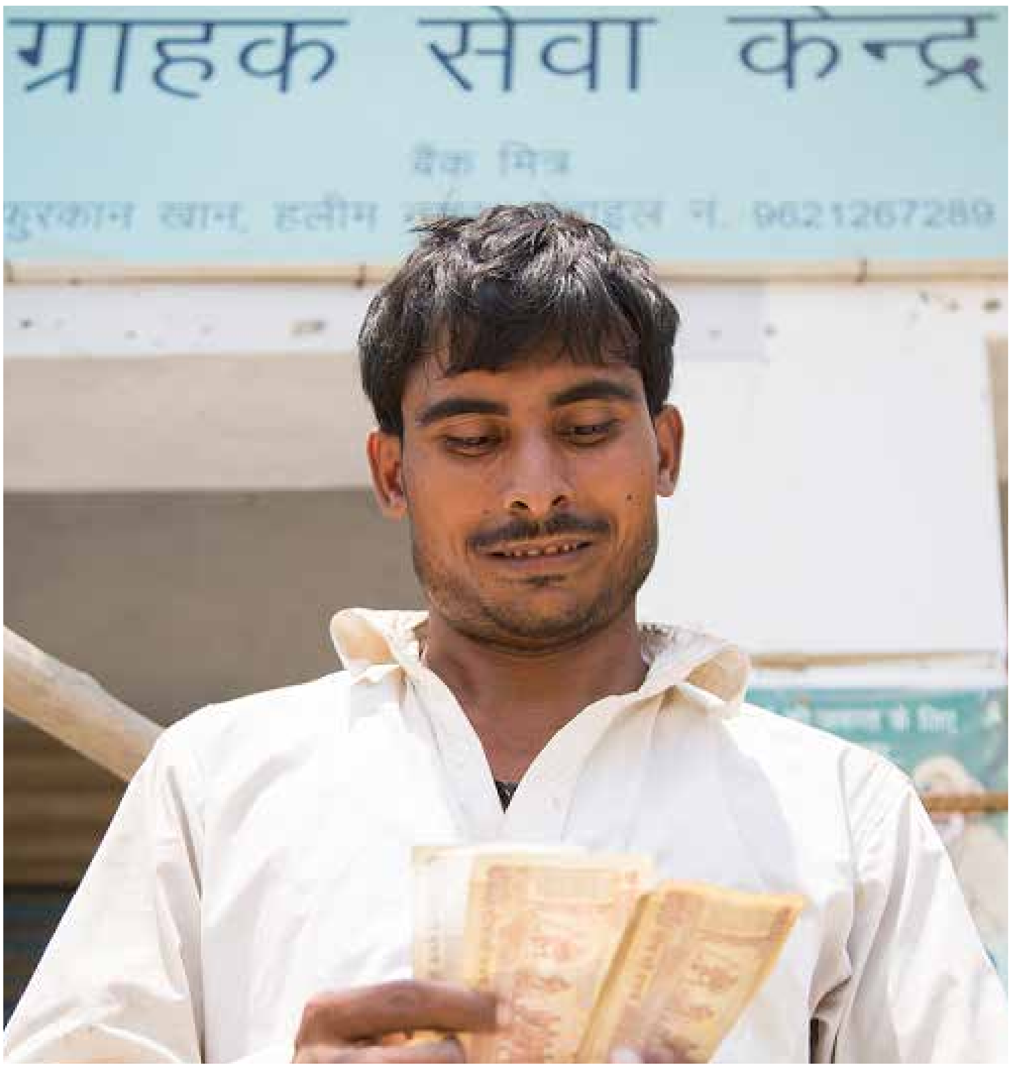
Small Finance Banks: What Can We Learn From Indian Experience?



MicroSave
Market-led solutions for financial services

Introduction

The creation of Small Finance Banks by the Reserve Bank of India promises to offer a range of exciting opportunities, as well as some challenges, for the provisional licensees. Many of these are discussed in this collection of *MicroSave*'s India Focus Notes and blogs, which provide deep insights into options from across India around strategy, operations, product development and agent network development/ management. These short articles are based on years of on-the-ground research and technical assistance dedicated to developing sound business models and operations to underpin profitable approaches to serving the mass market, thus advancing financial inclusion.

What Does *MicroSave* Do?

MicroSave partners with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value.

We are an international financial inclusion consulting firm with nearly 20 years of experience, operating in nine offices across Asia and Africa.

Our mission is to strengthen the capacity of institutions to deliver market-led, scalable financial services to all people through guiding policy & facilitating partnerships to develop enabling eco-systems; comprehensive, customised strategic advice; and actionable, on-site operational assistance. We have worked to design and implement a variety of financial inclusion models.

The *MicroSave* Team

We are a team of over 175 professionals who have strategic and technical skills honed through years of working with companies across various sectors to identify, understand and respond to the needs of the mass market. In the words of our clients, *"We are the world's local expert in financial inclusion"*.

More insights from India and across the globe can be found on our **websites:** www.*MicroSave*.net and www.*Helix*-institute.com.

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STRATEGY

Small Finance Banks – Is there an Opportunity for MFIs/NBFCs?

Anup Singh,
Abhishek Anand and
Abhay Pareek

Background

Approximately 35%[1] of the adult population in India has an account with a formal financial institution. This means, around 500 million people do not have access to even a basic bank account,[2] let alone the variety of financial products and services they need. The ambitious *Pradhan Mantri Jan Dhan Yojana (PMJDY)*, with its mission to provide at least one bank account for every household in India, seems set to change the financial inclusion landscape considerably. In the last decade and more, microfinance institutions (MFIs) in India have played an important role in enhancing the reach of financial services to include low income rural communities. However, as part of rapid outreach and horizontal expansion, MFIs (including NBFC-MFIs) have largely followed a monoproduct, group-based lending, approach that makes a limited contribution to the financial inclusion agenda. Realising that financial inclusion will remain a dream unless a paradigm change is introduced, the Reserve Bank of India (RBI), on 27th November 2014, released guidelines for a new class of banking entity called "Small Finance Banks". Small Finance Banks (SFBs) by definition will cater to the diverse needs for financial services amongst the low-income people.

In this first chapter of the two part series on the subject, we explore the opportunity presented by SFB licence to MFIs/NBFCs and the benefits they can accrue from the transformation.

Why Transform?

Sustainability of financial institutions including MFIs/NBFCs rests to a large extent on the ability to offer a full range of financial products. The risks presented by credit only institutions, dealing with low income clients, were brought to the fore during the so-called 'Andhra crisis'. Institutional formats which enable a full suite of products and services to low-income segments work for the clients, and just as well work for the long term sustainability of the institutions themselves. To this extent, the move towards SFBs will benefit NBFCs/MFIs. In addition, the transformation to SFB will allow the MFIs/NBFCs to work without constraining factors such as the margin cap and qualifying asset criteria.[3] An added rationale for MFIs/NBFCs to transform into an SFB is that the rural markets in which they primarily operate are unreserved and present a business opportunity as long as client centric products can be loaded onto low cost delivery platforms.

Market potential

RBI guidelines mention that preference will be accorded to institutions that focus on the following aspects:

1. ***Geography:*** Underserved regions of north east, east and central regions of India
2. ***Banking penetration:*** Unserved and underserved populations; 25 per cent of branches must be in unbanked villages with population less than 9,999
3. ***Segment:*** Target segments of small businesses, unorganised sector, low income households and farmers
4. ***Products:*** Credit and savings

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[1] The Global Findex Database (February 2013)
[2] ibid.
[3] RBI Master Circular- Introduction of New Category of NBFCs - 'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions (July, 2013

Geography and Banking Penetration

In terms of preferred geographies, as compared to rest of India, ***Low Income States*** (LIS) comprising Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, and ***North East States*** (NES) comprising Assam, Arunachal Pradesh, Nagaland, Manipur, Meghalaya, Mizoram, Tripura present opportunity for expansion on account of poor banking penetration. Table 1: Banking Penetration below compares the key elements of banking penetration in the three geographies, namely, LIS, NES and rest of India.

Table 1: Banking Penetration

Attributes	Low-Income	States (LIS) North-eastern States (NES)	Rest of India
Bank branches	36,462	2,883	70,466
Credit deposit ratio	50%	33%	86%
Average population per bank branch	14,948	15,810	8,792

Source: *MicroSave* analysis based on data extracts from RBI, Census of India and annual report of Ministry of Finance.

There is scope to expand presence in unbanked villages with a population up to 9,999. Of the 597,608 villages in India, 592,927 have population up to 9,999. Of these, 268,454 villages (with a population greater than 2,000 persons) have theoretically been covered under financial inclusion plan of the Government of India and have branches (regular or ultra-small), or business correspondents and their agents. This leaves 324,473 villages outside the formal finance landscape.

MFIs/NBFCs have significantly higher outreach in these areas than the banks.

Product and Segments

As highlighted in Table 2: Market Potential, micro and small enterprises as well as low-income households (comprising agriculture-dependent households, small and marginal farmers, and agricultural labourers) face severe challenges in terms of access to finance. These two primary segments present significant demand for credit and savings.

Table 2: Market Potential

	Low-Income States (LIS)	North-eastern States (NES)	Rest of India
Numbers (in Million)			
Micro and small enterprises	10.5	1.3	20.1
Agricultural households	27.8	22.2	13.2
Low income households (other than agri)	33.2	2.5	18.2
Unfulfilled credit needs (in INR Trillion)			
Micro and small enterprises	20.6	1.2	16.9
Agricultural and low income households	12.1	6.2	3.9
Unfulfilled savings needs (in INR Trillion)			
Micro and small enterprises	5.2	0.7	10.0
Agricultural and low income households	19.9	1.5	10.9

Source: *MicroSave* analysis based on data extracts from RBI, Census of India and annual report of Ministry of Finance and Ministry of MSME.

LIS and NES are not considered potential markets by banks, which is why banks invest less in infrastructure there and have lower penetration. However, collectively, LIS and NES have a total of 85.7 million low-income households. These households have an unfulfilled credit demand of INR18.3 trillion (US$295 billion) and the potential to save INR21.4 trillion (US$345 billion). In addition, there are about 11.8 million micro and small enterprises in LIS and NES that have a collective debt demand (for working capital and assets financing of around INR 21.8 trillion (US$351 billion) and savings potential of INR5.9 trillion (US$95 billion)).

Together, these two segments present a considerable opportunity for formal financial institutions to tap.

Benefits from Transformation

Apart from the sizeable market opportunity, the additional benefits for MFIs/NBFCs to transform to SFB include:

- **Diversification:** Diversification of the range of products to create a holistic product suite comprising primarily savings and credit, as well as distribution of insurance, pension, mutual funds, payment/remittance facilities and access to ATMs. SFBs can be a part of the payment and settlement system as a direct member or a submember of a sponsor bank. A holistic product suite is likely to lead to both improved customer loyalty and reduced delinquency as customers will not want to compromise their access to high quality, secure savings services.

- ***Leverage Low Cost Structures:*** MFIs/NBFCs have significantly lower operational expenses than that of banks because of their low cost infrastructure and high productivity/ low salary structure of their staff. Thus, MFIs/NBFCs can use their low cost structures to rapidly achieve profitability.

- ***Branding:*** Microfinance is a burgeoning industry with a plethora of financial service providers in overcrowded markets. Individual microfinance institutions struggle to gain the desired mind space of, or real loyalty from, customers. An SFB licence allows MFIs to create differentiated brands and leverage these to create longterm client relationships.[4]

- ***Diversified Funding Base:*** Currently, MFIs are entirely dependent on debt and equity sources. While initially mobilising savings may not be cost effective, in the long run and with customer-centric offerings, the SFB may mobilise savings at costs lower than debt – particularly if they address the unmet demand for illiquid and programmed/recurring savings deposits.

- ***Political Risk Management:*** A holistic product offering and a banking framework reduces the possibility of political interference, a risk experienced by MFIs.

- ***Deepening Rather Than Widening:*** SFBs, by definition, will cater to the low-income segment and can offer a comprehensive product suite. Thus, SFBs will have an opportunity for vertical penetration with an expanded range of products, unlike the MFIs/NBFCs that expand horizontally with limited number of products. This will also allow SFBs to create a judicious mix of high and low value customers, thus strengthening the business case.

[4] http://www.*MicroSave*.net/resource/how_can_bc_mfis_tap_household_savings#.VIG21DGUeSo

- ***Impact on Customers Financial Well-Being:*** A range of products gives poor people the tools they need to manage the fluctuations in their income and expenses better, protect themselves against risk and to seize opportunities as they arise. This is not only important from a development perspective, but also from a business perspective in that customers with growing wealth are, of course, more valuable to (and profitable for) the financial institution.

While there is significant market potential and opportunities for MFIs/NBFCs, they have to be cognisant of the costs associated with the transformation, and the challenges and risks that it presents. In the second chapter of this two part series, we analyse the fit of MFIs/NBFCs for transformation, key risks and challenges, and the potential deal breakers.

Small Finance Banks – Risks and Challenges of Transformation of MFIs/NBFCs

Anup Singh,
Abhishek Anand and
Abhay Pareek

In the first chapter of this two part series on the subject, we talked about the opportunity presented by the Small Finance Bank (SFB) licence for MFIs/NBFCs, and the benefits that can accrue from transformation. In this second chapter, we highlight key challenges, and the potential deal breakers.

Transformation Challenges

MFIs/NBFCs in India are based on a business model driven by credit. The loan portfolio is fuelled by bulk loans from large financial institutions and investments, including from foreign sources. Transformation to SFB entails changes in the business model, organisational structure, capital structure, product suite, IT/MIS, and others. These changes will lead to the following challenges:

1. ***High Costs of Transformation:*** MFIs/NBFCs will have to bear the incremental cost of infrastructure, human resources and organisational transformation. Key cost drivers will be: the cost of MIS and loan origination systems' upgrade to a core banking solution; establishing risk management and treasury functions: developing savings products: managing the transformation from a credit only institution to a diversified financial institution; hiring new staff; training and capacity building of existing staff; process re-engineering; and infrastructure costs such as cost of branch set up. This will add to the organisation's one-off, recurring and fixed costs and based on empirical evidence from other markets, such large scale changes and consequent investments will have a breakeven time of 3-5 years (depending on the quantum of expenses and revenue).
2. ***Efforts and Cost of Deposit Mobilisation:*** There are two facets to this challenge. First, SFBs will have to compete with established public sector and regional rural banks. These banks enjoy higher trust in the community, are well placed in the rural markets, and are aggressively trying to enhance their market share. Their existing infrastructure, reputation, business correspondent network, and expertise in deposit mobilisation will be a threat for SFBs – particularly after the efforts they have put in to open accounts as part of *Jan Dhan Yojana* (JDY) and the government subsidised add-ons that are part of this account, such as accident and life insurance. However, we believe that in the long run Payment Banks may well provide even fiercer competition for SFBs. Second, the cost of deposit mobilisation will be higher for SFBs considering the rural/underserved segment they will be catering to. In the past, such segments have had low average deposit sizes. To get a sense of how much the average savings of these segments is, the closest indicator is the quantum of deposit mobilisation in JDY. To November 2014, 71 million new customers enrolled under the scheme, of which 53 million had zero balance in their savings account. The total amount saved in the active accounts as of January 2015 was Rs.54 billion. Thus on average the net deposit balance of an active customer from the target segments is approximately Rs.3,000 (USD$50) per account. While this might be increased with recurring deposit products and broadening the client base, with this average, the cost of deposit mobilisation will be much higher than 5-6%[1] for scheduled commercial banks that have more than 50% Current-Account-Savings-Account (CASA) deposits.

   For a bank, there should be a healthy mix of current accounts and savings accounts as they are low cost funds that increase the net interest margin. In case of SFBs, considering the target segment they will cater to, it is expected that majority of the deposit mobilisation

[1] Reserve Bank of India, Deregulation of Savings Bank Deposit Interest Rate: A Discussion Paper, 2010

will be through savings accounts and term deposits. *MicroSave* estimates that will take at least 5-7 years for an SFB to increase number of clients and average deposit to a level where the cost of deposit mobilisation reduces to become a low-cost, sustainable source of fund for SFBs.

3. ***Limited Scope of Using Cost Effective Measures Such as Internet and Phone Banking:*** The commercial banks target higher use of internet and phone banking by their clients to reduce the costs of branch-based services. In case of MFIs/NBFCs, their current target clientele does not yet have capacity and infrastructure to use such channels. Thus, SFBs will have to rely on traditional brick-andmortar branches to service their customers. While SFBs may use innovative channels such as mobile money or card-based point-of-sales devices, the infrastructure set up, channel management, and investment in financial education will all pose challenges.
4. ***Control Dilution:*** The regulation requires SFBs to ensure that a single shareholder holds a 40% stake in the organisation, and this must be reduced to 26% in 12 years. It will be a challenge for many MFIs as promoters of almost all large MFIs/NBFCs have a minority stake in the organisation. One of the leading investor groups with capacities to invest for the long term may have to don the mantle of promoter and nurture the institution. Such long term patient capital is not easy to obtain.
5. ***Capped Foreign Ownership:*** The guidelines put a cap of 74% foreign ownership in SFBs. Currently, many MFIs/NBFCs have more than 75% foreign equity due to investments from foreign sources. Bringing the figure to below 74% will be a challenge for these institutions considering the dearth of domestic equity sources.
6. ***Added Capital Pressure:*** The guidelines require SFBs to ensure a capital adequacy ratio (CAR) of 15%, cash reserve ratio (CRR) of 4%, and statutory liquidity ratio (SLR) of 22%. These will be a significant burden to manage, resulting in reduced earnings until SFBs develop a substantial depositor base.
7. ***Issues in Human Resource Management:*** MFI/NBFC employees are specialised in micro lending operations with limited exposure to sell and service push products such as liabilities, insurance or pension. Also, the credit teams are not well versed with banking credit assessment tools and mechanisms. This means that SFBs will have to source, hire and train talent from the banking industry. This may lead to increased compensation expectations of new incumbents and also market competition to hire the best in industry.
8. ***Change Management:*** MFIs/NBFCs have to undergo massive organisational changes and will require comprehensive and efficient change management processes. The key organisational changes will be:

   a) Currently MFI/NBFCs have a single channel for customer acquisition for different products. However, as these MFI/NBFCs transform to SFBs, they will require different sales channels for liabilities and credit acquisition, and to focus on cross sales between these channels. Another challenge will be to establish robust operations and credit teams.

   b) The majority of the employees in MFIs/NBFCs are experienced in dealing with a mono product and group lending structure. Thus, for transformation MFIs/NBFCs would have to hire employees with banking experience. This would mean a cadre of new employees joining the team and affecting the existing organisational culture. This would require a change management so that old cadre does not feel threatened by the new additions to team and the new team adjusts to the ‘culture’.

9. ***Inexperience in Developing and Distributing Liabilities Products:*** MFIs/NBFCs are experienced in offering generic group lending products whereas banking would require them to enhance the product suite by adding other credit products such as micro and small enterprise finance, term deposit and savings products. SFBs can also be part of clearing system either as a direct member or through the sub-member route. The inexperience of MFIs/NBFCs in offering such products will result in a period of learning before they can stabilise their product suite, its sales proposition, mix and channel.

10. ***Vulnerability to Failure Due to Limited Risk Exposure and Inexperience in Dealing With High Ticket Loans:*** International experience shows that small banks are vulnerable to failure if they do not have a diversified credit base and are focused on relationship banking rather than centralised process-based operations. The same concern applies to SFBs in India. The quantum leap for MFIs/NBFCs from small ticket to high ticket loans of up to Rs.2.5 million is an area of concern, especially if these SFBs concentrate their primary funding in one to two sectors and particularly, the less regulated and highly vulnerable sectors.

11. ***Savings to Fuel the Liabilities:*** With inter-bank borrowing limits, SFBs will have to make rapid progress in developing their ability to attract and manage savings for their liabilities. This could be a major bottleneck for MFIs/NBFCs that are primarily known to the low-income segment as a lender. *MicroSave*'s experience in SouthEast Asia and East Africa shows that clients hesitate to place their savings with institutions that until recently had a credit-only positioning. SFBs will have to make major changes to their branding strategy to change this brand perception and market position. MFIs/NBFCs are not used to allocating significant funds for marketing and brand building, as their loan products are driven by "Pull strategy" rather than "Push strategy".

Some of these challenges can be deal breakers as many MFIs/NBFCs that are not in position to fulfil all these requirements. Also, some eligible MFIs/NBFCs will not want to transform to SFBs for sound strategic reasons. The reasons for such a choice include: scope for strategic tie-ups with commercial and payment banks; fear of mission drift; lack of capacity to manage banking business; and/or a desire to "wait and watch" hoping to apply for an SFB license at a later date. Other reasons could be stringent regulatory and compliance norms; strong presence in a limited geography; and lack of willingness to change organisational form.

Overall, MFIs/NBFCs are best fit to transform into SFBs given the lucrative business proposition and the potential opportunity. However, MFIs/NBFCs should conduct a thorough review of their business plans, product suite and their competence to transform and manage banking business – it is not for the faint-hearted!

Small Finance Banks – Are You Ready? The Opportunities and Challenges

Nitish Narain,
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Small Finance Banks reiterate the Reserve Bank of India's commitment to achieve financial inclusion by supporting the development of institutions that offer innovative 'high technology, low-cost operations' driven financial services.

Key highlights of Small Finance Banks

- Small Finance Banks (SFBs) shall primarily undertake basic banking activities including acceptance of deposits and lending credit to unserved and underserved sections
- SFBs shall be subject to all prudential norms and regulations applicable to commercial banks, including maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)
- SFBs are required to extend 75% of their Adjusted Net Bank Credit (ANBC) to Priority Sector Lending (PSL)
- SFBs should ensure that at least 50% of its loan portfolio constitutes loans and advances of up to Rs.25 lakh (USD 37,994).

A quick analysis of the selection process and the institutions that received SFB licenses suggests that the RBI, apart from considering parameters such as financial soundness, proposed business plan, and fit and proper status, also reflected on the ability of the institutions to reach out to unserved and underserved segments. Eight out of the 10 institutions who have been granted provisional licenses are MFIs that have a track record of providing scalable microcredit services. Also, licensee institutions cover a wide geographical spread – Equitas, ESAF, Ujjivan and Janalakshnmi in the south, Disha and Suryodya in the west, RGVN in the east, and Utkarsh in the north. This faith in MFIs also augurs well for the Indian microfinance sector that has seen its share of ups and downs since 2010.

We see tremendous opportunities for NBFC-MFIs transforming into Small Finance Banks. Some of the benefits include: the ability to diversify products and services; access to electronic channels; diversification of funding base; mitigation of political risks; and the opportunity to bring an overall positive impact on the customer's financial wellbeing.

However, on the basis of our extensive work in Africa and other parts of Asia in transforming MFIs into deposit-taking institutions, we also understand that the road ahead for these financial institutions require: re-structuring of capital to comply with the strict RBI guidelines; mobilising deposits in a highly competitive environment; and re-engineering front- and back-end systems

Additionally, the SFBs will require comprehensive and efficient change management processes. Institutional transformation will require the induction of new and diversified talent from the banking sector, while the existing sales and operations staff will need to be suitably trained and incentivised to sell new products and attuned to new delivery channels. This mix of new and old has cultural, human resource and business implications for the SFBs, as it would have for any transforming institution. The experience in countries like Indonesia suggests that in the medium term, there might be a staff flight from SFBs to the commercial banks. These are some of the many challenges related to human capital that SFBs have to be wary of, and will therefore need to craft careful recruitment and retention strategies.

With additional scrutiny by the RBI, the SFBs will also require to strengthen their governance structures. A recent *MicroSave* study examined the governance practices of MFIs in India and found that while the sector has evolved since the 2010 Andhra Pradesh crisis, governance structures and practices are still compliance oriented and very few players have made efforts to set their own standards.

SFBs will also need to approach their technology requirements with a different lens compared to the traditional banks as the former will be serving a customer base that is markedly different from that of a typical commercial bank. Hence, there is a need for cost-effective mobile-based technology deployments that are better suited to reach underserved areas.

Though the task is daunting, we believe that focused efforts by SFBs to carve a niche for themselves will help them cut the clutter and occupy the elusive mind-space of their target customers. Some of these initiatives include: developing customer-centric products that reflect the mental-models and suit the cash flow of the target segment; riding on the agent network infrastructure propelled by the proliferation of PMJDY programme and Payments Banks; creating convenient avenues to trigger customers to save regularly; complementing savings with payments; and most importantly making significant investments to develop and upgrade human capital.

Institution	***Gross Loan Portfolio*** ***(in Cr)***
Janalakshmi	4533
Ujjivan	3513
Equitas	2320
ESAF	1022
Suryoday	638
AU Financers	4900
Disha	166
Capital Local Area Bank	2600
Utkarsh	811
RGVN	227

extracted from micrometer report of MFIN

It is indeed an interesting time to be in the financial inclusion market in India. The performance of the Small Finance Banks in the next five years will, in a way, determine the path that the microfinance sector will take. At the same time, the Indian microfinance market has enough to offer to those MFIs who missed the opportunity this time around – particularly in the short-term. *MicroSave* speculates that many of the transforming MFIs may even have to "down-scale their lending portfolios" as part of their efforts to transform. This could give SKS, Satin and many mid-size NBFC-MFIs that made a conscious choice not to apply for licenses, the opportunity to significantly expand their portfolios and geographical reach.

At *MicroSave*, we are happy to have provided technical assistance support to eight out of the ten institutions that received the SFB license. With over 17 years of experience in innovating/developing products and channels to serve the mass market, we are prepared to do our bit to drive the sector towards provision of market-led financial services.

Transformation of Microfinance Institutions into Small Finance Banks: Will it be a Roller Coaster?

Akhilesh Singh,
Lokesh Singh and
Nishant Kumar

In 2013, the Reserve Bank of India constituted a committee under the chairmanship of Dr. Nachiket Mor to further the goal of financial inclusion in India. The committee recommended differential licensing in the form of two categories: i) Payments Bank, and ii) Small Finance Bank (SFB). In this chapter, we focus on the effect of these recommendations on the capital structuring of Microfinance Institutions (MFIs) that plan to become SFBs.

On the basis of data from three major NBFC-MFIs that have applied for SFBs licence, we analyse the likely post-SFB set-up. The total outstanding portfolio of the three largest MFI Network (MFIN) members who have applied to become SFBs is Rs.159 billion ($2.6 billion) as on 31st March 2015. Their loan book is largely financed by bank borrowings, with debt equity ratio in the range of 3.6 to 4.5. After the RBI issues in-principle SFB licenses, these MFIs will have to phase out bank loans over the next 18 - 24 months to bring it down to a maximum limit of three times the "Net Owned Funds".[1] Eventually SFBs are expected to have their liability composition quite similar to that of traditional banks. Table 1 compares current liability structure of MFIs with those of banks to understand expected changes over time. It is clear that with the limit on interbank borrowing in place, SFBs will have to meet their requirements with a mix of shareholders' equity, long term refinancing and interbank lending to two to three times their net owned funds and deposits mobilised from borrowers as well as non-borrowers. We will further examine all possible avenues in the next Note which will look at how MFIs can go about meeting these challenges. In order to make the analysis realistic, we have made the projections based on assumptions.[2] These are: MFIs' current growth patterns,

Liability	MFIs			Public Sector Bank		Pvt. Bank		RRBs		Co-operative Ban	
	SKS	Ujjivan	Equitas	SBI	PNB	ICICI	HDFC	Baroda UP Grameen Bank	Uttar Bihar Grameen bank	Saraswat Bank Cooperative Bank	The Shamrao Vithal Coop Bank Ltd.
Capital	4.33%	3.15%	11.33%	0.04%	0.07%	0.21%	0.10%	1%	4%	0.59%	0.69%
Reserves	14.06%	14.77%	6.42%	6.56%	6.46%	13.00%	8.75%	4%	2%	8.49%	8.22%
Deposits				77.80%	82.01%	59.91%	74.72%	78%	72%	84.03%	88.22%
Borrowings	68.52%	79.37%	75.09%	10.22%	8.73%	20.62%	8.02%	10%	18%	2.88%	1.67%
Other Liabilities and Provisions	13.09%	2.70%	7.16%	5.38%	2.74%	6.26%	8.41%	7%	5%	4.00%	1.20%

Table: 1 Source: Financial Statements on March 2014

[1] RBI Circular No. 2012-13/285 DBOD.BP.No.56/21.04.098/ 2012-131 *MicroSave*

[2] Assumptions for calculating the loan portfolio financing requirements

- Membership of four MFIs (applied for SFB) will grow at an average rate of 30% per year. - Loan portfolio grows with 60% in 2014-15 then falls to 40% in the year 2016-17 and then to 20% in the year 2017-18.
- 20% of the portfolio will be funded with equity. The balance is currently funded with bank borrowings. Bank's loan repayment duration for MFIs is 3 years.
- In the new scenario, MFIs will replace the bank borrowings with members' savings and interbank lending. Interbank lending will be on an average two times the net owned fund.
- Calculation of household earnings: As per World Bank, population earning below $1.25/day constitutes as BPL. 1 USD in PPP term is equivalent to INR 15.09 as per International Comparison Programme 2011.We have increased it further to INR 20 to accommodate the impact of inflation and weakening of INR against USD. For a family of 5 (average household size in India), yearly earning for a BPL household comes around INR 45,625 (1.25*20*365*5).
- Average savings per household are Rs. 10,037 ($152) per year which is 22% of their household income Rs. 45,625 ($691) per annum of as per the estimates given by NCAER in the report. (45,625 ($691) per annum for a BPL family.
- Only one of the member from each household has taken loan from the MFI.
- In different scenarios, different proportions of members are making saving deposits with the MFI.
- Savings/person grows by 10% per annum commensurate with GDP growth of India.

and the tapered growth pattern likely to emerge in future on account of the challenges of transformation and the low base effect. The numbers obtained foretell challenges in the times ahead.

Based on the assumptions, which we speculate are already generous in terms of savings and interbank lending that newly licensed SFBs can mobilise, these three MFIs will face a funding gap of about Rs. 5-63 billion ($0.08-1 billion) by 2018 in the most likely scenarios. We strongly reckon that other applicants will face a similar situation.

It is going to be an enormous challenge for MFIs meagre capacity in terms of products or systems, to mobilise savings to raise such large amounts. Furthermore, MFIs' lack of a 'trusted' brand for savings will also be an obstacle for SFBs in their quest to mobilise deposits. SFBs will have to offer at least competitive interests on deposits to counterbalance this inherent drawback. Furthermore, the cost of mobilising these deposits will be high because of the relatively lower ticket size. In such a scenario there are two probable outcomes.

The first and most likely scenario is down-scaling of the lending portfolios of MFIs. The second outcome could be intense competition among MFIs to chase the same set of depositors leading to a war based on interest rates, which will be unviable in long run.

MFIs will first try to leverage their relationships with existing borrowers before trying to acquire deposits from non-clients. However, relying only on borrowers may delay efforts to mobilise savings needed to restructure MFI-SFB's balance sheets.

Compounding the challenge will be low interest of private equity (PE). PE players have come to expect exponential growth in MFIs' lending. Faced with the probability of low growth, their interest in investing will decrease – and thus they are less likely to contribute positively to the restructuring of SFBs' balance sheets.

Related Developments May Make it Even More Challenging

Competition from public sector banks that have opened PMJDY accounts for under-banked segments, will be another challenge. These banks will try to spur transaction activity in newly opened PMJDY accounts.

Combined Data of the three NBFC who have applied for SFB	Year 0	Year 1	Year 2	Year 3
Members (in millions)	8.73	11.25	14.99	18.90
Loan Portfolio (Rs. billion)	159	255	357	428
Net Owned Funds (Rs. billion)	31	51	71	85
Inter Bank Lending (Rs. billion)	128	102	144	173
Gap=Loan Portfolio-(Equity+ Borrowings) (Rs. billion)	0	120	245	343
Savings Mobilised (Rs. Billion) @Rs. 10,037/annum				
if 100% of customers save	N/A	115	163	230
if 50% of customers save	N/A	56	81	115
if 25% of customers save	N/A	29	41	57
Resultant Gap (Rs. bn.)				
Gap if 100% of customers save (Optimistic scenario)	N/A	5	-43	-110
Gap if 50% of customers save (Probable scenario)	N/A	64	39	5
Gap if 25% of customers save (Possible scenario)	N/A	91	79	63

They are likely to go after the potential savings of this segment, which of course is the very segment that newly set-up SFBs will target. And without doubt, public sector banks enjoy better credibility when it comes to safety of deposits.

The recent in-principle approval of RBI to set-up payments banks will create another challenge. Incumbent payments banks belong to large conglomerates and thus have robust financial muscle. RBI's intended objective to allow such banks is to enhance financial inclusion in otherwise unbanked regions. SFBs will face competition from payments banks to mobilise deposits as their target segments will overlap.

We believe that the restructuring of MFIs' balance sheets will be quite challenging. However, on the basis of our experience with similar MFI to bank transformations across the world, it is feasible. There are precedents that SFBs can follow. In the following IFN "Transformation of Microfinance Institutions to Small Finance Banks: Differentiating Men from the Boys!", we will talk about the ground work necessary to enable the relatively smooth transformation from a credit juggernaut into a trusted and well-rounded banking institution.

Transformation of Microfinance Institutions to Small Finance Banks: Differentiating Men from the Boys!

Abhishek Anand,
Akhilesh Singh,
Lokesh Singh,
Nishant Kumar and
Nitin Malik

In the last chapter, we discussed capital restructuring challenges for MFIs transforming into Small Finance Banks (SFBs). SFBs will have to depend on their customers' deposits and shareholders' equity along with 'refinance' facilities from bulk lenders such as SIDBI and MUDRA Bank. We concluded that transformation will be an uphill task for SFBs as mobilising retail savings is extremely challenging. In this chapter we discuss how SFBs can build a first class retail institution, focussed on low-income clients. We analyse the strategy that SFBs can adopt to meet the prospective challenges.

Advantage banks - but do the poor save with banks?

By and large, the poor place high levels of trust in banks and are willing to save with them. This is especially true for public sector banks as the implicit backing by the government further enhances confidence levels of rural low income segments. The flip side, of course, is that public sector banks may not always have the products or service quality to attract low income rural customers. The earlier efforts at financial inclusion through 'no-frills' bank accounts were clearly unsuccessful; only about 17% of accounts opened under financial inclusion had deposit balances. The Prime Minister's Jan Dhan Yojana fares better, but has a long way to go; 50.23% of a total of 170.8 million accounts have zero balance. We speculate that most of these zero balance accounts are in rural areas. It is ironic that the Life Insurance Corporation of India (LIC) is able to collect Rs.44,970 million ($692 million) in premium with an average of Rs.8,706 ($134) per policy from rural areas.[1] This shows that with suitable products, credible marketing and a strong distribution channel, rural markets do indeed have huge potential.

The dismal figures also corroborate the fact that the existing banking system does not offer a value proposition for rural low-income segments. This obviously presents an opportunity for SFBs to leverage savings that are currently made through LIC's endowment products. In addition, it is clear that much cash is stored under a mattress and locked into informal savings clubs/similar mechanisms. Prospective SFBs will need products and delivery processes that create an attractive value proposition for the target segment. Unlike credit which is a pull product, savings will see a gradual uptake, that too only if trust and ease of transaction are established upfront.

Brand makeover is essential to transform into a deposit taking institution

It takes time for a financial institution to gain trust especially if it offers liability products. This is even more important in case of low-income segments where incidents of fraud and loss of savings due to fly-by-night operators is high. Branding comprises of two components: i) institutional branding and ii) product branding. As MFIs, some institutions may have invested in positioning their brand as providers of credit. It will require a lot more effort to establish the brand as a full-service bank that is trustworthy as a custodian of precious savings. SFBs can learn from the example of *MicroSave*'s initial work with Faulu Kenya on rebranding. Similarly, when Equity Building Society transformed into Equity Bank in Kenya, it put a substantial amount of resources in the form of time, energy and money into branding. This paid off – Equity Bank grew about fourteen times in seven years after receiving its banking license. MFIs transforming into SFBs have to deal with the following challenges, which can be overcome by effective re-branding and associated marketing:

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[1] IRDA periodic disclosures, March 2015

[2] Transforming microfinance in Kenya the experience of Faulu Kenya and Kenya Women Finance trust

[3] *MicroSave* Corporate Brand and Identity Toolkit

- Stakeholders do not understand what the brand stands for. MFIs have established a deep rooted brand as being credit service providers. Thus unlearning and relearning for ex-customers will be a challenge.
- Universal and differentiated banks pose tough competition. Creating brand differentiation in such a market may prove to be challenging. A checklist for brand re-engineering is as follows:
- Define customer's critical financial needs.
- Explain how SFB addresses customer needs in the context of savings along with credit.
- Understand current brand position of the institution and its competition in the market.
- Define the brand's sweet spot.
- Ensure consistency of brand image in products, processes, systems and staff.

Stepwise Roadmap to Transformation

The section below describes with examples, how to operationalise transformation, in a step wise manner:

1. ***Develop Products Meeting the Target Market's Needs:*** Under Grameen II, deposit opportunities for both members and the public at large were greatly expanded. And so, by end of 2004 (two years after Grameen II started), the total deposits exceeded the value of loans outstanding for the first time in the bank's history. Grameen II offered four different types of savings accounts to fulfil diverse customer needs ranging from immediate (emergency needs) to long term requirements (like pension). As a result, it became a one stop shop to fulfil all the major savings requirements for customers and the public at large. SFBs can also learn from commitment saving schemes in Philippines, i-Wish account of ICICI, and other such schemes to bring more innovation in designing products. These products demonstrate that financial products should be designed to reflect the mental models and suit the needs and cash flows of the target segment. A *MicroSave* study on savings behaviour found that the chief reasons why low income households save are marriage, education, construction of houses and medical expenses, in that order. *MicroSave* also found that most respondents had unplanned savings, which highlights the impact of seasonality in cash-flows. Thus, marketing of long-term, illiquid savings products during the harvest season and the provision of highly liquid savings accounts during planting/weeding seasons are a few tactics that SFBs should consider for rural markets.
2. ***Ride on Agent Networks:*** SFB customers can ride on the growing agent networks under PMJDY. The government wants an interoperable system servicing *RuPay* cards. Those who save will use *RuPay* cards (issued by SFBs for their account holders) to transact at ubiquitous agent networks, as well as *RuPay* enabled POS terminals, thus doing away with the need to keep cash for purchases.
3. ***Convenience is the Key to Attracting Savings:*** SFBs can create convenient avenues/touch points to trigger customers to save regularly. Fortnight/monthly group meetings are clearly a good place to source savings.

   Similarly, pigmy deposit has a lot of potential. An example of a scheme which tries to capture surplus cash from households and businesses is the Syndicate Bank's Pigmy Deposit Scheme (see box).

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[4] *MicroSave* Briefing Notes on Grameen II # 2 Member Savings by Stuart Rutherford

4. ***Complement Savings With Payments:*** To date, customers receive limited benefits from saving in a bank account. To make any payment, first they visit withdrawal points (ATMs or branches), which makes the interface quite tedious and at times, costly. Recently banks have started issuing *RuPay* cards that could be used at *RuPay* enabled terminals to make payments. Similarly SFBs can also issue *RuPay* cards to offer the convenience of making payments through these cards. Currently the number of *RuPay* enabled terminals exceeds 1.08 million. *RuPay* is expected to be in all retail outlets by the year 2016. Once *RuPay* enabled terminals are present ubiquitously, they will complement savings perfectly.

Syndicate Bank's Pigmy Deposit This deposit scheme suits the needs of those having small and irregular cash flows such as the poor who could be daily wage earners, traders, housewives, etc. The bank's roving authorised agents collect savings at clients' doorsteps. Savers make deposits at regular intervals according to their convenience.

5. ***Invest in the Human Capital:*** SFBs will need to invest significantly to equip their field staff with the skills to mobilise savings. Staff need to be trained on how to build trust and maintain the brand image. Instilling learning about how mishandling of savings products (or customers) ruins the brand image is of vital importance. Appropriate staff incentives schemes will have an important role to play in this.

It is safe to conclude that transformation of MFIs to SFBs is challenging - particularly since MFIs, until now, have only extended credit. In order to transform from "credit only" to "deposit mobilising" institutions, they will have to work on many areas. These, among others, include, i) designing appropriate products and processes; ii) finalisation of delivery strategy; iii) communication strategy to build demand for deposit products; iv) capacity building of the front line force; and v) regulatory compliance and risk management. There are multiple comparable examples in other markets where "credit only" organisations have successfully mobilised deposits. ASA in Bangladesh is a comparable and successful example in a similar cultural context. However, each entity will need to develop its own understanding of the context in which it operates, and the strategy that it must adopt.

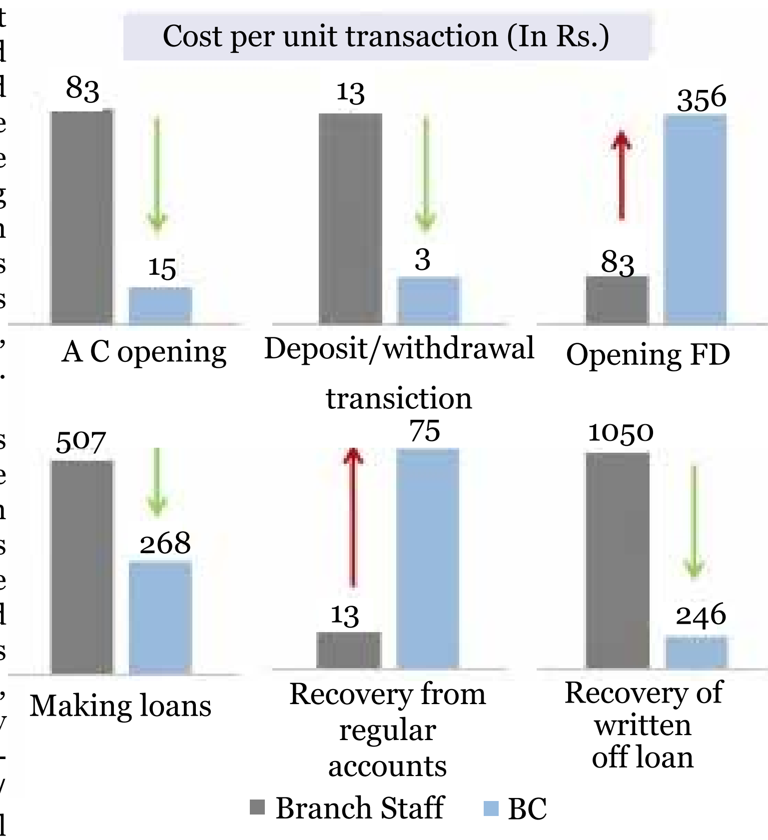
Great Business for Banks – So Why Are They Slow To Build Agency Banking?

MicroSave Team

MicroSave has been advocating that banks need to get into agent-based banking as a high potential business for several years now ... as well as warning why most banks are so slow to do so.

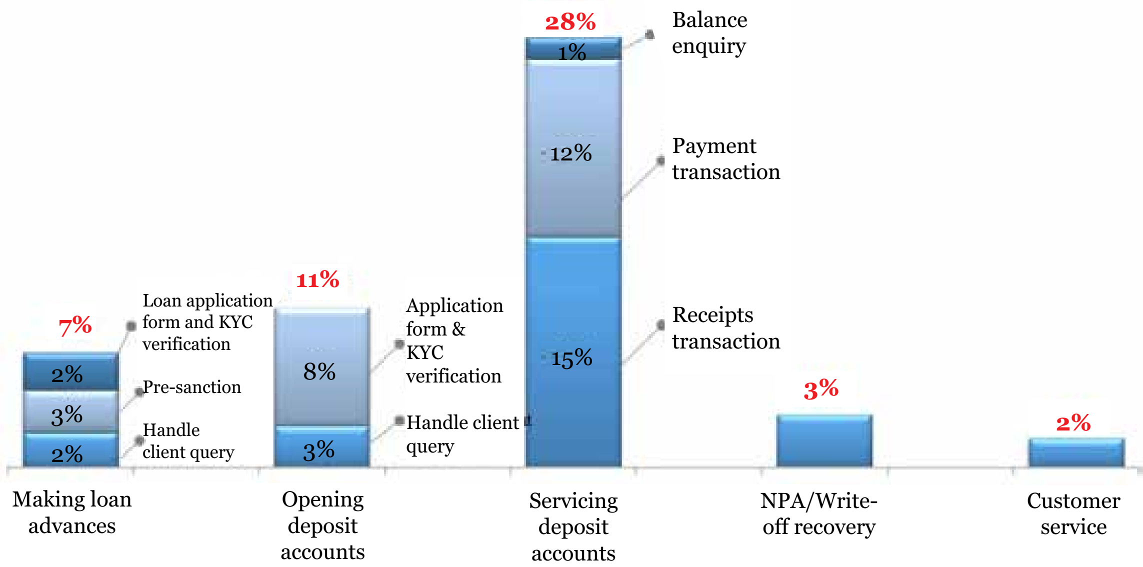
Earlier in the year we highlighted the remarkable progress that Equity Bank has made as it rolls out its agency banking, and how more transactions are now performed at agent's than in the bank's branches. This blog presents data from work done by *MicroSave* in 2012 to look at how agent banking worked for a bank in India. This bank runs its own agent network, supervised from, and working closely with, the branches as a "distributed banking" system. *MicroSave* has already calculated the type of savings that a bank might make at the aggregated level, concluding that the annual average cost of saving a customer through the branches (around Rs.400-500 or circa \$8) could be slashed to Rs. 65-125 (circa \$2). Similarly Kabir Kumar and CGAP concluded that in Latin America, "Transaction costs at agents range roughly from \$0.27 to \$0.58 per transaction and are 50% the transaction costs at branches and ATMs"

In 2012 we were able to look at this on a detailed, disaggregated basis. Conducting sophisticated activity-based costing we were able to look at the relative costs of conducting different transactions through branches and through business correspondent (BC) agents. As can be seen from the graphs, most but not all costs decreased.

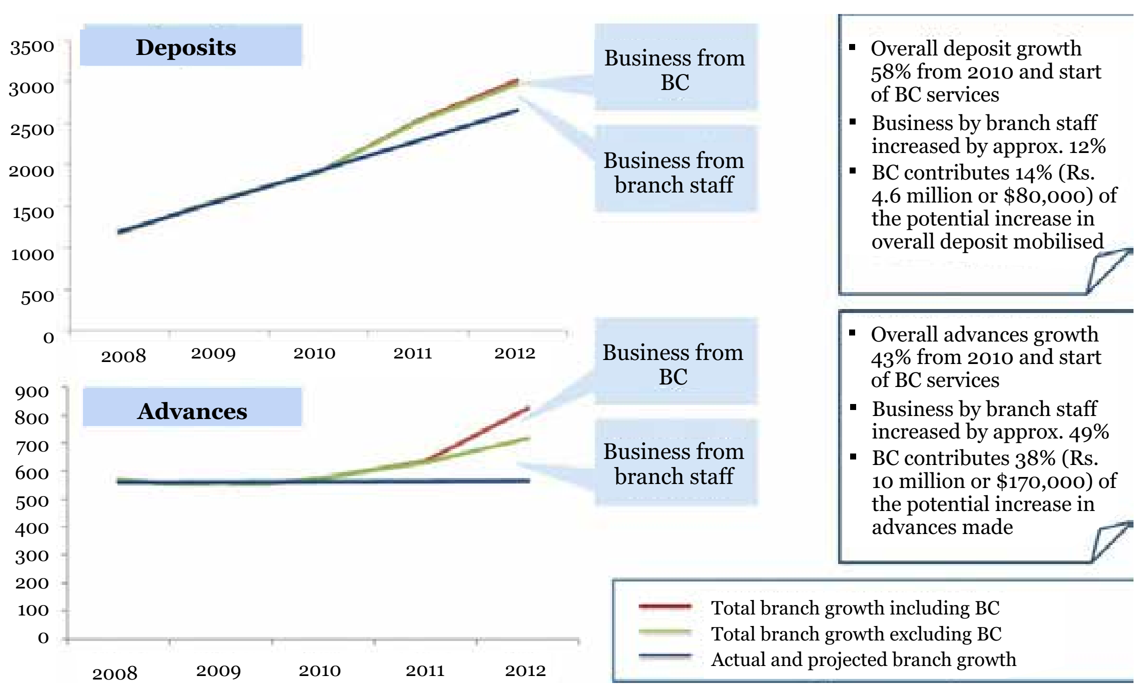


It is important to note in this case that the agents were conducting traditional BC (cash in/out) transactions as well as business facilitator (BF) type transactions (selling to and referring potential loanees as well as fixed depositors (FDs), collecting loans and recovery of loans that had been written-off). Indeed, this combined BC/BF role may well be essential for agents to break even given the extremely low commissions paid to agents in India for cash in/out transactions.

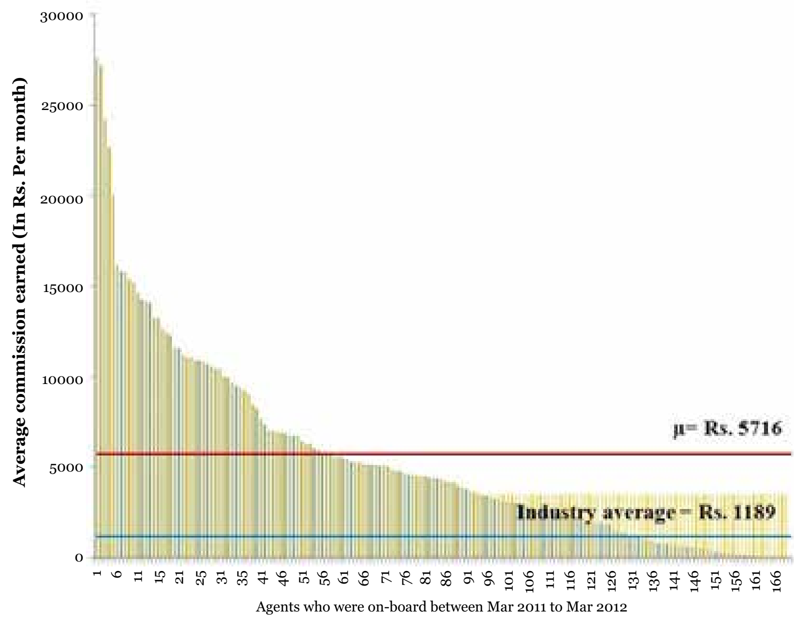
Furthermore, we calculated that the activities that could be undertaken by the BC agents were currently taking 51% of bank branch staff time as shown in the diagram below.



This means that if BC agents are deployed efficiently, a large part of the staff time could be freed up to focus on conducting high value-low volume transactions, as well as marketing to and servicing high net worth individuals. This, of course assumes that there is scope in the market for growth in services to high value customers. In the relatively remote area of rural India where we conducted the analysis, these customers were indeed present and a combination of the efforts of both branch staff and their BC agents yielded spectacular increases in business at both the branches and through the BC agents.

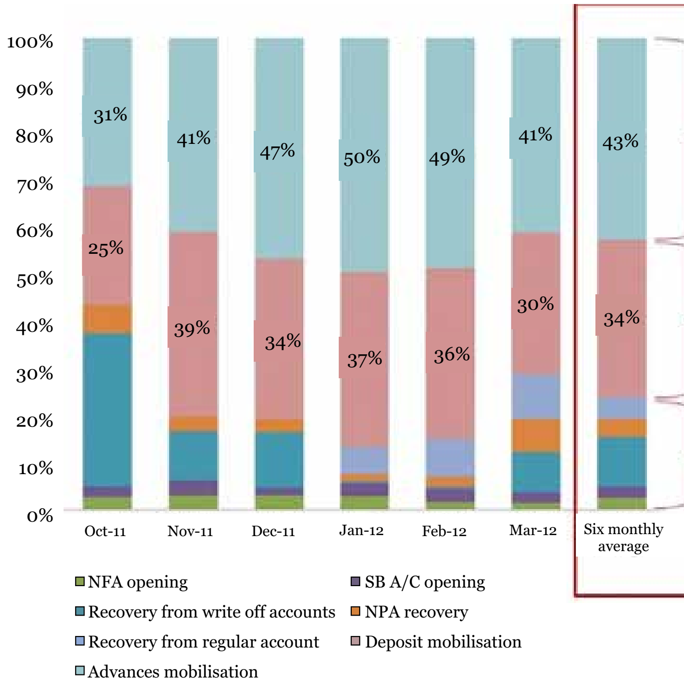


As a result the BC agents were earning an average of Rs.5,716 (circa $100) a month - five times the national average for BC agents in India. And the 20% most successful agents were earning more than Rs.10,000 (circa $175) a month.



- Average commission earned by a six month old agent is Rs. 5716
- *MicroSave* estimates* that on an average an agent of an established BCNM earns Rs. 1,189 while an agent of a start-up BCNM earns Rs. 510
- Overall, commissions are adequate enough to remain motivated in the business
- Commission ranges from Rs. 27,000 to Rs. 3,500

As highlighted above, three quarters of this revenue comes from two key activities: marketing loans, doing the initial paper work and referring loanees to the branch for final review and authorisation; and marketing/ servicing deposits (in particular fixed deposits).



Advances mobilisation constitutes 43% of the average commission earned by agents

Next, deposit mobilisation constitutes 34% of the average commission earned by agents

All other products and services constitutes the remaining 23% of the commission earned - commissions from NFA is a meager 3% of the total commission

Yet despite the clear business opportunity to serve the low income market segment, most banks remain reticent and unwilling to commit to agency banking.

- Is it because banks are still unable to see the business potential or believe that the returns are higher els ewhere?
- Or is it that banks are fundamentally uncomfortable with a distributed banking model and running an agent network?
- Or is it that bank's key management bandwidth is fully occupied with the battle to serve the higher value market and the burgeoning middle classes?
- Or is it that the lowest quality staff is assigned to financial inclusion and agency banking as it is typically viewed as a corporate responsibility or mandated requirement?

Who knows – but the first banks to wake up and sieze the opportunity have the potential to dominate the urban and rural mass markets ... as Equity Bank is demonstrating.

(Authors: Graham A.N. Wright, Puneet Chopra, Nitin Garg, Amit Garg, Shivshankar and Premasis Mukherjee)

The Mor Committee Report – The Demand Side Conundrum

Graham A. N. Wright

One of the most frequent criticisms of the Mor Committee's report on "Comprehensive Financial Services for Small Businesses and Low Income Households" is that it ignores the demand side. The report offers a sophisticated vision of the financial architecture and what one commentator describes as "financial services as a fundamental right" for all. It also provides the guiding principles for implementing the new approach. But the report seems to imply that low income people's demand for formal financial services is a given. Is this a fair assumption?

Recent history in India seems to suggest that this is a heroic and optimistic assumption. The poor take-up of No Frills Accounts gives cause for pessimism. But in many respects No Frills Accounts were designed to fail. Banks were instructed to open these accounts without reference to their use – and so they did exactly that, and dutifully reported to the Reserve Bank of India. See "No Thrills – Dormancy in NFA Accounts". But this does not mean that poor people do not want bank accounts –*MicroSave*'s research into this phenomenon revealed that there were a series of features to which poor people aspired and needs that they could clearly articulate … and that poor customers were, in the main, willing to pay for these services.

We know from "Portfolios of the Poor" that poor people have remarkably active financial lives, and need a range of simple formal financial services comprising (at the minimum): (1) a basic transaction account; (2) a recurring deposit account; (3) a working capital loan; (4) an asset acquisition loan; and (5) an emergency loan. See "Financial Services That Poor People Want". This is broadly speaking the product range now offered under the much under-rated Grameen II programme, which has seen startling levels of demand for its savings and credit products. See "Lessons From The Grameen II Revolution".

IFMR's outstanding KGFS model, build on painstaking action research in three very different parts of India shows that there is demand for and active use of a range of around 15 financial products when they are delivered in a convenient, accessible and affordable manner. See "The Pursuit of Complete Financial Inclusion: The KFS Model in India".

But both Grameen II and the KGFS model are "high touch" in nature, and involve front line staff visiting clients in their villages – on a weekly basis in the case of Grameen II. Banks are unlikely to adopt such models. For this reason business correspondent agents will be crucial for the success or failure of the Mor Committee's vision for financial inclusion.

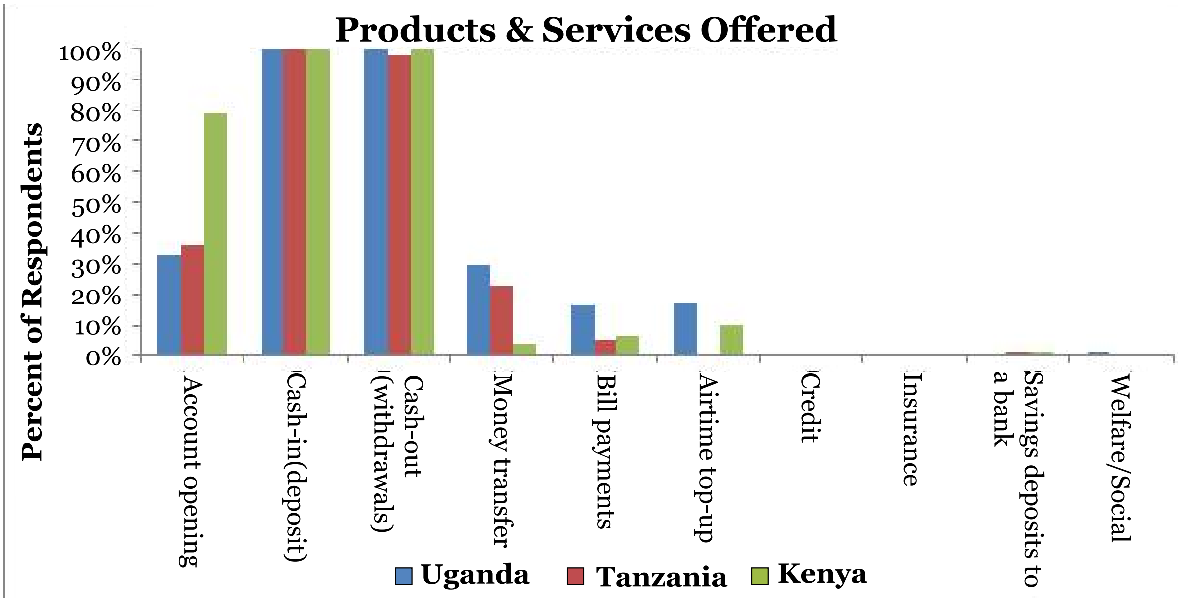
Outside of Somaliland, where the absence of credible formal banking system, Telesom's salary and merchant payment focus and free service have yielded spectacular results, few deployments have generated more than 1-2 agent-based transactions per customer per month. And dormancy amongst mobile money accounts remains a perennial problem. This is in part due to poorly designed enrolment campaigns that reward agents based on customers signing up for the service rather than actually using the service, but it is also in part because transactions are expensive and/or because of the limited product suite on offer.

> **"There are two glaring facts the mobile money industry needs to face up to. First, digital accounts have very little value stored in them, and the practice everywhere is to withdraw any e-money received immediately and in full. This makes people not naturally inclined to pay electronically, except for remote payments for which people will take the trouble specifically to cash in. Second,**

there is surprisingly little systematic use of electronic payments by formal businesses, a space in which cash and especially checks prevail, even in Kenya".

- Ignacio Mas in "Beyond Making Payments: Managing Payments"

As can be seen in the graph below from the national representative Agent Network Accelerator research, the vast majority of agent-based systems continue to offer basic wallet and payments services, focusing above all on remittances, bill pay and airtime sales. Unsurprisingly, in the sub-sample of banks offering agent-based services in Kenya, 97% of agents offer savings deposits to a bank – but few banks have accounts and services designed specifically for the channel. To make agent-based digital financial services an integral part of poor household's lives, we will need to re-engineer the product suite to offer a similar range of products offered by Grameen II and KGFS.



This work is already underway. *MicroSave* is working with banks in Colombia, Kenya and South Africa, to name but a few, to develop a suite of savings, credit and insurance products for delivery through these banks' agent channels. And, of course, the savings and emergency loan facilities offered by Commercial Bank of Africa through M-PESA under M-Shwari are already very popular in Kenya despite some of its limitations and challenges.

"What we need are service concepts that help people manage their financial lives the way in which they think about them. Customers need to give shape to their own user experiences. That means providers must think of products as tools which customers can use in different ways rather than as products that offer specific, inflexible services".

- Ignacio Mas & Premasis Mukherjee in "Basing Product Development on Mental Models and Metaphors"

Ignacio Mas has also proposed a system of jam-jar accounting to allow users to set aside money for different needs, projects and aspirations. This could be enhanced with SMS reminders to save and confirmations outlining how much more is required to achieve the user's goal – thus facilitating the recurring deposits required to build up what Stuart Rutherford calls "useful lump sums". The MetaMon project looked at how low income people in India and Bangladesh think about managing their finances, with a view of identifying metaphors to better describe financial management systems on the mobile phone and thus make them intuitive for poor users.

A range of products will also require different types of agents. In addition to the typical cash in/cash out merchants that service a traditional payments based system, providers will have to train and monitor a more sophisticated cadre of sales agents. Sales agents will explain and sell products and jam-jarring systems to prospective customers. This is alluded to on page 57 in the Mor Committee's report.

The Mor Committee advocates one (presumably cash in/cash out) agent per square kilometre where there are 400 households. But, given the international experience with basic wallet and payments systems to date, it is doubtful that agents will make adequate income from servicing 400 households. *MicroSave*'s experience worldwide suggests that an agent needs to service 650-1,000 customers (depending of course on how often they transact) to derive an adequate income. For this reason too, broadening the product suite and encouraging regular use is essential.

Financial inclusion as defined by the Mor Committee (page 29) comprises:

1. A Universal Electronic Bank Account.
2. Ubiquitous Access to Payments and Deposit Products to Reasonale Charges.
3. Sufficient Access to Affordable, Formal Credit.
4. Universal Access to Investment Products at Reasonable Charges.
5. Universal Access to Insurance and Risk Management Products at Reasonable Charges.
6. Right to Suitability.

There is clearly latent and unrealised demand for financial services amongst low income households, but to achieve real financial inclusion as defined by the Mor Committee (see box) we will need to work hard to design and provide products tailored specifically for low income households and for agent-based delivery channels. The Universal Electronic Bank Account will be a good start as a "gateway" to the other products. But we should not under-estimate the challenges (and the opportunities) of creating a suite of intuitive and relevant products to help low income households manage their finances. Only when these are in place will we see the transaction volumes that both cash in/cash out merchants and sales agents will need to continue to provide their services.

Mobile Money and Microfinance: A Match Made in Heaven or Marriage Gone Awry?

Lokesh Kumar,
Nishant Kumar and
Anil SG

Use of mobile money in microfinance seems to be an idea whose time has come. It has also figured in our publications as potentially the next big idea in financial inclusion (see Can MNOs Lead the Way for Banking the Excluded 1 and 2 as well as Mobile Money – Influencers of Success and Speculation on the Future of Financial Services for the Poor in India). On the face of it, it seems to be a "no brainer" as it offers tremendous value propositions for all parties involved. These propositions are the basis of a few such partnerships that took place in India.

Benefits for MFI

- Going cash lite; mitigate risk of handling cash
- Reduced operational challenges
- Provide credit plus products

Benefits for MNO

- Large captive customer base
- Regular and ensured transactions

Benefits for customers

- Any time repayment
- No need to travel to branch for repayment
- Reduced cash transition risk
- Saving, remittance, bill payments, mobile recharge

MicroSave has been closely involved to study such partnerships in India. The most recent one was pilot test in Uttar Pradesh between a large MFI and an MNO. However such partnerships have not yielded expected results. In most of these cases, MFI and MNO partnerships are built on following assumptions:

- "*Option C*" (see diagram) was chosen for partnership due to limited other alternatives.
- MFI provided initial support in marketing and building customer-MNO relationship.
- MFI repayment was positioned as the anchor product with additional services like saving, payments and fund transfer.

Partnership options for the MFI and MNO

Option A	MFI rideon the existing MNO channel	In this model, existing mobile money channel is used to serve MFI clients, so there is no incremental cost of channel development. In Kenya, Musoni Kenya Ltd. has used existing M-PESA channel to reach out to its customers.
Option B	MFI can join as a agent network manager where its field officers can also work as agent	The option is used if mobile money infrastructure does not exist and the MFI finds it worth to invest its time and resource as channel partner.
Option C	MNO invests to develop agent network channel	MNO invests in agent recruitment, training, marketing and branding.

Challenges in Mobile Money for Microfinance Uptake

Clients are reluctant to pay mobile money charges: MFI is in business of extending loans at clients' door step with largely manual approaches. Clientele are low income and often they are not quick to adopt new technology. In addition, they are highly cost conscious. As long as these charges are lower or equivalent to the current transaction cost (including opportunity cost), they are likely to shift to this option; otherwise, they are unlikely to do so. Clients living close to an MFI's branch in particular are unlikely to see any compelling reason to shift to mobile money.

Initially partners wanted to test the water and understand clients' inclination to pay the MFI repayment fee. But when clients were reluctant, neither MFI nor MNO wanted to bear those charges. MFI viewed clients' mobile money usage and subsequent efficiency gain and additional revenue generation (if any) only in the long run. While the MNO had to bear cost of channel management and did not want to forego revenue. Also, it considered that as a channel partner, the MFI should either bear the cost or at least pressure clients for mobile repayments. But the MFI feared that pressuring clients could impact their credit business.

Existing repayment cost	Repayment cost with mobile money
Where clients carry cash to branch: Rs.0 - 60 (assuming one person may have to carry cash maximum two times during one loan period of a year for group of 25 clients) **Where repayment at the centre (group meeting):** Rs.0	Rs.3-4* (1% of loan repayment instalment) X 50 (No. of instalments) = Rs.150-200. *In india average repayment size ranges between Rs.300-400

Existing repayment process	Repayment process with mobile money
1. **Where clients carry cash to branch:** every week, one member from the group (on rotating basis) visits the MFI branch/assigned bank with collected cash prior to the group meeting. Field officer collects signed receipt in the meeting. 2. **Where repayment at the centre:** field officer collects cash during the group meeting	1. Client can transfer money to the MFI any time before group meeting for which a certain charge would be levied. But for this, her wallet should be loaded with required e-money. 1. When the client does not have e-money, she will visit any of the nearby MNO agents to load cash which would be free of cost. 1. By end of every day, the MNO would provide details of clients' accounts that have been credited with loan repayments.

1. ***No Compelling Anchor Product:*** MFI repayment was not a compelling enough anchor product to pull customers to use mobile money. MFI clients are accustomed to their manual repayment process and for economic reasons outlined above do not want to shift to the new channel. Other products like saving, remittance, mobile recharge and bill payments could not be pitched as most partnerships faltered in the initial stage.
2. ***Low Penetration of MNO Points:*** Even when clients wanted to try MNO for repayments, (typically where branches were far from the centre – the meeting point of MFI client groups), they demanded that the agents should not be more than two-three kilometres away from the centres. But for the MNO, this would require considerable investment in infrastructure, training cost and other expenses to set up agents. The *Helix* Institute of Digital Finance estimates that the total cost of setting up an agent varies between $300->1,000 depending on the market in which they are operating. Some of these costs are borne by the agents themselves and their master agents, but MNO still has to make significant investments. MNO wants to see the proof of a business case before investing, whereas MFIs insist that business would only come if there are enough points close to the users.

Conclusion

Though most of the partnerships have failed to scale-up in India, it is helpful to understand the challenges. Specific takeaways that should be considered to scale-up these initiatives are as follows:

a) ***Ride on an Existing Mobile Money Network:*** Building an agent network from scratch for MFI repayment is a costly and complex proposition, that can yield many benefits (see NBFC-MFIs As Business Correspondents – Who Benefits? (Part-II), but has its fair share of challenges and draw-backs NBFC-MFIs As Business Correspondents – What Will It Take?. On other hand, many MFIs do not want to start as an agent network manager (business correspondent) since this is complicated and removes takes away the key value proposition of de-risking cash handling. For smaller MFIs a better proposition for an MFI and MNO partnership is to ride on existing network (please see BanKO example in the Philippines or Musoni in Kenya).

b) ***Choice of an Anchor Product:*** A client bears limited economic and opportunity cost since she carries cash to the branch only 2 times in a year. Especially in rural areas, MFI repayments also provide an opportunity for women members to visit the town and many times they do not consider travelling as additional cost. An MNO and MFI partnership has greater probability to succeed if anchor product is chosen carefully after studying the paint points of the consumers.

c) ***Building new Behaviour Takes Time:*** Success in case of technology adoption requires change in customers' existing behaviour. Thus, we should provide adequate time for client to grasp changes in repayment process, adapt to using technology and build capacity to facilitate behaviour change. It is difficult to put a defined timeline for this and it will depend on clients' socio-economic background. A pilot test and subsequent reviews should provide indication as to whether clients are demonstrating the behaviour, or need more nudges in form of product promotion, incentives or new and refined financial literacy (How To Make Financial Education Better.. May Be).

Under the current circumstances in India, where mobile money market is still evolving and agents are widespread only in certain pockets, MFI and MNO partnership could entail huge cost to build the required infrastructure. Thus their partnerships should be built on solid value propositions by putting clients' needs and requirements at the centre. There is no doubt that MFI and MNO will benefit, but at the end clients need to see enough value proposition to shift from existing channel. Mobile money could attract the clients, provided (and only if) it solves a compelling problem for them and MFI-MNO are willing to invest in building clients' capability to use it.

Should Microfinance Go Digital?

Nitish Narain and
Sonal Agrawal

"Nothing is as powerful as an idea whose time has come"- Victor Hugo

Recently, a new partnership has emerged between digital financial service providers and microfinance institutions to address the challenges of financial access among the un/under banked populations globally. The partnership can potentially offer benefits to not only the two partners but also other stakeholders including customers, MFI frontline staff and mobile money agents. In this blog, we discuss the benefits that the partnership is likely to bring to the stakeholders.

Benefits for MFIs

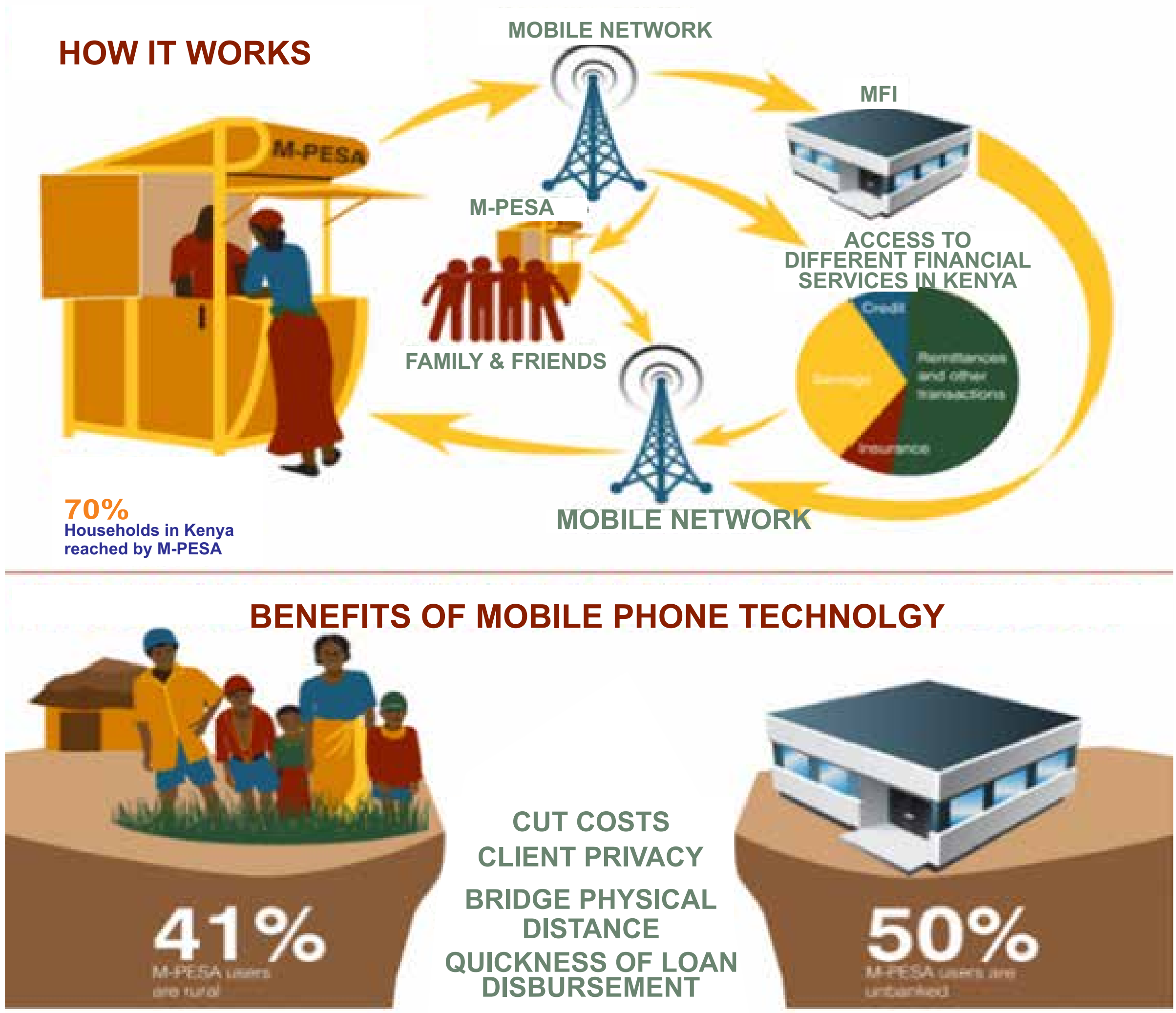
The partnership can help MFIs reduce costs, increase outreach, mitigate risks, deliver customer-centric products, and improve customer experience through increased convenience.

We discuss below some of the benefits that the MFIs are set to achieve.

i. With the use of digital finance, MFIs can mitigate cash risk as well as increase operational efficiency. The prevalent group lending microfinance model is highly cash intensive where both loan disbursement and repayment is made in cash, generally at customers' doorsteps. The MFIs (and their customers) are thus exposed to cash risk (storage and transit) and incur cost to manage cash and related risks. This also eats into the MFI's frontline staff time. They could have used this time more gainfully by sourcing new clients or perhaps providing more quality service to their existing customers. Carrying of cash to and from group meetings to the MFI's branch and for deposit at the bank branch poses a threat to the lives of MFI's frontline staff. As a result of all of these factors, the operational efficiency of MFIs is affected. With digital finance, customers can deposit cash into the MFI's accounts at the nearest agent outlet. However, in such cases, the agent bears the cash handling risk.

ii. The MFIs can offer multiple products efficiently using digital finance. Traditionally MFIs have been providing a single credit product to their customers. Numerous research studies have shown that the clients require other financial products including, varied credit products, savings and other deposit products, insurance, pension, remittances etc. The need to diversify product offering for MFIs is more pronounced in India, especially after the Andhra crisis. (See Video: Going Beyond a Single Use of "No-Frills" Account: The Concept of Deferred Payments). Partnership with digital financial service providers gives MFIs the access to their partner network. Thus, the MFIs can offer complementary financial and non-financial products and services which they might not have been able to offer otherwise. In India, where MFIs are not allowed to accept savings, such partnerships have provided MFIs the opportunity to offer 'saving deposit accounts' serviced at the client doorstep. The product diversification helps the MFI to further strengthen their relationship with clients and at the same time gain insights on their financial behaviour. Since the customer transaction information is available in digital form, it can be used for detailed analytics to design and deliver customer-centric products.

iii. Digital finance, when deployed as an alternate delivery channel can help the MFI increase outreach in a cost-effective manner. The MFIs can leverage the digital finance distribution channel to design and deliver micro-credit products to non-MFI customers who regularly transact at such agent outlets. The prevalent microfinance models are resource intensive and sometime serving customers in remote geographies and difficult terrains becomes prohibitive. The large network of agents prove helpful to increase outreach to such remote locations.



Source: Muson: Next Generation Microfinance

Benefits for digital finance service providers and agents

The digital finance service providers through partnership with MFIs not only get access to the customer base of the MFIs but can also leverage the relationship that the MFIs have with their clients. This ensures a permanent catchment of customers for the agents who carry out regular transactions on account of loan repayment and saving deposits, if applicable. It also generates the possibility for the agents to cross-sell other products and services such as mobile airtime recharge, utility bill payments.

Benefits for customers

The partnership of MFIs and digital financial service providers also benefit customers. Microfinance clients get the flexibility to repay loans through their mobile phones without even going to MFI branches and avoid cash in transit risk. Additionally, they get access to other financial products and services, including saving, insurance, pension and remittance – all serviced through their mobile phone.

Several MFIs have already started to get into partnerships with digital financial service providers to leverage these benefits. Faulu and KWFT in Kenya are now using mobile banking services to allow clients to make loan repayments and deposits using their mobile phones.

Though many MFIs have started using digital finance, there are obvious challenges that need to be overcome. Some of the challenges such as reluctance of clients to pay mobile money charges, impact on group cohesion, low penetration of mobile money agents and bringing change in customer's existing behaviour to adopt mobile money still need to be carefully addressed.

Can You Really Use Mobile Money for Microfinance? Lessons from a Pilot

Akhilesh Kumar Singh,
Lokesh Kumar Singh
and Nishant Kumar

Mobile money is receiving increasingly global attention as some observers hope that it will largely replace cash – in the long run at least. MFIs stand to gain immensely from the advent of mobile money as *(inter alia)* they have to deal with large amounts of cash, often in remote areas.

The potential benefits of replacing cash with mobile money, led to a partnership between a large mobile network operator (MNO) and a mid-sized MFI in Uttar Pradesh. The partnership has provided valuable lessons for the MFIs and MNOs seeking to set up a sustainable mobile money-based systems. In this Note we examine the evolution and mechanics of this partnership, and how MNO-MFI partnerships could be made mutually more rewarding in the context of mobile money deployments.

Why Partner?

For MFIs, the elimination of cash from the system addresses many of the risks related to it, and enables easy cash and account reconciliations. For MNOs the partnership brings a large captive client base making regular transactions. These benefits are hard to come by for both partners individually. Hence has the potential to be a mutually symbiotic relationship.

Why This Pilot?

The key objective of the pilot was to see if the, largely illiterate, borrowers were comfortable using a mobile banking system and willing to pay for the easy, doorstep and round the clock services.[1] If successful, of course, benefits would accrue to both the partners as discussed above.

Pre-requisites for Successful

Take-off Changing the customer interface from human to a mobile based platform, requires a behavioural shift in MFI clients. To facilitate this certain pre-requisites, or critical success factors (CSFs), were agreed upon by all the stakeholders. These CSFs are presented in the table.

How Was It Positioned?

Under the pilot, the MFI and MNO partnered to offer the MFI's clients the mobile money platform as an alternative window for making their weekly loan repayments. The MFI did not push its clients to use the mobile money channel as it would cost client around 1% of the transaction amount. Instead, the channel was offered as an additional option on top of the existing practice of physical cash collection.

As a Business Correspondent (BC) for a large bank, the MNO was able to offer savings accounts operated through the mobile platform. The larger, long-term idea was to offer a bouquet of financial services to the MFI's clients - including loan receipt and repayment, savings, remittance, bill payment, as well as insurance premium payment and claim receipt. However, to start with only savings deposits and loan repayments were piloted.

[1] See *MicroSave* study on "Cost and Willingness to Pay" to understand customer demand and willingness to pay for door step banking services.

MicroSave, as a technical partner, supported the pilot by designing the pilot test plan, systems and processes right from communication and marketing to repayment and day-end closing.

CSF	Responsibility	Details	Responsible Partner
Customer education and willingness to transact	Marketing and communication of the product	Behaviour change required to move to a self-assisted mobile based payment system Consistent messaging to highlight the benefits to the clients	MFI
	Responding to customer service and grievances	Once clients are on the mobile money platform they will have service related issues/ grievances needing redress	MFI
Investment of resources	MIS support to MFI Preparation of sales pitch	Requires technical support from MNO in the form of user friendly reports for reconciliation To keep the sales pitch focused on benefits of using the mobile platform, and develop promotional material, for the channel and products.	MNO
	Capacity building MIS modification Process modification	MFIs staff to be trained to sell the new payment method. MFI's MIS has to accommodate the additional payment method in account reconciliations. Processes for the new mobile money repayment method provided to clients	MFI
Infrastruc ture readiness	Customer Service Points	Given that the mobile based platform attracts user charges, there should be customer service points close by (within 1 – 1.5 kms of clients' residences)	MNO

Outcome of the Pilot

However, despite the meticulous preparation, the project quickly lost momentum as there was a deadlock between MFI and MNO on who should build and manage the agent network. The MNO wanted the MFI to manage it, while the MFI's contention was that managing agents would defeat the whole purpose of pilot as it wanted to get out of cash management.

Partnerships between MNOs and financial service providers at "Bottom of Pyramid" should be preceded by detailed deliberations about roles partners will play (see: The Role of Partnerships and Strategic Alliances to Promote Mobile Phone Banking at the Bottom of the Pyramid and Mobile Payments: Rethinking Partnership Strategies). However these issues were not given enough attention to upfront, as a result, this seemingly win-win arrangement failed because of lack of clarity of expectations amongst the partners. The initial understanding was that MNO would appoint agents within 1 - 1.5 kms of the MFI's group meeting places in order to promote mobile based repayments. Accordingly, the MNO went ahead with this understanding and mapped locations to appoint agents. However, when the business growth did not meet expectations, the MNO proposed that the MFI should manage the agents. The MFI did not agree to this arrangement and pilot came to a standstill.

Lessons

The most important lesson is the importance of setting reasonable and realistic expectations between the collaborating partners. In this particular case, the MNO promised to deliver services at locations very close to borrowers' residences. However once it started implementation, it realised the enormity of appointing such a large number of agents and, more importantly, managing these on regular basis.

One of the main reasons for difficulty in creating desired agent density was unfavourable agent-level business economics. This meant that, at the time of the pilot in early 2014, the MNO struggled to find the desired number of agents, and saw limited business growth for its mobile platform.

MicroSave has documented how important and difficult it is to ensure agents' satisfaction with mobile money business.[2] In this particular case a typical agent within the pilot geography had the potential to earn between Rs.500-600 ($8-10) per month.[3] This amount is only likely to be of interest to people with very limited business income of around Rs.3,000-4,000 ($50-67) per month, who may perceive it as a good marginal addition to top up their current business. However, the MNO pitched agency to larger businesses, run by better educated people, earning much more than this.

Number of Clients and Repayments	
Number of centers linked to the agent (within a radius of 1-2 km)	4
Average borrowers per center	17
Number of repayments per member per year	50
Average amount per repayment (in Rs.)	291
Total number of clients per agent	68
Total number of repayments per agent outlets per year	3,400

Assuming that clients take up the offer (and many may not of course) this could provide a good, but probably not sufficient basis for a credible business case for some agents. However, if other services are added on top of these basic repayments, and offered to the whole population rather than just the MFI's clients, the business case for the agent seems clearer. These services will include deposit mobilisation, insurance payments etc. as well as the direct benefit transfers/G2P payments that are proposed by the government. However, all these depend, on the proximity and accessibility of the agent to his/her potential clients.

[2] See *MicroSave* Policy Brief #6 "Assessing Agent Profitability: *MicroSave*'s Agent Journal Studies"
[3] Calculated based on the current business volume of the MFI in the particular geography

Commission on Basic Loan Repayments, Top-ups & Savings Deposits/ Withdrawals in Rs.			
	Pessimistic	**Neutral**	**Optimistic**
Repayments	4,947	4,947	4,947
Saving[4]	330	495	826
Withdrawal[5]	264	396	661
Mobile Top Ups[6] (2.25% of recharged amount)	557	743	929
Total commission for the year	6,098	6,581	7,363
Basic monthly agent income	**508**	**548**	**614**
Additional Potential Income From G2P Payments (not including savings from the broader community)			
G2P (MNREGS[7] and NSAP)[8]	321	483	643
Total monthly agent income	**829**	**1,031**	**1,257**

Our experience from this pilot is that there are obvious benefits from partnerships between an MFI and an MNO to provide mobile money facilities to the MFI's clients. Mobile money agents will also benefit beneficiaries of social benefit transfer schemes such as MNREGS and NSAP. This, in turn, will lead to better remuneration for agents. To realise these benefits, the business case for agents, that must form the backbone of this offer, has to be carefully analysed.

[4] Assumption – Rs.20, 30 and 40/week/client in pessimistic, neutral and optimistic case respectively and 0.5% commission on float
[5] Assumption – An average withdrawal of 80%/account/year and 0.5% commission on withdrawal amount
[6] Assumption - An average mobile top up of Rs.30, 40 and 50 in pessimistic, neutral and optimistic scenario
[7] Average MNREGS and NSAP payment of Rs.386,067 per village
[8] Assumption – 50%,75% and 100% G2P withdrawals through mobile money agent

PRODUCTS

How Can BC-MFIs Tap Household Savings?

Akhand Tiwari,
Akhilesh Singh and
Graham A. N. Wright

In India, MFIs that offer savings products to their clients are not able to attract savings because they are not perceived as savings service providers by their clients!

Microfinance institutions (MFIs) in India offer savings products in partnership with commercial banks under the business correspondent model (BC-MFIs). Indian MFIs are limited by regulations and only banks and deposit-taking NBFCs are legally permitted to offer savings products. Partnerships between MFIs and banks provide specific value propositions for both, and as a result, many MFIs offer savings products via these collaborations. We have witnessed successful and less fruitful examples so far—both of which provide meaningful insights for regulators and practitioners alike. In this chapter we focus on an issue that MFIs often face—that clients do not adequately transact in their savings accounts.

There could be many reasons for this behaviour. We know that borrowing from multiple sources and yearon-year borrowing are common activities amongst MFI clients. Do they live credit-led lives? Do they use credit products in order to meet their household expenses? What savings avenues do MFI clients currently use and for what purposes? Are there any distinguishing characteristics of those avenues?

MFI clients were using various methods of saving that are in line with our existing understanding of the financial lives of the poor.[1] So we explored why some savings avenues are preferred by MFI clients. Based on previous analysis of the savings behaviour of low income customers in Asia and Africa, we used three parameters to understand their behaviour:
1. longevity of association with financial institution;
2. the value of the savings (how much a client would save by that particular method); and
3. frequency with which savings are made (regularity of saving).

Three Drivers of Savings Behaviour We found that all the three could be described as functions of surplus (the amount kept aside by the client for saving), reliability (trust with the service provider), and operations processes (ease of access).

We talked to MFI clients in semi-urban and urban areas in central Uttar Pradesh. The MFIs used by these clients offered a savings product in partnership with a commercial bank. The accounts offered were basic savings bank deposit accounts.

With respect to **surplus**, we observed that clients only deposit large amounts in banks. They are anchored to an amount of Rs.500 (US$9) as a minimum amount to deposit in a bank.[2,3] Lower amounts of savings are generally deposited with local groups or with chit fund companies offering a doorstep service. Some clients accumulate daily surpluses at home to create a lump sum of Rs.500 or more, and then deposit that at the bank. However, this requires discipline and commitment from the client as daily expenses often mean that the surplus amount is spent before the client is able to deposit it. Many clients say that they know they will not be able to save such a large sum, and to avoid spending what they have, they save smaller surpluses with local saving groups.

[1] Portfolio of the Poor, Stuart Rutherford, Ignacio Mas, Kenya Financial Diaries

[2] The amount of Rs.500 was mentioned by most MFI clients we interviewed. Their anchoring to this amount seems to be a result of the value attached to the amount – it is considered a substantial saving by MFI clients.

[3] Anchoring is a cognitive bias to rely too heavily on past reference or on trait or piece of information while making decisions. Read more here

The **reliability** of the savings channel is the basis of a client's decision on how much to save and the period of association. A reliable avenue is used to build lump sums for medium or long-term purposes. Banks are reliable and thus used for long-term savings and higher-value deposits. In contrast a new local savings /chit group is likely to be viewed as less reliable. It will be used only for time limited savings – a year or six months with low deposit amounts of Rs.20-Rs.50 (US$0.30 – 0.75) per week to start with.[4] Lump sums created with these mechanisms are typically used for short-term purposes.

The **operational processes** of the savings avenue also dictate how frequently that particular method is used. Deposit-taking NBFCs, chit funds, and local savings groups are doorstep services that are used more frequently by clients due to their convenience. Banks require more complicated processes – time spent travelling to and from the branch, filling out application forms, etc.

Together, *surplus* collected by the client, *reliability* of the service provider, and the *operational model* help us to describe the mental model MFI clients have about savings. If we consider these elements together we understand why local savings groups are used more frequently, and why the amounts of those savings are low; and we understand more clearly why banks are used less frequently and why higher amounts are saved in them. Clients look around for convenient savings avenues and then choose based on how they fit into their mental models.

The Current Market Position of MFIs

If we apply this same test to MFIs, they typically meet the requirements of reliability since they have been serving customers with credit products for many years. MFIs also pass the test of accessibility, tied to operational processes, as they also offer doorstep services – typically once a week at the group meeting. However, MFIs are still unable to attract the small cash surpluses that local groups are able to attract. We could speculate there is an intention-action gap resulting from limited marketing and communication efforts by MFIs, or an image problem of MFIs.[5] The former is incorrect because many committed MFIs do make efforts to market and communicate their products. So we are left with image problem – that MFIs are just credit service providers. This appears to be the problem.

Saving with MFIs is not a practice that MFI clients have observed and, as such, MFIs do not fit into the mental models of the clients. One client we interviewed said, *"Who saves with MFIs?"* when asked why she does not use the savings account she opened with the MFI. Like her, many clients who opened a savings account with an MFI perceived the savings account as an element of the credit process—treating it much as they treat a compulsory credit insurance product as rider to access credit. Worse, many are concerned that MFIs will offset any savings held against outstanding or overdue credit balances. The savings account is not seen as a separate product or service. As a result, and despite regular communication from the MFI about their savings accounts, clients do not use them.

[4] There are examples where low income households have saved with a new company. These could be classified under 'special instances' where returns on investments beat the reliability aspect.
[5] Intention Action gap refers to disconnect between what a person wants to do and what the person actually does.
[6] Most clients see compulsory, locked-in savings tied to loans as increasing the total cost of credit.

A typical MFI is positioned as a credit service provider. In order to increase the use of savings accounts, we need to reposition MFIs. Over time, and with more clients depositing their surpluses with MFIs and becoming active savers, MFIs can reposition themselves as comprehensive financial service providers. This is very much like the situation in the late nineties in India when MFIs struggled to position themselves as reliable credit service providers.

Tweaking Product Design to Change Market Position

In order to influence savings behaviour among MFI clients, we suggest simple tweaks to the design of existing savings products – very much in line with what many MFIs have done around the world. The principal element of such a design will use clients' demand for credit to help trigger active savings behaviour to stimulate a habit of saving with MFIs. MFIs can communicate that: 1. higher savings with their partner bank will demonstrate client's better debt service capacity and will quickly graduate them to higher loan sizes; and 2. that savings are held by the bank and can be withdrawn by the client independently of any credit balances with the MFI, and are thus flexible and safe.

This product must be combined with changes in the MFIs' branding to: 1. include the provision of saving services as key product offerings and 2. stress partnership with a commercial bank to capitalise on the trust in public sector banks.

MFI clients are always keen to create lump sums both in the short term and in the long term. They will like the fact that while they increase their chances of getting a higher loan, they also create a lump sum in the process, which they can keep or use for any expense. This will nudge clients into saving with MFIs in the short term. In the long term, clients will able to experience the benefits of small savings by realising the lump sums they have created. Their perception about MFIs will shift to seeing MFIs as comprehensive financial service providers.

Many MFIs in different countries already offer savings and credit products either separately or linked with each other.[6] It is essential to highlight that these product designs should never be communicated as compulsory savings. The MFI is essentially projecting higher loan amount as a motivation to save more with their partner bank. These are normal voluntary savings accounts – but demonstrated ability to save regularly and larger savings balances will influence credit decisions.[7] Where clients want, the savings could also be linked a specific goal – an aspirational commitment savings product that has worked well for many MFIs.[8]

If MFIs in India clearly project the benefits of linking savings with credit, and if they design in functional elements that do not add any operational complexity, these product modifications will provide positive results for them.

[7] Some examples include, J-PAL's Green Bank Experiment, Commitment Savings Product in Malawi, Buro Bangladesh
[8] The Jijenge Account offered by Equity Bank Kenya, Card Bank in Philippines, and Janalakshmi Offices

Agent Network Management

The Case for a Bank Managed Agent Network in the Business Correspondent Model

Denny George and
Alphina Jos
(with inputs from
Nitin Garg)

In 2011, *MicroSave* examined the two modes of managing agent networks-through outsourced institutional ANMs, and directly through the banks-in the India Focus Notes 76 and 77.[1] We arrived at a conclusion that institutional business correspondents were perhaps better suited both from the client as well as from the bankers' perspective. Most banks in India have also chosen to adopt the institutional business correspondent model.

However, some banks have started experimenting with agent networks they directly manage and supervise. In India, State Bank of India (SBI) is a pioneer in appointing branch-linked agents on a large scale. There were a total of 12,710 business correspondents appointed by the SBI as on March 31 2012. Out of these, 3,201 (approx.25%) were directly managed by the bank's branches.[2] This is true in the international context as well. In Kenya, for instance, Equity bank is implementing a system under which its >6,000 agents are recruited, managed and monitored from its branches-as opposed to Safaricom's largely outsourced model.[3]

In this context, it is pertinent to examine if a case exists for an agent network directly managed and supervised by banks. In the sections below we outline the core incentives to adopt a directly managed agent network.

Establishes Trust

Conducting financial transactions outside brick and mortar bank branches and in small local shops/kiosks is still a novel and unfamiliar idea for most low income customers. To do so in large numbers, initially at least, they need handholding and reassurance from trusted sources. For the low income clientele, one prominent source of this reassurance is quite often the brand of the bank itself. As one customer said, *"I have full faith, and in addition, it's with SBI!"*[4] In contrast, trust can be irreparably damaged if the bank staff do not know about or recognise agents operating on the bank's behalf – as is common when third party agent managers are managed at the regional or head office levels.

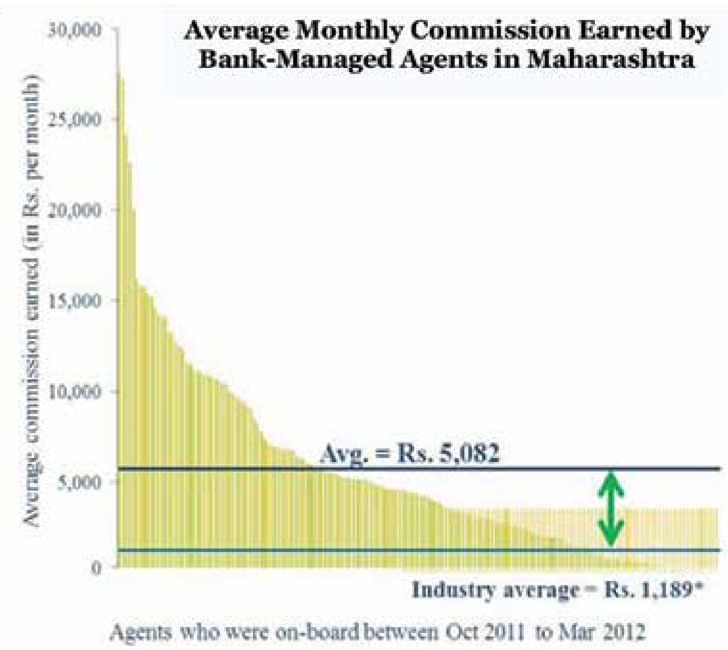
Directly managed agents are often recruited by, linked to, and closely integrated with, the local bank branches. This enables validation of the authenticity of the agent directly with the bank branch. In addition, branch staff members often act as information channels, proactively directing customers to agent outlets, participating in marketing and communication drives, or at the very least, displaying agent details in branch premises.

A study by *MicroSave* revealed that most of the early adopters of e/m-banking systems are those who have previously had some banking experience.[5] In an agent model closely integrated with the branch banking structure, these early adopters (current customers) are likely to make use of agent banking due to information received from the branches, and in turn promote trust and influence adoption by others in the locality.

[1]See India Focus Note 76: Individual or Institutional BCs: The Client's Perspective, *MicroSave*, September 2011 and India Focus Note 77: Individual or Institutional BCs: The Banker's Perspective, *MicroSave*, September 2011
[2]SBI financial inclusion portal
[3]See Briefing Note # 136: Structuring and Managing Agent Network - I and Briefing Note 137: Structuring and Managing Agent Network - II
[4]State Bank of India is the largest commercial bank in India
[5]See India Focus Note 38: Listening to Agents of Mobile Banking in India,*MicroSave*, April 2010
[6]See Optimising Agent Networks in Gujarat, *MicroSave*, March 2011and Optimising Agent Networks in Uttar Pradesh, *MicroSave*, January 2011
[7]See State of Business Correspondent Industry in India – The Supply Side Story, *MicroSave*, April 2012

Better Business Case for the Agents

MicroSave field research indicates that agents expect commissions in the range of Rs.3,000-10,000 based on location (rural/urban).[6] However, the actual average revenue of agents of established BCNMs is Rs.1,189 while an agent of a start-up BCNM earns Rs.510.[7]
Contrast this with the revenues earned by branch supervised agents of a public sector bank in Maharashtra (see graph on next page). Commissions averaged Rs.5,716 per month; 4.8 times the industry average.



One reason is that due to closer integration with the branches, branch managers empower agents to facilitate multiple services, including sourcing fixed deposits, recurring deposits, and loans (primarily Kisan Credit Card); loan recoveries etc. as Business Facilitators (BFs). This diversifies revenue sources and leads to higher income.

Another reason for this is that since there are fewer entities involved, banks are able to share a higher commission with transaction agents. For instance, during the course of field research in Madhya Pradesh, we observed that agents who were directly supervised by the branch were earning commission rates as high as 1.5%, while their counterparts employed by institutional BCNMs in the same location were being paid a commission of 0.5%.

Caters to Agents' Expectations

Many agents often sign up at least in part for the prestigious association with public sector banks.[8] Association with the bank is more evident and visible when agents are directly supervised by the branch. This in turn helps keep agents satisfied and continually interested in maintaining the association.

Operational Support from Branches

When agents are directly linked to the bank, agents have a constant, locally present, support system. The number of layers of hierarchy agents have to traverse is considerably lower since most issues are often solved locally at the bank branches. Branches often offer support for customer grievance redressal and account activation. Being directly linked to branches therefore also significantly lowers the time involved for account activation and grievance redressal, when compared to institutional business correspondents.

[6] See Optimising Agent Networks in Gujarat, *MicroSave*, March 2011and Optimising Agent Networks in Uttar Pradesh, *MicroSave*, January 2011
[7] See State of Business Correspondent Industry in India – The Supply Side Story, *MicroSave*, April 2012
[8] See Policy Brief # 2: The State of Business Correspondence: Agent Networks in India, *MicroSave*, March 2012

Branches also often act as a back-up channel to conduct transactions in case the agent is absent for any reason, or does not have the liquidity to manage larger transactions.

Better Monitoring and Control

Locally present bank branches are often positioned to better supervise local agents. Their presence in the geography means that customer feedback is timely and relevant. Moreover, the bank, due to its location near agents, as well as customers, may be in a better position to address issues appropriately as and when they arise.

In effect, a greater extent of control is possible, right from recruitment and selection of agents to supervision of regular operations.

Symbiotic Impact on Branch Business

In recent *MicroSave* research at bank branches where agents are directly linked to the branch, it was seen that branch business was expanding at a rate much higher than projected; often as high as 25% as compared to historical growth rates. What is interesting to note is that the growth is not just due to business brought in by the agents; the branch staff productivity seems to have gone up as well. This is perhaps since reduced transaction pressure at branches helped staff focus on business generation and serving higher value customers.[9]

Risk Diversification

Banks have often suffered in the past on account of poor quality of services delivered by BCs. On occasions, institutional business correspondents have shut shop abruptly, leaving the bank, as well as the front-line transaction agents, in a lurch.

With agent networks directly managed by the bank, the risk of ANM shutting shop is largely eliminated. The risk of individual agents dropping out remains, but since the risk is spread out across a larger number of agents, it is much less likely to affect universal continuity of operations.

> In more one instance, *MicroSave* has observed agents who have not been not paid their commissions for more than six months by an institutional BCNM. Operations came to a virtual standstill with most agents dropping out and the rest suspending their operations temporarily. The agents' commissions for the duration of six months still remain unpaid as on date. In one case, a technology service provider had to float a BCNM on its own to continue operations.

Exclusivity

When agents are directly recruited and managed by the branches, often they recruit unemployed, educated youth from nearby villages as opposed to retailers etc. recruited by ANMs. This largely ensures that the agents are exclusive to the bank. This, in turn, enables better control for the bank. This factor also often results in a better customer experience, when compared to agents engaged in multiple businesses.

Conclusion

There are several factors which work in favour of an agent network directly managed and supervised by banks. However, pursuing this approach does come with a unique set of challenges and issues. We will explore these in detail in India Focus Note 102.

[9] See India Focus Note 95: Saddling Up a Dead Horse - Financial Inclusion in India

Bank Managed Agent Networks – The Challenges

Alphina Jos,
Denny George and
Soumya Harsh Pandey

Banks are now increasingly adopting/testing self-managed agent networks. India Focus Note 101 highlights the advantages of this model. However, building and managing an agent network independently is not an easy task. The task is challenging since banks have to develop competencies and support systems required to build and manage the network, address standardisation and scalability issues, reduce dependency and workload of branch staff, balance roles and responsibilities, reduce turnaround time, and train agents and staff.

This paper discusses the challenges banks are likely to face in building and managing their own agent networks.

Scaling the Agent Network

Institutional agent network managers (ANMs) have access to dedicated resources and a trained work force. This is vital to rapidly establish a scaled up agent network. Banks, on the other hand, seldom have this capability and have limited dedicated resources. Generally, existing branch staff, with other responsibilities, builds the network under the supervision of a centralised, dedicated team. Limited availability of dedicated resources means that agent networks managed by banks cannot be scaled at the same pace as ANM managed networks. If a bank wants to scale its network quickly, it will have to invest considerably in building internal competencies and support systems. This, given other competing organisational priorities, may not always be possible.

Achieving Standardisation

Institutional ANMs often have structured and predetermined operational hierarchies and processes. The level of flexibility available to local officials (including bank branch officials) is often negligible. While the relative merits of this can be debated, this does ensure that there is a high level of uniformity and standardisation across the organisation.

In bank managed models, by contrast, there are often multiple stakeholders with managerial and supervisory responsibilities. Furthermore, branches have relatively higher levels of autonomy. Different stakeholders may interpret guidelines differently; or in extreme cases, even ignore them completely. This means that in spite of clear communication, circulars, and guidelines, it is difficult to ensure uniformity/standardisation across the network.

Co-ordination Challenges

A centralised, regional financial inclusion team usually coordinates service requests pertaining to hardware, marketing collaterals, smart cards etc. Though some nationalised banks have a block level Financial Inclusion Centre to coordinate with agents, their support (except in training and acting as a communication channel) is typically nominal at best. The actual processing of requests happens at the Regional Office level.

Since a single team is responsible for managing a huge network of agents spread across different geographies and mapped to various branches, there is a delay in processing requests. Service requests that involve liaising with the technology service provider (TSP), including re-registering fingerprints, card reissue etc., are severely delayed. *MicroSave*'s study of a bank's directly managed agent network showed that there was acute delay in distribution of hand held devices and operator cards. In a period of over 6 months, only 18% of customers interviewed had received their smart cards.[1] Even in instances where cards are not required, account opening for customers is delayed significantly.

The communication gap between regional offices, link branches, TSPs and agents is a major issue. Studies show that in case of bank supervised agent networks, there are regular and prevalent inconsistencies in communication.[2]

Information loss and delay in approvals is prevalent due to the number of units and stakeholders present in the hierarchy. These issues, in turn, affect agent morale and customer trust in the system.

Dependence on Branch Staff

The success of bank managed agent networks is highly dependent on the motivation and attitude of the bank staff. However, the reality is that not all branch staff appreciates the role and benefits of the agent channel. Branches are treated as profit centres, and even in the best-case scenario, branch manager's focus only on activities that will make the branch profitable. As a result, it is often difficult to convince branch managers of the business case for agent banking.

MicroSave's research on a major bank's directly managed agent network shows that agents have a mixed response regarding their level of satisfaction with the support provided by the bank. This is primarily because the quality of support often depends on the level of interest of the branch manager.

Branches are typically responsible for account opening and processing applications for products such as KCC, FD, RD and loans. Branch staffs barely have enough time to service walk-in customers due to under staffing and the high workload. As a result, they may not be able to process the requests generated by agents/or on behalf of their customers on time. Most staffs are concerned about the added work of monitoring and managing agents, and processing applications, and would prefer to do away with the channel altogether.

"Not Our Concern"

An unusually candid branch manager interviewed by *MicroSave* said, *"Branch staff is not concerned about driving business. They are oriented towards operations. They will anyway be paid (salaries) and are only concerned about their workload. Branch managers are in a branch for only two years and have other important things (such as audit scores) to be concerned with. Their business targets are anyway easily achievable. They are not bothered about the agent channel since they don't have the need to be dependent on agents and can generate the business to meet their targets just from walk-in customers."*

Agents who are appointed by, and report directly to, the branch are sometimes used as back-end staff for that branch. The reason for this is that the agent (particularly when they receive a base salary in addition to commissions) usually has no option but to follow the instructions of

[1] *MicroSave* 2012 study of a public sector bank
[2] *MicroSave* 2012 study of a public sector bank

the branch staff. As a result, the congestion in the bank remains the same, the customer value proposition is lost, and the agent is unable to carry out his actual responsibilities. The study of one major nationalised bank's directly managed agents showed that 73% of them worked in branches as additional staff.[3] By contrast, in the case of an institutional ANM model, the direct dependency on, and interaction between, the branch staff and the agent is less, and this restricts such situations. Banks need to ensure that agents are used as generation/servicing points in allotted rural/urban areas and not as branch sub-staff. This requires structured and independent monitoring.

Establishing Support and Monitoring Systems

Directly managing the agent network means that the bank branch will have to take on the role of the ANM on itself. The usual banking structures and systems are hardly conducive for this purpose.

Branch staff's limited **understanding of technology** limits their capability to supervise and support agents. Even though branch staffs are usually assigned to be point persons, their limited capability means that issues will be redirected to regional offices. This, in turn, is likely to increase the workload of the dedicated team, and cause delay in processing requests.

Training is another critical task. Typical in-house trainers in banks are oriented towards operations, which is just a part of the training curriculum for agents. Furthermore, inhouse trainers are unlikely to have the competencies required to train people who have very little exposure to banking or financial services. This may necessitate hiring external agencies. In addition to training agents, the bank will also have to train the branch staff so that they can handle the operations effectively. This is likely to stress training budgets significantly.

In case of ANM managed agent networks, agents have support structures for **cash management**. Many ANMs adopt a aggregator or super-agent model to facilitate cash management. Some ANMs even have online liquidity management options. But in case of bank-managed networks, though the bank may offer overdraft facility, the bank does not have the resources to support agent cash management and the cash risk is often borne by the agent.

One-reason banks opt for a self-managed network is to have direct control over agents. This means that the bank should have a robust **monitoring** system. Generally, it is the duty of the overworked linked branch staff to monitor the agents.[4] This, of course, risks poor monitoring due to insufficient time and excess workload.

Building Information Systems

Real time information capture is critical in agent banking systems. Information systems should be in place to track inventory, despatch, movement of materials, and status of service requests. For example, an ANM working in Uttar Pradesh has software to track application forms, status of cards, and movement of materials (forms, handheld devices, cards, collaterals etc.) which is critical to avoid mismanagement and strengthen internal processes.

[3] *MicroSave* 2012 study of a public sector bank
[4] India Focus Note 77—Individual or Institutional BCs: The Banker's Perspective, *MicroSave*, September 2011

Though banks do have means to capture account related information real time/near real time, there is often no provision for electronic capture of agent administration information. This will result in delays in processing service requests and loss of information. Banks tend to ignore this aspect, as they are hesitant to invest time and resources in a channel that is not a major part of their operations. If proper information tracking systems are not in place, this will become a bottleneck impeding expansion.

Conclusion

Banks will need to build their competencies to effectively act as their own ANM. To build a strong network, banks have to address these challenges in a cost effective manner. India Focus Note 103 will discuss how bank managed agent networks can be implemented effectively.

Implementing a Bank Supervised Agent Network

Alphina Jos and
Denny George
(with inputs from
Nitin Garg)

In the India Focus Note 102 we highlighted some of the challenges associated with pursuing a "bank managed/supervised" approach to agent networks in the business correspondent model. In this Note, we explore how banks can potentially address some of these challenges.

Operational Integration with Bank

Branches Branches are the most visible markers of the bank; especially in rural areas. So involving branches is perhaps one of the most important steps to be taken while promoting a bank supervised agent network.

Agent selection is one area where branches can contribute effectively; taking advantage of their local presence and understanding of local circumstances. Early involvement through participation in the selection process will help generate buy-in of branch staff in the initial stages.

Bank branches can also provide **back-office support** for account opening and enrolments by way of KYC verifications and account number generation. This was widely practiced in one major public sector bank in Maharashtra, where accounts were opened in a matter of hours. In the same bank, in locations where branches were not directly involved in account opening, the process took days, and in some instances, even months.

Branches can support agents by acting as **information channels,** directing customers to agent locations and providing contact information of agents by way of notices, posters etc. Branch staff can also potentially participate in promotional campaigns and provide information through Gramsabhas, Kisan Clubs etc.

Equipping Branch Staff

It is easy to insist that agent networks need to be closely integrated with local bank branches. But this will be pragmatic only if banks take proactive steps to ensure that this approach is followed in practice.

One disturbing notion observed during one of our field studies was that branch staff viewed agents as potential threats to their employment. These attitudes and beliefs necessitate careful, organisation wide **communication**.

Training should be provided to branch staff in order to keep them informed of their operational roles, processes and the business model. Given that an effective agent banking model pre-supposes conduct of most low value transactions outside the branch, staff may also need skills training for effectively redeploying them in new roles.

Action planning needs to be done with respect to branch staff responsibilities, timelines and expected results. Responsibilities relating to the BC model need to be clearly defined and allocated among branch staff. Monitoring **mechanisms** for branch staff need to be developed to ensure that action plans are adhered to.

Incentive structures and performance management mechanisms for branch staff may need to be realigned to promote the agent channel. Incentives should be oriented to push low value transactions out of the branches and to the agents. Assigning targets to bank branch staff can help. For instance, in Tanzania, one bank assigned targets for their branch managers on the number of account holders who register for e-banking; business generated through agent; and the percentage of transactions happening at branches compared to those at agents.

One end result of the BC model might be that low value transactions are pushed out of the branches, reducing the staff workload. But, there is likely to be an interim period where transactions happen in the branches while the workload of branch staff increases due to new enrolments by agents. Banks can explore putting in place **temporary operations support mechanisms** to prevent the branch staff from being overwhelmed. For instance, in a pilot conducted by a major public sector bank, two staff members from zonal office were delegated to process account opening applications generated by the agents.

Integration of Technology Platforms

Enabling a branch's core customers to transact using agents and BC sourced customers through branches is a logical first step to decongest branches and build trust in the system-for customers, agents and even branch staff. Many banks provide direct core banking system (CBS) access to agents to help bridge the divide between financial inclusion and mainstream banking.

The bottom-of-the-pyramid is increasingly becoming important as a customer segment, necessitating strategic measures such as technology integration in order to reduce transaction pressure on branches as well as cost outlays.

Agent Support Systems

One of the core advantages of engaging an institutional BC is the availability of a well-oiled support system for enabling service delivery. In directly managed agent networks, banks need to replicate, refine and modify these structures and mechanisms in order to enable high quality and continuity of service delivery.

A **well-defined structure** is essential. In many banks, there are at least three different units involved in agent management-a centralised financial inclusion department; a specialised cell or unit at the zonal/regional level; and link branches. At each of these levels, job descriptions of staff involved need to be clearly defined, documented and communicated. Agents should be informed of organisational contact points, their roles and provided a mechanism to escalate their issues in the event of nonresolution.

Specialised staff may be deputed for oversight and supervision. A major public sector bank employs part time staff for managing and supervising its directly managed agents; and for facilitating co-ordination between the agents and the link branch. Often banks make the mistake of recruiting retired staff members for this purpose. This is a mistake, since they often lack the focus and energy needed for the job.

Liquidity management is sometimes better handled in institutional agent networks since they have dedicated structures to address liquidity needs. Banks should evaluate their agent networks to decide on the extent of support to be provided to agents in this respect. Support may be in terms of providing cash collection mechanisms, assigning overdraft limits to enable float management, or by enabling cash-in-transit insurance.

Technology is an area where banks are not necessarily capable or qualified to extend support. This can be addressed by entering into carefully developed service level agreements (SLAs) with technology service providers (TSPs). A major national bank, for instance, had negotiated for and secured the services of a TSP staff member to be assigned to each of its zonal offices.

Agent training is another aspect which requires attention. Training is often a specialised function; one in which banks may not have adequate internal capacity. In this context it may be prudent for banks to outsource this function to specialised agencies.[1]

Agent Monitoring Systems

Institutional ANMs often have clearly defined functions related to monitoring agents. Banks should seek to adapt these systems to suit their organisational structure and hierarchy. Local branch staff, as well as staff in the financial inclusion department, should have specific roles with regard to agent monitoring. Branch staff could be assigned specific agents/ locations and an agent visit schedule can be fixed. Agents should be monitored regularly, through visits to the agent location as well as by way of monitoring agent activity through MIS reports.

A monitoring protocol should detail out the activities to be done and checks to be conducted by staff while on monitoring visits. A feedback loop, in which observations during the monitoring visits are documented and reported on a regular basis, should be built.

State Bank of India (SBI) is perhaps the forerunner in implementing a strong self-managed agent network in the country. The case outlined below illustrates the best practices followed by SBI.

[1]Refer Briefing Note 135: Training E/M-Banking Agents: What is Missing?,*MicroSave*, November 2012and Briefing Note 138: Implementing Training for E/M-Banking Agents, *MicroSave*, January 2013.

State Bank of India – The Pioneer

As of March 31 2012, SBI had a network comprising of 3,201 directly managed agents.[2] This is the largest bank supervised e/m-banking agent network in India now.

SBI's agents are mapped to a bank branch and report to the bank manager. Agent contact information is always displayed at the branch.

Link branches act as the bridge between the bank and agents. This provides agents with a sense of belonging and builds trust among the customers. Managers proactively redirect transactions and new customers to the agents. This reduces congestion in branches and increases agent profitability.

Agents managed by SBI have direct access to the CBS through an easy to use web portal. This enables agent-branch interoperability. As the platform was developed in-house, it can be easily customised. As a result, SBI has a better control on its design, maintenance, and update/up-gradation. Staffs at the regional offices are trained in and capable of basic trouble shooting, which helps bring down the time involved for rectifying basic technology issues.

SBI offers a higher proportion as commission to its agents since the amount need not be shared with ANMs. Agents managed directly by SBI branches also have a wider product suite when compared to ANM managed agents. This significantly improves the value proposition for customers and increases revenue for the agents.

A financial inclusion cell at the regional level and at the block level handles all support functions. The link branch and financial inclusion cell (block and regional level) support agents. Contact details of key persons are readily available and agents can directly reach out to them with complaints and grievances. The agents are also trained by the financial inclusion cell.

All processes are well defined, transparent and communicated clearly. A Channel Management Facilitator (CMF) is also appointed to complement monitoring and support the activities of the branch.

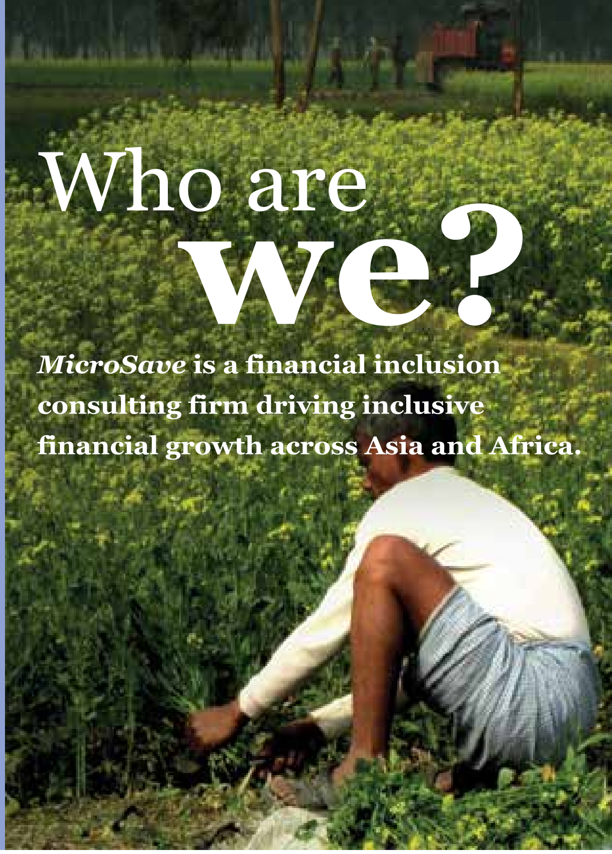
SBI's experience shows that it is possible to implement a selfmanaged agent network by instituting strong support and monitoring systems, technology and proper integration with the branches.

[2]SBI financial inclusion portal

Market-led solutions for financial services

Corporate Brochure

MicroSave



Who are we?

***MicroSave* is a financial inclusion consulting firm driving inclusive financial growth across Asia and Africa.**

Who do we work with?

Influencers and decision-makers amongst financial service providers - banks, microfinance institutions (MFIs), mobile network operators (MNOs), cooperatives and governments, donor organisations (foundations, multilaterals, bilaterals) and other groups including regulators, industry networks, etc. who in some way or the other contribute to financial inclusion.

Where do we work?

We have implemented projects across **Africa, Asia and Latin America** including: Afghanistan, Argentina, Bangladesh, Cambodia, Cameroon, Cape Verde, China, Colombia, Democratic Republic of Congo, Egypt, Ethiopia, Fiji, Ghana, Haiti, India, Indonesia, Kenya, Lao PDR, Liberia, Malawi, Mexico, Morocco, Mozambique, Myanmar, Nepal, Nigeria, Pakistan, Papua New Guinea, Peru, Rwanda, Samoa, Sierra Leone, Solomon Islands, South Africa, South Sudan, Sri Lanka, Tanzania, Thailand, The Philippines, Timor-Leste, Tunisia, Uganda, Vietnam, Zambia and Zimbabwe.

What do we offer?

MicroSave offers consulting services in the areas of Inclusive Finance & Banking, Digital Financial Services; Micro, Small and Medium Enterprises and Private Sector Development.

Areas of Expertise

1 Inclusive Finance and Banking

We provide consulting services to banks and MFIs to develop strategies, build innovative products and services, and design delivery systems to cater to the unbanked and underbanked segments. We give technical assistance to help clients focus on impact and value creation supporting the double bottom line.

2 Digital Financial Services

We offer consulting services to financial institutions, agent network managers, technology service providers, mobile network operators and government/government bodies to help them achieve financial inclusion. We also help clients design new business model architecture, implement solutions and improve systems to deliver financial products and services using digital platforms.

3 Micro, Small and Medium Enterprises

We expand access to finance for MSMEs, by supporting investors, financial institutions and enterprises. We build strategy, design business models, develop new products, manage risk, strengthen capacities, and optimise processes and systems.

4 Private Sector Development

We engage with donors, multilateral agencies, governments, non-government organisations, banks, MFIs and community-based organisations for agriculture value chain development, water, sanitation and hygiene (WASH), energy and housing. We assist these institutions to assess markets; formulate strategies, develop, test and deliver financial and non-financial products and enhance staff capacity.

Clients speak:

"MicroSave has made important contributions in the field of financial inclusion by successfully partnering with diverse stakeholders such as financial institutions, investors, donors, corporates and regulators for providing, what its corporate tagline claims, 'Market-led solutions for financial services'.

Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the Stakeholders' Workshop on Financial Literacy organized jointly by the UNDP, NABARD and *MicroSave* at Mumbai on February 4, 2013

"I got a lot of knowledge from this DFS course as well as more content to implement in our country. I would definitely recommend this course to others. If anyone wants to establish this business, they must take this course."

Sadab Tabani, Senior Executive, Distribution & Retail Sales - Grameenphone (Bangladesh), alumni, *The Helix Institute of Digital Finance*

What can we do for our clients?

Product and Channel Innovation

We innovate products and delivery channels to increase sales, optimise costs, and improve efficiencies. We reduce risks associated with new product design and channel augmentation, using our flagship Market Insights for Innovations and Design (MI4ID) approach.

Strategy Development and Governance

We formulate strategies and business models, develop financial and tactical plans, facilitate development and establishment of institutional branding and strategic marketing. Advise clients on institutionalising best practices in governance.

Research

We conduct market research (informed by behavioural economics), undertake sectoral analysis, feasibility studies, competitor analysis and industry assessments. We also conduct in-depth research on customer needs, behaviour and perceptions to support policy reviews, innovation and the design of financial services.

Organisational Strengthening and Risk Management

We deliver solutions designed to strengthen products, processes, systems and policies. We support delivery optimisation and development of risk mitigation frameworks. We also help institutions setup HR structures, supported by staff incentives.

Dissemination

We are a financial inclusion knowledge-hub and an inspiration source globally. We have decades of hands-on experience in designing and developing financial services. Our knowledge and insights are packaged in the form of research publications, technical notes, blogs and videos.

Training and Workshops

We design, develop and deliver training courses and workshops on subjects including market research, digital financial services, banking, process analysis, management of microfinance institutions, MSME financing, water & sanitation product development, savings mobilisation, strategic marketing, entrepreneurship development, financial education and youth microfinance.

Investment and Donor Services

We support investors and donors to assess financial institutions and service providers by conducting thorough institutional and portfolio assessments and due-diligence. We deliver capital advisory services-valuation of institutions and capital structuring. We conduct impact studies, monitoring and evaluation for donors and investors to assess the impact of grants/investments.

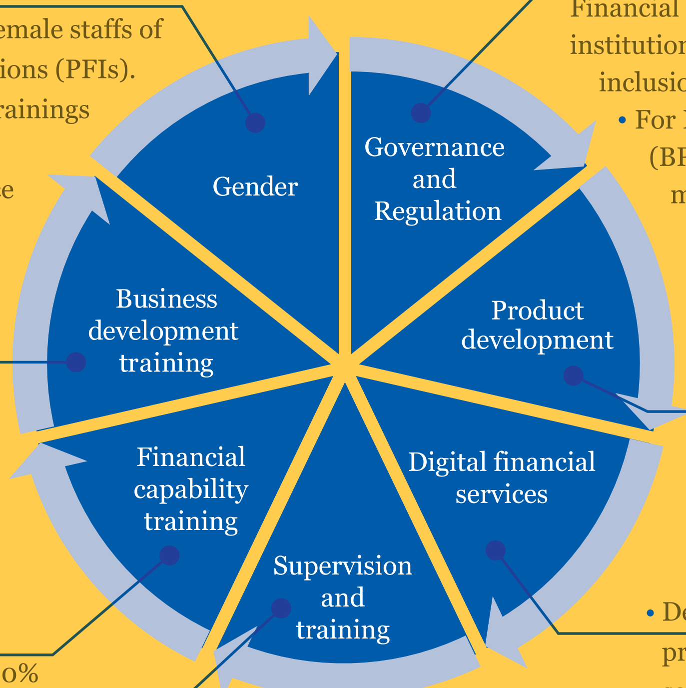
How do we impact our clients' business?

We forge Long term associations that transform & build clients

In 2001 Equity Building Society in Kenya approached *MicroSave* to understand the reasons for low uptake of their credit products. The resulting research and re-structuring of the products put Equity on the path to transformation into a bank and subsequent listing on the Nairobi Stock Exchange. *MicroSave* walked every step of the way with Equity, supporting its product innovation, costing & pricing, business process re-engineering, risk management, strategic and product marketing, staff incentives, etc. Recently, we have worked with Equity Bank to implement its digital finance strategy, drawing up the blue-print for its agency channel, optimising agent network management, developing products, digitising value chains and strengthening customer service. Over these fourteen years of close collaboration, the bank's customer base has grown from 109,000 to more than 10 million in six countries and it remains the most respected and celebrated mass market bank in Africa.

We change financial landscape in countries where we work – Papua New Guinea (PNG) Example

Since 2011, we have been working on a long term project in PNG, with support from Asian Development Bank (ADB), AusAid, and Government of Papua New Guinea (GoPNG) to increase access to finance. Additionally, we have worked on several short term projects with multiple partners.



- Financial literacy training to 34,276 females.
- 1,220 person days training to female staffs of Participating Financial Institutions (PFIs).
- 147 participants attended the trainings and workshops conducted by regulation team of Microfinance Expansion Project (MEP).
- Established Centre for Excellence in Financial Inclusion (CEFI), an apex national institution to coordinate all financial inclusion activities in PNG.
- For Bank of Papua New Guinea (BPNG), drafted regulations for microfinance services and guidelines for mobile banking.
- 27 new financial product concepts developed. 16 products are in pilot testing stage.
- Designed processes and pilot tested products for the digital financial services product of a leading bank in the country.
- Enhanced customer centric market research capacities of 1,558 MFI staff, trained BPNG staff on supervision of MFIs and 'Saving and Loan societies' units.
- Trained 72,224 PNGians to enhance financial capability. 30% of participants have opened bank accounts post training.
- Target to train 22,000 entrepreneurs in business development strategy by 2017.

We improve G2P programme designs and execution

We helped the Mahatma Gandhi National Rural Employment Gurantee Act (MGNREGA) payments become efficient and user friendly. Our work with Ministry of Rural Development, Government of Jharkhand, **saw an 87% decrease in the time taken (from 15 days to 2 days) to pay a MGNREGA beneficiary.** We assisted the Ministry to design processes and monitoring protocols. We mapped and documented the processes and trained front line staff to use alternate practices. **Our intervention has the potential to benefit about 2 million MGNREGA wage recipients who receive payments through Post Office in Jharkhand - and our methods will be expanded across India.**

We inform DFS providers in agent networks through cutting-edge research, knowledge based on global data

We co-founded* *The Helix Institute of Digital Finance*, in November 2013, to provide world-class training based on ANA data and knowledge to digital financial service providers. The training courses are designed explicitly for mobile network operators, banks, financial institutions and third party providers to enable them to increase the efficiency and profits of their digital finance business – thus facilitating more client-centric and sustainable delivery of financial services. **We have run nearly 20 training courses and trained over 300 participants from more than 115 digital finance roll-outs by institutions serving over 650 million customers in more than 30 developing countries.**

*The institute was established by *MicroSave*, with the Bill & Melinda Gates Foundation, the International Finance Corporation (IFC), and the UN Capital Development Fund (UNCDF).

We help providers offer responsible financial services

We help institutions achieve improved social performance ratings and client protection certifications**.** More importantly, we enable them to remain client- focussed and deliberate in putting their mission into practice. This creates a firm foundation for client loyalty and business growth. Our achievements: Trained > **150 people from 36 MFIs** in client service & protection, conducted social performance audits for **23 institutions,** and conducted client protection assessments for **9 MFIs.**

***MicroSave* partners with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value.**

MicroSave

Market-led solutions for financial services

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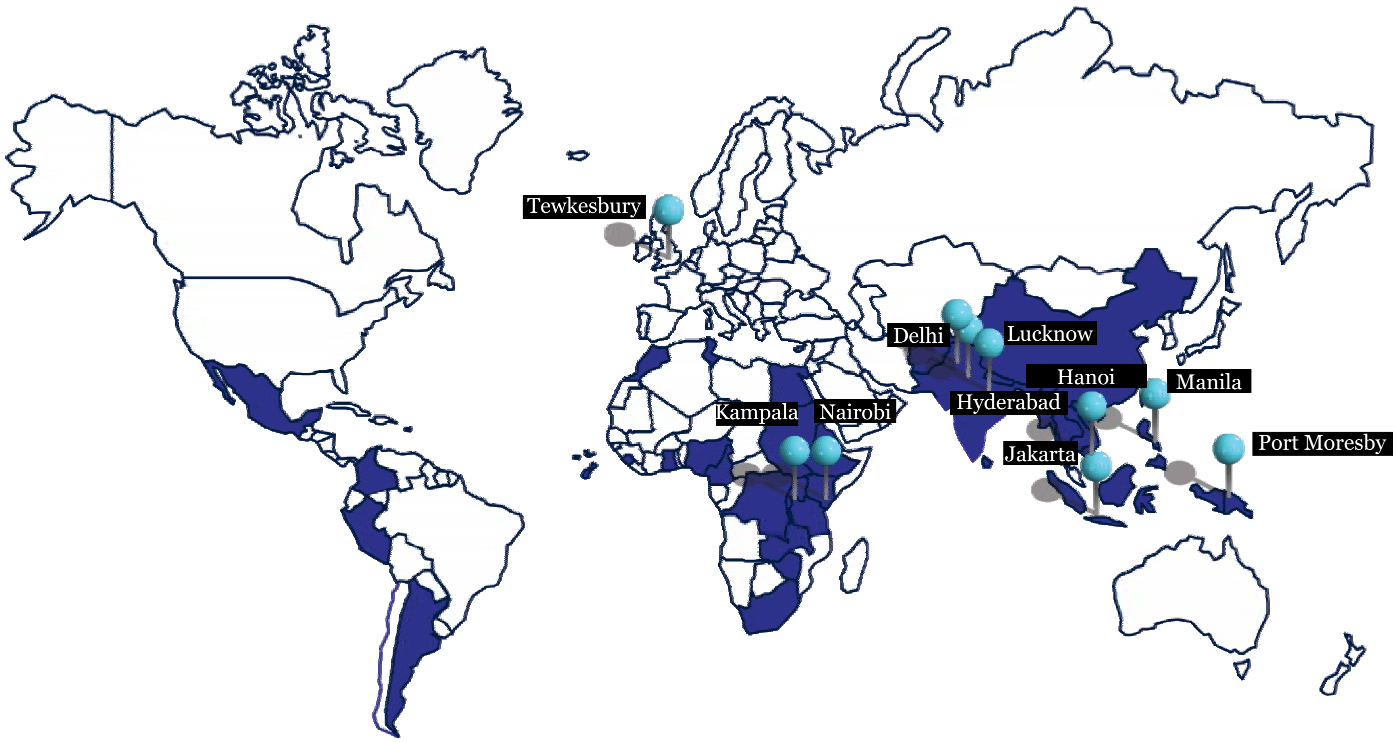

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