Welcome to the Lend Academy podcast, Episode No. 164. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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**Peter Renton:** We have a special guest on today’s show. I’m delighted to welcome Michael Schlein, he is the President and CEO of Accion. Accion has been around for several decades, many of us have heard of them, but I think there’s not that many people that really understand all of the different facets of what they do; I know, I didn’t.

So I wanted to get Michael on the show just to go through all the different pieces and we talk about that in some depth. We also talk about the work they’re doing in the US, we talk about the work they’re doing internationally, what the impact of mobile phones is having on the work they’re doing and we also talk about government, what governments need to do and what really needs to happen to move the needle for financial inclusion. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Michael.

**Michael Schlein:** I’m delighted to be here.

**Peter:** Okay, so I like to get these things started by giving the listeners a little bit of background about yourself. You’ve had an interesting career to date so why don’t you touch on some of the highlights for the listeners.

**Michael:** Sure, I went to MIT grad and undergrad and then went into investment banking for a couple of years doing public finance at what was a small investment bank called Smith Barney and then I left to go to politics and government for a dozen years. I worked as a finance director for a presidential campaign and then I got involved in New York City government where I worked in the last year of the Koch administration and four years of the Dinkins administration where I ended up being Chief of Staff to the Deputy Mayor for Finance and Economic Development.

And then I went into the federal government and became Chief of Staff at the United States Securities and Exchange Commission where I had the chance to work with Arthur Levitt in the Clinton years and then I came back to New York and went back to what was still a small investment bank called Smith Barney, (Peter laughs) right at the time that Smith Barney...shortly after that, I went to work to work for Jamie Dimon and Sandy Weill. Shortly after I came back we
acquired Salomon Brothers and our parent, Travelers Company. Travelers bought Citigroup, Citibank and Citigroup was created and so I quickly became part of the Citigroup empire and had a great run for a dozen years or so where I had the chance to run internal and external communications, philanthropy, government relations, branding, something called business practices, human resources. And then my last role at Citi was I managed the network of the 100 Chief Country Officers around the world which was really quite an extraordinary opportunity.

During those years, I was asked to serve on the board of Accion and at a moment in time when Obama got elected, my predecessor as the CEO of Accion went into the Obama administration. Maria Otero became Deputy Secretary of State. One thing led to another and I was selected to become the CEO of Accion which is where I’ve been now for the last...just short of a decade.

Peter: Well that is an interesting career, so far. You’ve worked with some of the biggest names in finance, it seems, over the last couple of decades.

Michael: Yes, I really have had...I do view it as a great fortune to have worked very closely with Jamie Dimon, Bob Rubin, Sandy Weill, John Reed, Ajay Banga, Chuck Prince and of course, Mayor Dinkins, Mayor Koch so I feel like I had the chance to work with some really great visionary leaders, managers and you know, along the way you learn things and you see things you admire. Also at a place like Citigroup, I saw some great managers and I saw some managers that were not so great. You learn along the way and, of course, later when you’re in charge you get a chance to say, okay, what kind of manager do you want to be.

Peter: Right, right. Okay, so let's turn our attention to Accion. Your organization has been around for decades so maybe just give us a little bit of the history and the mission of what Accion is trying to accomplish.

Michael: Well first, let me go to the mission. We're trying to create a financially inclusive world. What does that mean? That means where everyone, everyone has the financial tools they need to manage their day to day lives, protect themselves in a crisis and take advantage of opportunities when they come around.

Most of your listeners can take for granted, as do I, we take for granted a global financial system that works pretty well where we all have credit cards in our pockets and ATM cards and ATMs on every corner and appropriately priced insurance and you can get a loan to buy a home or to finance your education or to build your business. And think about this one, for the most part you get your income on a monthly basis and your bills come due on a monthly basis and all of that is very, very convenient and you can and you should take that for granted.

But for three billion people, three billion people, they have none of that and the global financial system for them is a complete failure. They are invisible to it and it may as well not exist, they don’t see it, it does not recognize them and we need to change that and their lives are so much harder because of that.
So for example, a typical person living in poverty would be a woman farmer let’s say in rural India, she gets paid one time a year, maybe twice, but usually one time a year at the time of the harvest and she has to make that money work all year long and yet she lacks a safe place to save. Just think about that phrase, a safe place to save. Again, we take that for granted, but she doesn’t have that. She can’t get insurance so she’s subject to droughts and floods and natural disasters, no one would lend to her and, you know, her life is so much harder because of all that and we, today, have the tools to change that.

So let me tell you a little bit more of the history of Accion. We started in 1961, largely as a private sector Peace Corps which was quite extraordinary because the Peace Corps had not yet been created. In fact, our founder went on to run the Peace Corps later in the 1970s in the Nixon administration. We spent about a dozen years doing community development first in Venezuela, and then throughout Latin America. In the early 70s, 1972, we said our clients need more than community development, they need capital so we started experimenting, making very small loans to the poor.

We were doing it in Brazil, Dr. Muhammad Yunus was doing it in Bangladesh, others were doing it in Southeast Asia and we all discovered that the poor could repay small loans 97% of the time, a statistic that has really held up over decades. And so Accion built a string of non-profits in almost every Latin American country to make small loans to the poor and we helped them grow and we helped them raise money and we helped them build their methodology and get to greater scale. In 1992, in what was a controversial event then and now, sort of obvious in retrospect, Accion helped create the world’s first for-profit bank for the poor, BancoSol in Bolivia.

Up until 1992, around the whole world, microcredit, microfinance was done by non-profits and after 1992, this commercial model really took off because once you could tap the capital markets, you could tap the equity markets, you could tap the debt markets, you could hire talent in a different way, you were regulated in a different way. Later on, BancoSol and others could take deposits and so basically, BancoSol had been doing very well as a non-profit, but it took off and could reach much greater scale and have much greater impact.

So we, Accion, went back to all those non-profits that we have created and recreated them as for-profits and brought in capital and so we became an early equity investor in and then helped to build some of the truly great microfinance institutions first in Latin America and then around the world.

We helped to build, in addition to BancoSol in Bolivia, MiBanco in Peru, Compartamos in Mexico and then we expanded through ten countries in Africa, India, China, the Philippines, most recently Myanmar and we even have some toes on the ground in Cuba to see if and when the regulations change. So we’ve really become a global player all around this vision of trying to create a financially inclusive world.

**Peter:** Right, right. Okay, so I want to just sort of tease that out a little bit because when we were chatting before we hit record here, I often find it hard to visualize or to sort of
conceptualize everything that you guys do because you have multiple different divisions and there seems to be crossover in multiple countries so maybe if you could take us through the different parts of your organization.

Michael: Absolutely. So the first part I'll start with is called Accion Venture Labs. We over the last...I've described the history of starting in microfinance, but really over the last decade or so, like everyone else, the fintech revolution has truly transformed almost every aspect of our lives and certainly has transformed every aspect of financial services and we're living in this incredible golden age of innovation.

It has profound impact or has potentially profound impact in how we can meet the financial needs of the poor because all of a sudden data, data analytics, mobile phones, the Internet of Things, blockchain, machine to machine technology; all of them have the ability to completely change how we meet the financial needs of people who have up till now have been left out. Distances that used to be seen as insurmountable, now there is no distance in the world that is insurmountable.

Transaction sizes that used to be seen as too small to be commercially viable...today, there is no transaction size that is too small to be commercially viable and data and data analytics is allowing us to see people who used to be completely invisible. You need to know your customer in order to lend to them appropriately. Data is allowing us to see people and small mom and pop businesses who used to be invisible so it's a very exciting time in this space so we are now probably the leading fintech venture capital investor for inclusion; Accion Venture Labs is seed level, and we probably have the largest portfolio in the world of seed investments for inclusion and it's a very, very exciting time. I'll describe some of those...I'll come back and describe some of the trends that we're seeing in our portfolio.

The second part of our work is at the early and growth stage. We were investing on our own balance sheet, but now we've created the world's first global fintech fund for the underserved, it's called the Accion Frontier Inclusion Fund and it's managed by Quona Capital. This is the early and growth stage so it's much larger initial investments and of course, much larger follow-ons and we've been thrilled by the support we've gotten from blue chip investors and it's a $140 million fund that is now very far along and we're beginning to think about a second fund. And again, it's all based on this thesis of you can have an enormous social impact and great financial returns and you don't have to trade those off.

I should say, you know, the world of impact investing...if you're focused on water or education or the environment there may be real trade-offs between impact and returns, but I believe, and it's our experience, in the world of financial inclusion there are no trade-offs. The companies that we're partnering with, the companies that we're seeing, the companies that we're investing in...they're early stage companies, they have great risks, but if they succeed they're going to have tremendous social impact and great returns so that's what we're trying to show.
We've shown that in microfinance, we're trying to show that in the fintech world and that's how we're going to...if this fund is successful in that respect, that's how you draw capital into this part of the market and that is how you will change the world for billions of people, if you can harness the capital markets when you're talking about something as big as 3 billion people being excluded. The way to deal with that is to harness something as big as the capital markets, that's our challenge.

All the philanthropy in the world is insufficient to the task of creating a financial inclusive world. There's a good part of our work that requires philanthropic subsidies. We are a non-profit, but our goal is to create and find and support institutions that will get to scale and sustainability and profitability that will meet the needs of the poor.

Just to round it out, we also have a very extensive portfolio of regulated, licensed, deposit taking institutions around the world, banks and microfinance institutions, again, serving the base of the pyramid and we also run a group of advisors called the Global Advisory Solutions which is very much like Bain and McKinsey type consultants that go into financial institutions to help them specifically figure out how to harness technology to focus on the 3 billion people who have been excluded, that's our specialty.

And the last thing I'll mention is our Center for Financial Inclusion which is...we sponsored it, but it's really become an industrywide think tank on policy issues around financial inclusion. The Center for Financial Inclusion also has created The Smart Campaign which is the world's first global consumer protection campaign for the poor which is now the industry standard for consumer protection at the base of the pyramid and CFI also puts out a steady stream of really high quality research on the cutting edge issues, what are the challenges and what are the solutions to the obstacles that face us on our path to creating a financially inclusive world.

That's a lot, I'm happy to talk about any of that in more depth, but that sort of gives you the lay of the land of what we're trying to do and how it all fits together.

Peter: Right, and what I'll do is you shared with me a few slides that sort of graphically display this, particularly where the regions are and some of the names so I will share that in the show notes for everybody who can...it's easier when you can actually see a graphic of the different companies and the different regions, the different parts of Accion so I will share that.

So I want to maybe just take a step back and you know, I feel like...you said there's 3 billion people who are still excluded, I know the World Bank does their Global Findex Report which I know CFI...your Center for Financial Inclusion had some commentary on, but I want to get your take on...you've been doing this job since 2009, the Findex database has been around since I think 2011, so you've seen in the last eight/nine years, there's been a lot of developments in fintech. I mean, fintech wasn't a term in 2009 and now it's a really thriving industry so how have you seen this state of financial inclusion develop over the last eight or nine years since you've been in charge of Accion?
Michael: So let me start with the Findex because the Findex really...this is the World Bank and the Gates Foundation, every three years now publishes the most definitive source of data on...it's the report card for all of us who are in this movement and it's a great wealth of resources.

In the first Findex in 2011, they've said that 2.5 billion people were completely excluded. In 2014, that number was 2 billion and now in 2017, that number has been reduced to 1.7 billion and that's completely excluded, zero access to financial...so we're making some progress although that pace of progress is slowing. When I talk about 3 billion, I am not only talking about the people that are unserved, I am also talking about the people who are underserved and poorly served and just inadequately served. And so when you really look at the problem, size of the problem it's more like 3 billion, but the Findex said that 1.7 billion have zero connection to the financial system.

So we're seeing progress being that more and more people are getting access, but the pace of that progress has slowed in the last three years compared to the three years prior to that. But much more troubling is we've seen the growth of inactive accounts, dormant accounts and that raises a flag and says, are the products that we're providing, are they actually useful to people and are they helpful to people because in many cases what does a dormant account mean to someone at the base of the pyramid?

It largely means that the government paid you some sort of welfare benefit or agricultural subsidy through an account and you took it out in cash and you never went back to that account so you don't even know that you have an account. So that account means nothing to you because you took the cash out and you're living in a cash world. That is not the progress that we're looking for; we're really looking for people...again, go back to, you know, with all of us on this podcast may take for granted, your financial life is way more complex than that and living in a cash world really hurts you. If you live in a cash world, you are never developing a credit history.

If you make regular payments in cash, it doesn't count, you need a digital trail to develop a credit history and become more credit worthy. So the other thing that was very troubling in the Findex is if you look in the aggregate data, savings all around the world, but especially in the emerging markets, was decreasing over the last three years. People are saving less, especially in China which I would like to understand more, but the Chinese rate of savings, and it used to be extraordinarily high, but it has now come down significantly, plus credit, borrowing is also largely flat across the world and probably the most disturbing part of the Findex is something that they call resilience.

The question is, can you, in an emergency, come up with about one month's income. In a crisis, can you come up with one month's income and fewer people said yes to that in the last three years than in the three years prior to that so think about what that means. People are less resilient today than they were three years ago so as much as we're making progress with digital technologies and we're opening up accounts even if some of them are not being used, the truth
is people living in emerging markets are less resilient today than they were before and if there's a single measure for what we're trying to do, we're trying to make people more resilient.

So I found the Findex to be very, very troubling and therefore our work is more urgent than it ever was. We need to develop the products and services that are truly useful and truly beneficial to our target markets. That's what we're trying to do, again, through fintech and through institutions that are serving this portion of the market.

Peter: Right, that's really interesting because I feel like, as you say, you can't force someone to use a digital account. There's got to be a real benefit for them to go back and keep it. So I want to just maybe talk a little bit about the move to mobile. Obviously, we've seen the movement in Kenya with the growth of M-Pesa and not necessarily even on smartphones.

I was talking to someone at the United Nations Secretary General's office the other day and he was talking about the potential of a $20 smartphone. That's a phone that can browse the web and do...probably not as fully featured as an iPhone, but something that is more than just a feature phone that's been really popular throughout the world and that potential being a game changer.

While $20 is still a lot for a big chunk of the world, it is much more affordable than any other smartphones that are around so I wanted to sort of get your sense on is that something that is really going to move the needle in your opinion. Eventually, I don't know whether it's going to be ten years, but we're going to have the vast majority, 90+% of adults in the world, are going to have access to a phone, probably a smartphone if you take it out ten years, so what's that going to do and how do you think about inclusion when you think about the mobile technology?

Michael: It's a great question and you're absolutely right. The single biggest change in the last decade has been the adoption of cell phones and you're right, the trend to watch is increasingly that smartphone. When I talk about 3 billion people, something like 80% of them today, now have cell phones so that's very, very powerful. And over time, as we see with $20 smartphones, we're seeing the rates of adoption of smartphones increase so it's not just mobile phones, but it's internet access and generally connectivity and then it's the data that is produced by all of that because that really allows us to understand our clients and their needs so much better than before.

So if you look across our work, across our portfolios, we're seeing spectacular innovation in harnessing mobile phones and data to meet the financial needs of the poor. It's a very, very exciting time. You know, we're seeing companies that are using the data from mobile phones to assess your credit worthiness. Basically, how you use your phone can determine if you're more likely or not to repay a loan.

I was with one of the CEOs of one of our companies and I said, how much do you know about me, based on how I use my prepaid cell phone? If that's the only source of information, how much do you know about me? And the answer (laughs) is we can know a lot about you. If you
have an average monthly spend on your cell phone and you top up a lot relative to that, that's very, very different than if you top up a little bit.

If you top up on the same day every month that's completely different than if you top up randomly. If you let your cell phone run out of money and you have a gap in service, it's completely different than if you always top up your phone before you run out. If you regularly use a dozen cell phone towers, it's different than if you regularly use three cell phone towers. If you regularly call a dozen people, it's completely different than if you regularly call three people.

All of that data is available and on that you can build algorithms and you can say, okay, I'm going to make this loan or I'm not going to make this loan, or I'm going to make this loan at this rate and so that's very, very exciting.

I should also add that the same technology is also working for small mom and pop shops which have also been invisible and hard to lend to. If a small mom and pop shop, which is the bulk of the world in terms of entrepreneurship, if you can get a small mom and pop shop to move from cash to digital you can start to see the flows in and out of that shop and then you can see if that shop is credit worthy. That is really, really exciting.

And then there are now companies, and we have many in our portfolio that are doing just that and they can lend faster, better, cheaper, safer than banks and banks really haven’t touched this part of the market so it’s a very innovative time.

Peter: Right, right. I have had several companies actually in your portfolio and others who are directly trying to solve this problem when it comes to lending. There’s tremendous innovation I think happening throughout the world for that matter. I also had Gina Harman from Accion.

Michael: Yeah.

Peter: I don't you actually own that business, but it's Accion in the US and it's focusing on some of the small US micro businesses that need capital and that was...

Michael: Yes.

Peter: ...fascinating to see because I feel like this problem...like you're focusing on the globe, but I feel like in the US we have our own challenges as well and clearly there’s a lot of people...

Michael: There's no question.

Peter: ...that are unserved here in this country.

Michael: I mean, half of working Americans live paycheck to paycheck and also struggle to get, you know, a few hundred dollars in the course of an emergency. You know, the number of unbanked and underbanked people, especially immigrants, homemakers, students and the poor, you know, really...it's hard to understand in the United States, but there are tens of millions of people who are left out and poorly served by the financial system.
Gina runs the Accion Network in the United States which is the largest microfinance network in the United States and it is different because it’s a non-profit network. Everything else that I’ve described are for-profit companies where we have equity investments and partnerships with, but our structure in the US for a variety of reasons is a non-profit structure, but the needs are enormous.

**Peter:** Okay, I want to get to the crux of the matter, if we can. We’re running out of time, but I want to get to... when you're traveling around the world, I know you speak with governments and foundations having operations all over the world and private sector companies obviously as well, so what are like some of the key things that governments...you know governments really, I think are the key in many ways, what are some of the things that governments and the private sector can do to bring more people into the financial system?

**Michael:** Well let me take those one at a time.

The role of government is enormously important, especially when you're talking about the financial tools because it’s a highly regulated area. We, through our Center for Financial Inclusion, partner with the Economist Intelligence Unit. Every two years we do a ranking of governments around the world and how they regulate this area of financial inclusion. We name and shame and we say who’s the best and who’s not the best and more importantly, it's a blueprint to say what do you need to do to improve how you regulate financial inclusion.

It's really a powerful mirror of what's going on around the world, but this shouldn't be... this may be obvious, but the single most important thing that a government can do around financial inclusion is have a financial inclusion plan. That seems so obvious, but it really makes a difference.

The second you say, as a country, that we’re going to have a plan, all of a sudden people start thinking about it, all of a sudden people start rallying around it. There's usually a lot of thought that goes into it and so we've seen more than a hundred countries have adopted national financial inclusion plans and it's hard to think of this in the United States because we don't really talk that much about it, but almost all of the developing world has cabinet level ministers whose job is solely financial inclusion.

So that's one thing, but also, national IDs, credit bureaus are all important things that governments can mandate and the government itself is a source of payments, G2P, government to person payments, whether they're social welfare payments or agricultural subsidies. If governments say we’re going to pay all those digitally, that helps to build the rails that many of the companies that we’re investing in are going to ride on. That's sort of the railroads and the infrastructure of digital payments and the governments can be big actors in doing that.

We're also seeing some experimentation where it's become a trend to have regulatory sandboxes to work with, some of these fintech companies to come up with new ways.
I was recently in Mozambique and I visited the Mozambique regulator who's really actively trying to improve the regulation and experiment. It's not that easy for regulators to experiment so I applaud that when we see it.

The last thing I'll mention on the role of government, just as another idea, several Latin American countries, Mexico, Chile, Brazil and Peru, have recently in the last two or three years, required digital receipts and digital invoices for every company, including those small mom and pop shops. And the goal of the government is obviously to increase tax collection and try to formalize these large informal sectors and get people to pay their taxes, but that digital trail is a huge source of data and we have companies....one of the great companies in our portfolio is called Konfio and it's in Mexico and it specifically uses this and other sources of data.

But it uses this source of data to assess the credit worthiness of small mom and pop shops and so, again, it can lend faster and more cheaply and we're seeing models like that around the world so there's much that government can do.

**Peter:** Okay, so finally before I let you go, obviously you've got a lot of initiatives here, you talked about a range of different things, but what are you working on right now that you're most excited about?

**Michael:** Oh, well generally, I do think fintech is...you know, it's interesting, I don't know what it was like to run an organization like Accion, you know, 15 years ago and I don't know what it's like 15 years from now, back then it was all microfinance and who knows, maybe 15 years from now it will all sort itself out and we'll say this works and this doesn't work. But right now, we're living in this incredible time where we don't know what's going to work and what's not going to work and we, as a non-profit, but as a non-profit impact investor, we're willing to invest early and experiment.

You know, there are many companies in our portfolios and some of whom may stumble, some of them may have challenges, they're early stage, but some of them I think could really change the world. So I think we're just living in a very, very exciting period right now and Accion, to some degree, is sort of perfectly suited to the moment where we have decades of history working with the base of the pyramid. We have a decade of real involvement in the fintech world and we're set up, you know, in a way to invest early and take chances that we otherwise wouldn't be.

The other thing that's really exciting about this period right now is I speak to a lot of business schools and it feels like a third of the graduating students in business school today want to be social entrepreneurs. Now that's a phrase that didn't exist when I went to school (laughs) and that is so exciting. What does that mean? They want to make the world a better place, but they want to do it in a commercial manner, they want to do it in a way that can be scalable, sustainable and profitable and really, everything that we do is all about social entrepreneurship and so I'm very optimistic that the future looks bright. (laughs)
There's many things I can point to where things are not so great today, but the future looks bright because I think people are coming out of business school saying, how can we harness business and harness the capital markets to make the world a better place and that gives me a great hope for the future.

**Peter:** Well that's a good place to end it on then. I really appreciate you coming on the show today, Michael.

**Michael:** It was my great pleasure, happy to do it.

**Peter:** Thanks a lot, see you.

**Michael:** Take care, thanks.

**Peter:** You know as Michael said, I think that all the philanthropy in the world is not going to solve the financial inclusion challenge, it's really going to have to come from the for-profit sector, We're seeing that today, there's some great companies that are making money that are solving big problems around the world and I think that's why it's so exciting today.

I think we have access to data that we've never had before, we have access to computing power and artificial intelligence that we've never had before. Bringing all this together and we can solve big problems and I think, as Michael said, it's a very exciting time to be in this industry and I think we're going to see some serious inroads to really bringing the world into the financial system coming up here over the next decade.

Anyway on that note, I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.

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