

Digital Financial Services

MCPI Annual Conference 2017

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About *MicroSave*

- We are a **financial inclusion consulting** firm with over two decades of experience of working in Asia-Pacific and Africa
- Focus thematic areas: **Digital financial services**, Inclusive finance, MSME finance and Private sector development
- Our clients: **Banks, MFIs and other financial service providers**; bilateral and multilateral funding agencies, corporates and private foundations; regulators and policymakers

150+ banks, FIs and MNOs which have improved operational efficiency on the basis of our advice

150+ financial products developed across the globe

40+ countries across Africa and Asia in which we have in-depth financial market intelligence

50+ countries where we have implemented projects

300+ papers, focus and briefing notes, and other print and online published

Our Experience in Digital Financial Services



	Strategic Agent Network Assessment
	Agent Network Accelerator Training
	Sectoral research on digital finance for FI
	Business Model Design and Implementation
	Training on DFS for MFIs

	DFS Value Chain	Banks	MFIs	MNOs	ANMs & Fintechs
1	DFS Readiness Assessment		<ul style="list-style-type: none"> • 20 MFIs in BD, VN, ID, IN funded by Metlife Fdn 		<ul style="list-style-type: none"> • EKO
2	Channel Strategy	<ul style="list-style-type: none"> • EQUITY Bank Kenya • HDFC Bank India 		<ul style="list-style-type: none"> • Airtel India • Vodafone/M-Pesa 	<ul style="list-style-type: none"> • EKO • FINO
3	Overall DFS Strategy	<ul style="list-style-type: none"> • Co-op Bank Vietnam • BNU Timor Leste • Nationwide Microbank (PNG) • First Bank Nigeria 			<ul style="list-style-type: none"> • EKO • SAVE
4	Business Plan Development			<ul style="list-style-type: none"> • Uninor India 	<ul style="list-style-type: none"> • IME Nepal • EKO
5	Product and Process Innovation	<ul style="list-style-type: none"> • EQUITY Bank Kenya 	<ul style="list-style-type: none"> • BURO Bangladesh 		<ul style="list-style-type: none"> • EKO • SAVE

What are Digital Financial Services

Enhanced connectivity and analytical technologies have enabled FSPs to design and deliver better tailored financial products and services more efficiently and more directly to a broader range of customers.

Product



Electronic G2P payments



Supply Chain Finance



Remittances/P2P transfers



Transfers and bill payment solutions



Retail payments

Process



ID Verification



Alternative Credit Scoring



Process Efficiencies



Loan by phone

Channel



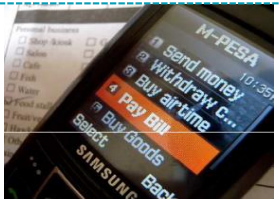
ATMs



Agency Banking



Internet Banking



Mobile Banking

Ecosystem of Financial Inclusion Players in the Philippines









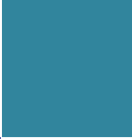







	Traditional Players			New Players		
	Commercial Banks	Rural/Thrift Banks	Cooperative/ NGO/MFI	Insurers	MNOs	Fintechs
Payments/Transfers	\$2-5	<\$2	<\$2		\$2-5 SME	<\$2 \$2-5 Micro
Savings	(Selectively)	\$2-5 Micro	(Selectively) \$2-5			
Credit	SME	Micro (Selectively) SME	Micro			\$2-5 SME
Insurance				<\$2 (by MBA) \$2-5 SME		

Primary focus Secondary / Selective focus

Target Segment (Individuals) Below \$2 Per day \$2-5 Per day

Target Segment (Enterprises) Micro Enterprise Small/Medium Enterprise

Key Constraints





			IND	PH	CAM	MYM
Area of Constraint	Sub-area of Constraint	Best Practice Examples				
Demand-side constraint	Financial and digital literacy	<ul style="list-style-type: none"> Defined NFIS with DFS component and consistent rollout across the nation (both urban and rural) Majority of the population is financially and digitally literate 				
	KYC Infrastructure	<ul style="list-style-type: none"> Unique national ID with real time verification National IDs linked to FS accounts for electronic KYC and transaction authentication 				
Supply-side constraint	Cost effectiveness of last mile distribution	<ul style="list-style-type: none"> Availability of alternate distribution channels (e.g. agent network) to different supply-side players) Efficient and available operating platform enabling agent to service provider and agent to customer 				

Minor constraint

Major constraint



Key Constraints

			IND	PH	CAM	MYM
Area of Constraint	Sub-area of Constraint	Best Practice Examples				
Payments	Removing friction	<ul style="list-style-type: none"> Consistent, low and simple fee structures clearly shown to customers in a visual way (web, fee-chart board) 				
Savings	Savings access and convenience	<ul style="list-style-type: none"> Low cost, highly reliable and frictionless top up and drawdown mechanisms linked to savings account Partnership with community based institutions such as cooperatives to digitize and formalise member savings Sub-segment need based product design (e.g. migrant workers, women entrepreneurs, garment workers etc.) 				
Credit	Credit risk assessment	<ul style="list-style-type: none"> Mandatory credit bureau checks before disbursement of micro loans (to avoid over leveraging) Use of alternative credit scoring/assessment models (e.g. based on airtime usage, mobile money usage, bill payments history, social media usage etc.) particularly in unbanked/under-banked segment 				

Developments in DFS Landscape in the Philippines

1 Hub and spoke model for delivery of payment services

2 Cash-out pilots of banks

3 Consolidation among payment switches

4 Efforts towards interoperability

5 Regulatory provision for super-agents

DFS for MFIs

Existing Synergies

MFIs

- Access to a loyal customer base
- Deep understanding of customers
- Possess distribution infrastructure with a human interface to support digital finance
- Latent need to diversify products and services



DFS

- Access to superior technology that can enhance access at lower cost
- Customers generally require handholding initially which DFS providers cannot provide due to lean structures
- Provide technology package to boost customer analytics

Relevance for MFIs

- There is an emergence of **new** customer segments previously unreachable – an ‘invisible’ set of customers is now ‘visible’
- New **players (including Fintech players)** in the financial services sector (Mobile Network Operators) have emerged that are both competitors and potential partners
- New **distribution** models have been created
- There are now new opportunities for MFI’s **internal operations** - use of data to guide decisions, improve processes
- Has also exposed MFIs to new **risks** that require new mitigation approaches

Core Strategic Options for MFIs

	Use as a Service	Leverage Existing Opportunities	Build
Processes	<ul style="list-style-type: none">• Outsource automation of processes	<ul style="list-style-type: none">• Use service providers to automate processes	<ul style="list-style-type: none">• Build/buy systems to automate processes
Channel	<ul style="list-style-type: none">• Act as agents for existing deployments	<ul style="list-style-type: none">• Ride on existing deployments	<ul style="list-style-type: none">• Build own agency network
Product	<ul style="list-style-type: none">• Offer existing products of other service providers	<ul style="list-style-type: none">• Offer own traditional/digital products riding on existing deployments	<ul style="list-style-type: none">• Develop and implement digital financial products

Change Management for Digital Transformation

Broaden View

- Digital transformation not limited to front-end
- Expand business case - Focus on customer choices and value; in addition to operational efficiencies and lower costs

Culture Change

- Not just an “IT” project
- Orient board to explore new ideas
- Empower and train staff to drive change
- Break down (internal) data silos

Nudge Customers

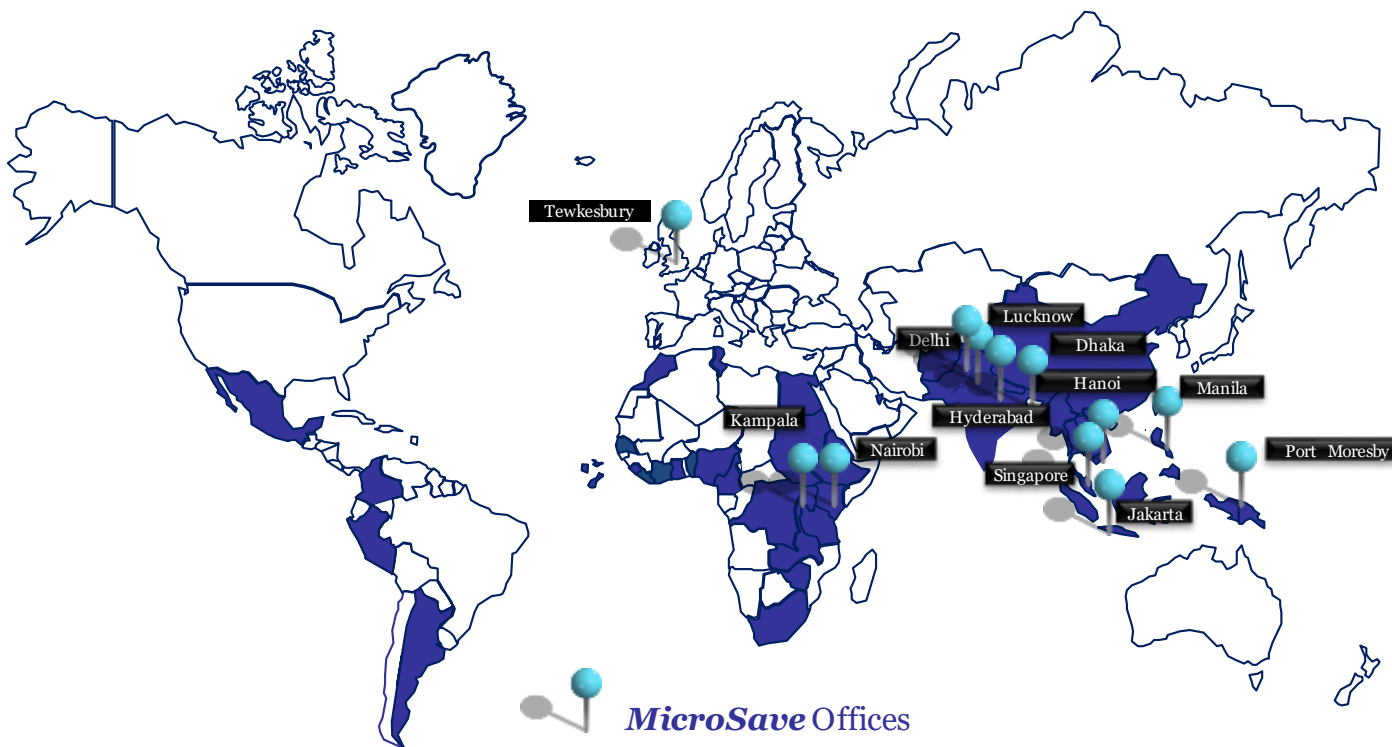
- Design human-centric customer campaigns to drive DFS adoption
- Address security concerns and build customer capabilities

Partner/ Collaborate

- Assess internal capabilities and outsource/partner
- Innovate through Fintechs - purchasing/partnering/acquiring

Manage Compliance

- Coping with regulatory changes and compliance requirements
- Internal compliance team to evolve



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