



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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The UNCDF Pacific Islands FinTech Innovation Challenge Questions for Implementing Partners - Tongan Development Bank

Questions:

1. **What is the current market scenario in the country with respect to addressing a particular problem statement (Eg: what is the current market scenario in terms of digitising credit scoring in Tonga?)**

Digitization presents many benefits to banks now and in the future. As an example, digitizing the loan process and shifting it online, from filling in physical forms to approval, disbursements and monitoring the lifecycle of the loan can benefit both customers and lenders. This helps with ensuring compliance and addressing issues surrounding credit risk management in a timely fashion.

Specific to the problem statement, digitizing credit scoring will allow for the ability to have a digital scorecard, where alternative data points beyond assets can be considered. This is important especially for MSMEs in Tonga and in the Pacific Island countries in general as they typically do not possess sufficient assets/collateral to qualify for bank loans. Thus, with the digital scorecard, the hope is that the bank can extend uncollateralized loans to MSMEs and allow them to slowly build their credit history.

2. **Who are the target audience in the specific market (eg: SMEs, women)? What is the proportion of this population that is expected to be served through the implemented solution?**

The solution will seek to address segments that are important to the economy such as consumers and MSMEs but also particular vulnerable groups such as women, youth, and seasonal workers.

3. **What percent of the population already uses/has access to mobile phones, internet, etc. (if the solutions involve these infrastructure)?**

Around 41.2% of inhabitants have internet access, of which, 59.2% are mobile broadband subscribers.

3. **Is there necessary supporting digital infrastructure that is already available to implement the solution (eg: necessary supporting infrastructure for automation of customer services)?**

What is currently available in Tonga that applicants can utilise are:

- a. Loan Origination with Document Capture and Online Credit Scoring
- b. Online lending
- c. Internet Banking
- d. Alert Facilities

e. Ave Pa'anga Pau - money transfer operator (subsidiary of TDB)

4. Are there similar products in the market already? If yes, what are they?

Yes, there are similar products but most of which are not used or widely adopted.

5. Are there other key players in the market for the particular product (to understand competition)? If yes, who are they?

Yes. Other commercial banks (e.g.BSP and ANZ) and microfinancing institutions such as SPBD.

6. Have there already been any solutions that have been adopted and deployed to solve this issue? If yes, how successful were they and what are the lessons that could be learnt for the new entrants?

No. At present, Tonga, and the Pacific Island Countries in general, still face problems around assessing credit worthiness of MSMEs and thus providing the necessary credit to support small businesses in Tonga and around the region.

7. Would you be able to give an idea of the projected volume of transactions in the identified markets?

The volume of transactions in Tonga is estimated to be in the range of 200 – 300 applications per month.

8. What are some of the market rules and regulations/government policies that should be kept in mind while designing a platform/app as a solution to the particular problem statement?

Some of the regulations to be kept in mind are:

- a. National Reserve Bank's Policies
- b. TDB internal Policies
- c. Government Development Loans Policies and Directions
- d. Personal Properties Security Act and Registry

9. What are the operational challenges in development and implementing the solutions that has to be kept in mind? (legal, institutional, operational, technological)

Challenges	Development	Implementation
Legal	Lender institution to disclose how they define creditworthiness.	Legal and ethical framework
Institutional	What other Banks have used in terms of credit approvals? (i.e. Industry benchmarking)	Transparency of credit scoring to Clients and governing bodies
Operational	Credit scoring model used Balance of risks and model used	Uniqueness of TDB approval policies/criteria Capacity building Fairness
Technological	Interface with Core Banking especially if it is a 3 rd Party solution. Cost for developing of the Interface	Securing of resources Data Privacy and security Ongoing Maintenance Costs

10. Are there any possible collaborators in the market?

Yes, there may be collaborators with a 3rd party and/or core banking supplier.

11. What are the possibilities of market expansion?

If the solution covers Credit Scoring Only for Loans, then there is a potential for expansion to cover the whole Lending process i.e. Application, Approval to Disbursements and Loans monitoring.