

KiWi – making fintech work for micro-merchants in Mexico: How technology can transform the microfinance industry

1. DEVELOPMENT RELEVANCE

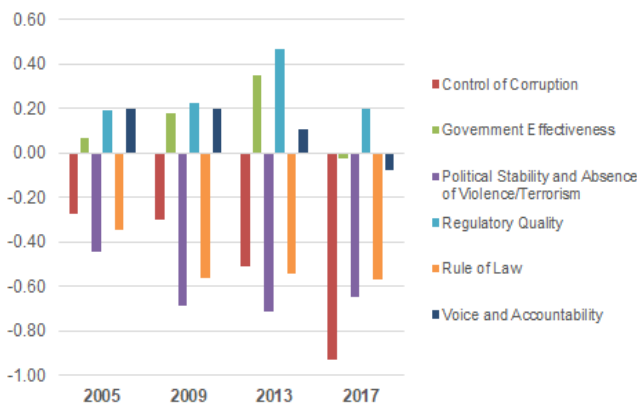
Economic and poverty context

The Mexican economy is growing: in 2017 the annual GDP growth rate achieved was 2.0% and many experts predict that the Mexican economy will continue to grow at around 2% for the next years. Although this is an impressive pace, given the external constraints, it still falls short of what Mexico needs to make a significant cut in poverty and to create the jobs demanded.

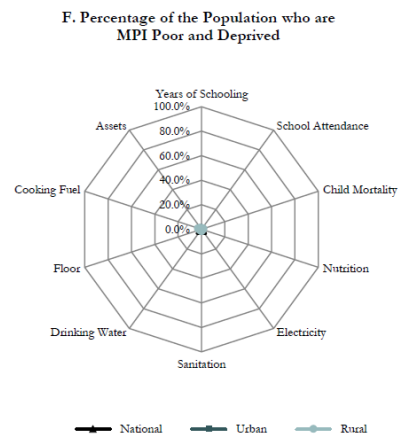
Mexico still exhibits high levels of poverty. According to the OECD Economic Outlook for Latin America 2018, 7 of every 10 Mexicans are living in poverty or vulnerability, while the wealthiest 20% of the population earns 10 times as much as the poorest 20%. Despite investments in social programs, high levels of poverty persist: 52% of Mexicans who live below the food poverty line in urban areas, and 40% in rural areas, did not receive benefits from social programs in 2016.

Table 11: Population and economic indicators	
Population in million (2017)	129.2
GDP growth (2017)	2.0%
Inflation (2017)	6.0%
Trade balance (% of GDP) (2017)	-1.8%
Foreign direct investment (net) (% of GDP) (2017)	2.8%
Net ODA received (% of GNI) (2017)	0.1%
Remittances received (% of GDP) (2017)	2.8%
Economic Freedom Index ² (Rank among 186 countries) (2017)	63
Poverty indicators	
GDP per capita (USD) (2017)	8'910
Gini Index (0= equality 100= inequality) (2016)	43.4
International poverty rate (2016; at 1.90 USD/day)	2.5%
National poverty rate (2016)	43.6%
National rural poverty headcount rate (2014)	62.4

Governance indicators chart³, (Mexico, 2009-2017)



Multidimensional poverty index chart⁴, (Mexico, 2017)



Financial sector context

The percentage of adults in Mexico who save money at a formal institution plunged from 14.5% in 2014 to 9.8% in 2017, despite financial inclusion strategies implemented by the government. One reason why people are not using financial services is a lack of alignment between what low-income customers want and the financial products are on offer. This is a cause for concern, but it also represents an opportunity to develop financial products well-aligned to the low-income sector. 86% of banking branches are located in urban areas. This represents distance, security and transportation barriers, and could be the reason why people continue saving but prefer to store cash at home. In 2017, 36.9% of the population had a bank account, 5.7% borrowed from a financial institution and 31.7% made or received digital payments in the last year.

¹ The World Bank Group (2017). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (June 2019)

² Heritage Foundation, (2017) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (June 2019)

³ The World Bank Group (2017). Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org>. Accessed (June 2019)

⁴ Oxford Poverty and Human Development Initiative (2017). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford. http://www.dataforall.org/dashboard/ophi/index.php/mpii/country_briefings Accessed (June 2019)

In terms of financial inclusion, Mexico scores 70/100 on the EIU Global Microscope financial inclusion ranking (2018).⁵ However, there has been a sharp rise in the use of non-traditional financial services, including mobile money wallets, with providers rolling out services to tap the unbanked market and promote financial inclusion.

Partner financial institutions

eBOP SA ('KiWi') is a Swiss start-up created in December 2013, with the mission of providing a mobile financial platform to micro-merchants in emerging markets to facilitate better access to savings, payment systems, loans, insurance, and money management solutions in general. The objective is to reach one million micro-merchants by 2021 with operations in eight countries. There are 4.5 FTE (full-time equivalent) staff working at eBOP SA, focusing on IT and product development.

KiWi Mexico is a subsidiary of eBOP SA, operating KiWi in Mexico with the objective of reaching 200'000 micro-merchants by 2021. 22 FTEs work at KiWi Mexico, focusing on the organisation's go-to-market strategy and customer service. KiWi Mexico focuses on peri-urban and urban micro-merchants, including women, within a very broad scope of industries. It targets areas in which the penetration of prepaid, debit and credit cards is already relatively high.



The micro-merchants network map (KiWi Mexico is a branchless company).

KiWi Mexico's acquiring bank is Banorte, one of Mexico's leading banks. KiWi is a payment aggregator with microcredit operations, and provides its customers with the possibility of generating additional income through the sale of prepaid airtime.

During the first phase of the project, KiWi Mexico collaborated with two leading microfinance institutions in Mexico, with the objective of offering KiWi's payment solution to their clients. Then, KiWi Mexico adapted its growth strategy and implemented pilot programs with non-financial partners, such as catalogue sales companies working with thousands of independent saleswomen and local family-run stores. KiWi Mexico is now adapting its commercial strategy and is already negotiating with several retailers with hundreds of stores throughout the country to have physical points of sales as new distribution channels. In the same context, KiWi has had new approaches with leading microfinance institutions and is discussing strategic alliances to provide them with KiWi's digital microcredit solution.

2. INTERVENTION APPROACH

Capacity building needs

The SCBF intervention relies on the statement that *one of the greatest improvements that would benefit the poor would be a cash-flow management facility that allows poor households access to small, irregular payments of both savings and loans*. To make this come true, KiWi launched its payment app for micro-merchants (2014-2016) with great acceptance, because they were able to accept credit and debit card payments of their customers. The payment app is now accompanied by a microcredit that is determined by the payments flow received by the merchant through the app. The repayment is directly withdrawn by KiWi from the ePayments flows from cardholders to merchants.

The objective of the project was to up-scale KiWi's "cash disposal" credit. The main constraints to scale that merited the intervention were the following:

- **Risks:** given that a significant number of loans had at least one late payment, the product needed to (1) adjust the repayment process to better match the merchants' cash-flow; and (2) adjust the credit score to better determine maximum credit amounts and term.
- **Operations:** many tasks were manual and it was necessary to automatize most of the processes.
- **Marketing:** to be in a position to promote the "cash disposal" product, in order to scale it up as quickly as possible.
- **Savings:** to complement the "cash disposal" with a feature that makes it possible to initially save small amounts periodically.

⁵ https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2018/11/EIU_Microscope_2018_PROOF_10.pdf

Main activity areas (goals, targets, resources & time frame) and outputs

The project was defined with four main areas of activity: risks, operations, marketing and savings. It is relevant to mention that all of the planned outputs have been achieved.

- **Risks:** KiWi made considerable improvements in the scoring supporting “cash disposal” that led to a better customer risk profile (the first loan was disbursed using the new scoring algorithm). KiWi has disbursed more than 700 credits with delinquency rates less than 5.0%.
- **Operations:** the IT platform has been improved by automating the credit management process thereby enhancing staff productivity considerably. In the same way, KiWi developed and implemented communication through the app, allowing merchants to have information updated in real time.
- **Marketing:** KiWi increased its digital media presence by highlighting the benefits of the “cash disposal” feature.
- **Savings:** KiWi is reviewing alternatives with banking APIs (integration platforms to link our app with a merchant’s bank account) to track information about transactions and account movements. Using the micro-businesses’ cashflow information, KiWi can advise customers in setting their financials/savings objectives, giving micro-businesses more control over their money.

3. RESULTS ACHIEVED AND NOT ACHIEVED

3.1. Client level

KiWi provides affordable payment-infrastructure for micro-merchants, enabling a closer relationship between merchants and consumers. However, KiWi goes even further by bringing the micro-merchants into the financial ecosystem. Based on the above, KiWi identified the following social and economic improvements.

Micro-merchants

- Increase in productivity and customer service through easier and faster payments capabilities, greater security and improved access to a wider range of goods and services. We have a greater than 60% renewal rate in loans, showing that merchants see KiWi as part of their cash flow management, which was the objective.
- Increase accessibility and delivery speed of high-quality financial services and affordable financial products that can enhance their customer experience, gaining control over their business. Internal surveys ranked “access to financing” as the number one problem for KiWi’s targeted market.
- Reduce the barriers to financing access and solve their cash-flow problems such as working capital, inventory purchases and emergencies. KiWi gives loans in less than three hours, thanks to the pre-approval methodology in place. Even more important, it takes seconds for a merchant to ask for a loan with KiWi: no paperwork and no additional information required. At the same time, a merchant loses hours if not days working to get a loan with traditional funders.
- Have access to their loan information (i.e. payments history, pending balance) in real time and in the palm of their hands.
- Apply digital technology to improve micro merchants’ competitive position against large retailers. KiWi’s Net Promoter Score⁶ is above 60, far above benchmarks in the industry. On top of that, surveys show more than 80% of customers are very satisfied and the KiWi app has a rating of 4.3 out of 5 on the Google Playstore.
- Access to digital technology based on trust relationships between peers.
- Have the possibility of increasing income by selling airtime top-ups to their customers.
- Savings habit is not an inherent characteristic of the micro-businesses, but they would find useful and willing to enter into automatic savings programs by setting up automatic transfers to their savings account. This demanded feature could be possible through a banking API integration project.

Their customers:

- Enjoy the simplification of the payment process, prioritizing the relationship between people. Note that there are now 1.5 times more cards than people in Mexico. Having point of sales terminals gives more sense to people to have a bank account, as they get a debit card too, that they can use it, and not only cash out at ATMs.
- Reduce risks of carrying cash by increasing payment possibilities and comfort.

⁶ <https://www.netpromoter.com/know/>

- Increase in the perceived value of the services received. Micro-merchants highlighted in surveys that competition from big retailers is becoming a problem, and that modernizing their business is key to survival.

The following two examples highlight results at the client level.

(1) *Ulises Segoviano, Soul Limbo Records, León, Guanajuato*

Ulises has had his record store named Soul Limbo Records for more than 5 years and has been working with KiWi for almost 3 years. He noted that KiWi helped his business increase its income due to the increase of their customers' average ticket by deferring payments.



He expects that card payments will increase over time, and with KiWi he has the possibility to take advantage of this. What he likes most about KiWi is that the payment arrives in one working day. During the interview, Ulises asked KiWi to develop an app version for iOS devices. Recently, with the release of our application for iOS devices, we called

Ulises to inform him that he could now download the application for his wife's iPad.

(2) *Marisol Ayala, Librería y Papelería Jamer, León, Guanajuato*

Jamer stationery has been operating for more than 40 years and represents a business with a long tradition in León, Guanajuato. Marisol told us that before accepting card payments with KiWi, the old cash register that has been in her family for more than 20 years was still being used.



KiWi arrived eight months ago to her business, mainly because they had lost sales frequently and finally decided to solve the problem, satisfying customer requests. They were surprised at how easy it is to use KiWi and their expectations have been fulfilled. She is considering to acquire another KiWi to reduce the waiting time of customers.

The planned activities that worked particularly well are:

- **Scoring:** the selection of merchants that can access “cash disposal” was automated and the new algorithm has been enhanced to determine amounts and term more accurately.
- **Repayments:** the platform has enabled partial and variable repayments, adapting better to merchants' cash-flow generation.
- **Digital marketing and sales:** have continued to be an effective channel by which to reach micro-merchants in Mexico. KiWi has been growing at a pace of 500 micro-merchants per month.
- **Terms & conditions:** KiWi revised and adjusted the “cash disposal” contract clauses to be easy to understand, prioritizing customer protection and transparency.
- **Renewals:** results were in line with KiWi's expectations of around three credit renewals per merchant per year. KiWi observed great acceptance of the “cash disposal” primarily because of the ease of access and the flexibility of repayment.
- **Customer satisfaction:** the results of the surveys given to KiWi's customers have been very positive, showing that micro-businesses consider that “cash disposal” solved their working capital problems.
- **Savings:** due to our analysis KiWi concluded that the API platform of BBVA allows easy access to financial solutions and seamless implementation, KiWi would be able to provide to its customers the opportunity to manage, control and analyse their payments, and notify them about their operations, access to segmented purchasing patterns and many other things, as well as entering to automatic saving programs by setting aside a fixed-amount per transaction.

The planned activities that did not achieve the expected results are:

- **Merchants with loan:** KiWi expected that 10% of active merchants would have a loan in 2017 and 20% in 2018; KiWi's average results for these years is below 3.5%. This could be explained by the high proportion of merchants who make sporadic usage of KiWi, which does not provide enough cash flow data to give them a loan.

3.2 Partner financial institution level

The target of at least 600 loans disbursed during the project was reached by March 2019: from June 2017 to May 2019 KiWi disbursed almost 800 loans. The following results had been achieved by May 2019:

- 13'308 registered merchants (users with complete bank account information).
- 3'804 is the monthly average of users that had made at least one transaction from January to May 2019.
- 214'028 card transactions processed from January to May 2019. This is 72% of FY2018's total, only in the first five months of 2019.
- USD 40 was the average ticket size as of May 2019. This relatively high average is due to the fact that card payments have not yet replaced cash for day-to-day expenses.
- 6'214 airtime top-ups in May 2019, more than 40'000 in the last 12 months, with an average monthly growth rate of 11.3%
- 41% of customers are women (as per Google Analytics), this is slightly below the objective of 50%, but KiWi expects to converge to the goal over time. 30% of borrowers are women, this rate has been consistently increasing year by year on average by three percentage points.
- KiWi disbursed 789 loans from January 2017 to May 2019 with a delinquency rate of 4.9%

Note that KiWi raised USD 3.2M in equity from the private sector between August 2018 and January 2019. The venture capitalists involved would not have entered at an earlier stage, showing a strong incubator and multiplier effect of SCBF:

- KiWi's launch (2014-15): CHF 330k in grants from SCBF;
- KiWi pivots from Morocco to Mexico, and get first merchants enrolled (2016): CHF 500K in equity from business angels and CHF 500k in soft debt (from Fondation pour l'Innovation Technologique, Vaud);
- KiWi gets first 1'000 merchants in Mexico and develops a micro-loan feature on the top of payments (2017): CHF 310k in grants from SCBF and CHF 675k in equity from additional business angels
- KiWi gets first 5'000 merchants and scales up both in payments and loans (2018): CHF 3.2M in equity from venture capitalists.

4. LESSONS LEARNT

Access to financing is the lifeblood of any business, which uses funds for things such as working capital, inventory purchases and emergencies. Micro-businesses typically cite access to finance as the most important constraint to growth: KiWi has seen that this customer segment has a very high rate of repayment and are very willing to pay even when they present a lag in their payments.

The intervention was conceived to improve access to credit among these micro-businesses without subsidizing interest rates or requiring group lending. KiWi is providing more businesses with faster lending options and easier loan application experiences, all supported in a technological platform through their cell phones.

KiWi learned that the friction reduction for card payments fosters willingness to pay and helps micro businesses solve their cash-flow problems. This means faster growth for merchants and a better customer experience.

The value proposition of KiWi incorporates a holistic view of micro-business's needs (cards payments platform, easy access to credit with repayment conditions adapted to their operations, and new ways to diversify income), represents a strong formula for a mutually beneficial relationship. With the results obtained, KiWi is on the right path to defining the service distribution model. However KiWi has not yet reached the ultimate formula of achieving the scale required for a cost-efficient solution for the difficult micro-businesses segment in Mexico.

Nonetheless, KiWi is continuously seeking improvements in the business model, adapting to the competitive and regulatory landscape, and challenging banks' and MFIs' value propositions. Above all, KiWi aims to onboard micro businesses into the financial ecosystem by building technology tools to help them thrive.