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Designing Innovative Products, Processes and Channels for the Promotion of Microfinance

Prepared for the NABARD Workshop on "Microfinance: Future Policy Options"

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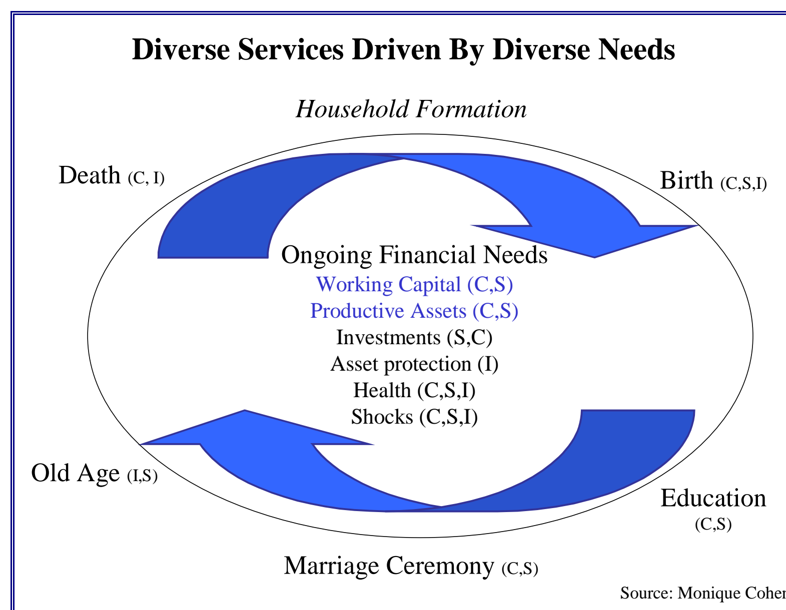
Introduction: The Diverse Needs for Financial Services Amongst the Low Income Segment

The microfinance industry has traditionally seen poor people's needs for financial services simply as "credit for enterprise". Today however, it is generally accepted that poor people also need access to lump sums of money to send their children to school, to buy medicines, to respond to other shocks and emergencies that beset their households, for social and religious festivals, to save up for old age etc. Thus it is increasingly clear that poor people need a range of "financial services" not just the traditional mono-product working capital loan. The diagram below outlines the diverse needs of not just the poor, but of all of us. The most typical offerings of microfinance institutions (working capital and productive asset loans) are simply not adequate – and omit the other services such as savings and insurance that might help poor households meet these needs.



C = credit, S = savings and I = insurance

Furthermore, even the typical 4-12 month working capital loan repayable in equal, immutable, weekly instalments does not adequately reflect the changing realities of poor households – whose income and expenditure flows can change significantly according to the season, the advent of festivals or with shocks to the household economy. Low-income households need prompt access to emergency loans (a role played by family/friends or the informal sector moneylenders in most countries) or to increased flexibility in the repayment schedules set by financial institutions seeking to serve them.

As a result, growing numbers of financial institutions have started thinking about developing and delivering a range of financial products tailored to meet these needs.

However, before proceeding, a word of caution about "product proliferation" is appropriate.

Product Proliferation

Product proliferation is increasingly common amongst many financial institutions that try to tailor products to respond to individual market segments with specific needs. These institutions can find themselves offering many slightly different products. At one extreme *MicroSave* once worked on product costing with one bank that discovered that it was offering 89 different products – some with only a handful of customers using them! A multitude of products often results in:

- Confusion amongst front-line staff and clients;
- Complex delivery systems;
- Complicated management information systems; and
- Cannibalisation among products.

When evaluating the diverse needs of clients, the financial institution should recognise that it cannot design a product to respond to each and every individual specific need. The financial institution should group the most common and prevalent needs of its target market segment and then develop products in response to them. One product can be marketed in many different ways to meet a variety of clients' needs. Thus an emergency loan (an immensely valuable and popular product for poor people) can be developed with flexible repayment schedules/terms to allow it to meet a wide variety of short-term needs – from education to accident, from ill-heath to death, as well as to seize opportunities as they arise.

The Market-led Revolution

This paper examines some of the products designed (many in collaboration with *MicroSave*) to respond to these needs, as well as some of the innovative delivery processes currently under testing, and finally reviews the *MicroSave* approach to product design. It closes with a few comments on NABARD's Kisan Credit Card and the implications of the changing face of microfinance for the "massification" of financial services for the low-income market in India.

Here it is important to note that a "product" comprises not just the basic terms, conditions and price as is often thought, but all "8Ps" of marketing:

The "8 Ps" of Marketing

The "P"	Details of the "P"
Product (design)	Includes specific product features, opening/minimum savings balances, liquidity/withdrawal terms, loan terms, ancillary services such as loan review and disbursement times, collateral or guarantees, amortization schedules, repayment structures (e.g. balloon payments or interest-free grace periods etc).
Price	Includes the interest rate, withdrawals costs, statement/ledger fees, loan fees, prepayment penalties, prompt payment incentives, transaction costs and other discounts.
Promotion	Includes advertising, public relations, direct marketing, publicity, and all aspects of sales communication.
Place	Refers to distribution and making sure that the product/service is available where and when it is wanted. This includes such options as outreach workers or agents, mobile bankers, ATMs, working with the informal sector financial services etc.
Positioning	Is the effort by the microfinance institutions (MFI) to occupy a distinct competitive position in the mind of the target customer. This could be in terms of low transaction cost, low price, high quality, security of savings, quick turnaround time, professional service, etc. It is a perception.
Physical Evidence	Includes the presentation of the product: how the branch physically looks, whether it is tidy or dirty, newly painted or decaying, the appearance of the brochures, posters and passbooks etc.
People	Includes how the clients are treated by the people involved with delivering the product – in other words the staff of the MFI. It also includes recruitment, internal communications, performance monitoring and training. To get the best performance from staff, MFIs need to recruit the right staff then invest in training on customer service and in products, the MFIs' processes and procedures.
Process	Includes the way or system in which or through the product is delivered: how the transaction is processed and documented, the queues/waiting involved, the forms to be filled etc.

The products, delivery processes and channels outlined below highlight the revolution underway in microfinance. As different financial institutions (from commercial banks to insurance companies, from mobile phone operators to health management organisations) become increasingly interested and involved in the low-income segment of the market so the products and options for delivering them are expanding rapidly. The days of an inflexible working capital loan as the only product available to the poor customer are over as microfinance moves onto a market-led basis. Market-led microfinance puts the customer at the centre of the business. In the context of product development, this means understanding the customer and his/her needs in order to develop client-responsive, flexible financial services.

New Generation Products

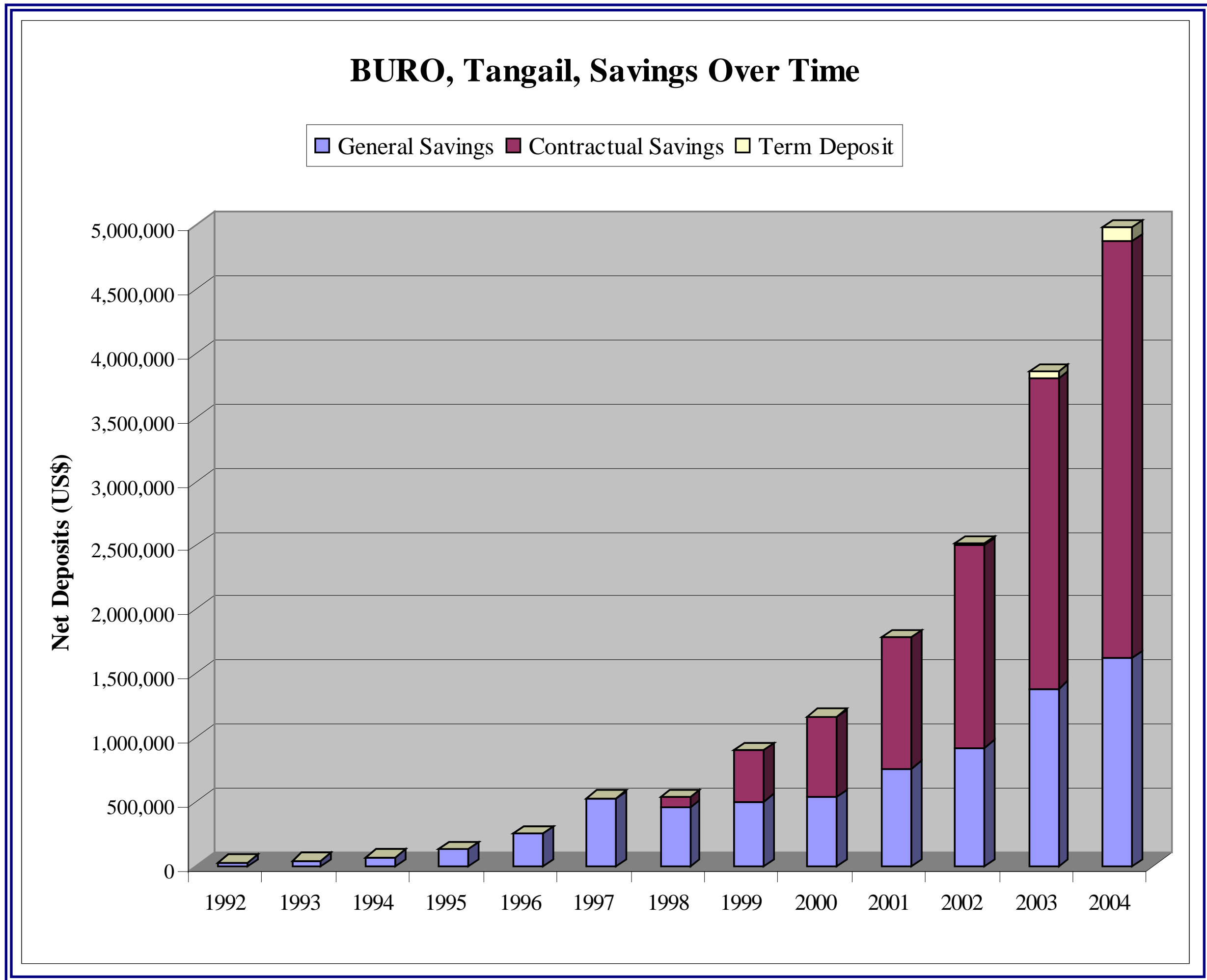
BURO, Tangail's "Contractual Savings Agreement"

BURO, Tangail's contractual savings agreement was designed to meet the expressed demand for a disciplined savings mechanism that would allow its clients to save up for predictable life-events – particularly their daughters' marriages. Other clients use the product to save up to buy small parcels of land or to add to/renovate housing.

The contractual savings agreement was initially pilot-tested in one form: a five-year contractual savings agreement with weekly instalments of Tk.5-100 ($0.10 - $2). The effective rate of interest was 15% per annum, compounded yearly. On maturity at the end of five years, the accumulated deposit with profit is immediately cashable. To open a contractual savings account members are required to visit the branch office, discuss the scheme with branch staff, and pay a fee of Tk.10 ($0.20) to initiate the account. Failure to make a weekly deposit results in a fine of Tk.1 ($0.02) per Tk.5 ($0.10) payable and this fine must be paid along with the arrears the following week. Failure to pay more than three consecutive weekly deposits anytime during the five years terminates the scheme, and the accumulated deposit amount is transferred to the member's general savings account, where it will earn the normal rate of interest on savings from the inception date of the scheme.

BURO, Tangail's pilot-testing system also provides for an extensive series of interviews with clients who have used the products and those in the groups who have not used the new products in order to understand how and why (or why not) clients are using them. The on-going informal market research during the pilot-testing process also resulted in BURO, Tangail understanding the even more latent demand for contractual savings products of other (primarily shorter) durations and thus the demand for 3 and 10-year agreements. This in turn led to another round of informal costing and pricing, and the introduction of the multiple duration contractual saving products into the organisation. The costing of the product also indicated a need to re-price it, and so as the product was rolled out, the compound interest rate was dropped to 10-12.5% (according to the length of the contract).

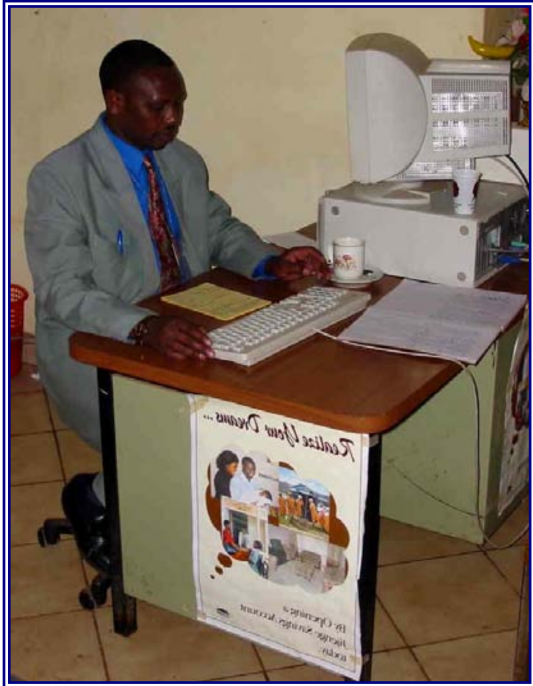
The contractual savings product proved extremely popular, with demand far outstripping the rationed supply offered during the pilot-test, but it necessitated substantial changes in BURO, Tangail's systems. The clients' passbooks and front-line Program Officers' collection sheets were re-designed. The ledgers in the branch offices were changed and extended to allow analysis of the up-take of the product and a provisional assessment of its implications for liquidity management. While the Program Officers' workload was not significantly increased, the product (taken in conjunction with the other products introduced) necessitated the recruitment and training of new Assistant Cashiers to manage it. Additional training was designed for the staff charged with selling contractual savings agreements and those responsible for managing the resulting cash flows.



The results have been phenomenal, as can be seen from the graph "BURO, Tangail, Savings Over Time". The contractual savings product has grown faster than any other savings product and now represents 65.5% of the total savings deposited with the institution. At the beginning of 2004 there were 135,091 Contractual Savings Accounts, during the year 48,238 of these matured and were paid and another 89,541 accounts were opened, giving 176,394 accounts (with an average balance of $18.45) as of December 31, 2004. Together these 176,394 contractual savings accounts provided $3,254,672 in deposits as of 31st December 2004. In the eight years since the contractual savings accounts were first pilot-tested in 1997, a total of 305,860 accounts have been opened and 129,466 have matured. At the end of 2004 BURO, Tangail had 221,366 customers and (given that some members have multiple accounts) around 70% of customers held a contractual savings account. These savings provide a longer-term, stable source of capital that BURO, Tangail can use to lend, generates a good flow of fee-based income, and also (despite their entirely voluntary nature) provide an important security for the institution's lending activities.

Equity Bank's Jijenge Contractual Loan Product – with Emergency Loan
Equity Bank has developed the *Jijenge* savings account to assist their clients "*Realise Your Dreams*". *Jijenge* is a contractual savings product similar to that of BURO, Tangail, but with an emergency loan facility attached. The client defines the length of the contract and the periodicity of the deposits (weekly, fortnightly or monthly). A premium interest rate is offered to those who take out longer-term contracts but there are quite significant penalties for premature withdrawals from the account. Finally, all *Jijenge* savings account holders have guaranteed, immediate access to an emergency loan of 90% of the value of the amount in their *Jijenge* savings account on demand.

As well as providing a disciplined way to save (in the same way that many informal sector mechanisms do), this product allows its clients to meet their "illiquidity" preference and protect their savings against the demands of petty spending or marauding relatives. The account is already proving extremely popular with existing and new clients alike.



The *Jijenge* savings account provides Equity Bank's clients a financial product that helps them with their financial planning objectives. As a product of extensive market research and constant customer interaction, the *Jijenge* savings account is clearly meeting customer needs. *Jijenge* accountholders are particularly pleased with the:

- Disciplined saving,
- Freedom to set terms,
- Automatic access to loans, and
- No operational charges.

The *Jijenge* savings account has provided customers with the opportunity to actively involve Equity Bank in their financial planning thus building on its "Listening, Caring Financial Partner" image and position in the market. The first contractual savings product in the lower-income market segment, the *Jijenge* savings account is a strong starting point for future cross-selling opportunities.

For Equity Bank, the *Jijenge* savings account offers a stable deposit base from which to lend as well as supplementary income from the emergency loans and premature withdrawal fees. In addition, the product is allowing Equity Bank to attract new clients into its banking halls ... and also to assess their monthly cash flows to inform future lending decisions.

All the above said, the pilot-test of the product clearly identified the need for careful, intense marketing of this relatively complex product to the low-income market, in order to ensure that they understand the products benefits and features. The rollout of *Jijenge* coincided with the massive and explosive growth of Equity Bank and has therefore not been as successful as the pilot-test had promised – since the customer service staff have had to focus more on basic savings account opening rather than the lengthy process of selling the *Jijenge* product. Despite this, Equity Bank management continue to see *Jijenge* as a key strategic product for the bank in the medium and long term. As of end of February 2005 there were 4,756, *Jijenge* account holders – with a total of $512,226 (average $107.70) deposited in their accounts.

The Revised "Grameen II" Products
Under its Grameen II programme, Grameen Bank has completely re-invented its product offering. As Stuart Rutherford notes, "Grameen II consolidates many of the lessons from [the bank's] experience, but goes beyond that by making some fundamental changes. Among the more important are:

- **Public deposit services**: the bank has become a true intermediary by mobilising deposits from the general public (and not just from its members).
- **Extended member deposit services**: there is a wider range of savings opportunities for members, including a commitment-saving account known as 'Grameen Pension Savings' (GPS). Personal savings accounts have been made far more flexible, and group savings accounts have largely gone.
- **Improved loan contracts**: there is a wider range of loan contracts with variable terms and repayment schedules. Larger loans for business use are available. Loans may be 'topped up' mid-term, or paid off early. There is no obligation to borrow. Borrowers in repayment difficulties have their loans rescheduled (into 'flexi' loans). Joint financial liability is formally banned (though members still undertake to help each other in other ways)" (Rutherford, 2004)

In an innovation similar to BURO, Tangail's "Supplementary Loan" that was developed to maintain working capital within customers' businesses, Grameen II offers loan "top-ups". In the words of Stuart Rutherford, "For loans of 12 months duration or more, you may 'top up' the loan after six months (twenty-six weeks). That is, you may re-borrow the amount you have repaid during the first six months of your loan term, adding that amount to your loan outstanding balance. In that case, the term of the loan is extended by a further period (usually six months) so that in most cases weekly repayment amounts do not rise – and may even fall – as a result of a top-up. In some cases you may extend the loan term *without* topping up the loan amount. …

Kendra [groups of 40-50 members] Managers quickly identify members with repayment problems, and under Grameen II they can take advantage of the six month (twenty-six week) 'top-up' rule: they coax such members through to the twenty-sixth week, when they can borrow again an amount equal to half the original loan, enough to pay down any debts still outstanding to fellow-members and to provide some helpful liquidity to manage the remainder of the loan. We have also witnessed – though such cases are still uncommon as far as we know – another inventive use of the top-up rule. I call it the 'empty top-up'. At twenty-six weeks a member in repayment problems may be given an extension of term without any cash top-up. The effect of this is to halve the weekly repayment amount due. This achieves much (though not all) of what the flexi-loan was meant to achieve" (Rutherford, 2004).

These loan top-ups are proving very popular indeed. Rutherford notes in *MicroSave* Briefing Note # 3, "Members quickly understood the loan 'top-up' system. At first there were mixed feelings, some members believing it slowed the growth of credit limits, but by 2004 we found very few who dislike the system, none who didn't know it, and many who value and use it." But even more popular is the 'Grameen Pension Savings' (GPS). Rutherford notes in *MicroSave* Briefing Note # 2, "The GPS offers another entirely new, but quite different, form of saving service to Grameen members. It allows members to save up steadily over the long haul for large expenditures: marriage for daughters, careers for sons, and future business investments were the three uses most often quoted by our respondents. It features growing balances, and it already dominates the savings portfolios of our three sample branches, with shares of 35%, 38% and 43%, rising rapidly, and typically twice the share held by personal savings and by special savings.

The results of these more client-responsive products have been extraordinary and re-emphasise the importance of market-led approach to designing and delivering products for the low-income market. "The

Bank's audited accounts for 2003 show a six-fold increase in net profits over 2002 – from 60 to 358 million taka (US$6 million). 2003 was the first full year of 'Grameen II', so this surge in profit looks like a good return on the decision to launch Grameen II. …

Profits came from growing interest income on loans outstripping even faster growing interest expense on the new range of savings accounts, from containing costs, and from a fall in loan loss provision. Yet only three years ago the Bank admitted to falling repayment rates, and Muhammad Yunus, its Managing Director, noted that 'Grameen II' was needed to improve performance through more flexible product design, including the use of quick loan rescheduling using the new 'flexi' loans. He also promised stringent provisioning policies for more transparent accounting of the quality of the loan portfolio.
…. membership growth involves not only new members but also past members who had left but returned after Grameen II started. This is evidenced by the remarkable rise since 2002 in recovery of bad debts: that is, loans that had been written off but subsequently recovered:

Recovered loan debt, Grameen Bank, millions of Taka [Taka 60: $1]:

2000	2001	2002	2003
10	47	105	132

Not all who repaid old debt returned to membership, but our field-level investigation show that the majority of such payments are made by members seeking to return to Grameen and to borrow again. It seems, therefore, that Grameen II loan products have managed to both satisfy new members and attract back old ones, and satisfied clients tend to repay loans well. …

We conclude that the improvement in the bank's financial performance is real, and is related to the greater attractiveness of Grameen II's wider range of more user-friendly loan products, and to its decision to attract deposits in much greater volume, which has allowed it to expand its loan portfolio and serve many new borrowers" (Hossain, 2005).

K-Rep/AAR's Health Care Financing Scheme

The Health Care Financing Project brings together a diverse consortium comprised of AAR Health Services, AAR Credit, K-Rep Bank and K-Rep Development Agency to develop and test an innovative, private sector-driven, commercially viable and replicable health financing scheme to reach low-income groups. Through the project and its consortium partners, a range of health care financing products have been developed and are being pilot tested. These products will contribute towards quality, accessible and affordable health care financing services for the low-income groups. This is achieved through the establishment of franchised health centres in the low-income areas of Nairobi city that offer both fee-for-service and also provide health care to families covered by the AAR Afya health care financing plans.

- **AAR Franchised Health Centres:** AAR successfully established three urban-based franchise health centres in Nairobi - specifically in Kawangware, Buruburu and Kasarani areas in the close proximity of low-income community. These franchised health centres are crucial for the marketing of Afya products because these serve as "home clinics" for the Afya members. Between January 2003 and March 2005 these three franchised health care centre have received total of around 40,000 patient visits (from both fee-for-service and Afya members) and currently receive an average of around 1,000 patient visits per clinic per month.
- **"Afya Card" Products:** The product concepts were the result of extensive market research conducted by KDA. Coverage components and pricing have been determined through actuaries who have been

working with the HCF consortium since February 2002. The pilot test ran from January 2003 to April 2004 and was used to assess options for the product. However, the process of fine-tuning the product still continues as the project's understanding of customers' needs and health-seeking behaviour grows through the pilot test/rollout process. Three products are currently under rollout:

- Afya 1: An in-patient only cover
- Afya 2: Comprehensive in and out-patient cover
- Afya Maisha: An in-patient only cover targeted for the corporate members

The intention with these product options is to create a range of opportunities to satisfy the needs and abilities of the target market of low income, self and otherwise employed and their families.

The target clientele for the Afya card products are as follows:

- K-Rep group (in particular K-Rep Bank) clients, who are typically drawn from the informal "*jua kali*" sector;
- Support staff of the existent pool of AAR corporate members - since employers of low-income workers have also expressed significant demand for a low-end health care financing product. This has proved to be a significant source of clients from the target market; and
- Other small-scale businesses such as taxi associations, small hotels, security companies, petrol stations and supermarkets, Formal and informal organisations and individual families.

Afya Loan: "Afya Loan" is a flexible credit facility offered by the K-Rep Bank and AAR Credit to low-income clients to allow them to finance their annual membership fees for the Afya products. The size of the loan amount depends on the family size and is the equivalent to the Afya Card annual membership fees. The Afya Loan provides credit for a maximum of 10 months credit – so that the clients must put a downpayment of 2 months premium at the beginning of the loan. The loan repayment is on weekly or monthly basis, as this model has worked for the business loans in many microfinance institutions. Around 30-40% of all clients are using the Afya Loan to finance their premiums.

The project has faced several challenges that have resulted in its slow start. These are broadly as follows:

1. **Political:** In January 2003, as the Afya Card was launched, the Health Minister and Ministry of Planning repeatedly promised to provide "free health care for all". These promises to the public had a huge impact among the low-income communities – Afya Card's market. People wanted to believe that soon they would receive free health care – and in the resulting uncertain environment few wanted to participate in a health financing scheme and commit themselves for a year. Nearly two and half years later, the Government of Kenya is still assessing how to deliver on this promise.

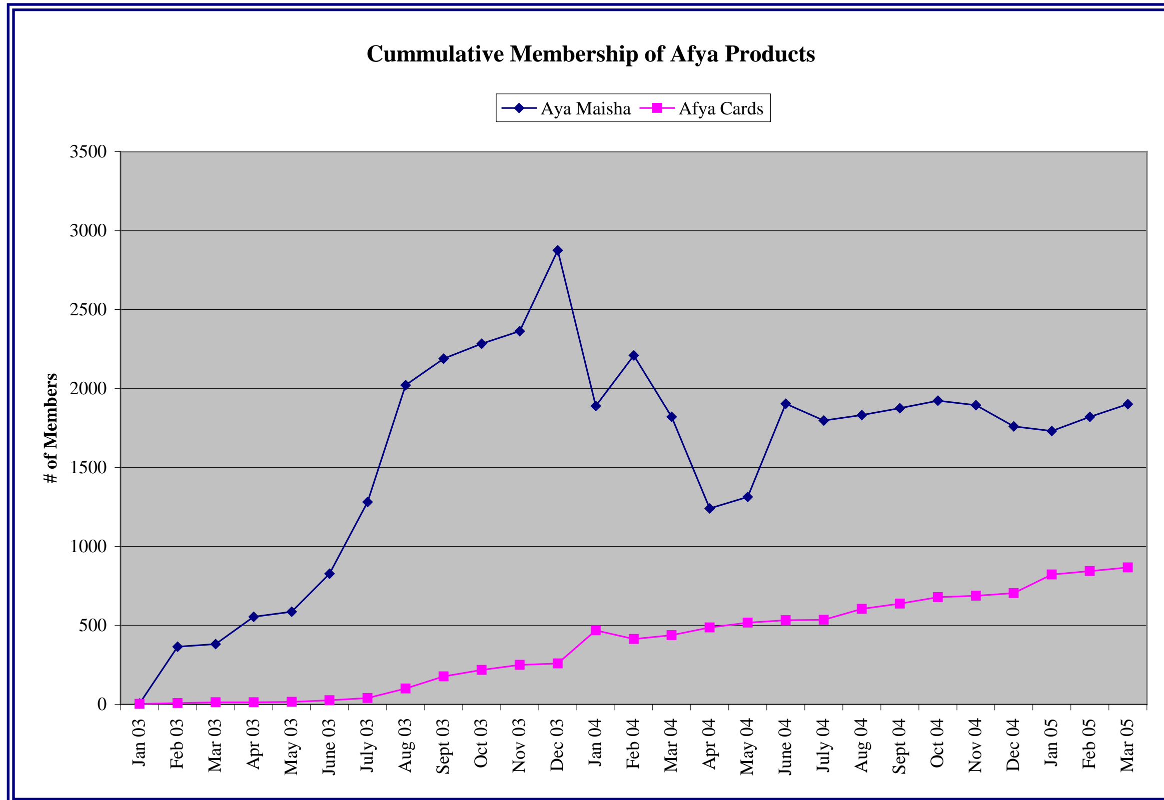
2. **Marketing Issues:** To date the appropriate marketing of Afya Card remains one of the biggest challenges. The low-income market for health care financing products is brand new to all parties involved in the consortium. It has been difficult to achieve clarity and congruence of vision and effort on the marketing of the Afya Card amongst the consortium members. The project continues to test innovative ways to market Afya Card to the low income community.

3. **Product Restrictions:** Under the Afya Card clients are tied into using specific "home clinic" franchised health care facilities, and to a maximum number of visits per year (for example a family of 5 is limited to 20 out-patient visits in a year). These restrictions are essential to keep the annual membership fees low. This has caused some problems in take-up since the product is seen to be subject to too many restrictions. Work is underway to re-balance costs and restrictions while protecting the quality of the services provided.

4. **Balancing Services Offered and Price:** The project has faced a dilemma not uncommon in insurance – those who can afford the premium want access to higher-grade hospitals and those that are happy just to get access to the lower-grade hospitals often struggle to afford the annual

membership fees. This remains a challenge and the project continues to track and analyse the annual membership fees to claims ratios in order to try to respond to this.

Despite these challenges, the results of the Afya products are promising, as shown in the graph below. The Afya Card products have shown a steady increase in take-up and while corporate renewal/lapses drive the fluctuations in the cumulative membership of Afya Maisha, it also shows an overall upward trend. This positive trend is now expected to accelerate after the media reported that the Kenyan government has announced that it is unable to afford the health-for-all (thorough the National Social Health Insurance Fund) as originally promised by the Minister of Health.



Overall, the findings from the project provide reassuring indications that the health care product(s) tailored for low-income groups do indeed have a huge market in Kenya. Indeed AAR is looking at replicating the product in Uganda and the re-insurer seems set to replicate the product in Tanzania, so it is clear that the commercial case has been broadly accepted by those involved. However, such products need a dedicated, active and focused marketing team, as well as broader based outlets (for example the Kenya Post Office Savings Bank has expressed interest in marketing the product), to achieve the target for marketing and sales. It will take time to penetrate this market and gain understanding, trust and confidence from people. In addition, because health insurance is less tangible many people take a long time to understand the concept and decide to take up membership. Many potential/interested clients in the community are watching closely their peers who have enrolled. As a result, it is very important to build a good rapport with the current members, since they are likely to play the role of a catalyst or ambassador in their community ... and to drive the all-important word-of-mouth marketing.

FINCA Tanzania's Uvibiashara MicroLeasing Product

FINCA Tanzania provides access to microcredit to economically disadvantaged people, using the Village Banking methodology. Client numbers have grown from 39,455 active client end of September 2004 to 41,680 end of February 2005 and the total outstanding portfolio stands at $4.89 million.

FINCA Tanzania began pilot testing its new microleasing product - *Uvibiashara* - in October, 2003. The product had been developed to respond to the demand expressed by FINCA's existing clients for a lease product to buy assets to start or expand their business. *Uvibiashara* was pilot-tested for 10 months – and an evaluation of the pilot test was conducted in July 2004. This evaluation confirmed that the product was successful and had even performed beyond set targets. FINCA Tanzania therefore chose to rollout *Uvibiashara* in all its areas of operation - subject to it composing a maximum of 20% of the organisation's total portfolio.

Uvibiashara is a micro lease product designed to enable low-income people to acquire productive assets. The product has the following features:

- The loan term is varies proportionately with the loan size as follows:
  - Four months (Tsh.0.1-1 million - $100-1,000)
  - Six months (1- 2 million - $1,000-2,000)
  - Twelve months (2 - 10 million - $2,000-10,000).
- The lease is priced at the base interest rate of between 25% - 30% inclusive of insurance upon client's death.
- Customers' down payment is 20 % based on total value of the asset leased, ownership documents are retained by FINCA Tanzania, group guarantee for assets below Tsh. 1,000,000 ($1,000) and individual guarantee above 1 million.
- No grace period is provided as the assets are assumed to be productive as soon as they are delivered.
- Bimonthly repayments.
- Late payment is penalized by 10% of the missed installment, and none-repayment by 20% of the amount required.

The table below summaries the performances of *Uvibiashara* during the pilot test period. The product reached higher targets than those set. The targets on monthly repayments were not met because of the delayed take off of the product and an increased repayment period for the larger loans.

Uvibiashara pilot test period performance November 2003 to June 2004:

Number of Disbursements	Actual	97
	Target	70
Number of Active Leases	Actual	77
	Target	70
Lease Disbursements	Actual	$198,121
	Target	$ 86,201
Total Monthly Repayments	Actual	$ 28,191
	Target	$ 34,350
Gross Outstanding Portfolio	Actual	$148,526
	Target	$51,852
Average Outstanding Lease Balance	Actual	$1,065
	Target	$928
Average Lease Disbursement Size	Actual	$1,629
	Target	$1,228
Total Income Micro lease	Actual	$8,652
	Target	$2,198

Uvibiashara is the only product of its kind on the market and the product is expected to enhance the image of FINCA Tanzania in the low-income market. Since the product has successfully passed through all the stages of market research and pilot testing, *Uvibiashara* is client oriented and this has made a substantial contribution to its successful performance. The rollout of *Uvibiashara* has given FINCA an opportunity to capitalise on the product and build on its already existent competitive edge.

The results of the rollout have been good, with demand consistently outstripping supply. Despite the success and profitability of the product, FINCA lacks the capital to further expand its *Uvibiashara* portfolio at any significant pace.

Uvibiashara results over the months December 2004 – February 2005:

	Dec 04	**Jan 05**	**Feb 05**
Total Clients	200	212	223
Disbursements	51,436,200	44,451,900	51,355,000
Loan Portfolio ($)	620,617	629,035	636,965

New Generation Delivery Channels/Products

Equity Banks' Mobile Banking Service

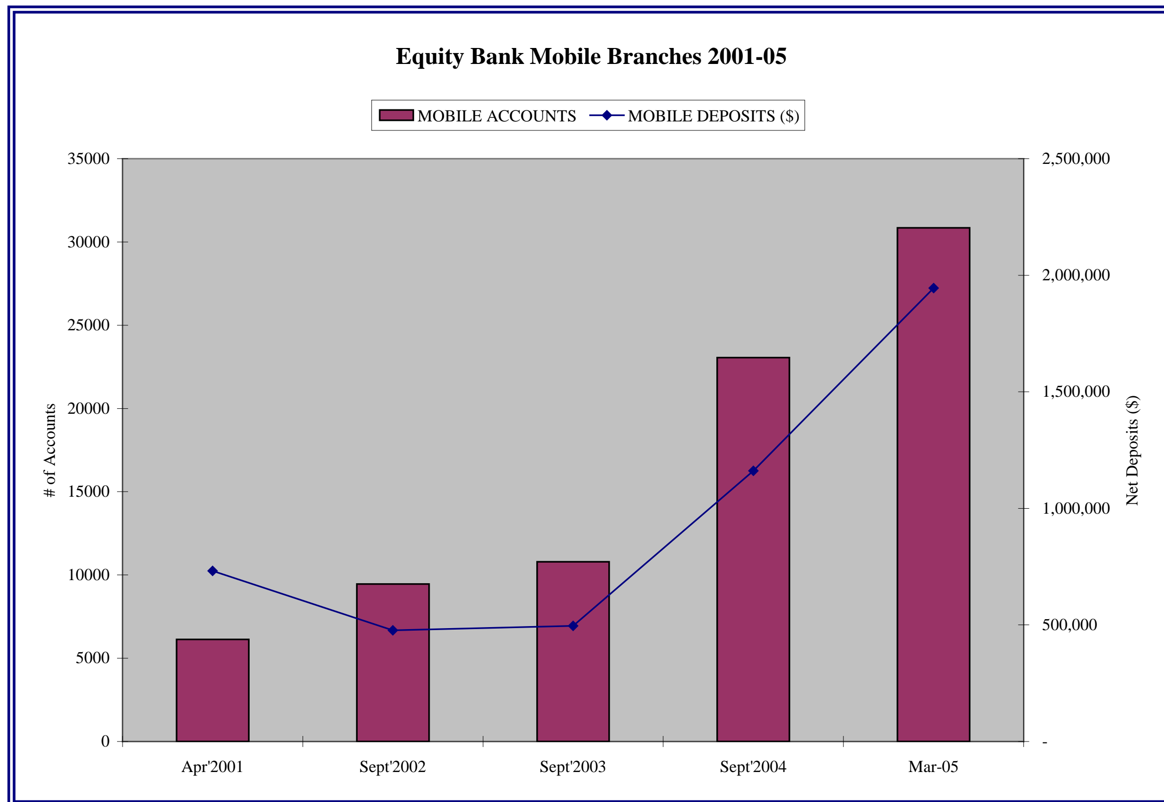
Equity's mobile banking service is now over six years old and is motivated by the desire to 'take banking services closer to the people'. The service was initiated with the to increase outreach and offer commercial banking services in rural areas that are poorly served by formal financial institutions or where formal financial institutions withdrew their services. Each mobile unit centre serves a radius of 20 – 60 kilometres from the branch and takes services into areas that have poor accessibility and high levels of insecurity. The target clientele for Equity's mobile banking units are small and micro business entrepreneurs and smallholder farming households in rural centres lacking in infrastructure such as accessible road networks, telephone and electricity and cost-efficient transport services.

Coetzee et al. note, "Each mobile banking unit is attached to an Equity branch. A village satellite is established in a simple rented structure that is served once or twice per week by a mobile banking unit. Equity has networked its mobile units using VSAT communications and adding VHF radios to provide voice based communications. DFID has also financed fully equipped units designed as complete banking units with cash-dispensing outlets, using solar panels, inverters and rechargeable batteries which can power laptops, printers etc. Equity's experience suggests that technology can be used to deliver a significant range of services in rural areas and that donor support can accelerate the process. Convenience, accessibility and liquidity are clearly valued by clients.

As at July 31st, 2003 10,028 clients were served through mobile banking units serving of which approximately 65% held loans. Seven branches serviced 28 locations. A branch costing showed that three out of seven branches had profitable mobile banking units. Although the overall mobile banking programme is profitable, the programme is clearly in its growth phase and the current infrastructure can accommodate

many new locations. Profitability is clearly related to volume of business whether this is reflected in portfolio size, savings balances or client numbers" (Coetzee et al., 2003).

As can be seen by the graph below, by March 2005, 30,843 clients were being served through the mobile branches (up 33.7% from September 30, 2004 alone). These clients made 69,173 transactions through the 48 mobile locations (administered from 12 different branches) in March 2005 and the average deposit was $63.03 (raised significantly by a minority of 1,630 (5.3%) of account holders who hold balances >Ksh.20,000 ($263) which hold 75.3% of the total $1,945,278 net deposits.



Teba Bank's A-Card

The A-Card is a completely real time debit card using Global System for Mobile Communications (GSM) and Unstructured Supplementary Services Data (USSD) mobile phone technology to communicate with the server. It holds significant additional potential to include many other features including cell phone air time top up, distribution of government and other mass transactions, ATM access, fuel payments, medical savings, specific savings pool options. The use of cell phone technology allows for placement of cell phone based POS machines in rural and urban areas dramatically enhancing access and convenience for A-Card clients. A full range of traditional banking (liability side) transactions (including deposits, withdrawals, balance inquiries, and statement production) will become accessible at local shops and other locations. Because of network and switch access, traditional POS and ATM withdrawals will be available at all non-A-Card sites increase possible locations for transacting with the A-Card.

Initially the bank developed its systems through a joint venture agreement with its solution providers. As Cracknell notes, "The joint venture agreement appears to have encouraged:

- *Cost control*: A small, focused development team has kept development costs low. The focus on cost control has included purchasing and reconditioning several high-end servers, which enable one or more servers to be offline at any time and provide disaster recovery at a very low cost.

- *The development of a feature rich product*: Teba Bank's A-Card is a fully featured solution offering functionality equivalent to a bank account with additional functions not available through a normal bank account including airtime top up and card-to-card transfer" (Cracknell, 2003).

This range of features has meant that Teba Bank in South Africa also had to design and test communications materials based on photographs, with minimal text aimed at explaining the operation of the card to semi-literate customers.

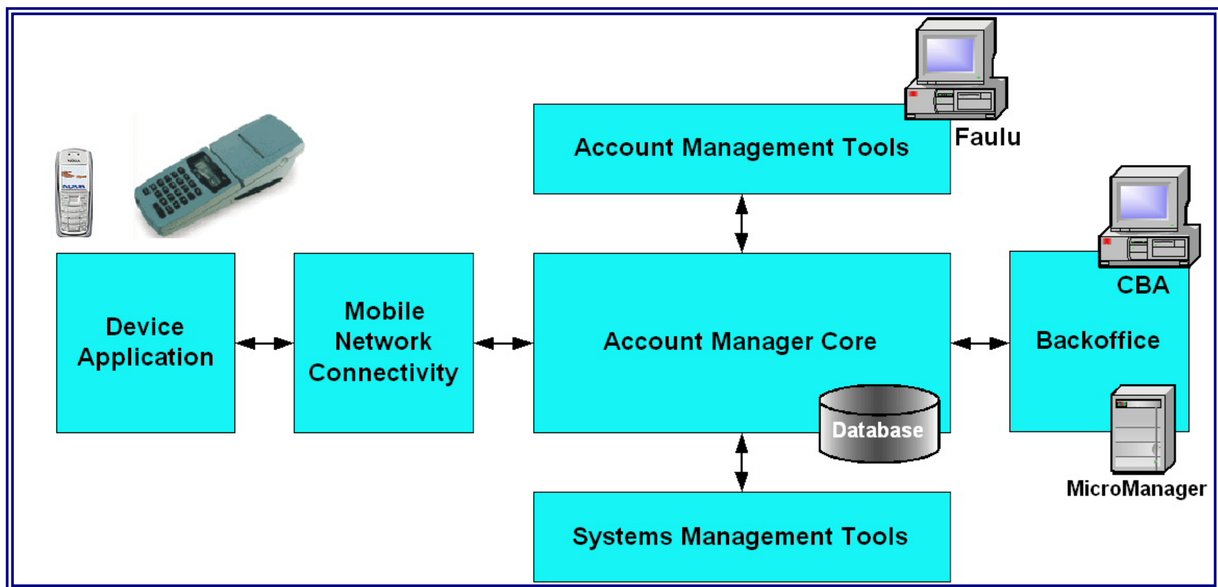
As of February 2005, Teba Bank is running four pilot tests with a total of around 6,585 users on the A-Card. The first pilot test is with Community C (for airtime top-up), the second is introducing an A-Card based salary account, the third is with the Unemployment Insurance Fund (as a payments system for the Government of South Africa) and the fourth is with Beehive - a South African NGO.

The telephone company Cell C has teamed up with Teba Bank to enable Cell C community kiosk operators to manage their prepaid accounts. Kiosk operators can deposit funds in their Teba Bank A-Card accounts in Post Offices, Teba Bank branches and major supermarket chains and can top up their airtime at any time.

The Community C pilot test provides a mechanism for phone kiosk operators to manage cash payments to Cell C. The test continues to perform well, with hundreds of thousands of transactions being made during the one year the test has been in operation. Transactions volumes for corporate users are likely to be significantly higher than transaction volumes for individual users – and in this way corporate business channels can support the huge cost of developing e-banking solutions for individual users.

Safaricom/Vodafone-Commercial Bank of Africa-Faulu Mobile Phone Banking

Funded by the DFID Financial Deepening Challenge Fund (matched by Vodafone) with extensive contributions from Safaricom, Commercial Bank of Africa, Faulu-Kenya (NGO-MFI) and *MicroSave* the partners are to develop a mobile phone-based payments system. This is outlined in the diagram below:



This project is designed to provide a robust and easy to use microfinance system that can be used to extend the reach and efficiency of microfinance institutions. The system will be subjected to a systems test before

extending into a live pilot-test shortly afterwards. Since the Account Manager is dealing with real money, it is essential that Safaricom (Vodafone's associate company in Kenya) installs and operates it in a secure manner, including physical and electronic security.

For the system to be sustainable, the pilot-test must demonstrate significant potential. This would then prompt the stakeholders to investment further to build the user base to the levels capable of sustaining a commercial system. If the system is be commercially viable, the transaction costs must be kept to an absolute minimum, and it must be accessible to a wide range of users often in rural communities. Clearly, massification of outreach is the key to generating the economies of scale necessary to make the system sustainable. Safaricom's existing client base of over 2.5 million will clearly assist with this.

In order to achieve this, the project aims to be:

- **Accessible** – reach a large proportion of the population (including remote areas) and in a way that can includes as many potential users as possible;
- **Experimental, Innovative** and **Flexible** throughout the project to alter its behaviour in the light of lessons learned and add extended functionality;
- **Pragmatic, Appropriate** and **Sensitive** to the communities using and supporting the system;
- **Scalable** – a system appropriate for a pilot, which can scale up (either directly or by design) to very large numbers of accounts and transactions, with potential for multiple operators and international services;
- **Secure, Safe** and **Reliable** for each of the key stakeholders; and
- **Economic** - low transaction, roll out and operation costs maximising the opportunity for **Commercial** success.

The project will operate a dedicated payment platform, the Account Manager. The Account Manager manages clients' accounts and supports the basic transactions of Faulu's microcredit programme.

Similar "disruptive technology" product/delivery systems are under development in South Africa and India too and could lead to a significantly different way of "doing business" with the mass market for financial services.

And in India …

In India, while the MFIs replicating the old "classic" Grameen are making some reasonably good progress, the "stars" that are showing rapid grow such as Spandana and Share-MicroFin are already diversifying their product range in response to the needs of their customers. With the diverse markets and operating challenges in India, this tailoring of products to the expressed needs of the clients will have to continue, and indeed be set at the heart of, the operating methods of any truly successful financial institution. In addition, there is growing evidence that the banks are probably making losses on lending to the SHGs linked to them (see for example Sinha et al., 2003 and CARE, 2005). Given the importance of the SHGs in Indian microfinance, it is clearly time to:

- Focus either on improving the cost-efficiency of the delivery processes including rationalisation of process of group formation and maintenance, records and their maintenance etc; and/or
- On diversifying the product range/offerings to spread the bank's operating costs further; and/or
- Re-visit the products' pricing to ensure 'sustainable access' to financial services, in order to remove the disincentives to banks to provide services to the poor, and thus to maximise access to all.

NABARD's Kisan Credit Card

One of NABARD's more recent innovations to improve the flow of credit to the agricultural sector is the Kisan Credit Card (KCC). Introduced in 1998-99, by the end of March 2003 some 31.6 million KCCs had been issued (Basu, 2004). Basu goes on to note, "Though these are not truly credit cards, the KCCs present a number of advantages for the borrowers and lenders. Borrowers appear to have found this scheme quite useful because of the ease with which they can access credit and renew loans on a yearly basis, once the initial screening has been done, the reduction in number of visits required to branches, the choice/freedom of

purchase of inputs and operation of accounts at the designated branches. KCCs have substantially reduced the paperwork and delays associated with renewal of crop loans. Branch staff also appear to have found the scheme helpful, as it has reduced transactions costs" (Basu, 2004).

However, concerns remain about the distribution of KCC cards – in the World Bank's 2003 Rural Finance Access Study (RFAS, 2003) found that of households from AP and UP, only 6% reported having a KCC. Furthermore, the RFAS, 2003 also indicated that access to a KCC appeared to be higher for the larger farmers – noting that while around 20% of large farmers had a KCC, only 2% of marginal farmers did so. Basu concludes that "The success of the KCC, and other similar facilities that could be introduced in the future, would depend critically on the following factors: (i) extending the facility to rural non-farm activities; (ii) efforts to update land records in a timely manner; (iii) a relaxation by the RBI in the rules so as to accommodate for oral lessees and sharecroppers; (iv) greater flexibility to branch managers to be innovative in the use of the KCC facility to meet the totality of the credit requirements of farm households; (v) greater flexibility to cardholders to make deposits and withdrawals; (vi) uniformity in service charges [and] interest rates among various banks; (vii) a reduction in documentation charges; and (viii) efforts to better publicize the scheme" (Basu, 2004).

Furthermore, Mr. Dalbir Singh, highlighted another key issue at the June 18, 2004 joint meeting of the Indian Banker's Association and the Smart Card Forum of India. Mr. Singh noted that while the banks had taken various initiatives such as the KCC, there was inadequate infrastructure to allow their effective use. He challenged the hardware developers in India to develop an indigenous, low-cost point of sale device to overcome this barrier to using smart card technology.

NABARD is currently pilot-testing a smart card in 4 RRB branches in coastal Andhra Pradesh and in Karnataka. One cannot help but speculate that this might be the beginning of the next generation of the "smart" KCC that will not only hold the holder's personal data (perhaps linked to the nascent national identity system and thus to a credit reference bureau) but also his/her savings and loan account history as well as details of land-holding, previous sales through registered agents etc.. This would then allow the banks to make significantly better-informed lending decisions, thus reducing their transaction costs. Such a smart KCC would also allow the Government of India to channel agricultural subsidies direct to the end user in preference to driving them through (and thus distorting the market for) the banking system.

The Need for Systematic Product Development

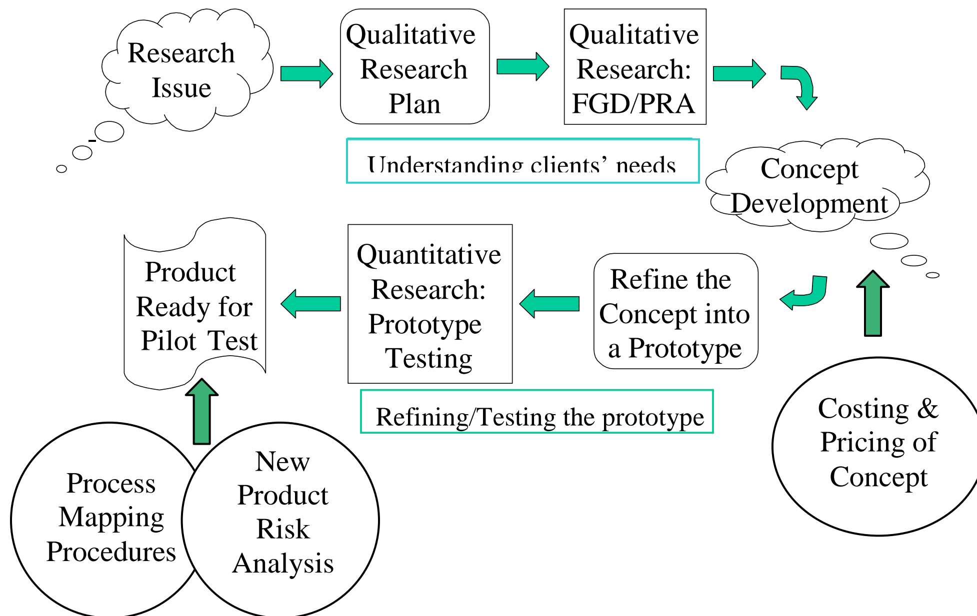
The above examples provide clear proof of the effectiveness of a systematic approach to product development. But it is not always thus … Under the prevalent top-down model that characterises many financial institution's approach to product development, there is little or no market research, inadequate costing/pricing of the new product, no attempt to describe the product in clear, concise client-language, no pilot-testing and no attempt at a planned roll-out of the new product. A top-down approach to product development can have expensive consequences – as many financial institutions that have introduced products without following a systematic process have discovered. Problems have arisen in such diverse areas as:

- Limited demand for the new product (in some extreme cases, additional client drop-outs);
- Poor profitability of (or more specifically losses generated by) the new product;
- Management information systems unable to monitor/report on the new product; and

- Staff inadequately trained to market and deliver the new product[1].

Experience has repeatedly shown that investing small amounts up front in a systematic process of product development can save large amounts and/or generate larger amounts of business in the future. One step of the product development process leads to and informs the next … and provides a disaster/reality check that insulates the financial institution from subsequent problems. A proper process also provides the financial institution an opportunity to correct problems or respond to issues while they are limited by the confines of each step.

A Systematic Process to Product Development
MicroSave promotes a systematic approach to product development designed to minimise the risks associated with what is a complex task. The approach looks to maximise the information the financial institution can gain at each step before proceeding to the next one – thus optimising the product for the clients in the market, and the institution offering it. The approach is shown in the diagram below:



Research Issue - A clear, focused objective should drive any market research. A precisely defined research objective will allow the financial institution to derive credible, actionable results cost-effectively. Poorly defined, or unfocused, research objectives are likely to require more time and effort to conduct the research - and often leave the financial institution with a mass of confusing data.

The research objective often is best driven by an on-going monitoring system that tracks key performance indicators. These indicators are usually linked to the strategic goals or institutional/product risk drivers of the organisation – for example Portfolio at Risk. These indicators should be built into the Management Information System (MIS) and routinely tracked to enable the organisation to assess when *ad hoc* research is required.

[1] A recent *MicroSave* virtual conference on pilot testing financial services re-emphasised these issues and the need for systematic pilot-testing. For a report on the virtual conference, see www.*MicroSave*.net.

Market Research and Concept/Prototype Development - Using *MicroSave's* "Market Research MicroFinance Toolkit", the financial institution is able understand their clients' perceptions, needs and opportunities using Focus Group Discussions (FGDs) and Participatory Rapid Appraisal (PRA) tools. The techniques are used to develop initial product ideas into concepts, and subsequently to refine the product concepts into prototypes for testing. The market research tools are also used to evaluate the progress of pilot-tests from the clients' perspectives as well as to test marketing materials and develop/assess customer service standards.

"*This assessment confirms the very positive value and effectiveness of MicroSave Market Research for MicroFinance toolkit. The PRA tools are well conceived, useful and effective; the training is excellent; and both have received extremely positive reviews by almost all users. The tools have had a significant outreach to MFIs in East Africa and beyond. They have had positive impacts on MFI thinking about and approach to clients and market research. They are unique in the microfinance field and have brought many MFIs to a point where they "can't go back" to their old supply led ways. This has led to the development of a wide range of new and improved products and services that have improved the competitive position of many MFIs.* ***The change in approach is profound***" (Anyango et al., 2002).

Product Costing and Pricing – To enable financial institutions develop profitable products and credible financial projections, it is essential to implement a product costing system. *MicroSave*'s "Costing and Pricing Financial Services Toolkit" outlines how Allocation Based Costing can assist financial institutions with this process. CGAP has also developed an Activity Based Costing manual. Product costing is an essential tool in developing profitable and efficient financial services through identifying inefficiencies and loss making products. For MFIs focused on achieving the bottom line with outreach it is indispensable.

"Allocation based costing allowed Equity Building Society to obtain a range of "quick wins"…[it] enabled us to identify some of the factors that are driving costs within the institution. … Product Costing has already become an indispensable tool… after only three months costing it is impacting on many of the strategic decisions being made within the institution." – James Mwangi, CEO, Equity Bank.

While marketing texts typical offer a bewildering variety of complex pricing strategies, such as loss leading, penetration pricing etc., these are rarely practical for most financial institutions serving the low-income market. *MicroSave* also assists its Action Research Partners with the pricing of their products using a simple "cost-competition-demand" approach. In the words of David Cracknell, "To price products first assess the cost of providing financial services; second examine the prices charged by the competition for similar products and third examine whether customer perceptions of the product justify premium pricing. When this approach is combined with transparent communication of pricing, the results can be significant. When Equity Bank re-priced its services in 2002, after performing market research it communicated these changes carefully. Deposit account sales increased ten-fold" (Cracknell et al., 2005).

Risk Analysis – As part of the preparation for pilot-testing, *MicroSave* conducts risk analysis and process-mapping. Introducing a new product inevitably increases the strategic and operational risk of the institution. *MicroSave* has worked with ShoreBank to develop an "Institutional and New Product Development Risk Analysis Toolkit" to assist financial institutions assess and manage these risks.

"Risk management is at the core of the Basel II guidelines and essential to optimising the performance of microfinance institutions (MFIs) … The risk management tools developed are dynamic, and change as the MFI cycles through the steps of the feedback loop. The MicroSave "Toolkit for Institutional and Product Development Risk Analysis" helps guide an MFI through the risk identification process, management, and measurement of their risks. Early indications based on the pilot test reveal that the tools, if rigorously applied, will help in the early detection and management of risks, especially in the development of new products" (Pikholz and Champagne, 2004).

The Product Development Process

I. ***Evaluation and Preparation***
   1.1 Analyse the institutional capacity and "readiness" to undertake product development
   1.2 Assemble the multi-disciplinary product development team, including a "product champion"

II. ***Market Research***
   2.1 Define the research objective or issue
   2.2 Extract and analyse secondary market data
   2.3 Analyse institution-based information, financial information/client results from consultative groups, feed back from frontline staff, competition analysis, etc.
   2.4 Plan and undertake primary market research

III. ***Concept/Prototype Design***
   3.1 Define initial product concept
   3.2 Map out operational logistics and processes (including MIS and personnel functions)
   3.3 Undertake cost analysis and revenue projections to complete initial financial analysis of product
   3.4 Verify legal and regulatory compliance
   3.5 Assess risks of new products and define strategies/tactics for responding to them
   3.6 On the basis of the above plus client feedback sessions, refine the product concept into a product prototype in clear, concise, client language
   3.7 Finalize prototype for final quantitative prototype testing or pilot testing, according to the risk/cost nature of the product

IV. ***Pilot Testing***
   4.1 Define objectives to be measured and monitored during pilot test, primarily based on financial projections
   4.2 Establish parameters of pilot test through the pilot test protocol, including sample size, location, duration, periodic evaluation dates, etc.
   4.3 Prepare for pilot test, install and test systems, draft procedures manuals, develop marketing materials, train staff, etc.
   4.4 Monitor and evaluate pilot test results
   4.5 Complete recommendation letter documenting the results of the pilot test, comparison with projections, lessons learned, finalised systems/procedures manuals, etc. and the initial plans for the roll out

V. ***Product Launch and Rollout***
   5.1 Manage transfer of product prototype into mainstream operations
   5.2 Define objectives to be measured and monitored during roll out based on financial projections
   5.3 Establish parameters of rollout through the rollout protocol including schedule, location, tracking, budget, process
   5.4 Prepare for rollout, install and test systems, finalise procedures manuals, develop marketing materials, train staff etc.
   5.5 Monitor and evaluate rollout process and results

Process Mapping - *MicroSave* uses process mapping as part of the risk analysis and management methodology and to make the workflows visible (since the latter greatly assists with the development of policies and procedures and, subsequently, staff training). A process map is a flowchart that shows who is doing what, with whom, when and for how long. It shows how operational decisions are made and the sequence of events. Process maps are good for streamlining work activities and in explaining processes.

"Process mapping is a powerful management tool that looks beyond an organisation's functional boundaries in order to reveal its core processes and how the different parts work together to serve customers. Process Maps are visual representations of a process, that use symbols, arrows, and concise wording to show inputs, outputs, tasks performed, and task sequence" (Champagne, 2004).

MicroSave goes further than drawing a flowchart – it adopts a four-tier approach:

1. The flowchart,
2. A description of the process,
3. An assessment of the potential risks in the process, and
4. Documentation of the controls to manage the risks identified.

This approach enables efficiency and internal controls to be carefully balanced, to the benefit of the institution and its customers. *MicroSave* has also developed a toolkit on "Process Mapping".

"Action Research Partner have reported extremely positive results from process mapping. In many institutions this may reflect the prior absence of a mechanism to review processes holistically combined with the organic growth of processes over time. This suggests that significant benefits can be derived from a first round of process mapping. Benefits reported operate at strategic, managerial and operational levels" (Sempangi et al., 2005).

Pilot Testing – *MicroSave* assists financial institutions to plan and establish a pilot test to analyse the product that they have developed. The pilot testing process has ten steps detailed in *MicroSave*'s "Planning, Implementing and Monitoring Pilot Tests Toolkit". Pilot-tests are essential for the successful development and rollout of new products.

The Ten Steps of Pilot Testing

1. Composing the Pilot Test Team
2. Developing the Testing Protocol
3. Defining the Objectives
4. Preparing All Systems
5. Modelling the Financial Projections
6. Documenting the Product Definitions & Procedures
7. Training the Relevant Staff
8. Developing Product Marketing Plans and Materials
9. Commencing the Product Test
10. Monitoring and Evaluating the Test

"Launching new products without a pilot test is another mistake that MFIs in Latin America often make", says Luis Echarte, founding partner of Paraguay's Servicios Internacionales de Consultoría para el Desarrollo (SIC). "The need for growth (of MFIs) causes them to imitate local competitors or successful organizations in other countries without conducting an appropriate analysis of the implications of the innovations they introduce," he explains. Microlenders can be blinded by illusions. Rapid growth is one such common illusion that can prove costly to microcredit institutions. In fact, according to experts, it's a situation that may conceal a number of dangerous traps" (Microenterprise Americas Magazine, 2003.).

A well-designed, implemented and evaluated pilot-test can save the financial institution significant strategic and operational problems and financial/non-financial losses …

"There are many good reasons for pilot testing new products in terms of reducing risks, controlling costs and in carefully developing products in a controlled environment. A few of the most commonly quoted reasons are provided below:

1. *To reduce the risk of developing inappropriate new products;*
2. *To reduce the cost of making mistakes;*
3. *To grow business volumes and profits through better meeting the needs of prospective customers;*
4. *To perfect the product whilst changes can be made quickly and easily and without risk to reputation;*
5. *To develop innovative new products – to be a product leader not a follower;*
6. *To develop a competitive advantage;*

7. *To experiment in a new sector; and*
8. *To understand / optimise marketing of the new product"* (Cracknell et al., 2003a).

Product Marketing – The successful introduction of new products often depends on the ability of the product development team to market the product to customers *and to staff.* Adapting its "Market Research for MicroFinance" tools, *MicroSave* helps financial institutions to define product benefits to customers and in communicating the product to staff. *MicroSave* has formalised this experience into a "Product Marketing Strategy Toolkit". Key outputs of this process are field-based research leading to taglines, benefit and positioning statements, competition analysis, publicity material and a marketing plan.

"… a product marketing strategy must accomplish several objectives to be successful:

- *It must define who the MFI wants to serve and which markets it can serve most effectively.*
- *It must identify the characteristics, needs, desires, preferences, values and priorities of the market(s) it wants to serve.*
- *It must develop a product that meets market needs better than the competition.*
- *It must price the product competitively.*
- *It must craft a message that clearly and concisely conveys the product's benefits and positions it in line with the corporate brand strategy.*
- *It must design and implement a sales strategy that effectively communicates the product's value and encourages purchase.*
- *It must monitor and manage product performance, learning from the feedback gathered to improve product design, delivery, promotion and sales" (Frankiewicz et al., 2004).*

Rollout – Once again, with a view to ensuring a systematic and controlled rollout, *MicroSave* uses a carefully planned, comprehensive approach to the rollout process using its "Product Rollout: A Toolkit for Expanding a Tested Product Throughout the Market". The toolkit provides practical tips and checklists to assist financial institutions with all aspects of the rollout process: recommendation letters, handover, finances, human resources, systems and marketing, as well as assessment of the rollout process.

"Once a financial service has been piloted, how you introduce the product to each new location has a significant impact upon the success or failure of the product. In each new location as a minimum, staff training, marketing the product to clients and staff and customisation of systems and procedures will be required" (Cracknell et al., 2003).

Conclusion

For many years microfinance organisations throughout the world have operated on the basis of replicating a basic working capital loan originally developed Grameen Bank in Bangladesh or FINCA in Central America. In the past few years, it has become very clear that simply replicating products and systems into very different socio-economic conditions will not work. Furthermore, there is a growing recognition that the low-income market has many and diverse needs for financial services, many of which can indeed be met on a profitable basis.

Worldwide the increasing competition among institutions is resulting in greater efficiency as well as a broader range of products, to the benefit of the clients. Advances in technology is already leading to reduced transaction costs, thus overcoming the long-standing barriers to the expansion of services. E-banking offers a huge opportunity to leapt-frog bankers' traditional concerns about "high volumes of low value transactions" and "investing bricks in bricks and mortar", and will increase volumes while driving down marginal costs. New technologies can also improve information about clients, reducing risk and thus costs. These factors have resulted in a growing number of commercial financial institutions initiating efforts to serve the low-income market.

As the microfinance industry matures and moves towards a market-led basis, financial institutions and other players entering the market are beginning to look for new opportunities and approaches to offering a diverse

range of financial services to the low-income market. This has encouraged them to revisit many of the basic questions posed in Stuart Rutherford's "Basis for Designing Quality Financial Services".

The Basis for Designing Quality Financial Services

An organisation wishing to get involved in financial services for the poor might ask the following questions during its surveys of its proposed area of operation.

- **How do poor people mange their savings deposits?** Are there savings banks, or deposit takers, or insurance salesmen, or savings clubs? Do the poor have access to them? If not, how do they save, and how convenient do the poor find the available forms of savings?
- **Can poor temporarily realise the value of assets they hold?** Are there pawnbrokers or are there schemes that allow then to mortgage land or other major assets safely? If such devices exist, are they exploitative or enabling?
- **Can poor people get access to the current value of future savings?** Are there moneylenders willing to advance small loans against future savings? Are there rotating savings and credit associations (ROSCAs) or managed or commercial chits, or co-operative banks or NGOs that offer loans against small regular repayment instalments? Do the very poor have access to them?
- **Can poor people make provision for known life-cycle expenses?** Can they provide for daughters' marriages, their own old age and funeral, and for their heirs? Are there clubs that satisfy these needs, or general savings services or insurance companies that will do as well? Are there government or employer-run schemes?
- **Can poor people secure themselves against emergencies?** What happens when the breadwinner is ill, or when a flood or drought occurs? Does the government have schemes that reach the poor in these circumstances? If not, what local provision can people make?
- **Can poor entrepreneurs get access to business finance?** If so, in what amounts and at what cost?

(Rutherford, 1996b)

Product development is an essential activity for market-responsive financial institutions. As clients and their needs change, so the market-led, demand- driven financial institutions must refine their existing products or develop new ones. But product development is a complex, resource-consuming activity that should not be entered into lightly.

Recognising all of the above, those financial institutions committed to being market leaders, and to responding to their clients, must indeed conduct product development. Effectively conducted, systematic product development will result in products that are popular with clients (even in very competitive environments) and more cost-effective operations for financial institutions. More client-responsive products will reduce drop-outs, attract increasing numbers of new clients and contribute substantially to the long-term sustainability of the financial institution.

India has the world's most extensive banking infrastructure – indeed it is the envy of the world in this context. Today, there are about 60,000 retail credit outlets of the formal banking sector comprising 12,000 branches of district level cooperative banks, over 14,000 branches of the Regional Rural Banks (RRBs) and over 30,000 rural and semi-urban branches of commercial banks; in addition to 112,000 cooperatives credit societies at the village level. There is at least one retail credit outlet on average for about 5,000 rural people or every 1,000 households. This is clearly a remarkable and extensive network capable of meeting the financial needs of the entire rural population. And yet, a very conservative estimate suggests that, at most, just 20% of all the eligible low income people have access to financial services from formal financial institutions, MFIs and other such stakeholders. More client-responsive products and cost-effective delivery systems may well also allow India to realise the full potential of this extraordinary banking infrastructure and bring financial services to the millions currently without access to basic, reliable savings and loan facilities. This is the challenge before us …

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