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# The $100 Trillion Opportunity: The Race To Provide Banking To The World's Poor

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Two years ago, Amylene Dingle lived with her husband and 7-year-old daughter in Payatas, an impoverished Manila neighborhood with the largest open dump site in the Philippines. Her husband worked on the security staff in a government building, earning 4,000 pesos a week, the equivalent of $80. She had always wanted to start a business, but she was unemployed, had no money saved, no credit history and couldn't get a credit card or a bank loan.

Dingle's fortunes took a dramatic turn after she responded to a Facebook ad for Tala, a Santa Monica-based startup that makes small loans through a smartphone app. After granting Tala access to her phone, through which the app cleverly parses mobile data to assess a borrower's risk, she got a 30-day, $20 loan. She paid 15% interest and used the money to buy cold cuts, hamburgers and hot dogs. She marked them up 40% and sold them door-to-door, earning $4 in profit after paying back the interest and a small processing fee.

Today Tala lends Dingle, 42, $250 a month for her now thriving food business. Her $70 in weekly profits have nearly doubled her family's income and funded their move to a two-bedroom home in the quiet, clean Batasan Hills district. Tala is thriving, too. Founded in 2011 by Shivani Siroya, a 37-year-old former Wall Street analyst who had worked at the United Nations, it has raised more than $200 million from top U.S. investors, including billionaire Steve Case's Revolution Growth fund. With estimated 2019 revenue of more than $100 million, Tala is valued at close to $800 million.

Companies like Tala are at the forefront of the race to deliver rudimentary financial services to the 1.7 billion people on the planet who lack even a bank account. Providing them with the basics of credit, savings and insurance is one of the great challenges and opportunities of the century. With access to the financial system, people can buy a car or a home. They don't have to resort to loan sharks if they face a medical emergency. They are happier. They live longer. They are more productive, and their increased productivity will help lift their nations out of poverty. Serving the unbanked will generate some of tomorrow's largest fortunes. It is both capitalism's moral imperative and the route to one of the most significant untapped markets.

While the unbanked pay for everything in cash, an even larger swath of people, the more than 4 billion "underbanked," may have accounts but struggle to make ends meet, racking up steep fees when checks bounce and resorting to high-interest alternatives like payday loans. Traditional banks alone could boost annual revenue by at least $380 billion if they turned all the unbanked into customers, according to a 2015 Accenture report.

The multiplier effects are staggering. The GDP of emerging-market countries would surge $3.7 trillion by 2025, or 6%, if they adopted a single innovation—switching from cash to digital money stored on cellphones, McKinsey estimated in 2016. Diego Zuluaga, an analyst at the Cato Institute's Center for Monetary & Financial Alternatives, has studied the likely effects of full financial inclusion: "If we were to give the unbanked and underbanked in the developing world the same kind of access to credit and investments that we have in rich countries, you could easily create an additional $100 trillion in financial assets over the next 50 years."

Tala founder Siroya was raised by her Indian immigrant parents, both professionals, in Brooklyn's gentrified Park Slope neighborhood and attended the United Nations International School in Manhattan. She earned degrees from Wesleyan and Columbia and worked as an investment banking analyst at Credit Suisse and UBS. Starting in 2006, her job was to assess the impact of microcredit in sub-Saharan and West Africa for the UN. She trailed women as they applied for bank loans of a few hundred dollars and was struck by how many were rejected. "The bankers would actually tell me things like, 'We'll never serve this segment,' " she says.

Where banks saw risk, she saw opportunity. For the UN, she interviewed 3,500 people about how they earned, spent, borrowed and saved. Those insights led her to launch Tala: A loan applicant can prove her creditworthiness through the daily and weekly routines logged on her phone. An applicant is deemed more reliable if she does things like regularly phone her mother and pay her utility bills on time. "We use her digital trail," says Siroya.

Tala is scaling up quickly. It already has 4 million customers in five countries who have borrowed more than $1 billion. The company is profitable in Kenya and the Philippines and growing fast in Tanzania, Mexico and India.

Rafael Villalobos Jr.'s parents live in a simple home with a metal roof in the city of Tepalcatepec in southwestern Mexico, where half the population subsists below the poverty line. His father, 71, works as a farm laborer, and his mother is retired. They have no credit or insurance. The $500 their son sends them each month, saved from his salary as a community-college administrator in Moses Lake, Washington, "literally puts food in their mouths," he says.

To transfer money to Mexico, he used to wait in line at a MoneyGram kiosk inside a convenience store and pay a $10 fee plus an exchange-rate markup. In 2015, he discovered Remitly, a Seattle startup that allows him to make low-cost transfers on his phone in -seconds.

Immigrants from the developing world send a total of $530 billion in remittances back home each year. Those funds make up a significant share of the economy in places like Haiti, where remittances account for more than a quarter of the GDP. If all the people who send remittances through traditional carriers, which charge an average 7% per transaction, were to switch to Remitly with its average charge of 1.3%, they would collectively save $30 billion a year. And that doesn't account for the driving and waiting time saved.

Remitly cofounder and CEO Matt Oppenheimer, 37, was inspired to start his remittance service while working for Barclays Bank of Kenya, where he ran mobile and internet banking for a year starting in 2010. Originally from Boise, Idaho, he earned a psychology degree from Dartmouth and a Harvard M.B.A. before joining Barclays in London. When he was transferred to Kenya, he observed firsthand how remittances could make the difference between a home with indoor plumbing and one without. “I saw that $200, $250, $300 in Kenya goes a really, really long way,” he says.

Oppenheimer quit Barclays in 2011 and together with cofounder Shivaas Gulati, 31, an Indian immigrant with a master’s in IT from Carnegie Mellon, pitched his idea to the Techstars incubator program in Seattle, where they met Josh Hug, 41, their third cofounder. Hug had sold his first startup to Amazon, and his connections led them to Bezos Expeditions, which manages Jeff Bezos’ personal assets. The fund became one of Remitly’s earliest backers. To date, Remitly has raised $312 million and is valued at close to $1 billion.

Oppenheimer and his team can keep fees low in part because they use machine learning and other technology to bar terrorists, fraudsters and money launderers from transferring funds. The algorithms pose fewer questions to customers who send small sums than they do to those who send large amounts.

Remitly transfers $6 billion a year, serving senders in 16 countries, including the U.S., Australia and the U.K., and recipients in 45 nations. In the first half of 2019 it added 15 receiving countries, including Rwanda and Indonesia. The company is not yet profitable, but last year estimated revenue came to $80 million. Oppenheimer sees a huge growth opportunity. Fewer than 1% of the world’s 250 million immigrants are Remitly customers.

In 2012, Dorcas Murunga lived in Gachie, a crime-ridden neighborhood on the outskirts of Nairobi. She earned $80 a month babysitting and cleaning houses, and her husband made $120 installing elevators. He covered most of their expenses while she struggled to save money. Whenever she had cash, she says, she spent impulsively on clothes, junk food and alcohol. She managed to put aside the $5 minimum balance required to open a savings account at Equity Bank of Kenya, but she had a hard time coming up with the $3 monthly fee. To make a deposit, she took a bus an hour each way and waited in line for an hour at the bank. She closed the account after just one year.

Like most Kenyans, Murunga was already using M-Pesa, a service created by Safaricom to send money via text message. In 2012, Safaricom, a subsidiary of British telecom giant Vodafone, introduced M-Shwari, a savings account and loan service it integrated into M-Pesa. Two years later, it started offering an account that locked up a customer’s funds for a fixed period at a fixed interest rate.

Determined to improve her finances, Murunga committed to saving $1 a day through her locked account. When she got the urge to buy vodka or a pair of shoes, she says, she’d make deposits through her phone instead. She cut her spending by two thirds, to $10 a week. By 2016, she was saving $300 a year. She had started a business making handbags, and the savings helped pay for design courses. She has invested in real estate with her husband and says she spends more than $200 a year helping friends and family.

The spark for M-Pesa (*pesa* means money in Swahili), the first mobile money provider in Africa, came in 2003 from Nick Hughes, a Vodafone executive who managed a five-person team tasked with creating wireless products with a social impact. Hughes' idea: set up a digital money-transfer system that would operate through personal cellphones.

Since M-Pesa launched in 2007, it has exploded in size and popularity. Kenyan taxi drivers complain when riders try to pay in cash. Ninety-six percent of Kenyan households now transact through M-Pesa. Before M-Pesa, only 27% of Kenya's then 38 million people had bank accounts. Kenya's population has since risen to 51 million, and 83% have checking or savings accounts. The service has spread to eight countries, including Egypt and India. Sending less than 50 cents is free. M-Pesa charges 1% to 2% for larger amounts. Through its various subsidiaries, M-Pesa generates some $840 million in annual fees for Vodafone.

The adoption of M-Pesa has had a tremendous impact on Nairobi's startup scene. Durable-goods providers have introduced pay-as-you-go plans that bring in millions of new customers. For example, three-year-old Deevabits, based in Nairobi, sells $80 home solar systems in remote villages with no access to electricity. All its customers use M-Pesa to make an initial deposit. They pay the remainder through M-Pesa in 50-cent daily increments over eight months. "The presence of M-Pesa has transformed how business is done in Kenya," says Deevabits founder and CEO David Wanjau, 32. "We couldn't operate without M-Pesa."

Dixie Moore used to strain to make paychecks last to the end of the month. A 25-year-old single mother with two small children, she earns $12.25 an hour as an assistant manager at a Bojangles' fast-food restaurant in Canton, Georgia. In 2011, she was paying $30 a month for a Wells Fargo checking account, but when a bounced check and multiple overdraft fees left her with a $1,200 negative balance, she lost the account. She regularly paid up to $6 to get her paychecks cashed. "I was stuck between a rock and a hard place," she says. Then a friend told her about MoneyCard, a Walmart-branded product offered by Pasadena, California–based Green Dot, the largest provider of prepaid debit cards in the U.S. Now her employer deposits her paychecks directly onto the card, and she uses it to pay for everything from groceries to dentist appointments. "It has really been a blessing," she says.

Green Dot offers a financial lifeline to people like Moore. Until she started using the card two years ago, hers was among the 7% of American households—representing some 14 million adults—that get by entirely on cash. Founded in 1999 by a former DJ named Steve Streit, the company initially focused on teenagers who wanted to shop online. But seeing a larger opportunity, in 2001 Green Dot shifted its focus to adults who were using the card because they had bad credit or couldn't afford commercial bank fees.

One advantage of cash cards: When users spend all the money on their card, it's like running out of paper cash. They avoid overdraft fees that can run as high as $35 for a single infraction. The cards also make it possible for users to buy online.

Streit, 57, says that nearly 40% of Green Dot's 5 million customers were previously unbanked.

In 2007, he struck a deal with Walmart that was a boon for the chain's then 130 million customers: a cash card with a monthly fee of just $3 (today it's $5). That's down from the nearly $8 monthly fee paid by users who bought their cards at stores like CVS. The surge in Walmart card sales helped make up for the shortfall from the lower monthly charge.

In 2010, Streit took the company public. Though Green Dot generated revenue of $1 billion last year, its stock slid 40% this past August as it lowered its revenue expectations, citing the increase in well-funded competitors entering the market. But bad news for Green Dot is good news for America's unbanked. Smartphone-based cash offerings from venture-backed startups like Chime, a six-year-old digital bank based in San Francisco, and digital-payment company Square's Cash App are signing on millions of customers.

Harvard Business School professor Michael Chu, a former partner at KKR who cofounded Mexico City-based Compartamos, Latin America's largest microfinance lender, says the opportunity to serve the underbanked in the U.S. is "huge." But paradoxically, the richest nation on earth poses some of the greatest barriers to financial-inclusion innovators. A patchwork of state laws intended to protect borrowers from predatory lenders and federal laws that guard against money laundering requires startups to navigate through a maze of red tape.

Another problem: The technology that transfers funds between U.S. financial institutions is old, slow and expensive. While M-Pesa zips mobile money across Kenya in seconds at virtually no charge, an electronic fund transfer from Miami to New York can take two days and cost as much as $40.

But in the grand scheme these are minor obstacles. The Fed has promised to build a new and improved U.S. transfer system by 2024. Entrepreneurs will lobby—or innovate—their way around the bureaucratic barriers. After all, there are billions of dollars to be made—and countless lives to improve.