

IFC'S DIGITAL ASSET EXCHANGE PLATFORMS

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WHY IS THIS RELEVANT?

DEVELOPED MARKETS

- In developed markets (countries in Europe and the US), online marketplaces that brought players together to trade illiquid and distressed assets, came up as a response to the fallout from the global recession in the 2000s and the need for greater efficiencies.
- These marketplaces leveraged fintech capabilities to solve for a growing NPL problem and continue to trade significant asset volumes till today.

COVID-19

- The recession triggered by COVID-19 has led to significant business disruptions due to lockdowns. Although policy interventions gave some respite to borrowers, estimates predict that total volume of NPLs in emerging markets alone, could double in the coming years.
- The distressed assets resolution market in EMs need to expand, become more efficient and transparent.

EMERGING MARKETS

- In emerging economies, where distressed assets markets are commonly underdeveloped, there is usually a significant pricing and information gap between sellers and buyers.
- Additionally, data shared by banks is not standardized, making it difficult for investors to conduct due diligences and close transactions.

IFC'S MARKET INTERVENTION

What have we done?



Completed

UPSTREAM SEED ASSESSMENT

IFC conducted an Upstream Seed Assessment to determine the feasibility of setting up Online NPL trading platforms in emerging markets. The Seed assessment included:

- Stakeholder mapping of existing platforms globally;
- With support from IFC's FCI team, design and implementation of extensive legal questionnaire to identify regulations that could affect the operation of such a platform;
- Identified strongest market players with whom IFC could partner to expand to Ems; and
- Narrowed to 4 pilot markets where the concept could be tested.



Ongoing

UPSTREAM COLLABORATION AGREEMENT

IFC signed FIG's first-ever Upstream Collaboration Agreement with NPL Markets Limited to incubate NPLM's online marketplace in Brazil and Mexico (the platform successfully operates in several European markets).

- IFC and NPL Markets Ltd. cost share the set up and expansion of the platform to Brazil and Mexico.
- In return for its contribution, IFC has secured investment rights in the company.

In addition, IFC is in discussions to sign a second Collaboration Agreement with a different partner in other jurisdiction.



IFC INVESTMENT

If the business model proves to be successful and scales up in emerging markets, IFC could book an equity investment into one of its partners.

➔ Based on your experience in Latin America, do you think the online platform is helpful in resolving NPLs and further developing the NPL markets?

- Although the Upstream Collaboration Agreement is still ongoing, we see significant interest from buyers, sellers and other relevant stakeholders in getting to know the technology and learn about the benefits of transacting through the platform.
- Interest not only from large commercial banks, but also from smaller non-banking financial institutions (NBFIs) and other sellers that would typically not have access to these markets and/or international investors to dispose of assets.
- The platform can be leveraged not only for NPLs but also for other illiquid assets

«Marketplaces and platforms that deal with not just distressed assets but a range of other assets, creating ways to connect new types of buyers and sellers for these portfolios, is going to be the future. IFC is very excited about signing this collaboration agreement and the meaningful investment opportunities that can come out of this project.»



Adel Meer, FIG Global Upstream Manager, IFC

➔ What do you think is the biggest challenge in establishing a platform in Asia and what advice can you give?

- Regulatory and licensing requirements for platforms to operate in Asia.
- Restrictions for foreign investors to acquire distressed and other assets.
- Interoperability in multiple Asian countries can be challenging due to specific local regulations in each jurisdiction.
- Substantial NPL volumes are necessary in target markets for the platform to be commercially viable.