Business Focus Story

Financial inclusion in the Pacific:
The power of collaboration and technology

Global Psytech CEO, Dr Haniza Yon presenting on the GFI Tool at the Reserve Bank of Fiji

Access to credit remains a significant hurdle in Pacific Island Countries (PICs), complicated by regional challenges, such as communal land ownership and the absence of traditional credit bureaus. This further restricts the financial flexibility of individuals and businesses alike. In Samoa, almost half of the population lack access to formal finance, and savings rates are lower than comparable PICs.

A collaborative approach to innovation

In response to these challenges, in 2021 MDF started working to improve the availability of digital financial services in the Pacific. Collaborating with the United Nations Capital Development Fund's (UNCDF) Pacific Digital Economy Program (PDEP), MDF and partners set up a 'fintech innovation challenge,' to promote financial inclusion in Fiji, Tonga, Samoa and the Solomon Islands.

MDF conducted extensive field research that identified two areas for support:

→ Development of a product or tool to help promote good savings behaviour to encourage Samoans to prepare for significant life/business expenses. The tool could incentivise, simplify or gamify savings to make it more appealing and accessible.

→ Creation of a digital solution that could collect data to build a credit profile for unbanked Micro, Small, and Medium-sized Enterprises (MSMEs). This solution could use data sources other than traditional credit information or financial records to help unbanked businesses gain access to credit and financial services.

PDEP identified a similar credit assessment challenge in Tonga. It was decided that the problem statement should apply to both Samoa and Tonga and that a winning solution could be implemented across both. In Samoa, the National Bank of Samoa (NBS) emerged as a key partner, focusing on expanding its lending portfolio to MSMEs hindered by credit scoring issues. In Tonga, the Tonga Development Bank (TDB) was chosen as the partner, aiming to streamline loan processes and minimise non-performing loans.

The challenge was rolled out in 2022, and Malaysia-based fintech provider Global Psytech was selected for its General Financial Insights (GFI) tool.

The Pacific Fintech Innovation Challenge

The Pacific Fintech Innovation Challenge was launched in 2022 and consisted of five challenges:

1. Improving access to financial services through credit scoring (Samoa and Tonga)

2. Digitising customer service (Fiji)

3. Encouraging savings through formal channels (Solomon Islands)

4. Streamlining foreign exchange (Fiji)

5. Enabling e-commerce and in-person POS merchant payment services (Fiji and Samoa).

Following applications, shortlisted candidates attended a boot camp in Singapore to present their final pitches. MDF financed the winner of problem statement 1 in Tonga and Samoa and contributed to the boot camp's operating costs, while the Asian Development Bank (ADB) provided technical support and boot camp sponsorship. UNCDF led implementation of the challenge. Each winning grant was capped at USD50,000 (AUD 32,578).

The first challenge received 15 applicants and four were shortlisted – BPC, Geniusto, Infinity PlusOne and Global Psytech. Global Psytech, based in Malaysia, was selected for its General Financial Insights (GFI) module, a psychometric quiz-based credit assessment tool, which would be tailored for Tonga and Samoa's unique credit challenges. This innovative tool evaluates loan applicants' repayment willingness and capacity through questions and analysis of responses, including reaction times — a vital feature in regions with limited alternative data sources for the unbanked. Global Psytech had already implemented GFI in six Asian countries, serving over 10,000 microfinance customers with predictive accuracy exceeding 90 per cent.

Trialling alternative credit assessments in the Pacific

In 2023, the GFI tool was rolled out in Tonga and Samoa. To adapt the tool for the two countries, Global Psytech translated its assessment quiz into the Tongan and Samoan languages and trained local bank staff to use the tool. To fine-tune the tool's algorithm, existing NBS and TDB customers were asked to complete the quiz, allowing comparison between GFI ratings and actual loan repayment behaviour to identify key repayment predictors. Simultaneously, the quiz was administered to prospective customers, to evaluate if GFI could streamline the banks' loan approval processes.

Global Psytech further fine-tuned the algorithm for effective local use by conducting six trials with TDB branches and four trials with NBS branches, involving both existing and potential customers. NBS initially struggled to generate enough loan applications for an adequate sample size,

prompting it to successfully launch a new 'stock finance' facility. The loan was the first of its kind in Samoa and gained popularity rapidly, prompting the bank to consider adding it permanently to its products.

The trials showed GFI's ability to distinguish between potential loan defaulters and reliable customers with high accuracy. The key characteristics for predicting loan repayment in each country varied greatly, which suggests that significant localisation is necessary for GFI's broader implementation in the Pacific. These differences could also stem from the distinctive nature of each bank, with one being a commercial entity and the other a development bank. Consequently, for future Pacific banks seeking to adopt GFI, the choice of either TDB or NBS as a baseline would depend on their commercial orientation.

The impact of innovation

Following GFI's implementation in 2023, both banks believe that the predictive accuracy shown in the pilot is strong enough to roll out GFI as a permanent feature of their loan processes. GFI can enhance the credit evaluation process, focusing on assisting small businesses and women without conventional credit histories. NBS plans to integrate it within its loan portfolio and in other bank processes, such as the onboarding of new staff. TDB will also integrate it throughout its portfolio and has seen other unintended benefits, such as limiting potential conflicts of interest for loan officers when making approval decisions.

The collaboration between MDF, UNCDF and local banks, underpinned by Global Psytech's innovative solution, represents a significant leap forward in tackling the long-standing issue of financial inclusion in the Pacific. By harnessing technology and collaborative expertise, this initiative not only offers a model for addressing specific regional challenges but also sets a precedent for future endeavours aiming to empower communities through improved access to financial services.