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www.*MicroSave*.net
info@*MicroSave*.net

Serving Depositors:
Optimising Branch Based Banking

David Cracknell

Comments:

Comments or suggestions on this paper should be submitted to David@*MicroSave*.net

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INTRODUCTION

A key challenge for financial institutions serving the low-income market is how to optimise branch networks to serve high volumes of customers - to provide high quality financial services at a low unit cost. This paper examines the strategies used to optimise branch based services for depositors by ***MicroSave***'s Action Research Partners – a network of more than ten very different financial institutions based in East and Southern Africa.

As financial markets become more competitive client choice is driving rapid change. Institutions that fail to respond by developing market-led products and services rapidly lose market share to more dynamic institutions.

The branch is one of the most critical components of any savings product – simply because it is so central to many aspects of delivering savings services. The branch is the place at which the product is delivered and through which promotions and customer interactions occur. The branch network is key in communicating the corporate brand. It is a key determinant of the cost structure of the institution.

Given its importance as a delivery mechanism carefully locating and establishing each branch is vital. Branches must to be located to provide frequent, accessible, convenient service for existing and potential customers. Wherever possible branches should be designed with potential for expansion. Branches must meet the requirements of the institution, its customers and its regulators. Both the institution and its customers need an environment that facilitates efficient transactions and effective communication. Regulators require secure premises appropriate to the business being undertaken.

A customer focused banking environment requires careful consideration of the allocation of space, of customer communication materials, the use of customer service and branch based sales desks. Balancing space-requirements for the front and back office is a perpetual challenge. The branch needs to accommodate sufficient tellers, credit staff, branch management at the same time as providing queuing space, customer service and sales desks.

A banking hall should be used to communicate with customers, through use of signage, nametags and posters. Two-way feedback should be encouraged through well-promoted suggestion boxes with responses to customers' suggestions clearly displayed nearby. A branch should be a key focal point for sales – given that this is where customers and potential customers congregate. Sales should be driven by a branch based marketing focus, and where possible by branch based marketing staff.

Efficiency is key in providing customer focused services. An institution promotes efficient front office services, through effective teller management, through peak load management, through identifying and removing process bottlenecks and through ensuring continuity of services. Teller management ensures that tellers operate efficiently - it includes teller screening and selection, teller performance monitoring, staff incentive schemes, organisation of teller positions and managing teller breaks and holidays. Peak load management involves identifying when the banking hall experiences peaks in activity and specifically planning for and managing around peak activity. Both teller efficiency and peak load management are strongly influenced by policies and procedures – identifying process bottlenecks can allow institutions to significantly improve service levels. Lastly savings institutions need to ensure continuity of services, whether this is through adoption of manual procedures, installation of generators or in the case of a widespread failure – through appropriate disaster recovery procedures.

Optimising branch operations requires continual support in a number of strategic areas. Fast efficient transactions are driven by an appropriate banking system. Efficient operations are ensured by an operations department, which develops and appropriate infrastructure and provides close supervision of branches. A customer focused marketing department drives effective brand management, customer communications and supports branch based sales. The profitability of a branch network is assessed, maintained and expanded through product and branch based costing.

Success in mobilising savings results from detailed planning and rigorous attention to detail. Critical success factors include growth management, marketing, brand management, encouraging internal competition, and focusing on monitoring and continually improving the quality of delivery of services.

SAVINGS FUNDAMENTALS

Competition and Client Choice

Increasing competition in the design and delivery of savings services places a premium on client preferences. In part change is being driven by the availability of new technology, such as Automated Teller Machines (ATMs) that have made it much cheaper for formal financial sector institutions to offer competitive savings services to low-income markets.

At the same time given a choice, poor people are sophisticated purchasers of financial services. In a survey conducted by ***MicroSave*** in Uganda in 2003, physical appearance of the financial institution, ease of access to savings and institutional stability were given as the predominant reasons for choosing financial services.

Reasons for Choosing Financial Service Providers-Savings (Mukwana and Sebageni, 2003)

Position	Reason
1	Physical Appearances (i.e. of premises, guards, weapons etc.)
2	Ease of Access to Savings (liquidity of savings)
3	Perceptions of Institutional Stability
4	Ownership
5	Interest Paid on Savings
6	Working Hours

Savings institutions respond directly to customer's preferences by investing in infrastructure, through opening new branches and increasing the number of tellers and through promoting the image of the institution. Whilst NGO based microfinance institutions have a close relationship with their clients most are designed as lending programmes and have to learn the art of savings mobilisation. Clients need to be persuaded that MFIs are a secure depository (see box).

Transforming Perceptions: Microfinance Deposit Taking Institutions

Micro-credit programmes transforming into licensed deposit taking institutions face a particular challenge. They need to change market perceptions of them as credit giving institutions to institutions that are capable of offering safe and convenient depository services.

Transforming microfinance institutions in Uganda are significantly upgrading their infrastructure – moving branches and refitting other premises, as they move into the highly competitive savings market. Existing premises, designed for providing loans are often a poor location for serving depositors, or are of insufficient size to accommodate a banking hall.

In order to further project an image of institutional stability, many transforming institutions are developing corporate branding initiatives and using public relations. For example, Uganda Microfinance Union published a supplement in the national newspaper promoting the stability of the institution and displaying pictures of their newly constructed branches; whilst FINCA Uganda published a copy of their deposit-taking certificate in the national daily.

Changing perceptions is an especially difficult task if the formal financial sector has a history of collapsed banks or credit unions. In the words of one U-Trust loan client "How do we know you are not going to fail and take our savings with you?"

Competitive Products and Services

A prerequisite in responding to the market is having competitive products to sell. This means developing a range of savings products that meet diverse client requirements, typically this includes open access savings accounts, contractual savings and fixed deposits.

Careful research and pilot testing needs to be conducted to refine savings products for particular market segments. Products need to be carefully differentiated on the basis of the eight P's of financial marketing. These are product, price, place, promotion, physical evidence, people, process and position. The new or refined product can be compared against the competition using a competition matrix. More about the market research and product design process can be found in "Market Research and Client Responsive Product Development" (Wright, 2004)

A careful process of product development and refinement ensures that an institution's products and services remain competitive and profitable. The following example illustrates this. Post Office Savings Banks are best known for offering low cost, poor quality savings services. When Tanzania Postal Bank started offering a more competitive, faster, card-based computerised savings account it experienced a significant increase in the number of transactions, the number of accounts being opened, and an increase in the value of transactions being undertaken. Between 2002 and 2004, the Domicile Quick Account grew to more than 75,000 accounts and the value of transactions quickly grew to be greater than the value of transactions on the much older, more established, Postal Savings Account.

The Importance of the Branch

The branch is a critical component of any savings product. On one level the branch is simply the *place* where the financial service is delivered. However, it is in practice fundamental to each of the 8 Ps, considering each in turn.

- *Product*: Savings products are usually delivered through a branch network – the nature of the branch and the number of tellers and Automated Teller Machines (ATMs) strongly influences how savings products are delivered;

- *Price*: The extent, type and nature of the branch network establishes operating cost parameters that must be recovered through the price of products and services;

- *Place*: The branch is the primary place of business for many financial institutions, it may be the only place that clients come into direct contact with the institution;

- *Promotion*: The branch should be one the principle locations for the promotion of an institution's products and services given that it is a meeting place for clients and staff;

- *Physical evidence*: The branch provides the clearest evidence of an institution's professionalism and stability, and is often seen as a proxy of an institution's ability to deliver financial services;

- *People*: The majority of many savings institutions' staff are based at branch level. A branch must be designed to facilitate both efficient transactions and effective interactions with customers;

- *Process*: The physical environment strongly influences the efficiency of delivery related processes;

- *Position*: The branch is a core component of the corporate brand of a financial institution. A strong corporate brand positively influences public perceptions of institutional stability and facilitates Word of Mouth communications, making marketing savings much easier.

ESTABLISHING A BRANCH INFRASTRUCTURE

Branch based banking is underpinned by the establishment, maintenance and expansion of appropriate infrastructure. Relatively standardised branches with a banking hall, tellers, a back office and space for credit officers will account for most of a bank's physical infrastructure. Branches are generally supplemented depending on the institution and its target market, through sub-branches, agency relationships, mobile branches, ATMs, Point of Sale devices (POS), etc.

Branch location is a particular challenge to a transforming credit based microfinance institutions. Credit based microfinance programmes select office location, according to a very different set of criteria than savings based financial institutions. PRIDE offices in Uganda and Tanzania service tens of thousands of loan clients every year. To control for costs many of these offices are located up a flight of stairs or in converted residential space. This approach has worked well for providing loans, however, while clients are prepared to sacrifice convenience to obtain a loan, the same cannot be said for savings services.

Branch Location: Which Town?

Typically institutions decide where to operate after producing a macro level study. A feasibility study determines high potential towns that match with an institutional mission and vision. The study considers likely demand for financial services, plus proximity to other branches and any competing financial institutions.

Accessibility: Branches should be located in areas that allow the institution to provide accessible, frequent and convenient services to its customers. For Teba Bank this meant careful research to ascertain where its target populations were located and underserved by the traditional banking infrastructure and then carefully choosing locations within those target communities.

Before beginning to covert to a Microfinance Deposit-taking Institution FINCA Uganda located many of its regional offices on the outskirts of regional centres, as this provided good access to its rural village banking clients for its field staff – for FINCA Uganda, actual delivery of financial services occurred at the village level. However, to compete for deposits FINCA Uganda has had to relocate many of its regional offices, and to rethink its delivery strategy.

Providing rural services: An approach being adopted by many converting microfinance programmes in Uganda is to operate through a branch network, which is supplemented by smaller sub-branches or agencies. Sub-branches are smaller than branches but otherwise fully functional, though they may operate on a local server during the day and update information overnight. Agencies only operate on one or two days per week, generally in smaller towns with opening times coinciding with market days. Centenary Bank plans to pilot test sub-branches in its branch network – in medium sized towns. Each sub branch would be provided with sufficient space to graduate into a full branch as its active client base grew.

Equity operates mobile banking through vans equipped with online access through VSAT communications. The vans can operate independently with staff serving customers from the van, or more normally are used to operate agencies for one afternoon a week in different locations around an Equity branch. (Coetzee et al, 2003)

Proximity to other branches: To moderate management and training costs many financial institutions open branches in relative proximity to other branches within their branch network. Equity Bank in Kenya started operations in the Nairobi and Central Provinces. As it grew it made a conscious decision to expand around its existing branches. This allowed Equity to provide multiple access points for customers within a given region and to expand into areas where it was already known, thereby reducing marketing and promotional costs, whilst containing monitoring and management costs.

Competition: It should come as no surprise that high potential locations already have a number of existing financial institutions. The question then becomes; is there sufficient unmet demand for another financial institution? Locations where there is limited competition may prove an ideal opportunity, but the institution must ask itself – why is there no competition there in the first place?

Location may also be a function of the maturity of a financial institution. For both Equity and Uganda Microfinance Union many of their initial branches were situated in smaller towns with limited local competition. However, as Equity and UMU expanded they had a much greater ability to compete effectively with larger commercial banks and opened branches in major metropolitan areas.

Branch Location: Which Street?

Once a high potential town has been selected, the institution needs to select where in the town the branch should be positioned. Sometimes the decision is forced by the availability of suitable premises (see box), however, other factors such as foot traffic, transport routes, potential for expansion, facilities and security should be considered.

Finding Quality Premises

"It can be difficult to obtain suitable premises outside regional towns. This is because each branch must be strategically located within a town or trading centre. The branch should be located in a secure area and should have a strong perimeter wall at the back of the branch. The physical strength of the building is important due to low construction standards outside Kampala.

This can mean when FINCA Uganda moves to set up a branch in a town or trading centre there are a limited number of buildings, which are well located and strong enough to become a branch. In practice this means negotiating with landlords and existing tenants. It can also mean undertaking substantial infrastructure improvements."

Interview with Shafi Nambobi, FINCA Uganda

Foot traffic: Foot traffic refers to the number of people from the intended target group that passes by the branch during a given period of time. Locations with heavier foot traffic offer much higher potential for savings mobilisation than branches with low levels of foot traffic. More remote areas with lower population density may not be able to justify a full branch, but may justify opening an agency branch or mobile banking.

Transport network: A branch is likely to draw customers from surrounding areas where there are good transport links. Good transport links make cash-based transactions quicker and generally safer. However, generally branches should not be located too close to bus terminals as in many countries these are considered unsafe locations, favoured by pickpockets and other petty thieves.

Expansion potential: A market-led financial institution must carefully consider the expansion potential of the branch. Teba Bank in South Africa, Centenary Rural Development Bank in Uganda and Equity in Kenya all needed to increase the number of branch based teller positions. For Centenary this meant providing two extensions to their Entebbe Road Branch in Kampala this increased teller capacity to 28, and allowed the branch to handle 80,000 deposit accounts. Equity realised shortly after opening their branch in Nakuru that they would need additional space due to the much higher than anticipated response from the public. Equity negotiated with the tenants who occupied the floor above their branch, obtained their premises and converted them into a second banking hall.

Facilities: The branch should have access to utilities, water and electricity and where possible should be accessible for disabled or infirm customers. The need for the branch to be accessible to the management of the financial institution leads to an almost inevitable bias towards locations serviced by tarmac roads.

Security: The branch should be situated in a relatively secure area, in one case customers have complained that a branch is located too close to the market meaning that they do not feel safe carrying large amounts of money to the bank.

Branch Infrastructure

Building a branch infrastructure can be very expensive the transforming Ugandan microfinance programmes are spending between US$35,000 and US$ 50,000 for each four to five teller branch, in order to meet Central Bank licensing requirements (see box).

One of the most expensive requirements is the construction of the strong room. Strong rooms are normally constructed from reinforced concrete – ceilings, floors and walls. According to one respondent "The strong room can make up half the cost of preparing a new branch. We ensure that the strong room does not connect with an outside wall, has reinforced walls, ceiling and floor and an appropriate secure door."

Given the cost of preparing a branch it's no surprise that transforming microfinance institutions look where possible to rent premises formerly occupied by other financial institutions.

Uganda Central Bank Questionnaire On Premises

Ownership of Premises: Whether owned or leased, and if leased whether the lease is sufficiently long to produce economic returns, and whether landlord's approval has been obtained for alterations.

Approvals: Have approvals been provided from local authorities, security companies, electricity company?

Banking hall: Does the banking hall suit the type of business to be undertaken in the premises?

Staff Operating Area: Is the space for each individual adequate. Does the branch have appropriate conveniences?

Lighting and Ventilation: Are these appropriate throughout the premises?

Outer Doors / Walls / Windows: Are the outer doors heavy duty, secured with two or more locks of good quality? Are the windows and glass walls reinforced with metal grills or made of anti-burglar or bulletproof glass?

Strong Room: If there is a strong room is it conveniently situated… does it boarder with outside walls. Is there space to cater for the need of the institution? Are duplicate keys stored off the premises? Is there dual control for entry?

Free Standing Safe: Is it fire proof? Is access to the safe and the room it is kept in under the control of more than one person?

Cash loading area: Is it protected from public view and access? Is cash in transit protected by police / security firm? Are there security guards at the premises at all times?

Cashiers till: Is it restricted to individual cashiers during working hours?

Alarm System: Is there an alarm system installed in the premises: If yes is it connected to the police / security firm? Are switches located in the strong room, cashiers' cubicles and manager's office?

Emergency Plan: Is there an emergency plan? Is it documented? Are there fire extinguishers at appropriate places? Are they of an appropriate water /non-water type?

Paraphrased from: Schedule 5: Questionnaire on Premises – Microfinance Deposit Taking Act - pages 36-38.

INSIDE THE BANKING HALL

Most banks providing mass-market financial services operate predominantly from rented premises. There are some good reasons for this, firstly the capital outlay required to own premises is significant and it reduces cash available for lending. Secondly, in many countries Central Banks prefer financial institutions to maintain fixed assets at a lower level than core capital – to ensure that depositors' savings are not being used to finance long term assets within the bank.

However, reliance on rented premises comes at a price. In the absence of purpose built banking premises it can be difficult to create an ideal banking hall, especially outside capital cities where there is a limited choice of suitable buildings. Extensive renovations are required and frequently internal walls and partitions are removed to create a large enough area for a banking hall.

Ensuring a Customer Focused Banking Environment
Older banking halls can be especially problematic, as they were designed at a time when there was greater use of manual procedures, requiring considerable space to be set aside for back office operations. Today, there is much greater focus on providing space for customers and for staff interaction with customers.

A customer focused banking environment is carefully planned to provide a pleasant, effective and efficient banking experience for customers. In a customer-focused environment a much greater focus is placed on the customer and her needs – typically this translates into significant front office staff presence, including a greater number of tellers, specialised customer service staff and front office based sales staff.

Space Allocation
Financial institutions need to carefully plan the allocation of space in the branch between the front and back office, and between the savings and credit functions. The high transactions volumes that follow from pursuing a market-led approach to customers and to product development has a number of implications:

1. The banking hall must be sufficiently large to accommodate peaks in transaction volume during the day, month and during the year. It should be large enough to accommodate queue management systems should these become necessary. There should be a sufficient number of tellers to manage anticipated peak loads, and the banking hall should have space to accommodate additional teller stations to enable growth in business volume.

2. There should be space to position customer service, enquiries, account opening, and sales desks. In physically smaller branches it is frequently necessary to combine these functions into a single desk.

3. It is increasingly common for the Branch Manager to sit in an office that connects to the banking hall and to the back office, this allows for easy access to the manager, by staff and customers. It also allows the Branch Manager to respond appropriately as queues begin to develop in the banking hall.

4. Space requirements should be closely integrated with the processes of the bank. This means for example, that Supervisors should sit close to tellers to ensure minimum time delays where supervisor interventions are required. The space required by back office operations should be limited where possible through computerisation of many back office functions. For example, supervisor approvals can be provided online in most modern banking systems.

5. In many branches the credit department sits off the banking hall providing easy access for customers. Although credit officers sometimes sit directly in the banking hall, it is more usual for there to be a dedicated interview room available to ensure privacy to customers seeking loans. The challenge with operating a credit department adjacent to the banking hall is that it can quickly lead to the banking hall being crowded with clients waiting for loans.

Customer Communications

The branch is probably the most important venue for client communications within a branch-based delivery system, given this is where staff and clients meet on a day-to-day basis. Given its strategic importance, it is remarkable how little considered attention is given to maximising the communication potential of a branch.

Signage: Signage should be clear and concise in language that clients can understand. Signs must be visible in a crowded banking hall, so that customers know that they are in the right place for the service that they require. For this reason hanging signs may be more effective than smaller signs placed on the tellers' windows. Signage important for customers to understand should be consistent with the corporate brand as this helps to convey its significance to the bank.

Name Tags: It is surprisingly common for staff to remain unidentified to their customers. In such cases poor service is identified as an institutional failing rather than the fault of a specific individual. Wearing nametags identifies staff as bank employees and gives the impression that that financial institution is open and transparent and can be held accountable for its actions. From a staff perspective it promotes service excellence amongst staff and encourages better communication.

Customer Information: Customer information includes informative posters, price lists, brochures and notice boards. The target market must understand customer information. This has several implications: firstly, customer information should be written in clear, concise and client friendly language; secondly, use graphics and photographs where possible to assist a semi-literate market; thirdly, customer information should always be available.

Customers respond well to the provision of information. Customers complained of a high level of miscellaneous charges at Equity Bank in Kenya in November 2000. In response Equity revised their pricing structure by removing several fees and re-pricing their products. Equity produced poster sized price lists and placed these in glass frames and hung them in the banking hall.

However, if information is poorly presented it can become much more difficult to communicate with customers. Many banking halls contain out of date posters and brochures, which can be disastrous when prices or product features change. In some cases customers are presented with too much information and are therefore unable to determine what is important for them to read. In still other cases communication materials are presented casually in handwriting rather than in print and in a format that is inconsistent with the corporate brand – thus lessening the impact of the corporate brand on the customer.

Solicit Customer Feedback: ***MicroSave*** studies have consistently shown the value of soliciting customer feedback not only in improving delivery of financial services but as an active ingredient of promoting positive Word of Mouth amongst the target group. Mechanisms to solicit customer feedback are many and include:

- Customer Surveys: To generate positive Word of Mouth it is important to feedback the results of the survey along with an appropriate institutional response
- Focus Group Discussions: Carefully moderated discussions with groups of clients designed to solicit client feedback on key issues.
- Suggestion Boxes: Many suggestion boxes sit dusty and unused sometimes because customers feel that their opinions will have limited impact on the financial institution. However, it is possible to significantly increase the volume and quality of suggestions received through actively promoting the suggestion box as a feedback mechanism. This would include prominent posters soliciting customer feedback and a board showing institutional responses to client suggestions.

More about the design and operation of feedback mechanisms is available in a ***MicroSave*** paper "The Feedback Loop – A Process for Enhancing Responsiveness to Clients" (McCord 2002).

Customer Points of Contact
To run an efficient and focused front office means ensuring that anyone customers have contact with is able to assist with basic enquiries. Most customers fail to distinguish between a teller and a loan officer when it comes to the provision of basic information, yet in many institutions tellers have minimal knowledge of loan products and loan officers have poor knowledge of savings products.

Customer Service Desk
Many financial institutions offering savings services operate customer service desks within banking halls. Customer service desks serve as a principle point of contact with customers – customer service staff are trained to answer the most frequently asked questions that customers have. They have an in-depth knowledge of the products and services of the bank and are able to facilitate product sales even if other officers are responsible for closure of a particular sale. Where customer service staff cannot answer a particular query they should be able to channel queries to an appropriate officer in the bank.

Customer service desks serve an important purpose not only in assisting customers but also in promoting efficient services. Customer service desks remove customers with queries from queues, enabling queues to flow faster. The customer service desk effectively screens customer contact to other officers in the bank, enabling these officers to be more effective and more efficient. In smaller branches it is common for customer service desks to open accounts, though where demand justifies this function is delegated to a specific account-opening desk.

Branch Based Sales
When asked, most branch managers state that marketing products and services is the responsibility of everyone within the institution. However, frequently, the responsibility of all staff for generating and maintaining sales is not reflected in how an institution *actually* operates. This is especially clear when reviewing the functions of the head office marketing function.

Head Office marketing function: A key role of the Head Office marketing function is to support branch based sales. The marketing department must ensure widespread product knowledge throughout the institution. It should produce product related marketing materials that have been carefully developed and tested to communicate product benefits in clear, concise, client friendly language. National sales campaigns should be carefully coordinated and communicated clearly to every branch to ensure that branches are prepared to handle increased sales.

The Importance of Sales Desks: In developed financial markets, technology has led to the decline of extensive back offices and a corresponding increase in space devoted to the banking hall and to sales.

Sales desks placed directly in banking halls have a number of distinct advantages over more traditional counter based sales. Firstly, sales desks increase the visibility of highlighted products amongst customers. Sales desks make a very clear statement to customers that the service is important enough for the institution to market the product directly to customers. Sales desks increase the accessibility of the product to customers – those wanting to enquire about new products and services do not have to queue for a lengthy period to make an enquiry. In this way sales desks can significantly increase cross sales of products – selling new products to existing customers. Lastly, sales desks allow sales officers to explain the product to the customer *comprehensively*. This can be especially important in illiterate and semi-literate markets or in the case of more complex financial services. A few examples illustrate the importance of sales desks:

While performing mystery shopping within a postal savings bank ***MicroSave*** found that tellers making sales across the counter rushed sales, especially when the branches were busy. They failed to explain product terms and conditions fully to the customer. Invariably this led to customers complaining when they were charged unexpected fees or were subject to service delays.

Sales desks have been found to be *essential* to sell more complex products and services. Equity launched its *Jijenge* contractual savings account to encourage and reward regular savings. However, it was a more complex product to sell to customers, who wanted to see the additional return they would receive from

disciplined savings. Equity decided to run a spreadsheet based simulation to explain the product. Initially sales of *Jijenge* were strong but as soon as Equity removed the sales desk sales slumped.

Managing for Efficient Transactions

Delivering mass-market financial services requires both effectiveness and efficiency. Efficiency comes from carefully planning transactions so that they can be performed quickly and accurately again and again. Key to delivering customer focused financial services are efficient tellers, effective teller management combined with the ability to manage peak activity levels. This must be supplemented by a continual focus on improving processes and procedures.

Teller Management

Teller Screening: Financial institutions that are computerising often find that their existing staff are not conversant with computers, this leads to inevitable delays as tellers are trained in how to use computers and in basic keyboard skills. Two approaches have been used by ***MicroSave*** Action Research Partners to improve the efficiency of Tellers: firstly, testing of computer skills prior to employment and secondly, designing the banking system to ensure minimal keyboard and mouse entry.

Equity Bank in Kenya decided to test tellers for their basic proficiency before confirming their employment. This process is transparent and is explained to applicants before they undergo training. Equity provides two weeks basic training to prospective tellers and then tests them on their speed and accuracy. Applicants who fail to score more than 70% of the benchmark standard are not employed.

Teba Bank in South Africa makes salary payments to hundreds of thousands of gold and platinum miners. Faced with lengthy queues appearing at the end of a shift, Teba quickly realised the importance of reducing the time taken for an individual transaction. To achieve speedy transactions Teba maximised the use of the numeric entry through the number pad.

Teller Experience Along with basic proficiency, teller experience is a critical factor in processing transactions quickly. There is often a considerable difference in the performance of experienced and inexperienced tellers. In a sample of tellers at Equity Bank - experienced tellers achieve transaction volumes of 250 transactions per day. Inexperienced tellers start with transaction volumes of 100 transactions per day. After 2 weeks on the job transaction volumes increase to 140-150 transactions per day. After the end of the first month tellers have reached an acceptable level of performance.

Several reasons have been given for the slow performance of inexperienced tellers. Typically, tellers are held responsible for cash shortages. Given potential for loss tellers require time to gain confidence and dexterity in counting money. Introducing cash counting machines can significantly reduce the performance difference, however, machines are unlikely to replace manual counting, in part because touch helps cashiers detect fake currency, which only the more expensive counting machines can do.

Teller withdrawal limits often vary depending on the level of experience of the teller, meaning that inexperienced tellers are subject to greater levels of supervision. One solution employed by some institutions is to divert large cash transactions to an experienced teller who is provided with note and coin counting machines. When business volumes increase banks often create a corporate banking department staffed with experienced tellers.

One step that can be taken to increase the productivity of all tellers, but particularly inexperienced tellers who require more supervision is to enable online supervision, considerable time is lost transporting physical vouchers between cashiers and supervisors. In online supervision an alert appears on the screen of the supervisor that a particular transaction requires supervision, enabling the supervisor to authorise the transaction online.

*Teller Performance Monitoring***:** Even good organisation of the teller position does not guarantee efficient and effective tellers. Financial institutions should monitor the performance of tellers at an individual and at a branch level. Performance monitoring must include both efficiency and effectiveness measures. Efficiency implies measuring the number of transactions of different types undertaken by different tellers in a typical period – care should be taken to ensure that speed is matched with accuracy.

In November 2001 Equity Bank carried out a costing exercise. The exercise revealed that many tellers in Equity's rural branches were only recording 150 transactions per day, whilst tellers in Nairobi branches recorded up to 300 transactions per day. Equity used this information to adjust staffing without affecting levels of customer service.

Some managers feel that performance measurement cannot be performed purely on the basis of branch averages, given that transaction types and volumes differ in every branch depending on the precise segmentation of the branch's customers. In this case, it is also important to measure trends in performance over time, both of the branch and individual tellers within the branch.

Staff Incentive Schemes for Savings: Performance based incentive schemes for loan officers are relatively common. However, much less is known about effective incentive schemes for staff who mobilise savings. The major difficulty in establishing individual performance based incentive schemes for savings is attribution - mobilising savings involves every member of a branch – furthermore, the volume of savings depends as much on seasonal fluctuations that vary from branch to branch as the level of promotional activity.

Nevertheless, failing to recognise the vital contribution of branch staff to raising deposits and in serving customers effectively and efficiently does little to encourage individual and thereby collective excellence. Options for incentivising performance include branch-based awards given on the basis of most improved or best performing branch. Individual awards can be provided to tellers meeting peak targets.

As with any incentive scheme, savings based incentive schemes need to be carefully designed and tested. In one memorable example one branch manager provided small gifts to staff members opening the most accounts. Small motivation perhaps, but it engendered competition between staff and resulted in a significant increase in the number of dormant accounts, accounts with limited activity or minimum balances. Guidelines for establishing a financial staff incentive scheme for savings are given by Holtmann and Gramling (2005).

Teller Positions: The organisation of teller positions is very important. Careful organisation ensures that cashiers make fewer errors. Teller positions should be large enough to accommodate a computer (and printer if necessary) and still provide sufficient counter space for the teller to efficiently count cash. Where space is at a premium low width TFT computer screens can be used, though these are more expensive. Bulletproof glass, obligatory in many countries should not hamper communications between the teller and customers. In one case holes drilled into the glass to assist communication were placed so high that sound between the customer and teller remained muffled. Where bars are used they should be installed judiciously to prevent a jail like atmosphere. Tellers should be provided with cash draws carefully segmented to allow different denominations to be held separately. Where possible a branch should be equipped with coin and note counters.

Personnel Issues: As transaction volumes in a branch increase it becomes difficult to be responsive to the legitimate needs of tellers. The most obvious problem is the lunch hour. If tellers move away from their teller positions for lunch their positions are normally left vacant… this is because it takes time to balance cash before another teller can use the teller position. However, leaving teller positions vacant during a lunch hour risks not providing excellent service during the busiest time of the day.

In some banks staff work through the lunch hour, understandably this is not popular with tellers, and neither is it very efficient, in the words of one cashier, "when we work through our lunch hour productivity is low between two and three in the afternoon".

A less obvious but occasionally intractable problem is teller vacations. In rural branches with seasonal fluctuations or branches with a large percentage of salaried workers there are natural fluctuations in the workflow that can be used to accommodate staff leave. However, in urban branches with a large percentage of microfinance clients, transaction volume can be relatively stable. In this case whenever a teller takes vacation long queues can develop. Mitigation strategies include training staff in multiple

skills so that they can take over as temporary staff or in larger institutions employing additional "floating" cashiers who move between branches in a particular region or city.

Peak Load Management

A typical front office environment has very irregular levels of activity - at some times of the day, week or month banking halls are filled to capacity, whilst at other times they are empty. The situation differs from branch to branch. Uganda Microfinance Union's Kajansi branch is busy in the early morning and then often empty in the afternoon, whilst UMU's Busika branch is busy only after 2pm. Many of Credit Indemnity's Branches are busy in the days following month end when employees repay loans. Whilst Teba Bank's mine based branches are packed with customers at the end of mine shifts.

The management of peak loads in the banking hall is particularly important in banking for the poor, as transactions tend to be transacted in person, in smaller amounts and with greater frequency. However, it is less well understood that an institution's ability to manage peak loads is a key determinant of the profitability of its savings products. This is because peak loads determine the capacity of physical infrastructure. Peak loads are influenced by product range, banking hours, manual procedures – these are explored below.

Product range: An institution's product range can significantly influence transaction behaviour within a banking hall. For example, salary accounts create monthly fluctuations around the month end; school fee loans create periodic fluctuations around the dates for payment of school fees; agricultural loans create seasonal peaks in activity around the planting and harvest seasons. Other products may have fewer transactions, which take significantly longer. Two illustrations are worth making:

Centenary Rural Development Bank in Uganda is used to process payments for school fees. Payments are made three times per year in January, May and September. At the time of receiving payments Centenary is overwhelmed. Typically, queues stretch down the street before the bank opens. Centenary has responded by opening for longer hours during the payment of school fees.

FINCA Uganda requires group office bearers to deposit loan collections from group members every week. This resulted in the paying in of a large volume of small value notes and coins. Unfortunately many notes were old and worn making the use of a note counting machine very difficult.

Banking hours: Extending banking hours is extremely beneficial for customers who otherwise would have to take time from their business activities to perform financial transactions. Due in part to customer demand, Equity Bank in Kenya extended hours from 3.30pm to 4.00pm Monday to Friday and opened in every branch on Saturday mornings to 12 mid day. However, the ability of a deposit taking institution to extend its business hours depends on how long end of day processing takes, and in some countries on Central Bank regulations.

Manual procedures: Many MFIs and cooperatives commencing savings operations start with manual processes and products. However, as business volumes grow, manual processes can become expensive very quickly. Kenya Post Office Savings Bank operates manual passbook based accounts through around 70 branches and more than 400 Post Offices. It has to employ a large number of staff in performing reconciliations between the passbooks and its records.

Given that multiple factors influence peak loads, what strategies can financial institutions use to manage these high volume periods in their front offices?

Remove queries from queues: Customers with queries and issues slow down queues of customers who want to perform simple transactions. Removing customers with queries from queues not only speeds up service for queuing customers, but it also ensures that the customer's problem receives the fullest attention required.

The first and most important step is to understand customers' queries in detail, as this often suggests appropriate solutions. For example, when Equity found that many customers queued to ask whether their

salaries had been received it introduced boards, which indicated for major employers whether salaries had been received and posted to customer accounts.

Other general strategies to remove queries from queues include directing queries as clearly as possible through signage to customer help desks; publishing answers to Frequently Asked Questions which all staff are expected to learn; using front office managers – staff assigned to the front office to manage queues through providing direct assistance to customers.

Introduce single point queuing systems: In banking halls with sufficient space single point queuing systems can be introduced. In most cases such queuing systems consist of a series of ropes winding around the banking hall to ensure that customers queue in a single line. The next available teller serves the customer at the front of the queue. Single point queuing systems are popular with customers for two reasons - firstly, they are seen to be equitable as they ensure service on a first come first served basis, and secondly, because they ensure that an individual customer with a query causes a minimal delay to all customers equally.

Match staffing to expected activity levels: The branch manager should ensure wherever possible, that staffing levels are matched to expected activity levels. This means ensuring during the busiest periods that all teller windows are staffed for the longest possible time. This is no easy task, as a branch cannot afford to maintain a full time staff complement based on peak levels of activity. ***MicroSave*** Action Research Partners have been quite innovative in matching staffing to expected activity levels. The most obvious approach has been to employ part time tellers who only work during the month end - a neat solution but one that makes quality control challenging. A second strategy has been to employ more tellers than normally required but to train them in marketing products and services. In this way during the slack periods in the month, tellers go out to meet potential customers in market places, at schools etc. A third strategy has been to restrict staff leave to the middle of the month wherever possible.

Specific extensions of banking hours: Specific extensions of business hours are possible when the financial institution *and* its customers can predict peak periods of activity, for example, for the payment of school fees or for the payment of salaries, or periodic bonuses. The bank would have to communicate the extension of business hours very carefully to its customers to ensure that enough customers modified their transacting behaviour to take advantage of the extension in business hours.

Stagger workload: In the case of regular activities such as the payment of salaries financial institutions may be able to encourage their business customers to pay their staff on a different date either a few days earlier or later than other employers. This would enable the institution to spread the month end workload from three days to five days or longer.

Introduce new technology: Technology offers solutions to decongest banking halls – firstly through using computerised banking systems, secondly through networking individual branches and thirdly through introducing increased points of access through mobile banking, cash machines or ATMs. When Equity Bank in Kenya introduced its first computer system in 2000, it found it was able to significantly increase its volume of business by speeding up transactions. The introduction of Bank 2000 also made a large back office unnecessary as extensive ledgers, ledger clerks and back office staff were reduced or eliminated entirely.

A Wide Area Network (WAN) allows an institution to offer seamless, branchless banking. However, the effectiveness of the WAN depends on the availability of an appropriate communications backbone, either through telephone lines, VSAT links or through microwave based line of site systems. Optimising the WAN is vital to ensure fast transaction speeds – especially in a fully centralised system. However, optimal solutions are often expensive, so the institution has to make a conscious but informed choice on its communications backbone.

Technology can be used effectively to increase the accessibility of services. ATMs or cash machines are the most obvious example. Historically, ATMs were too expensive for many microfinance programmes to consider. However, two factors are driving change. Firstly, a significant reduction in the cost of ATM

and/or cash machines and secondly, the rapid expansion of technology service providers that can provide an outsourced solution.

Identifying and Removing Common Process Bottlenecks

An efficient and effective front office can only operate if common process oriented bottlenecks have been identified and removed wherever possible. A systematic study of procedures can be undertaken using process mapping. Process mapping uses flow charts to portray a particular process. ***MicroSave*** has produced a toolkit to guide institutions wanting to improve the efficiency and / or internal control within their procedures (Champagne et al., 2004).

From ***MicroSave***'s experience in process mapping slow processes that relate to savings include:

Account opening: Extensive account opening requirements help protect financial institutions against potential fraud and money laundering. However, they also penalise illiterate and semi literate clients, who end up making frequent visits to open a single account.

Teller limits and supervisor approvals: Low teller withdrawal limits strengthen internal control but create an additional approval procedure that can significantly increase total transaction time. Careful examination of the volume and value of withdrawal transactions is necessary when considering where appropriate teller and supervisor limits should be set.

Manual processes: Manual processes are a significant cause of delays. Some delays result directly from the manual process, for example, the extraction of customer ledger cards. More significant delays result when manual processes encourage *batch* rather than *serial* processing. For example, it is much more efficient *for a supervisor* to approve five over limit withdrawals at a time, rather than to approve an individual over limit withdrawal, but this method of batching transactions significantly increases waiting time for customers.

Passbook replacement: Replacement of passbooks can be a lengthy process where security features and the need to perform checks and reconciliations on passbooks require that this be performed centrally. In addition, where the passbook replacement process is poorly handled resubmission of documents can double the time taken to replace the passbook.

Card Issue: Card issue is a frequent cause of delays and is a common cause of customer complaints. Customer account cards are usually carefully branded for security reasons - they include the customer's photograph, signature and account number. Often this means that cards are produced centrally or even outsourced. Reasons for delays include an inability to produce cards at a sufficient rate to meet the demand from new account holders and for replacements; poor processes resulting in the mismatch of photograph and customer account details and batching of cards at branch and/or the printing facility to reduce delivery costs.

End of Day Processes: Although not an obvious cause of delays for the customer, extensive end of day processes have two major impacts on service levels. Firstly, staff work longer hours than necessary – which has an inevitable impact on staff welfare and service quality. Secondly, extensive end of day processes act as a disincentive to extending banking hours.

Ensuring Continuity of Services

Many mass deposit taking institutions struggle to ensure the continuity of services. When customers are deprived of services, at best they complain to the institution, at worst they spread negative Word of Mouth amongst the institution's potential market and move their account elsewhere. Continuity of services means ensuring appropriate power management, along with appropriate disaster recovery and offline procedures.

Offline procedures are manual procedures enabling basic account functionality when computerised systems are not operational. Kenya Post Office Savings Bank has offline procedures for managing their *Bidii* account that involves printing out a statement of account balances every evening.

To effectively offer savings services power management should be almost seamless. This is achieved either through inverter based interruptible power supplies, through generators on a trip switch or at the lowest cost through generators started manually. Electricity is most noted by its absence, in one memorable stoppage during the early pilot testing of the *Bidii* product one of Kenya Post Office Savings Bank branches could not offer its new computerised account for three days.

Disaster recovery means the ability of the institution to recover any lost data. This implies several layers of data management including tape backup at branch and head office level. In very large deposit taking programmes it can involve parallel processing of transactions between two similar servers. For regulated deposit taking institutions the Central Bank will normally define minimum acceptable disaster recovery standards.

CRITICAL SUPPORT FUNCTIONS

Optimising branch operations requires continual support in a number of strategic areas. Fast efficient transactions are driven by an appropriate banking system. Efficient operations are ensured by an operations department, which develops the branch infrastructure and provides close supervision of branches. A customer focused marketing department drives effective brand management, customer communications and branch-based sales. A profitable branch network is maintained and expanded through attention to product and branch based costing.

Branch Based Costing

As branch operations expand, it becomes critical to know where and how the financial institution is making money. It does this through implementing branch and product based costing, either through allocation based costing or Activity Based Costing (ABC). Knowledge of profitability guides management in their strategic decision making, on where and how to expand the delivery of services. Losses can guide the refinement of existing delivery channels, so that they are more efficient, profits can signal opportunities for expansion.

The first step towards branch based costing is to have a costing system in place. ***MicroSave*** recommends allocation based costing for its simplicity and ease of adoption. More information about allocation based costing and pricing of financial services can be found in ***MicroSave****'s* "Costing and Pricing of Financial Services Toolkit".

In principle branch based costing is very simple. It is a two-stage process. In the first stage where branches have already been established as their own cost centres, branch based costing simply reallocates Head Office costs to each branch on a line-by-line or item-by-item basis. This allows each branch to determine its own profit or loss inclusive of their portion of Head Office expenditure.

The second stage is a little more technical. It recognises that some branches are net deposit taking branches and other branches are net lending branches. Net savings branches effectively raise funds for the net lending branches to lend. Branch based costing recognises this contribution by applying a notional transfer price on deposits. It charges a notional fee to net lending branches on net funds lent and provides a notional income to net deposit taking branches. This way each branch is recognised for their contribution to overall banking operations.

Branch based costing can produce some unexpected results. For example, Equity found that its newest branches were generally far more profitable than its older established branches. UMU discovered the size and type of branch that was most profitable. Branch based costing should be performed regularly, say quarterly, this should allow management to determine the extent to which the actions taken to improve performance and productivity have been reflected in improved financial performance.

The Banking System

The banking system should be tailored wherever possible to ensure rapid transactions, whether deposits or withdrawals. The significance of this point is frequently underrated. However, a difference of ten

seconds per transaction on 250 transactions per day amounts to downtime of 2,500 seconds or 40 minutes, *per day, per teller*.

The importance of optimising a banking system is best illustrated with an example. In a system designed for mass banking the teller simply enters the account number written on the withdrawal slip to bring up the customer account. Security details appear on the screen, including signature and photograph identifiers that are cleared by the teller on a single keystroke. Nearly all keystrokes are based around the number pad and require minimal mouse movements or keyboard entry. The number of separate screens required to generate a transaction is kept to a minimum to ensure as fast a system response speed as possible.

The banking system must be able to accept changes to the products features. Generally this is done through ensuring great flexibility in the product parameters that the banking system can accommodate.

A particular problem results from the potential of a market-led institution to experience phenomenal growth. The system must be tested to ensure that it remains stable under much greater transactions volumes and numbers of records than currently experienced or anticipated. From August 2003 to August 2004 Equity Bank increased the number of deposit accounts from 189,000 to 358,000 an increase of 89%. As a result of this phenomenal growth and through a major upgrade of its software, system speeds decreased dramatically. The result was a rapid increase in service time for every transaction and a consequent increase in queues.

The banking system should be able to accept automated postings. Automated postings are postings that are made to client accounts on satisfaction of certain conditions. Automated postings can also be made to post interest, fees and charges. However, an automated posting that can be of particular importance are deductions on payroll based advances and loans. This is where the banking system makes an automatic loan deduction against a savings account after the receipt of a salary payment. In many institutions deductions around payroll based advances and loans are performed manually resulting in a significant workload for the institution and delays for customers wanting to make withdrawals during month end.

Branch Supervision

In order to maintain high levels of service, supervision of branches is necessary both from an operations and marketing perspective. This is particularly necessary during a period of high growth. Operational supervision includes:

Ensuring Adequacy of Distribution Infrastructure: Operations management is responsible for maintaining delivery channels. It ensures that the branch network, sub-branches, agencies, ATMs and tellers are sufficient for the volume of business being generated.

Maintaining infrastructure: Successful financial institutions such as Equity continually struggle to maintain the quality of their infrastructure. Two years after their showpiece Tom Mboya Branch opened in Nairobi signs of stress are beginning to show, 46,000 account holders at the branch generate significant wear and tear, tiles on the stairwell are chipped - paintwork that once gleamed is now dull.

Performance Management: Operations management monitor all aspects of branch performance, comparing efficiency indicators across the branch network, ensuring branches meet their savings, portfolio and profit targets.

Ensuring adherence to policies and procedures: Customers expect branches to perform consistently, and tend only to notice when things go wrong or do not meet expectations. Branch supervision, along with internal audit ensures that policies are followed.

Identification of process bottlenecks: Coordinated attempts are made to understand process bottlenecks through process mapping and improving all procedures.

Marketing Supervision includes:

Maintaining brand consistency: The marketing function is normally the guardian of the institution's brand. Every branch should look and feel the same. See ***MicroSave***'s Corporate Brand and Identity Toolkit.

Maintaining high levels of customer service: The marketing function is normally responsible for monitoring levels of customer service, through customer satisfaction surveys, through conducting focus group discussions and through monitoring suggestion boxes. See ***MicroSave****'s* Customer Service Toolkit for pro forma survey instruments.

Maintaining high levels of product knowledge: Marketing teams normally have responsibility for ensuring that each staff member is fully aware of the benefits to customers of each financial service that the institution provides. This will include performing product-based training and conducting product knowledge tests with frontline staff.

Optimising Branch Marketing: Marketing ensures that branches maintain a consistent and coherent approach to marketing products and services; they monitor the display of customer communication materials, marketing posters, brochures etc. See ***MicroSave****'s* Product Marketing Toolkit for more details.

CONCLUSIONS

Success in savings mobilisation is a result of detailed planning and rigorous attention to detail. From studying the experience of ***MicroSave*** Action Research Partners it is possible to derive a number of critical success factors.

Growth Management: When financial institutions design and deliver market-led financial services; the response from the market can prove overwhelming. In such circumstances every aspect of branch operations can become stretched. Queues quickly develop as customer load exceeds existing branch capacity. As a result service quality rapidly declines. Rapid but considered institutional responses are required.

Strong Brand: A strong brand encourages customer recognition of the financial institution significantly increasing the return to marketing effort; it creates confidence in clients of the stability of the institution and promotes the expectation of good service delivery. The danger is that failing to deliver on brand promises creates very strong negative Word of Mouth.

Equity Bank realised this in 2002 when it created a consistent look and feel for all its physical infrastructure. Counters were made from the same laminate, signage was made consistent, and lighting was improved. Even the physical layout of newer Equity branches adheres to a standard – with the branch manager office attached to the banking hall, with customer service and account opening desks placed in the banking hall.

Staff Incentives: Even though it is more difficult to formulate a staff incentive scheme for savings than it is for loan products, it is possible to create tournaments between staff or to generate a sense of competition between branches. Equity Bank has done this in the past through presenting a trophy plus an award for the best performing branch and for the most improved branch. Credit Indemnity in South Africa awards branches based on detailed performance criteria. Recognise success internally.

Maintaining high standards of service delivery: Successful organisations continually monitor the quality of the delivery of their services. This is done through regular reviews of branches by senior management, through monitoring branch based statistics, through mystery shopping, through soliciting and acting on customer complaints.

Continuous improvement: Especially where there is significant market-led growth there needs to be an internal culture of continuous improvement. Such a culture is difficult to instill, but it starts with strong individual commitment to a collective institutional mission. This culture enables the organisation to maintain service quality, despite growth. It implies that the institution is always preparing for the future

with planned upgrades to systems, to services, to processes and in staff capacity. Successful institutions ensure that a significant percentage of these planned upgrades actually occur.

Minimal indirect costs to the client: Indirect costs are those that the client pays in order to access financial services, such as extensive account opening requirements, or substantial documentary requirements to qualify for loans. Where possible banks are reducing these requirements or making them easier to comply with, for example, using digital cameras to take pictures of clients when they open accounts or apply for a loan rather than requiring clients to bring passport sized photographs.

Excellent staff knowledge of products and services: Simple and easy to understand products and services, backed by Frequently Asked Questions, are easy to explain to potential customers, and enable staff to quickly gain excellent knowledge of their products and services.

Delegation: Allowing branch staff to authorise a greater range of transactions increases service speed and increases staff satisfaction. Branch managers need to have sufficient powers delegated to them so that they can be responsive to their customers' wherever possible. For example, when customers complain that there is no seating in the banking hall or not enough writing space, managers have sufficient authority to purchase locally.

In conclusion, optimising branch based banking for deposit taking takes commitment to choosing and maintaining the right infrastructure. It requires total commitment to delivering quality service. This commitment must be evidenced through attention to detail in the management of peak activity levels and in improving staff performance. Optimising branch based banking requires continuous involvement from the marketing, operations and information technology functions. It happens by design, not accident.

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Acronyms

ATMs	Automated Teller Machines
FAQs	Frequently Asked Questions
FINCA	Foundation for International Community Assistance
MDI	Microfinance Deposit-taking Institution
MFIs	Microfinance Institutions
UMU	Uganda Microfinance Union