

Digital Financial Services & Financial Inclusion



Lack of accessible and affordable financial services has been the biggest roadblock to accelerating financial inclusion around the globe. Globally, policy makers as well as practitioners view Digital Financial Services (DFS) as a game-changer. Several initiatives are being undertaken to leverage the potential of DFS and use technology for financial services delivery to not only reduce cost, but also increase efficiency and make the transactions safe and convenient for users.

The focus on DFS enabled financial inclusion is being driven globally at various levels by governments, regulators, banks, mobile network operators (MNOs), agent network managers (ANMs), technology service providers (TSPs) and other financial sector participants. Over the last few years, most players have realised that, deployment of technology alone is not sufficient to achieve success.



MicroSave provides consulting services and technical assistance to all stakeholders operating in DFS domain – including telcos, banks, agent network managers and regulators.

Challenges Faced in Implementing DFS

Adoption of technology by financial service providers has picked up considerably in last few years with several efficient models in different parts of the world offering successful models to follow. But, global experience shows that there are key challenges which have repeatedly slowed the adoption of digital approaches to extending financial inclusion. These challenges are:

- Lack of an enabling policy and regulatory environment
- Flawed business models around technology solutions
- Limited understanding of customer needs by service providers
- Insufficient understanding of risk and security by customers as well as service providers
- Process inefficiencies during implementation
- Inadequate training and support to transaction touch points
- Insufficient/inappropriate marketing and communication strategies and tactics to pull customers
- Inherent challenges in delivering a technology enabled financial solutions to a customer segment which is often unaware, illiterate or even afraid of using technology

MicroSave's Experience in Delivering Digital Financial Services

For over 10 years, *MicroSave* has provided government agencies, regulators, international funding agencies, banks, microfinance institutions, non-banking financial institutions, MNOs, ANMs, TSPs, and other service providers with consulting and advisory services that expand their capacities in electronic and mobile-based financial inclusion.

MicroSave has a dedicated Digital Financial Services Domain with over 35 staff members specialised in

different aspects of DFS such as business model development, policy and customer research, agent network management, product innovation, fraud & risk management, operational processes design, and marketing & communication. *MicroSave's* team of strategists, researchers, financial analysts and implementation experts have both industry- and geography-specific insights having worked on a wide range of DFS projects in nearly 25 countries across Africa, Asia and Latin America.

As one of the first entrants in consulting space for DFS, *MicroSave* was closely involved with the initial development of M-PESA. We have worked across the globe with a variety of deployments and across diverse business models including bank-led, MNO-led and third party-led models.

Our expertise in DFS for financial inclusion has evolved from this wealth of exposure to a variety of operating structures. A large proportion of our assignments are field based, which brings us into close contact with end customers, as well as field agents and staff. This enables us to present a perspective that is closely aligned to field realities. We strongly believe in providing solutions that are customer-centric, or (as we call it) 'market-led', and putting the customer at the centre of the business.

The Andara Link solution is now being used in over 250 MFIs reaching nearly 2 million people after a January 2011 launch. Payments, bank transfers, airtime top-up, domestic and international remittance, savings and loan payments are all on the platform, which is used in branch and in the field on mobile phones, POS and web. We really appreciate all the inputs from MicroSave – they are finally coming to fruition.

Leesa Shrader,
Senior Director for Financial
Innovation at Mercy Corps



Customer Value Proposition



Channel Value Proposition



Institutional Value Proposition

MicroSave's Approach towards DFS

Based on our global experience in implementation of technology-enabled financial services solutions, we believe that critical success factors for any deployment include:

- An enabling policy and regulatory environment for all stakeholders
- A strong value proposition for customers and beneficiaries (end users of the service), channel partners and also the service provider
- A robust system for the development, training and management of the stakeholders with clearly defined processes and systems of checks and balances

Clear, effective and simple marketing and communication about the product and service offering
To deliver on the value propositions above, *MicroSave* provides following services:

- **Regulatory scan** and **policy formulation** to develop an enabling environment
- Assessment of **G2P benefit transfer systems**
- Development of **digital financial services strategy**
- Identification of **anchor products and services**
- **Market research** on customers and agents needs and preferences
- **Product development** and design for savings, remittances, credit, payments, insurance, pre-paid instruments or wallets
- **Pilot test** design, implementation, monitoring and evaluation
- **Rollout** strategy design and implementation
- Development of front-end and back-end processes through **process re-engineering** and **compliance management**
- Analysis of the **price** that the customers are ready to pay (or can afford to pay)
- **Costing** and break-even analysis (bank and deliver channel) On-going **customer and channel satisfaction surveys**
- **Customer service** strategies and implementation

- **Segmentation** analysis to identify which customer segments are using the product and why
- Design of **marketing and communication strategy** and **user interface**
- **Agent management** – process formulation on selection criteria, training, liquidity management and quality control
- Development and delivery of **agent training modules**
- **Risk and fraud management systems**
- Internal audit and **monitoring systems**
- **Technology assessment** – platform, user and agent centric issues and solutions





MicroSave's clients under DFS domain

MicroSave's Clients under the DFS Domain

Over the years, we have worked with a variety of clients including bilateral and multilateral funding agencies; social and philanthropic organisations; financial institutions; telecom operators; corporate entities; research agencies; and industry associations.

Details of Work delivered by MicroSave

Action Research Programme (ARP) for Innovation, Bill & Melinda Gates Foundation, India, 2007 – 2013

This long-term project was designed to optimise the provision of high-impact, scalable financial products and to improve outreach and efficiency. The programme supported research and innovative product development to offer appropriately designed products – which include design features, price, incentives, and delivery channel – to poor people. Under the action research programme, MicroSave supported 14 partner organisations - including banks, co-operatives, non-banking finance companies - to develop and pilot test a range of client-focussed, market-led, innovative financial products (particularly on savings and remittances) and delivery systems (DFS systems).

Digital Financial Inclusion in India (DFII), Bill & Melinda Gates Foundation, India, 2013-2017

MicroSave's effective implementation of the ARP for Innovation project led to the Bill & Melinda Gates Foundation requesting us to design and implement the next phase, which is focused on digital financial inclusion.

The aim is to scale 3 bank- cash-in/cash-out (CICO) deployments in poor and rural communities, and to enable and drive India's \$100 billion cash-based welfare payments through digital payment platforms. The project has three key objectives:

- Increase the percentage of Indian adults who are using an account to access government payments from 4% to 25% by 2017;
- Increase the percentage of sub-\$2/day Indian adults who are actively using a digital account from 25% to 50%; and
- Increase awareness among Indian government officials, banks, CICO network managers, and other key stakeholders on the core elements needed to overcome the CICO management, customer activation, and product development barriers to digital financial inclusion.



Agent Network Accelerator (ANA), Bill and Melinda Gates Foundation, 2012-2016

Agent Network Accelerator aims at increasing the global understanding of how to build and manage sustainable cash-in/cash-out (CICO) networks in poor communities, and across broad geographies. ANA has a dual pillar strategy:

- **Pillar I:** Detailed assessments of more than 25 agent networks in eight countries (Uganda, Tanzania, Kenya, Nigeria, India, Indonesia, Bangladesh and Pakistan), twice, over a period of 4 years. These assessments will generate systematic qualitative and quantitative data and leading operational insights that will be documented to provide practical guidance on optimising agent network management.
- **Pillar II:** Launch of the Helix Institute of Digital Finance by *MicroSave*. The Institute will provide world-class training courses, an elite networking community and cutting-edge operational insights to develop and grow the capacities of both MNOs and financial institutions in building sustainable and successful deployments around the world.

Mission Embrace, Equity Bank, Kenya, 2011-14

Mission Embrace is a phased and structured approach by Equity Bank to connect with its clients by bringing services and products closer to them through bank managed agents by seamlessly integrating its agent network with its core functions. We support Equity Bank to underpin this ambitious re-engineering with a systematic and strategic approach. To date, the work has involved:

- Development of a new mobile phone-based strategy, delivery channel, and pricing structure;
- Development and delivery of training modules for staff and agents;
- Product development for the digital channels, rationalising existing product suites;
- Development and rollout of a new agent management system;
- Assessment and resolution of technology issues;
- Development of a marketing strategy;
- Support to enhance customer service and channel satisfaction.

Pacific Financial Inclusion Programme and Mobile Money for the Poor (MM4P)

Programme, UNCDF, Global, 2011- 2014

PFIP supports the development and rollout of branchless and mobile financial services improve products and delivery mechanisms and build partnerships in Pacific countries. It deals with MNOs, banks, ANMs, and other financial service companies to provide a range of services via the mobile phone and point-of-sale (POS) device.

MM4P programme works with governments, private and non-profit partners in the less developed countries (LDCs) to hasten the scale-up of their mobile or branchless financial service operations and to improve the variety of products and services needed to reach rural and low-income households.

MicroSave is providing technical assistance and advisory services to the partner institutions under PFIP and MM4P programmes. Broadly, our role is to:
Facilitate the development of digital financial services in selected countries;

- Support the rollout of government benefit transfer programmes;
- Assist partner institutions to develop high quality digital finance operations;
- Review and advise on implementation of their digital finance services;
- Establish and implement a learning agenda for the selected partners;
- Assist UNCDF in identifying or developing learning opportunities to assist partners in their learning;
- Facilitate a peer-to-peer network between all UNCDF branchless and mobile financial service partners to facilitate exchange of experiences, ideas and potentially personnel; and
- Publish knowledge products that draw on the lessons learned from UNCDF partners and provide practical information for the global industry.

Through this project, we have developed a project document for the second phase of the PFIP Programme from 2014 to 2017 as part of the UNDP Asia/Pacific Regional Programme.



Under the MM4P programme, we are currently supporting UNCDF to implement its country plans for Malawi, Nepal and Laos.



The document focuses on the landscape of mobile financial services in the region, state of current mobile banking deployments, and gap analyses. The document will guide the implementation and management of PFIP, outlining the goals, strategy and general activities for the \$30 million 2nd phase. Under the MM4P programme, we are currently supporting UNCDF to implement its country plans for Malawi, Nepal and Laos. We are working with a range of partner institutions of UNCDF in these countries to support them in implementation of their branchless banking programmes.

Product Innovation in Digital Financial Services for Savings and Remittances, Omidyar, India, 2010- 2013

Under this programme, *MicroSave* has been working with a variety of partners to develop and test products, conduct research, and build a community of informed consultants in the financial inclusion industry. We have conducted a range of research studies across India. These included:

- Exploring agent networks for branchless banking;
- Understanding remittance networks;
- Cost and willingness to pay for agent-based services
- Dormancy in no-frills accounts; and
- Relative risks to savings of poor people.

The findings from these studies has been used to inform a series of action research partnerships to develop client responsive digital finance services involving collaborative arrangements between banks, mobile network operators and technology service providers. In addition, *MicroSave* worked with a leading public sector bank to look at the economics and operational implications of an expanded role for cash in/cash out agents. This saw agents selling savings, insurance and credit products and assisting with the collection of loans in addition to their basic cash in/out work. *MicroSave* has also worked on alternative approaches to financial education to drive uptake and usage under this project.

Conditional Cash Transfers and G2P Payments, Global

MicroSave has been deeply involved at both strategic and operational levels in some of the largest G2P transfer schemes in the world. In recent years *MicroSave* has worked closely with Government departments, banks and other agencies on government benefit transfers and conditional cash transfers in India, Indonesia, Kenya,

and Malawi, supporting the service providers and channel members establish risk and error free, efficient operations. We have:

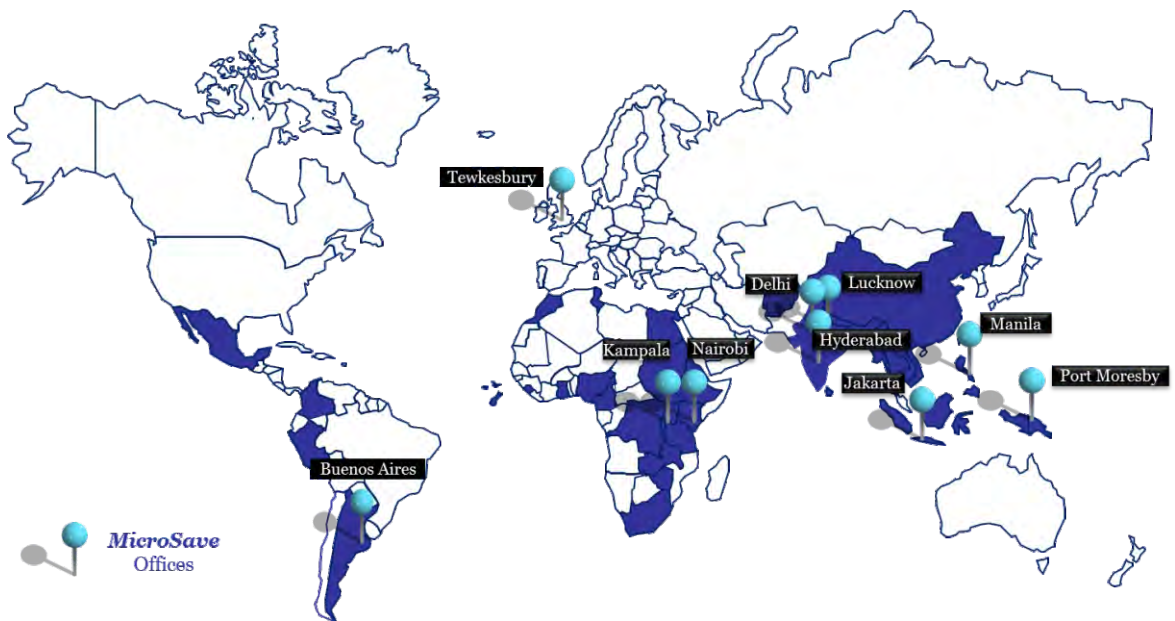
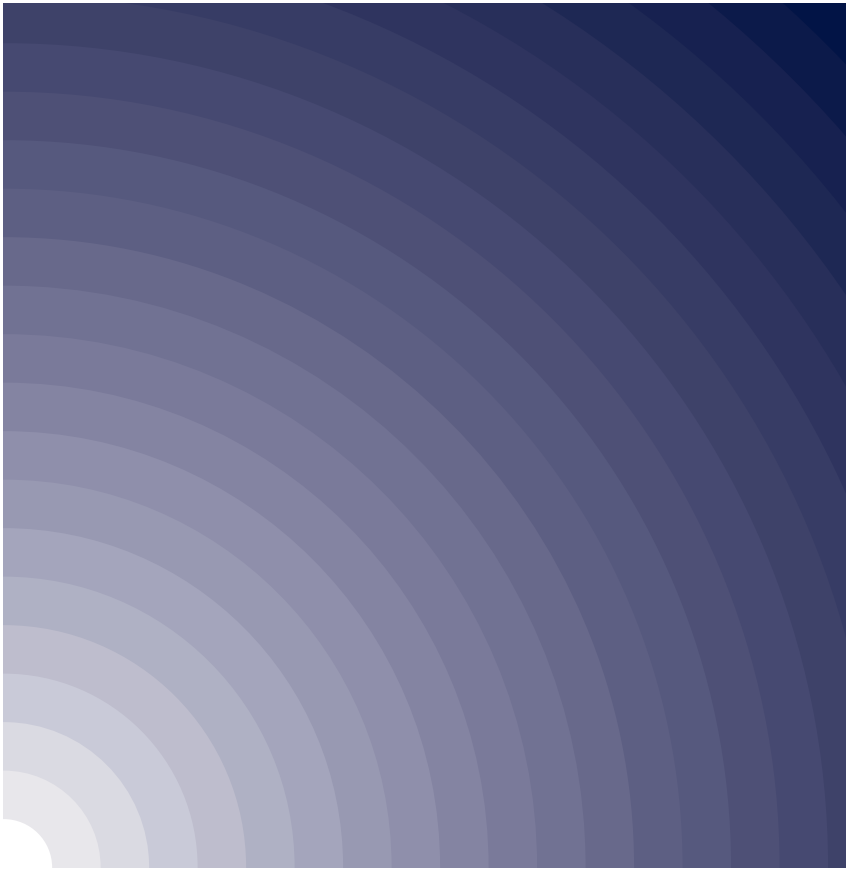
- Developed processes to increase efficiency and improve user experience for payments to frontline health workers in India;
- Assessed the channel options for G2P benefit transfers to remote northern Kenya;
- Reviewed the value chain and payments system for farmers in Uttar Pradesh, India; and
- Reviewed payment systems and evaluated alternative payment mechanisms for conditional cash transfers in Indonesia.

MicroSave is currently working on a five year project supporting the hugely ambitious Aadhaar G2P direct benefit transfer programme in India.

Some of our Other Projects

In addition to the projects above, we have experience working on wide range of short- and medium-term projects, some of which are given below:

- Risk and management in digital financial services for Bank Indonesia, 2013
- Strategic Business Planning for Deployment of Mobile Money Operations for M-Nepal, IFC, 2013
- Market Study to Assess the Effectiveness of a Regulation on Electronic Banking, Nepal Rastra Bank, 2013
- Scoping study for Market Segmentation in Branchless Banking and Mobile Money, Bangladesh, 2013
- Strategic Business Planning and Agent Training for Nationwide Microbank Ltd., Papua New Guinea, 2012-2013
- Strategic Planning for Oceanic Communications Limited, 2012
- National Payment Flows Study, IFC, Lao PDR, 2012
- M-Wallet Implementation Support at CU Sehati, Indonesia, 2013
- Review of Payment Systems for PKH Conditional Cash Transfers, Indonesia, 2012
- Product Design and Agent Network Review for one of the largest commercial banks in Colombia, GAFIS, 2012-2013
- Product Development and Marketing for one of the largest commercial bank South Africa, 2012-2013



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Market-led solutions for financial services

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