The new e-wallet allows users to transfer funds and shop online more securely and in real time on their mobile device.
- **2016**: **Myanmar's Wave Money** became the first company to launch mobile financial services under the country's new Mobile Financial Services Regulation, which aims to increase access to financial services to millions of people.
- **2017**: The **Thai** government launched PromptPay, a digital payment service that allows citizens to receive money using their Citizen ID or mobile number, to expand the country's digital economy and promote financial inclusion.
- **2017**: The **Singapore** Government launched PayNow, a secure funds transfer service allowing customers to receive money via their identification or mobile numbers.
- **2017**: **Malaysia's** Touch 'n Go eWallet launched as a joint venture between Malaysian electronic payments system Touch 'n Go and Ant Financial. The platform can be accessed via smartphones, facilitates digital payments, and supports ride-hailing apps.
- **2018**: **Unitel,** a joint venture between **Lao PDR** and **Vietnam**, launched the U-Money e-wallet to enable easy money transfers and transaction security via a mobile digital service.
- **2019**: Cross-border QR code payments between **Singapore and Thailand** began with a collaboration between Thailand's Siam Commercial Bank and Singapore's FinTech firm, Liquid Group, to enable Thai tourists to make purchases in Singapore using their Thai QR payment app.
- **2019**: **The Banque Pour Le Commerce Exterieur Lao Public** (BCEL) partnered with Hong Kong's Wallyt to allow **Lao** merchants to accept mobile payments through WeChat Pay and Alipay.
- **2020**: The **Indonesian** government introduced the Quick Response Code Indonesia Standard (QRIS), in accordance with Bank Indonesia's Indonesia Payment System Blueprint 2025. The QRIS allows QR-code-facilitated payments to be interconnected and interoperable through a single standardised code.
- **2020**: The **Bank of the Lao PDR** (BOL) launched the Lao QR Code to ensure that the modes of domestic payment are convenient, safe and secure while keeping in line with the pace of international payment development.
- **2020**: The **National Bank of Cambodia** (NBC) launched its digital currency, Bakong, to strengthen the Khmer Riel and reduce its reliance on the US$.
- **2000s**: The **Monetary Authority of Singapore** (MAS) granted digital banking licenses to the Grab-Singtel consortium as well as Sea Group.
- **2021**: The **Banko Sentral ng Pilipinas** (BSP) issued its first Certificate of Authority to Operate to digital banks, after first releasing its digital banking framework in 2020.
- **2022**: **The Bank of the Lao PDR** (BOL) and the National Bank of Cambodia (NBC) signed a Memorandum of Understanding (MoU) to facilitate cross-border transactions between the two institutions.
- **2022**: The **Darussalam Assets in Brunei** established a digital payment hub alongside three local banks to enable seamless and secure digital payments for both local and international transactions.
- **2023**: The **Monetary Authority of Singapore** (MAS) and **Bank Negara Malaysia** (BNM) launched a cross-border payment link between the two countries.
- **2023**: **Vietnam** will be joining ASEAN's cross-border payment connectivity, alongside Indonesia, Malaysia, The Philippines, and Thailand. Brunei Darussalam, Lao PDR, and Cambodia are in the midst of developing their instant payment systems.

Figure 7. Timeline of DFS initiatives in Southeast Asia (select examples).

Progress through the Pandemic

The onset of the COVID-19 pandemic in 2020 disrupted the region's progress towards financial inclusion. At the outbreak of the pandemic, many in Southeast Asia were ill-equipped financially to weather a prolonged income shock. Throughout the pandemic, 55% of the people across the region reported facing some form of financial difficulty, with the numbers highest in Indonesia (84%) and The Philippines (85%).[58] Limited mobility and slashed wages during the pandemic led many consumers to reduce their consumption, withdraw cash and savings, or borrow from friends and family.

The impact of the pandemic on MSMEs was also keenly felt due to lockdowns and restrictions, severely limiting business conditions and leading to cash flow issues. While some MSMEs did receive assistance in the form of cash assistance, loan subsidies, tax relief from the government, or fee waivers from FinTech platforms, the ability of many to access credit was hampered due to tightened cash flows and difficult macroeconomic conditions.

Despite this, **financial inclusion in the region has shown improvements** in recent years. Account ownership – with formal financial institutions and mobile money providers – **increased from 48% in 2017 to 55% in 2021**[59] on a regional level according to the Global Findex Database.[60] National level data from the ASEAN Finance Ministers and Central Bank Governors' Meeting (AFMGM) also suggests that Southeast Asia reduced its **financial exclusion levels from**

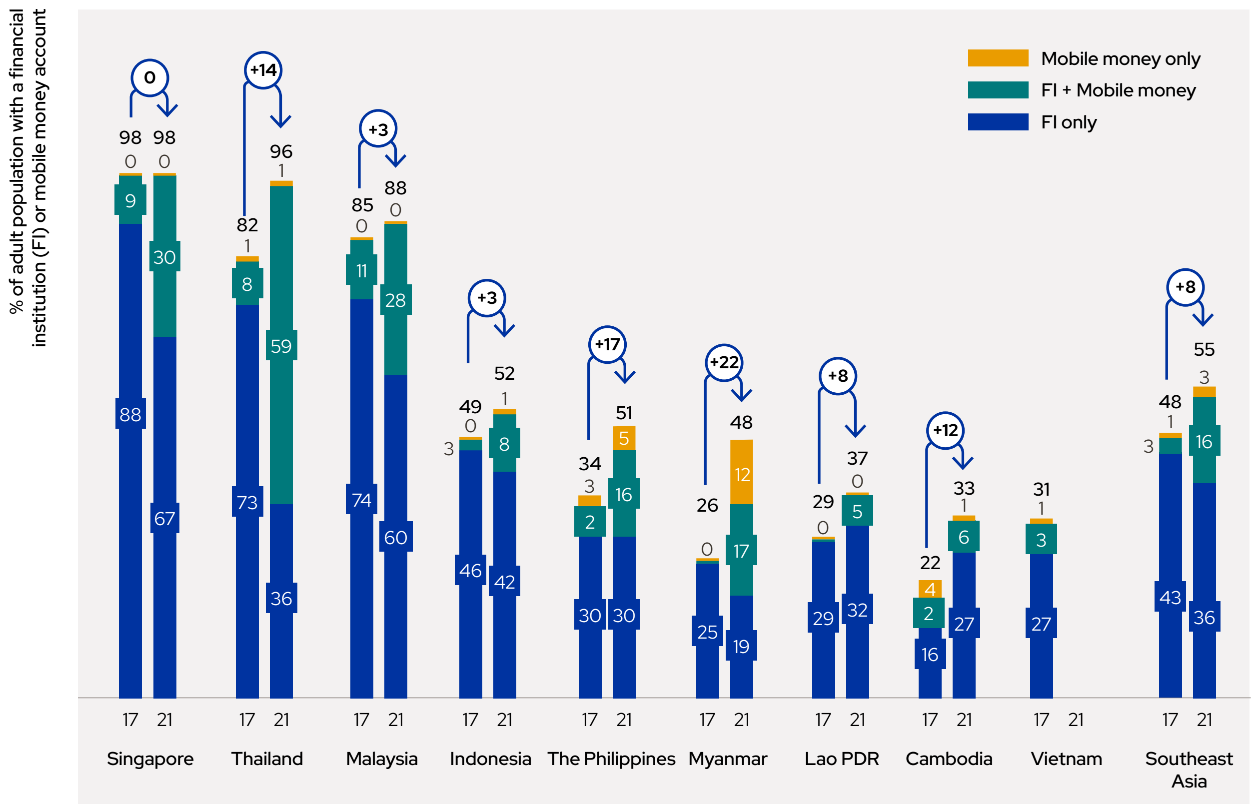


Figure 8. Percentage of adults (aged 15 years and above) in Southeast Asia with a financial institution or mobile money account in 2017 and 2021.[61]

58 Asian Development Bank Institute (2020): COVID-19 Impacts on Asean Households: Survey findings.
59 Account ownership data for Vietnam was not available in the Global Findex Database 2021. Hence, account ownership rate was kept the same as in 2017. Brunei Darussalam was excluded because data was not available.
60 World Bank (2022): Global Findex Database 2021: The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19. Calculations by CIIP.
61 World Bank (2022): Global Findex Database 2021: The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19 2021 figures for Vietnam are extrapolated from 2017 figures from World Bank database for overall calculation. Calculation done by CIIP.

30.2% in 2020 to 27.9% in 2022, surpassing the 2025 target of 30% in the Strategic Action Plans (SAP) for Financial Integration.[62,63] Mobile money accounts have unlocked life-changing opportunities for low-income customers by improving their ability to receive credit quickly and safely.[64]

This can be attributed in part to **increasing digital adoption**. Since the pandemic began, **100 million new internet users in Southeast Asia came online**, bringing the total number of internet users in the region to 516 million in 2022, or **75% of the region's population**.[65] The existence of government-backed digital payments architecture and mobile wallet platforms proved crucial in enabling the adoption of DFS through the pandemic.

Digitalisation has transformed Southeast Asia's financial inclusion landscape in several ways. For customers, digitalisation has **improved the accessibility of financial services through the emergence of digital channels of delivery**, namely mobile money. Mobile money has allowed individuals access to swift and secure payments, thereby providing **secure architecture for the disbursement of government payments and credit.** Countries that disbursed COVID-19 relief handouts through mobile money, such as Pao Tang

Insights from The Philippines: Mobile Money Adoption and Partnerships Through Digitalisation

The ascent of The Philippines' virtual wallet GCash is a notable example of the scale of digitalisation that occurred in the region during COVID-19. Launched in 2005, GCash was initially an SMS-based mobile payments platform. GCash allowed users to transfer money without needing a bank account or card, with a vision of serving the unbanked and underbanked of The Philippines. Later on it was incorporated as Mynt, with Globe Telecom, Ayala Corporation, and later on Ant Financial, among its key shareholders. Users were able to cash out their money stored in the wallet at physical locations such as *sari-sari* stores.

As part of an early wave of mobile payments service providers in The Philippines, GCash secured partnerships to integrate its payments services to form the largest digital ecosystem in the country. This allowed GCash to be integrated into e-commerce systems while expanding its cash-in systems across The Philippines.

As Rowena Zamora, Chief Strategy Officer at GCash, explains, "We focus on providing financial services access to those who typically do not have it. What friction point can we remove from our customers' experience to further drive financial inclusion? That is really our North Star."

GCash's ease of adoption has allowed many unbanked and underbanked Filipinos to access payments, transfers, fair lending, affordable investments, remittance services, and insurance. As of the first quarter of 2023, GCash has more than 81 million users, has partnered with 6 million merchants and sellers, and has up to 26 million transactions daily.

62 ASEAN Finance Ministers' and Central Bank Governors' Meeting (2022): Joint Statement of the 8th ASEAN Finance Ministers' and Central Bank Governors' Meeting (AFMGM).
63 Discrepancies in exclusion rates between sources can be attributed to differences in data acquisition methodologies and definitional differences related to the age of adults, product types, and financial institution types recognised across markets. Please see Appendix 1 for details. Nevertheless, all sources indicate that financial inclusion is improving in Southeast Asia.
64 Consultative Group to Assist the Poor (2019): Looking Beyond the Average Impact of Financial Inclusion.
65 Statista (2022): Number of internet users worldwide as of 2022, by region.

in Thailand and Wave Money and OnePay in Myanmar, helped to increase digital payments adoption.

In other countries, the pandemic gave rise to strong market leaders, such as GCash in The Philippines. Under COVID-19 restrictions, consumer behaviour shifted to online and cashless transactions, with GCash emerging as an easy-to-use platform for e-commerce, delivery, and payments. As of the first quarter of 2023, GCash had 81 million users.[66,67]

Digitalisation has also facilitated **partnerships between FSPs and other strategic players** such as convenience stores and e-commerce platforms. This has allowed more services to be accessed more readily and conveniently. This has also allowed MSMEs to track their sales by days and product types, facilitate record keeping, and face a lower risk of theft.[68] Data from digitalised payments and payment flows, facilitated by a digital ecosystem of partnerships, can be used to provide microenterprises and small business with traceable financial records, thereby enabling them to better access credit and be included in the formal economy.

From the FSP perspective, digitalisation has enabled them to expand access through new channels and drive down costs to serve by making their operations more efficient. Alternative data collected from across digital platforms has enabled FSPs to improve credit scoring, thereby reducing the need for collateral from their borrowers. More on business model innovation through digitalisation will be addressed in Chapter 3.

> “The Philippines is leapfrogging the use of bank cards for transactions because of mobile wallets”.
> *- Mila Bedrenets, Chief Commercial Officer, Tonik Bank*

> We see the usage of digital applications being much stickier in Southeast Asia [than the US or Europe], with no reversion to the mean. We see more sustainable transformation because I think people really do see the benefits of simpler, easier-to-access financial services.”
> *- Santitarn Sathirathai, Group Chief Economist, Sea*

66 GCash (2023).
67 It is worth noting that not all mobile money accounts may be active. Findex 2021 data indicates that 42% of mobile money accounts in The Philippines are inactive, defined as not using the account two or more times a month. More can be done to ensure genuine and sustainable inclusion is actually occurring.
68 IZA World of Labor (2023): How digital payments can benefit entrepreneurs.

Insights from Indonesia: Regulatory Sandboxes to Drive Growth in the FinTech Market

To manage the rise of DFS in Indonesia, Indonesia's Financial Services Authority, or the Otoritas Jasa Keuangan (OJK), started by issuing peer-to-peer lending licenses. In 2018, the OJK expanded the remit of its regulatory oversight by issuing regulation number 13/POJK.02/2018 on Digital Finance Innovation in the Financial Services Sector. The regulation was issued to serve as the legal basis for the OJK to oversee digital finance innovation in Indonesia, particularly given the rise of DFS. This followed the similar issuance of Regulation 19/12 2017 on the Organisation of Financial Technologies by central bank Bank Indonesia in 2017.

As a testing and trialling mechanism, OJK implemented a regulatory sandbox to assess the reliability of new business processes, models, and financial instruments, as well as the governance of DFS providers. The FSPs approved for sandbox trials were recorded to have business scale and broad market coverage. The sandbox is implemented for each FSP for a maximum of one year.[69] After regulatory sandbox testing is completed, the OJK was then able to determine if a FinTech required was recommended to operate, needed improvement, or was not recommended.

By engaging with FinTechs offering lending services that scaled with access to institutional capital, OJK was able to develop its understanding of the industry's pain points and gradually increase its regulatory framework to issue DFS licenses. The sandbox also allowed the OJK to provide the Indonesia Fintech Association, or Asosiasi Fintech Indonesia (AFTECH), with the authority to set industry standards and ethics. This has facilitated the growth, expansion, and maturation of the DFS market in Indonesia, leading to innovative business models in alternative lending and Indonesia receiving the second highest number of FinTech investments in the region after Singapore.

69 Otoritas Jasa Keuangan (2018): Digital Finance Innovation in the Financial Services Sector.

"FinTech enables financial inclusion by creating access to quality financial products for historically underserved populations. Its impact potential is particularly pronounced in emerging markets, where technological advances have enabled FinTechs to affordably reach underserved customers and MSMEs at scale. As a venture firm focused on inclusive FinTech, Quona invests in companies that are harnessing this opportunity and promoting financial inclusion." *- Kristin Sadler, Platform and Impact Manager, Quona Capital*

Driving Financial Inclusion: A Key Investment Opportunity in the Region

The fast-evolving competitive landscape in Southeast Asia's financial inclusion sector is an exciting draw for investors aiming to achieve **high impact alongside attractive commercial returns.**

There remain 225 million unbanked adults in Southeast Asia and more than 350 million who are not accessing formal credit.[70] Further, as highlighted earlier, 39 of 70 million MSMEs unserved or underserved by traditional financial institutions face a US$300 billion financing gap.[71]

Addressing this market requires a step-change in the way financial services are delivered. Critically, the **digital inclusion** of both rural and urban low-income customers will be required to expand financial inclusion to last mile communities in Southeast Asia.

Today, within Southeast Asia's DFS industry, **alternative lending is the second most common FinTech**, with payments being the most common.[72] Other FinTechs include regulatory tech, banking tech, investment tech, cryptocurrencies, blockchain in financial services, insurtech, and finance and accounting tech. Between 2020 and 2021, investments in FinTech companies tripled to US$4.3 billion, with **alternative lending receiving 12% of the funding.**[73] Across Southeast Asia in 2022, payments continued to receive the highest funding followed by alternative lending.[74]

The UNDP's SDG Investor Maps highlight financial services as a common investment opportunity area across Southeast Asian markets. Launched in partnership between Temasek Trust, the UNDP, and governments of various countries in the region, the maps provide information for investors to make data-driven decisions on identifying impact opportunities which can generate positive and measurable social and environmental change alongside a financial return.[75]

225 million
unbanked adults

350 million
adults not accessing formal credit

39 of 70 million
MSMEs unserved or underserved

US$300 billion
MSME financing gap

Table 2 summarises financial inclusion related investment opportunity areas across Southeast Asian countries where Investor Maps are available. Notably, in Vietnam, these are white spaces.[76] White spaces are investment areas that serve a strong development need in a specific national context, but have not yet seen significant private sector momentum due to a variety of factors.

70 World Bank (2022): The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19; 2021 figure for Vietnamese without bank account is extrapolated from 2017 figure from World Bank database. No access to formal credit refers to adult (15+) without formal borrowings, excluding Brunei and Vietnam because data was not available. Calculations by CIIP.
71 SME Finance Forum (2018): MSME Finance Gap.
72 UOB, PwC Singapore, and Singapore FinTech Association (2023): FinTech in ASEAN 2022: Finance, reimagined.
73 UOB, PwC Singapore, and Singapore FinTech Association (2023): FinTech in ASEAN 2022: Finance, reimagined.
74 UOB, PwC Singapore, and Singapore FinTech Association (2023): FinTech in ASEAN 2022: Finance, reimagined.
75 Temasek Trust (2022): Investor Maps: Highlighting Investment Opportunities Across Asia.
76 UNDP, SDG Impact, and CIIP (2022): Vietnam SDG Investor Map 2022.

Country	Sub-sector	Investment Opportunity Areas
Cambodia	Corporate and Retail Banking	Access to Finance for MSMEs
		Digital Only Financing Solutions with Add-on Services
	Insurance	Affordable Insurance Solutions
Indonesia	Corporate and Retail Banking	Affordable Microcredit
		Financing Solutions to Promote the Growth of MSMEs
		Payment Solutions for Digitising Cash Flows
	Insurance	InsurTech Platforms
Lao PDR	Corporate and Retail Banking	Accessible Financing for the Family Agricultural Sector and MSMEs
	Insurance	Insurance Products for the Agriculture sector
Malaysia	Corporate and Retail Banking	Peer-to-peer (P2P) Lending and Equity Crowdfunding (ECF) for MSMEs
	Insurance	Customised Insurtech Products for MSMEs
The Philippines	Financials	Financing Affordable Education for Senior and Tertiary Education for Low Income Families
		Financing Urban Farming and Small Scale Agricultural Food Supply Solutions
		MSME Financing and Insurance Products
		Financing Low Cost Housing
Thailand	Corporate and Retail Banking	Microcredit for Business Purposes
	Insurance	Microinsurance for Enhanced Financial Security of Low Income Groups
Vietnam	Finance	FinTech and Alternative Financing (White Space)
	Insurance	Agricultural Insurance (White Space)

Table 2. UNDP SDG Investor Maps: Financial services investment opportunity areas in Southeast Asia. Credit related Investment Opportunity Areas are highlighted in teal.[77]

As Table 2 indicates, credit is a critical opportunity area with high impact potential and is ready for private sector investments. Beyond credit, the prominence of opportunities in insurance, such as microinsurance and insurtech, highlights its important role in complementing other financial products and services. Insurance is crucial in providing financial stability, especially for customer segments vulnerable to healthcare emergencies, accidents, and natural disasters. Customers who are uninsured may face difficulties in paying back their loans in the absence of such protections. Insurance products are complementary to credit products.

In addition, many investment opportunity areas highlight digital business models as growing opportunities for investors. This is in line with the growing convergence between government and business interests in leveraging technology to provide a broader swathe of customers with access to affordable financial services.

77 UNDP (2023): SDG Investor Platform; CIIP (2022): Opportunities.

Chapter 2: Needs Persist – Access to Financial Services Remains Uneven

Although financial inclusion in Southeast Asia has seen significant advances, in part due to the emergence of new business models that have been able to combine profit with purpose, there remain significant gaps.

Of the 225 million adults in Southeast Asia without bank and mobile money accounts and 350 million who are not accessing formal credit based on latest Findex data, the majority are **women, from low-income backgrounds, and live in rural areas**.[78]

This trend is observed consistently. According to a survey by the World Economic Forum and Sea of over 90,000 respondents mainly from Indonesia, Malaysia, The Philippines, Singapore, Thailand, and Vietnam, **rural dwellers, microenterprises, and women are among the most underserved in the region, with 79% lacking access to credit, insurance, and investment products.**[79]

Aside from individuals, there is a **significant financing gap faced by MSMEs** across Southeast Asia. Allowing for different definitions, Southeast Asia's MSMEs **number over 70 million**, driving an estimated **40% of Southeast Asia's economic activity and employing roughly 67% of the region's population.**[80] An estimated **94%** of MSMEs are **micro-merchants or sole proprietor businesses,** including Indonesia's *warungs* and The Philippines' *sari-sari* stores, which form the backbone of the region's social and economic development, but tend to be credit constrained.[81] An estimated 39 million MSMEs in Southeast Asia are still unserved or underserved by traditional lenders.[82] These gaps provide a compelling opportunity for businesses and investors to step in and connect individuals and MSMEs with sustainable financing.

INDIVIDUALS

45% of population completely unbanked:

- Women, low-income, and rural individuals are less banked
- Cambodia, Lao PDR, and Vietnam have the highest proportion of unbanked individuals, while Indonesia has the largest number of unbanked individuals by size[83]
- Many still transact in cash

More are underbanked:

- Typically, urban lower to emerging middle class (e.g., factory workers and ride-hailing drivers)

MICRO-MERCHANTS

90% credit constrained[83], a relatively higher proportion than SMEs

- Many women in the micro segment compared to in the SME segment
- Significant overlap with individuals as many are unregistered and operate informally
- Many still transact in cash

SMEs

- 52% credit constrained[83]
- Many looking to access regional and/or global supply chains

Figure 9. Who are Southeast Asia's financially excluded or underserved?

78 World Bank (2022): The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19; 2021 figure for Vietnamese without financial account is extrapolated from 2017 figure from World Bank database. No access to formal credit refers to adult (15+) without formal borrowings, excluding Brunei and Vietnam because data not available. Calculations by CIIP.
79 World Economic Forum and Sea (2022): ASEAN Digital Generation Report: Digital Financial Inclusion.
80 ASEAN (2020): Development of Micro, Small, and Medium Enterprises in ASEAN (MSME), Google, Temasek and Bain & Company (2022): e-Conomy SEA 2022; ISEAS-Yusof Ishak Institute (2020): The Missing (Small) Businesses of Southeast Asia.
81 Google, Temasek and Bain & Company (2022): e-Conomy SEA 2022.
82 SME Finance Forum (2018): MSME Finance Gap.
83 World Bank (2022): Global Findex Database 2021: Only for Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, and Vietnam. Calculations by CIIP.

Key Barriers Remain to Financial Inclusion

Southeast Asia is a heterogenous region, being home to a host of different cultures, languages, and religious practices, as well as differing regulations and currencies across countries. To tap into the opportunities of its large, diverse market, FSPs require a keen understanding of local market dynamics and customer needs. Unbanked and underbanked individuals and MSMEs face a variety of needs and pain points.

It is **crucial to acknowledge that for the lowest-income segments of the population across Southeast Asia, poverty is itself a barrier to accessing financial services**. According to the Global Findex Database, the most common reason for a lack of account ownership

Unbanked	Underbanked	Microenterprises	SMEs
Inaccessibility due to geographical spread and infrastructure gaps Long distances from FSPs Shallow mobile or data coverage	**Poor product fit**	Long turnaround times Complex and slow process Low credit limits Products not suited to business cycles (e.g. harvests for rural farmers)	
Gender norms and barriers Lack of confidence and agency in women Lower device ownership for women		High proportion of women sole-proprietors	Fewer women SME owners
Inaccessibility due to KYC issues and high prices of products due to customer risk Lack of credit history	Lack of collateral Lack of or poor credit history	Irregular financial record keeping and low revenues	"Missing middle" with revenue too large for microloans but too small for banks
	Presence of bad actors leading to harassment and bad experiences Extortion, harassment, and other harmful practices		
	Risk of overindebtedness Multiple loans leading to financial distress		
Twin challenges of poor digital and financial literacy Lack of basic understanding of bank accounts and mobile Cultural barriers to adoption	Susceptible to fraud / scams due to poor digital literacy (e.g., password protection) Discomfort with complex term sheets	May be plugged into e-commerce platforms but lack financial savvy	Limited digitalisation of operations but growing familiarity with e-payments, e-commerce, and online banking

Source: CIIP market interviews, Findex 2022.

Figure 10. Financial inclusion challenges by customer segment.

across six Southeast Asian countries with available data was insufficient funds. That is, many individuals lacked the requisite amount of money to open an account, indicating the exclusion of many from the workforce.

For the unbanked, insufficient funds are commonly the result of a lack of income, which is linked to poverty. In such cases, private sector solutions may not be entirely sufficient to supplant policy interventions. To facilitate an inclusive transition to DFS, not only is job creation necessary, but education and retraining are necessary to ensure individuals can have an improved ability to earn. Government subsidies and benefits may also be necessary as support mechanisms.

A lack of bank account ownership, high levels of informal debt, and preferences for cash transactions can make it difficult for unbanked individuals to build a credit history, which impedes access to credit and formal financial tools.[84]

Even among those with access to formal financial services, many are limited to basic services such as savings accounts. Many are unable to access a broader suite of financial services such as credit, insurance, and investments for various reasons, such as a lack of awareness of such products or high costs.[85]

Lack of access to credit poses a significant issue in the region as it holds the potential to exacerbate income inequality and inhibit the ability to deal with emergency shocks, ultimately constraining long-term prospects for socioeconomic mobility.

Many underserved customers also face a shortage of suitable options, whether because products are too expensive, not suitable to their purposes, or inadequate for their needs. **This is often the result of FSPs lacking incentives to address customers at the bottom of the pyramid. In such instances, demand and supply-side issues are intrinsically linked challenges.**

This array of challenges faced by customers across the region lead to corresponding issues for FSPs attempting to address them.

Demand side: Customer challenges	Supply side: FSP challenges
Inaccessibility due to geographical spread and infrastructure gaps	Limitations in reach especially for ‘hard-to-reach’ segments
Poor product fit Gender norms and barriers	Difficulties in catering to heterogenous customer needs across segments
Inaccessibility due to KYC issues (e.g., lack of ID, credit history, collateral) High prices of products due to perceived customer risk	Challenges in making unit economics work and maintaining profitability
Presence of bad actors leading to harassment and bad experiences Risk of overindebtedness	Client protection issues
Twin challenges of poor financial and digital literacy	Lack of a ready and sophisticated customer base

Table 3. Demand and Supply side challenges.

84 World Economic Forum (2022): How to close Southeast Asia’s financial inclusion gap.
85 World Economic Forum (2022): How to close Southeast Asia’s financial inclusion gap.

Demand Side: Common Customer Challenges to Financial Inclusion

Inaccessibility due to Geographical Spread and Infrastructure Gaps

A key pain point faced by customers is the inaccessibility of financial services due to physical constraints. **In remote or rural areas across Southeast Asia, customers may be based extremely far from the nearest branch of a financial institution.** 2021 data from the World Bank on commercial bank branch density indicates areas for potential growth: 2.9 commercial bank branches per 100,000 adults in Vietnam, 3.1 in Lao PDR, and 9 in The Philippines.[86] While optimal density varies based on levels of banking digitalisation and urbanisation, this remains a useful indicator to highlight which countries continue to have low levels of density, especially those with large rural areas. Some customers must walk or ride motorcycles for hours to reach their nearest FSP branch in a neighbouring town or might not have suitable transport options at all. The time cost of such a journey could result in opportunity costs from skipping work, disincentivising many from accessing formal financial services.

Mobile coverage and digital infrastructure, coupled with increasing smartphone penetration, are providing customers with access to DFS online. However, there remain neighbourhoods and villages with **poor mobile and data coverage**. This is due to uneven infrastructure development. Other areas may be covered but face subpar network quality, with low-quality or inconsistent access to phone signals and mobile data.

In the case of Indonesia, East Ventures' Digital Competitiveness Index 2022 indicates that though technological infrastructure development has improved, leading to an internet penetration of 77%, coverage remains patchy, with urban areas better covered than rural areas. The highest digital competitiveness scores in the index continue to be clustered in urban areas such as Jakarta, West Java, and Yogyakarta, while the lowest are in rural and underdeveloped areas.[87]

Insights from China: Digital Infrastructure for Financial and Digital Inclusion

National and local level government efforts have been crucial in leading the push for financial and digital inclusion in China, especially in rural areas. The growth of digital payments in rural areas in China has been notably higher than in urban areas, albeit starting from a lower base. According to the People's Bank of China, the number of digital payments in rural areas, including online and mobile payments, increased from 160 billion in 2017 to 309 billion in 2018, nearing parity with the number in urban areas.[88]

China's digital government payment programmes have helped to accelerate the adoption of mobile money such as Alipay and WeChat Pay. While these accounts were not necessarily used actively, with many users withdrawing payments as cash, Joep Roest, Senior Financial Sector Specialist at the Consultative Group to Assist the Poor (CGAP), explains that they formed 'digital rails' or a 'latent infrastructure'.

Owing to this large number of existing mobile money accounts, a range of e-commerce and DFS in China have been able to access customers without performing extra KYC. Individuals across China began to see their mobile money accounts within the context of larger use cases, including grocery purchases, transportation, or accessing credit. As a result, according to Findex data, 89% of China's adult population has a bank account or uses mobile money as of 2021. In addition, from 2014 to 2021, the percentage of China's adult population that received a loan from a formal financial institution increased from 20% to 39%.

86 The World Bank (2021): Commercial bank branches (per 100,000 adults). For comparison, there are 28.3 commercial bank branches per 100 000 people in the United States and 33.9 in Japan. The global average is 11.2.
87 Highest digital competitiveness scores in DKI Jakarta (76.6), West Java (62.2), Yogyakarta (54.2), and East Java (54.1) and lowest in Central Papua (23.3), Mountains Papua (23.4) and West Sulawesi (29).
88 Weidong Chen and Xiaohui Yuan (2021): 'Financial inclusion in China: an overview', Frontiers of Business Research in China.

This challenge is exacerbated by expensive or unaffordable mobile and data plans. Among the most underserved, smartphones may be too expensive for them to purchase. For families that do own a smartphone, it may be shared within a single family, constraining broader access to digital services and hindering their adoption. Many customers also frequently change their SIM cards due to the high cost and inconvenience of renewing expired SIMs.

> "We realised that every time we have gone into a different market in Southeast Asia, each lending model needs to be tweaked and adjusted. Loan sizes, for example are different, simply because income levels are different. Further, the model has to be reviewed and adjusted regularly, to meet changing market conditions."
> *- Maxine Chen, Senior Vice President, SME and Commercial Business, Fullerton Financial Holdings (International) Pte Ltd*

Poor Product Fit

The heterogeneity of customers across Southeast Asia means that they have a variety of unique needs. Southeast Asia includes millions of smallholder farmers whose ability to repay loans is tied to their harvests, as well as millions of MSMEs that are not positioned to provide collateral that lenders are looking for to secure their loans.

Products may be **inadequate for the purposes customers have**. For example, customers may **require credit quickly** due to an emergency expense but may face **long turnaround times** if FSPs have slow KYC and other due diligence processes. According to a survey by Modalku, 39% of their borrowers require **fast fund disbursement** that is **collateral free.**[89] Many credit products on the market may thus be **ill-suited to address these needs.** According to this study's survey of 6,524 existing customers, the most common challenges include **loans having too many requirements** with **slow turnaround times and disbursements**, bad group liability within group lending, and **poor customer service**.

In addition, products may not always be fit to address customers' needs if they are not aligned with religious beliefs and practices. Syariah-compliant financial products are one example of products being developed to better suit markets in Southeast Asia.[90] Syariah-compliant banking holds two fundamental principles: financial institutions share in the profit and loss of the enterprises they underwrite, and the collection and payment of interest is prohibited.[91] FSPs in our sample offering Syariah-compliant products include Bank BTPN Syariah and AMAAN.

		Gender		Previous Access	
Top Challenges	**Total**	**Male**	**Female**	**Yes**	**No**
Too many requirements, slow process	15%	13%	15%	13%	16%
Poor customer service	12%	12%	12%	14%	10%
Slow loan disbursement	10%	5%	12%	8%	12%
Bag group liability	7%	3%	9%	11%	4%
Poor integrity, company not trustworthy	7%	4%	9%	7%	7%
Late fee, fine for late payment	4%	8%	2%	5%	4%
High interest rate	3%	6%	2%	3%	4%

Table 4. Most common issues faced by customers in our sample.

89 Funding Societies (2021): Your Funding Societies | Modalku Economic Impact Survey 2021.
90 Syariah refers to the legal code of Islam, which is based on the teachings of the Quran.
91 International Monetary Fund (2015): IMF Working Paper: An Overview of Islamic Finance.

Gender Norms and Barriers

Across Southeast Asia, particularly in rural or lower-income communities, many women tend to be financially dependent on family members. Often, this corresponds to higher numbers of women being unbanked as they are likely to be reliant on the bank accounts of their family members. This matches the Findex finding that having **insufficient funds** or being **reliant on a family member's bank account** ranks among the top reasons for being financially excluded. This dependence also extends to women's ability to own other assets, including the ability to own land.

Among women in the workforce in Southeast Asia, women workers were **disproportionately affected by the pandemic**. The Asian Development Bank observes that this was most evident in the areas of job losses and labour force exits across Indonesia, Malaysia, The Philippines, and Thailand.[92] Those who exited the labour force often did so due to a larger proportion of the burden of care falling on women. However, they also observe that while many women re-entered the workforce, labour reallocation patterns indicated an 'added worker effect' or 'distress employment', where women as additional workers in families join the workforce to compensate for depleted household income.[93] This points to the unique vulnerabilities that women experience both in the expectation of their ability to work and ability to manage domestic responsibilities.

In addition, there are also **disparities in smartphone ownership** between men and women. In particular, in Indonesia and Myanmar, there is an 11% difference in the proportions of the male and female populations that own a mobile phone.[94] This disparity is more pronounced in low-income households, where women have lower skill levels and are dependent on men to access data services.[95]

More recently, however, LeapFrog's Emerging Wealth and Health Index indicates that men and women's rates of smartphone access (94% vs. 94%) and smartphone usage (68% vs. 69%) are almost identical, with women being more active in using their smartphones for money transfers, online purchases, store payments, and ride hailing.[96] While women own smartphones at lower rates, it is likely that they use household smartphones or the smartphones of family members at a comparable rate to men.

Such social and cultural norms that limit women's ability to own land and other assets, own a mobile phone, open a bank account independent of their spouses, be freely mobile, and make financial decisions, are all barriers to their ability to use and access formal and digital financial services.[97] This corresponds to **women typically experiencing lower agency and confidence in their financial decision-making abilities.** In addition, according to the OECD's recent international financial literacy survey, women typically have lower financial knowledge and financial well-being scores than men. This affects their ability to participate fully in financial and economic activities as well as to achieve financial stability.[98]

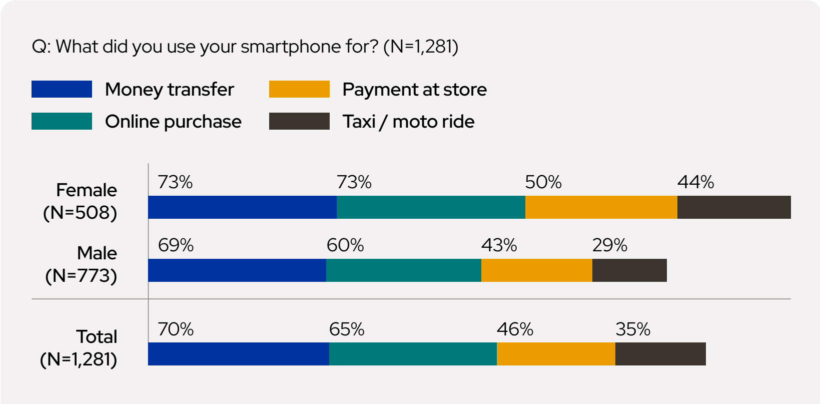


Figure 11. Smartphone usage by gender from LeapFrog's Emerging Wealth and Health Index 2022.[99]

92 Asian Development Bank (2021): COVID-19 and Labor Markets in Southeast Asia: Impacts on Indonesia, Malaysia, The Philippines, Thailand, and Viet Nam.
93 Asian Development Bank (2021): COVID-19 and Labor Markets in Southeast Asia: Impacts on Indonesia, Malaysia, The Philippines, Thailand, and Viet Nam.
94 Economic Research Institute for ASEAN and East Asia (2021): Gender Digital Equality Across ASEAN.
95 Economic Research Institute for ASEAN and East Asia (2021): Gender Digital Equality Across ASEAN.
96 LeapFrog (2022): Emerging Wealth and Health Index 2022.
97 UNCDF (2023): 2022 ASEAN Monitoring Progress: Financial inclusion in selected ASEAN countries.
98 Organisation for Economic Co-operation and Development (2020): OECD/INFE 2020 International Survey of Adult Financial Literacy.
99 LeapFrog (2022): Emerging Wealth and Health Index 2022.

Inaccessibility due to KYC issues (e.g., lack of ID, credit history, collateral)

Many unbanked and underbanked individuals and MSMEs **lack the necessary data and track record for a robust creditworthiness assessment**, especially based on traditional methods, and are thus often **unable to access credit products**.

Individuals in this segment may lack bank accounts, transact primarily in cash, or be in debt.[100] For microentrepreneurs, **a lack of familiarity with comprehensive bookkeeping** further complicates matters, as they may lack the credit or transaction history needed to take loans. Further, MSMEs are often small, less diversified, have weaker financial structures, have limited financial transaction history, and do not have proper financial records and auditable financial statements.[101] A general lack of track records means many from this segment are unable to access credit products at all.

Another area of risk is the general **lack of collateral** among low-income customers, which also deters them from being served by more risk averse FSPs who may not be comfortable providing unsecuritised loans.

High Prices of Products due to Perceived Customer Risk

For those who can find products on the market, **prices may be high** due to perceived customer risk. Given the potential **lack of track record and collateral** of such customers (as discussed above), FSP products and services are priced accordingly to account for the perceived higher chance of defaults.

As such, these customers are often only able to access products with **higher interest rates** that are based on the perceived higher risks associated with their customer profile. An example of such a product would be an unsecured loan. In some instances, these customers are only able to access the **informal market**, which is poorly regulated and can charge exorbitant prices.

Presence of Bad Actors Leading to Harassment and Bad Experiences

Financial inclusion also continues to be **beleaguered by the publicity around bad actors engaged in lending and other financial services**. Even if an FSP ensures that their staff are well-trained, some may also engage external debt collectors. Some have less control over these external debt collectors, including limited access to information on collectors who **engage in aggressive debt collection tactics** alongside other unscrupulous practices.

Customers experiencing low financial and digital literacy are **more susceptible to fraud and scams**, especially as scammers develop more sophisticated operations. New risks are emerging such as mobile app fraud, phishing, biometric ID fraud, algorithmic biases, crypto-related frauds, and authorised push payment scams.[102] Even digitally and financially savvy users are not exempt from such predatory behaviours. Data from Singapore gives a sense of the range of users who can fall prey to frauds and scams. From 2021 to 2022, scam victims in Singapore lost almost US$ 980 million to scams, ranging from phishing to e-commerce to investment scams. 53% of the victims were between the ages of 20 and 39.[103]

Risk of Overindebtedness

The financial services sector in Southeast Asia continues to face the challenges of customers suffering from **overindebtedness** and **financial distress**. For example, according to Allianz Research's Global Wealth Report 2022, the household debt-to-GDP ratio has grown significantly in Asia to reach 61% in 2021, markedly higher than 49% in all emerging markets.[104] Poor financial management and planning can result in individuals taking on **multiple loans** with **limited ability to assess interest burdens or repayment schedules.** This is exacerbated by the practice of borrowing from informal sources, which leaves little to no records.

Twin Challenges of Financial and Digital Literacy

Financial literacy gaps

Despite widespread digitalisation in Southeast Asia, **financial and digital literacy gaps have been cited as a**

100 World Economic Forum (2022): How to close Southeast Asia's financial inclusion gap.
101 Funding Societies (2021): Your Funding Societies | Modalku Economic Impact Survey 2021.
102 Authorised push payment fraud, also known as APP fraud, happens when fraudsters deceive consumers or individuals at a business to send them a payment under false pretences to a bank account controlled by the fraudster. As payments made using real-time payment schemes are irrevocable, the victims cannot reverse a payment once they realise they have been conned. FICO.
103 Business Times (2023): Scam victims in S'pore lost S$660.7 million in 2022, almost S$1.3 billion in past two years.
104 Allianz Research (2022): Allianz Global Wealth Report 2022. Includes China, India, Israel, Pakistan, South Korea, Sri Lanka, but excludes Brunei Darussalam, Japan, Lao PDR, Myanmar, and Vietnam.

A comparison of financial literacy and inclusion levels by region in Indonesia

	Region	2019	2022
Literacy	Urban	41.41%	50.52%
	Rural	34.53%	48.43%
	Gap	6.88%	2.10%
Inclusion	Urban	83.60%	86.73%
	Rural	68.49%	82.69%
	Gap	15.11%	4.04%

Table 5. OJK's financial literacy and inclusion indexes by region for Indonesia in 2022.[105]

major barrier across many markets in the region. Broadly speaking, financial literacy refers to the level of knowledge about financial concepts that is useful for a person to make financial decisions.[106] According to the UNCDF, based on OECD definitions and criteria, financial literacy levels are lower in Cambodia and Vietnam than in Indonesia, Malaysia, and Thailand.[107]

According to a survey of over 90,000 digital consumers in Southeast Asia by the World Economic Forum, 24% reported having never learned to manage their finances.[108] Most respondents reported picking up financial management skills through family and friends, experience, or social media. Gaps in financial and digital literacy decrease access to financial services, correlating with the low rate of **adoption of more advanced DFS**.

Basic financial literacy is often observed to be a major issue among low-income or less educated segments both in rural and urban settings, leading to challenges which can become more entrenched. OJK's findings for Indonesia gives a sense of what the gaps might be.

Low levels of financial literacy can lead to a **lack of trust in formal financial institutions altogether**. Many customers may prefer to borrow from family and friends, relying on informal sources of capital due to higher levels of trust. This perpetuates the **low awareness of the broader range of options for credit products and services**.

However, this could also be a matter of **cultural preferences**. For example, in the course of our interviews, we heard of preferences in countries such as Vietnam to borrow from friends and family to purchase a home or start a business. This extends to other markets in Southeast Asia, such as in Cambodia and Myanmar.

In addition, low levels of financial literacy may lead to individuals feeling a **sense of inadequacy regarding their financial knowledge**, thus discouraging them from entering financial institution branches altogether. This can also lead to a **fear of hidden costs** and **ambiguous contract terms** when accessing financial services.[109]

Digital literacy gaps

With the ascent of DFS, **digital literacy** is emerging as a complementary and necessary capability in addition to financial literacy. Digital literacy refers to the ability of a consumer to use a variety of DFS with self-assurance and full trust in their benefits.[110]

Those with the lowest levels of digital literacy may lack basic digital skills such as smartphone use. A lack of

> "While previously disparities existed between urban and rural, rich and poor, educated and non-educated, in the digital era, disparities can be created from uneven digitalisation. This is why literacy and education are key."
> *- Aria Widyanto, Director and Chief Risk and Sustainability Officer, Amartha*

105 OJK Investor Relations Unit (2022): 2022 National Financial Literacy and Inclusion Survey.
106 Alliance for Financial Inclusion and the ASEAN Working Committee on Financial Inclusion (2021): Policy Note on Digital Financial Literacy for ASEAN.
107 UNCDF (2023): 2022 ASEAN Monitoring Progress: Financial inclusion in selected ASEAN countries.
108 World Economic Forum and Sea (2022): ASEAN Digital Generation Report: Digital Financial Inclusion.
109 World Economic Forum and Sea (2022): ASEAN Digital Generation Report: Digital Financial Inclusion.
110 Alliance for Financial Inclusion and the ASEAN Working Committee on Financial Inclusion (2021): Policy Note on Digital Financial Literacy for ASEAN.

familiarity with smartphones can be differentiated along the lines of age, gender, and income. For example, according to the LeapFrog's Emerging Wealth and Health Index, 52% of survey respondents over the age of 61 have not used smartphones because they find them difficult to use.[111]

Increasing smartphone use across Southeast Asia may also be deceptive: while digital penetration may be high, consumers may be using their smartphones primarily to access social media apps such as Facebook, TikTok, or WhatsApp or consumer tech apps such as Lazada, Grab, or Gojek. **This does not necessarily translate to the sophisticated digital behaviour required for accessing DFS**. This may lead to a higher number of customers falling prey to predatory lenders and FinTechs.

According to a survey of DFS users by the World Economic Forum and Sea, **security concerns remain the top barrier for customers accessing DFS for the first time**. Regular smartphone users may still lack digital security skills such as password protection, identifying misinformation, and spotting fraud. This can have the effect of limiting confidence in DFS, whether because of the perception that they are untrustworthy or not secure.

Supply Side: FSP Challenges to Achieving Impact alongside Commercial Viability

Limitations in Reach Especially for 'Hard-to-Reach' Segments

First, among the most underserved in Southeast Asia, many customers

> We needed to create a workshop educate the fish farmers we serve about smartphones and our app."
> *- Gibran Huzaifah, Founder and CEO, eFishery*

are **physically dispersed in remote or rural areas,** parts of which have patchy internet coverage. This means reaching these customers often requires a high-touch, physical model, which is also costly for the FSPs.

The constraints in FSPs ability to reach customers in remote or rural areas affects the rate and scale of adoption of their financial services, and hence their ability to take advantage of economies of scale. To reach some customers, the Deputy CEO of Myanmar-based Proximity Finance, Ben Warren, explains that "Sometimes loan officers will travel up to two hours each way on the motorbikes to reach the customers." Businesses need sufficient capital to **invest in reaching these customer segments**.

Infrastructure gaps and uneven mobile coverage can thus disincentivise FinTechs from expanding out of urban areas, limiting the range of affordable and convenient options available to customers in other areas beyond banks or MFIs. Sandeep Bhalla, General Manager of SariPay at Philippines-based tech-enabled

Insights from Thailand: Digital Education in Villages

Thailand's Ministry of Digital Economy and Society has conducted training in information and communications technology usage and digital literacy for more than one million people through its Net Pracharat project.[112] Digital literacy training was offered after expansion of broadband networks and internet access to villages in Thailand. To facilitate training, trainers returned to their communities to train community leaders, who in turn trained villagers.

In addition, the Ministry of Digital Economy and Society built on the Net Pracharat programme by establishing a Digital Volunteer Network. This encouraged local community businesses to engage with digital technology to connect with e-commerce opportunities, increase their incomes, and access government services. As part of the Thai government's Digital Thailand transformation roadmap, these initiatives have sought to equip the Thai population with suitable digital skills and empower them to create entrepreneurship solutions.[113]

111 LeapFrog (2022): Emerging Wealth and Health Index 2022.
112 Ministry of Digital Economy and Society (2018): The Village Broadband Internet Project (Net Pracharat).
113 USAID and US-ASEAN Connect (2021): ASEAN Digital Integration Index: Measuring Digital Integration to Inform Economic Policies.

B2B platform GrowSari explains, "In some barangays, *sari-sari* stores are unable to access phone signals, data, or Wi-Fi." Internet connection may be good enough to access social media apps, but not to carry out digital transactions.

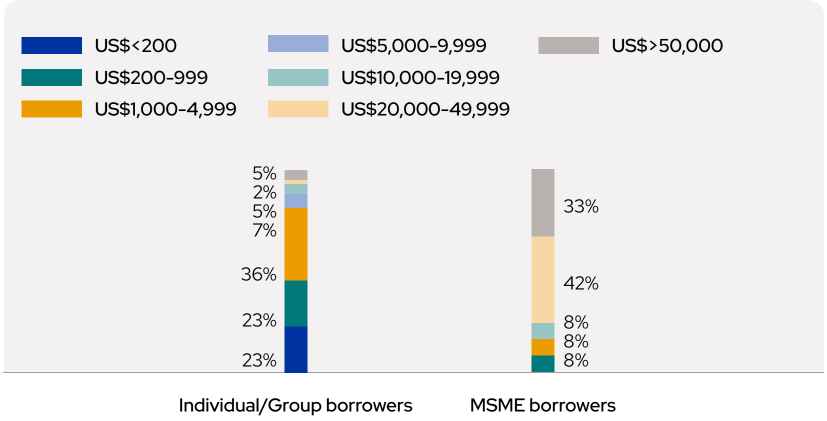


Figure 12. Product count across loan size ranges based on in this study's sample. N= 44 products for Individual/Group, 12 products for MSMEs.

Difficulties in Catering to Heterogenous Customer Needs across Segments

The heterogeneity of Southeast Asia's customers, ranging from smallholder farmers to MSMEs, means that they have a variety of specific needs. This requires **FSPs to tailor their products highly to address them.** For example, smallholder farmers may require loan products that have repayment schedules pegged to harvest cycles, or borrowers may require loans despite having a lack of transaction or credit history.

While there are existing products in the market, especially those provided by traditional banks or MFIs addressing rural areas, they may not always be suitable for these specific purposes. To address **customers at the bottom of the pyramid**, FSPs need to find a way to create **innovative, suitable products**. This requires a **keen understanding of specific customer segment needs**.

Challenges in Making Unit Economics Work and Maintaining Profitability

The above challenges add to the costs and risks to serve customers. At the same time, **small wallet and ticket sizes** can make it difficult for FSPs to justify the value of serving this segment, especially when customer acquisition and product innovation costs are high.

In addition, customers within underserved segments typically have characteristics that **make KYC processes difficult**. As raised previously, customers may lack robust credit and transaction histories, have duplicate physical IDs, or frequently switch SIM cards due to the high costs of renewing mobile plans. These lead to problems for FSPs in terms of being able to verify customers during KYC processes and appropriately assess creditworthiness and risks.

In order to make the unit economics of their business models work, FSPs are actively seeking solutions to **bring down costs and risks to serve to achieve scale and ensure long-term financial sustainability** (see Chapter 3 for more details).

Client Protection Issues

Poor financial management and planning can result in individuals anxious to take on **multiple loans with limited ability to assess interest burdens or repayment schedules**. Innovations to provide clear and easy-to-understand terms and conditions are necessary, as well as more robust KYC practices to ascertain the indebtedness of customers.

FSPs also need to develop **robust and targeted client protection policies** to weed out practices such as aggressive debt collection tactics. Some can have **unscrupulous methods and approaches**, resulting in **harassment** or **extortionary practices** such as intimidation or incessant phone calls. FSPs have to compete with these lenders who may be to provide quicker disbursement times, and who may be more attractive to customers anxious for funds. Ethical FSPs may also be affected by association, leading to low levels of trust in FSPs.

Lack of a Ready and Sophisticated Customer Base

As mentioned previously, many customers from the unbanked and underbanked segments lack strong financial and digital literacy. This represents challenges to the FSPs as customers fall prey to scams and borrow more than they can repay, which ultimately results in **bad debt and bad business**. Further, some customers may not see the need for formal financial products such as loans and may distrust formal FSPs, preferring to stick with informal sources, which makes customer acquisition difficult.

As such, to ensure long-term business sustainability, FSPs need to **invest in building customer capacity** to ensure a ready and sustainable customer base and market for their services. This entails additional costs for the FSPs, beyond business-as-usual in other market segments.

Industry Opportunities and Challenges

Given the scope of challenges faced in advancing financial inclusion in Southeast Asia, a variety of industry solutions are needed to provide access to affordable and accessible financial services. A lack of differentiation may result in communities being **overlooked** or **excluded**, limiting the **depth and longevity of financial inclusion solutions.** The extent to which these services can reach underserved customers **varies by customer segment and the pain points they each face**.

To reach these customers, it is necessary for businesses to take a **customer-centric, tailored approach** to designing their products and services. With sufficient attention to the specific needs of customers, the **opportunities for businesses to achieve profit and purpose, bringing about financial inclusion to occur at scale across the region, become very real.**

Chapter 3: A Rich Tapestry of Financial Services Providers are Innovating to Drive Forward Financial Inclusion in Southeast Asia

The business model types active in Southeast Asia's financial inclusion space today can be divided into two broad categories: **incumbents** and **insurgents**.[114] **Incumbents** refer to traditional financial institutions (both bank and non-banks) and consumer players that have either offered or are expanding to offer financial services. **Insurgents** consist of new, primarily digital players that are quickly gaining traction in offering DFS.

Incumbents: Traditional players		Insurgents: Digital financial services players	
Traditional financial institutions *(banks and non-banks) and* ***consumer players*** *expanding to offer financial services*		*New, primarily* ***digitally native players*** *quickly gaining traction in offering* ***digital financial services***	
Financial services players	**Traditional formal institutions:** Banks, money transfer operators, insurance companies, and asset management firms.	**FinTech platforms**	**Pure-play FinTech:** Fast-growing entities providing financial products and services through digital (mainly mobile) channels, leveraging alternative and big data for their credit risk models.
	Traditional alternative providers: NBFI including microfinance institutions, rural banks, pawnbrokers, and cooperatives.		**Consumer tech / ecosystem platforms:** Digital economy platforms providing services such as ride hailing, e-commerce, and gaming that are increasingly embedding financial products within existing services.
Established consumer players	Traditional players in consumer industries with large customer bases such telcos, airlines, and retail companies, who are expanding to establish new business units or ventures to offer DFS such as mobile wallets and digital bill payments.	**Digital banks**	Digital- or mobile-only banks offering full suite of financial services including accounts, savings, and insurance; often backed by incumbents.

Table 6. Key business models in Southeast Asia's financial inclusion market today.[115]

114 Adapted from a framework introduced in Google, Temasek and Bain & Company (2020): Fulfilling its Promise–The future of Southeast Asia's digital financial services.
115 Adapted from a framework introduced in Google, Temasek and Bain & Company (2020): Fulfilling its Promise–The future of Southeast Asia's digital financial services.

Key Actors Driving Financial Inclusion in Southeast Asia

Among the many players in the financial inclusion space, this study focuses primarily on incumbent **traditional NBFIs**, such as MFIs, and insurgent **DFS providers**, such as FinTechs. These players have been actively expanding access to credit to the unserved and underserved, whether through pure-play financial services platforms such as Amartha or Julo, or consumer tech or ecosystem platforms like GrowSari. Traditional banks and digital banks play a key role in facilitating financial inclusion but feature less heavily in our sample given this study's focus on the unserved and underserved segments..

Our sample includes **anonymised loan book data provided by 22 FSPs and enterprise survey responses from 24 FSPs**, including FinTech and traditional FSPs. Where necessary, we have also supplemented data with publicly available information on broader market trends for comparison. In addition, sample size (N) may differ across analyses due to FSPs opting not to respond to certain loan book metrics and survey questions.

> “We believe that by creating a profitable and sustainable business, this will help us sustain our mission of helping a lot more of the underserved enterprises in the region.” *- Iwan Kurniawan, Co-Founder and Chief Operating Officer, Funding Societies*

	Traditional	DFS
Market performance	- Stable and consistent growth in both assets and loan book between 2019 and H1 2022 - Improvements in default rates from 2019 to H1 2022 among NBFIs; flat performance for banks - Both banks and NBFIs typically profitable	- Strong growth in assets and loan book after initial volatility during the pandemic - Improvements in default rates post-pandemic to 2021, with slight trend upwards in 2022 - Most FinTechs are currently unprofitable, but have potential to bring down OPEX and achieve economies of scale
Customer segments	- Cater primarily to low-income individuals and micro-SMEs, especially in rural areas - Stronger focus on serving unbanked individuals - Stronger focus on serving females	- Cater primarily to urban low- and lower-middle-income individuals and MSMEs - Serve more females than males, though at a lower proportion than traditional FSPs - Strong focus on serving the underbanked, but less individuals unbanked
Product offerings	- More concentrated in their offerings - Typically offer cash-based products such as cash loans, vehicle-linked loans, and working capital loans - Products tend to have longer tenure and lower annualised prices - Low reliance on alternative data - Mix of secured and unsecured products - Loan sizes similar to FinTechs for individuals / groups but smaller for MSMEs - Slower loan approval and disbursement process - Mix of mainly offline and hybrid customer engagement	- Greater spread in product variety - Cash-based products, credit advances, BNPL, EWA, working capital loans, and invoice financing are common products - Products tend to have shorter tenure and higher annualised prices - Moderate reliance on alternative data - Mainly unsecured products - Loan sizes similar to traditional FSPs for individuals / groups but larger for MSMEs - Faster, more digital/automated loan approval and disbursement process - Mainly online but some use a 'phygital' approach

Table 7. Summary of characteristics across FSP business model types in our sample.

While the efforts of both traditional and DFS players to better serve customer needs have been encouraging, there is scope to push further.

For example, traditional FSPs may be encouraged to pursue more product innovation and experimentation to create novel products based on customer needs, further adopt digital processes to shorten and simplify loan approval and disbursement processes, and supplement traditional underwriting with alternative data to increase effectiveness and expand reach.

DFS, on the other hand, can be encouraged to expand beyond urban areas, reach women and the unbanked more proactively, and seek ways to further drive long-term operational efficiencies and eventually bring down prices of products to ease the burden on their customers.

Finally, partnerships between both types of business models will be critical to drive cross-learnings and leverage each business model's strengths to drive further scale.

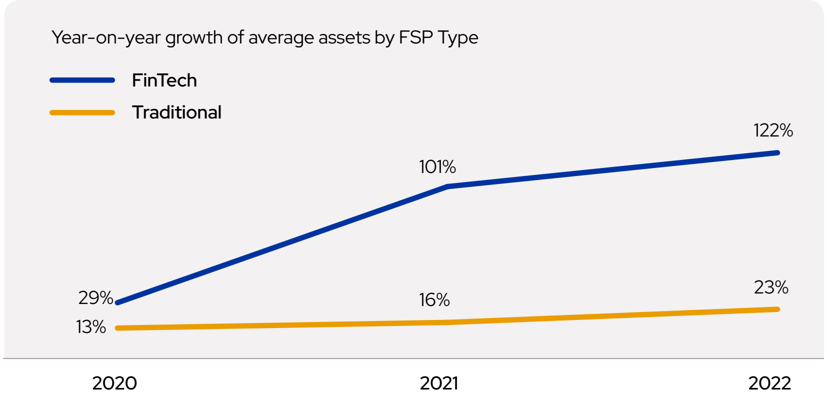


Figure 13a. Year-on-year average asset growth by FSP type. N=17 (7 FinTech, 10 Traditional). Only FSPs with data from 2019-H1 2022 were included in the analyses.[116]

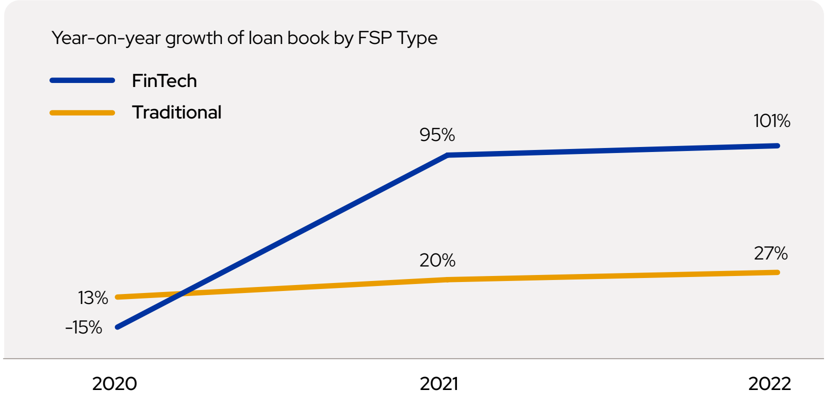


Figure 13b. Year-on-year loan book growth by FSP type. N=14 (5 FinTech, 9 Traditional). Only FSPs with data from 2019-H1 2022 were included in the analyses.[117]

Market Performance Trends

Growth

This study's sample of FSPs experienced an initial volatility during the outbreak of the pandemic but have **shown quick recovery and strong growth since**. Asset growth rates remained positive in 2020 and accelerated for both FinTechs and traditional FSPs in 2021 and 2022. FinTechs are experiencing relatively high growth rates compared to traditional FSPs. This could be in part due to the underlying size of FinTechs being much smaller than traditional FSPs.

Loan book growth was negative for our sample of FinTechs in 2020. This contrasts with the slight growth in total assets of FinTechs in the same year. This suggests that FinTechs may have taken a conservative approach during the pandemic by reducing disbursements and outstanding loan portfolios and holding more assets in the form of cash instead of risky assets like loan receivables. Growth resumed in 2021 and 2022, with FinTechs approximately doubling their outstanding loan amounts in 2021 and achieving triple-digit annualised growth in H1 2022.

Traditional FSPs exhibited stable and consistent growth in their loan books from 2019 to H1 2022, demonstrating resilience during the pandemic while showing some acceleration in growth in 2021 and 2022 as well. However, they grew at a lower percentage growth rate than FinTechs. This may be partly a function of their larger outstanding loan books than FinTechs.

Portfolio health

To ensure that FSPs are able to provide access to financial solutions sustainably and at scale, it is crucial for players to maintain healthy

116 One FSP's Q2 2022 asset size was calculated based on CAGR due to incomplete data. 2022 growth rate is annualised.
117 One FSP's Q2 2022 and one FSP's 2019 loan book size was calculated based on CAGR due to incomplete data. 2022 growth rate is annualised.

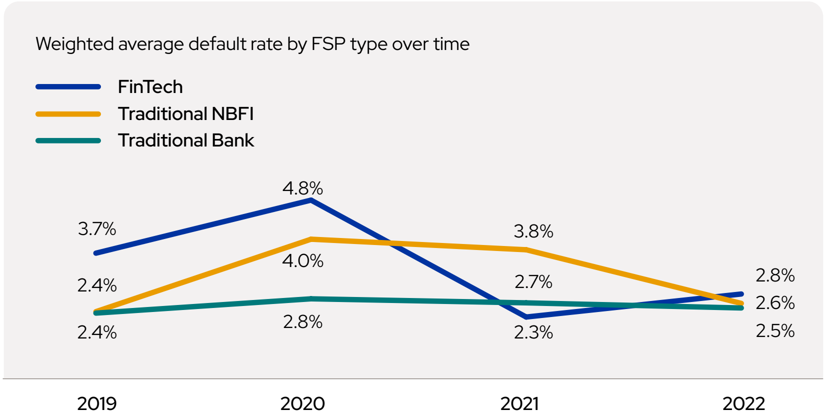


Figure 14. Weighted average default rate by FSP type over time. Based on central bank data from five countries in Southeast Asia.[118] Average is weighted by loan book size.

portfolio performance.
Both Fintechs and traditional NBFIs were **negatively impacted by the pandemic**, with default rates rising by more than 1 percentage point over the course of 2020.

Since then, **default rates for both FinTechs and traditional NBFIs have improved**, with FinTechs in particular recording a significant improvement in default rates in 2021 followed by a slight increase in H1 2022. This may point to the COVID-19 experience as a critical learning experience for FinTechs which have managed to survive and emerge stronger from the pandemic. They have managed to improve their underwriting, risk management, monitoring and collections processes, such that portfolio quality was maintained post-pandemic. Continual improvements in underwriting and credit scoring will allow FinTechs to better manage the health of their portfolios and have the resources to address underserved customer segments more effectively.

However, **FinTechs default rates are showing an increase between 2021 and 2022**[119], driven in part by evolving macro-economic conditions, the high-risk borrower segments that they serve, and loan products they offer. FinTechs are focused on unsecured lending and typically do not require collateral (in our sample no FinTechs require collateral while 50% of traditional players do).

Profitability

Profitability is key to enabling FSPs to continue expanding to new markets and investing in new solutions for underserved customer segments. **Most incumbent banks are operating at scale while achieving profitability.** These banks have built

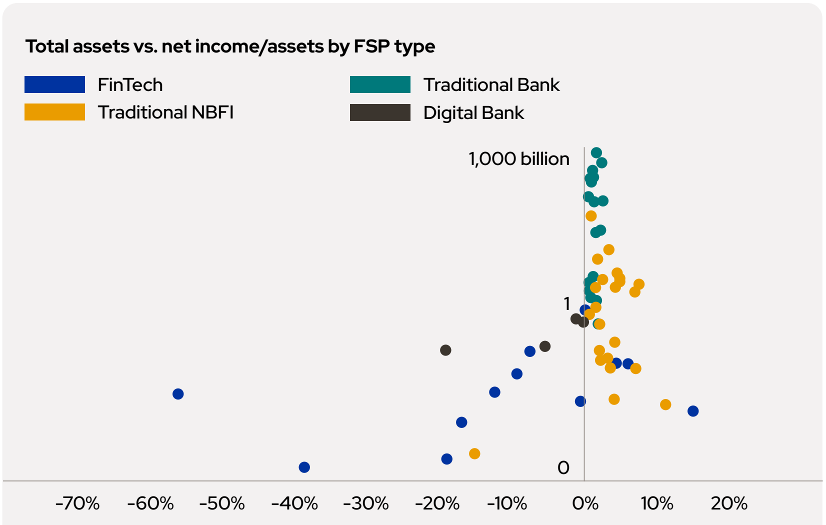


Figure 15. Total assets vs. net income/asset by FSP type. N=61 (6 Digital Bank, 12 FinTech, 23 Traditional NBFI, 20 Traditional Bank). Analyses (in Logarithmic scale) based on both primary and secondary data sources, including Helicap's proprietary database, CapIQ, OJK, and company annual reports. Return-on-assets was used instead of return-on-equity to account for noise in FinTechs' equity figures.[120]

118 OJK, National Bank of Cambodia, Bangko Sentral ng Pilipinas, State Bank of Vietnam, Bank of Thailand.
119 There were various factors that contributed to FinTechs' lower default rates in December 2021 and June 2022. These included approval criteria that were more stringent than normal in the immediate post-pandemic environment, as some FinTechs remained cautious while conditions had yet to normalise. At the same time, many FinTechs raised substantial funding in equity and debt in a conducive fundraising environment in 2021 and H1 2022. This allowed such FinTechs to increase their loan book sizes significantly, and their loan portfolios consisted mainly of loans that were newly disbursed. As such, as newer loan cohorts were yet to reach default levels (i.e., overdue by more than 90 days), default rates were correspondingly lower than the level expected of more mature loan portfolios, such as that of banks and traditional NBFIs.
120 Return-on-assets was used instead of return-on-equity due to greater noise within the equity figures of FinTechs. FinTechs may raise funds in the form of quasi-equity instruments such as convertible notes, with characteristics of both debt and equity. In addition, many Fintechs remain unprofitable, and their monthly losses may erode equity, which could cause some FinTechs to operate with a low or negative equity position.

up large, loyal customer bases over many years, developing and providing mass-market products which were developed in-house. Incumbents usually have brand recognition, established infrastructure, large capital pools, and are licensed to provide regulated financial services.[121]

Some traditional NBFIs have become sizeable over the years, though not to the scale of traditional banks. Many have focused on developing customer-centric financial products and services and developing relationships with target customer segments. These include underserved customers in rural and remote areas. As they mostly do not take deposits, traditional NBFIs have access to smaller pools of capital, but are usually backed by investors with similar social aims, such as development finance institutions. **Most traditional NBFIs are profitable but show limited economies of scale.**

FinTechs, by contrast, have had greater ability to provide innovative new products and services to their customers. FinTechs are often venture-backed start-ups with focus on growing market share. This can provide latitude to experiment with the creative delivery of products and services, including more customer-centric credit services that can be approved and delivered more quickly. **Most FinTechs are currently unprofitable given their strong focus on customer acquisition** and expansion, which can be observed in their loan book growths. However, FinTechs have shown a slight correlation between size and profit, indicating an ability to achieve economies of scale.

To ensure a broader swathe of customers across Southeast Asia are able to access affordable and accessible financial services, the longer-term viability of FinTech players cannot be overlooked. Promisingly, over time, **FinTech companies have shown that they are capable of reducing their OPEX.**
This indicates that FinTechs have been able to achieve economies of scale and adjust their OPEX requirements relative to revenue, following a natural path towards business maturity. This bodes well for FinTech companies as they seek to continue providing their services to underserved customers profitably.

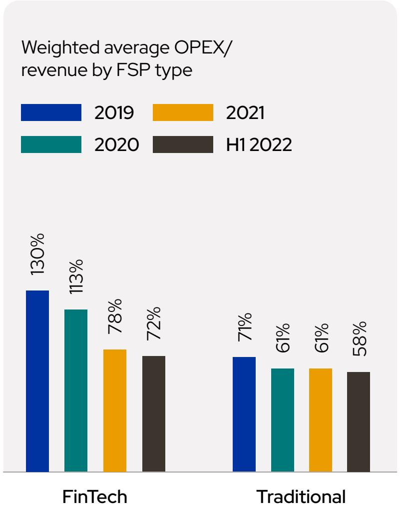


Figure 16. Weighted average OPEX/ revenue by FSP type.[122] N=13 (6 FinTech, 7 Traditional).

Compared to FinTechs, traditional NBFIs already operate on a lower per unit cost structure given relative maturity, have relatively stable OPEX across the years, although they have also managed to streamline costs over the pandemic (from 2019 to 2020).

Looking ahead, macroeconomic conditions stemming from geopolitical tensions, inflationary pressures, and access to investor capital will pose challenges to all types of FSPs in the longer term.

Customer Segments

Though there can be overlaps, each FSP type addresses largely distinct customer segments. In general, we see that **traditional NBFIs, such as MFIs, cater primarily to low-income individuals and ultra-micro and micro-SMEs, especially in rural areas.** By contrast, **FinTechs have been focused on addressing urban low- and lower-middle-income individuals as well as MSMEs,** though we are starting to see increasing shifts to addressing rural customer segments. Digital banks have to-date mainly focused on young, urban middle-lower to middle-income workers and SMEs.

121 Kapronasia and Grab (2022): Moving the Needle: How Digital Finance Can Drive Financial Inclusion in SEA.
122 Improvement in OPEX performance of traditional players largely skewed by a single organisation in our sample that has managed to bring down costs significantly over the years. Excluding this organisation results in more stable OPEX performance (71% in 2019 vs. 69% in H1 2022).

First, in terms of gender, **traditional FSPs in our sample exhibit a stronger focus on serving females, though both groups in our sample serve more females than males.** This trend was observed both in terms of overall loan book distribution (FinTech: 74% female,[123] Traditional: 87% female; N= 10 FSPs) and our customer survey sample (FinTech: 57% female, Traditional: 76% female; N= 6,524 customers).

Second, in terms of borrower location, **FinTech companies generally have a more urban-centric focus while traditional FSPs operate more in rural areas** (FinTech: 20% rural, Traditional: 56% rural; N= 6,524 customers). However, it is worth noting that FinTech platforms such as AMAAN, Amartha, and Komunal are emerging with a strong rural customer focus.

Lastly, **both FinTechs and traditional FSPs in our sample report a strong focus on serving the underbanked population, with traditional FSPs being more likely to also serve the unbanked**. Among the FinTechs that we spoke to, many even have a focus on addressing customers earning below US$400 per month, particularly the income bracket of US$200-$399 per month. This coincides with the minimum wage levels in Southeast Asian markets where this study's FSPs are active, such as Cambodia, Indonesia, The Philippines, Thailand, and Vietnam. This is typically between US$100-300 per month.[124]

Moreover, FinTech customers are largely underserved. In our sample, 63% of FinTech customers are first-time customers and 57% do not have access to alternatives, compared with 46% and 40% respectively for traditional FSPs (see Chapter 4 for a deeper analysis on customer perspectives).

Product Types

There are several differences in products between FinTech and traditional players. Being relatively new entrants to the space, FinTechs can operate from a greenfield and have taken advantage of this to do things differently.

First, there is a greater spread in terms of product variety in FinTechs in our sample. While the number of credit product types per company is not too different (average 1.93 vs. 1.67 credit-related product types per company for FinTechs and traditional FSPs respectively), traditional players are more concentrated their offerings (three products accounted for 92% of traditional players' offerings while six products accounted for 95% of FinTechs' offerings). This suggests **that despite smaller scale and being relatively younger, there is a focus on experimentation and product innovation among FinTechs.**

For Individuals and Groups, FinTechs commonly offer both cash

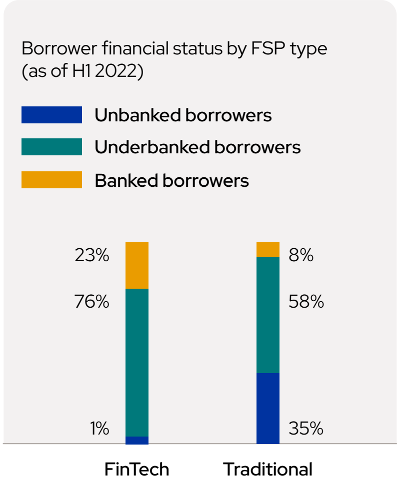


Figure 17. Borrower type by FSP type (N=7 FinTech, 4 Traditional) as of H1 2022.

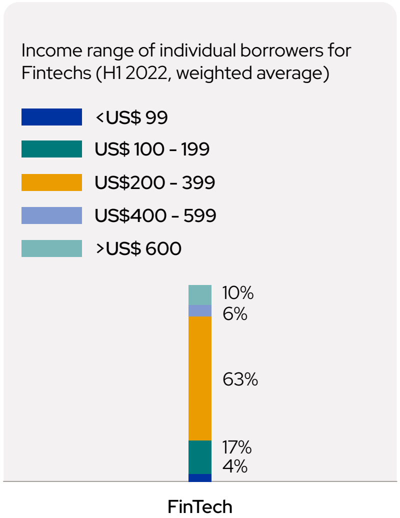


Figure 18. Borrower income range for FinTechs as of H1 2022. N=5 FinTechs. Average is weighted by number of borrowers in each income tier.

123 High proportion of focus on female driven by one FinTech that serves only women. If excluded, loan book distribution of our sample of FinTechs would be 54% women.
124 ASEAN Briefing (2021).

	Individual/Group	MSMEs
FinTech	• Cash loan • EWA • BNPL • Working capital loan • Revolving credit line	• Working capital loan • BNPL • Invoice financing • Project financing • Revolving credit line
Traditional	• Cash loan • Vehicle loan • Working capital loan • Housing loan	• Working capital loan

Table 8. Common products provided by FinTechs and Traditional FSPs for Individual/Group and MSME borrowers. Products are ordered by count observed in this study's sample.

disbursement-based products as well as credit advances, such as BNPL and EWA products. Traditional FSPs in our sample typically offer cash-based products in the form of cash loans or vehicle-linked loans. For MSMEs, FinTechs offer three main types of products: working capital loans, invoice financing, and BNPL / purchase financing while traditional FSPs typically offer straight cash working capital loans.

In our sample, there are also differences in tenure, size, and pricing. **FinTech players tend to offer products with shorter tenure and higher annualised prices**. In all instances, a wider distribution is observed for FinTechs.

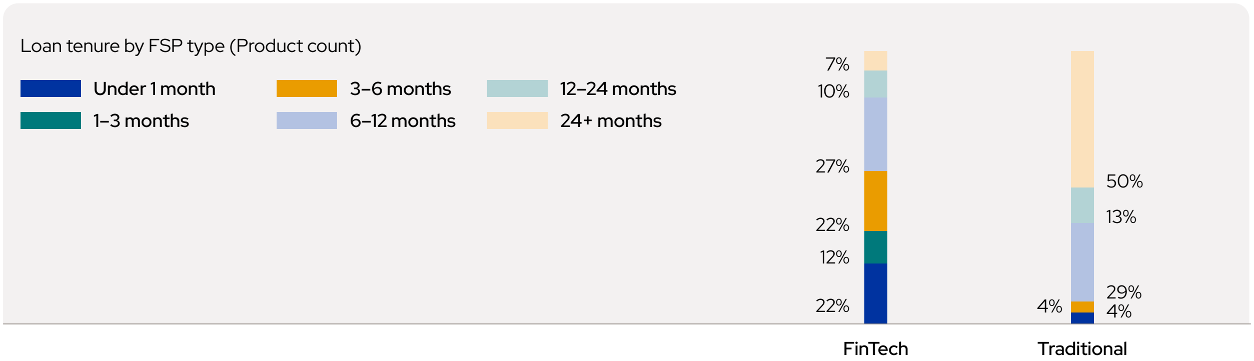


Figure 19. Loan tenure split by FSP type (Individual/Group and MSME borrowers). N=23 (14 FinTech, 9 Traditional). Based on number of products offered by FSPs across tenures.

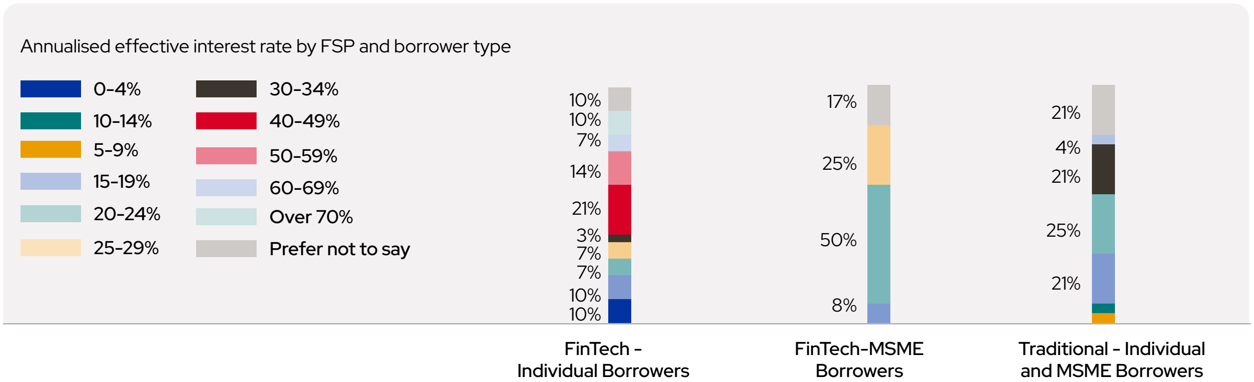


Figure 20. Annualised effective interest rate by FSP and borrower types (Individuals/Group and MSME borrowers). N=23 (14 FinTech, 9 traditional). Based on number of products across annualised effective interest rate tiers.

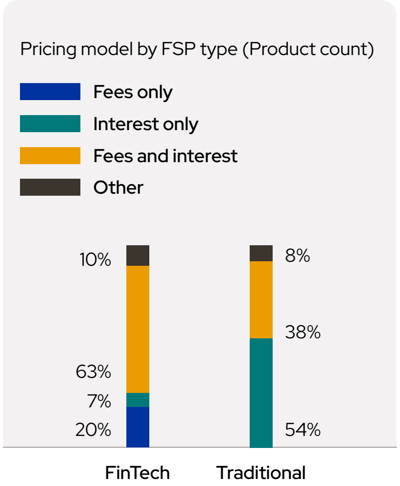


Figure 21. Pricing model by FSP type (indivdual/group and MSME borrowers). N=23 (14 FinTech, 9 Traditional). Based on number of products across pricing types. Other includes full financial package, liquidity product.

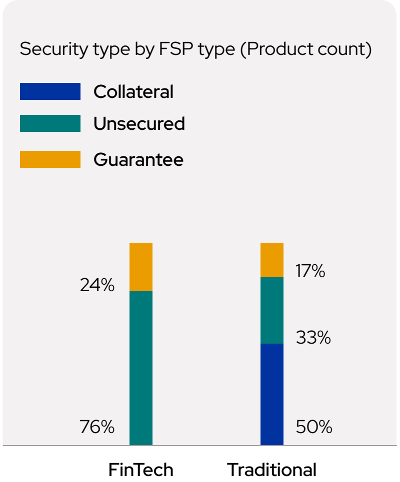


Figure 22. Security type by FSP type (indivdual/group and MSME borrowers). N=23 (14 FinTech, 9 Traditional). Based on number of products across security types.

It is notable that **FinTechs offer more unsecured products than traditional FSPs**. More than 70% of credit products offered by FinTechs are fully unsecured, while the remainder largely require guarantees only. Half of our sample of traditional FSPs require collateral from their borrowers. It is worth noting that a minority of FinTechs (outside of this study's sample) do offer secured loans to the larger business customers they serve. Unsurprisingly, **unsecured loan products in our sample are of smaller loan sizes than secured loans.**[125]

Finally, both FinTechs and traditional NBFIs offer their customer segments much smaller loan sizes compared to traditional banks. Nuances also exist between FinTechs and traditional NBFIs, with the latter serving smaller enterprises and lower income groups.

125 Average loan size of US$50,000 vs., US$100,000 for secured vs. unsecured loans for individuals and group borrowers.

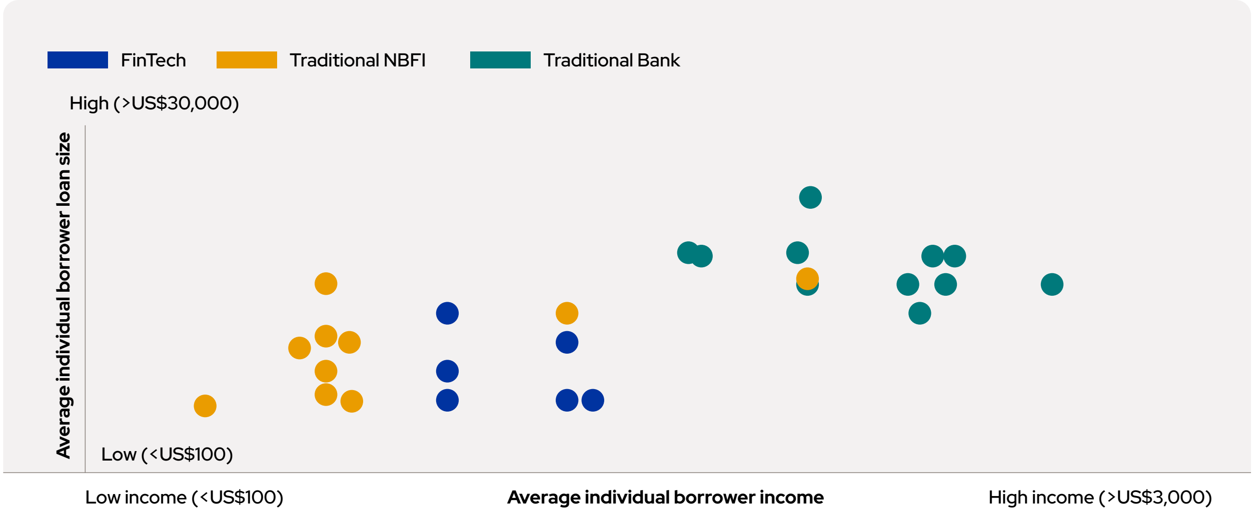


Figure 23a. Average loan size against individual borrower's income (includes both individual and group borrowers). N=31 (9 FinTech, 11 Traditional NBFI, 11 Traditional Bank) based on both primary and secondary sources.[126] Axes are intended to be directional and not to scale.

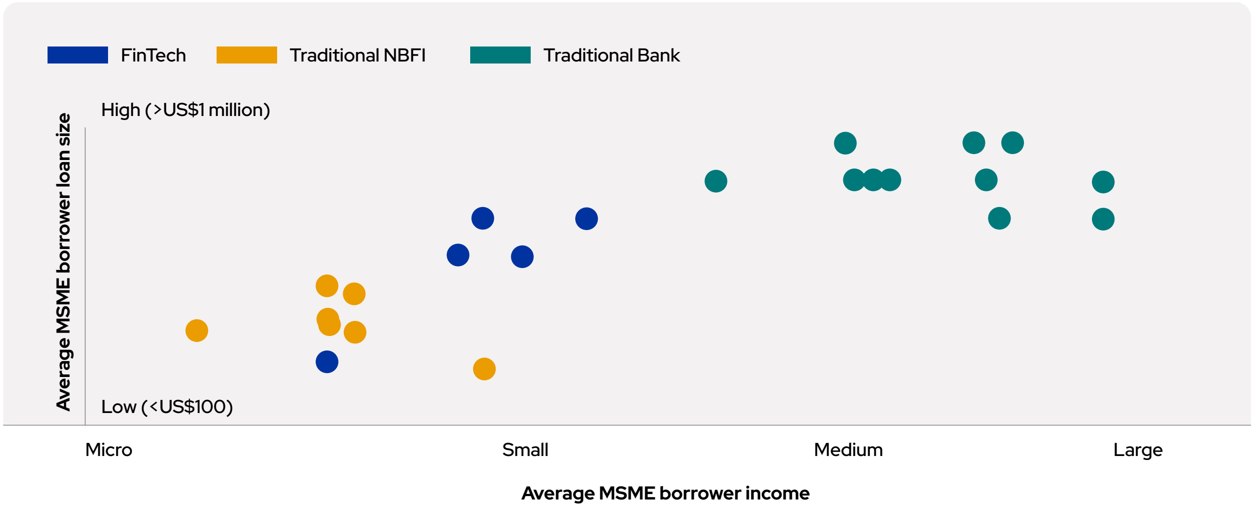


Figure 23b. Average loan size against MSME borrower's income. N = 24 (6 FinTech, 7 Traditional NBFI, 11 Traditional Bank) based on both primary and secondary sources.[127] Axes are intended to be directional and not to scale.

126 Average loan sizes and average income estimated based on survey answers and insights from FSP company websites and annual reports.
127 Average loan sizes and average income estimated based on survey answers and insights from FSP company websites and annual reports.

Business Solutions and Innovations to Financial Inclusion Challenges

Across both incumbents and insurgents and business model types, FSPs operating in Southeast Asia have been **innovating in the design of their products and business models and establishing strong business practices**. In doing so, they have been able to address the key pain points customers in this region face in accessing credit.

Customer challenges	FSP challenges	Business solutions	Specific approaches
Inaccessibility due to geographical spread and infrastructure gaps	Limitations in reach especially for 'hard-to-reach' segments	Expanding availability and reach through digital channels and partnerships	• Mobile wallets for loan disbursement and repayment • 'Phygital' approaches • Local partnerships
Poor product fit Gender norms and barriers	Difficulties in catering to heterogenous customer needs across segments	Innovating to design specialised, customer-centric products	• Tailored product design to meet unique needs of end-customers, including faith-based products, MSME loans, agriculture loans, and emergency loans. • Embedded financing models including BNPL models, EWA, and inventory financing
Inaccessibility due to KYC issues (e.g., lack of ID, credit history, collateral) High prices of products due to perceived customer risk	Challenges in making unit economics work and maintaining profitability	Digitalising processes to reduce cost and increase efficiencies	• FinTech players using digitalised or automated operations especially for KYC, underwriting, and loan disbursements • Traditional players transitioning to digitalised or automated operations, especially for reminders for loan payments, KYC, loan approval, and quicker loan disbursements
		Using alternative data for efficient credit scoring to reduce risk	• Credit data sharing with bureaus and databases • Developing proprietary credit scoring using alternative data, including geotagging, mobile browsing history, and e-commerce data

Table 9. Business solutions to address key challenges.

Customer challenges	FSP challenges	Business solutions	Specific approaches
Presence of bad actors leading to harassment and bad experiences Risk of overindebtedness	Client protection issues	Embedding client protection into the heart of business	• Strong governance and practices (e.g., loan caps) to ensure client protection and avoid overindebtedness • Regular training for staff on ethical conduct and client protection • Transparent and continuous customer communications (e.g., messaging apps, product transparency) • Debt management services
Twin challenges of poor financial and digital literacy	Lack of a ready and sophisticated customer base	Improving customer literacy	• Customer education (e.g., mandatory financial training courses for new customers, app-based training, public education campaigns) • Broadening customer exposure to financial and business services
		Conducting business with intention for impact	• Defining impact goals and mission • Establishing impact measurement and management systems • Operationalising impact intention through crisis support

Table 9 (continued). Business solutions to address key challenges.

Expanding Availability and Reach through Digital Channels and Partnerships

FSPs have focused on **expanding the availability and reach of their services through digitalisation**. In regions where financial institutions may be physically distant but digital connectivity is adequate, digital channels have emerged as a predominant pathway for customers to access financial services. **Mobile wallet systems serve as effective forms of distribution architecture**, especially in removing frictions for money transfers and the delivery of credit.

In our sample of FSPs, mobile wallets were commonly used by both FinTechs and traditional players to disburse loans and receive repayment, coming in as slightly less used compared to bank transfers and withdrawals from bank branches or ATMs. According to Mila Bedrenets, Chief Commercial Officer at Tonik Bank, mobile wallets are beginning to substitute bank-level or market-level interbank transactions because they are faster and more reliable than many slow and manual banking systems. Most FSPs rely

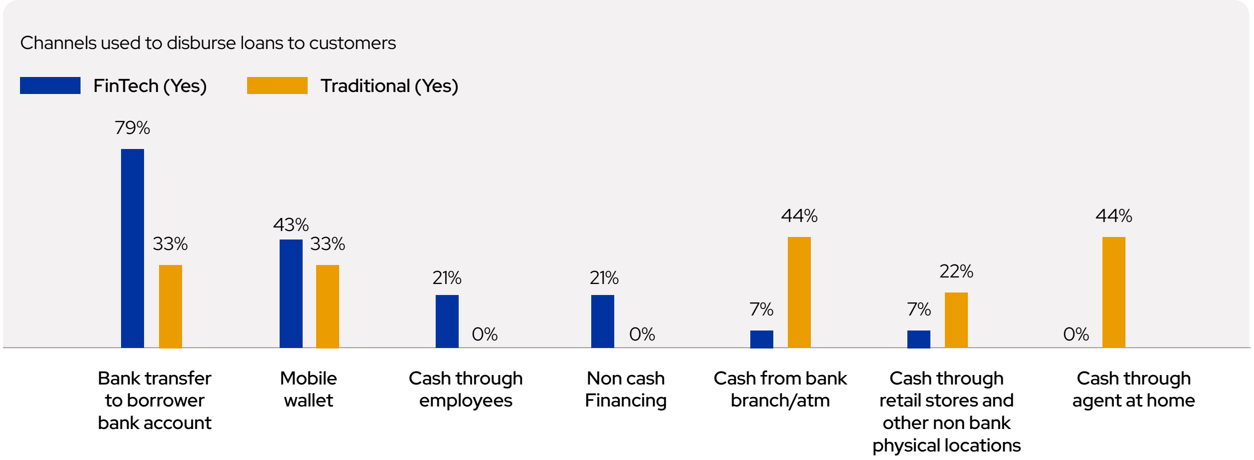


Figure 24. Channels used to disburse loans to customers. N=23 (14 FinTechs, 9 Traditional).

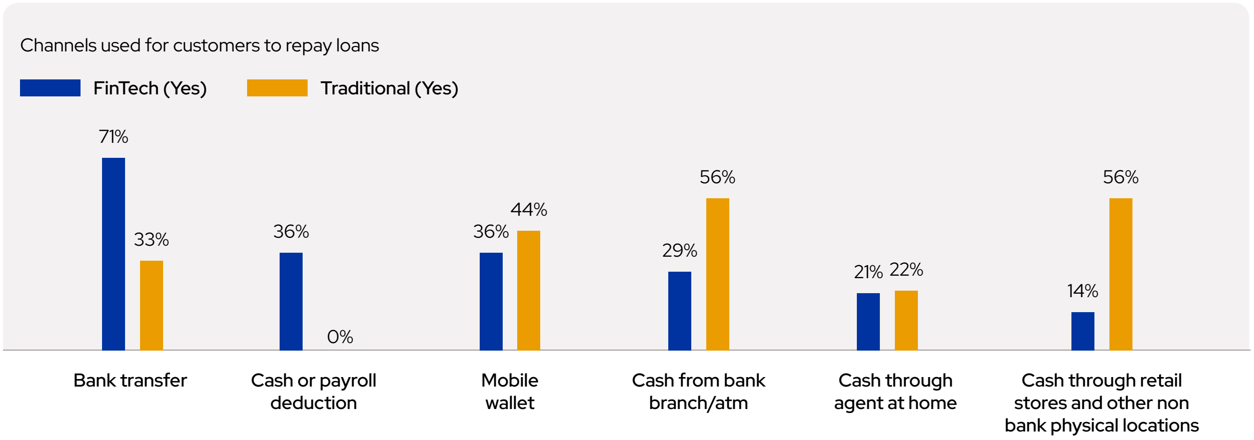


Figure 25. Channels used for customers to repay loans. N=23 (14 FinTechs, 9 Traditional).

"Relationships, especially in Asia, play critical roles as loan officers must establish strong bonds with customers to provide effective advice. These relationships act as an alternative means to assurance. This makes it difficult to move to being entirely technology-based." *- Pranav Murari, Vice President for Deal Origination and Structuring, BlueOrchard*

on **'phygital' delivery** methods for customer engagement. What is crucial to building trust, both in these services as well as digital channels of delivery, is relationship building. This is evident for loan repayments in our sample, as FinTech players have also had to rely on cash channels. 29% of FinTechs have customers who repay their loans using cash at bank branches or ATMs, while 21% pay to agents who visit their homes.

This indicates that for many FSPs, particularly in customer-facing situations, face-to-face interactions are still necessary. Yannick Milev, the CEO of Cambodia-based Chamroeun Microfinance Plc., notes that, even as it begins to digitalise its processes, **relationships with loan officers are crucial for building trust.** "Loan officers are able to form personal connections with customers, be supportive, and adapt their responses to customer needs," explains Milev.

For example, to improve the delivery of financial services to underserved customers in more remote areas, the Indonesian FinTech company AMAAN combines its digital services with the presence of on-the-ground agents. AMAAN adopts a hybrid approach to serve women microentrepreneurs, helping first-time smartphone owners in rural and urban areas install their app. Given the small ticket sizes of individual loans, AMAAN groups its customers as communities, with group leaders managing activities to manage both costs and risks.[128]

> By combining online and offline approaches in a hybrid model, we can serve the holistic needs of our segment."
> *- Mulia Salim, Chief Operating Officer, AMAAN*

In addition, **partnerships between DFS and traditional players have been able to expand the reach of these services to underserved** communities, especially in rural areas where traditional players are already active. For example, Indonesian P2P lender Komunal partners rural banks through its digital platform. This allows rural banks to digitise their processes, with customers able make deposits and apply for loans digitally to local rural banks without needing to visit their physical location.

> Our partnerships with rural banks have been fruitful, allowing us to better serve the needs of their local areas."
> *- Hendry Lieviant, Co-Founder and CEO, Komunal*

Insights from Indonesia: Cross-sector Strategic Partnerships Enabled by Digitalisation

AMAAN is a Syariah-compliant FinTech company based in Indonesia. AMAAN's goal is to improve the welfare of millions of families across Indonesia by empowering women entrepreneurs and their families to develop businesses through digitally based business solutions. Mulia Salim, AMAAN's Chief Operating Officer, explains that to serve its segment of women entrepreneurs, they need to address their "holistic life needs" across four pillars – financing, commerce, health, and education.

To provide this holistic suite of products, AMAAN has developed strategic partnerships with players in other industries to address each pillar, facilitated by Indonesia's growing digital ecosystem.

To provide its financing products, AMAAN partners with Bank Jago, an Indonesian bank which focuses on providing digital banking services. This enables AMAAN's customers to access financing solutions seamlessly and conveniently.

For e-commerce, AMAAN has a strategic agreement with Fresh Factory, a cold chain fulfillment startup which helps businesses reach customers more quickly and efficiently through e-commerce.

To address its customers' medical needs, AMAAN has partnered with the healthcare provider Klinik Kesehatan, which was established by University of Padjadjaran. Based on the agreement, the university's doctor and psychologist alumni provide consultations to AMAAN's customers online. AMAAN is therefore able to provide support from general and mental health practitioners to support its customers' physical and mental health. AMAAN also has plans to expand its services to include prescriptions of over-the-counter medicines.

Lastly, AMAAN has plans to make educational programmes accessible on its app in the form of 'infotainment'. According to Mulia Salim, these would include Indonesian dramas that contain messaging related to financial management. As he explains, "If we can combine all of these on our app, it will be a holistic empowerment platform for women receiving microfinance." At present, they are exploring potential partnerships for this programming.

128 Though AMAAN groups its customers to increase efficiencies and create a sense of community amongst customers, it provides individual loans, not group loans.

These approaches are indications of how FSPs have been innovating to address challenges and constraints surrounding mobile and digital infrastructure.

Insights from Indonesia: Incumbent and Insurgent Partnerships to Reach Rural Customers

Founded in Surabaya, East Java, as an SME financing platform, Komunal has expanded its reach of offerings by digitising rural banks. Komunal identified an opportunity to scale its business by serving communities based outside of Jakarta. As Komunal CEO Hendry Lievant explains, "We noticed that there are 1,500 rural banks across Indonesia with 6,000 offices or branches and 97% of them are outside Jakarta. East Java, where our headquarters are, happens to be the province with the most rural banks in Indonesia. Partnering with rural banks was natural for us."

Komunal digitises rural banks, also known as BPRs (Bank Perkreditan Rakyat), using its DepositoBPR platform. Through DepositoBPR, customers can choose a banking and deposit product with a rural bank, create an account, and transfer money directly to it. Customers can deposit funds and apply for loans digitally without needing to visit a physical branch. In doing so, Komunal has been able to bring digital banking directly to customers in underserved rural areas.

Since launching DepositoBPR, Komunal has been able to support over 220 rural banks across 11 provinces and 71 tier-2 and tier-3 cities. This has allowed it to provide financial access to over 11 000 rural MSMEs. In 2022, DepositoBPR channeled US$ $230 million in deposits and loans to rural banks and MSMEs, which it anticipates rising to US $500 million in 2023. With a fresh round of funding from the East Ventures Growth Fund, with participation from AlphaTrio Sustainable Technology Fund, Skystar Capital, Sovereign's Capital, Ozora and Gobi Partners, Komunal will market DepositoBPR and build its core banking system for rural banks.

Innovating to Design Specialised, Customer-Centric Products

Crucially, to expand the range of suitable credit options for customers that suit their specific needs, several **FSPs have developed specialised, customer-centric products that are tailored to the specific needs and levels of financial and digital literacy of their customer segments**. Such solutions demonstrate the importance of understanding customer needs to serve them well. "For the underserved, simplicity is key. Providing products that are easier to understand serves as a point of differentiation," explains Santitarn Sathirathai, Group Chief Economist at Sea. Many FSPs have developed specialised loan products and embedded finance products to improve access to credit.

Tailored product design to meet unique needs of end-customers

FSPs have designed products suited to the specific needs of MSMEs, particularly regarding turnaround times for loan disbursements. For example, the regional SME platform Validus has designed a **small ticket, unsecured digital lending offering for the micro-SME segment that can be understood easily and disbursed quickly.** Through their end-to-end digital product, any microentrepreneur can come onto their platform, make an application, and receive a decision within minutes based on Validus' proprietary credit and risk model.

Indonesia-based Islamic bank Bank BTPN Syariah also tailors its products to target the ultra-micro-SME segment. Islamic banks make a profit through equity participation, where borrowers give banks a share in their profits instead of paying interest, allowing them to provide

> Our key value proposition is **speed** and **simplicity** for the underserved and underbanked SME segments that banks do not proactively target."
> *- Vishal Shah, Group Chief Operating Officer, Validus*

Insights from a Regional Leader: Empowering Southeast Asia's MSMEs at Scale

Funding Societies was founded in 2015 in Singapore with the intention to provide financial and business solutions to underserved MSMEs in Southeast Asia. Kelvin Teo, Group CEO, explains that Funding Societies' mission is "to help small businesses in Southeast Asia, who are seen as underdogs, to access the financial services and enabling tools they need to succeed." Following their Singapore launch, Funding Societies expanded to Indonesia in 2016 and Malaysia in 2017, launched a crowdfunding platform in Thailand in 2021, and launched in Vietnam in 2022.

Teo explains that Funding Societies able to capitalise on a first-mover advantage at the time that they launched in each market, forging local partnerships for on-the-ground engagements and to improve their products. In each of the markets it serves, Funding Societies tailors its solutions and customer acquisition strategies to different segments, including employees, micro-enterprises, and SMEs. For example, digital acquisition has driven the adoption of Funding Societies' services in Singapore and Malaysia among SMEs, whereas the growth of Modalku in Indonesia has relied more heavily on network referrals and partnerships, especially given its long tail of funding options.

In Indonesia, Funding Societies operates as Modalku, a peer-to-peer online marketplace that aims to increase access of over 50 million MSMEs in Indonesia to alternate sources of short-term financing, thereby addressing common cash flow issues. Iwan Kurniawan, its Indonesia-based Co-Founder and Chief Operating Officer explains that Modalku has designed a range of financing products, including invoice, supply chain, business term, and micro-loan financing. Importantly, the platform enables businesses without collateral and limited track record to become eligible for loans, relying on alternative sources of data such as supply chain data, transaction information, online reviews and invoices.

The combination of a strong impact intention guided by customer centricity, tailored local market strategies enabled by local partners, and holistic product diversification has allowed Modalku to operate profitably in most of the markets it serves. As Kurniawan explains, "We believe that by creating a profitable and sustainable business, this will help us sustain our mission of helping a lot more of the underserved enterprises in the region." As of 2023, Funding Societies has crossed US$3 billion in financing across 5 million transactions, supporting almost 100,000 SMEs across Southeast Asia.

> As we are serving ultra-micro customers, we must empower them by inspiring them to get into productive activities." *- Hadi Wibowo, President Director, Bank BTPN Syariah*

products better suited to the needs of Muslim customers.[129] Given that there are over 45 million ultra-micro-businesses across Indonesia with limited access to banks, Bank BTPN Syariah sought to capitalise on a huge market opportunity.[130] To address these segments, Bank BTPN Syariah provides **unsecured working capital financing through group loans to underprivileged communities it assesses to be productive**. Some customers who have been with Bank BTPN Syariah for years have seen their businesses grow from the ultra-micro to micro segment. Hadi Wibowo, President Director of Bank BTPN Syariah, explains that "We focus on serving communities who have not had equal opportunities in financial inclusion. These are ultra-micro productive women who live in rural areas who we reach in a compassionate manner through our field officers. We provide our customers with a complete package of financing, savings products, insurance and empowerment programs in the field."

Another example of a specialised loan product is an **agriculture loan**. Cambodia Post Bank Plc., or CP Bank, has a specialised, need-based loan product designed for farmers, whether they grow rice, cassava, pepper, rubber, or other agricultural products. CP Bank allows farmers to pay only interest monthly while the **principal payment is tied largely to the crop cycle**. This allows farmers to pay upon their harvest at their convenience. Similarly, Myanmar-based rural MFI Proximity Finance offers a **crop loan**, which is designed to be **flexible according to weather patterns and market fluctuations**. Proximity Finance maps planting and harvest periods for different crops across Myanmar, ensuring their crop loans are disbursed when farmers are planting and repaid when harvest comes in. These products are designed to be suited to the harvest cycles of farmers and prevent unnecessary financial burden by aligning the loan terms to seasonal household cashflows. Given increasing risks from climate change, they also indicate the importance of complementary climate-smart agricultural practices to build resilience and enhance productivity.

In addition, various FSPs offer different kinds of **emergency loans** to meet the urgent needs of their customers, particularly where insurance options are unavailable. For example, Thailand-based FinTech Noburo provides emergency loans to address the needs of blue-collar workers, especially those whose income barely covers regular expenses. These loans allow customers to address emergency payments, such as for medical, tuition, or home repair fees, without having to pay unnecessarily high interest rates. Loan amounts are capped at one month of each customer's monthly salary with a 15% annualised interest rate. This prevents customers from having to turn to loan sharks and other predatory lenders in the event of a financial shock.

To provide and maximise support to its rural, low-income female customers, Vietnam-based MFI TYM designs suitable products to suit the needs at specific time periods. For example, during the COVID-19 pandemic, TYM offered specialised products to support affected women. These products were designed with preferential policies such as a grace period of up to 2 months for repayments and a soft interest rate. Further, as the pandemic caused many workers to lose their jobs or experience decreased incomes, TYM also designed and offered a **loan product for job creation**. This product targeted businesses with at least three employees, with priority given to those hiring female employees with disabilities, who were diagnosed with or affected by HIV, or were from poor or near-poor households. This product sought to help women stabilise and expand their businesses and connect women in their locality with jobs.

> Our emergency loans are designed to protect customers from loan sharks when there is an unexpected or irregular expense." *- Thisana Thitisakdiskul, CEO, Noburo*

129 International Monetary Fund (2015): IMF Working Paper: An Overview of Islamic Finance.
130 Nikkei Asia (2021): Indonesia creates ultramicro holding via $6.7bn rights issue.

Embedded financing models

Customer segment	Product type examples
Consumers	• **E-commerce BNPL**: Short-term (non-cash) financing for customers to make in-store purchases on credit and pay in instalments.
Employees	• **EWA:** Advanced access to wages earned by employees on demand, typically outside of the traditional pay cycle. • **Employee BNPL**: Short-term (non-cash) financing for employees to purchase essential goods on credit and pay in instalments.
MSMEs	• **Inventory BNPL**: Inventory (non-cash) financing for MSMEs to make purchases of essential items for business activity on credit and pay after sales.

Efforts to develop customer-centric products and services have also emerged in the form of **embedded financing models**, which integrate financial services into the platform or model of a non-financial company. These include business-to-business-to-consumer (B2B2C) and BNPL models. Injections of credit from these models can be used for individuals or employees, such as BNPL for e-commerce consumers, EWA for employees, or inventory BNPL for businesses. **These models are helping to bridge the cash needs not just of individuals, but also microentrepreneurs and SMEs**.

BNPL financing is a form of short-term financing that often require less stringent credit scoring, where customers can make purchases and pay in instalments, usually with no interest. The BNPL FinTech BillEase was founded to help The Philippines' underbanked segments to build their credit scores. **To do so, BillEase partnered with e-commerce merchants and stores, such as Lazada, to offer a BNPL service allowing customers to pay for consumer goods in instalments.** BillEase offers low interest and a flexible credit line. BillEase incentivises timely payments by offering increased credit loans and the prospect of cash loans. As BillEase submits relevant customer data to credit bureaus, it provides affordable and easy-to-understand pathways to credit, allowing underserved customers to begin building their credit history.

EWA businesses, which provide employees the ability to access wages they have earned but not yet received, are growing in popularity across Southeast Asia. Such companies partner with employers to provide EWA as an employee benefit. EWA is especially crucial for workers who live paycheck to paycheck and struggle to pay emergency expenses. EWA provides an alternative source of capital provision separate from lenders that charge interest.

“ Our aim is to pull as much of the population into the financial system, especially those in the "new-to-credit" segment." *- Georg Steiger, CEO and Co-Founder, BillEase*

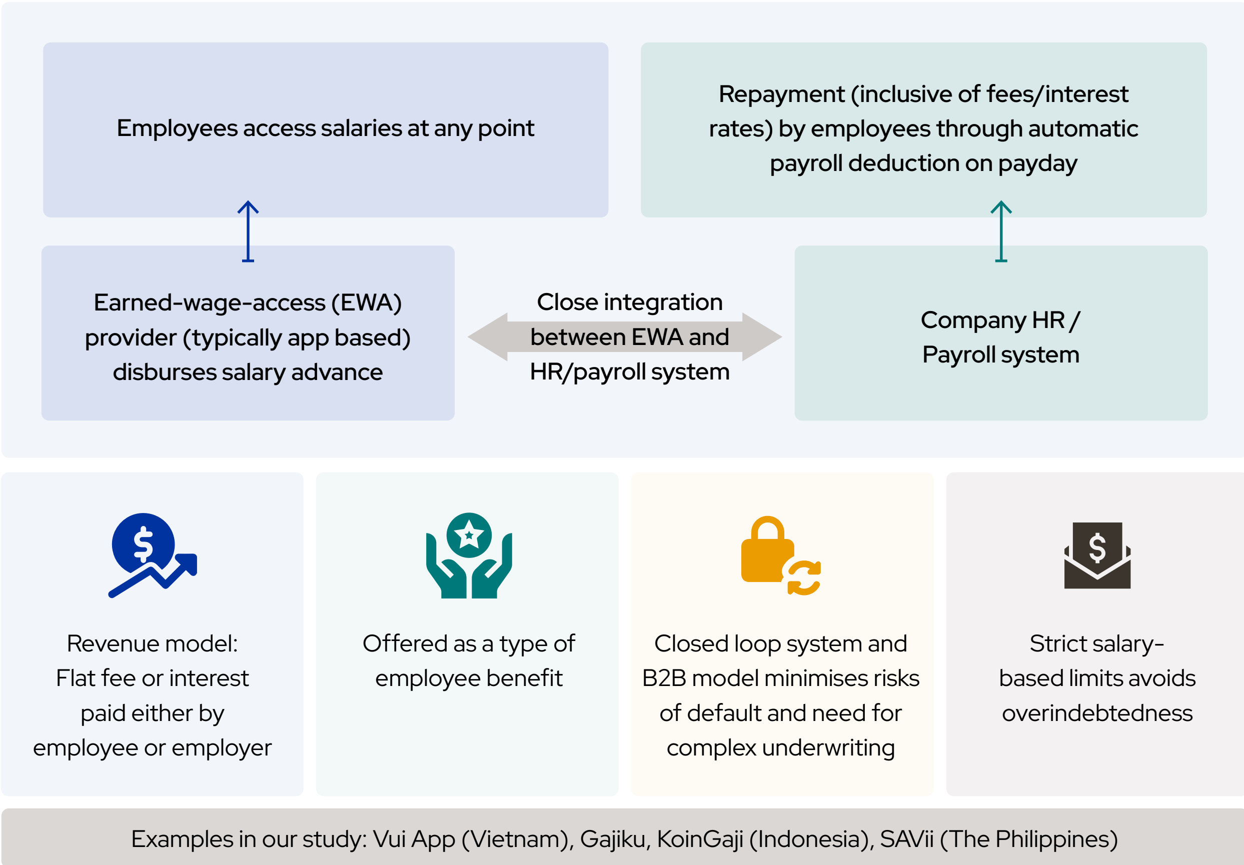


Figure 26a. How embedded financing works – EWA model.

> We take a lot of pride in providing credit access and building the credit history of a segment of the population that would never have access to that simply because their careers are not well understood."- *Leticia Souza, Vice-President for Finance, SAVii*

In Vietnam, Vui App has emerged as a key player by offering its EWA product, with a focus on helping the low-income segment in the garment, leather, shoes, and electronics sectors. In Indonesia, credit-led MSME neobank KoinWorks offers an earned wage access product through its KoinGaji service, partnering with companies to facilitate tech-enabled salary advances. In the Philippines, SAVii is a leader in providing EWA. They have a substantial focus on addressing employees in the business process outsourcing, food and beverage, manufacturing, and construction sectors.

iCare's partner suppliers

↓

iCare's marketplace platform aggregates demand and offers access to essential products (household, healthcare, education/training) to blue collared employees

↓ Employees receive products on credit

↑ Payment by employees through automatic payroll deduction on payday (interest free)

6-month instalment payments

Revenue model: Margin from the distributors (suppliers) of products

iCare aggregates demand for more attractive prices from partner suppliers, from which it earns its margins while keeping costs at market rates for employee customers

Closed loop system and B2B minimises risks of default and need for complex underwriting

Figure 26b . How embedded financing works – Employee BNPL (iCare example).

In Cambodia and Lao PDR, iCare Benefits (iCare) provides a **sustainable purchasing platform to employees through a B2B2C model.** iCare is a comprehensive retail technology social enterprise focused on low-income women factory workers operating in Cambodia and Lao PDR. Through their retail, BNPL, and leasing solutions, iCare empowers workers to purchase everyday essentials goods such as rice cookers, fridges, and air-conditioners directly from manufacturers and distributors. In doing so, workers can access high quality products and services with interest-free deferred payment at market prices.

Lastly, **BNPL facilities for business inventory financing are emerging** to serve the needs of micro and small businesses. Several consumer tech companies have begun to embed BNPL into their operations for various purposes such as through inventory financing.

> “We saw this gap in the market where we could offer purchasing power to low-income workers sustainably, flipping the consumer finance model on its head. Instead of charging the customers with the interest rate, we make profits through supplier margins and by aggregating demand.”
> *– Pablo F. Alonso Caprile, Co-Founder and Group CFO, iCare Benefits*

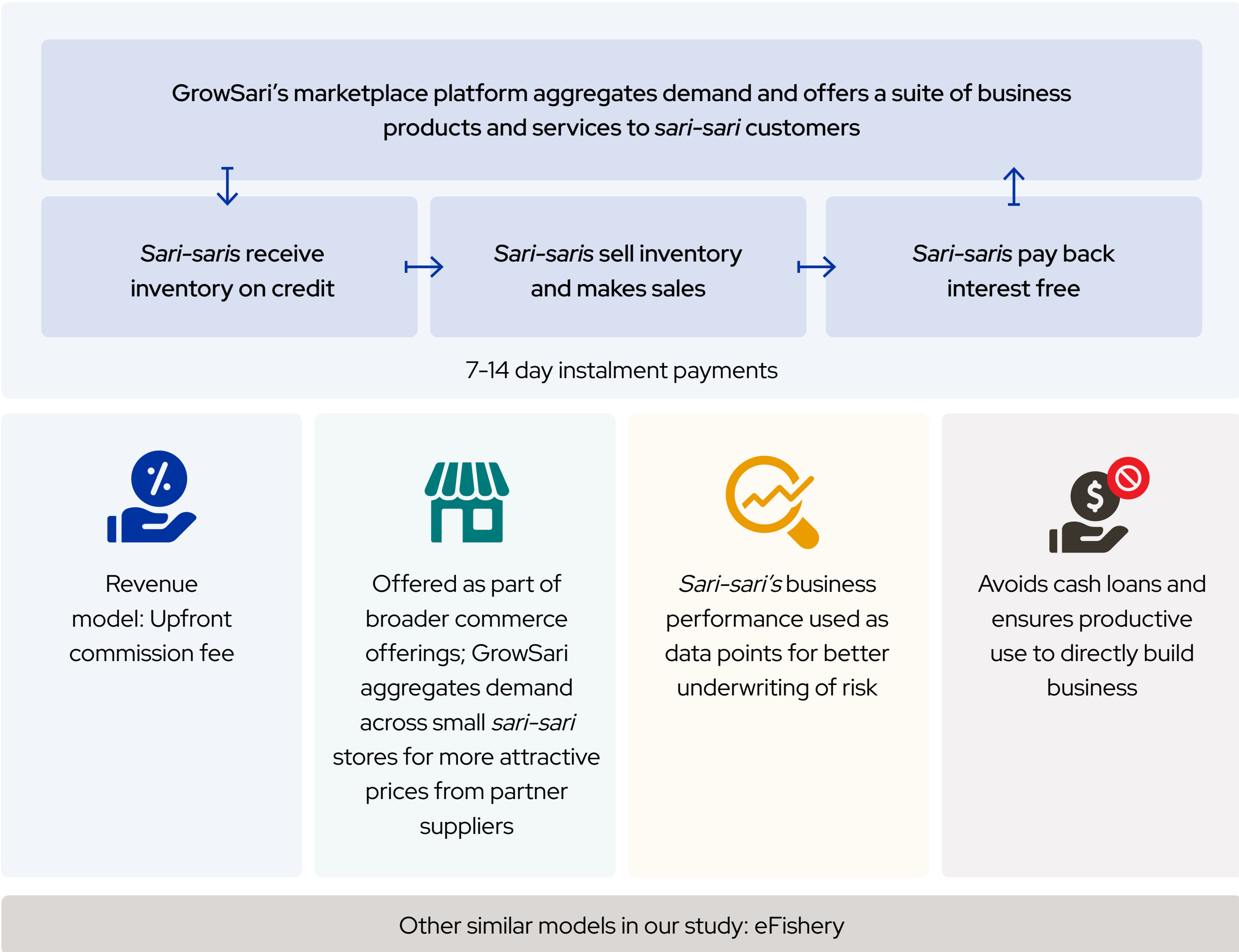


Figure 26c. How embedded financing works – Inventory BNPL (GrowSari example).

> Can I help my customers procure inventory? Can I give them extra days to pay? Can I collect cash from their stores so that they don't have to stock cash? These are the problems we set out to solve." *- Sandeep Bhalla, General Manager of SariPay, GrowSari*

The Philippines-based tech-enabled B2B platform GrowSari stands out for its BNPL inventory financing facility. They provide creditworthy *sari-sari* customers **access to inventory in advance of payment rather than providing cash loans**. GrowSari's BNPL product has an upfront commission, which is a processing fee at a minimal amount. The product has no interest and allows deferred payments to be paid within seven to fourteen days from delivery. This complements GrowSari's introduction of its digital currency, Growcoins, which customers can use to pay for inventory purchases. This provides some breathing space for *sari-saris* facing tighter cash flows who may struggle to pay for their deliveries with cash.

Another example of BNPL inventory financing can be observed in the Indonesian aquatech eFishery. eFishery's BNPL product, Kabayan, allows fish farmers to access financial services that can finance the purchase of feed, seeds, and other cultivation facilities. eFishery leverages data from aqua-farmers

> Because we can automatically track the feed distributed by fish feeders, we can track fish harvests, which we can use for credit scoring." *- Gibran Huzaifah, Founder and CEO, eFishery*

collected through its core Internet of Things-enabled feeding device business, which includes measuring fish harvests and farm performance. This data is used for more efficient credit scoring based on the farmers' business and operational performance and to provide partner FSPs with appropriate credit limits. These strengthen eFishery's ability to provide working capital to underserved fish farmers.

Digitalising Processes to Reduce Cost and Increase Efficiencies

Achieving scale is critical for FSPs attempting to address underserved customers in a commercially viable way. To this end, digitalisation is a key enabler to enable FSPs to achieve economies of scale while bringing down unit costs, especially in the long-term. However, this requires significant upfront investments with minimal immediate returns. While FinTechs have thus far been able to do this due to support from venture capital investments, traditional FSPs may face difficulties with the high costs required to embark on a digital transformation.

Nevertheless, it is heartening that many FSPs in our sample are digitalising and automating their processes to simplify and speed up delivery of services.

As expected, FinTechs displayed a larger focus on higher levels of digitalisation. **Most FinTechs in our sample are either mainly or fully online, though many continue to adopt 'phygital' approaches, especially in rural areas.**

Traditional players are also digitalising, with the majority offering hybrid products, to provide suitable options to a larger pool of customers. For example, Proximity Finance, a Myanmar-based rural MFI, has transitioned from paper-based application forms to digital field applications. Similarly, the MFI OnePuhunan was among the first microfinance companies in the Philippines to capture information via tablets in 2015 and has transitioned to using facial recognition for KYC. Traditional players have also begun to implement core banking systems, which are back-end systems capable of processing deposits, loans, and credit, with interfaces to ledger systems and reporting tools. Streamlined information, digitised processes, and easier access to loan data have allowed MFIs to make it easier to approve loans and reduce wait times for loan disbursements.

> For financial inclusion, you need the classic impact of the economies of scale coupled with simplicity and convenience for the customer, and their trust. When we look for opportunity in Asia today, we look for markets or partners with large potential customer bases to give us that scale, whether they are a big tech platform, ecommerce platforms or non-financial services providers."
> *- Maxine Chen, Senior Vice President, SME and Commercial Business, Fullerton Financial Holdings (International) Pte Ltd*

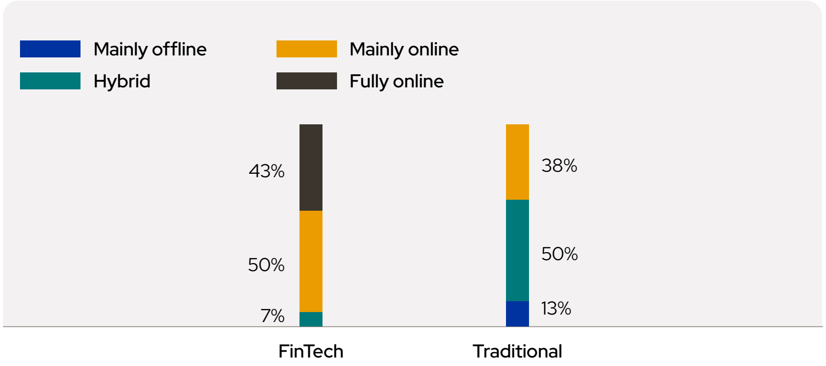


Figure 27. Level of digitalisation by FSP type. N= 22 (14 FinTech, 8 Traditional).

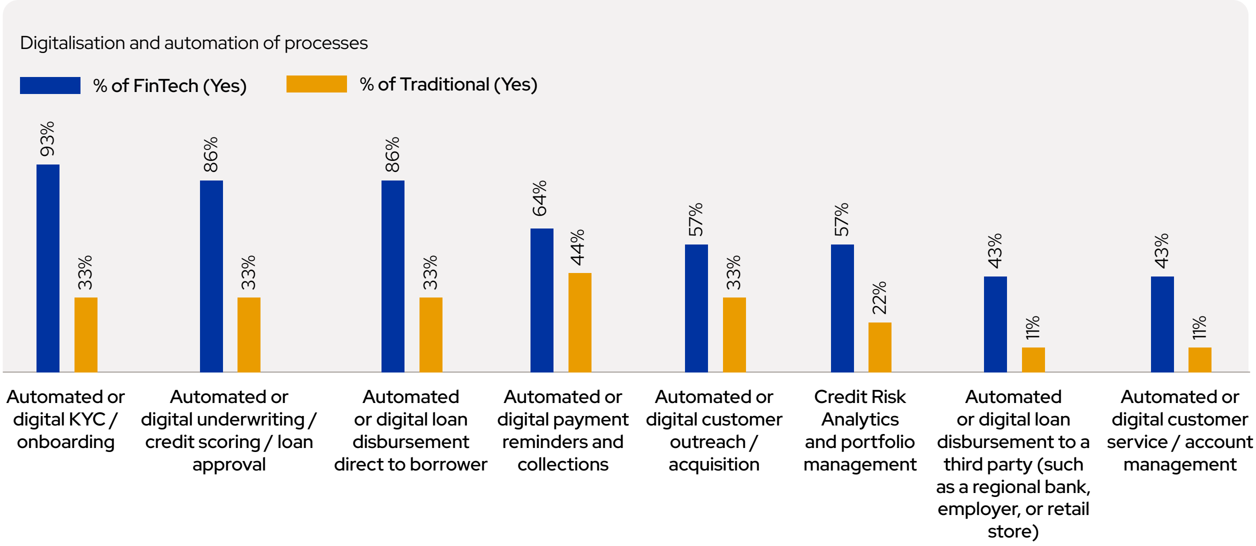


Figure 28. The degree to which FSPs in our sample integrate digital in various processes. N=23 (14 FinTech, 9 Traditional).

Among the FinTech players in our sample, the three most commonly digitised or automated practices are KYC and onboarding, credit risk assessment practices including underwriting, credit scoring, and loan approval, and direct loan disbursements to borrowers.

By contrast, for traditional players, digital payments reminders and collections was the most frequently observed digitised or automated processes, followed by the same three as observed among FinTechs. In general, **customer-facing processes were less often digitised across both FinTechs and traditional players.**

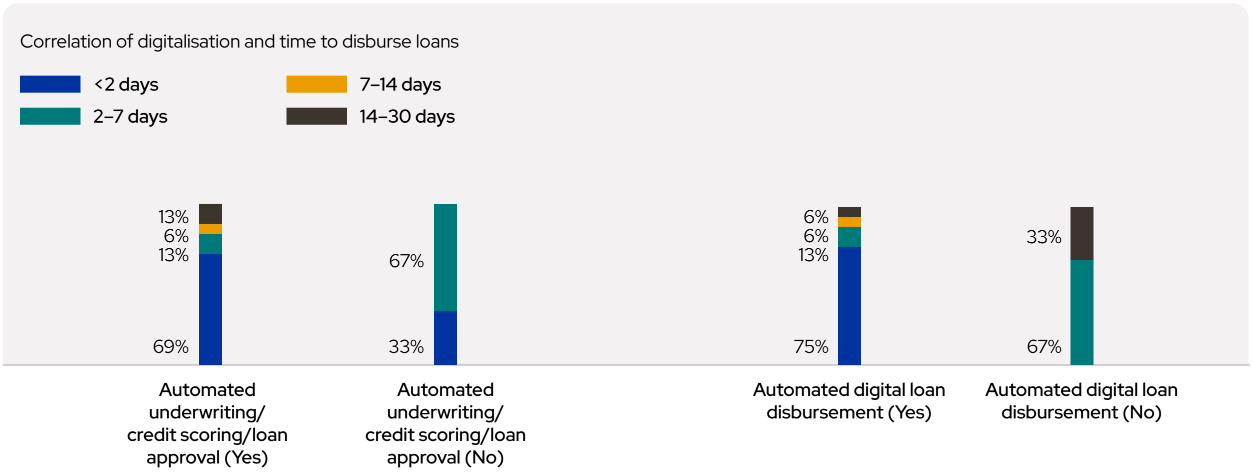


Figure 29. Correlation between digitalisation and loan disbursement time. N=20.

The digitalisation and automation of these processes have allowed players to improve their onboarding processes, thereby reducing waiting times for customers. Our data indicate that FSPs that **automate or digitise processes are more likely to complete loan processing and disbursement within two days**, compared to those who do not, who take between two and seven days on average. This has allowed many FSPs to **improve their ability to serve their customers by reducing turnaround times**. This is crucial, as indicated in our customer survey, **quick loan disbursements is a key satisfaction driver** which translates to higher net promoter scores.

Using Alternative Data for Efficient Credit Scoring to Reduce Risk

The majority of FSPs in our sample use data from and report regularly to either formal credit bureaus or credit databases that are shared between alternative lenders (83% use data from and 88% report to either credit bureaus or shared databases). Traditional players in our sample are more likely to use formal credit bureaus while FinTechs are more like to use shared credit databases, such as AFTECH's database in Indonesia. However, given issues in terms of credit bureau coverage especially of underserved segments, FSPs have had to seek alternative sources of data to improve underwriting and expand access to more underserved customers.

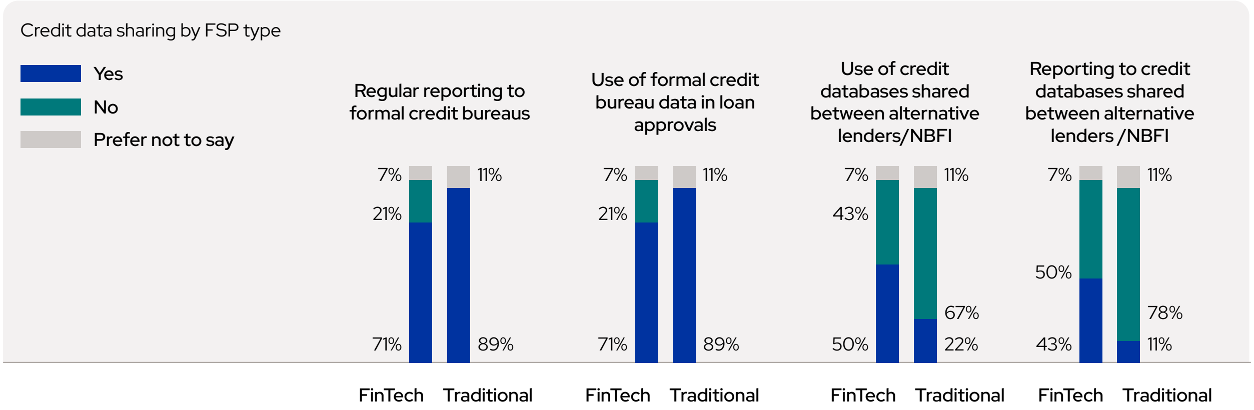


Figure 30. Credit sharing by FSP type. N= 23 (14 FinTech, 9 Traditional).

Alternative credit scoring models include data sources such as utility bills repayment behaviour, geolocation tags, mobile phone usage, or internet browsing.

The use of alternative datapoints is more prominent in FinTechs than traditional FSPs in our sample, traditional FSPs continue to rely more on credit bureau information.

The use of alternative data allows FSPs to assess the creditworthiness of potential borrowers with little or even no credit history. It enables better risk assessment, improves pricing ability, and potentially leads to lower non-performing loan (NPL) rates, while enlarging the customer base of FSPs by serving individuals who would have otherwise been deemed to be unviable customers.

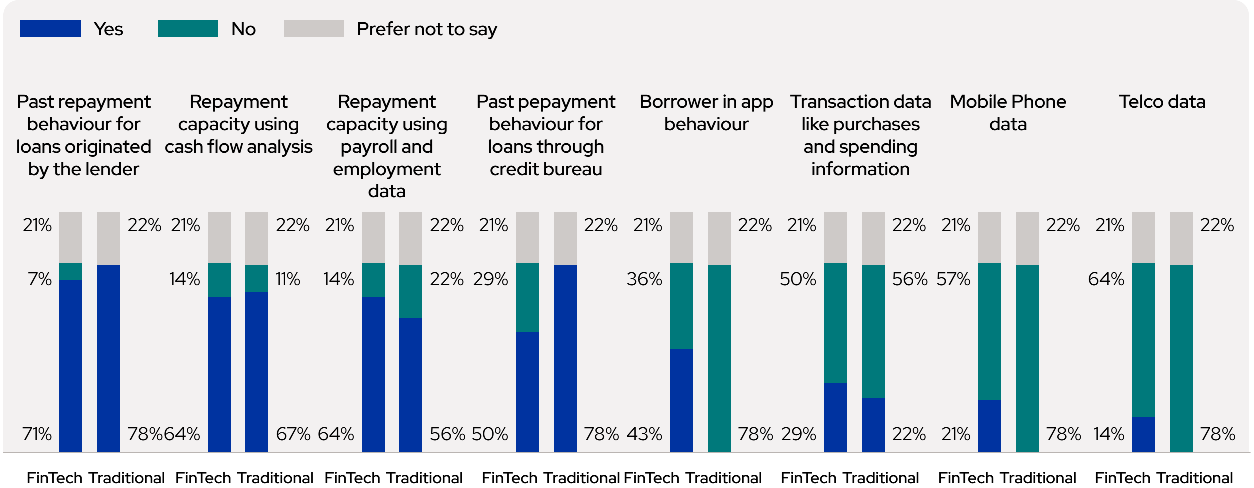


Figure 31. Data sources used for underwriting. N=23 (14 FinTech, 9 Traditional).

> If you are an online seller or applying for an online loan, it is likely you have some digital footprint. That helps us to determine credibility and instant loan approval."
> *- Angelique Timmer, Senior Vice President for Impact and ESG, KoinWorks*

In our sample, while past repayment behaviour, cash flow analyses, and payroll or employment data remain the data most used for underwriting, some FinTechs also tap into **alternative data such as in-app behaviours, transaction or purchasing data, or telco data** in their underwriting.

For example, the Indonesian SME digital financing platform **Modalku triangulates alternative data sources, such as e-commerce data, invoicing data, payments data, and mobile data to assess the creditworthiness** of its borrowers. This helps Modalku to work around deficiencies in credit bureau data, especially as their underserved customer base are often not covered by these databases. Similarly, credit led MSME neobank KoinWorks uses not only bank and financial statements and credit bureau information, but also looks at a company's digital footprint. By partnering with e-commerce platforms, **KoinWorks can examine historical sales data points to assess the creditworthiness** of its borrowers. These forms of alternative credit scoring have been able to increase access to capital loans for previously underserved MSME customers.

Another example is that of Singapore-based agri-FinTech platform AgriG8 (pronounced Aggregate). Prior to heading AgriG8, CEO David Chen had been in the rice industry for 16 years, having co-founded the rice value chain Golden Sunland. With a focus on smallholder rice farmers in Thailand, Vietnam, and Indonesia, AgriG8 sought to develop a long-term, sustainable form of loan origination with partnering financial institutions, such as MFIs and provincial banks. To de-risk credit to rice farmers, **AgriG8 relies on agronomic crop modelling data to assess the creditworthiness and agricultural capability of smallholder farmers.** With farmers' consent, AgriG8 maps out the borders of a farmer's field, uses satellite imagery to assess the productivity of a field using various vegetation indices, and can determine a farmer's harvest performance relative to his peers and past seasons. This dataset is used as part of the underwriting process of AgriG8's partnering financial institutions.

While the adoption of digitalisation and alternative data by Southeast Asian FSPs is promising, there are areas where practices are still nascent compared to markets such as China and India. Continued developments in the digital infrastructure (e.g., digital ID systems) in Southeast Asia will be required to further propel the region's progress in DFS.

> We pride ourselves on having worked with farmers for many years and knowing what they we need. We argue that using agronomic data is a **more appropriate appraisal approach for the farmers who need financing to grow."**
> *- David Chen, CEO, AgriG8*

Insights from India: Digital ID Systems to Enable Effective KYC

India's Aadhar system, a unique ID system that links individual identification numbers to bank accounts, has been crucial for financial inclusion in the country. Beyond KYC, the Aadhar system has ensured that micropensions and benefits are given directly from the government to citizens through India's Unified Payments Interface, connecting people in India's hinterlands and other excluded individuals to the formal economy. This has prevented the leakage of government benefits and have also allowed aggregators to aggregate the items of craftsmen for sale through their digital bank accounts.

Unique company IDs were also developed for MSMEs, which were important for democratising access to credit. In the absence of physical collateral, credit has been underwritten by examining and verifying the inflow and outflow of cash in MSMEs, while business IDs have been linked directly to sales taxes. Direct finance to MSMEs has been able to help create jobs in India.

Embedding Client Protection into the Heart of Business

Most FSPs in our sample have practices to prevent overindebtedness and ensure fair treatment of customers. These processes help to ensure KYC is rigorous and mitigate against the possibility of customers taking on more loans than they can handle.

Strong governance and practices to ensure client protection and avoid overindebtedness

Most FSPs have **strong governance and management commitment to client protection and codes of conduct** to ensure employees treat customers fairly. Fewer FSPs in our sample conduct mandatory financial literacy training for customers, which may be an area for attention.

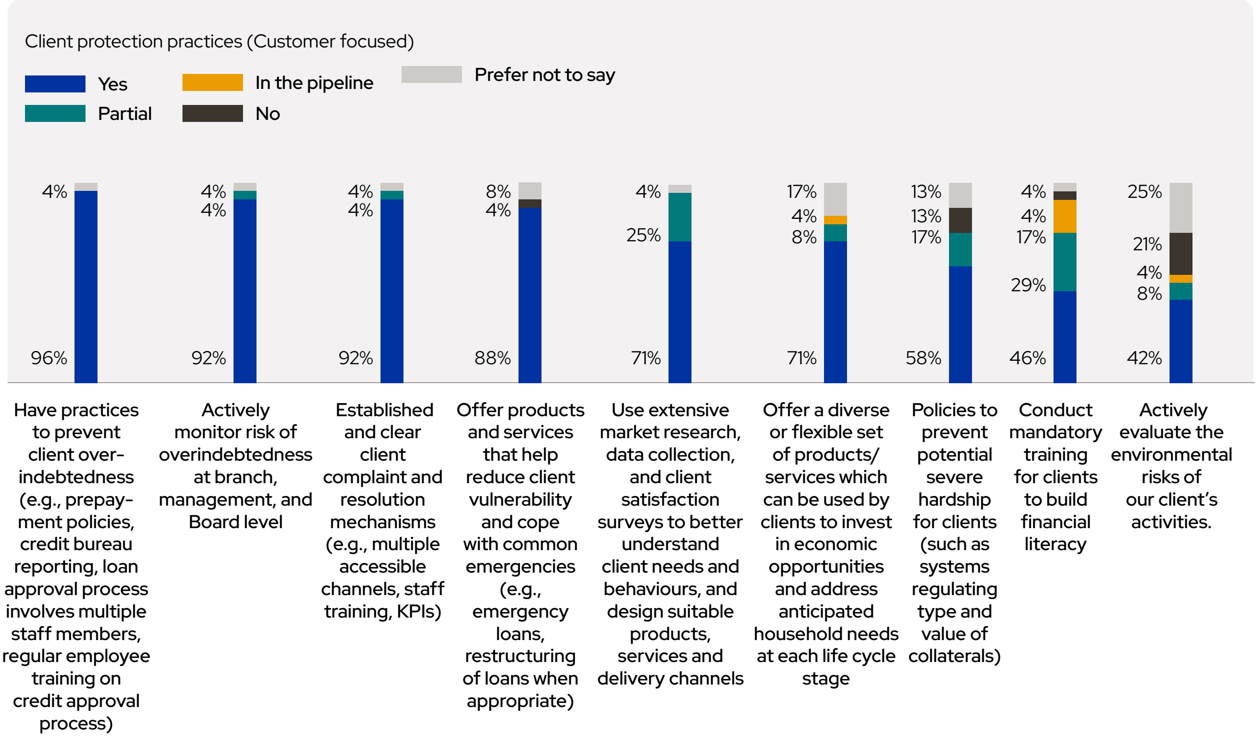


Figure 32. Client protection practices for customers. N=24 (14 FinTech, 10 Traditional).

Importantly, there is some indication that enterprise actions can help to mitigate negative experiences on the customer level. For example, **FSPs who have policies to prevent potential severe hardship for customers have customers who report more improvements in their ability to deal with emergencies because of the FSP.**

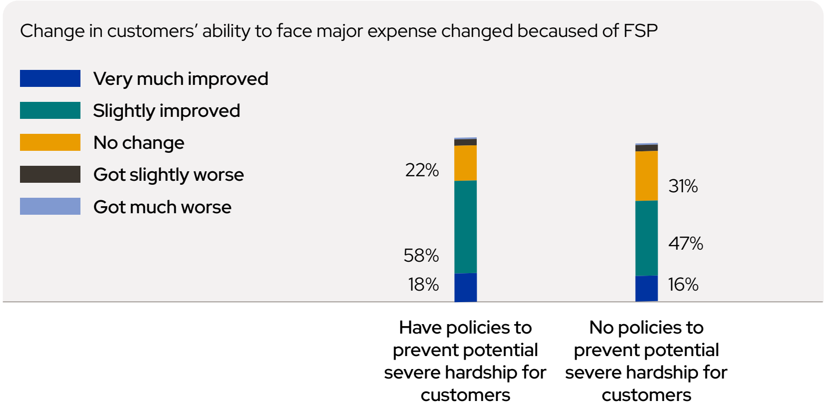


Figure 33. Customers who agreed FSPs improved their ability to address emergencies by FSPs with and without policies to prevent hardship. N=12 FSPs, 2,532 customers. FSPs who answered 'Partial' or 'Prefer not to say' not shown.

Within our sample, over 55% of FSPs had a maximum cap on the number of loans borrowers could have, with the maximum usually being four loans. FinTech players in our sample are typically less stringent than traditional players in terms of their loan caps. FSPs that have loan caps typically have lower delinquency and default rates, indicating better portfolio performance.

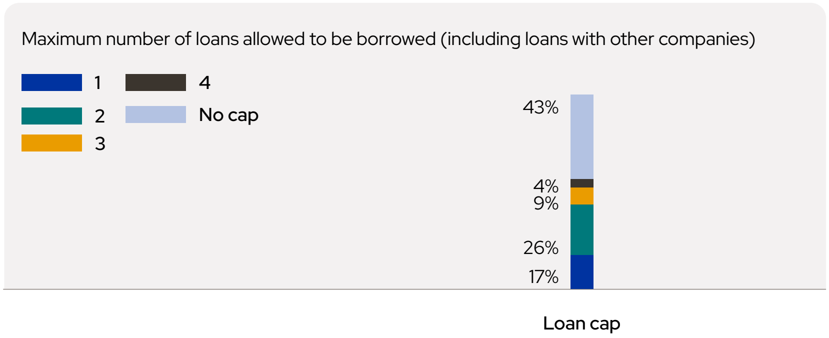


Figure 34. Maximum number of loans allowed to be borrowed. N= 23.

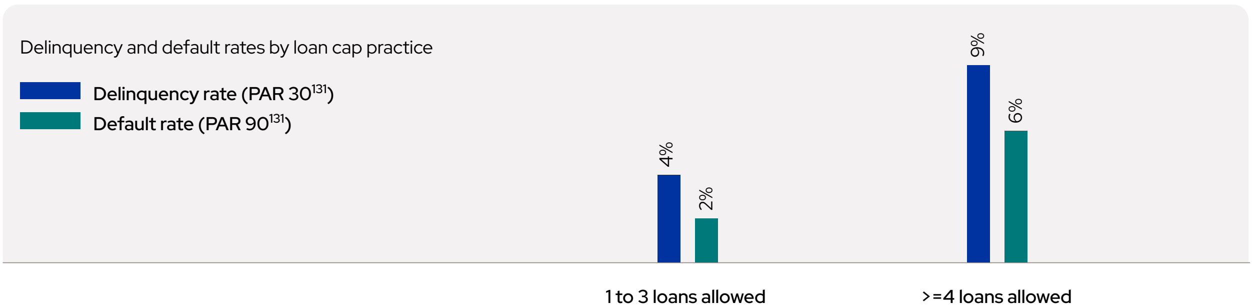


Figure 35. Delinquency and default rates by loan cap practice. N=12.

131 Two portfolio-at-risk (PAR) metrics are commonly tracked by investors.
PAR30: Total outstanding principal of loans above 30 Days Past Due (DPD), as a percentage of total outstanding principal of all loans.
PAR90: Total outstanding principal of loans above 90 Days Past Due (DPD), as a percentage of total outstanding principal of all loans.

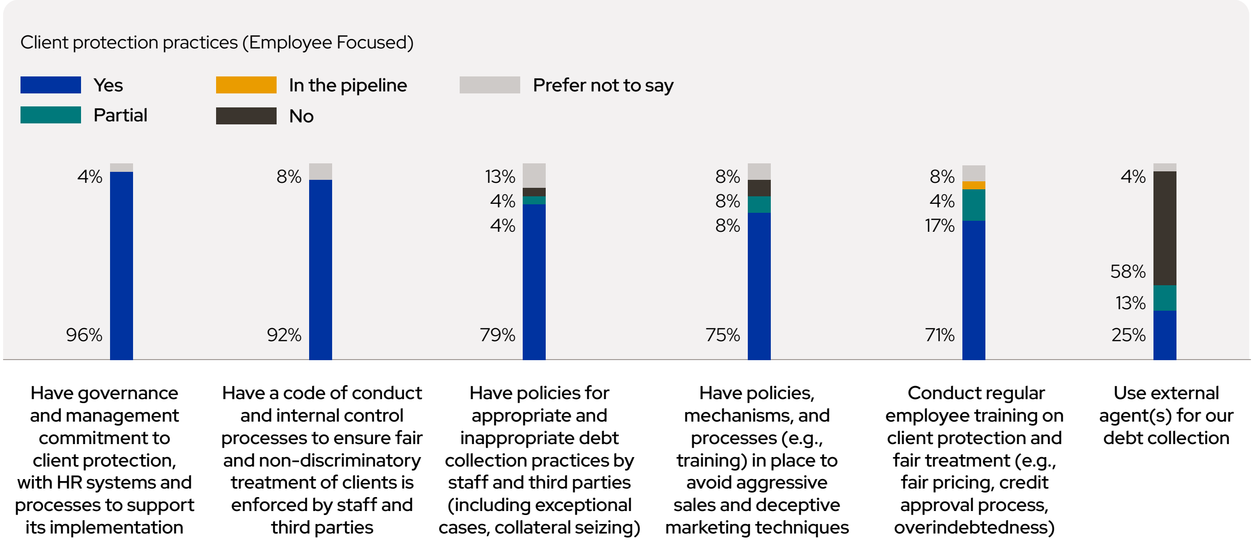


Figure 36. Client protection practices for employees. N=24 (14 FinTech, 10 Traditional).

To ensure long-term business sustainability, it is also crucial to ensure that FSP staff are well-trained to better understand the customer segment that they serve and to engage in business ethically. This is especially crucial given that many customers in the underserved segment tend to be more vulnerable, especially owing to lower levels of financial literacy. Promisingly, **70% of the FSPs in our sample conduct regular employee training on client protection and fair treatment**. This is vital in weeding out aggressive or exploitative practices and helping to improve customer retention.

Importantly, there is some indication that enterprise actions can help to mitigate negative experiences on the customer level. According to our sample, if FSPs have in place **policies to avoid aggressive debt collection tactics, their customers usually report better treatment by agents. Further, FSPs who do not employ external debt collection agents also report better results in terms of fair customer treatment by agents as well as higher customer satisfaction**.

Figure 37. Proportion of customers agreeing they were treated fairly by FSP agents for FSPs that have or do not have policies, mechanisms, and processes to avoid aggressive and deceptive techniques (N=16 FSPs, 3,655 customers) and that use or do not use external debt collection agents (N=16, 3,443 customers). FSPs who answered 'Partial' or 'Prefer not to say' not included.

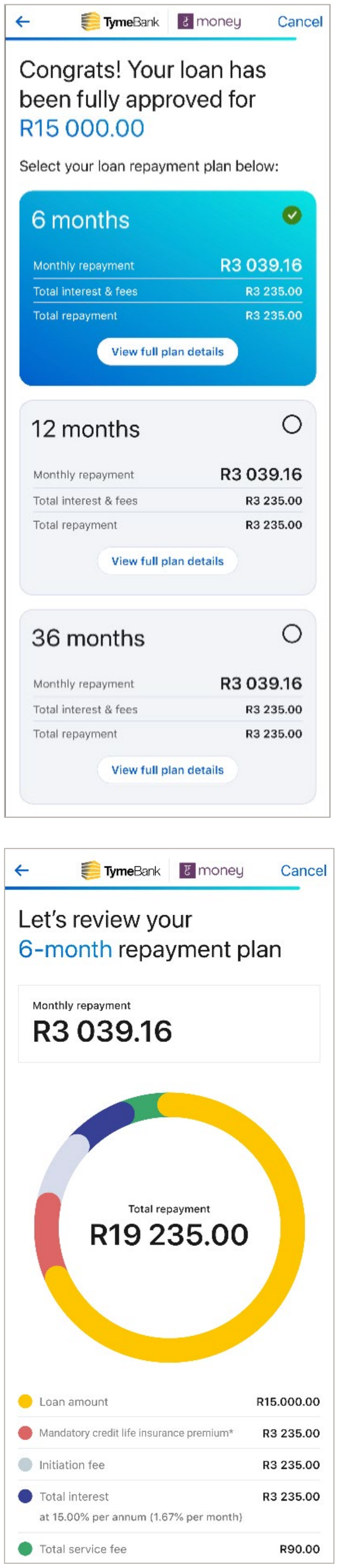
Transparent and continuous customer communications

Messaging apps are also emerging as a key method of ensuring product transparency across Southeast Asia, WhatsApp is a popular channel for customer queries. By retaining frequent touch points with loan officers and customer service officers, customers can continually ask questions and clarify their understanding of their loan obligations over time. As Jairo Espejo, Investment Manager at impact investment firm Incofin, observes, **"Apps like WhatsApp, Telegram, or WeChat have enabled transparent communication with customers and have helped customers understand their repayment obligations and interest rates well."** Many of the FSPs interviewed rely on a variety of methods to ensure that their customers were well-informed, from frequent contact via messaging channels such as WhatsApp to the clear communication of loan information.

Another method for ensuring product transparency is through **clear visual communication with customers.** For example, Tyme, which operates digital banks in Philippines and South Africa, ensures transparency by presenting loan information in the form of an infographic, providing a visual aid that breaks down fees and interest. Unlike a contract with complex language, Tyme's infographic presents information in a more accessible and transparent way that allows customers to fully grasp the implications of their borrowing decision.

"We feel it is the right thing to do. By doing that, customers will hopefully start asking more questions and demanding this level of transparency from other places as well," explains Aaron Foo, Tyme's Chief Strategy Officer.

Figure 38. Tyme's infographics to explain loan terms to customers.



Debt management services

Overindebtedness can also be addressed through the provision of **debt management and restructuring services.** For example, Amalan, an Indonesian debt management company, helps customers negotiate and reduce the cost of overdue loans including credit cards, personal loans, and mortgages, to regain control of their finances and reduce financial distress. As part of their business model, Amalan incorporates financial management skills and education into their customer engagement, supporting customers to wade through complex interest rates and repayment obligations, and developing a digital-based financial literacy training programme.

> “In Indonesia, debt never expires. Basically, unless people proactively address the problem, they can be stuck with mounting debt forever. Interest keeps piling up.”
> *- Arne Hartmann, CEO and Founder, Amalan*

Improving Customer Literacy

Delivering customer education

Many FSPs have taken to integrating financial and digital literacy into their business operations, developing their own financial and digital education material and methods of delivery. In our sample, nearly **half of the FSPs conduct mandatory training for customers on financial literacy while 54% (13 of 24) offer it as a value-added service, either paid or free of charge**. These FSP practices can address problems arising from gaps in customer knowledge, while also helping to build up more robust financial management skills for customers. Improved financial literacy enables customers to better manage their loan obligations and build their credit history in a sustainable manner. Based on a small sample of FSPs in our study, data suggests that **offering customer education may be associated with slightly lower delinquency and default rates** (3% vs. 5% delinquency rates; 2% vs. 3% default rates for FSPs who offer customer education vs. those who do not respectively; N=11).

For example, the Indonesian microfinance FinTech Amartha invests heavily in customer education during their onboarding process, providing digital and financial education to its chosen segment of rural women microentrepreneurs. Amartha, whose customers typically have low digital literacy, conducts mandatory two-day finance training courses before disbursing loans to new customers.

Another example is Thailand-based FinTech Noburo. Noburo observed high levels of indebtedness among blue-collar workers who had easy access to credit through cash and credit cards. To ensure end-customers can manage their finances before accessing loans, Noburo has developed an app that delivers a financial literacy programme and can track and change financial behaviour. This has led to reductions in debt levels and equipped its customers to better understand their capacity to repay their loans. As a result of their success, Noburo has curated financial education as another key service provided by their business. Noburo has been invited by companies and government agencies to conduct financial literacy programmes, providing another stream of revenue. Financial education is thus core to Noburo's offering.

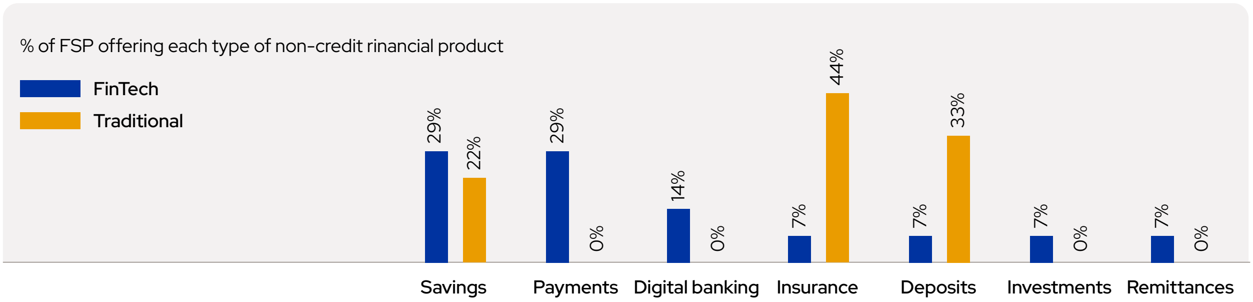
> “To reduce the wealth gap responsibly and sustainably in Thailand, it is necessary to provide financial literacy even before people access any kinds of loans.”
> *- Thisana Thitisakdiskul, CEO and Co-Founder, Noburo*

Ngern Tid Lor (NTL), a Thai auto title loan company, has run multiple public education campaigns to promote financial literacy amongst Thais. To do so, NTL develops and releases humorous videos, such as its viral 2019 online campaign to illustrate the dangers of loan sharks and how over-spending can lead to excessive borrowing. In addition, NTL sponsored the translation of two books, *Poor Economics* and *The Poor and their Money* from English to Thai. NTL then distributed these books to online influencers and YouTube content creators who created infographics and rap songs and helped to publicise important financial concepts to their followers.

Building customer exposure to broader financial and business services

To further support customers on their journey to build financial literacy, **FSPs have begun to offer customers a bundled suite of products**. By complementing credit with services such as insurance, savings, and business-related services, customers are able to improve their financial literacy and economic potential through real-life engagement with various financial and business services.

In our sample, 71% (17 out of 24) FSPs reported offering non-credit-financial services (most commonly savings and insurance) while 67% (16 out of 24) offer non-financial products most commonly financial education, followed by business development, e-commerce, bills payment, and health consultations. Some of these products are offered free-of-charge.



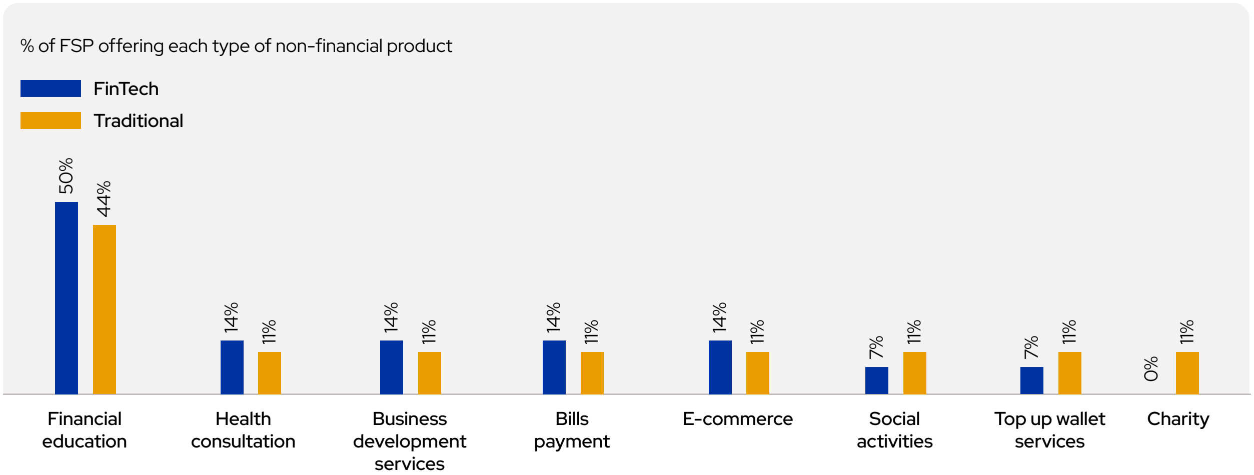


Figure 39. FSP non-credit services and non-financial services. N=23 (14 FinTech, 9 Traditional).

Insights from China and India: Building Customer Capacity to 'Graduate' to the Broader Financial System

In both China and India, MFIs have played a key role in educating their consumers and enabling them to build formal credit history. As customers' credit history has developed, so too has their financial management and literacy, which has allowed customers to transition to participating in the broader formal financial system.

Chongho Bridge is a comprehensive rural service institution with a focus on serving smallholder farmers micro and small businesses in rural areas in China. A portfolio company of Singapore-based impact fund ABC Impact, Chongho Bridge provides microcredit, micro-insurance, and e-commerce services. Chongho Bridge's customers are based across over 100,000 villages in 20 provinces in China and most of them are farmers.

As a result of their access to Chongho Bridge's microfinance services, rural households have experienced improved levels of formal credit participation. According to a customer survey conducted between 2021 and 2022, many of Chongho Bridge's customers have had more successful formal credit applications and experienced less formal credit constraints than non-microfinance customers.[132] This is a result of both improved levels of financial literacy and the building of credit history accorded by Chongho Bridge's microfinance products and services.

Similarly, the microfinance products and services provided by Bandhan Bank has strengthened the access of its customers to more credit products and services. First established as a non-government organisation to provide microloans to women borrowers, Bandhan Bank transitioned to becoming a non-banking financial company and finally, a fully-fledged bank, receiving a universal bank license in 2015 and listing on the National Stock Exchange of India in 2018. According to sectoral expert Devahuti Choudhury, Bandhan Bank is one of the major players that were able to transition from a non-profit to a for-profit model, allowing them to "scale because they systematically brought in private sector capital", expanding from centers such as West Bengal to across the country.

Of its 26.5 million customers, 18 million are women who have a prior or existing microfinance relationship with the bank. Across its customer base, 70% started as microfinance customers and more than 50% have been customers for at least four years.[133] Through this time, these customers built formal credit through timely loan repayments, enabling them to increase their credit limits. Since 2020, 25% of Bandhan Bank's microfinance customers have graduated to small-and-medium-enterprise (SME) loans. To be eligible for these loans, which have larger credit limits, customers must create employment opportunities for the community and demonstrate increasing incomes. High customer retention and growing levels of lending highlight the increasing customer prosperity Bandhan Bank is creating in the Indian economy.

132 ABC Impact and Chongho Bridge (2023): Internal Company Report.
133 Centre for Impact Investing and Practices, Accenture, and Singapore Management University (2022): Bandhan Bank: Commercialisation to Deliver Financial Inclusion at Scale in India

The example of NTL is instructive. To safeguard customers' repayment capacity, and protect them from unexpected costs from vehicle accidents, NTL began offering personal accident insurance in 2018. Given that most customers were unfamiliar with the mechanics of insurance, and typically could not afford the premiums, basic insurance was provided for free to motorcycle title loan customers. Conversations around this free insurance policy led to conversations about the benefits of insurance, resulting in purchases of additional coverage for 30 to 40% of its customers. This allowed NTL's free insurance policy to begin to pay for itself.

Another example is Philippines-based SAVii. While SAVii's core product is salary advances and salary loans, they have complemented these with free personal insurance, mental health webinars, access to saving accounts and financial education. The expansion of SAVii's offerings from financial assistance to a range of bundled products was a response to the heightened needs of their customers during the COVID-19 pandemic. These bundled services have increased employee retention among the companies SAVii serves with the aim of contributing to the mental and financial resilience of SAVii's end-beneficiaries.

> "The reason NTL started offering insurance products was to lower the risk for our customers - the additional income was a bonus." *- Piyasak Ukritnukun, Managing Director, Ngern Tid Lor*

From the customers' perspective, over a quarter of the customers we surveyed have received non-credit services from their FSPs. **While insurance and savings are the most accessed services, customers find business-related services (such as business development and e-commerce services) most valuable, especially for female, FinTech, and urban customers.** Male, traditional, and rural customers find **insurance most valuable**. Surprisingly, education / training showed a low take-up rate amongst customers and ranked low in terms of value. More may need to be done to develop effective training modules that resonate with this segment of customers.

Importantly, there are **early indications that accessing a holistic suite of services leads to better impact outcomes for customers**. For example, customers who access non-credit services report increased savings (74% vs. 64% for those who access non-credit services vs. those who do not), quality meals (60% vs. 55%), and increased spending on home improvements (47% vs. 41%). More insights on the customer level can be found in Chapter 4.

Promisingly, results from this study suggest that more can be done to unlock the untapped market potential to drive further impact and financial inclusion outcomes by providing a more holistic suite of services to customers.

> "SAVii is building a unique position as a holistic employee benefits provider with a focus on financial wellness." *- Leticia Souza, Chief Financial Officer, SAVii*

Q: Of these services, which is the most valuable to you?

		Gender		Business model		Location	
Most valuable services	**Total**	**Male**	**Female**	**Trad.**	**FinTech**	**Rural**	**Urban**
Business-related services	27%	29%	21%	15%	38%	24%	29%
Savings	23%	24%	19%	36%	11%	26%	20%
Insurance	22%	20%	27%	40%	7%	31%	16%
Payments	18%	18%	19%	2%	33%	7%	26%
Health services	3%	3%	4%	5%	2%	5%	2%
Education / Training	3%	3%	2%	1%	4%	3%	2%

Table 10. Most valuable non-credit services according to customers. N=852, Female=626, Male=226, Traditional=396, FinTech=456, Rural=325, Urban=517.

> "Evaluating the motivations of management teams is an important gauge for us to establish alignment on shared objectives, as well as ensure companies are committed to monitoring and improving their impact during the period of investment, making for a successful partnership."
> *- Sugandhi Matta, Chief Impact Officer, ABC Impact*

Insights from Indonesia: Going beyond financial services to providing a "one-stop shop" for business development and support

Indonesia-based credit led MSME neobank KoinWorks provides a one-stop offering spanning financial services and business development support for underserved MSMEs. KoinWorks provides financial support through access to peer-to-peer lending, investments, neobanking, billing, and learning products in its app. In addition, MSMEs on KoinWork's platform can access point-of-sale systems, EWA products, and human resources management systems tailored to small business needs.

These financial and business services are complemented by KoinWorks' embedded training for entrepreneurs. This is part of KoinWorks mission to empower MSMEs with improved entrepreneurial savvy and financial literacy. As explained by Willy Arifin, the Co-Founder and Chairman of KoinWorks, "We have a mission to educate the market because we want everyone to have access to finance. Many MSMEs download our apps just for the purpose of educating themselves on how to become entrepreneurs. With KoinLearn, our learning platform, our customers learn about proper business practices, such as how to put together balance sheets or calculate profit and loss." KoinWorks provides online educational material through bite-sized videos on its app, complemented by in-person events. Between 2020 and 2022, KoinWorks conducted over 400 financial lieracy events in person, engaging over 103,000 MSMEs and individual investors.[134]

KoinWorks tracks the financial literacy of its users, using the OECD G20 Survey on financial literacy for MSMEs as its benchmark. KoinWorks' efforts have resulted in its users having a higher level of financial knowledge than the average Indonesian MSME.[135]

Conducting Business with Intention for Impact

FSPs can raise industry standards of conduct by being guided by an intention for impact. The establishment, tracking, and reporting of core impact metrics are crucial to ensure FSPs remain guided by their financial inclusion goals. They also help to elevate operating standards within the financial services sector and enable customers to better differentiate the impact oriented FSPs from the others.

For example, the impact investment firm ABC Impact evaluates the impact intention of founders through multiple channels, including management discussions, a company's past track record and strategy, and projected growth plan. As ABC Impact's mandate is to invest in mission-driven companies that deliver positive change through their products and services, impact and business goals are typically intertwined. Through its holistic diligence process, including in-depth conversations with founding teams and primary and secondary research on the impact of a business on the market, ABC Impact can validate founders' impact intentions.

134 KoinWorks (2023): KoinWorks Impact Report 2022.
135 KoinWorks (2023): KoinWorks Impact Report 2022.

Insights from The Philippines: Conducting Business with an Intention for Impact

BPI Direct BanKo (BanKo) is the microfinance arm of the Bank of the Philippine Islands (BPI) and focuses on providing financial services to self-employed micro-enterprises. It currently has 317 branches across The Philippines, with 161 in locations where there are no BPI branches. Marie Josephine M. Ocampo, Chair at BanKo, explains, "We focus on microentrepreneurs because as they grow their business, they provide employment. Who do they employ? The community that they serve with their products and services. When our customers succeed, BanKo succeeds. This is consistent with our vision of building a better Philippines, one family, one community, at a time."

BanKo's products are designed to be simple, efficient, and inexpensive loan options for self-employed microentrepreneurs, which it delivers via a hybrid approach. Given its strong rural focus, BanKo continues to rely on a face-to-face approach combined with service delivery via its mobile app. Rodolfo K. Mabiasen Jr., Head of BanKo's Financial Inclusion and Microfinance Solutions, explains that this is "more beneficial for our customer segment, so that they can fully understand the mechanics of the loan availed and help them with their regular amortisation payments." Many of these businesses also lacked sales records that would have allowed them to take loans from larger financial institutions. To address this, Mabiasen explains, "We visit our customers' stores to perform inventory calculation as well as a cash verification. This allows us to anticipate the sales of the stores within a particular period."

Banko's combination of face-to-face customer engagement as well as digital service delivery has allowed it to continue to scale. In the year 2022, BanKo disbursed loans to more than 149,000 microbusinesses, driving business growth across The Philippines. It also launched a variety of new, customer-centric products. These include Todo Savings, a high-interest digital savings account with no maintaining balance requirement, NegosyoKo lite, a zero-interest loan with quick approval, and the Starter 10 Loan, which targets microentrepreneurs in need of lower loan amounts.

To measure its impact, BanKo intends to collect data on whether a business has grown after the provision of their financial services, including change in the number of employees after BanKo's intervention. Going forward, BanKo is planning to expand its target market to include salaried and informal workers, including those in the transportation and agriculture segments. BanKo stands as a good example of an incumbent bank innovating to address an underserved market by establishing a separate unit. BanKo's continued expansion to focus on underserved segments indicates that a business can scale while having a strong intention to deliver positive impact to the community it serves.

Promisingly, a majority of the FSPs in our sample have a defined impact or social goal and **a stated organisational mission focused on reducing barriers to financial inclusion**. These include strategies to reduce client vulnerability and promote economic opportunities.

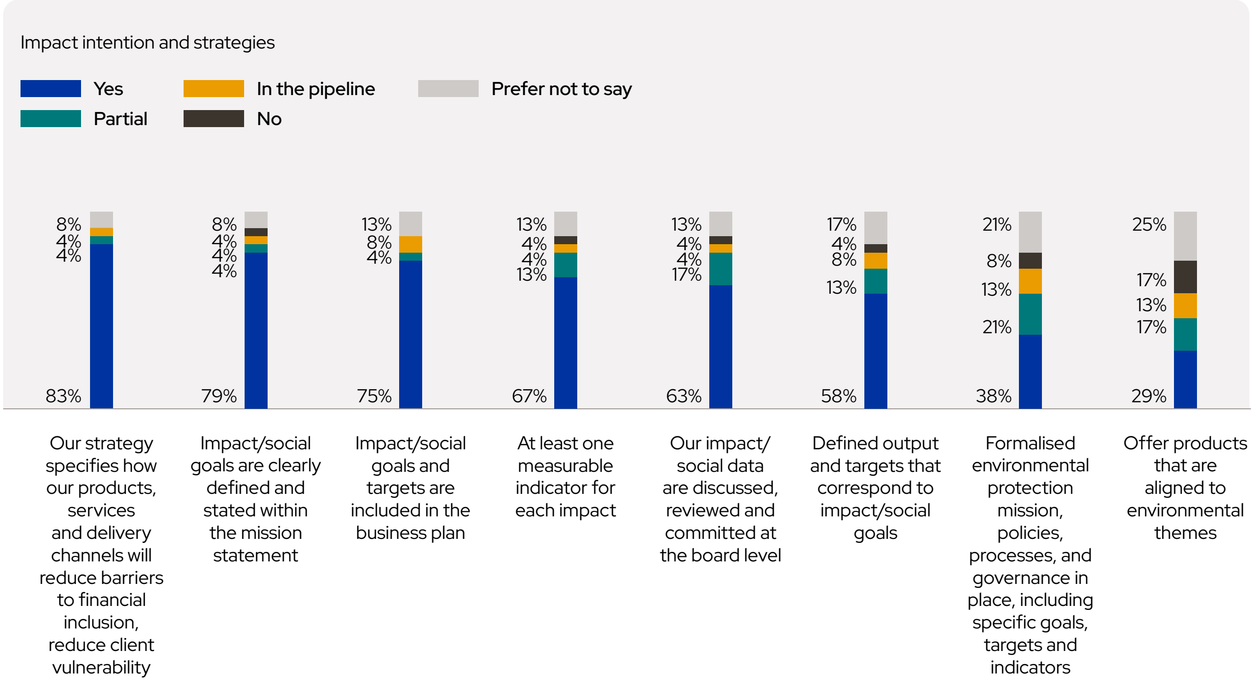


Figure 40. Impact intention and strategies implemented by FSPs. N=24.

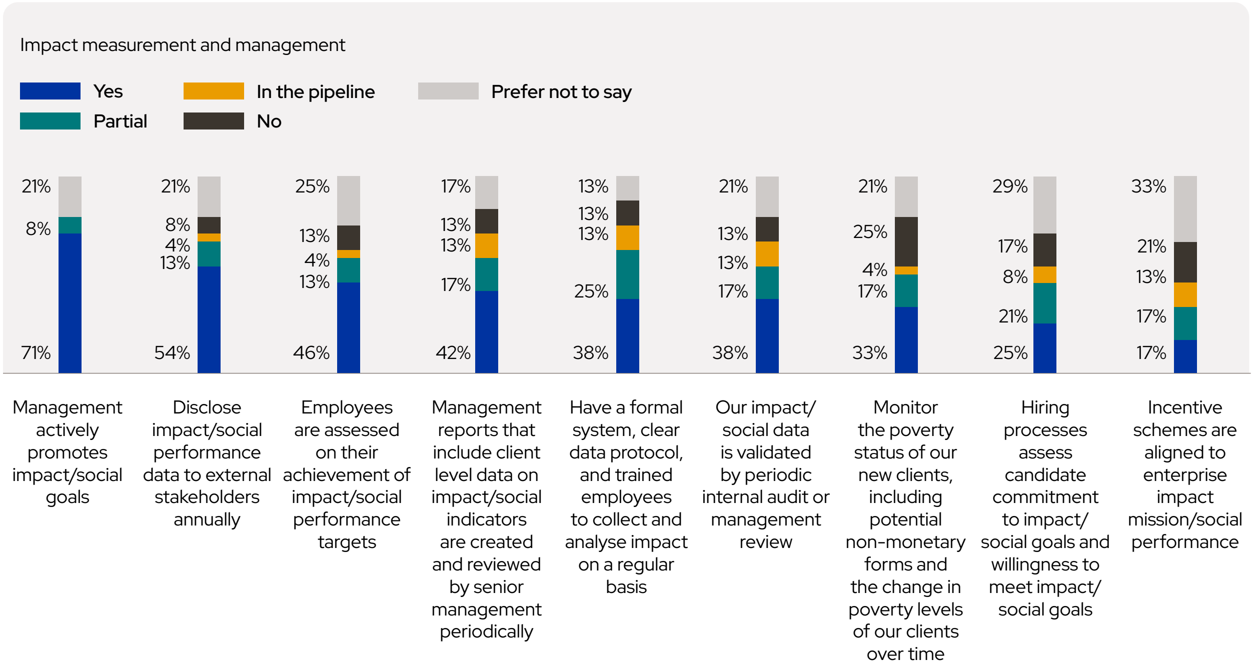


Figure 41. Impact measurement and management practices by FSPs. N=24.

Importantly, those who implement impact measurement and management (IMM) practices, also report better performance in terms of customer impact. Notably, **FSPs that have a formal system of impact management and measurement, have clear data protocol, and have trained employees to collect impact data and report greater customer impact in terms of quality of life and business income.** The focus on impact measurement and management could enable FSPs to create a data-driven feedback loop to continuously refine their product offerings.

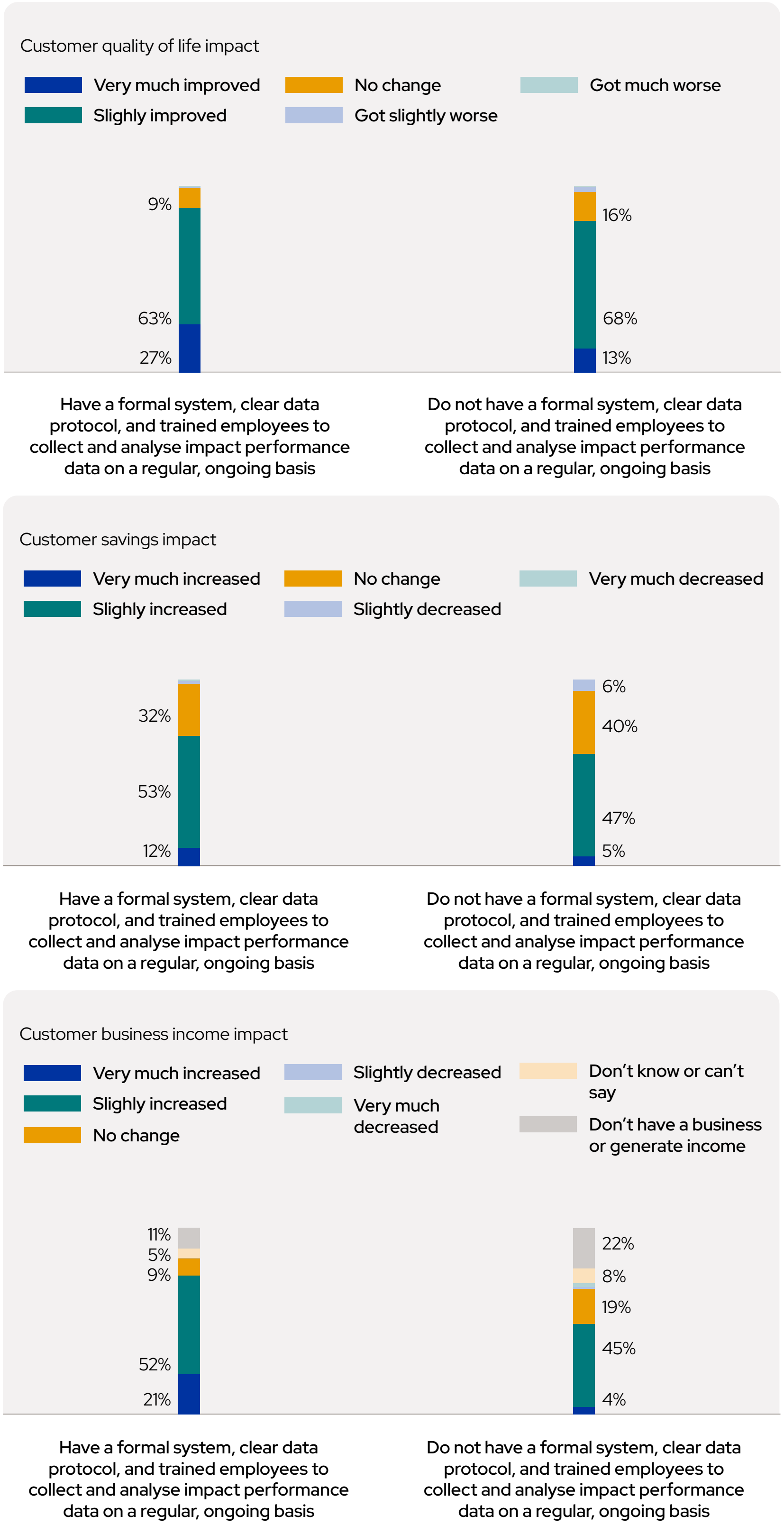


Figure 42. Customer impact outcomes based on FSPs with and without formal impact management and measurement systems. N=9 FSPs; 1,854 customers. FSPs who responded 'Partial', 'In the Pipeline', and 'Prefer Not to Say' not shown.

Further, FSPs that have employee incentive schemes aligned to impact missions also report greater impact in terms of customers' quality of life. These preliminary results from a small sample suggest that, by operationalising an impact intention through active impact measuring and monitoring, FSPs may see positive results on the end-customer level.

Several FSPs in our sample have a set of impact metrics that they periodically track. For example, given the tight alignment between its business and impact goals, Vietnamese EWA FinTech Vui App actively tracks the usage of its app once companies adopt it for their employees. Not only can Vui App monitor when and how often employees withdraw their salary advances, they are also able to track increases in employee retention rates for companies since the adoption of their app.

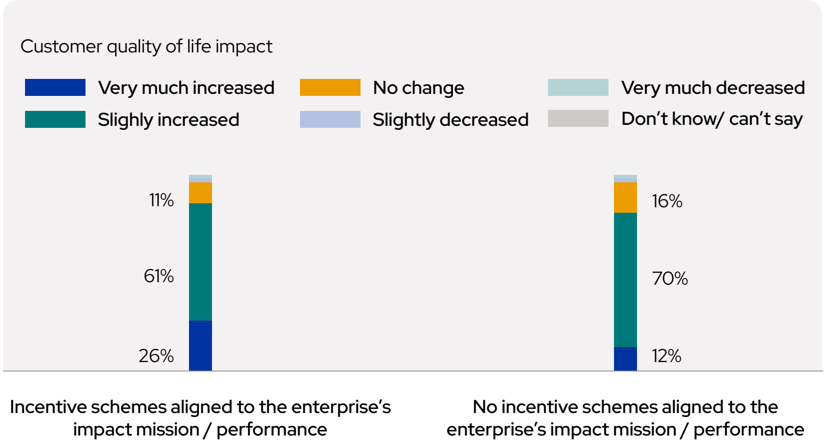


Figure 43. Customer quality of life outcomes based on FSP's incentive alignment to impact. N=7 FSPs, 1,750 customers. FSPs who responded 'Partial', 'In the Pipeline', and 'Prefer Not to Say' not shown.

An intention for impact is also operationalised clearly during times of crises, differentiating well-meaning FSPs from predatory lenders and illegal FinTechs. For example, some FSPs in our sample extended support to their customers through crises or emergencies, such as during the peak of COVID-19. An estimated 14% of customers surveyed reported receiving support from FSPs during the pandemic. The most common forms of support customers received from FSPs include flexible repayment terms (7% of customers) followed by the waiving or lowering interest rates (3%), debt forgiveness (1%) and non-loan support (1%) such as business advisory. More insights on the customer level can be found in Chapter 4.

Insights from Thailand: Building a Profitable and Sustainable Impact Oriented Microfinance Business

Ngern Tid Lor (NTL) is a Thai title lending company and insurance broker that has been operating for more than three decades. By providing title loans to unbanked and underbanked segments, NTL provides Thai borrowers a safe alternative to predatory lenders while also taking advantage of the commercial opportunity in Thailand's microfinance market. NTL operates on the basis of three core principles: Do No Harm, Accessibility, and Empathy. Ukritnukun CEO of NTL, sees NTL's impact intention as its biggest differentiator.

To date, impact initiatives and commercial returns have progressed hand-in-hand for NTL. First, with a strong focus on its impact mission, NTL has seen an increase in employee fulfilment and correspondingly customer loyalty across the years. Initiatives to boost the financial health of its customers, such as running public financial education campaigns and offering free insurance have paid off commercially as customers have been able to repay their loans on time and gone on to purchase more comprehensive insurance plans. NTL has grown its loan portfolio from US$50 million in 2009 to over US$2 billion in 2022. It is also now the #2 insurance broker and largest face-to-face insurance distributor in Thailand, selling US$150 million in premiums in 2021.

In May 2021, NTL listed on the Stock Exchange of Thailand (SET) as the largest ever IPO in the Finance and Securities Sector. Its total offering size was US$1 billion and market capitalisation was US$3.2 billion. This was a public vote of investor confidence in NTL's strong fundamentals and sustainable commercial growth. Despite 80% of its loan portfolio coming from the riskier unbanked and underbanked segment, its non-performing loan ratio remained at only 1.7% between 2018 to 2020. As Ukritnukun describes, "The strategy then and now remains the same; the more we scale, the more we reduce our cost to serve, so that we can include more people."

Chapter 4: Understanding the Impact of Financial Services at the End-customer Level

Access to credit does not lead to poverty alleviation or economic empowerment in and of itself, especially as it is necessary to consider how other market ingredients work alongside credit to improve positive impact on customers. Nevertheless, credit plays a crucial role in helping customers in their journeys toward financial stability.

To better understand how business actions and solutions have been able to deliver positive impact, it is critical to **hear directly from the end-customers**. To this end, we partnered with 60dB to conduct surveys with 6,524 existing FSP customers, including individuals, micro-merchants, and SMEs.

Leveraging 60dB' existing global microfinance index impact survey, this study sought to understand how effective Southeast Asian FSPs have been in addressing common customer challenges. Further, we assessed the impact FSPs were having across the important dimensions of **business impact, household impact, agency, and financial resilience.**

These customer voices are crucial to our ability to understand the actual impact of financial services on the end-customer, and what else is needed to achieve financial health.

Customer survey dimension	Key topics	Customer challenges addressed
Access: To what extent are FSPs expanding services to the unserved and underserved customers?	First Access Alternatives	Inaccessibility due to geographical spread and infrastructure gaps Inaccessibility due to KYC issues Gender norms and barriers
Digitalisation: How is digitalisation improving access to financial services?	Most common channel for interaction Access to financial services because of technology Level of safety using technology	
Satisfaction: How well do the products and services address the customers' unique needs? How can it be improved?	Net Promoter Score and drivers Challenges	Poor product fit High prices of products due to perceived customer risk
Client protection: Do customers have full understanding of the products and services and are they treated with respect and transparency?	Understanding of terms and conditions Fair treatment by agents	Presence of bad actors leading to harassment and bad experiences Risk of overindebtedness Twin challenges of poor financial and digital literacy
To what extent are customers being safeguarded against risks of overindebtedness?	Stress levels Loan repayments (burden, sources of repayment, ability to pay In full, on time, consumption cutback)	

Table 11. 60dB customer survey dimensions and key topics.

Customer survey dimension	Key topics	Customer challenges addressed
Business/livelihoods impact How have products and services enabled businesses and / or income to grow?	Income earned Change in paid employees	Gender norms and barriers Twin challenges of poor financial and digital literacy Impact / financial health outcomes
Household impact Are products and services leading to improvements in terms of quality of life, including education, meals, healthcare, and home improvements?	Quality of life Household well-being	
Financial resilience Are customers reporting improvements in their ability to save and manage their finances, especially in emergency situations?	Savings balance Resilience / unexpected emergency Managing finances	
Financial agency Are customers more likely to report improved confidence in achieving their financial goals and making financial decisions as a result of receiving loans?	Decision-making Confidence Financial goal	

Table 11. (continued) 60dB customer survey dimensions and key topics.

Southeast Asian FSP Customers: Who We Spoke To

This study sought to work with FSPs that targeted unserved and underserved individuals and MSMEs in Southeast Asia. Each participating FSP was asked to provide a list of 2,000 customers, which was representative of their overall customer base. From this, 60dB's research team randomly selected an average of 230 customers to survey. The customers we surveyed reflect the heterogeneous customer base of these FSPs across the region.

Customer Demographics

In terms of gender, over two-thirds of all the customers we spoke to were women. Traditional FSPs were more likely to reach women customers than FinTechs (76% vs. 57%).

Three-fifths of customers live in urban areas. Unsurprisingly, FinTechs reached a higher proportion of urban populations compared to traditional FSPs (80% vs. 44%).

Four-fifths of customers in our sample have been associated with the FSP for less than four years. Traditional FSPs were more likely to have customers for four years or more compared to FinTechs given their relatively new position in the market (32% vs. 5%).

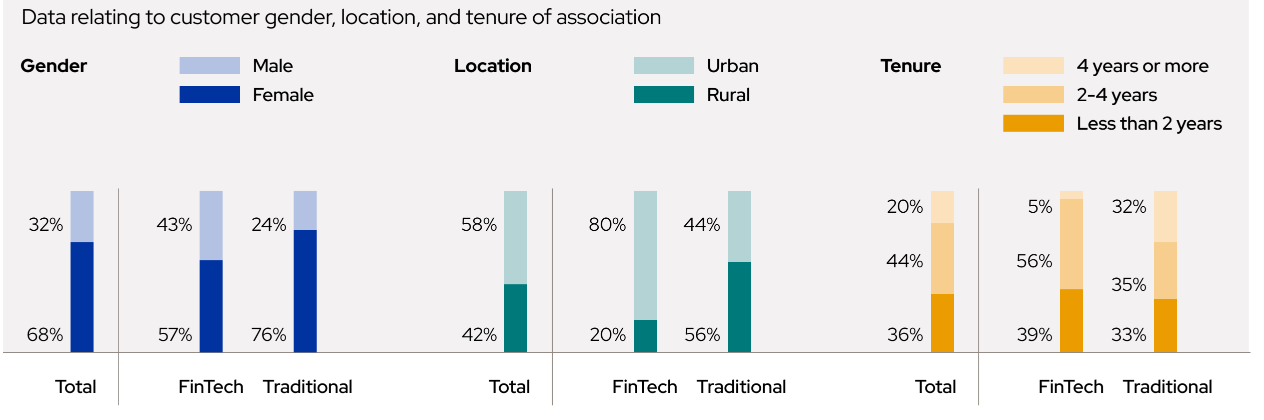
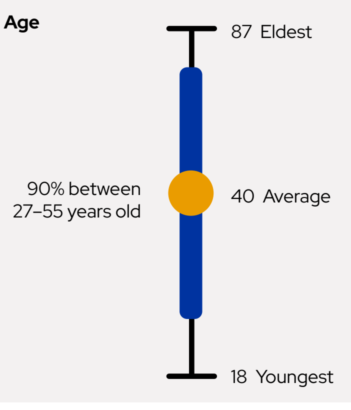


Figure 44. Customer demographics by gender, location, and tenure of association with FSP. N=6,524.

There was a wide variety in the age of the customer in our sample. The **average customer we spoke to was 40 years old**. We observed some variability by customer segmentation. Male, urban, and FinTech customers were more likely to be less than 30 years old compared to their respective counterparts.

Data relating to age



Age segmentation

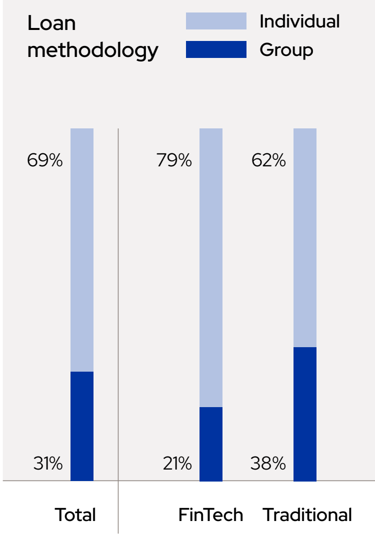
Customer Segments	30-years-old or less	31 to 45 years old	46-years-old or more
Total	21%	50%	29%
Male	26%	52%	22%
Female	18%	49%	33%
Urban	25%	50%	25%
Rural	15%	50%	35%
Traditional	14%	48%	38%
FinTech	33%	52%	15%

Figure 45. Customer age segmentation. N=6,524.

Customers in Southeast Asia take out more individual than group loans. Seven in 10 customers have an individual loan from their FSP. Unsurprisingly, traditional FSPs were more likely to have customers with group loans compared to FinTechs (38% vs. 21%).

The average loan size in our sample was **US$4,264 with a wide variability by gender, location, and business model.** Male, urban, and traditional customers are more likely to have a higher average loan size than their counterparts.

Data relating to lending methodology and loan use (N=6,524)



Data relating to business model and loan size (N=6,524)

Loan size

Client segments	Average loan size (US$)
Total	$4,264
Male	$7,562
Female	$2,897
Urban	$4,805
Rural	$3,549
Traditional	$4,510
FinTech	$3,844

Figure 46. Loan characteristics observed in the sample. N=6,524.

Key Insights from the Customer Survey: What We Learned

Our survey has yielded key insights across various dimensions of financial services provision: **digitalisation and access, customer satisfaction, client protection, business impact, household impact, and financial resilience and agency**. These dimensions are also differentiated along the lines of **business model type, gender, and borrower location**.

In the following section, we will provide a summary of the **most pertinent high-level observations based on the customer survey data collected**. There is wealth of data and insights that we are unable to do justice to within this report. Further detailed data will be published in the near future as a separate addendum, to enable interested parties to dig deeper.

Digitalisation is Expanding Access. More is Needed to Ensure Equitable Reach and Impact

Customers we spoke to as part of the survey indicate that broadly speaking, **digitalisation and technology are playing a positive role in expanding access to financial services**.

In our sample, **74% of customers interviewed reported experiencing that their use of financial services has been 'very much' or 'slightly' improved** because of the access provided by technology such as mobile phones and internet. **FinTech, male, and urban customers typically report greater improvements** in access due to technology, as well as generally feeling safe at a higher rate when accessing financial services through digital channels.

These indicate that there continues to be scope for cross-learning between FinTechs and traditional FSPs to improve in the delivery of their financial services digitally. Given that FinTech customers report feeling higher levels of safety than traditional customers in using technology, partnerships between both types of FSPs could help educate traditional customers on how to access DFS safely and responsibly. FinTechs may also offer their digital education services to help better equip traditional customers to access services digitally. In the long run, this will better position FSPs to operate sustainably. In addition, a high level of trust in technology bodes well for the scalability of digital credit solutions.

> They (FSP) helped me to save my time and efforts because I will no longer go out and go to the market. It is really convenient and hassle-free on my part."
> *- Male, 33*

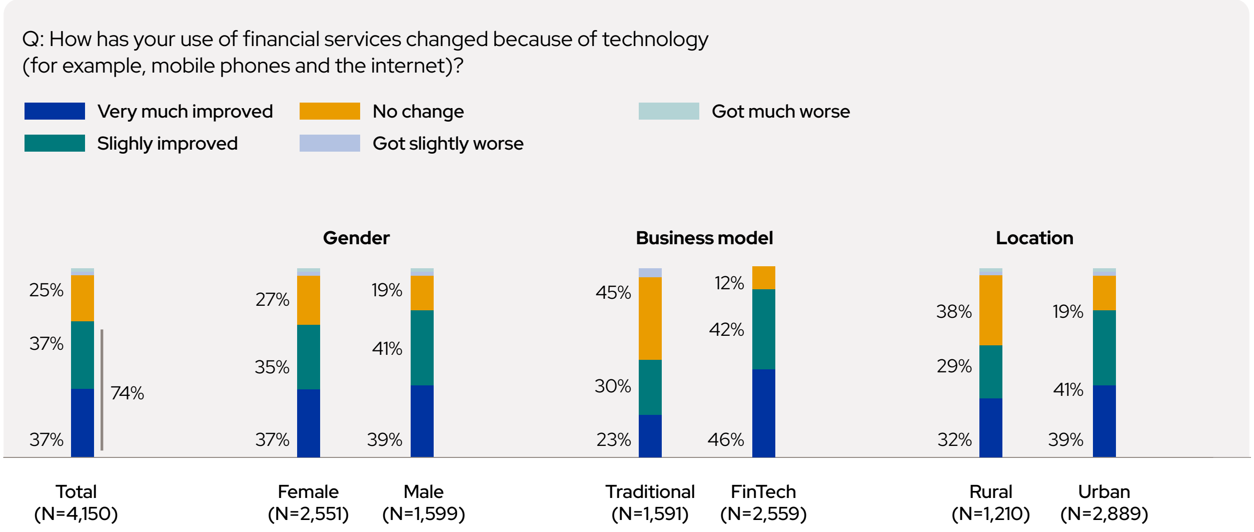


Figure 47. Change in use of financial services because of technology. N=4,150.

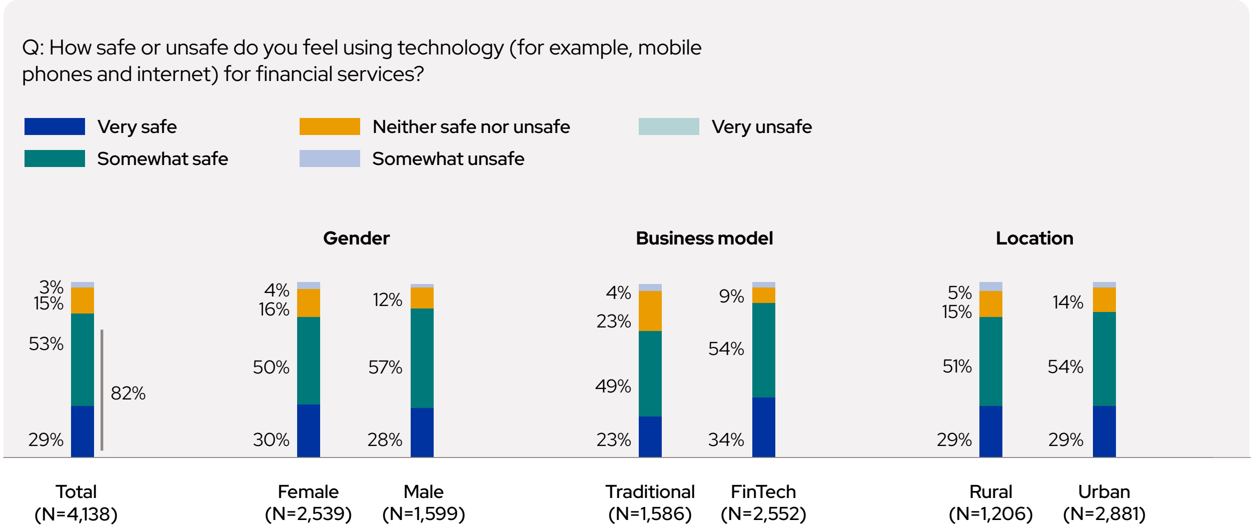


Figure 48. Level of safety using technology. N=4,138.

As can be seen in our sample demographic breakdown (see Figure 45), **FinTechs address a higher proportion of urban customers**. While **FinTechs serve more women than men, their focus on women is to a lesser degree** than traditional players. This trend is to be expected as the reach of FinTech companies reflects the **existing digital divide**.

Despite this, our study found that FinTechs are **reaching the underserved at a higher rate compared to traditional FSPs**. FinTechs are more likely than traditional FSPs to reach first-time borrowers (63% vs. 46%) and to provide a scarce service, with 57% of FinTech customers saying they could not find a good alternative compared to 40% for traditional FSPs.

This may be because traditional players, who have operated for longer, are more likely to have an established base of customers than the emerging FinTechs. It may also be a result of the FinTechs in our sample offering unique, specialised products such as EWA or BNPL products, which customers may not have had access to before.

Nevertheless, there have been successful examples in terms of FinTechs that are actively targeting rural, female, and lower-income customers. Such business models, which emphasise hybrid approaches, embedded education, and frequent in-person customer engagements, are well thought-through and have shown some promising, sustained success to date. These models will be important to help achieve digital equity in the region.

Q: Before [FSP], did you have access to a loan like [FSP] provides?

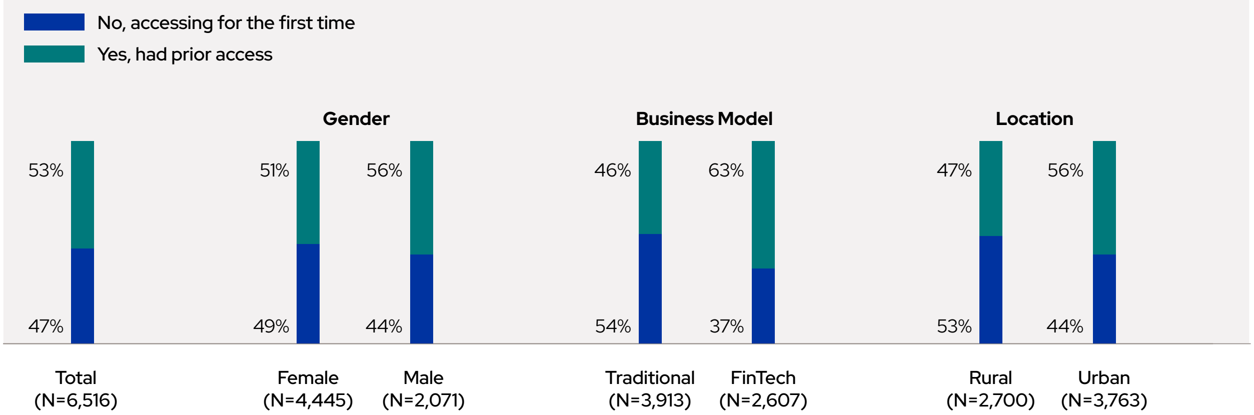


Figure 49a. First access. N=6,516.

Q: Could you easily find a good alternative to [FSP]?

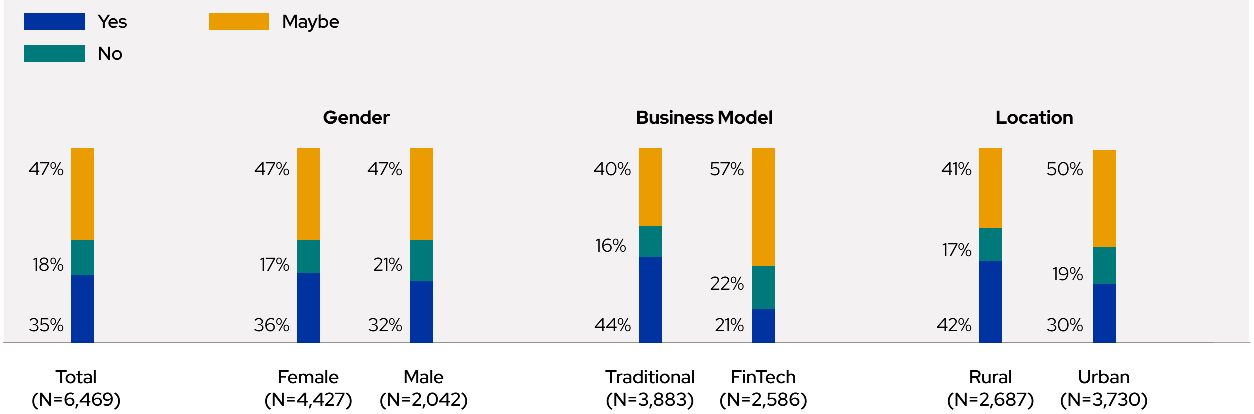


Figure 49b. Access to alternatives. N= 6,469.

Insights from Indonesia: High-Touch and Continuous Customer Engagement for Better Impact Outcomes

Amartha is a peer-to-peer lending platform in Indonesia with a mission to bring inclusive, responsible, and sustainable DFS to grassroots communities through technology. As a FinTech microfinance marketplace, Amartha not only lends business capital for microentrepreneurs in rural areas, but also works to accelerate the growth of its customers to increase economic inclusion in Indonesia. Amartha has a specific focus on rural women micro-entrepreneurs.

To address the low digital and financial literacy of its customers, Amartha conducts mandatory two-day finance training courses before disbursing loans to new customers. The course familiarises prospective customers with how loan products will help improve the prosperity of users' families, such as how capital can be used to send children to school, address domestic expenses, and improve business revenue.

Amartha's robust literacy programmes help mitigate the risk of loan defaults. They help build customer loyalty, guaranteeing long-term business and future revenues.

Amartha also periodically measures the impact of its economic intervention by tracking borrower's income growth as a proxy for their financial well-being. Amartha evaluates this during the second year of its customers' loan cycle to better understand how its intervention in a one-year cycle can improve borrowers' income.

High Customer Satisfaction and Client Protection in Southeast Asia

Compared to global benchmarks, FSPs in Southeast Asia tend to perform better in terms of customer satisfaction, despite reporting slightly more challenges compared to global. Top drivers of satisfaction for customers in the region include easy access to loans with few requirements, low interest rates or fees, as well as quick loan disbursement. These correspond to key challenges at the demand level identified in Chapter 2, namely poor product fit, inaccessibility due to KYC issues, and high prices of products. It is evident that addressing these issues leads to higher customer satisfaction.

Digging deeper into this study's sample, we found that customer satisfaction deepens over time. Clients who have been with the FSP for more than four years report higher satisfaction levels (NPS of 69%) than those who have been associated with FSP for less than 4 years (55%). **This indicates that customer impact, satisfaction, and retention are intrinsically linked**.

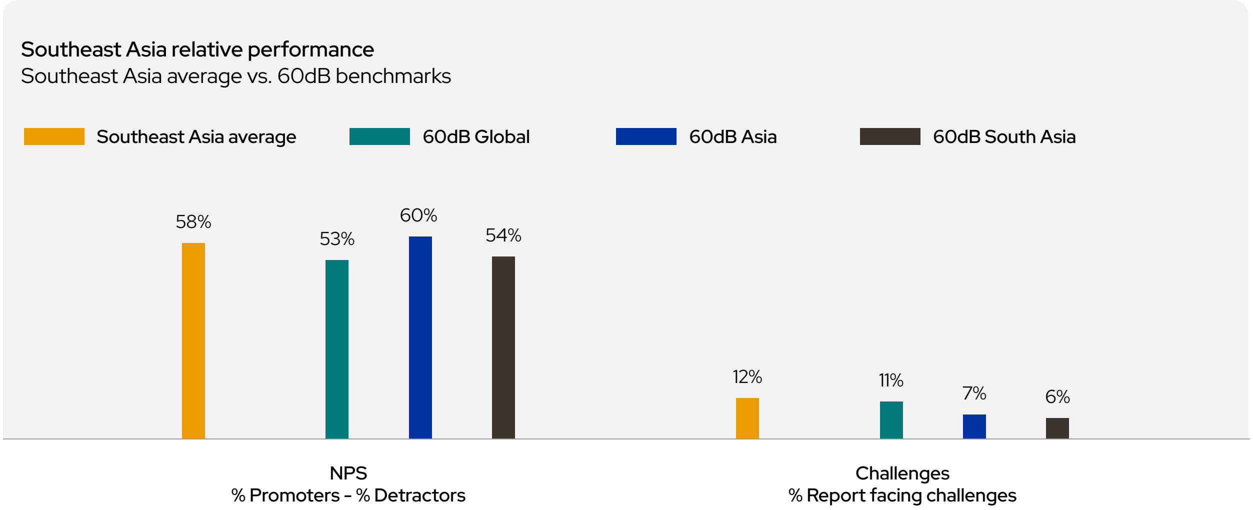


Figure 50. NPS and Challenges faced by Southeast Asian customers against benchmarks.[136]

Q: What specifically about [FSP] would cause you to recommend it to a friend or family member?
Open-ended, coded by 60 Decibels

		Gender		Previous Access	
Satisfaction Drivers	**Total**	**Male**	**Female**	**Yes**	**No**
Easy to access loans, few requirements	50%	58%	47%	49%	51%
Low interest rates/fees	30%	38%	28%	35%	26%
Loans disbursed quickly	19%	24%	15%	18%	17%
Good customer service	18%	16%	20%	19%	19%
Payments are reasonable (frequency)	12%	8%	14%	13%	12%
Good credit terms	5%	7%	5%	5%	5%
Access to insurance	5%	3%	2%	1%	3%

Table 12. Main reasons promoters recommend FSP to friends or family. Total N=3,470 | Male=903, Female=567, Previous Access Yes=1,671, No=1,794.

136 Please refer to footnote 26 for a definition of 60dB benchmarks.

Where client protection is concerned, our study's findings indicate that the majority of the survey's respondents have a **good understanding of loan terms, do not experience difficulties with loan repayment, and generally experience fair treatment by FSP agents (93% agree FSP agents always treat them fairly and respectfully).**

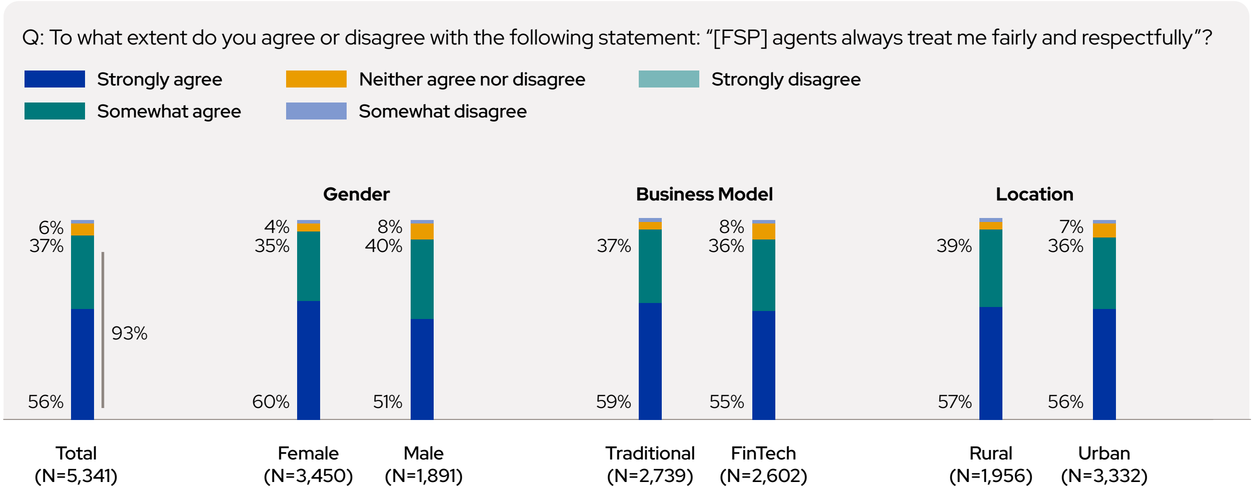


Figure 51. Perception of fair and respectful treatment by agents. N=5,341.

In our survey, loan repayment capacity is gauged by a customer's experience of a loan burden, their ability to pay their loan in full on time, and whether they experience any cutbacks in terms of household expenses.

Notably, the Southeast Asian customers in our sample perform better than global benchmarks in terms of their ability to meet their loan obligations or in not needing to cut back on consumption. 88% can make repayments through their income or wages. In the minority of instances where customers have had to rely on other methods to repay their loans, they have turned primarily to cutting their household expenses or borrowing from informal lenders. This indicates that the client protection practices and policies of the FSPs in our sample are effective, though it must be noted that many of these FSPs self-selected to participate in our study and may not be reflective of potentially unscrupulous behaviours in the broader, especially informal sector.

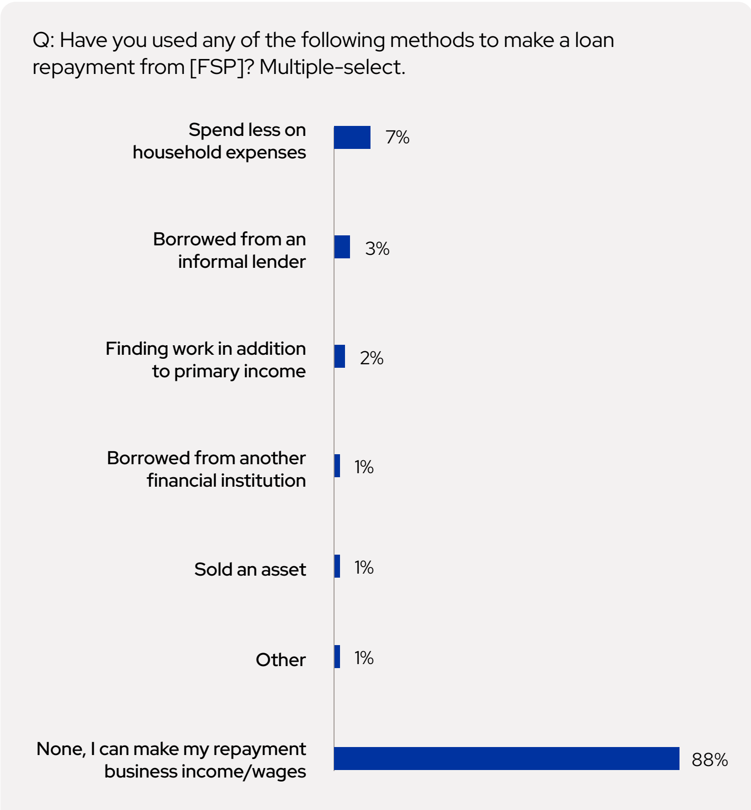


Figure 52. Ease of repayment by customers. N=3,762.

While FSP performance in terms of client protection in our sample is promising, there remain areas for improvement. In particular, **loan terms and conditions can be made simpler to understand**. Broadly speaking, while the proportion of Southeast Asian customers who agree that terms and conditions of clear is comparable to global benchmarks, **the percentage who strongly agree is comparatively low (53% vs. 70%)**. This corresponds to the demand-side challenge of low financial literacy faced by many across the region, as highlighted in Chapter 2.

Importantly, customers who agree that fees, interest rates, and penalties are easy to understand are more likely to make their loan repayments using business income or wages than those who disagree (88% vs. 64%). Those who disagree are more likely to cut back on household expenditure, borrow from an informal lender, or take on an additional job. Hence, **it is critical that customers understand their loan terms well to prevent additional financial pressure or distress**.

In addition, while overall a higher proportion of customers in Southeast Asia report a decrease in time worrying about finances overall (56% vs. 54%), a lower percentage indicated that this had very much decreased (14% vs. 18%), compared to global.

Interestingly, customers who report increased worry about their finances are also more likely to resort to alternate methods of repayment than those who report decreased worry levels (33% vs. 8%). This suggests that **an inability to repay loans can take a toll on the mental health of customers** and is an area that should be closely monitored.

All these indicators speak to the importance of ensuring product transparency among FSPs and continually strengthening customer understanding of the loan products they have taken. Whether through customer education or continuous communication (e.g., messaging apps), as discussed in Chapter 3, FSPs can continue to innovate to devise the best ways of presenting relevant loan information to customers in simple and easy-to-understand terms.

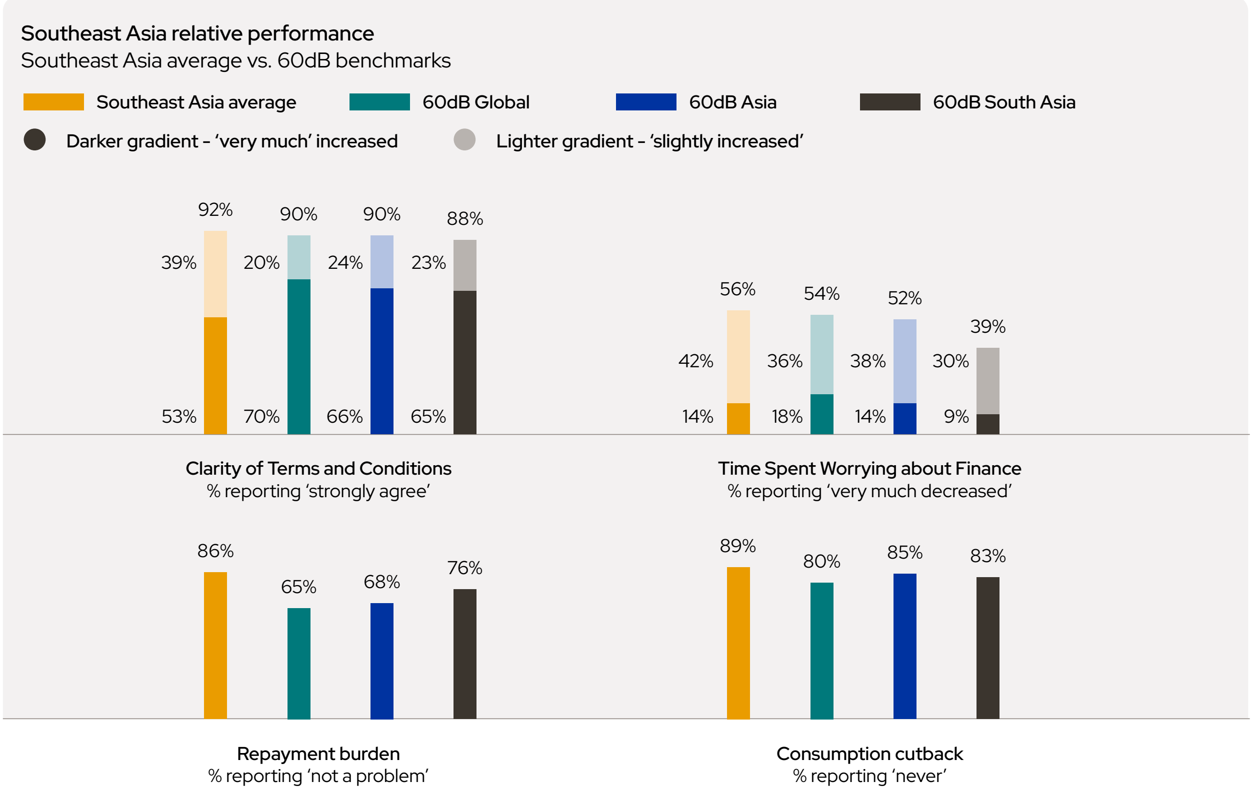


Figure 53. Client protection in Southeast Asia compared to benchmarks.[137]

137 Please refer to footnote 26 for a definition of 60dB benchmarks.

Overall Positive Impact of FSPs on Southeast Southeast Asian Customers

At a regional level, customers in Southeast Asia broadly report **improvements across various dimensions of impact, including business impact, household impact, financial resilience, and agency.**

> [FSP] loan helped me grow my livelihood. Now, I can earn more income to support my family with my own products sold in my business." *- Male, 20*

Business impact

Broadly speaking, Southeast Asian customers report increases in **business incomes** as well as **the number of paid employees**.

78% of customers surveyed reported income increases as a result of receiving loans from an FSP. While fewer Southeast Asian customers reported 'very much increased' in terms of income compared to global customers, slightly more Southeast Asians reported increases at all ('very much' and 'slightly' combined).

7% of Southeast Asian customers reported increasing employment, compared to 8% of global customers. Slightly lower increases in employment may reflect the high proportion of sole proprietorships, especially amongst women, as well as informal rural businesses in the region. Sole proprietorships may lack the business justifications to increase their headcount, such as small customer bases and inconsistent revenue streams. **This indicates a need for business-related support beyond financial and digital literacy education.**

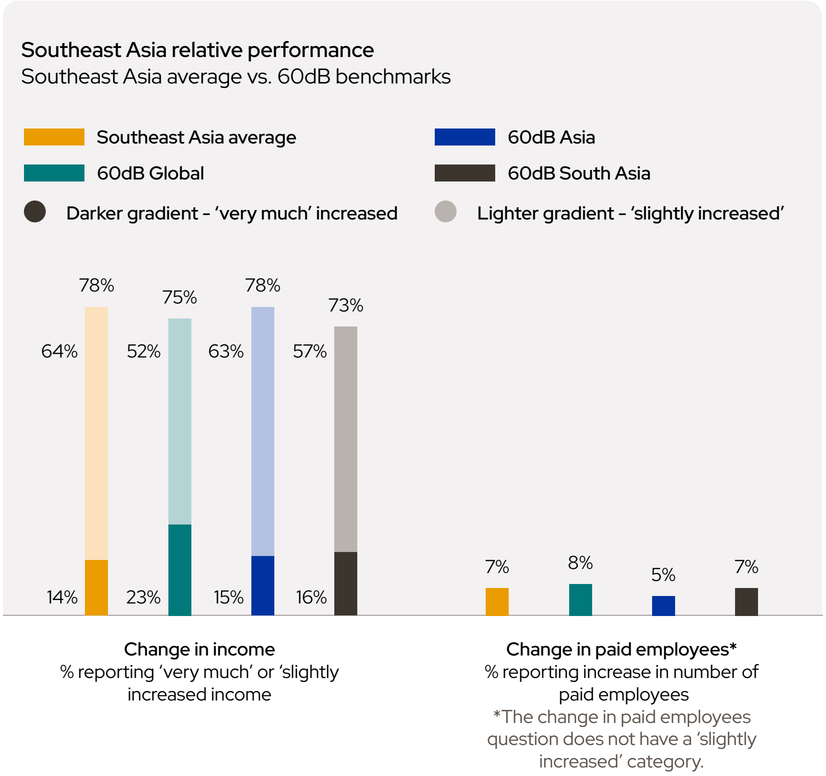


Figure 54. Change in income and change in paid employees against benchmarks.[138]

138 Please refer to footnote 26 for a definition of 60dB benchmarks.

Quality of life and household well-being

In terms of improvements in their quality of life, **89% of customers surveyed indicated some level of improvement, with 19% of customers reporting that their lives had 'very much' improved**. While this is generally below benchmarks from other regions and globally, it nevertheless indicates that customers' lives are changed for the better as a result of their ability to access credit. Customers surveyed indicated that **increased incomes, increased ability to afford household expenses and bills, as well as business growth were the top three drivers behind these improvements.**

> As a long-time customer, I could grow the organisation better. My partners and I could buy healthy food, afford better education and health care for our family members." *- Female, 32*

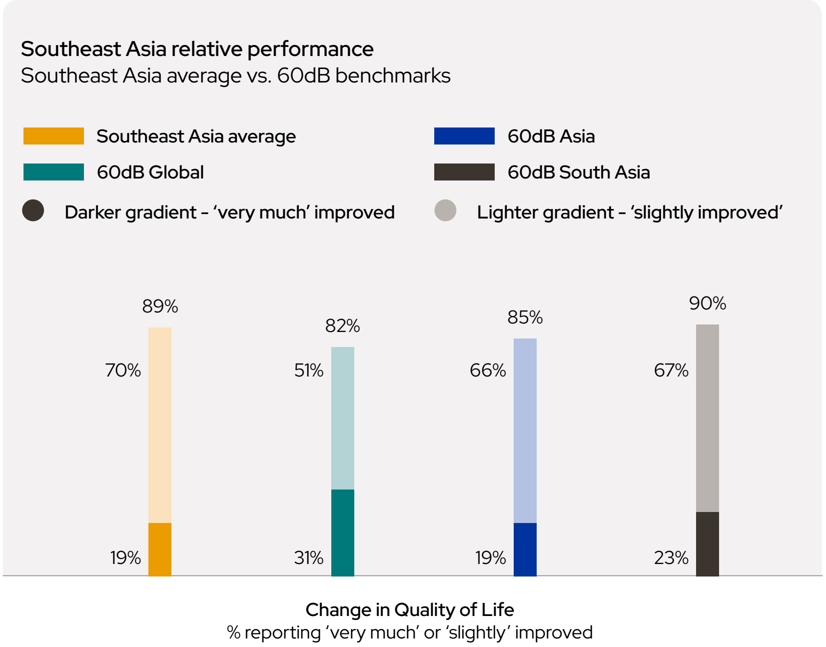


Figure 55. Change in quality of life against benchmarks.[139]

Q: Please explain how your quality of life has improved?
Open-ended, coded by 60 Decibels

Quality of life outcomes	Total	Gender		Previous access*	
		Male	Female	Yes	No
Increased income	33%	29%	35%	38%	29%
Business growth	30%	26%	32%	32%	29%
Afford household & bills	29%	27%	30%	27%	30%
Improved savings	17%	13%	18%	17%	17%
Increased ability to afford inventory	17%	16%	18%	15%	20%
Increased business investment	16%	14%	17%	19%	14%
Increased ability to afford assets	11%	12%	11%	13%	10%
Increased ability to afford education	7%	4%	9%	8%	7%
Improved access to finance	7%	7%	7%	6%	7%

Table 13. Reported improvement in quality of life by gender and previous access.
(Total N=4,730 | Male=1,380, Female=3,350, Previous Access Yes=2,336, No=2,387).
*Previous access indicates whether or not customers had access to similar credit products before the FSP.

139 Please refer to footnote 26 for a definition of 60dB benchmarks.

These results help to validate the idea that access to credit has important knock-on effects on household well-being, serving as an enabler to the achievement of SDGs such as Good Health and Well-Being, Quality Education, and Zero Hunger. Southeast Asian customers in our sample typically used credit to **improve their ability to spend on education, followed by food, home improvements, and healthcare.** Though customers in the region gave less attention to home improvements and healthcare relative to global benchmarks, their **increase in education expenditure is markedly higher than global benchmarks.** This may be the result of education being prioritised by households across the region. This also suggests that specialised products such as education loans could be well received in the Southeast Asian context.

> Of course, I am happy that as a father I can provide for my family especially the basic needs like food and buy some appliances at home. Sometimes the budget is tight but getting loans is very helpful as support." *- Male, 56*

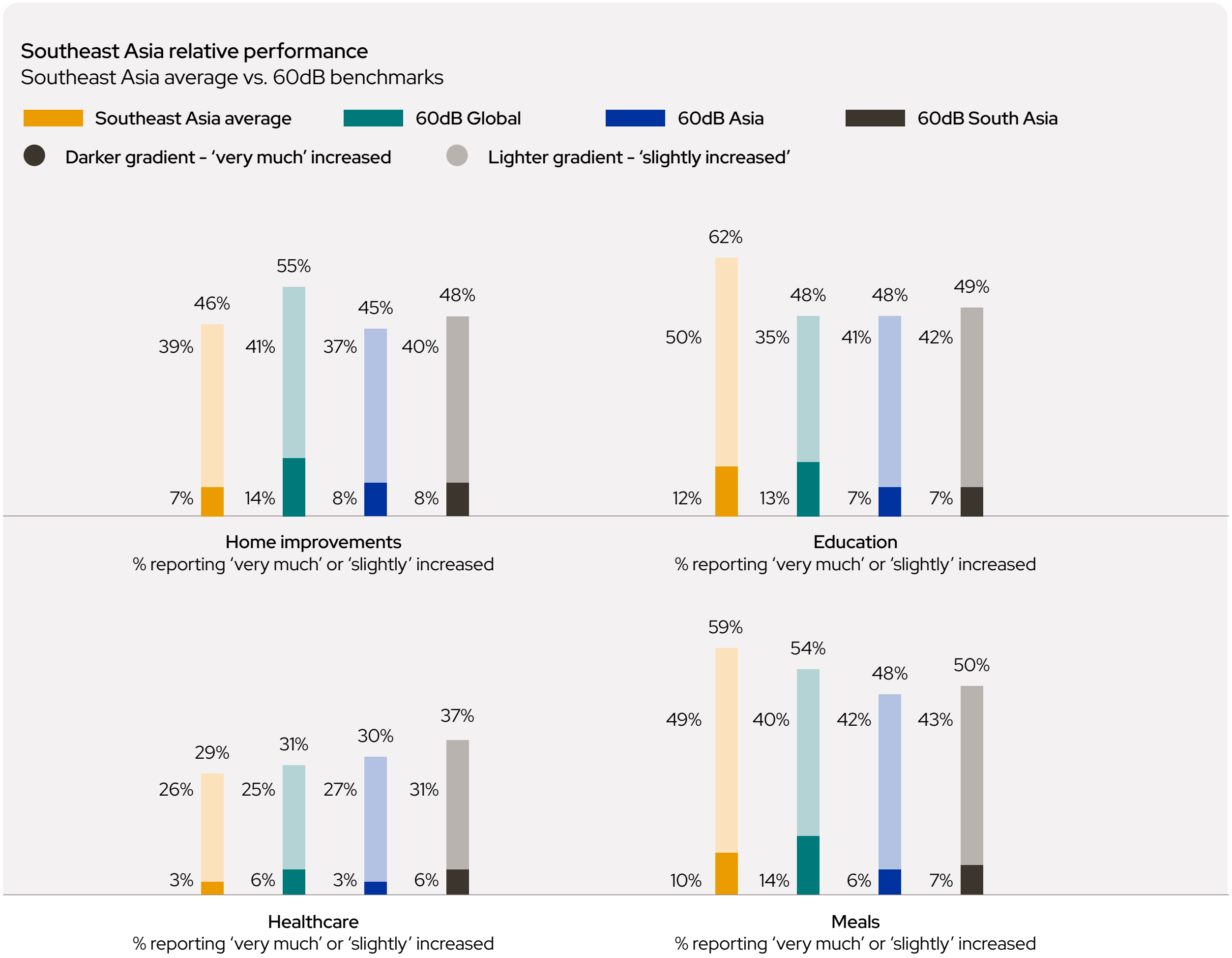


Figure 56. Change in amount spent on home improvements, education, healthcare, and meals against benchmarks.[140]

140 Please refer to footnote 26 for a definition of 60dB benchmarks.

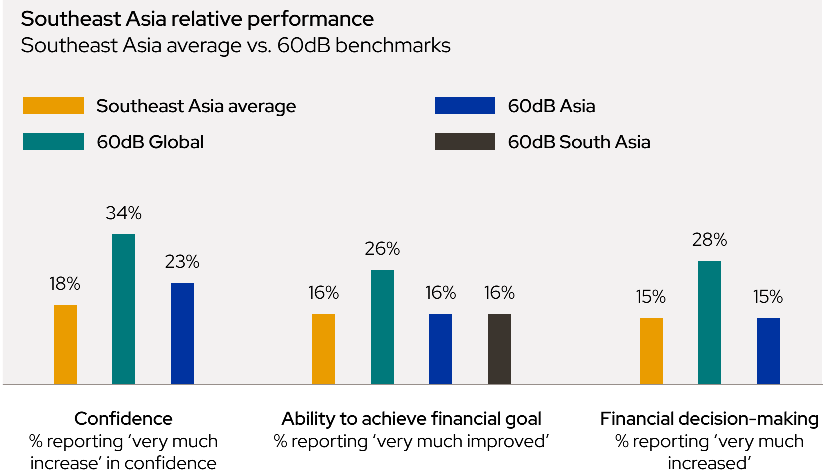
Financial resilience and agency

Importantly, a significant proportion of customers in our sample reported **improvements in their sense of agency**, such as their confidence to make financial decisions and ability to meet financial goals. 84% reported increasing confidence, 90% improved their ability to achieve their financial goal, and 61% reported increases in their financial decision-making abilities.

Clients also reported **significant improvements in financial resilience**, or the ability to manage their finances and meet emergency situations. 76% indicated that their ability to face a major expense has improved because of their FSP, while 84% indicated their ability to manage their finance has increased.

While reported **outcomes on resilience and agency are generally lower than global benchmarks** when considering those who report 'very much' increases or improvements, they are typically on par with benchmarks from Asia. As an exception, **increased savings is relatively high** for Southeast Asian customers, which could be driven by cultural practices.

> As for my family, we no longer have extreme financial worries. We no longer have to run back and forth looking for someone to lend us money to support and maintain our business." *- Female, 53 years*



* For confidence and financial decision-making, we do not have benchmarks at the South Asia level.

Figure 57. Agency: confidence, ability to achieve financial goal, financial decision-making against benchmarks.

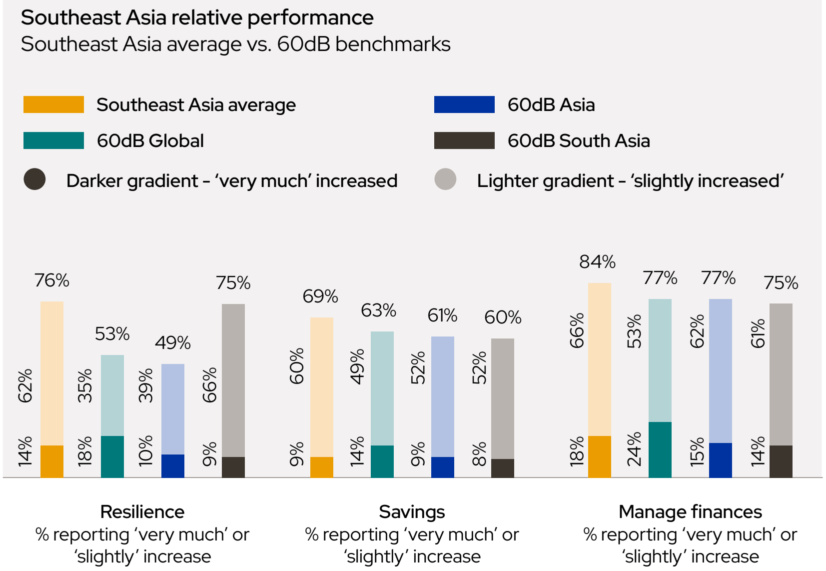


Figure 58. Financial resilience: resilience, savings, and ability to manage finances against benchmarks.[141]

141 Please refer to footnote 26 for a definition of 60dB benchmarks.

Notable Differences in Southeast Asia Responses Relative to Global

While impact is overall positive, responses on some dimensions in Southeast Asia are **muted compared to global benchmarks.**

With our expanded sample of 28 FSPs, we have seen some positive shifts compared to the original sample of 9 FSPs in 60dB's global Microfinance Index. However, caution must be taken in making any definitive conclusions across both samples, not least because of the different profile of FSPs in both studies. Nonetheless, we shall attempt some analysis here.

Firstly, it is heartening to note that the performance of Southeast Asian FSPs in our sample is above global and regional benchmarks in terms of client protection and satisfaction (these two are new dimensions added this year). This suggests that the intentional implementation of client protection policies and practices by this study's FSPs have been effective, and that customers have positive experiences.

Southeast Asia continues to rank below global and regional benchmarks in terms of first-time access to credit. On one hand, this may be the result of saturated credit markets in certain countries in the region, on the other, it could be attributed to the wide geographical spread of the region and continuing difficulties in reaching rural or remote areas.

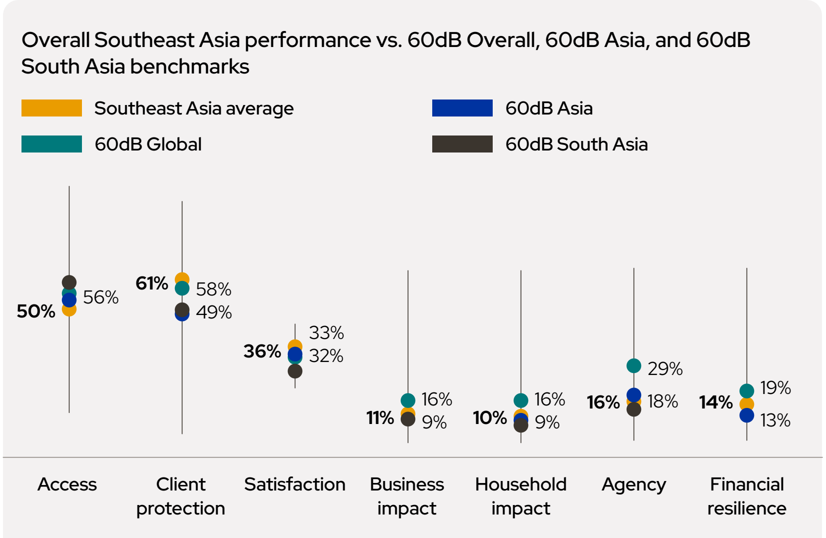


Figure 59. Overall Southeast Asia performance across impact dimensions compared to benchmarks.[142]

At the same time, Southeast Asia's performance is on par with or slightly higher than regional benchmarks but lower than global across business impact, household impact, financial agency, and financial resilience. This indicates that while FSPs in the region are delivering high quality services in a responsible way, more can be done to deepen the reach and impact of these services on customers' lives beyond initial access.

It is important to note that the spread of performance by FSPs is wide across the dimensions. This highlights the heterogeneity of the performance of FSPs in Southeast Asia, making it difficult to rely on averages only. Benchmarking is necessary to allow FSPs to improve and understand their performance in relation to other players, but the heterogeneity present in Southeast Asia must be kept in mind.

142 Please refer to footnote 26 for a definition of 60dB benchmarks.

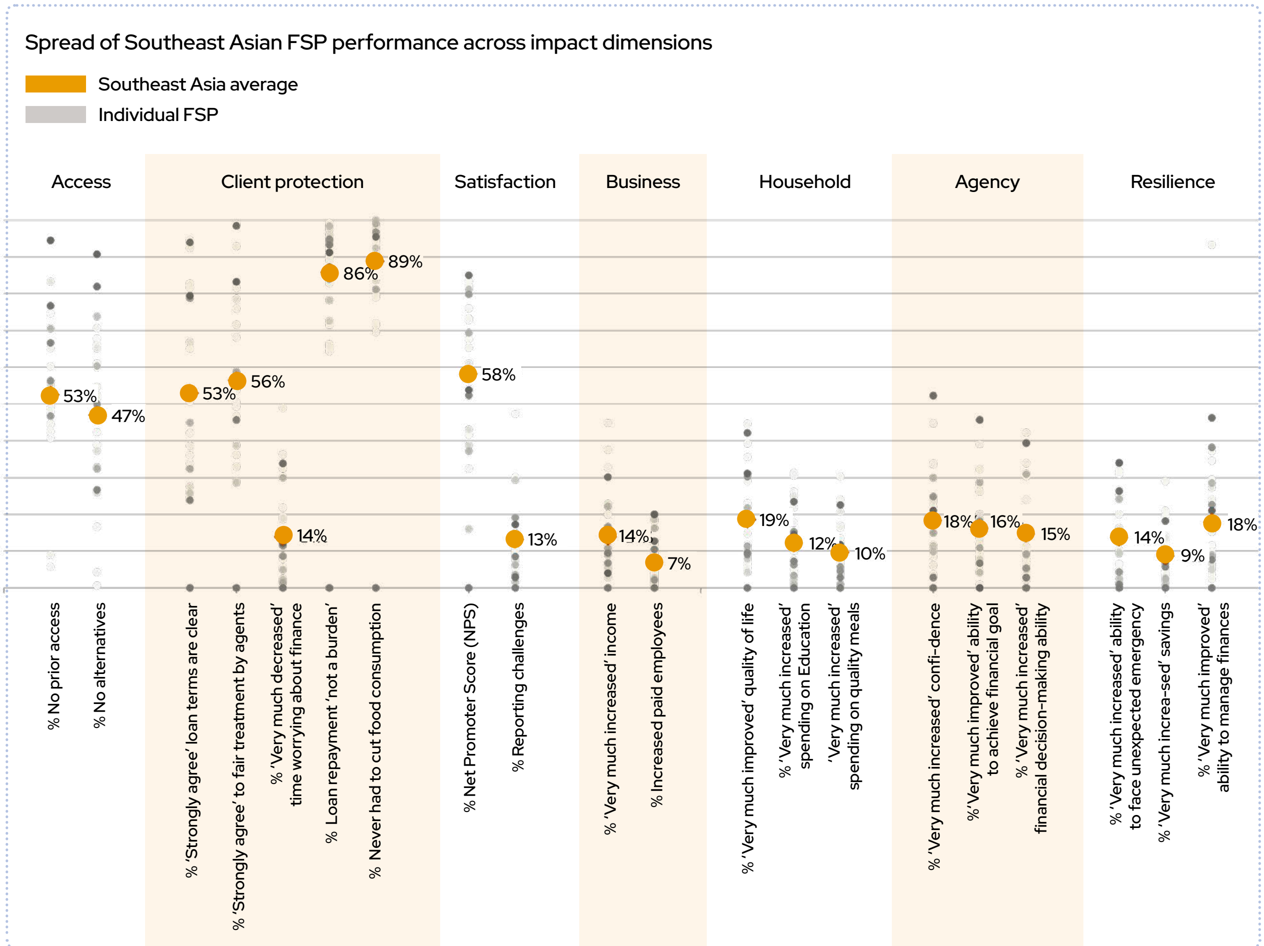


Figure 60. Spread of Southeast Asian FSP performance across impact dimensions. N=28 FSPs.

Important Nuances in Impact across Loan Usage, Business Model, and Customer Segments

Both business and consumption loans show positive impact – greater depth of impact for business loans.

Broadly speaking, the majority of customers across Southeast Asia in our sample used their loans for **business purposes** rather than consumption uses.

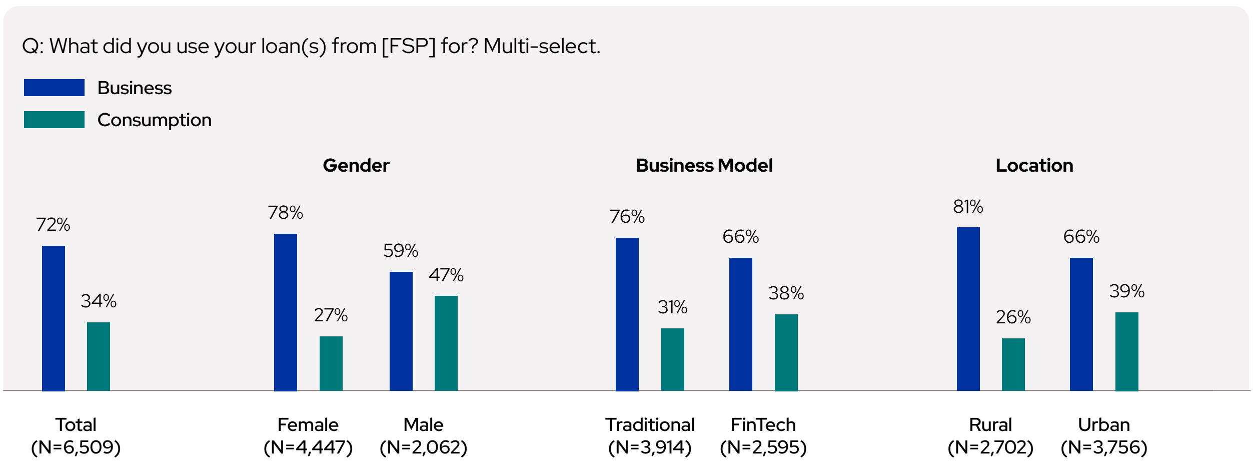


Figure 61. Loan use in Southeast Asia (N=6,509).

Importantly, customers who used loans for business purposes tended to experience a **greater depth of impact** across the dimensions of income, the ability to manage their finances, their ability to meet unexpected emergencies, and their ability to save. This does not suggest that consumption loans had negative impacts, as most customers taking consumption loans did experience positive outcomes, especially regarding an improved ability to deal with emergency situations or manage their day-to-day finances. These results indicate that both business and consumption loans **helped to improve customers' financial management skills**, perhaps as a result of embedded financial education as well as the building of experience in handling financial obligations.

> "I took a loan to raise capital for my business of trading farming produce. My income has increased and with it, I bought livestock, increased my saving rate and I provide timely the basic needs for my family like health insurance and food." *- Female, 50 years*

Figure 62. Impact of business and consumption loans across impact dimensions.

Customers of traditional FSPs and FinTechs report different impact trends across dimensions

When comparing traditional FSPs and digital native FinTechs, there is some suggestion that impact is experienced differently across their customer segments.

Broadly speaking, FinTech customers tend to report **lower satisfaction** (59% Promoters for FinTechs vs. 68% for traditional FSPs). This could be the result of generally low digital literacy among underserved consumers, or FinTechs delivering customer service mainly online rather than in-person. Less frequent interactions and customer engagements could explain challenges in using FinTech services effectively. Conversely, the high touch approach used by traditional FSPs, especially MFIs, may result in deeper relationships with the customer and stronger customer loyalty.

In terms of client protection, **traditional customers** are more likely than FinTech customers to **fully understand their loan terms** and agree that they are **treated fairly and with respect by FSP agents**. There remains room for improvement for FinTechs to ensure customers are able to understand their loan terms and be treated fairly.

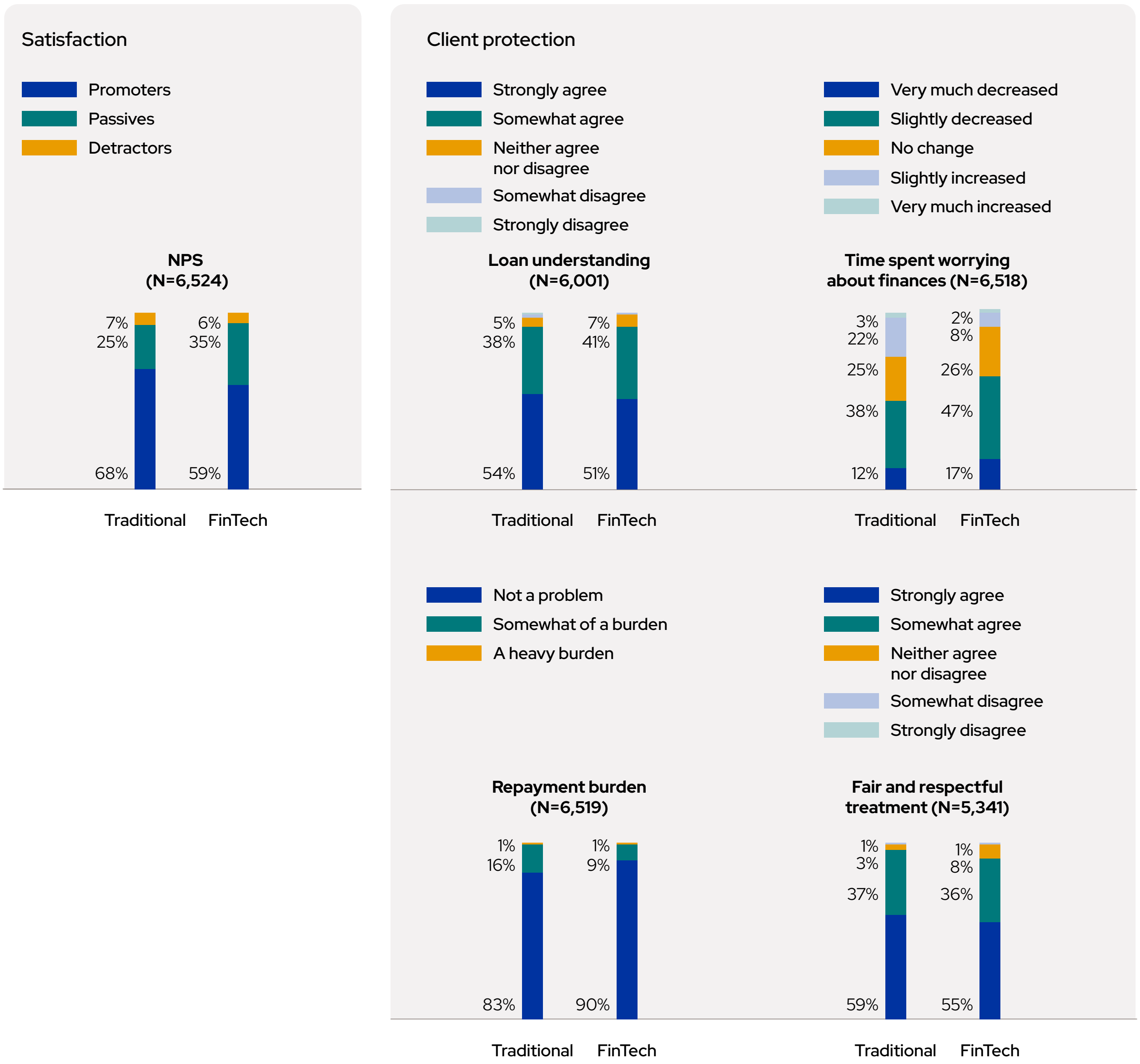


Figure 63. Customer satisfaction and client protection performance by FSP business model type.

With regard to **business impact,** traditional FSP customers tend to report greater **improvements in their business income** while FinTech customers are more likely to experience **increases in paid employees**. This is despite 66% of FinTech customers using loans for business purposes, slightly below 76% of traditional FSP customers. This may be a reflection of the type and size of the enterprises that traditional and FinTech and traditional FSPs cater to. FinTechs possibly address more MSMEs in urban areas of a larger scale, who are more willing and able to employ paid employees, while traditional FSPs maintain focus on rural, informal micro-businesses that are less likely to engage in formal employment activities. Traditional FSP customers also tend to report greater improvements in household well-being outcomes, such as education, because of access to credit than FinTech customers.

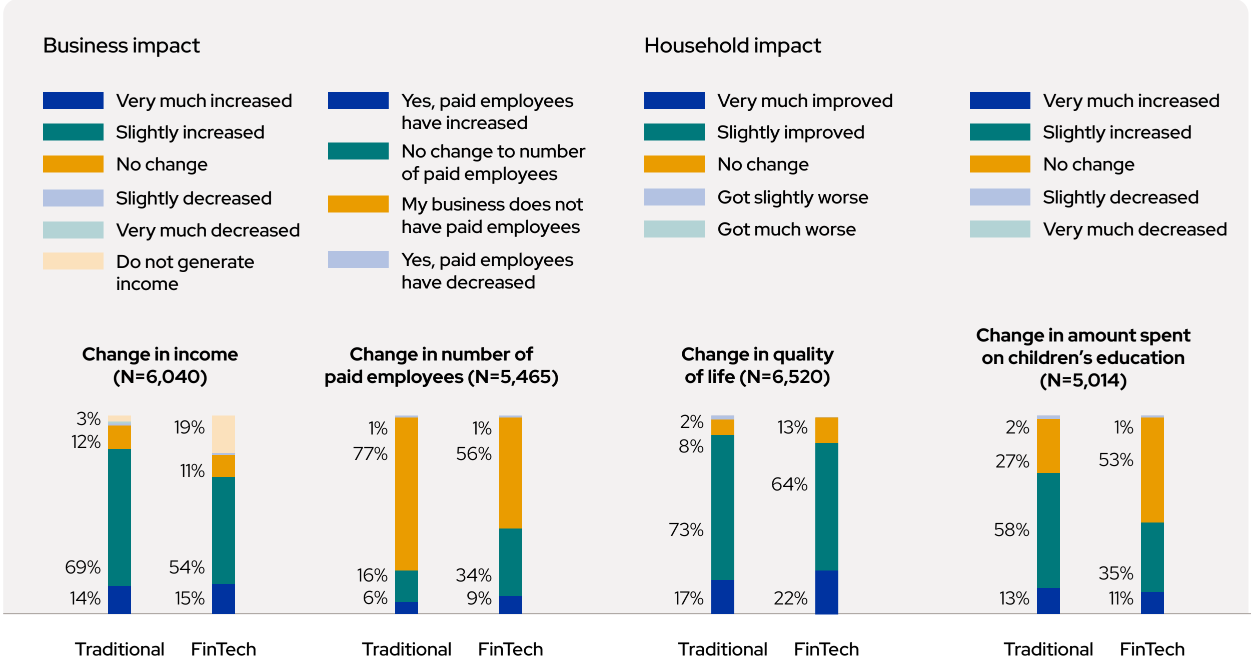


Figure 64. Business impact and household impact by FSP business model type.

However, **FinTech customers report slightly higher improvements in financial resilience and agency, especially regarding their ability to meet emergency situations** as a result of access to credit. FinTech customers report slightly higher increases in confidence and ability to manage finances than customers of traditional FSPs. These outcomes could be the result of FinTech customers typically being urban and higher-income customers, traditional FSP customers being more vulnerable to broader macroeconomic issues such as poverty and income instability.

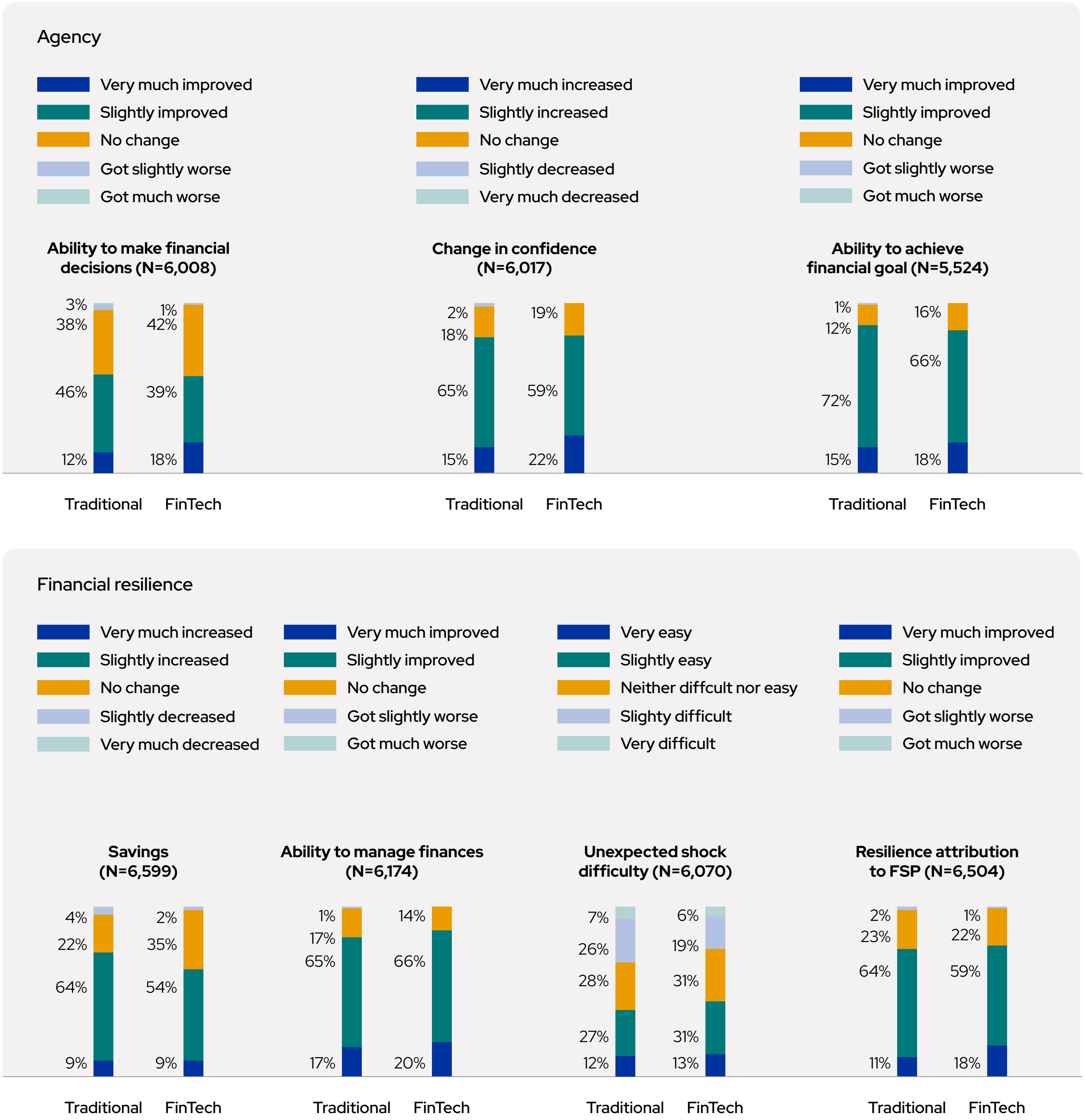


Figure 65. Agency and financial resilience by FSP business model type.

Female customers experience greater depth of impact and yet remain more vulnerable.

Across gender differences, our survey indicates that **female respondents tend to experience higher levels of satisfaction than male respondents (69% and 56% Promoters respectively)**. This could be a result of FSPs being intentional in designing products and services for female customers, especially MFIs that focus primarily on female borrowers. This is corroborated by the fact that female customers typically fully understand their loan terms and agree that they are treated fairly and with respect by FSP agents more than male customers.

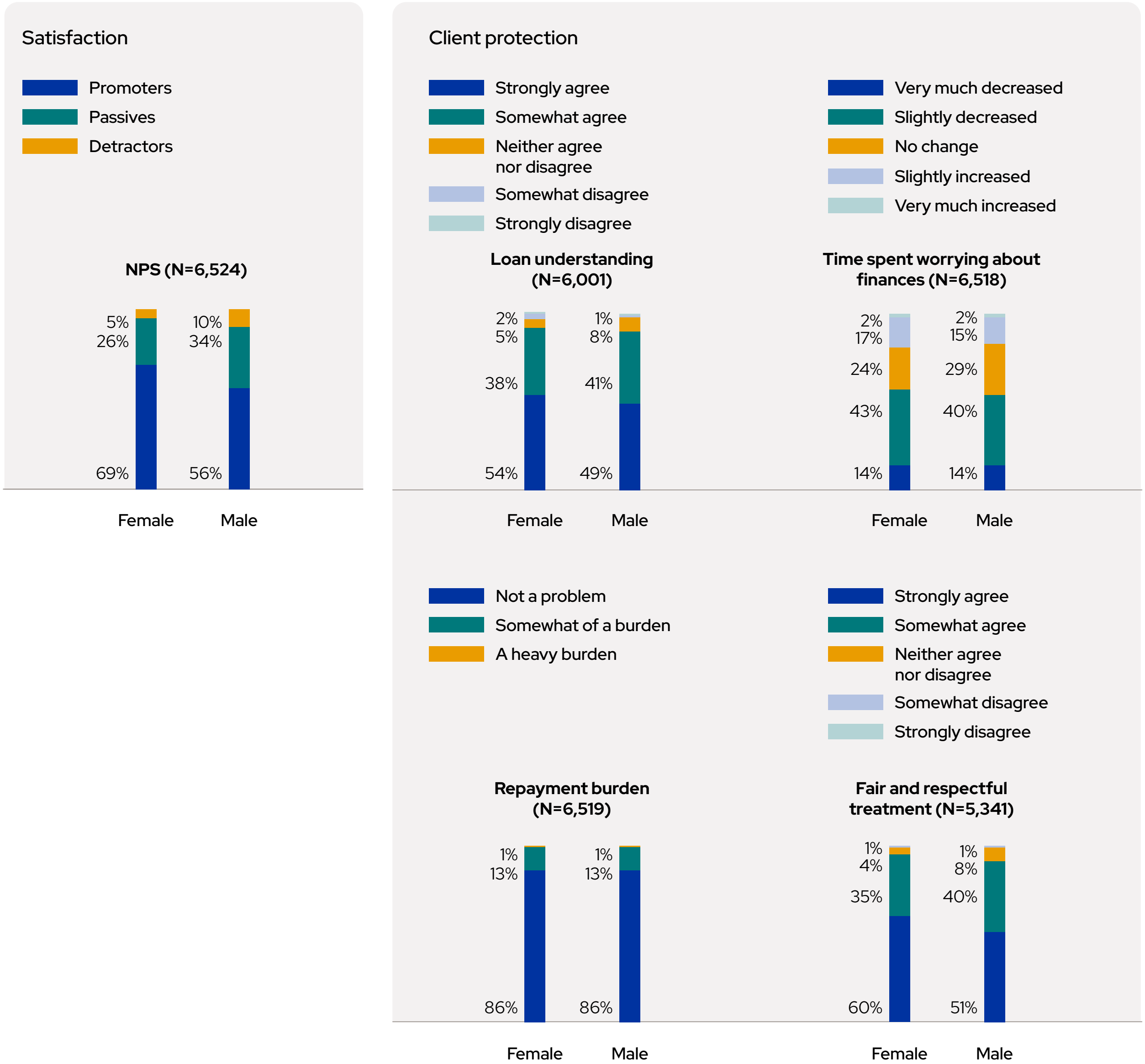


Figure 66. Satisfaction and client protection by gender.

> [FSP] helps me to have more capital to buy groceries to sell at my shop and gain more profits. Thus, I can afford daily foods and expenses. Also, it plays a part in helping my child to pursue a Bachelor's Degree."
> *- Female, 50*

In terms of business impact, **female borrowers typically experienced greater impact across the dimensions of business impact (81% vs. 69% for men). However, female customers less likely to report using loans to pay their staff** (2% vs. 8%) or increase paid employees compared to male customers and (6% vs. 9%). This may be a result of a higher proportion of female customers running sole proprietorships, as indicated by the fact that 77% of female customers in our sample report that their business does not have paid employees vs. 54% of male customers.

Female customers also typically report **greater increases in household spending** (across children's education, food, home improvement, and healthcare) than male customers. Further, female customers experience greater improvements in **quality of life** (90% vs. 85% for men) and **financial resilience** (78% vs. 71%). Female customers also indicate improvements in their **financial agency**, especially in an improved ability to **make financial decisions** (60% vs. 52%), **independent of their spouses**.

This matches one of the fundamental theses of the modern microfinance model, which is that transformative positive change can be realised by providing microcredit to women borrowers. Women are clearly deploying borrowed funds in a responsible and impactful way, such as for education, healthcare, business, or household expenses.

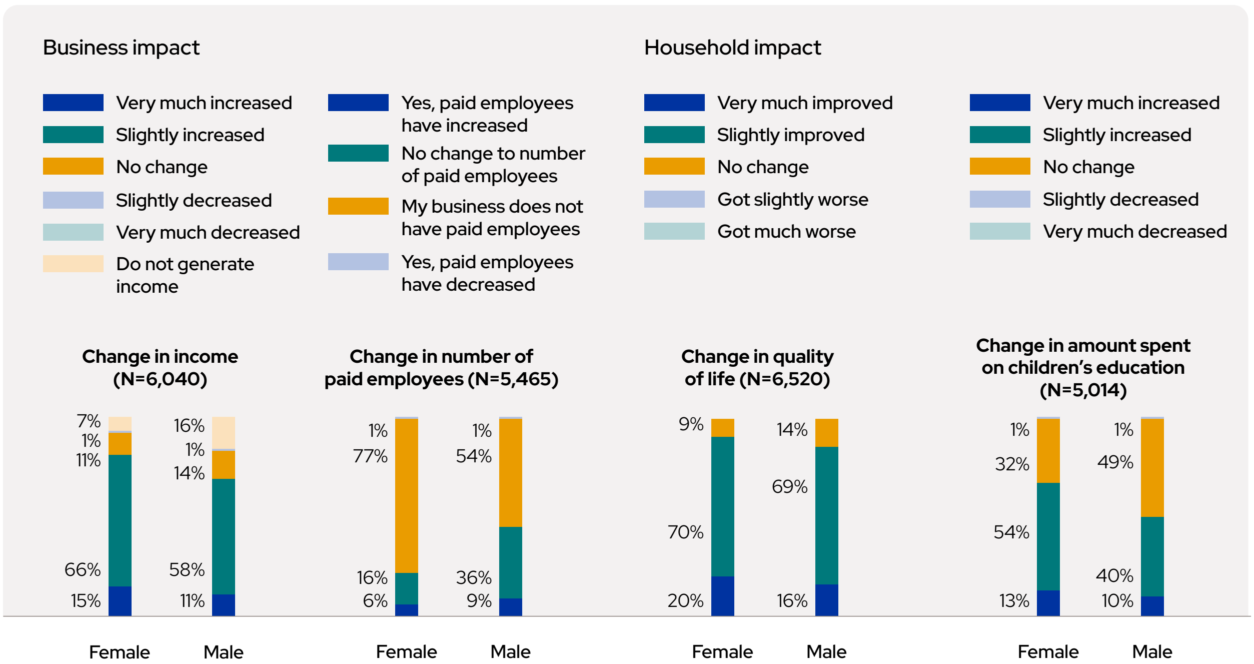
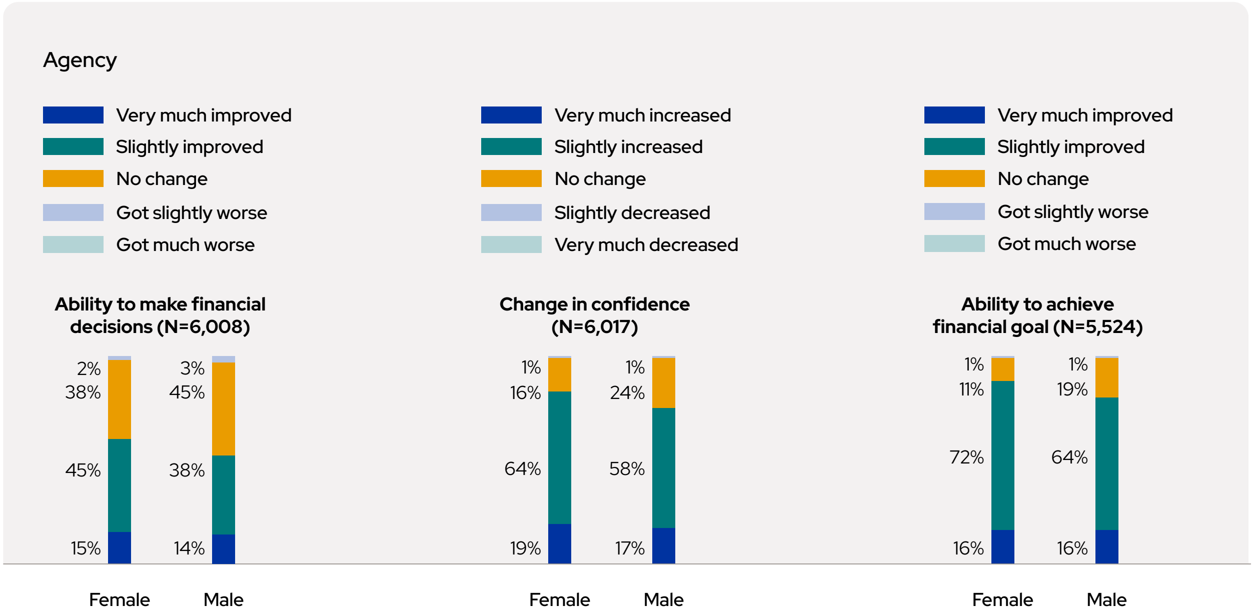


Figure 67. Business impact and household impact by gender.

However, **female customers also tended to report being less able to meet with a financial shock or emergency situation**. While credit has been able to empower women and rural customers, it may not be sufficient in enabling vulnerable women to achieve financial stability. Other business solutions and ecosystem interventions may still be necessary. This requires FSPs, especially FinTechs, to improve in their ability to focus on women and rural customers. **Gender-lens investing** may help to provide the necessary impetus for more focused business solutions.



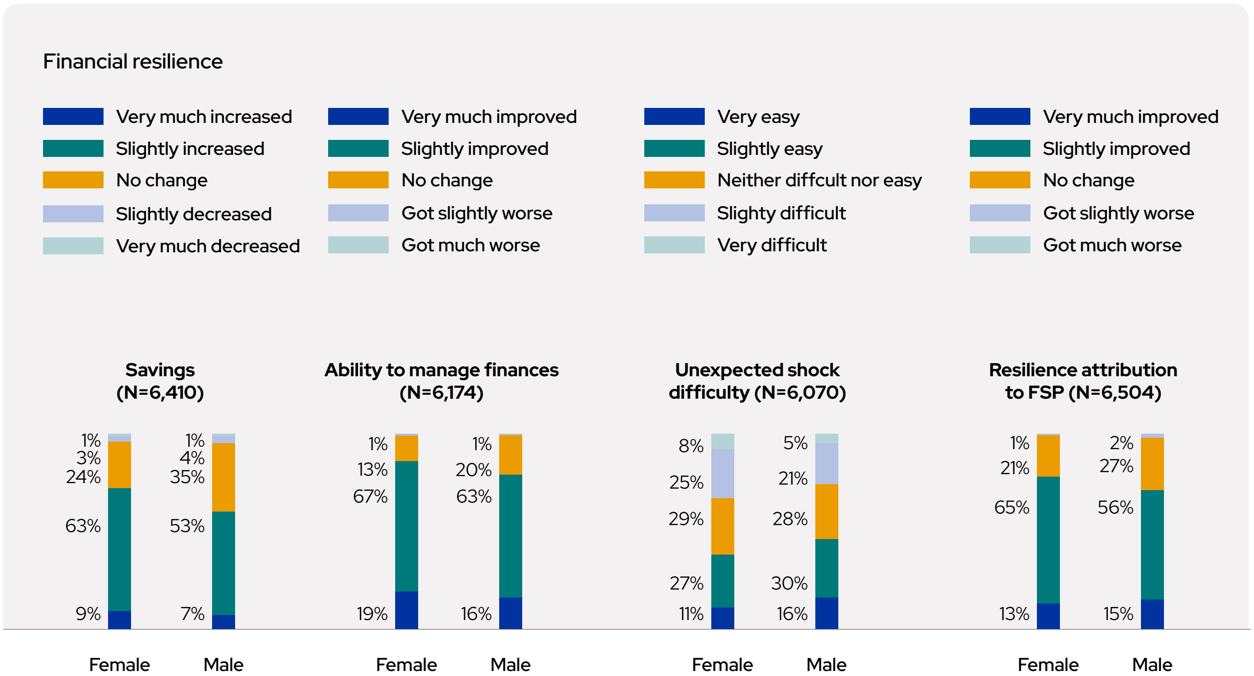


Figure 68. Agency and financial resilience by gender.

Given higher stress levels and a lower ability to cope with emergencies, literacy initiatives targeting women may require a focus on building resilience, alongside basic financial literacy. Business-related training is also highly valued and would improve female microentrepreneurs' ability to growth their businesses and increase employment. By contrast, initiatives focused on men may encourage more productive and household-related use of loans.

Rural customers experience high satisfaction but also higher levels of financial burden

Rural customers tend to have **higher levels of satisfaction** than urban customers, with 69% Promoters compared to 62% for urban. As with female customers, it may be that traditional FSPs are employing a high-touch approach to customer engagement, such as through frequent in-person interactions.

In terms of **client protection**, rural customers tend to report **lower understanding of loan terms** and experience **higher levels of financial burden and stress**. 49% of rural customers report that they strongly agree that loan terms are easy to understand, compared to 55% for urban customers. The repayment burden is also slightly higher for rural customers, with 17% reporting loan repayments to be a burden compared to 12% for urban customers. Rural customers are also less likely to report decreases in the time they spend worrying about their finances than urban customers.

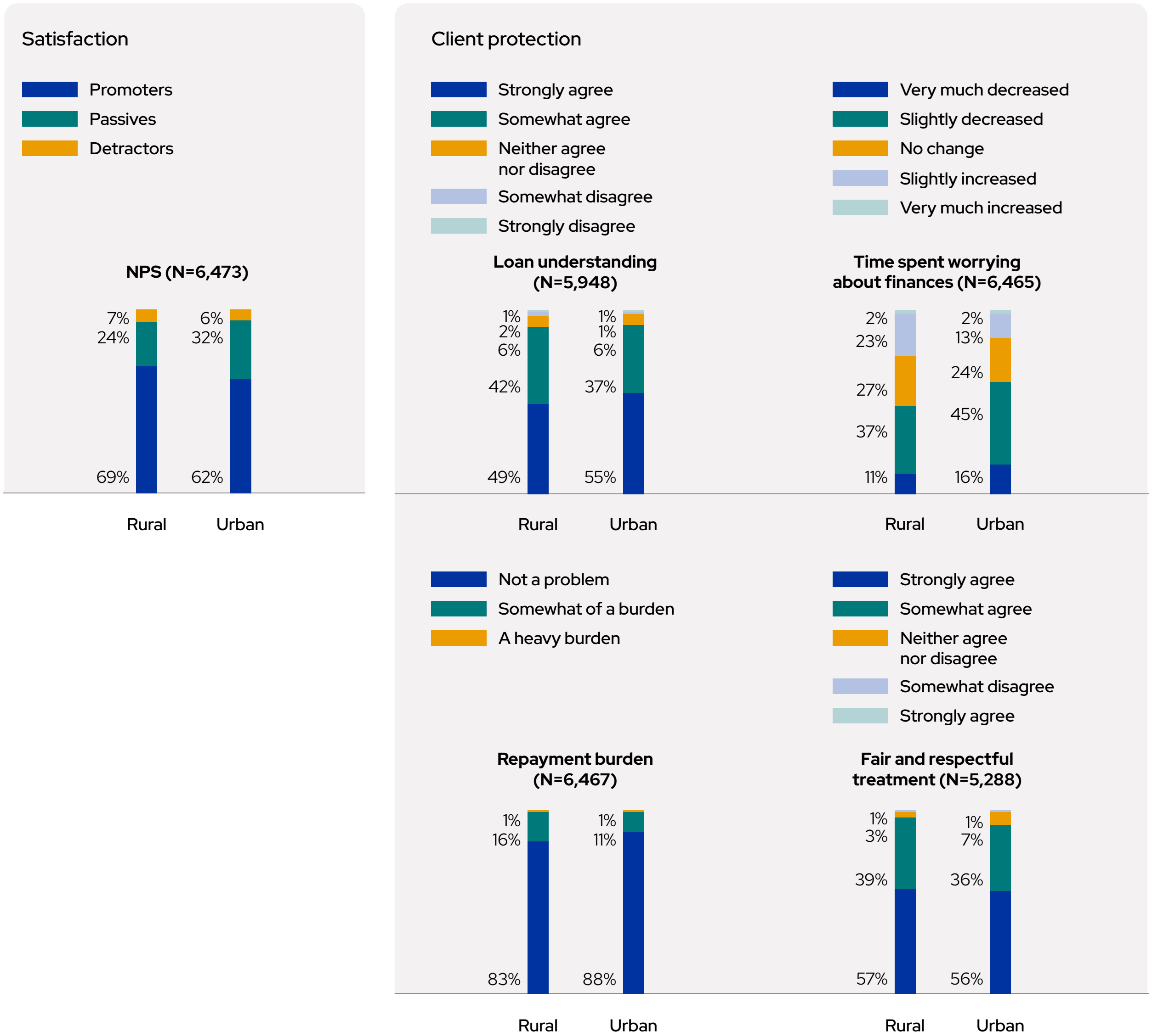


Figure 69. Satisfaction and client protection by location.

Where **business impact** is concerned, rural customers have a higher proportion of customers taking business loans at 81%. Customers in rural areas are more likely to use their loans to **purchase farming supplies** (35% in rural vs. 8% in urban) and **livestock** (11% vs. 8%). Rural customers are also **more likely to report increases in income** than urban customers (84% vs. 73%) but less **likely to report employment increases** (5% vs. 8%). This may also be attributable to the kinds of sectors rural customers are engaged in, with loans providing greater pathways to financial stability against harvest times but rural customers being less likely to commit working capital to hiring employees.

In terms of household impact, rural customers tend to report a **greater depth of impact in terms of household well-being**. While there is relative parity between rural and urban customers who report experiencing improved quality of life (89% vs. 87%), rural customers are more likely to report improvements in spending on education (68% vs. 57%), quality meals (60% vs. 58%), home improvements (50% vs. 43%), and healthcare (31% vs. 22%). This suggests that **access to credit is unlocking pathways to improved household spending especially for rural customers**. It is also possible that more rural borrowers also tend to be women, matching previously identified patterns in responsible spending.

Broadly speaking, **rural customers report poorer performance than urban customers across indicators for financial agency and resilience**. It is likely that this corresponds to lower income levels as well as greater vulnerability to macroeconomic conditions, resulting in higher levels of financial distress.

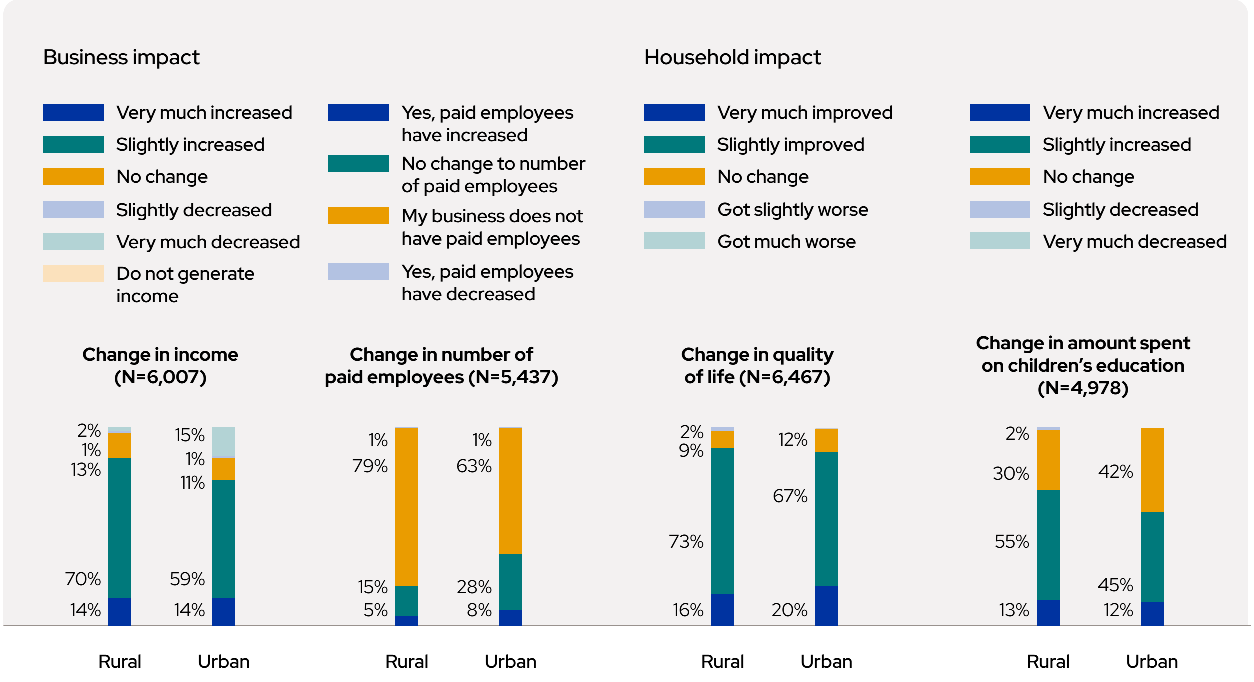


Figure 70. Business impact and household impact by location.

For example, rural customers reported greater difficulties than urban customers in dealing with emergencies. **38% of rural customers indicate that it would be difficult to come up with money to address emergencies compared to 25% of urban customers.** Rural customers are also less likely to attribute their ability to face emergencies to their FSPs than urban customers (73% vs. 78%) and report improved financial management at lower rates (81% vs. 85%). Rural and urban customers experience similar levels in improvements in their ability to achieve financial goals (86% for both), but rural customers report lower levels of improvement in their ability to make financial decisions (53% vs. 61%).

However, it is worth noting that **71% of rural customers have noted improvements in their ability to save compared to 67% of urban customers**. This could be attributed to a variety of reasons. It is possible that more rural customers are unbanked than urban customers and therefore lack an ability to save before accessing FSPs. It is also possible that poorer and more volatile socioeconomic conditions, particularly within communities dependent on agriculture, make it more difficult for rural communities to save to begin with. As such, broader socioeconomic support (e.g., business support, subsidies) may be required to alleviate financial stress felt by this community.

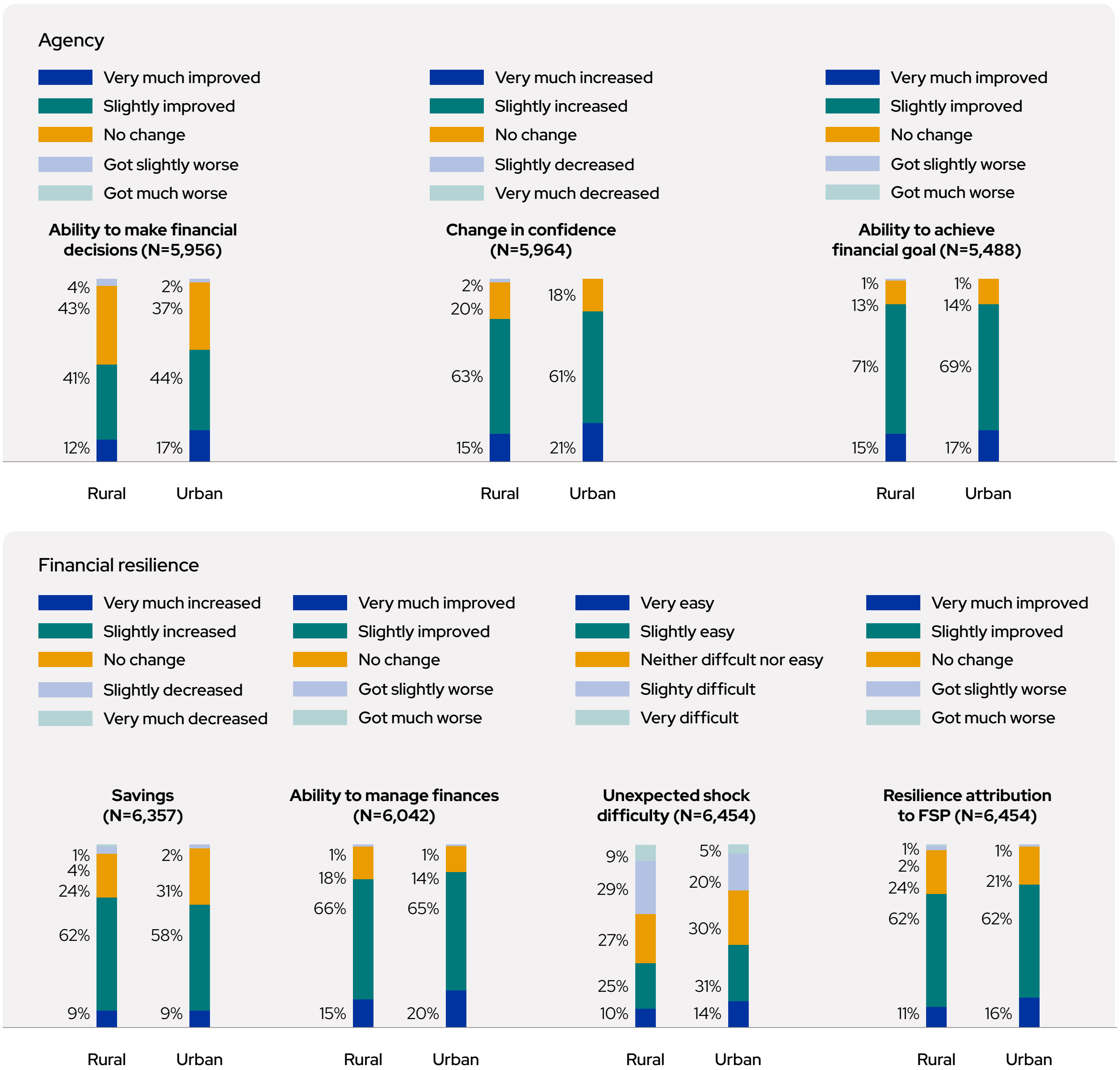


Figure 71. Agency and financial resilience by location.

Impact Makes Business Sense – High Impact Scores Is Correlated with High Customer Satisfaction

In our sample of Southeast Asian FSPs, the **depth of impact across various dimensions** is generally correlated with **high customer satisfaction**. This is especially pertinent with regard to **household well-being**, particularly the improved ability to spend on education, food, and home improvements, and **quality of life**, including increased incomes and a better ability to pay bills.

Customers who report a 'very much improved' quality of life gave a much higher NPS compared to those who mentioned 'somewhat improved' quality of life (79% vs. 59%). This correlation is observed for other household impact metrics such as amount spent on home improvements (74% vs. 63%), education (73% vs. 63%), and quality of meals (79% vs. 64%). Further, fair treatment by FSP agents also correlates with higher net promoter scores (60% for those who agreed vs. -18% for those who disagreed).

It is evident that the proportion of customers who report experiencing greater depth of impact also report higher satisfaction. Customer satisfaction can help FSPs to build trust as their reputations become solidified, especially through word-of-mouth among customer segments. Therefore, there is a **commercial case to be made for FSPs to focus on deepening their positive impact on customers and improving their client protection practices.**

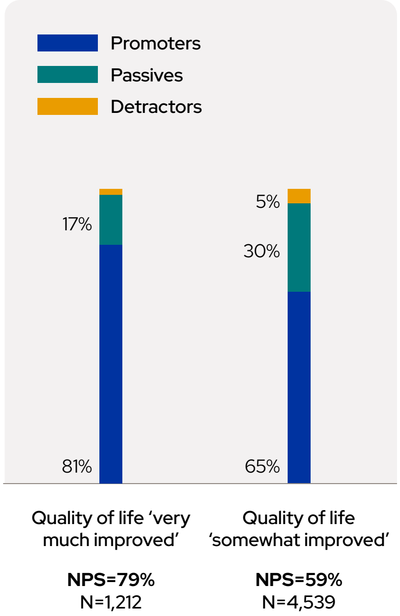


Figure 72. NPS by quality of life (N=5,751). NPS is derived by subtracting percentage of Detractors from percentage of Promoters.

Conclusion: Collective Action to Scale Financial Inclusion Impact in Southeast Asia

When we set out to conduct this study, it was clear that there was a lot of interest in financial inclusion, as can be seen by the high level of attention from multilateral organisations and policy makers, the entrance of many new private sector players into this space, and the initiation of studies into the impact on the end customers. What was less clear was the breadth of innovations possible to address the many needs of the different customer segments which could be found among the unserved and underserved, as well as MSMEs. What was also not clear was whether the market could sustain this level of innovation, and whether these innovations were being translated into positive impact for the end customer in the first place.

We were heartened by the many examples we saw of FSPs which had zoomed into a particular customer segment, or a particular pain point, and actively sought to develop customised products which met those needs. The range of partnerships we saw – be it between incumbents and insurgents, between FSPs and businesses from another sector, or between the public and private sectors – is an indication of the potential to reach customers which had hitherto been seen as "hard to reach". **In fact, what might have previously been considered a public good and therefore ought to be provided by the public sector, such as financial education, has on occasion been turned on its head and reframed as an essential part of a commercially viable business model.**

To a large extent, this is because digitalisation has transformed the landscape of financial services in Southeast Asia, both as incumbent players such as banks and MFIs begin to develop their digital capabilities, but also as insurgent players such as FinTechs provide new solutions to address underserved markets. The ascent of solutions such as embedded financing and partnerships between traditional and digital players, coupled with increased digitalisation by traditional FSPs, will be crucial in addressing the region's hundreds of millions of unbanked and underbanked individuals and MSMEs. The high levels of trust placed in technology by customers in our sample indicate significant opportunity to continue reaching first-time borrowers and expanding the reach of financial services to underserved customers through digital channels. **Digitalisation has improved the reach of credit to the unserved and underserved, though there remains a large, untapped market. The opportunities are tremendous.**

Digitalisation has been accompanied by a growth in **innovative business models and partnerships**, which have helped to ensure that more

individuals and businesses that were not able to access financing before are now able to do so with greater ease and effectiveness. Firstly, innovations by FSPs have allowed them to expand the availability and reach of their services, whether through mobile transactions or adopting 'phygital' approaches. Secondly, FSPs have innovated to improve product-market fit, whether by devising embedded financing models or bundling financial and non-financial services for customers. By actively driving down costs and risks to serve through the digitalising of business operations, as well as paying attention to customer retention through traditional investments in foundational building blocks such as client protection and customer engagement, FSPs have been able to maintain a focus on commercial returns and long-term financial viability. Crucially, FSPs that have not only integrated impact into their business mission and strategy, but also implemented systems to track and manage it, have reported **greater impact in terms of customers' quality of life and business incomes.**

Through our customer surveys, we were encouraged to learn that that client protection is central to financial services in Southeast Asia, that credit is improving the ability of customers to grow their businesses and improve their quality of life, and that credit is proving especially impactful for women and rural communities. Compared to global benchmarks, **Southeast Asia performs well for client protection and satisfaction, but are slightly lower for other dimensions of impact**, including access, business, household, agency, and resilience. This indicates that while FSPs in the region are delivering high quality services in a responsible way, more can be done to deepen the reach and impact of these services on customers' lives beyond initial access.

Our results also suggest that **high customer satisfaction is correlated with depth of impact and that customer satisfaction deepens over time.** This has business case implications as FSPs take a long-term perspective to sustainability to improve customer engagement and retention. To deepen the impact of access to credit, it will be necessary to ensure that more is done to ensure the **equitable reach of financial services**. It will be important for FinTechs to extend their focus to **rural, women, and lower-income customers** to ensure **digital equity,** as traditional FSPs continue to digitalise their processes. Hybrid approaches, embedded education, and partnerships between FinTechs and traditional FSPs will be key. More will also need to be done to ensure customers adopt a **more holistic suite of financial and business services beyond credit**. These services include business development, insurance, and savings, and typically correspond to better impact outcomes for customers. Lastly, FSPs can continue to **develop tailored financial and digital literacy initiatives that target specific segments, primarily female, rural, and FinTech customers.**

As FSPs seek to scale the provision of their solutions to underserved customers, the present macroeconomic environment in Southeast Asia and globally will continue to pose significant challenges. Rising interest rates and high inflationary pressure have become common in Southeast Asia, leading to rising costs of capital as well as access to investor capital, affecting FinTech companies' ability to access new pools of funding. By the end of Q3 2022, startup fundraising in Southeast Asia was US$10.5 billion, less than half of 2021's US$23.17 billion.[143] Despite these short-term headwinds, we remain optimistic for this sector's ability to achieve great impact outcomes through commercially viable business models.

In the course of our management interviews with the 50 FSPs and industry representatives who generously spent their time with us, we also heard about pain points that could benefit from more system-wide solutions. These are complex policy issues which will need much more in-depth study. These include the need to improve digital and mobile infrastructure, the search for regulatory environments which could spur more innovation,

143 DealStreetAsia (2022): Startup fundraising this year poised to fall significantly short of 2021 levels across Asia.

the importance of enablers such as national identification systems and credit bureaus with more comprehensive coverage, and the usefulness of industry standards to promote product transparency and raise visibility of the good actors. There are also more deep-seated issues such as approaches towards building financial and digital literacy, which some felt should start at a much younger age, as well as future-oriented issues such as the need to enable MSMEs to move onto a regional or global stage through cross-border financial services platforms. These issues may perhaps be the subject of a future study.

Advancing Toward Responsible and Sustainable Financial Inclusion

The COVID-19 pandemic has provided a clear case for the importance of financial inclusion and health. The shock of lockdowns, the negative impact on entire industries, and prolonged nature of the pandemic have tested individual and societal resilience and driven digitalisation. The pandemic has demonstrated that there are systemic barriers to financial health that extend beyond an individual's propensity to save or plan. Achieving financial inclusion requires collective action between a variety of stakeholders, including FSPs, investors, industry bodies, and governments.

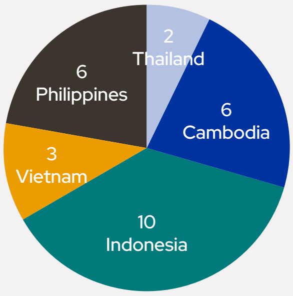
Our hope is that this study has offered clear indications of the promising investment opportunities and most successful business models and practices to accelerate positive impact for underserved customers through access to credit. Southeast Asia continues to be well-positioned to make strides in financial inclusion. Moving ahead, we look forward to working with our stakeholders to drive the sector forward, together.

Appendices

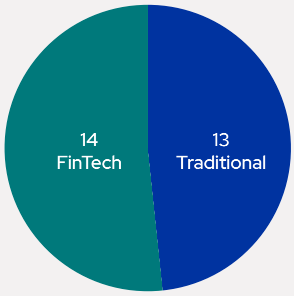
Appendix 1: FSP Enterprise Data Sample Breakdown

A total of **27 FSPs** contributed data for this study's enterprise level analyses.
24 FSPs completed our enterprise surveys and **22 FSPs** shared loan data.

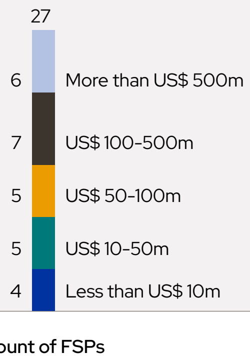
Breakdown by country (Count of FSPs)



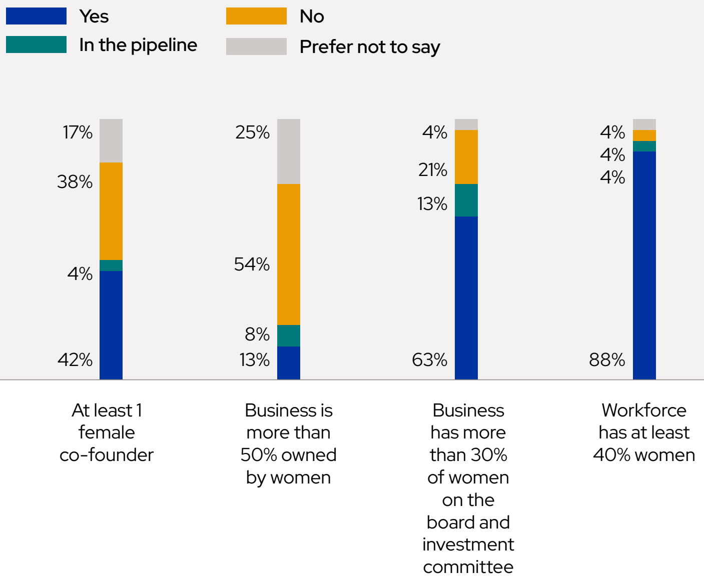
Breakdown by business model type (Count of FSPs)



Breakdown by loan book size ranges (Count of FSPs)

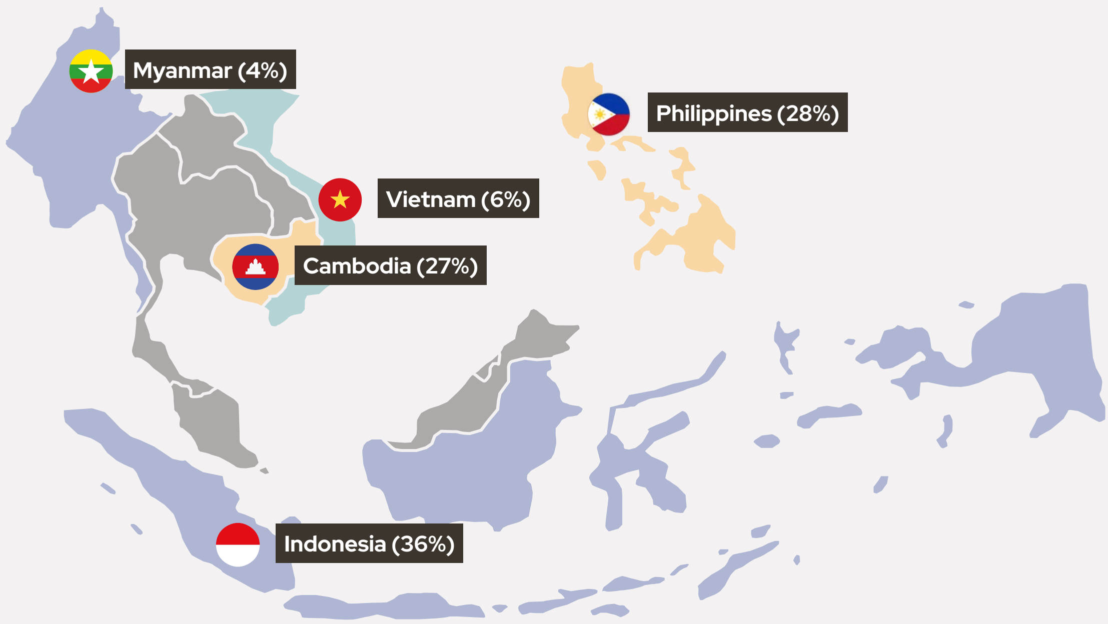


Gender landscape at participating FSPs (N=24)



Appendix 2: Customer Survey Sample Breakdown

We spoke to **6,524 customers** from **28 FSPs** in **five countries** to understand the impact of financial products and services on their lives.



8
Languages

63
60dB Research assistants

145,000
Total minutes of phone interviews

53%
Response rate

Appendix 3: Financially Excluded Adults in Southeast Asia According to Various Sources

Proportion of financially excluded adults in Southeast Asia (%)					
Year	**2017**	**2019**	**2020**	**2021**	
Source	**Findex**	**ASEAN Finance Ministers and Central Bank Governors**	**ASEAN Finance Ministers and Central Bank Governors**	**Findex**	**ASEAN Senior Level Committee on Financial Integration**
Brunei Darussalam	14	14	21.4	-	21.4
Cambodia	82	41	41	67	41
Indonesia	51	45	23.8	48	18.6
Lao PDR	71	69	48	63	48
Malaysia	15	5	4	12	4
Myanmar	74	52	42	52	42
The Philippines	66	72	71	49	71
Singapore	2	2	2	2	2
Thailand	18	16	12	4	5.7
Vietnam	69	42	36.3	-	36
Southeast Asia	**45**	**36.3**	**30.2**	**44**	**29**

Appendix 4: Details of National Financial Inclusion Strategies and Policies Across Southeast Asian Countries

Country	Policy	Ministry/ Agency	Vision	Pillars
Brunei Darussalam	Financial Sector Blueprint (FSBP), 2016-2025[144]	Brunei Darussalam Central Bank	Enabling a dynamic and diversified financial sector with a sustainable financial ecosystem.	• Financing new areas of growth such as FinTech • Financing Innovation and Entrepreneurship • Financing modern (hard and soft) infrastructure • Financing internationalisation of business • Financing education, retirement, and healthcare products • Expanding Brunei's Islamic Finance capabilities.
Cambodia	National Financial Inclusion Strategy 2019 - 2025[145]	The National Bank of Cambodia and the Ministry of Economy and Finance	To support the effective implementation of the Financial Sector Development Strategy 2016–2025 (FSDS) in order to address domestic demand for financial services, support the sustainability of economic growth, increase people's incomes, and reduce poverty.	• Encourage savings in formal financial institutions • Promote innovative credit products for SMEs • Enable the expansion of payment system capabilities • Improve broader access to insurance • Strengthen the capacity of the financial sector regulators • Increase consumer empowerment and protection, and financial sector transparency
Indonesia	National Strategy for Financial Inclusion 2020[146]	Kementerian Koordinator Bidang Perekonomian Republik Indonesia (Coordinating Ministry for Economic Affairs)	A national strategy for financial inclusion to encourage economic growth, speed up poverty reduction, and reduce inequality between individuals and regions so as to realise the welfare of the Indonesian people.	• Accelerating access to finance in regions to encourage regional economic growth and create a more prosperous society • Implementing savings accounts for students through the KEJAR initiative • SimPel product to expand access to finance for students • SiMuda savings programme with insurance features and investment products offered by banks • Credit and financing provided by formal financial institutions to MSMEs • Financial education and financial literacy campaigns

144 Autoriti Monetari Brunei Darussalam (2016): Financial Sector Blueprint (FSBP), 2016-2025.
145 Royal Government of Cambodia (2019): National Financial Inclusion Strategy 2019 - 2025.
146 The Audit Board of the Republic of Indonesia (2020): Presidential Regulation (PERPRES) on the National Strategy for Financial Inclusion.

Country	Policy	Ministry/ Agency	Vision	Pillars
Lao PDR	Financial Inclusion Roadmap (2018-2025)[147]	Bank of the Lao PDR	To improve household welfare by improving and ensuring broad, convenient, and deep access to financial services; meeting livelihood development needs; increasing economic efficiency for households and enterprises; and supporting national growth by increasing financial inclusion.	• Enhancing formal financial sector infrastructure, encouraging competition, modernising regulation and reducing risks • Extending financial services to low income households and least served groups • Facilitating well targeted credit to farmers and productive enterprises and for investment in assets.
Malaysia	Financial Sector Blueprint 2022 – 2026[148]	Bank Negara Malaysia (Central Bank of Malaysia)	Finance for all, for transformation, and for sustainability.	• Fund Malaysia's economic transformation • Elevate the financial well-being of households and businesses • Advance digitalisation of the financial sector • Position the financial system to facilitate an orderly transition to a greener economy • Advance value-based finance through Islamic finance leadership
Myanmar	The Myanmar National Financial Inclusion Roadmap 2019 – 2023[149]	Financial Inclusion Inter-Ministerial Steering Committee	To ensure that stakeholders work together towards common objectives that will see the greatest number of individuals, particularly in the low income, small business and farming segments benefit from improvements in financial access.	• Finance for the Low Income • Finance for SMEs and Emerging Farmers • Savings mobilisation • Digital financial services • Empowering customers
The Philippines	National Strategy for Financial Inclusion 2022-2028[150]	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)	Financial inclusion toward inclusive growth and financial resilience.	• Promote inclusive digital finance • Strengthen financial education and client protection • Enhance access to risk protection and social safety nets • Enhance agriculture and MSME financing ecosystem
Singapore	Financial Services Industry Transformation Map 2025[151]	Monetary Authority of Singapore	Singapore as a leading financial centre in Asia, connecting global markets, supporting Asia's development, and serving Singapore's economy.	• Enhance asset class strengths • Digital financial infrastructure • Catalyse Asia's Net-Zero transition • Shape the future of financial networks • Foster a skilled and adaptable workforce

147 Bank of the Lao PDR (2019): Lao PDR Financial Inclusion Roadmap (2018-2025).
148 Bank Negara Malaysia (2022): Financial Sector Blueprint 2022 – 2026.
149 Making Access Possible (MAP) Myanmar Programme 2018 (2020): The Myanmar National Financial Inclusion Roadmap 2019 – 2023.
150 Bangko Sentral ng Pilipinas (2022): National Strategy for Financial Inclusion 2022-2028.
151 Monetary Authority of Singapore (2022): Financial Services Industry Transformation Map 2025.

Country	Policy	Ministry/ Agency	Vision	Pillars
Thailand	Strategic Directions in 2023[152]	Bank of Thailand	To ensure inclusive and sustainable growth of the Thai economy.	• Smooth takeoff: Making sure that the economy continues to grow without disruption. • Sustainable Debt Problem Solving: Setting mechanisms for solving household debt in a sustainable manner • Sustainable Finance: Helping drive business transition toward environmental sustainability through financial sector. • Digital Finance: Laying down digital financial infrastructure to create opportunity and promote innovation as well as financial inclusion
Vietnam	National Financial Inclusion Strategy 2025[153]	State Bank of Vietnam	To ensure all citizens and enterprises have access to financial products and services in a convenient way and at affordable prices, particularly for low-income and vulnerable people and MSMEs.	• Expand the coverage of basic financial services and products from qualified providers, including payment, money transfer, saving, loan and insurance.

152 Bank of Thailand (2023): Bank of Thailand's Key Strategic Directions in 2023.
153 Ministry of Finance, Vietnam (2020): PM approves national financial inclusion strategy until 2025.

Appendix 5: Macro Indicators in Southeast Asia

	Brunei Darussalam	Cambodia	Indonesia	Lao PDR
Digital ID[154, 155]	Yes. Fully digitised foundational identity system	Partial. Piloting their digitised foundational ID system	Yes. Fully digitised foundational identity system	Partial. Piloting their digitised foundational ID system
Digital bank licenses[156, 157]	No specific digital bank license issuance.	No specific digital bank license issuance.	No specific digital bank license issuance.	No specific digital bank license issuance.
Number of credit bureaus	1	1	4 (1 public credit bureau and 3 private credit bureau)	1
Public credit bureau basic information, established	The Credit Bureau (by BDCB), 2012	-	Financial Information Services System (SLIK), Apr 2017	Lao Credit Information Company, 2019
Private credit bureau basic information, established	-	Credit Bureau Cambodia, 2012	PT. Kredit Biro Indonesia Jaya ("KBIJ"), 2014 PT CRIF Lembaga Informasi Keuangan (PT CLIK), 2010 PT Pemeringkat Efek Indonesia (PEFINDO), 1993	-
Public credit bureau coverage[158]	76.8%	-	30.9%	19.8%
Private credit bureau coverage[159]	-	52.2%	40.4%	-
National land titles	Yes	Yes, but many still do not have titles	Yes	Yes, mostly in towns and cities but low in rural areas
Data privacy laws[160]	Yes. Personal Data Privacy Ordinance (PDPO)[161]	No. Government has an intention to create a law on data protection	Yes. Protection of Personal Data (PDP Law)[162]	Yes. Law on Electronic Data Protection

154 UNCTAD (2020): Digital identity for trade and development.
155 World Bank Group (2019): The digital economy in Southeast Asia.
156 Business Times (2021): Cambodia, Laos, and Brunei so far do not appear to have any plans to introduce digital-bank license.
157 Techwire Asia (2022): Singapore and Malaysia have digital bank license. Indonesia does not.
158 The World Bank (2019): Public Credit Bureau Coverage.
159 The World Bank (2019): Private Credit Bureau Coverage.
160 Zico Law (2020): Personal Data Protection in ASEAN.
161 DataGuidance (2022): Brunei Darussalam: The new data protection regime in focus.
162 Allen & Gledhill (2022): Indonesia's Data Protection Law is now official.

Malaysia	Myanmar	The Philippines	Singapore	Thailand	Vietnam
Yes. Fully digitised foundational identity system	NA	Partial. Progressing on digitised foundational ID system[163]	Yes. Fully digitised foundational identity system	Yes. Fully digitised foundational identity system	Partial. Piloting their digitised foundational ID system
Yes. Bank Negara Malaysia (BNM) released 5 new digital bank licenses[164]	No specific digital bank license issuance. Has Mobile Financial Services license.[165]	Yes. Issued by Bangko Sentral ng Pilipinas (BSP)[166]	Yes. There are two types of digital banking licenses – digital full bank license (DFB) and digital wholesale bank licenses (DWB)[167]	No specific digital bank license issuance. Bank of Thailand plans to issue up to three virtual banking licenses by middle of 2024.[168]	No specific digital bank license issuance.
4 (1 public credit bureau and 3 private credit bureau)	1	4 (1 public credit bureau and 3 private credit bureau)	2	1	1
Central Credit Reference Information System (CCRIS), Oct 2001	-	Credit Information Corp, 2008	-	-	-
Credit Tip-Off Service (CTOS), 1990 RAMCI, 2000 Credit Bureau Malaysia, Jul 2008	Myanmar Credit Bureau, 2020	TransUnion Philippines, 2011 CIBI Information, 1982 CRIF Philippines, NA	Credit Bureau (Singapore), 2002 Experian Credit Bureau Singapore (ECBS), 1978	Credit Bureau, Co., Ltd. (NCB), 2005	Vietnam Credit Information Joint Stock Company (PCB) 2007
64.9%	-	-	-	-	59.4%
89.1%	-	13.5%	64.2%	56.5%	20.6%
Yes	Yes	Yes	Yes	Yes	Yes
Yes. Personal Data Protection Act (PDPA)	No general data protection law in Myanmar. Instead, relevant laws on data protection and privacy can be found in various legislation.	Yes. Republic Act 10173 (Data Privacy Act)	Yes. Personal Data Protection Act (PDPA)	Yes. Personal Data Protection Act (PDPA)	No single comprehensive data protection law. Instead, 2018 and 2022 Law on Cybersecurity (cross border e-commerce)

163 Fintech news (2023): ePhilID.
164 Vulcan Post (2022): BNM'S Five Digital Licenses.
165 Myanmar Law Library (2016): Mobile Financial Services in Myanmar.
166 Forkast News (2022): Philippines' Central Bank Approves Two More Digital Banks.
167 Monetary Authority of Singapore (2019): Digital Bank Licence.
168 Bloomberg (2023): Thailand Plans First Virtual Bank in 2025 to Boost Competition.

About the Authors

About the Centre for Impact Investing and Practices (CIIP)

The Centre for Impact Investing and Practices ("CIIP") fosters the growth of impact investing and practices in Asia and beyond by building and sharing knowledge, bringing together stakeholders in the community, and bringing about positive action that accelerates the adoption of impact investing. Based in Singapore, CIIP was established in 2022 as a non-profit centre by Temasek Trust, a steward of philanthropic endowments and gifts. Temasek and ABC Impact are our strategic partners.

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We are SDG Impact's anchor partner for Asia. SDG Impact is the United Nations Development Programme initiative tasked to develop resources that accelerate investments towards achieving the United Nations Sustainable Development Goals by 2030.

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About the United Nations Capital Development Fund

The United Nations Capital Development Fund (UNCDF) is the United Nations' flagship catalytic financing entity for the world's 46 Least Developed Countries (LDCs). With its unique capital mandate and focus on the LDCs, UNCDF works to invest and catalyse capital to support these countries in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development and the Doha Programme of Action for the least developed countries, 2022–2031.

UNCDF builds partnerships with other UN organizations, as well as private and public sector actors, to achieve greater impact in development; specifically by unlocking additional resources and strengthening financing mechanisms and systems contributing to transformation pathways, focusing on such development themes as green economy, digitalization, urbanization, inclusive economies, gender equality and women's economic empowerment.

A hybrid development finance institution and development agency, UNCDF uses a combination of capital instruments (deployment, financial & business advisory and catalysation) and development instruments (technical assistance, capacity development, policy advice, advocacy, thought leadership, and market analysis and scoping) which are applied across five priority areas (inclusive digital economies, local transformative finance, women's economic empowerment, climate, energy & biodiversity finance, and sustainable food systems finance).

For more information, please visit www.uncdf.org or contact maria.perdomo@uncdf.org.

About Helicap

Headquartered in Singapore, Helicap is a leading investment group providing debt financing to traditional and digital non-bank lenders and other venture-backed businesses in Southeast Asia. Helicap aims to address the $500bn credit gap in the region by deploying capital through originator partners. To date, the group has facilitated more than $200m in cumulative investment volume with zero originator defaults.

Through its institutional-grade credit analytics technology, Helicap is able to connect directly with the loan management system of any lending platform and understand the underlying credit risk of their loan portfolios at a granular level. This is complemented by a fully online and MAS licensed investor deal platform, that provides co-investment opportunities to Helicap's investor base.

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