Anindya Majumdar, 2017 CGAP Photo Contest

PLATFORM BUSINESS MODELS
Financial services for poor people in the digital economy

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Executive Summary

Platforms are taking the world by storm. Seven of the world's eight largest public companies and many so-called unicorns—private start-ups valued at more than $1 billion—are leading the way. They are taking advantage of platforms to facilitate the exchange of goods and services between third parties to drive efficiency and add value. Platforms are not relegated to developed economies. They are coming into play in emerging markets and can be key to integrating financial services into customer experiences.

Platforms have the potential to advance financial inclusion by making financial services more accessible, cheaper, and more useful to low-income customers. And they could do so in ways that enhance their own business models. Benefits to platforms include:

- Simplifying operations and reducing risk through digital payments.
- Expanding capacity and improving inventory through loans to workers and sellers.
- Increasing trust between parties through insurance.
- Increasing purchases through consumer loans.

However, the integration of financial services into platforms is not without a downside. By bringing financial services to customers with access to the internet, platforms risk exacerbating the digital divide and leaving others behind. The large amount of customer data on platforms opens the door to risks related to data privacy and security, competition, and quality of work.

This slide deck is designed for financial services providers and regulators. It introduces key platform business models, their relevance to low-income customers and financial inclusion, and risks to consider when partnering with or regulating platforms. It also would benefit funders as it presents an overview of the relevance of platforms to financial inclusion.

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1 What is a platform?

2 Why are platforms relevant for low-income customers?

3 What are the main business models?

4 What do platforms mean for financial inclusion?

5 What are the risks?

6 Appendix: Examples

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# In the traditional economy, many business models are linear

- *Linear businesses* **create value by producing goods and services in a sequential process**. Inputs are manufactured and assembled, and the final goods or services are distributed and sold to consumers.

| Inputs | Manufacture | Assembly | Distribution | Sale |

- Linear businesses grow through investing in their own *internal* capacity.

- They own the means of production and the inventory.

- They rely on **supply-side economies of scale**, spreading the fixed costs of internal capacity across a greater volume of output.

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Platform business models are very different

- A platform business model **creates value by facilitating exchange** between two or more participant.

Supply Side　　　**Platform**　　　**Demand Side**
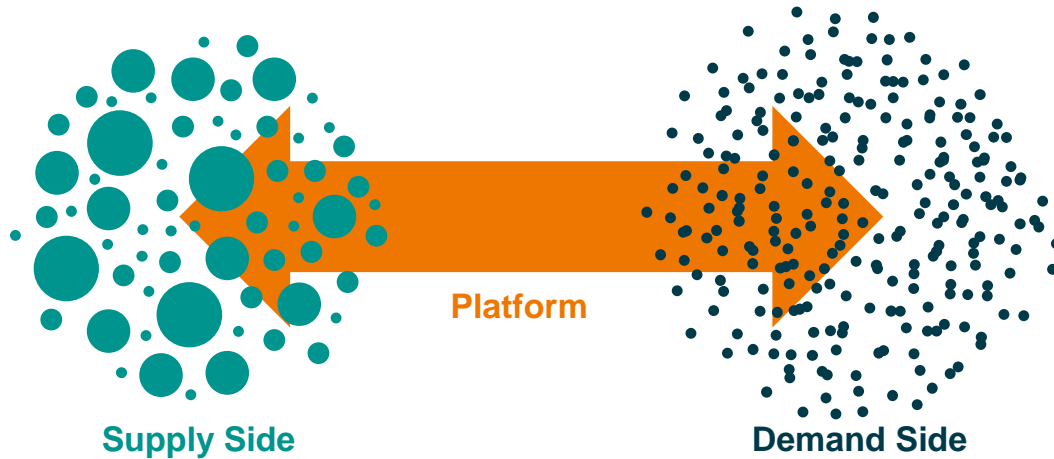
- Pure platform businesses **don't make or own the goods and services** being exchanged, the means of production, input goods required to create them, or any inventory of finished products.

- They **host markets that allow people who have things and people who want those things** to find and interact with each other.

- They grow by cultivating an external network of users. As such, they rely on **demand-side economies of scale** (network effects).

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Many companies are hybrids that combine platform and linear business models

- Not every platform company takes a pure platform approach. Some like Apple and Amazon use a hybrid approach that combines linear and platform business models.

- Not all technology platforms are platform business models. When we refer to platform business models, we mean ***companies that connect buyers and sellers of products/services.***
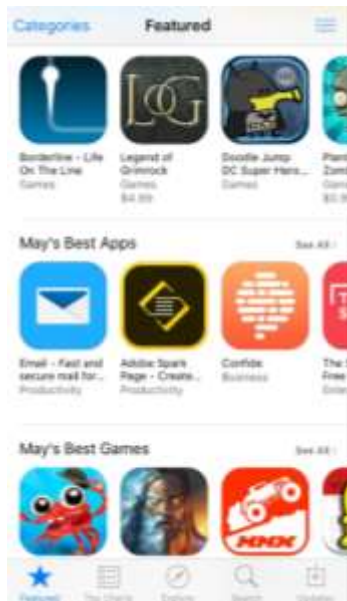
The App Store uses a platform business model. It connects app developers on one side with consumers on the other.

Apple, however, earns more of its revenue from selling iPhones and iPads, which is a hardware business that uses a traditional linear business model.

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Super platforms and bigtechs

Super Platform

- "Super platform" is a relatively **new term** that describes **digital platforms relevant across more than one sector.**
- **Large players are considered super platforms.** They have grown beyond their initial core business to target several other areas, although many of them still are primarily associated with one sector.

Bigtech

- "Bigtech" refers to the **largest tech companies** by market value.
- "Bigtech" refers to the Big Four (Google, Facebook, Apple, Amazon), the Big Five (4+ Microsoft), and large Chinese players (Baidu, Alibaba, Tencent, JD).

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Ways platform business models monetize value

1 Transaction fees	• When there is a monetary exchange, a **fixed or percentage fee** can be charged • Typically charged to the **seller**, to simplify buyer experience • **Relatively low transactions fees** help to keep parties making transactions on the platform rather than doing so off the platform, especially for recurring services like home services
2 Subscription fees	• Monthly or annual **subscription fees** can be charged to **all or some groups** • Often charged **only for enhanced access.** For example, LinkedIn charges recruiters and individuals for enhanced access with more functionalities, but doesn't charge individuals for basic access. • A subscription could also be optional, charged in exchange for a **reduced price** on individual transactions (e.g., Lyft Pink membership provides a 15% discount) • Keeping **basic access free** helps platforms build **larger networks**
3 Advertising	• Platforms have access to data that can be valuable to companies, generally for **targeted advertising** • Ads can be shown **in the platform** or data can be used to target users **outside the platform** • It can be **separate** from the platform's activity (side ads) **or linked** to platform activity by allowing sellers to have their product highlighted or listed first • Increasing concerns about **data privacy** could limit this monetization strategy

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Note: Some companies use a combination of transaction fees and subscription fees.

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Rapidly increasing relevance

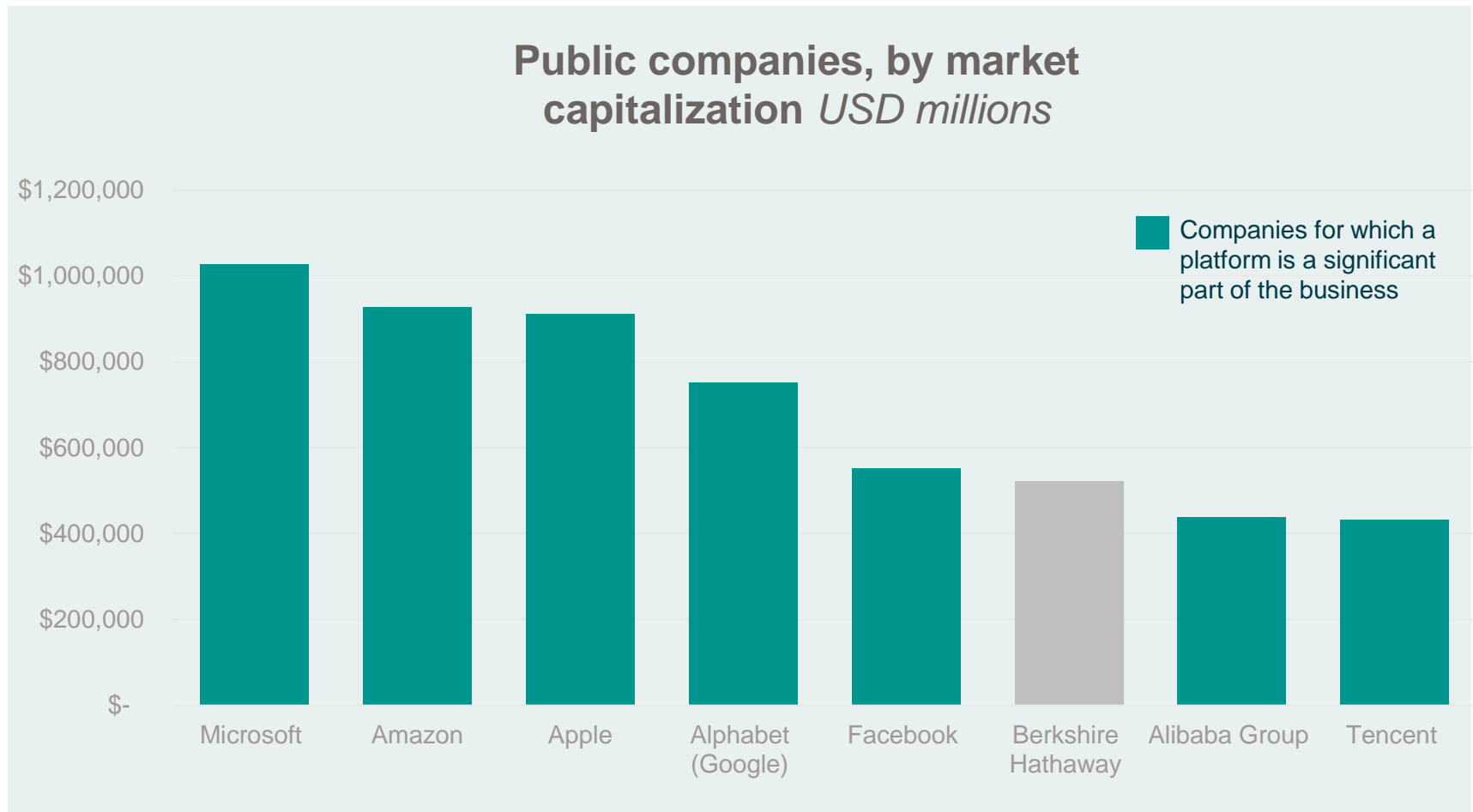## Platform businesses in the S&P 500
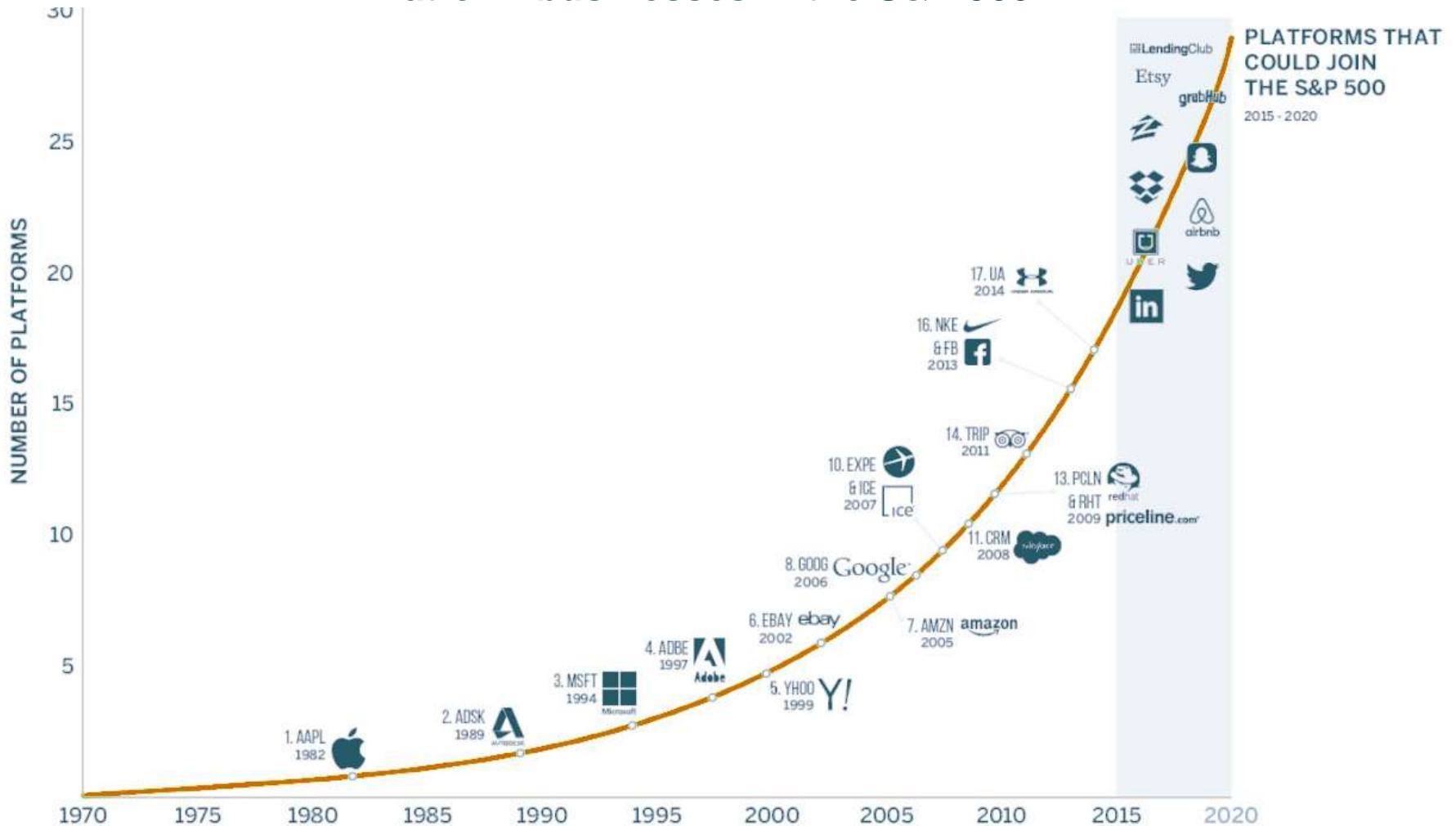
Note: These are companies for which part or all of their business is a platform business model, many of these companies are hybrids.

Platforms are a significant part of 7 of the 8 largest public companies

Public companies, by market capitalization *USD millions*

Legend: ▮ Companies for which a platform is a significant part of the business

| | Microsoft | Amazon | Apple | Alphabet (Google) | Facebook | Berkshire Hathaway | Alibaba Group | Tencent |

# Platforms grow faster than traditional businesses

Platform Index vs Other

- Valuations suggest that platforms will continue to outgrow traditional businesses
- S&P 500
    - Pure platform businesses or businesses where platforms play a significant role have an average revenue multiple of 9
    - Linear businesses are valued between 2 to 4 times revenue on average, depending on business model

Most "unicorns" are platforms

Unicorns are privately held start-up companies valued at US$1 billion or more.

Source: Applico.
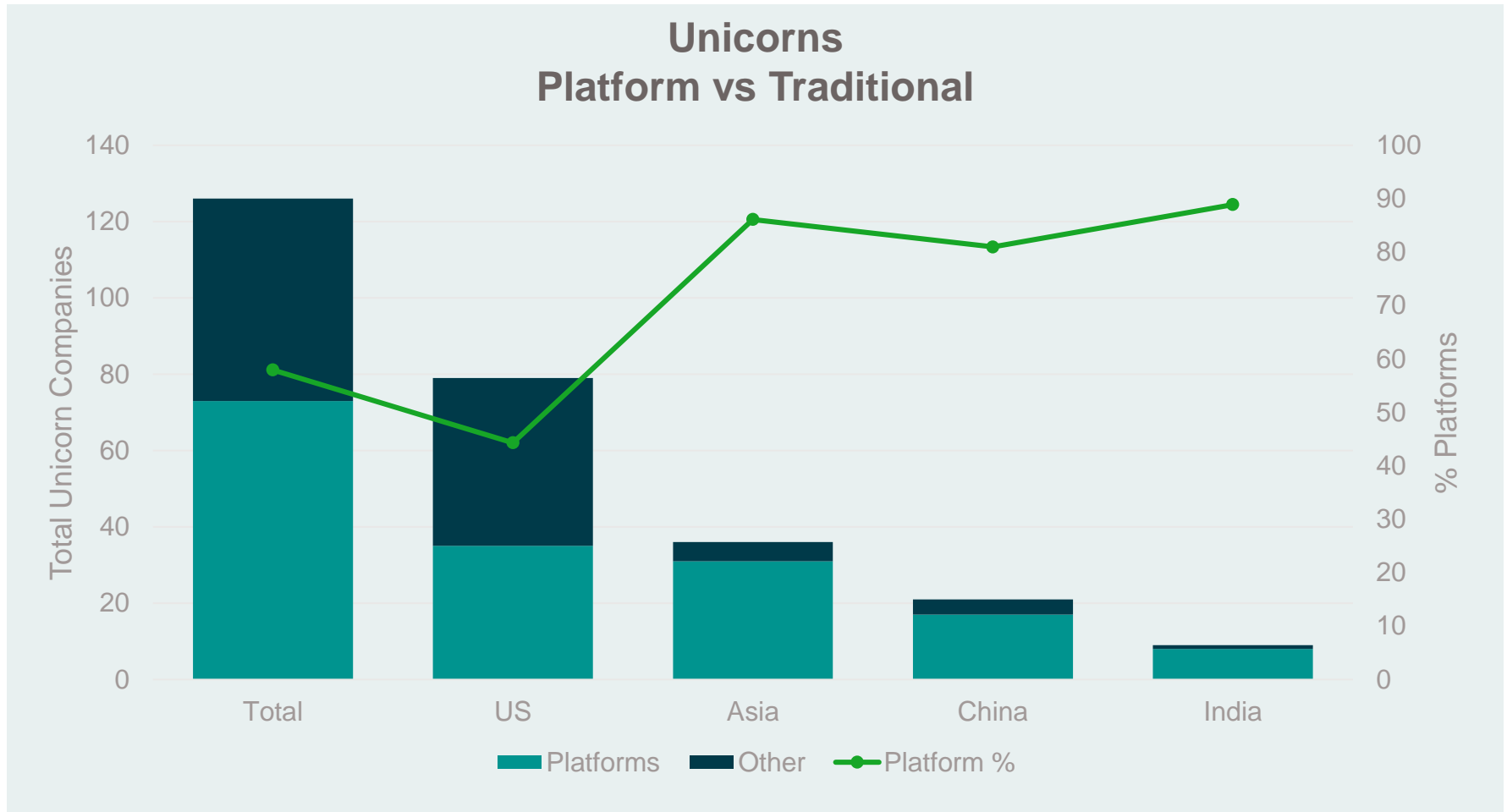
Platforms increasingly focus on financial services in emerging markets

- Many large platform businesses have started moving into financial services with a focus on payments.

- They are entering financial services in emerging markets, where lack of access to traditional financial services and credit cards are widespread.

Examples

- Large Chinese players, such as Ant Financial, JD Finance, and WeChat Pay, have prioritized financial services.

- Facebook offers payments through WhatsApp in India and through FB messenger in the Philippines.

- Google Pay (originally called Tez) has grown exponentially in India.

- Jumia has launched JumiaPay and is developing a microinvesting product and loans for sellers (through partnerships).

- Mercado Libre established Mercado Pago (payments) early on, now it also offers loans to sellers and microinvestments (through a partnership) for wallet users.

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Platforms need these key functions to build their networks

Matchmaking

Platforms **help match** supply and demand by **aggregating and curating** results. They make it easier for users to find each other and **reduce search costs.**

Transaction facilitation

Platforms enable exchanges by **facilitating payment and transfer** of goods/services. Sometimes, platforms act as an escrow, holding payments until a transaction is completed.

Credibility & Trust

Platforms offer **ratings and reviews** from past transactions to increase **trust between parties**. They define **rules and standards** and can provide insurance and claims resolution **arbitration** when these are not met by either party.

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Platforms are homogeneous or heterogeneous

Homogeneous platforms	Heterogeneous platforms

- All users are of the same type, and they are on both the demand and the supply side.

- **Example:** Skype is a homogeneous platform in which all users have the same functions and will sometimes be the caller and sometimes the receiver.

- Other examples include communications platforms like WhatsApp and social platforms like Facebook and Instagram.

- Typically, there are 2 types of users: buyers and sellers.

- **Example:** Amazon sellers and customers play different roles and access different platform features.

- Other examples include product marketplaces, like Alibaba and Jumia, and service marketplaces, like Uber and HomeAdvisor.

Platforms need scale because they generate value through network effects

Network effects are the incremental benefits gained by an existing user for each new user that joins the network.

- **Homogeneous platforms have direct network effects**
  - Each user that joins the network increases the value for all users in it.
  - **Example:** The value of WhatsApp increases with the number of users that have it, because the more people I can reach through it, the more useful it becomes.

- **Heterogenous platforms have indirect network effects**
  - If there are 2 types of users—buyers and sellers—new buyers increase the value of the network for sellers and new sellers increase the value of the network for buyers.
  - **Example:** The value of Amazon for a seller increases with each new buyer that joins because new buyers are new potential customers. However, a new seller would not benefit existing sellers.
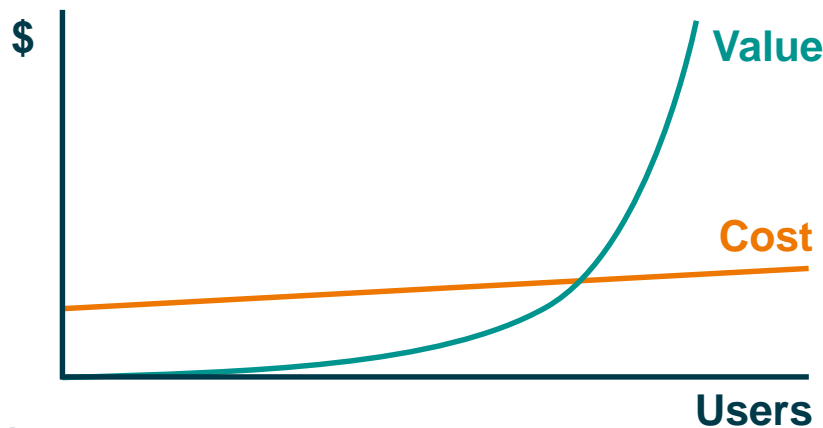
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Exponential value from growth drives platforms to scale

- The network effect value grows in proportion with the number of **possible** connections between users.
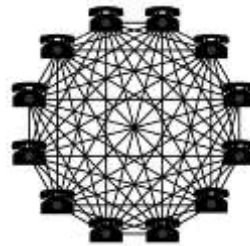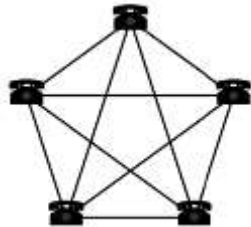
2 users = 1 link   **5 users = 10 links**   **12 users = 66 links**   **1M users = 500B links**

- Which makes returns to scale in platforms exponential.

Value is a function of the number of links, so it grows exponentially with each new user.

Marginal cost is a function of the number of users, so it grows linearly with each new user.

The need for large scale means platforms must reduce friction

High fees introduce friction that limits and slows scale. This can make it difficult to monetize some platform business models.

A platform business model aims to create value for participants by enhancing network effects.

This is done by reducing transactions costs, removing friction, and keeping participants engaged.

Imposing fees introduces friction and limits scalability.

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Removing transaction fees enables broad uptake, including by low-income users

Mobile Payments in China

- Payments within the platform ecosystem are free to users

- Cost of payments is covered from other business lines

- 77% of adults (890M) use mobile payments

- 1 in 3 consumer payments is cashless

- $41T transacted in 2018

Trillion USD

Chart: Mobile Payments in China, 2013–2018 (Trillion USD)
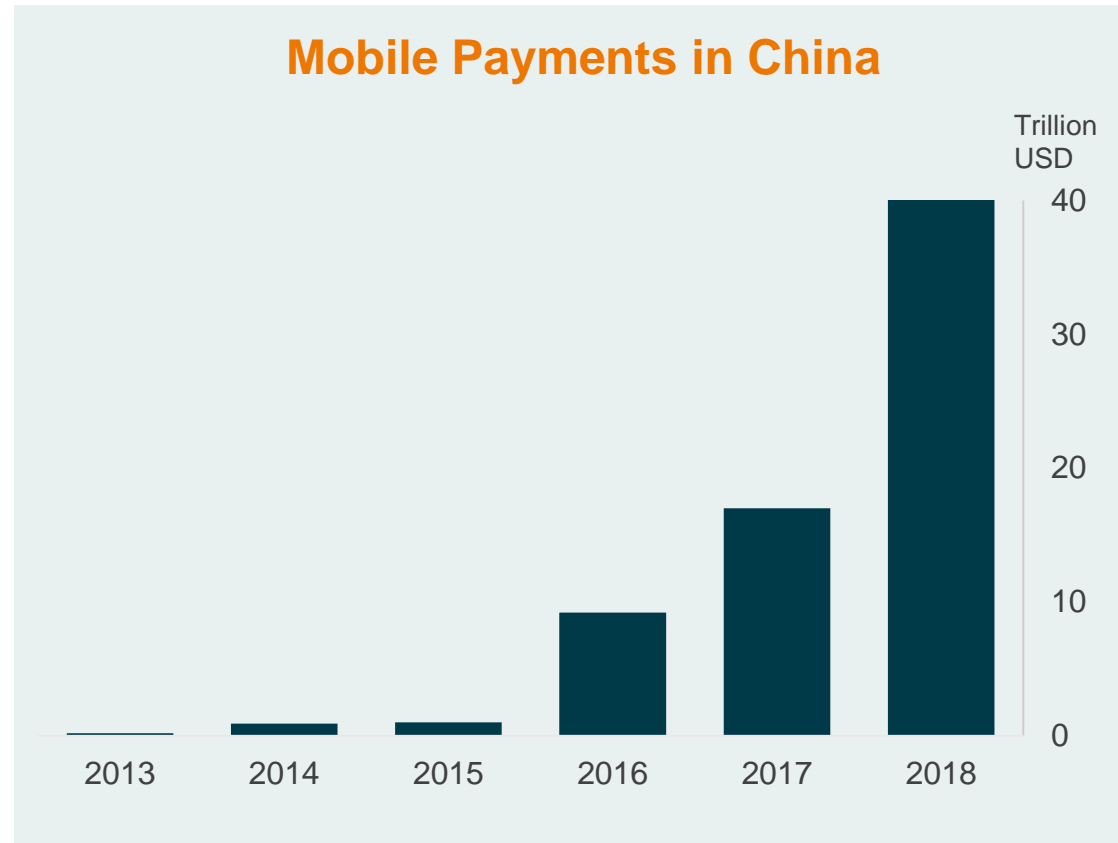
Platform business models and low-income customers

- In EMDEs, it is difficult to reach **scale** without **including poor people.**

- **Traditional businesses** can reduce costs by distributing fixed costs across a large customer pool, but they still **need to cover the cost to produce the good or service** for each new customer.

- **Platforms have very low marginal costs** once scale is reached because they **don't produce or own** the good or service.[1] This makes serving new customers viable even though potential revenue is small.

- Because of **network effects**, adding low-income customers to a platform increases value for all customers.

- A platform's low- or no-fee structure means **pricing might not be a barrier** for low-income customers.

- Platforms can offer **opportunities for low-income customers** to participate both on the demand side and the supply side.

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Platforms and financial inclusion
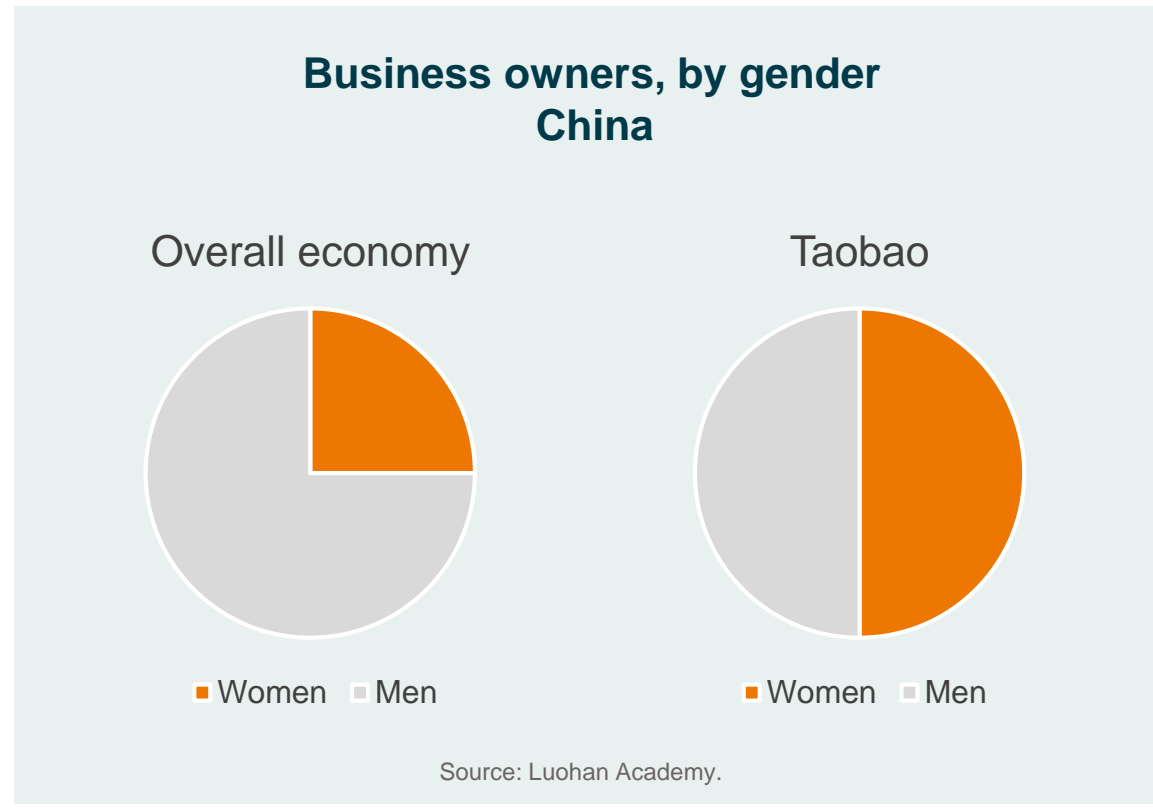
Benefits for financial services providers (FSPs):

- The scale and cost structure of platforms can enable FSPs to **acquire new customers at a low cost. Example:** An FSP can instantly extend loan offers to millions of highly rated drivers by partnering with a ride-hailing company.

- FSPs can access large amounts of standardized data about users from platforms. This enables them to **identify potential customers at a low cost.**

- For sellers, FSPs may be able to use their revenues, inventories, or assets on the platform as collateral to **reduce risk. Example:** A lender could automatically assess digitized and validated income streams for a plumber through a home services platform instead of manually auditing individual receipts.

- Information provided by the platform can be particularly relevant to **expand the customer base of thin file or traditionally excluded** customers who have not generated traditional financial data.

- A platform's transaction functions and digital infrastructure can be leveraged to facilitate **low-cost sales and processing.**

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Platforms and financial inclusion

Benefits for low-income customers:

- They have **greater access** to financial services embedded in the platform.

- Platforms that have access to data may be able to offer **better prices for services** acquired on the platform for good customers.

- **Data** generated on the platform allow providers to offer low-income customers products **tailored to their economic activity** and working capital needs.

- Access to financial services can enable low-income customers to **participate in economic opportunities** and acquire services in the context of their economic activity.

- Access to financial services can be a catalyst for low-income customers to **participate in the platform**:

  - **Microentrepreneurs can seize greater opportunities** in a larger market through working capital financing and more selling points through platforms.

  - Low-income consumers get **access to more goods** and can buy them through point-of-sale credit.

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Some marginalized groups may participate more easily in digital platforms

Alibaba Group

**Business owners, by gender
China**

Overall economy

Taobao

■ Women ■ Men
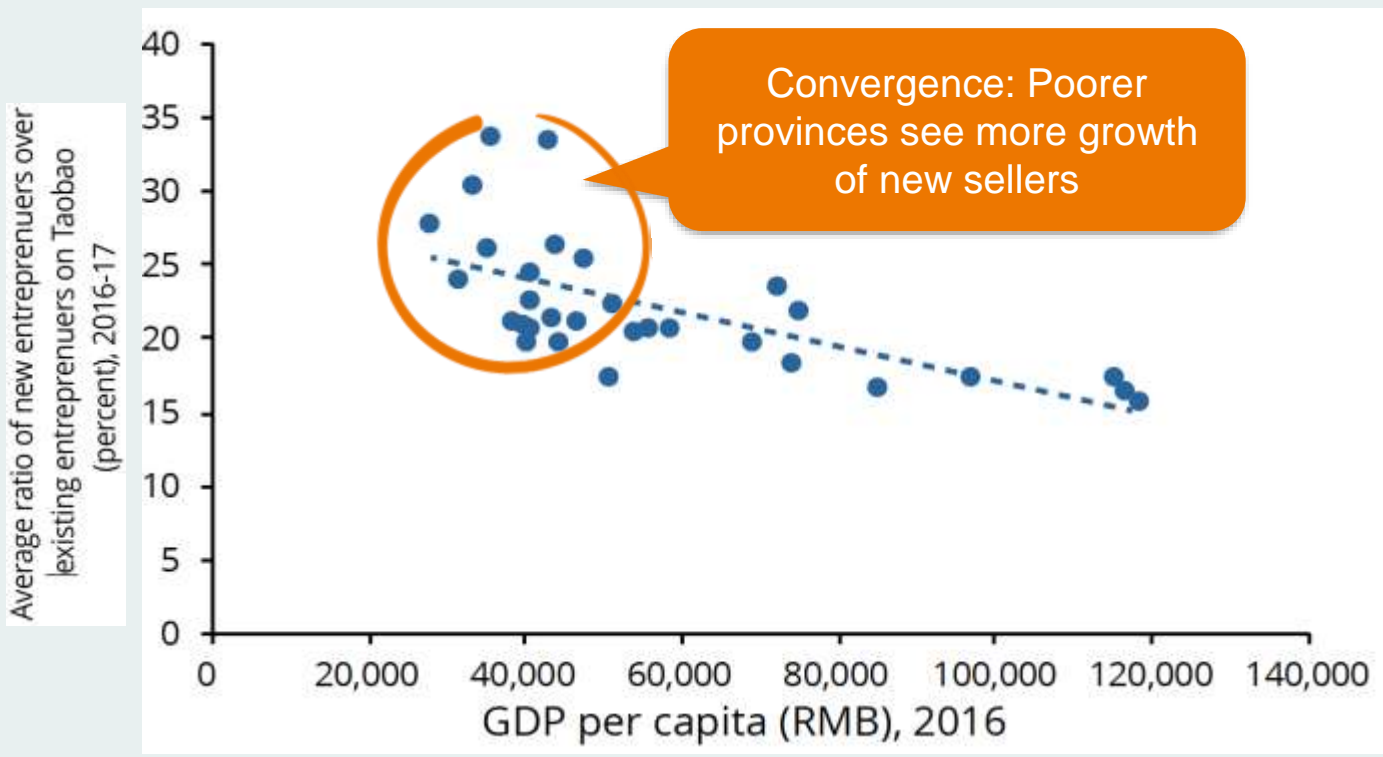
■ Women ■ Men

Source: Luohan Academy.

320,000 people with disabilities (including at least 16,000 visually impaired) have shops on Taobao, creating $1.8B in sales in 2016.

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Platforms can connect less-developed areas to centers of economic activity

Alibaba Group

Growth in new MSMEs per province
by GDP per capita
China

Convergence: Poorer provinces see more growth of new sellers

Average ratio of new entreprenuers over existing entreprenuers on Taobao (percent), 2016-17

GDP per capita (RMB), 2016

Source: Luohan Academy.

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Classifying platforms

Example 1

Product Marketplace	Service Marketplace	Payments Platforms	Investment Platforms	Social Networks

Exchange platforms

Communications	Social Gaming	Content Platforms	Development Platforms

Maker platforms

Classifying platforms

Example 2

Note: Some platforms combine elements of more than one model.
Source: Innovation Tactics.
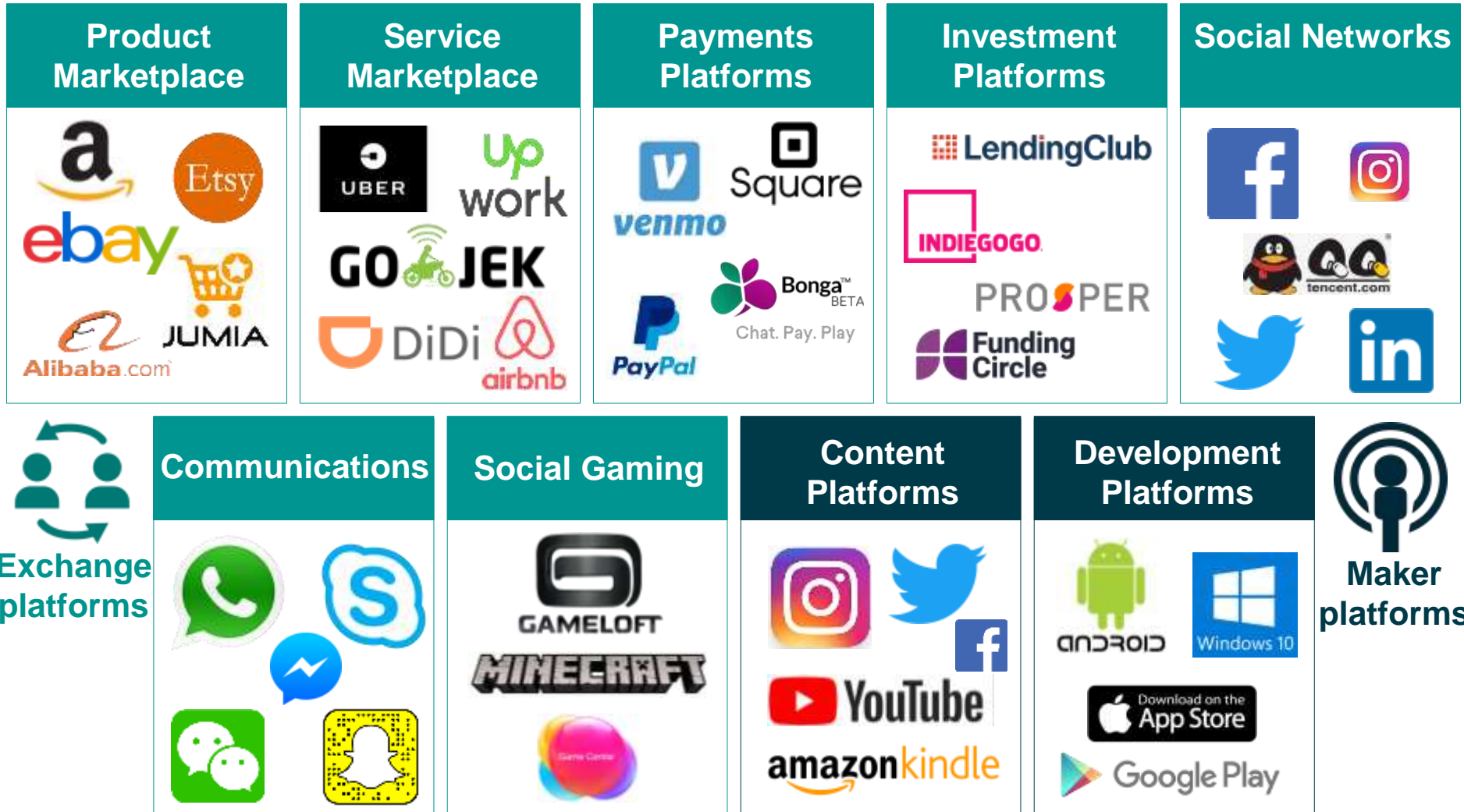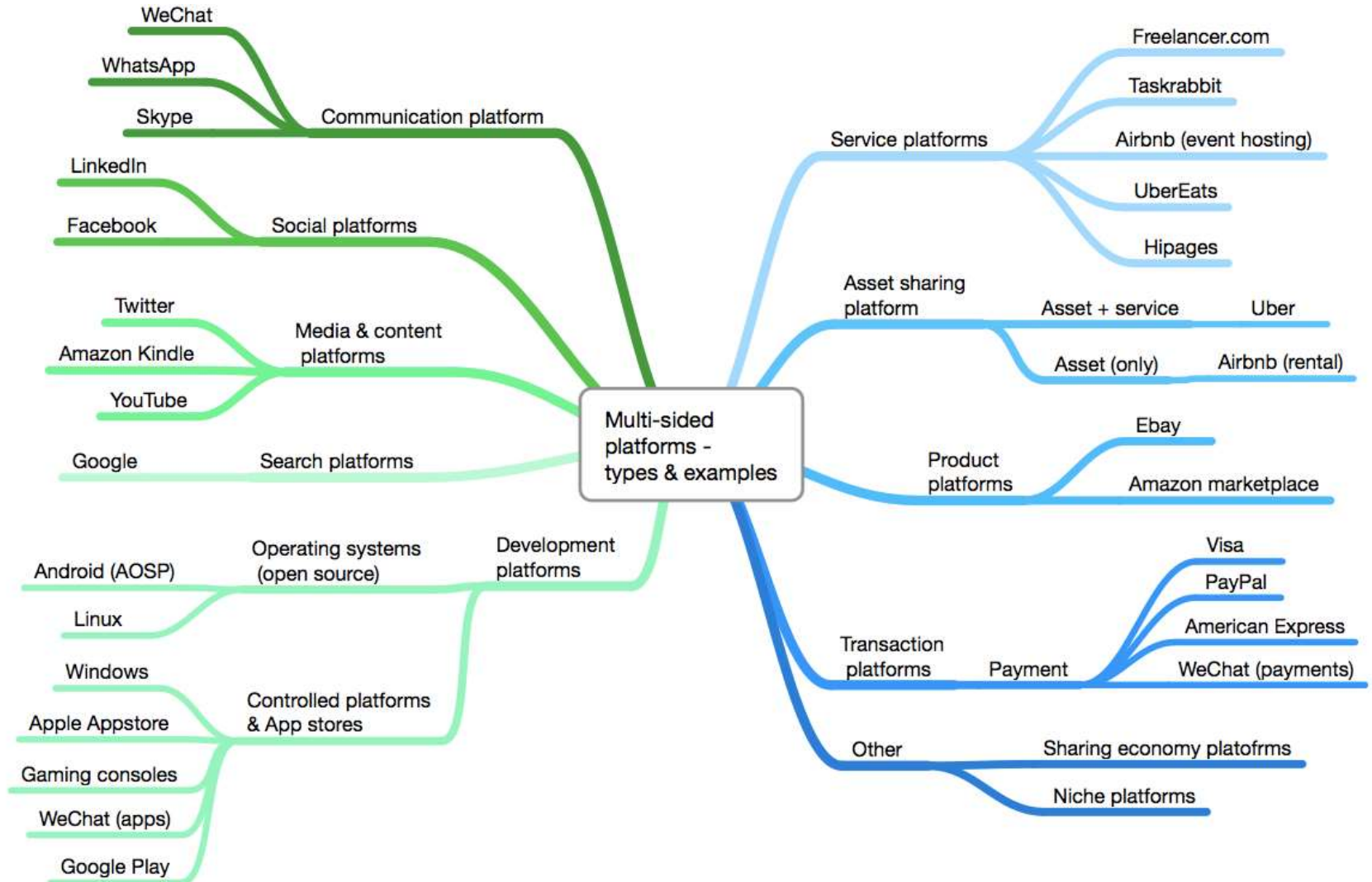
Types of platforms

Product Marketplaces	Service Marketplaces	Social & Communications

- This deck focuses on platforms in which financial services play a significant role and have the potential to reach low-income people.

- It does not address payments and investment platforms as they are financial services themselves and not in the scope of this deck.

- Social and communications platforms are grouped together because they share common elements and social platforms typically include a communications system. Informal social commerce in these platforms is relevant for informal entrepreneurs.

- Asset-sharing platforms, like Uber and Airbnb, are considered service platforms because they also involve a service such as driving and cleaning.

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Key features of each platform type

	Product Marketplaces	**Service Marketplaces**	**Social & Communications**
Description	Connect buyers and sellers of **physical goods**	Connect buyers and sellers of **services**	Connect primarily individuals **generating, consuming, and sharing** content
Offer	**General** (e.g., Amazon) or **specialized** (e.g., Etsy for handmade items, Tradesy for second-hand fashion)	Some sell **pure services** (e.g., food delivery); others depend on **shared assets** (e.g., AirBnb)	Only **digital content** like voice, text, pictures, videos. May be used to advertise physical goods but this is not managed by the platform.
Trust	Often provide buyers with **ratings and reviews** of items and sellers	Provide buyers and sellers with the ability to rate each other on the **quality of service** provided	Rating of users is not common
Online to Offline	**Logistics** and **delivery** are key components so these platforms tend to be **localized to some degree**, although this is not necessary	Localized because service needs to be **provided locally** by a local supplier except for fully digital services	No need for localization because there is **no physical exchange** but can be linked to offline for some use cases like **informal social commerce**

Product marketplaces

- Product marketplaces, generally referred to as **e-commerce platforms**, connect buyers and sellers of **physical goods**. They often provide buyers with **ratings and reviews** of items and sellers to build trust.

- Key **differentiating factors** among competitors are the variety of products, pricing, quality of the search engines, and cost and speed of delivery.

- Marketplaces can be **general** (e.g., Amazon) or **specialized** (e.g., Etsy for handmade items, Tradesy for second-hand fashion).

- Platforms can focus on B2C, C2C, B2B, or mixed. **B2B** (e.g., Amazon Business, Ling Shou Tong from Alibaba) marketplaces are nascent, but **quickly growing.**

- Goods sold can be **more or less commoditized** (e.g., groceries are more commoditized than handmade goods). The **less commoditized** the goods are, the more relevant seller or product **ratings** become.

- There is a strong online/offline dependency because **logistics and delivery** are core to this model, with cost and timing of delivery being key to customer value.

- Given the logistical component, platforms tend to be **localized to some degree**, although this is **not necessary** if reliable, independent logistics and digital payments are in place (e.g., sellers in China sell on Amazon U.S.).

Service marketplaces

- Service marketplaces connect buyers and sellers of services.

- Some sell **pure services** (e.g., home services or food delivery); others, like Airbnb and Uber, depend on **shared assets plus a service** associated to it.

- Asset-sharing businesses where **all the assets are owned by the company** (like ZipCar and most bike/scooter-sharing services) are **not platform businesses.** Rather, they are modern versions of traditional linear rental companies.

- Services currently being offered on platforms include **transport services, delivery services** (especially food) and **home services.**

- Platforms can offer only **curating and aggregating** options for buyers without setting prices, or they can **match buyer with seller and set the price** for the transaction, depending on how commoditized the service is.

- With **commoditized services**, like ride-hailing, riders don't choose their drivers and vice versa. Drivers are **not competing on price or quality** with each other.

- With **noncommoditized services,** like AirBnB rentals, each house is unique, sellers set their own prices, and buyers choose a specific property.

- **Home services** currently are being offered both as **commoditized** (e.g., Amazon Home Services) and as **noncommoditized** (e.g., HomeAdvisor). The commoditization simplifies search by having predetermined prices but limits the ability of workers with more experience, better skills or higher ratings to charge a premium for their work.

- Except for fully digital services (e.g., translation or web design), which are less relevant to low-income workers, service needs to be provided locally by a local supplier. Therefore, platforms **need to be localized** and have local sellers.

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Social and communications platforms

- **Social platforms** typically connect **homogeneous individuals** with the same person both consuming content and sharing content.

- **Communications platforms** also connect homogenous individuals. They may be **embedded** on a social platform like FB messenger and Instagram DM **or independent** like WhatsApp or Skype.

- Since there is **no physical exchange** and platforms offer digital-only content like voice, text, pictures, videos, they **don't need to be localized.**

- Both formal and informal **businesses** are increasingly leveraging these platforms as a **marketing** and **customer service** channel.

- This introduces some heterogeneity, but businesses typically have **limited additional functions** available. For example, Instagram offers verification badges for some accounts but not functions like transaction processing.

- Some social platforms have **expanded to incorporate marketplaces or links** to them. In some markets Facebook has a marketplace that uses location to show relevant posts. It does not facilitate transactions; it is used by informal entrepreneurs or occasional sellers.

- With **informal social commerce**, **financial transactions** often happen **outside** the platform and rely on personal networks and information sharing to build trust since social platforms typically don't offer ratings.

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Platforms and their business models evolve
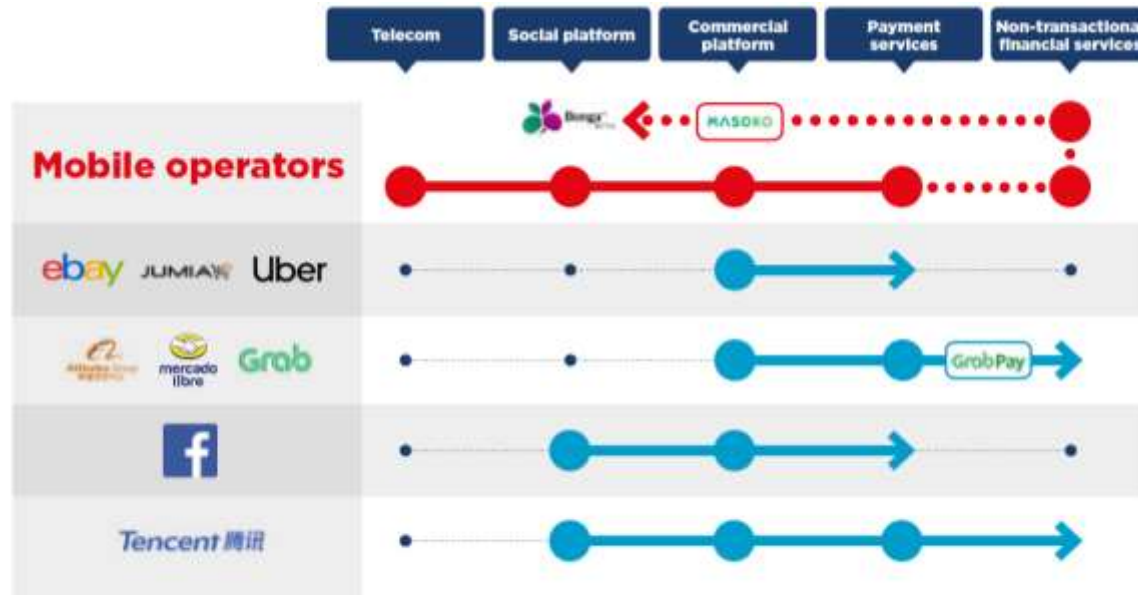
Source: GSMA / Sofrecom

- Platforms expand to incorporate functions that support their core activity (e.g., payment services for platforms whose core activity requires a financial transaction).

- They expand where they can leverage the cost structure of their core activity (e.g., UberEats can leverage Uber's matching and tracking software and its network of drivers).

- When classifying platforms, in this deck, we focus on their primary business model and highlight any secondary models and their interdependencies.

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Platforms offer opportunities for economic inclusion

Type	Opportunity	For Who	Role of Financial Services
Product marketplaces	Access to products previously unavailable, ability to compare prices	Consumers	POS lending can enable purchases of higher ticket items and durable goods
	Access to a market of potential buyers	MSMEs	Working capital lending enables sellers to expand their business faster
Services marketplaces	Promote job opportunities through connections beyond personal network	Workers of varied skilled levels	Financing enables workers to cover costs of providing the service (e.g., travel costs, gas, tools) and to acquire assets like cars or motorcycles
Social & Communications	Offer zero-cost or low-cost marketing opportunities and customer services functionalities (e.g., chat)	Micro-entrepreneurs	As the platforms provide access to new customers, working capital lending enables MSMEs to capture this new market quicker and more effectively

In turn, data made available by platforms can support more inclusive financial services. Data, including digitized revenues streams, purchase history, and customer feedback, can be used by FSPs to score and segment customers.

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Different types of platforms offer different synergies with financial services

Product Marketplaces	Service Marketplaces	Social & Communications

Examples of Synergies with Financial Services

Product Marketplaces	Service Marketplaces	Social & Communications
• Pay for product	• Pay for service	• Promote stickiness/user retention
• Increase seller working capital	• Increase provider working capital	• Monetize data
• Increase buyer purchasing power	• Offer insurance to boost buyer confidence, reduce leakage	• Spur informal social commerce

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Potential benefits of synergies

Poor people	FSPs	Platforms
Cost — **Lower cost financial services**	• **Lower customer acquisition costs**	• **Simplifed logistics** and **reduced risk from digital payments**
Access — **Greater access** to financial services for MSMEs and consumers	• **Lower operational costs** through digital infrastructure	• **Lending** to **expand inventories** and **quickly** fulfill orders
Fit — **Tailored and contextualized credit offers (**e.g., specific working capital needs)	• **Access to large amounts of standardized data** about potential customers	• **Lending** to **purchase, fix, or replace working assets**
Experience — Fully **digital, streamlined** delivery embedded in platform	• Access to data on **revenues and assets,** particularly relevant for thin file	• **Lending enables buyers** to make large **purchases**
		• **Insurance spurs buyer confidence** and reduces leakage

Risks: Digital divide, data privacy and security, quality of work, competition

Synergies with financial services: Product marketplaces

- **Payments and wallets**. Although cash on delivery is an option in many markets, having a **digital form of payment simplifies the logistics** for product marketplaces and **reduces risk** for sellers. Also, if the marketplace charges sellers a transaction fee, the **ability to collect fees** significantly increases with a digital payment.

- **Lending for sellers**. Access to credit enables sellers to **quickly replenish and expand inventories and fulfill orders**. Offering more goods on the platforms increases the probability of sales and the value of the platform to customers. Fast fulfillment **increases value** to customers and makes the platform more competitive.

- **Lending for buyers**. Access to credit **increases the probability of buyers making a purchase**, especially for large-ticket items. If the platform makes a profit from each completed transaction, buyer financing would increase platform revenues.

Synergies with financial services:
Service marketplaces

- **Payments**. Although cash on delivery is an option in many markets, digital payments **simplify the user experience** when taking a ride or hiring a service. In food delivery, digital payments reduce risk because payments need to be made at pick-up, before the food is delivered. Digital payments also can reduce leakage in some services, like home cleaning, by keeping the transaction online rather than moving the transaction offline to avoid fees.

- **Insurance**. Insurance increases **buyer confidence** and entices more buyers to engage with the platform. It also is highly valued by sellers. It can help **reduce leakage**: when the value of the insurance is bigger than the potential saving on fees, it reduces incentives to take transactions off the platform.

- **Lending for sellers**. Access to credit enables sellers to cover **costs of the service and purchase or replace assets**. For example, a ride-hailing platform does not make money when a driver is not driving because he or she can't afford a car repair. Having a large network of good quality cars is a competitive advantage.

Synergies with financial services:
Social and communications platforms

- **Payments.** Social and communications platforms compete for user attention and get value from **users spending time on their platform—**both in customer data and advertising exposure. Seamlessly embedding payments into interfaces keeps users on the platform (**stickiness**) and offers insights into their spending.

- **Lending.** Social platforms have access to a lot of customer data. One way to **monetize these data** is to use them to score potential borrowers and offer credit. Lending for informal social commerce can **boost participation of microentrepreneurs,** who often lack access to credit elsewhere.

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Risks

Digital divide. Platforms can widen the digital divide by serving only those with access to smartphones and computers and risk deepening exclusion for those offline as more opportunities move online.

Data privacy and security. Data that platforms collect from users can be used to provide better services. They also can be used to exclude or harm vulnerable people, including poor people.

Quality of work. Platforms and technology can expand income opportunities for low-income people. However, these jobs generally lack the security of a fixed salary and benefits like paid sick leave.

Competition. Because platforms need to scale, the space is likely to be dominated by only a few players. Limited competition can affect fees and prices.

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Digital divide

- **Internet access and affordability.** Cost still is the main barrier for internet access. In Africa, the average cost for 1GB of data is 7.12% of the average monthly salary. In some countries, 1GB costs as much as 20% of the average salary.[1]

- **Gender gap.** Despite growing internet penetration across the globe, the digital gender gap is widening in some parts of the world. In Africa, women's access is 25% lower than men's according to the International Telecommunication Union (ITU).

- **Access to devices.** In 2018, smartphones accounted for 60% of connections.[2] Platforms can widen the digital divide by serving only those with access to smartphones and computers. Depending on the market, options for feature phones can significantly impact inclusion. **Example:** Lynk in Kenya enables sellers of services to operate through SMS communications.

- **Gap in digital skills.** ITU found that 65% of noninternet users in Africa, Asia, and Latin America did not use the internet because of a lack of skills. Even when they have access to affordable handsets, reliable data connectivity, and stable power, many people do not know how to access digital financial services or are not comfortable with technology. Digital literacy is needed to effectively close the digital skills divide.

- **Agent networks.** As a result of these gaps, it can be hard for platforms to reach the bottom of the pyramid with financial services and the benefits they bring. In many markets, platforms still target the middle class. However, platforms are employing **agent networks** to close the digital divide and reach low-income people in remote and rural areas.

Data privacy and security

- Platforms are able **to collect many user data points.** Data can be **used to provide better services**, but they also can be **used to exclude specific customer groups** (e.g., through targeted advertising).

- Targeted advertising is **not always a problem**. For example, it would be logical for a restaurant to target only customers who live nearby. However, this selection **could be based on discriminatory characteristics** (e.g., race) or those closely correlated with discrimination (e.g., marketing to only selected ZIP codes based on racial composition). **Biased algorithms** can lead to exclusion based on race, occupation, gender, etc.

- For many platforms, especially social and communications platforms that do not collect fees, user data are a **key source of revenue.**

- Platforms rely on data generated by **users' historical transactions and behaviors** to make decisions about financial products and services for low-income customers. The **more data** the platforms have, the better their **ability to tailor products and services to customer needs** and to **serve users who are traditionally excluded** by banks because they lack pay slips or credit a history.

- However, in most cases, users have either **not consented** to the use of their data or have agreed to **complicated terms and conditions they did not fully understand.**

- Data might be **sold to third parties** or accessed through a **data breach.** This exposes low-income customers to risks that they may not be prepared to face. Lack of checks on how platforms use data can lead to **data abuses and cybercrime.** Data privacy and security issues can undermine financial inclusion efforts by making people **lose trust.**

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Quality of work

- Most platforms workers are **independent contractors** rather than employees. As such, they generally don't have the **benefits and workplace protections** offered to traditional employees.

- Platform work can drive workers to informality. However this is more prevalent for developed markets since workers in emerging markets already have a high level of **informal and self-employment**. Most were not salaried employees before joining the platform, so they move from informal to semi-formal employment rather than from formal to semi-formal employment.

- While platform work has benefits, including **flexibility, autonomy, and potential for increased income,** it also comes with risks that undermine quality of work.

- Many platform workers have **inconsistent and/or unpredictable income patterns,** which can present challenges if credit repayment is not flexible.

- **Lack of worker protections and benefits** (e.g., paid leave, insurance, pension, etc.) result in long hours, high pressure, and on-the-job injuries. Some platforms set up partnerships to offer some benefits like insurance at preferential rates.

- **Large power imbalances** between platforms and workers make negotiations difficult. Pay cuts are particularly challenging if workers have taken on credit that is no longer affordable or profitable. **Unionization** of platform workers can help address this issue.

> "Gig workers are increasingly taking risks related not only to their labor but also to their own capital. This occurs when continued ownership of the assets used in work are dependent on a set of circumstances outside the control of the worker. For example, Uber drivers are encouraged to borrow money to buy their cars. If a driver is then 'decommissioned' by Uber or if Uber changes the amount it pays to drivers or if the market gets flooded with new Uber drivers due to the accessibility of the platform, the driver is burdened with debt, with no ready means to pay it back." —Vincent Jelani, Harvard University

- Access to financial services **tailored to the income patterns** of platform workers together with **policy and regulation** to offer benefits and protections could improve the quality of work.

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Competition

- Platforms rely on scale and **network effects,** which leads to **market concentration.**

- Players that can afford to may expand into new markets and/or users may dominate the market. They can **leverage their dominance in one sector** (e.g., search or e-commerce) **to gain dominance in another** sector (e.g., P2P payments, digital wallets, etc.). The data and customer relationships they gained in one sector can be used as a competitive advantage in another area, where their competitors don't necessarily have access to the same data.

- A fight for market share can result in a **pricing war that is detrimental for producers and suppliers of services** on the platforms, especially for generic services like transport and food delivery, where platforms control pricing directly.

- Dominant firms can use **bundling or tying strategies** to restrict competition or customer choice. **Example:** Companies like Google and Apple preinstall their payment services in their devices (Google Pay, Apple pay).

- Competition **laws and regulation** are needed to address competition issues that are **specific to the digital economy.**

- **Example:** All over the world, ride-hailing drivers have been going on strike due to low fares and high commissions against driver earnings. E-hailing platforms reduce prices to be more competitive, attract more customers and gain market share, but these low prices affect wages earned by drivers.

Key takeaways

- Platforms are powerful, growing, and potentially inclusive, but the digital divide still keeps some people from participating and benefitting.

- There are strong synergies to push for financial services to be embedded and this is likely to be a relevant driver of financial inclusion for poorer segments. However, banking partners with suitable technology may need to drive financial products through platforms.

- While finance was not an early enabler in developed markets and it evolved naturally from the success of e-commerce in China, in other EMDEs, finance is more likely to be needed earlier to enable low-income participation.

- Platforms and the digital economy can open new possibilities for economic inclusion and growth, and financial services can be a critical enabler for poor people to capture those opportunities.

- Platforms have the potential to lower the cost of financial services, expand access, simplify delivery, and offer products tailored to specific working capital needs of poor people.

- In turn, financial services can boost the platform's business and make it more profitable by increasing both supply and demand.

- However, significant risks need to be addressed to avoid harm and achieve a positive and sustainable impact on poor people.

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Content

1 What is a platform?

2 Why are platforms relevant for low-income customers?

3 What are the main business models?

4 What do platforms mean for financial inclusion?

5 What are the risks?

6 Appendix: Examples

Product marketplace examples

1. Jumia Lending

2. Jumia Pay

3. Mercado Pago

4. Amazon Cash

5. Amazon Pay

6. Amazon Lending

7. Bukalapak and Tokopedia

1 Jumia Lending: Capital to microentrepreneurs for inventory

Background

- **Short-term loans for vendors** on Jumia, in partnership with lending fintech Branch

- Loans are pegged to **vendors' sales history and projections** based on their future business performance

- Available in all **11 countries** where Jumia operates

> In Kenya, sellers received loans **of up to 30,000 Kenyan shillings** (~ US$290), with a 6-month term on the loan. Funds instantly are made available on Branch and **disbursed through mobile money (M-PESA)**

- Generates revenue from 1.2% per month **interest rates**

- With the **data** Jumia gathers **from the vendors**, it **develops a scoring metric** used to determine who receives financing and how much can be accessed

Advantages of Jumia Lending

- Easy access to working capital
- Quick registration process
- Flexible repayment plan within 1 - 6 months
- Low interest rate
- No collateral
- No hidden or extra charges
- Free training & support services to help you achieve your goal

Impact

- Microentrepreneurs can **seize greater opportunities** in a larger market **because of working capital financing**. For example, they can replenish and expand their inventories faster and fulfill orders quicker.

- Jumia Lending **ultimately adds more products to its platform**, which **increases the profitability** of sales and the **value of the platform** to customers.

> *"It is important for us because SMEs are the heart of Jumia and of the economy. **The programme will make the vendors, Jumia and the economy better."***
> - Sacha Poignonnec, CEO of Jumia

JUMIA PAY

(2) JumiaPay: Convenient payments solution for buyers and sellers

Background

- **Free online payment service** that enables Jumia users to send payments online securely, instantly, and cost-effectively

- Available in **six countries**: Nigeria, Egypt, Côte d'Ivoire, Ghana, Morocco, and Kenya

- Available on **Jumia marketplace** and in selected countries within **Jumia Food** and **Jumia Travel**

- Sign-up requires JumiaPay email address, password, and a verification code sent to a user's mobile to process payment

Faster payments. Easy as 1-2-3!

1. **JumiaPay at checkout** — Shop on Jumia and select JumiaPay at checkout.
2. **Identification** — Simply enter your mail and password, then select your bank account to order.
3. **Verification** — Confirm your payment with the bank secure code sent on your mobile.

Impact

- Helps alleviate the problem of **trust** on the platform between sellers and buyers, which resolves the common problem of failed payments at checkout faced by many e-commerce platforms

- **Increased** volume of **electronic payments**: JumiaPay's total payment **volume increased 95%** to ~**US$34.3M** in Q3 2019 from **US$17.6M** in Q3 2018[1]

"Jumia Pay has a very simple yet crucial objective: go even further in providing a safe, secure, and convenient shopping experience to our customers, building trust along the way between us, our thousands of sellers, and our millions of customers. We are very proud to be able to offer this new service to our customers and participate in building financial inclusion in Africa to unbanked or underbanked populations." —Olaoluwa Oloyede, Jumia manager

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3 Mercado Pago: Payment solutions and access to credit for customers and merchants

Background

- Payments solution designed by Mercado Libre to facilitate **financial transactions on and off the marketplace**

- Offers an **array of financial services** like Mercado Credito and Billetera Virtual

- **Mercado Credito**:
  - **Working capital loans for merchants** who sell through Mercado Libre or process payments with Mercado Pago
  - **Loans based on seller's history** on Mercado Libre and Mercado Pago; repayments deducted as a percentage of future sales
  - **Easy and flexible,** no documentation is required and seller can choose amount and number of installments

- **Billetera Virtual**:
  - Digital wallet allows users to make payments using **QR codes or POS machines**
  - Users can **access loans for purchases**

Mercado Pago Marketplace* vs. Nonmarketplace Payment Volume** in Latin America***, 2017-2019
billions

	Q1-Q3 2017	Q1-Q3 2018	Q1-Q3 2019
Total	$9.39	$13.15	$19.72
Non-marketplace	$2.77	$4.83	$10.33
Marketplace	$6.62	$8.32	$9.39

■ Marketplace*   ■ Non-marketplace
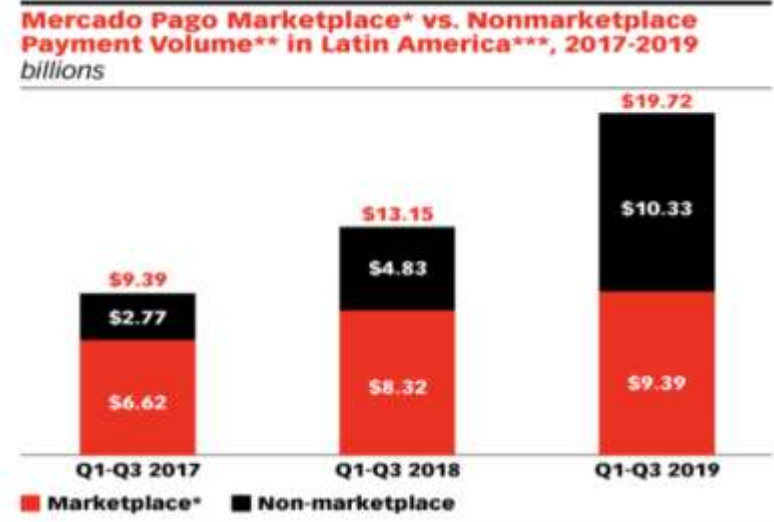
Impact

- Digital payments **simplify the logistics** of product marketplaces and reduce risks for sellers

- In 2018, loans worth **US$264M** were granted through Mercado Credito[1]

- **Increased use of digital payments**: As of June 2019, transaction value for Mercado Pago was **$5,600M;** Since January 2019, the value of payments grew by **120%**

amazon cash

4 Amazon Cash: Simplify logistics through digital payments

Background

- Users **deposit cash directly into their Amazon account** at any of the more than **100,000 physical locations** participating in the program

- Deposits range from **US$15 to $500 per transaction**; daily limits may be added by specific retailers

- Available in U.S., Mexico, and Canada; uses a different name in some markets

- **Free for customers,** but funds cannot be refunded once deposited into Amazon accounts

- Accessible **with and without a smartphone**. Barcodes are required and can be downloaded on phones or printed and presented to cashiers at participating locations

- Deposited cash is made available for use in the customer's Amazon account for shopping online

Scan your barcode

Pay cash in-store

Shop online

Impact

- Makes it possible for the "unbanked" or "underbanked" (25.2% of households in the U.S. in 2017 according to FDIC) to shop online

"Together with Western Union, we're able to offer customers more shopping choices, enabling them to pay for their online purchases in a way that is convenient for them."

- Ben Volk, Payments at Amazon

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amazon pay

5 Amazon Pay: Trusted payment channel and less friction

Background

- Users have the option to **purchase goods and services outside Amazon marketplace** using information (e.g., addresses, payment methods) stored in an Amazon account
- Third-party e-commerce stores add Amazon Pay button to checkout through the Amazon Payments SDK, and **users are redirected to their Amazon account where they select a payment option** and receive their purchase receipt
- Revenue is generated by **charging 2.9% + $0.30 per domestic transaction**
- **In India**, users make **P2P transfers** through a **unified payments interface**

Impact

- Increases **customer trust** as payment goes through the Amazon channel
- **Streamlines** payment process across different platforms; user not required to re-enter card and address information that are already registered with Amazon
- **Increases the likelihood of purchase** for smaller platforms or retailers where users don't have an account
- Provides Amazon with valuable **information on user spending** outside its platform

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6 Amazon Lending: Inventory loans for platform sellers

Background

- Provides short-term **business loans** for registered Amazon sellers

- Loans are **strictly for financing additional inventory** to sell through the Amazon marketplace

- **Prequalifies sellers based on seller metrics** (e.g., sales volume) available only to Amazon. **Only invited sellers are eligible** to apply for a loan

- Loan amounts range from **US$1,000 to $750,000;** sellers can accept **part or all** of the offered amount

- **Sellers choose the terms** of the loan, for which Amazon **determines the interest rate**

- Amazon has not disclosed the rates on the loans, but sources indicate the **rates are lower** than those of credit cards and merchant cash advances

Impact

- In 2018, over **20,000 businesses** on Amazon received a loan through Amazon Lending, according to Forbes. **Over 50%** have taken a second loan

"We created Amazon Lending to make it simple for up-and-coming small businesses to efficiently get a business loan, because we know that an infusion of capital at the right moment can put a small business on the path to even greater success." —Peeyush Nahar, vice-president, Amazon Marketplace

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7 Bukalapak and Tokopedia: Financial products to support growth

Background

Bukalapak

- **Digital wallet** to store funds and make quick and secure purchases
- Loans offered to **merchants with credit** based on their Bukalapak sales history
- Loans offered to **consumers with credit** of up to US$1,643, with interest starting at 1.5% per month
- **Digital insurance available** for merchants and customers

Tokopedia

- Partnered with **e-wallet Ovo**, which also is a partner of Grab, to process payments
- Small shop owners can **buy inventory** and **access better prices and greater range of products** using its online to offline platform
- Other products include credit, social security, payments, utility

Impact

- Both platforms promote the **growth of small merchants and business in Indonesia**. For example, Bukalapak sellers have been **growing 3 times a year** on average
- Increased adoption of **digital** payments and customer **KYC registration**

Service marketplace examples

1 Gojek

2 Jumo Drive

3 Grab

4 Meituan Dianping

Gojek

1 Gojek ride-hailing platform: Expanded financial services to merchants and gig workers

Background

- Gojek's **digital wallet**, **Gopay,** enables **P2P transfers** on and off the platform
- Use cases include Gojek in-app transactions, online payments, offline payments, bill payments, transportation, donations, and wet markets
- Provides **MSMEs** with **access to finance,** help **opening bank accounts,** and access to better financial services
- Acquired a fintech, Mapan, through which it provides **flexible lending services** to 3 million users
- Provides **capital loans to SMEs** through a partnership with Atikavu

Impact

- For MSMEs:
    - **3.5** times increase in **sales volume**
    - **80% increase** in transaction volume
    - **30% decrease** in delivery costs
    - **1,000 merchants** have opened a second outlet
    - **70% increase** in sales for Go-Food vendors
- For drivers:
    - **Increased income** and access to more **formalized financial services**
    - **78%** have used savings accounts and ATMs
- Expanded electronic payments nationwide:
    - 75% of mobile payments in Indonesia in 2018 were processed through Gopay—**30% of national e-money transactions**
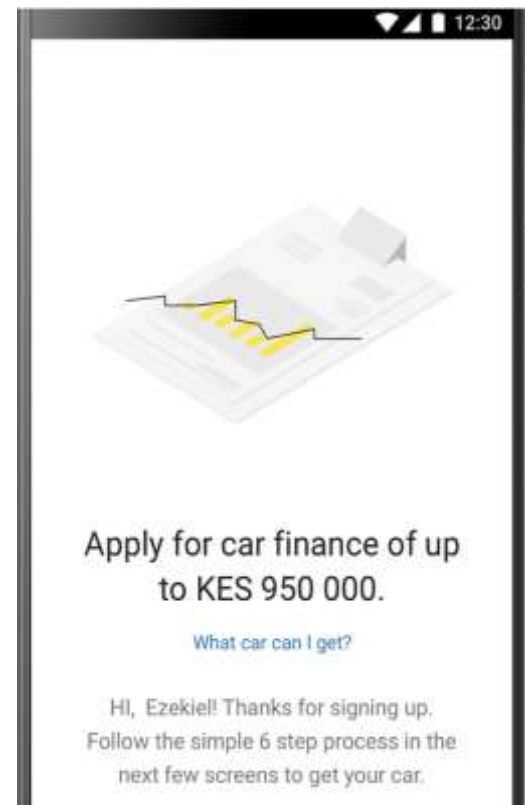
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Source: Gojek.

JUMO Drive

2 Uber-Jumo vehicle financing: A path to car ownership in Kenya

Background

- JUMO in partnership with Uber in Kenya **allows Uber drivers to apply for vehicle financing** from participating lenders

- Credit eligibility is based on a **credit-scoring algorithm** that uses data on the drivers' earnings, trips, and behavior from the Uber platform

- Each loan is **tailored to individual drivers,** and flexible repayments are **automatically deducted from the driver's earnings** on the Uber platform

- Includes **vehicle tracking** for lenders and a **maintenance plan** to help manage risk

Impact

- Uber drivers previously unable to obtain vehicle financing through traditional methods now can **own the cars they drive**

- Vehicle tracking and maintenance enhances the **safety of passengers and drivers** and reduces the risk of the loan since the asset's use can be monitored

Apply for car finance of up to KES 950 000.

What car can I get?

HI, Ezekiel! Thanks for signing up. Follow the simple 6 step process in the next few screens to get your car.

"I feel motivated because I know that the car I'm driving will eventually become mine." — Ezekiel Mwangi Maina, Kenyan Uber driver

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③ Grab: Suite of insurance products at free or reduced pricing

Background

- Grab is an Indonesian ride-hailing company pursuing a super app strategy by adding more services such as food delivery and offering financial services such as payments, credit, and insurance

Payments and lending

- Grab co-owns **OVO, a digital wallet,** with Tokopedia, which allows easy payments, offers P2P lending, consumer credit, etc.

- **Grab Kios** connects e-commerce players and online merchants with offline customers through agents, onboarding the unbanked into digital transactions

- **Grow with Grab** seeks to provide a suite of financial services such as SME lending and microinsurance for microentrepreneurs

Insurance

- Free **personal accident insurance** for drivers and riders

- Free **income loss coverage for earnings** lost due to illness or injury

- **Life and critical illness insurance** (added in 2019)

- **Pay-as-you-drive auto insurance** allows drivers to pay for insurance only when they are driving

Impact

- Leverages its scale and network to **offer policies at affordable rates,** and tailors them to the needs of their workers, improving worker protection

- **Creates employment opportunities**: 33%, 38%, and 31% of car drivers, bike owners, and Grab Kios, respectively, were previously unemployed. All users with prior income reported **increased incomes** after joining Grab

4 Meituan Dianping: Expand financial services to poor counties in China

Background

- Meituan Dianping is a **Chinese group buying website** for local food delivery services, consumer products, and retail services

- In 2016, it added **financial services to meet customer needs** including licenses for private banking, third-party payment systems, insurance brokerage, small Internet-based loans, and commercial factoring

  - **Meituan Insurance:** For merchants, customers, and delivery riders. Data on merchants are used to underwrite risk and manage premiums

  - **Meituan Loan**: Merchant financing for expansion and new equipment. Data generated from the platform are used to **evaluate and manage risk** before loans are issued

Impact

- As of 31 December 2017, the microloan business of Meituan Financial Services covered more than **1,300 counties in China**, 200 of which were poor

- As of 29 July 2018, there were more than 30,000 female clients and women made up more than 30 percent of borrowers

"Meituan-Dianping is serving 600 million users and is working with over 4.5 million merchants across 2800 Chinese cities/prefectures, giving us a huge advantage to provide value-added services like insurance." —Meituan executive

Source: BFA & CAFI, 2018.

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Social and Communications examples

1 Weilidai by WeBank

2 Absa ChatBanking

① WeBank: Greater access to financial services for low-income people

Background

- Weilidai is WeBank's first **online consumer loan product**

- Operates in both **QQ** and **WeChat—**two instant messaging tools owned by Tencent

- Generates revenue from **interest rates**

- Platform benefits from **access to large amounts of customer data** (especially mobile payment transaction data and quality of users' social network data). Both allow for **easy assessment of users' credit eligibility**

Impact

- Low-income customers gain **greater access to financial services**

- **70M people** obtained a credit line, as of 2017

- Average loan is **CNY 8,000 (US$1,128)**, as of 2017

- Outstanding balance of loans under Weilidai's management is **CNY 51.7M (US$7.3M)**, as of 2017

Weilidai's Features

MICROCREDIT	**FLEXIBILITY**	**FAST DRAWN**	**EASY APPLICATION**
From 500 (US$70) to 300,000 (US$43,000) yuan	Early repayment with no penalty	Evaluation in 5 seconds, funds within 1 minute	One-click with QQ or WeChat

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2 Absa ChatBanking: Simplify customer service via WhatsApp

Background

- Absa ChatBanking is an **automated messaging system** available to Absa account holders

- Users may **perform simple banking** without leaving WhatsApp using **conversational language** and shortcut commands

- **WhatsApp** benefits because it **keeps users on its platform** longer

- Offers Absa **insights into users' spending**

Impact

- Low-income customers gain **greater and simplified access to financial services**

- In its first 20 days on Whatsapp, Absa ChatBanking had:
  - **More than 10,000** registered customers
  - **300,000 total messages** from customers
  - **54% of new users** requesting a **mini credit report** on the first day after joining

"ChatBanking on WhatsApp will enable cost-effective, safe, and easy digital interactions, and offer more accessible and efficient engagement with our customers through a secure interface." — Arrie Rautenbach, CEO of Absa Retail and Business Banking

Source: Absa, 2018.

Thank you

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