inclusive microeconomics

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Digital Lending and the COVID-19 fallout

How is this emerging model coping?

Panelists: Alok Mittal, Co-Founder & CEO, Indifi Technologies, India
Loïc Nigay, Director & Co-founder, i-Finance Leasing, Cambodia
Jagadish Ramadugu, MD & CEO, Vaya Finserv, India
Sakshi Chadha, Regulatory Manager (Asia), GSMA, India
Jaspreet Singh, Regional Technical Specialist, UNCDF, Malaysia

Moderator: Achin Bansal, SVP & Head, Digital Finance, M-CRIL

Key Takeaways

Digital Lenders

- **Detailed and data driven assessment of impact on customers required** to craft a suitable, sympathetic and customized response
- **Re-orient and strengthen collections efforts by using underutilized resources (e.g. sales)** and display agility in anticipating potential risks or delinquencies
- **'Over-communication' with customers is better** rather than being disengaged
- Staff and resources need to be kept **motivated with an employee centric approach**
- Designing more **relevant products** and to look at **market segments with a healthier business outlook**
- **Initiate proactive discussions with investors/lenders on possible breach of covenants** as part of liquidity & solvency planning.

Regulators and Investors

- Regulators will be **central to keeping the rails of digital payments open** and working
- **Regulators are now seen to be prioritizing digitization** in a renewed effort
- Regulatory policy needs to **acknowledge FIs needs and move fast**
- **Investors are taking a cautious approach; constructive to have a dialogue** on capital utilization, emergency cash injections and business outlook

Background: Digital Lending and the COVID-19 impact

Digital Lenders have scaled up at a rapid pace in the past few years. M-CRIL's analysis indicates that at least 82 countries had at least one active Digital Lender (31 countries had 5 or more) and with an estimated investment upwards of $10.2 billion in the sector (over the last 10 years), Digital Lending has seen many unicorns and a healthy portfolio growth over 50% in the last two years.

However, COVID-19 and the ensuing lockdowns and social distancing measures have had, like on other economic activity, a sobering effect. Digital Lenders in many cases are facing higher risks and uncertainty because a significant number of them have exposure to the SME and MSME sectors in which business activity is severely constrained. Added to this, is the very young profile of Digital Lending Fintechs and providers in this space (an estimated 40% of companies are less than 3 years old) who are facing this crisis at an early growth stage.

How are Digital Lending operations coping?

As the crisis started to take shape, **Alok Mittal, Co-Founder and CEO, Indifi** highlighted that Indifi (a digital lending marketplace for MSMEs) has been implementing the following steps to curtail the adverse impact

- ***Detailed assessment of the impact on customers*** to understand in what degree and/or manner businesses of the clients will get affected and accordingly determine suitable mitigation/risk management steps. **Indifi gives loans using digital data trails of clients, and this intelligence is now being leveraged to conduct deeper analysis.**
- ***Strengthening the collections capacity*** by scenario planning on the various kinds of delinquencies to expect and develop appropriate resourcing and capabilities. This has led to prioritization of late bucket collections which are likely to have a greater adverse impact in the short-term. Indifi's collections teams are also working to deliver the Indian regulators' moratorium requirements and to offer it in a manner that is customer friendly and intuitive.
- ***Liquidity and solvency planning*** by initiating proactive discussions with lenders (NBFCs and banks) and bring attention to scenarios in which some repayment covenants (on bulk borrowing) maybe under threat, due to the tightening liquidity situation, and how best to work out alternatives.

In a different country context, **Loïc Nigay, Director at i-Finance, Cambodia** explained that **having invested in building an end-to-end digital foundation for their lending product has helped them cope with the situation better.** i-Finance has enabled all three steps of the loan cycle in a digital manner i.e. customer onboarding, repayments and loan management (with digital insights on customer behaviour). i-Finance has been able to **action digital repayments through partnerships with other Fintechs** in Cambodia and the support provided by the central bank to push towards electronic payment initiatives has also been a critical enabler.

Microfinance using the digital lending model (and the effects of COVID-19)

Vaya Finserve has been using an '**assisted' digital approach** to deliver lending products under the traditional Microfinance model. **Jagadish Ramadugu, MD and CEO, Vaya, India** explained that since Vaya was established only 5 years ago it enabled them to adopt a ground-up approach to implement a digital lending model as there were no legacy systems or processes to be tweaked or reformed. The assisted digital mechanism was used to overcome some of the barriers to adoption. These barriers include the availability of smartphones coupled with low literacy and trust levels in digital channels.

He also explained that the **current challenge in the COVID-19 scenario is to enable digital collections for low-income microfinance customers**. While the demonetization exercise in India in 2016-17 forced the microfinance sector to adopt digital means, the gains were mostly concentrated around electronic disbursements of loans. However, it is notable that collections remain cash based and are mostly conducted through physical interactions. Vaya is now taking steps to move at least a section of its customers along this digital journey of establishing a fully digital model.

Building a COVID ready digital lending model

The panelists stressed the need to have a business continuity strategy and an agile work structure to sustain operations during this crisis. The measures which emerged were:

a. ***Staff management during and after the COVID-19 crisis:*** All the digital lenders stressed the importance of maintaining staff motivation levels and re-skilling them for the challenges ahead. Organisations have been flexible in providing work from home facilities, staff advances and due reassurances in a difficult scenario. Health and safety measures like COVID-19 insurance have also been provided in certain cases. In addition, this time has been utilized to improve the skills of some of the frontline staff for dealing with the forthcoming challenges.
b. ***Clear and continuous communication with clients:*** The general view was that the way to engage with customers is to err on the side of **over-communication** rather than not reaching out or communicating in a limited manner. In this context, it is important to communicate clear organization-wide policies around repayments, relaxations (lender driven or according to regulatory provisions) and emergency assistance, if any.
c. ***Re-orienting the collections effort:*** Organizations are evolving a combination of reactive and pro-active approaches and being agile in managing customers. It is instructive to handhold customers through this crisis, both who want loan relief and others who are less severely impacted and are keen to repay as per normal loan schedules.

Some of the **marketing and sales staff** in i-Finance and Indifi, who anyway had a reduced workload due to the underlying slowdown in loan growth, have been **reallocated to working with collection efforts** to keep the focus on this business critical function.

Regulators can play a critical role

From a regulatory standpoint, **Sakshi Chadha, Regulatory Manager (Asia), GSMA** highlighted that some of the relevant responses, in the context of Digital Lending, in light of the COVID-19 pandemic has been the waiver of P2P fees, waiver of fees from bank to wallet transfer or vice-versa and also prioritization of mobile financial services.

Key regulatory responses across various countries to prevent borrowers from defaulting

Africa	Waiver of the mandatory requirement of listing defaulting borrowers with the credit bureau (for a limited period) for some digital lenders
Bangladesh	The Bangladesh Central Bank supported the designation of mobile financial service as an essential service via a formal notification
India	All recognized commercial lenders are being permitted to allow loan repayment moratorium for 3 months on term loans
Malaysia	Ministry Finance in Malaysia: • Imposed moratorium on SME installment payments for 6 months. • Reduced the 2% interest rate to 0% for the micro credit scheme
Sri Lanka	Central Bank of Sri Lanka established a 6-month refinancing facility
Cambodia	National Bank of Cambodia (NBC) has been emphasizing on digital payments in a major way, which helps in building consumer trust. NBC is also launching its own blockchain enabled domestic remittances platform (called Bakong) which will enable customers to transact digitally with greater ease with very low or no fees and charges

Investors: Progressing with caution on the COVID-19 fallout

Jaspreet Singh, Regional Technical Specialist, UNCDF, Malaysia mentioned that funders are currently taking an engaged but cautious approach. Some investors have responded with emergency cash injections whereas others are still in the process of having deeper discussions and relooking at the entire scenario to prevent an adverse effect on the portfolio quality. Again, an important role, in funding for Digital Lenders, comes from the respective country regulators as they set the larger context and help in providing immediate relief.

At this time of uncertainty, it is important to have a **constant dialogue around the liquidity and business situation with the investors and funders** so as to build confidence on business continuity. Also, it helps in enabling the concerned investors to provide technical assistance or direct capital support (even in the form of capital recycling) at the required stage. The

importance of industry associations and mentors and/or Fintech incubation mechanisms was also mentioned as a useful support system particularly for relatively young market players.

What does the future hold for digital lending?

The panelists expressed that this is a crisis that is still unfolding (probably still in its initial stages) and the way in which factor markets respond will dictate the extent and depth of a long-term demand and supply chain disruption.

At the same time, the summary view was that digitization and digital lending would acquire an even more acute and urgent focus from the regulators, investors and ultimately the customers. A few key observations which were made were

- **Designing more relevant products and a better delivery channel:** Alok, Loïc and others felt that this is perhaps the optimal time to look at adjusting credit criteria and reviewing new opportunities with a medium-term view. Focus would also need to be towards **supporting existing customer needs which may have changed in response to the crisis.**
- **Regulatory impetus for digital lending (and digitization):** There has been an increased focus by regulators across the globe to re-double efforts towards assisting and accelerating digitization of payments in general and to drive related areas like digital lending
- **Winning the war on cash:** Since many developing economies in Asia remain dominated by cash and paper-based transactions, the immediate crisis should catalyze the sector to re-organize to work towards customer needs and enable it to win the war to establish a 'less cash' society.

The consensus view was that digital lending models are on the way to become increasingly more mainstream with better product designs and assessment of people's behavior/needs but at the same time this crisis also needs institutions to be mindful of the realities of the underlying economic situation and of customers' economic outlook.

M-CRIL hopes that this webinar, amongst other efforts, will help Digital Lenders as well as financial service providers to craft their responses to the COVID-19 crisis through a systematic and sympathetic approach to managing operations in a customer-centric environment and to build a stronger financial services sector.