

# The 'invisible' millions: banking's new frontier

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Discover the growth companies helping the world's poorest workers develop financial resilience.

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**Leo Kelion (LK):** Every sunrise found Maliga in the same place, the fields of Thattampatti, a small village in southern India. She, her husband and three children worked for local landowners from dawn until the heat became unbearable. Miss a day's wages, miss a day's food. Then, by chance, Maliga learned how to make sweets and glimpsed a way out. She pawned her only jewellery, secured a \$460 loan from HDFC Bank and enrolled in one of its financial literacy workshops. Today, she owns a snack shop, employs her family and some of her neighbours, and has traded her old hut for a house with solid walls. But here's the twist. Despite the small sum involved, customers like Maliga mean big business. Not only are they vast in number, but many lenders have discovered they're more reliable at repaying their debts than seemingly deeper-pocketed clients.

Welcome to *Short Briefings on Long Term Thinking*. I'm Leo Kelion, and I'm joined in this podcast by Ed Whitten. He's an impact director on Baillie Gifford's Positive Change Strategy. In this episode, we'll discuss how financial companies serving underbanked communities are transforming lives and fueling their own long-term growth. But first, a reminder, as with all investments, your capital is at risk and your income is not guaranteed.

Ed, welcome to the show.

**Ed Whitten (EW):** Thanks for having me.

**LK:** Ed, it's your first time on this podcast. So I'd like for our listeners to learn a little bit about you. And before you joined Baillie Gifford, you were a captain in the British Army. You then worked for the Ministry of Defence. And then you became a risk analyst. So how does all that relate to what you do today?

**EW:** Yes, it's somewhat an unusual avenue into financial services. As you said, I was in the army, and I left as a captain after about six years. I was in a reconnaissance regiment. And without over-egging it, there is some similarities in terms of decision making. You're often having to advise on decisions with limited information and things like that. But the real link between that and impact investing is when I left the military, having spent a bit of time in the Ministry of Defence on

stabilisation projects in North Africa. I joined a small consultancy as a risk consultant, where I was advising on political risk, security risk, social risk at infrastructure projects around the world. And some of those infrastructure projects were in places like Mozambique and Iraq, and I actually spent a lot of time in Indonesia. And it was really amazing to see the impact that the private sector can deliver on small places like I was in a place called Ambon in southern Maluku Islands in Indonesia. And it was incredible just to see the change that a reliable power supply could have on a local community.

Both in terms of lights on the restaurants in the evenings and for small businesses, that's really important, but also air conditioning certainly helped me sleep. And one of our clients was actually an impact investor, and that got me hooked. So I did a master's in sustainable development and joined Baillie Gifford on the emerging markets desk before moving to where I was really keen to be, which was the Positive Change Fund.

**LK:** And today, with Positive Change, you're an impact director, which makes you one of the decision makers, but not an investment manager. Can you just explain what the difference is between the two?

**EW:** Yeah, absolutely. So Positive Change is a dual objective fund. So to achieve attractive investment returns, but also to contribute to a more sustainable, inclusive and healthy world. It's my job to determine the latter on a company. And there's many similarities with the investment managers, you know, we're engaging with companies, we're analysing companies, we're thinking about the broader context. But really, it's a job of myself and my team to determine over the next five to 10 years, will a company deliver impact through their products and services?

**LK:** So we're going to focus on financial inclusion today. And I mentioned Maliga as an example. She's a real-life person who made a big change to her life by borrowing what was a relatively small sum. But financial inclusion is not just about microloans, is it?

**EW:** No, not at all. That is the flagship product, I'd say. Small amounts of credit, but the goal really is to provide a full banking service to people who were previously invisible to big banks or to microfinance companies. The world's made a huge amount of progress in financial inclusion. but not necessarily in financial health. A lot of it's been delivered by digitalisation, so that's access to smartphones, but there's still a huge runway to go and still 1.4 billion people without access to an account. Recently, we're seeing great growth in digital banks, also called neobanks, and embedded financial services, by which I mean financial services which are delivered by a company whose core product is not necessarily financial services. They're able to provide their stakeholders, be that merchants or gig economy workers, with a better financial service.

**LK:** So I want to explore several specific companies that you invest in that do all those things. But before we do, I just want to ask you up front, isn't there a risk in encouraging some of the poorest people in the world to take out debt or buy insurance that you actually just put them in a worse situation than they end up owing more money than they can cope with?

**EW:** Yes, the risk is very real. We've seen it in the past in specific markets, but also specific times in history when overzealous lending has really led to really terrible social consequences. And in particular, most famously, I suppose, in 2010 in India, with microfinance, a huge proliferation of lending led to really terrible social consequences like high suicide rates. So it's absolutely critical that these companies are doing this responsibly. They need to design products and deploy products that are appropriate for the risk profile of their customers. And it's something when we're looking at investing that we take very seriously and look at in a lot of detail.

**LK:** So there can be serious consequences for customers, but it can also be quite challenging for companies at times as well. I mentioned right at the beginning the idea that repayment rates are relatively high for these small loans, but the caveat to that is that those repayments can at times become quite volatile, can't they?

**EW:** Yes, absolutely. Things like the Covid-19 pandemic and, amazingly, in certain markets, the World Cup, because it increases sports betting, can really affect repayment rates. And so it is a real challenge, and companies need to balance the frictions they need to put into a product. So things like risk warnings and transparent fees. And then you also have another, particularly with lending, affordability needs to be balanced with the interest rates. But also, with the companies we're looking at, they're often growing very fast as well. And they really need to build that expertise and experience, and credit underwriting, and the data that they can use to do that, and think about how they do that as they grow, so they don't create an unsustainable business model really.

**LK:** So this is much more complex than just trying to give people access to responsible companies, isn't it?

**EW:** It's very complex. And that's kind of why the job of the impact analyst exists. Access is key. Obviously, affordability is important for expanding the access to more people. But the really important thing is product design. So how companies are designing products that really meet the needs of their customers. And that might be different for a high-income customer as it is from a low-income customer or a customer which is living in more financial precarity, basically. I recently had a conversation with the chief operating officer of Mercado Pago, which is one of the biggest fintechs in Latin America. And she was just saying how far we have to go in terms of personalisation.

If you're a farmer, that might be a loan at the right time of year. If it's a driver, it might be a small loan that helps you smooth your income over seasonal periods when business is not as good. And the data that can be captured through digital platforms, but also through just having a normal banking relationship with something in the digital world, is much greater than it once was. So it's really exciting.

**LK:** And I imagine that this is an industry where there's a lot of change through things like AI coming in, on the technology side, in terms of regulation, etc. How do you keep on top of all that? Is it just kind of reading lots of research papers and talking to companies, or does it go beyond that?

**EW:** We spend a lot of time with researchers. It's very common to Baillie Gifford, thinking about the outside world through expert networks and speaking to academics and think tanks and things. And in financial inclusion, we've become a strategic partner of CGAP, which is an organisation housed within the World Bank. And really, it's an independent think tank that really focuses on how financial services and inclusive finance can contribute to development outcomes. Companies that we're investing in are also involved, and it's really a community trying to, sort of, get a shared understanding of what works and what doesn't in financial inclusion. And I've actually just got back from their annual event in Amsterdam, the topic of which was resilience, because resilience is one of the key impacts delivered by financial services. Helping people, individuals, cope with the inevitable shocks that come in life can be really, really beneficial for their financial health over the long term.

**LK:** So, Ed, we've briefly discussed the type of companies that you invest in and some of the high-level meetings that you have to understand the field. But as an impact director, part of your job is also seeing how these products work on the ground. Can you tell me a bit about an instance when you've done that?

**EW:** So I went to Brazil and visited an area of Sao Paulo called Jardim Angela. And we'd done some work with some local academics, actually, who we'd commissioned to help us really understand the local dynamics. And the study found a terrifying level of financial vulnerability across the country in the lower-income segments. So we really wanted to understand this more, and the visit to Jardim Angela really helped me sort of contextualise some of that study. And I met a guy there who was a community worker, 27, he had a wife and a child. And it was really encouraging to hear that he had recently gained access to Moneyboxes, or *Caixinas* as they call them, which is a product delivered by Nubank, one of the companies in our portfolio. Before, he hadn't really seen banking as something for him. And the tipping point was that this was a free service, which accounts in Brazil historically were not free to use. And it was amazing to see just the excitement that he gained from naming his money box for saving for a certain thing. It's a really exciting, very, very basic product.

**LK:** So these *Caixinas* are from Nubank, and it's one of the world's biggest digital banks. In fact, I think there's only one in China that's bigger. But apart from the size, what makes it so special?

**EW:** I think it's served now over 118 million people in Brazil, Mexico, and Colombia. It's a digital-only, digital-first bank. It was really one of the first fee-free banks offering credit at affordable prices in Latin America. And it really took off in Brazil during the pandemic. I guess what makes them so special is that they are laser-focused on disrupting the traditional market for banking and providing more and more specific products that meet the needs of their customers. About 60 per cent of adults in Brazil have a Nubank account. They obviously use them in different ways, and some of them use them much more than others. But that's a significant chunk of a population just showing their popularity. And they're growing really fast in Colombia and Mexico as well, where they've just recently obtained a banking license.

**LK:** They've been active in Mexico, though, for some time, I think about five years or so. So what difference does the banking license make to their growth opportunity?

Their existing license didn't allow them, for example, to accept payroll payments into accounts. That is a huge potential unlock because customers who get their salaries into an account are much more sticky. They're much more likely to stay with a bank for a period of time. It also takes away limits on deposits and, as savings is something we want to encourage, both from an investment and an impact perspective, that's a really exciting opportunity. But also from a credibility perspective, I think it does something. This is a serious bank. It may be digital, but it really is trying to provide the full suite of services. It's not just the banking license that's important. They have a partnership with a company called Oxxo, which is the most common convenience store. And cash is very sticky in Mexico and familiarity with digital banking and trust in digital banking is actually still quite low. And being interoperable with a physical store that allows cash in, and cash out, will really help to build familiarity with the product and with the accounts. And I think will set it up for long-term success and give it an edge in a market which is extremely competitive.

**LK:** So for a company like Nubank, you can see it's growing from the number of customers it has. I think it also publishes data on the proportion of good loans to bad on its books. But as an impact director, how do you go about checking that it's really having the type of impact on real people's lives that our clients would be looking for?

**EW:** You've really hit the nail on the head of what I spend a lot of my time doing or trying to obtain. Just as it's important for us to measure the investment outcomes for our clients, our clients also trust us with the mandate to determine whether something is delivering impact or not. Nubank has actually done a great piece of work recently. We've spoken to them on several occasions, both in Brazil and when they've come to visit us here, about their approach to impact measurement, which is not just about reporting to shareholders, it's actually about how they are assessing the performance on the social perspective of their products that they're serving. The work they've done is about the financial journey, how they measure how people who have savings accounts or people taking loans are becoming more financially healthy over time.

**LK:** So Nubank's one of the biggest of the fintechs in Latin America, and I know you've also got exposure there to Mercado Pago via its parent company, MercadoLibre. But if we jump continents to Asia, you've got a number of financial inclusion-related investments there. Could you pick one and tell us a bit about it?

**EW:** Grab is a really interesting one. People think it's the Uber of Southeast Asia. It is that, but it's also a lot more. Grab was originally a ride-hailing business, which has since moved into food delivery. And we own it because it's supporting merchants but also supporting its driver partners. And one of the amazing things it can do there is provide them with financial services. So, for drivers, that is auto loans for their vehicles. It's also insurance. It's also savings products, and it's also small loans to help them with the seasonality. Periods in Jakarta, for example, of Eid, where the income goes up a lot because lots of people are moving around the city, and then it falls off afterwards.

**LK:** That's a religious festival.

**EW:** That's a religious festival, yes. That really helps them smooth their incomes over time. And then for merchants, many of whom are women, it's access to working capital loans, which is a very basic product, and it's very small amounts, but can really make a difference in terms of a company's ability to grow. And these are really small companies. These are corner stores or they're small restaurants.

**LK:** So that's interesting that you're thinking about financial inclusion, both in terms of improving people's lives and also in terms of opportunities for small businesses. But from Grab's point of view, what's its advantage in targeting that market beyond the fact that people are familiar with its brand?

**EW:** Well, as you mentioned, it has the access but it's the data-driven products and underwriting that they can do. So they know how much a driver on their platform earns. They know when the income's coming in and out and things like that. And that allows them to just really give them tailored financial services that are really appropriate for their needs.

**LK:** Ok, that makes sense. But if I play devil's advocate, is there a risk here in encouraging more people to use a service like Grab that you're encouraging more people into the gig economy where they don't have a financial safety net or long-term job security if something goes wrong, like sickness, for instance?

**EW:** It's a very fair question. So we have been speaking to a load of experts on this, including the International Labour Organization, civil society groups, and actually industry groups who are trying to self-regulate the gig economy. Nowhere's really got it perfect yet. And I think what we're going to see is different approaches in different markets. For example, we're seeing in India, the state stepping in to provide that social safety net, whereas in Singapore, some of that has been pushed onto the companies. So it's both a very live investment consideration, but also an impact consideration because we don't want to be supporting poor quality work. But in certain markets like Indonesia, there is a lot of informality. And the government wants to support the expansion of the gig economy at the moment because it is partially formalising work that was almost totally informal before. And certainly it's not perfect. And we're going to have conversations, I imagine, throughout the holding period, about how they can improve the livelihoods for gig workers on the platform.

**LK:** And you work with a number of financial inclusion companies. Are there lessons that you can maybe bring to Grab to make sure that they're on the path you want them to follow?

**EW:** Yes, actually. So we recently spoke to Grab about this very topic in its Jakarta office, and one of the things that we've learned through some of the work we've done is the lack of digital and financial literacy of some of the driver partners. Now Grab are providing some really good educational tools for them. But actually, we have seen other companies like Bank Raykat Indonesia, doing a very good job through its agent network of educating people and supporting them meet their financial needs at a very local level. And I think that's something that Grab could learn from the microfinance world. And we did have that conversation with them. And so it'll be interesting to see how it progresses.

**LK:** So we've discussed saving and borrowing. Another big sector of financial inclusion is remittances, when migrants are sending money back to the countries they originally came from, to their family and friends. How do you look at that sector, both from an impact point of view and also the potential for growth?

**EW:** Remittances are a lifeline to many, many families around the world. In 2024, almost a trillion dollars was sent mostly from higher-income countries to low- and middle-income countries. So it's an amazing source of resilience for households in those markets. And particularly with things like climate change and weather events happening, this becomes hugely more important. But it's also an underappreciated investment opportunity, particularly to take share from some of the incumbents here. I think the average remittances is something like \$200 per month. And the rate at which average costs are is something like 6 per cent, I think, again, last year. So that's \$12 you're losing when you're sending money abroad to friends and family. And that might be for a medical expense, or it might be for an energy bill, or whatever.

But cost is hugely important. If you can put a few more dollars back in their pockets, that's a really encouraging thing. And in the digital world, that should be much more possible than it has been in the past. But if we're to focus on cost, I think we're missing the point a bit because we've learned from remittance senders that speed matters a huge amount as well. It's terrifying to send a big proportion of your income and not know where it is somewhere in the ether for five days till it lands at the other end. That just doesn't feel acceptable in today's digital world. Convenience, too, is really important. So, making sure that there are multiple ways you can access this money, because in some markets, cash is still king. People need to be able to access it in the way that best suits them.

**LK:** So have you invested in a company that's addressing all these issues?

**EW:** We have. A company called Remitly, which is a US-based company serving migrant families all over the world, actually, not just in the US. It provides a multilingual service, serving about 8 million customers today. But obviously the beneficiaries are many more than that, because it's the money being sent home to households. It's done a really good job on affordability. It's kept rates about half the average cost of sending remittances around the world. It probably has some runway to go in terms of reducing the cost further as well. It also has a huge amount of partnerships around the world with small convenience stores where you can get cash out, but also mobile money, which is massive in parts of East Africa, for example. And also, it's built a lot of brand loyalty, I think, through being a trusted and secure way of sending money.

Security is absolutely key. And fraud rates are actually, unfortunately, increasing in financial services around the world. So we recently had a conversation with them about how they can really protect their customers through many different ways.

**LK:** So, how important is scale to a company like Remitly? Because as big as it is, and as many customers as it's got, it's still some way smaller than the market leader, Western Union.

**EW:** Yes, absolutely critical, both in terms of increasing the amount of countries that you can send money to, increasing the amount of partners that they have to get the money out you want in the way that is most convenient for you. But principally, it's about keeping costs low. And the bigger it gets, the cheaper it should be able to provide remittance service. And that will really help it take market share from the incumbents. And that's important to our investors.

**LK:** I want to come back to HDFC. This was the Indian bank that I mentioned right in the opening narrative. A lot of the companies that you've been talking about up till now are using digital technologies to make sure that they can address a large client base, but at the same time not have some of the legacy costs that some of the older players do. But as I understand it, HDFC is actually opening up more branches in India's lower-tier cities and the countryside, which sounds on the face of things to be completely the opposite direction. So can you explain to me why that makes sense in the India context?

**EW:** Yes, and context is the key point here, that digital financial services are penetrating fast in India. But actually, there are still huge proportions who are unfamiliar with it. And to take away that human touch when you're dealing with someone's income, you're dealing with them taking on risk and loans, is potentially a dangerous thing, but also probably not the best business decision. So by opening more branches, they're not only raising their profile in areas where they haven't penetrated before, but they're also providing humans that can bring people on the financial journey. Ultimately, most things will move digital, that will be a good thing. But at the time, where you're dealing with more vulnerable customers, who aren't necessarily as digitally literate or financially literate, from a traditional banking perspective, then it's great to have the presence of someone who's speaking your local language who can explain things to you. And that's what I think we're really excited about with HDFC Bank.

**LK:** So Ed, we've focused almost entirely on companies targeting emerging markets or people sending money back to emerging markets. But are there opportunities for financial inclusion in the more advanced economies, too?

**EW:** Yes, but I think it expands what we're talking about when we're talking about financial inclusion, because I think what we're really talking about there is financial health, building more resilience and financial health over the long term. I went to the US last year to really dig into this and speak to a lot of organisations involved because there's a big poverty issue in the US that needs addressing. In more higher income countries, we're really thinking not just about the opportunity to take people from no access to access, but to take people from access to more usage, to greater financial resilience and ultimately greater financial health over the long term. And there are companies helping to achieve this.

You've seen companies like Chime, which recently went public, which started off as a credit builder for people with poor credit scores, but also providing early access to your pay while you're waiting for pay. And all these tools and these products are designed to meet that sort of short-term liquidity issue where you might not have enough to pay for an essential. And with Chime, I think 75 per cent



of payments made on Chime are for things that we deem essential, so utility bills, food, travel, that sort of thing.

**LK:** You're not investing in Chime yourself, although I know other parts of Baillie Gifford are. It sounds like maybe, though, you're scoping out for other potential investments there then?

**EW:** Absolutely, there's a lot more fintechs in the US than there are in some other parts of the world. But we can see for those that when they are targeted at certain populations, they can really gain quite great scale quickly. I think the next step is how do they go beyond that? How do they provide a really full suite of banking products for a population that maybe hasn't had that previously?

**LK:** So, Ed, we've discussed lots and I know there's other financial inclusion-themed stocks in your portfolio, including Kaspi and others that we've only touched on, like MercadoLibre and Bank Rakyat Indonesia. But when you're thinking about Maliga and the millions of people out there like her. What is it about the companies that you've invested in that gives you confidence that they can both break the cycle of poverty and deliver strong returns for our clients?

**EW:** I would push back a little bit on poverty reduction because there's so many factors that go into poverty that banking products can certainly help with. As I talked about before, improving resilience for a longer period of time is going to really increase people's chances of staying out of poverty. So maybe it's more poverty avoidance than poverty alleviation. But there is shared value here. It's important for these companies, when they're growing, to do so responsibly, to support the customers of all income demographics. And I think that's what we're really looking for. And I can see it with, particularly, HDFC Bank and Nubank. They have huge segments of society, different demographics, different income levels. But they're thinking about those on lower incomes as the customers of the future, because they are the more lucrative customers of the future. And if they look after their financial needs, and in some way, bring them to a more financially healthy place, it makes business sense.

**LK:** So, Ed, before I let you go, one of the things I always like to do at the end of this podcast is ask our guests what book they're reading or have recently finished to get an idea of their wider influences. So, what's made it onto your reading list?

**EW:** Well, I've recently finished a book called *The Song of the Cell* by Siddhartha Mukherjee. It's fascinating, and it reflects the fact that we don't just invest in financial inclusion on Positive Change, we're investing in environmental companies, but also in healthcare too. But it is a great book to explain the discovery of cells, the medical significance of cells today, and what they might deliver. I've made it sound quite boring, and it's really not. I think what the book is great at is grounding all of those developments in human stories, be that patients or be that scientists, or doctors. And that really helps me learn, but also I find it quite awe-inspiring just how much progress the world has made on our understanding of cells, and also how that might transform medicine in the future.

**LK:** So as an impact director, when you're looking at medical companies, is there a financial inclusion link? If there's a company, for instance, doing new techniques through cellular manipulation, are you wanting to know how they're going to make that accessible widely rather than just to people with deep pockets to pay for it?

**EW:** Yes, but we don't blame the companies, many of whom with novel therapies are just targeting the US, Europe, Japan, higher income countries that can afford to pay. The reality is it's always very nuanced. So, particularly with more novel therapies or devices or vaccines, you need a lot of infrastructure in place to deliver those things. And the reality is that sometimes that's just not there. You know, you need lab technicians, you need labs. You need power supply being consistent and things like that. So we do try to appreciate all that nuance. And it's a key role of the impact analysts to do that. But equally, we will still have that conversation with the company and try and push them to expand access as much as possible because it makes business sense over the long term too.

**LK:** Ed, it's been fantastic having you on the podcast. Thank you so much for coming on.

**EW:** Thanks for having me.

**LK:** And I hope you enjoyed listening to this conversation too. You can find out more about the companies we discussed via our show notes. We've linked there to *Positive Conversations*, a paper in which Ed and his colleagues discuss their interactions with the companies they've backed. And you'll also find Ed's write-up of his trip to Brazil, where he saw Nubank's products in action. If you haven't already done so, please subscribe via Spotify or any podcast app to know when the next episode is live, and you can watch this and other episodes on YouTube. But for now, listeners, I look forward to briefing you again next time.

## SHOW NOTES

From microloans for farmers to free savings accounts for the ‘unbanked’ to customised insurance for gig workers to a cheaper, faster way for migrants to send money to loved ones: a growing range of services is helping many of the world’s least advantaged citizens increase their financial resilience. Previously, banks and other traditional lending institutions overlooked these customers. But as impact director Ed Whitten explains, by backing the companies now involved, you have an opportunity to improve people’s lives and achieve strong growth.

### Background:

Ed Whitten is an impact director in Baillie Gifford’s Positive Change Strategy. Its dual objective is to provide our clients with attractive returns while contributing to a more inclusive, healthy world. Whitten’s role is to ensure that the companies it holds fulfil the second part of that pledge.

In this episode, he explores the topic of financial inclusion, explaining why the companies involved need to do more than simply provide access to loans, insurance and money transfers. Topics include how firms can use data and apps to deliver customised services that address specific people’s needs while protecting them from indebtedness. Whitten also explains how conversations with the companies Positive Change backs can nudge them towards better outcomes, such as providing customers with better financial education. And he explores the importance of helping people gain financial resilience against the effects of climate change and other events that could otherwise devastate their livelihoods.

Companies covered include:

**Nubank** – the digital-only bank used by most Brazilian adults that’s also growing in Mexico and Colombia.

**Grab** – the south-east Asian ride-hailing and delivery service that provides loans and insurance to drivers and merchants using its platform.

**Remitly** – the remittance service offering migrants a quick, low-cost and reliable way to transfer money to family and friends.

**HDFC Bank** – the Indian lender expanding its rural branch network to explain face-to-face how its services can put customers on a better financial path.

### Resources:

[Case study: Maliga](#)

[Nubank’s \*Beyond Access\* study](#)

[Positive Conversations 2024](#)

[The Song of the Cell](#)

Trip Notes: Brazil ([UK version](#) / [Ex-UK version](#))

**Companies mentioned include:**

Chime

Bank Rakyat Indonesia

Grab

HDFC Bank

MercadoLibre

Nubank

Remitly

**Timecodes:**

- 00:00 Introduction
- 02:05 From the British Army to impact investing
- 03:40 A sustainable, inclusive, healthy world
- 04:25 The different types of financial inclusion
- 05:40 Eyes open to the risks of indebtedness
- 06:45 Volatile repayment rates
- 07:35 Beyond accessibility: the personalisation of products
- 09:05 Partnering with CGAP and other development bodies
- 10:25 Nubank's *Caixinha* money boxes
- 12:45 Nubank's Mexican banking licence
- 14:15 Ensuring growth comes with impact
- 15:20 Grab's loans and insurance
- 16:40 Grab's data-driven approach to risk
- 19:45 The fast growth of remittances
- 21:25 Remitly's cheaper money transfers
- 22:35 Gaining market share from Western Union
- 23:40 HDFC Bank's expanding rural branch network
- 24:55 Financial inclusion in advanced economies
- 26:55 The 'lucrative customers of the future'
- 28:15 Book choice

## Risk factors

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