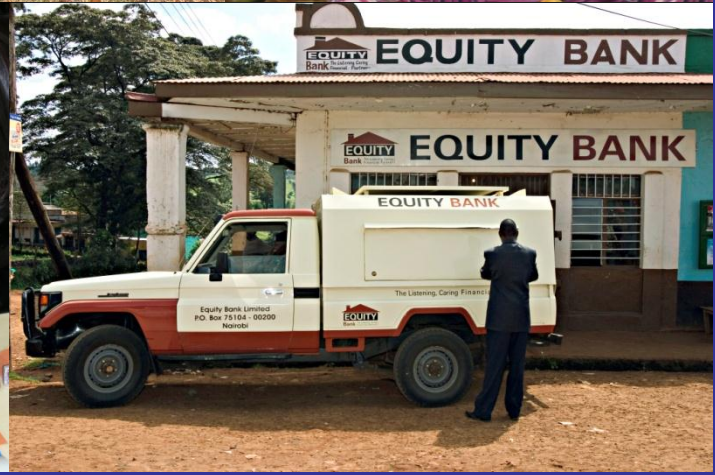


MicroSave

Market-led solutions for financial services



The Future of Financial Inclusion and Services for the Poor



3 Needs That Drive Financial Activity of Poor

1. **Managing basics:** Cash-flow management to transform irregular income flows into a dependable resource to meet daily needs.
2. **Coping with risk:** Dealing with the emergencies that can derail families with little in reserve.
3. **Raising lump sums:** Seizing opportunities and paying for big-ticket expenses by accumulating usefully large sums of money.



Broadly Poor People Make Decisions on the Basis of 4 Variables

1. Trust/
security

2. Proximity/
convenience
/access

3. Returns/
interest rates

4. Liquidity/
illiquidity
preferences

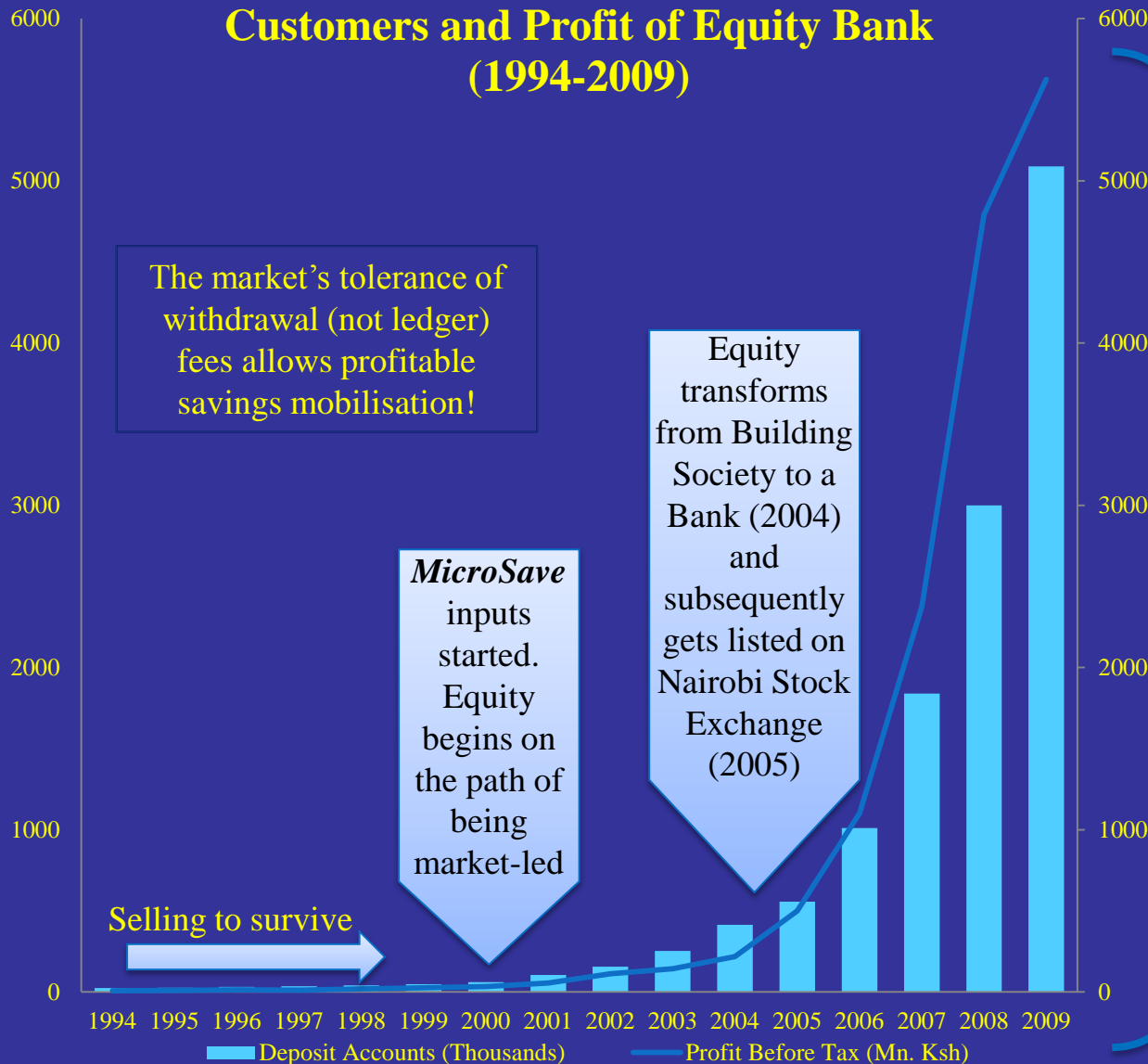
So the poor want ...

- Frequent opportunities to transact
- Small amounts in
- Conveniently located outlets of
- Trustworthy/secure institutions



Kenya: If You Get 3rd Generation Microfinance Right: There is a HUGE Market Out There ...

Customers and Profit of Equity Bank (1994-2009)



What Fuelled the Growth?

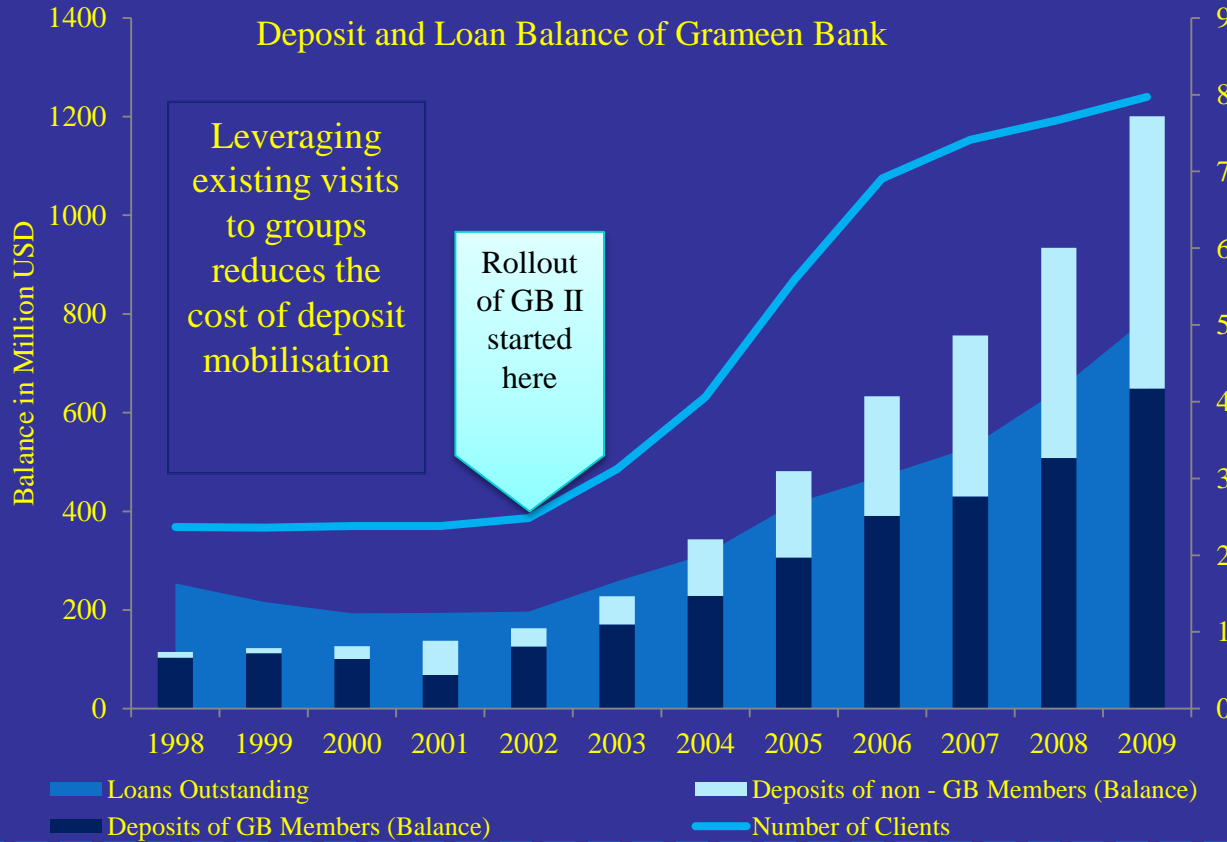
Build on a commitment to:

- Listening to clients and responding to their needs
- Excellent customer service
- Technology/delivery channels: IT/ATMs /POS/m-banking

This involved:

- Commitment to customer focus and market research/product development
- Harnessing the market-led approach, word of mouth and PR for growth
- Maintaining corporate culture and optimising corporate governance
- Management of donor inputs
- Strategy development/execution: remaining a broad based bank
- Re-engineering processes

Bangladesh: Opportunities Can Even Be Dangerous

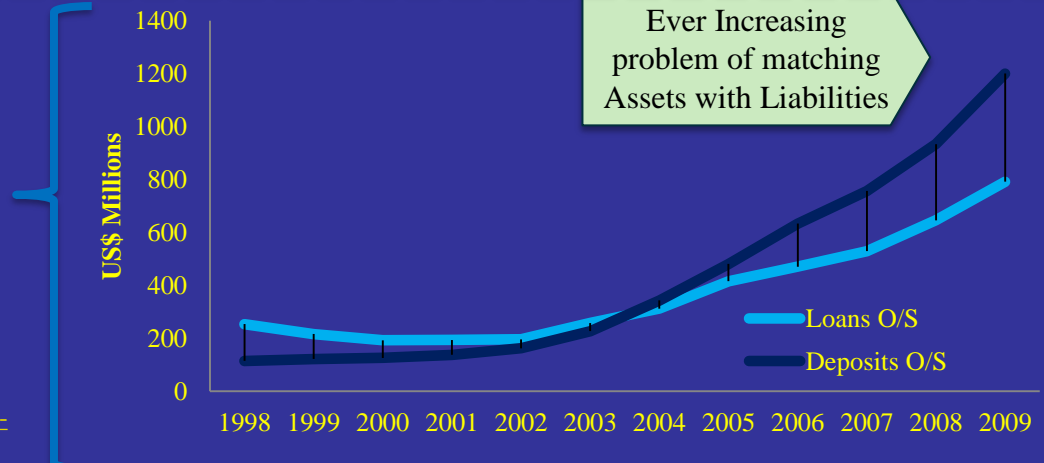


Products Introduced

- Top-Up Loans
- Flexi-Loans
- Individual Enterprise Loans
- Voluntary Savings
- Recurring Deposit (GPS)
- Fixed Deposits

“Grameen took 27 years to reach 2.5 million members – and then doubled that in the full establishment of Grameen II” – Stuart Rutherford, 2006

- Generous interest on fixed & recurring deposits (of around 12% per annum) has yielded a \$400 million excess of savings over loans
- Fixed deposit rates in the Bangladesh market are 8-10%
- Grameen is accelerating its individual lending programme to absorb more of the deposits



3G Microfinance Institutions

“Expansion” to “Engagement”

		PRODUCT		
		Existing	Modified	New
M A R K E T	Existing	Sell more of our existing products to our existing customers (Market penetration)	Modify our current products and sell more of them to our existing customers (Product modification)	Design new products that will appeal to our existing customers (New product development)
	Modified	Enter and sell our products in other geographic areas (Geographic expansion)	Offer and sell modified products to new geographical markets.	Design new products for prospects in new geographic areas.
	New	Sell our existing products to new types of customers (Segment invasion)	Offer and sell modified products to new types of customers	Design new products to sell to new customers (Diversification)

3G-MFIs see growth in terms of improvements in their clients' financial well-being, and MFIs' ability to serve them over a long time

Some MFIs are even looking at using full life time value of customer analysis as a basis of their planning

3G-MFIs grow horizontally, but they grow horizontally only to an extent that does not compromise their engagement with existing client segments

3G-MFIs: *How Will They Do It?*

Offering clients a suite of financial services in response to their full spectrum of financial needs

Focusing on convenience for all clients – so that products respond to clients' needs

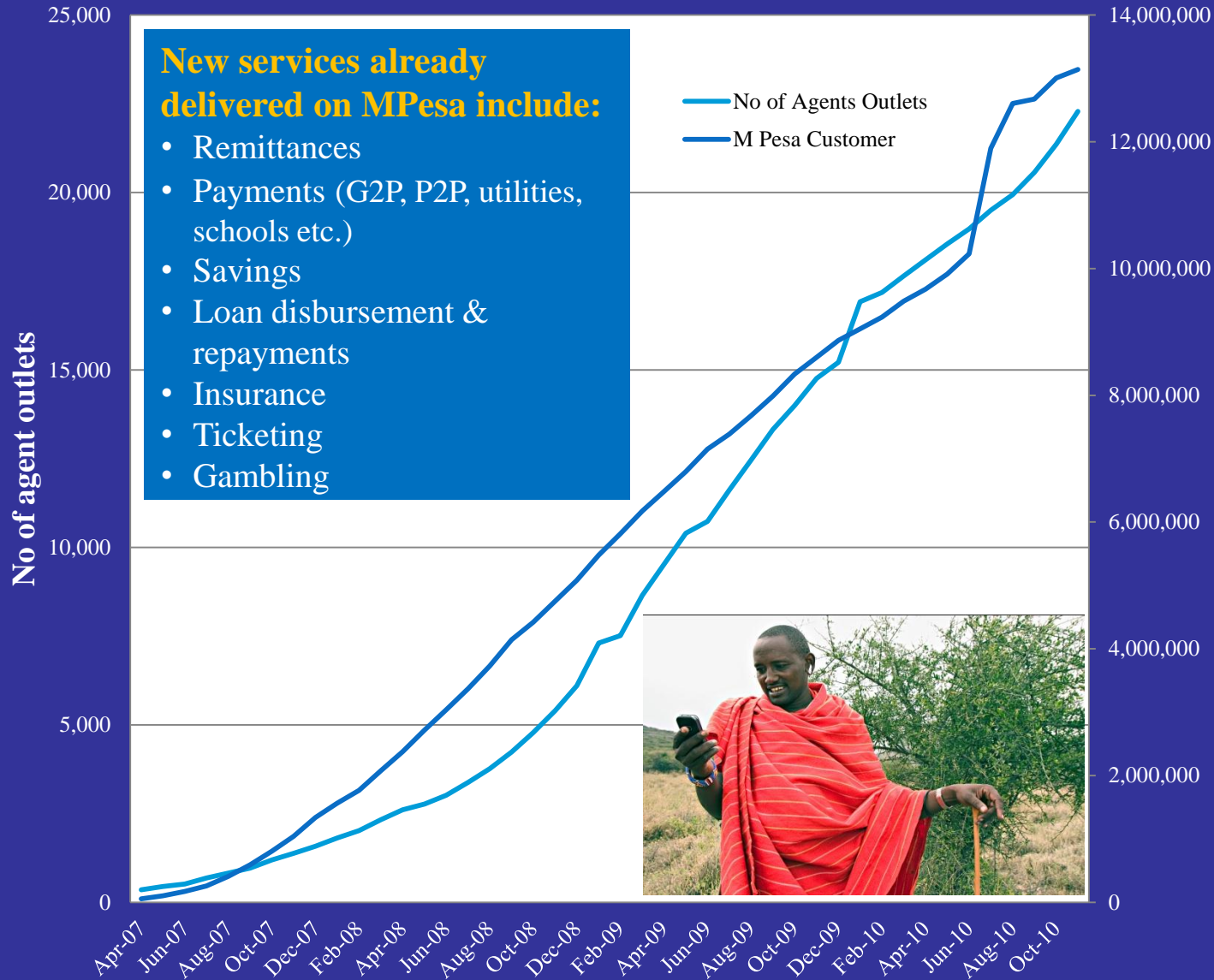
Leverage technology, particularly e-/m-banking to increase transaction efficiency and reduce costs

Supplementary services, such as the “livelihood” services or education/food security services⁷ or possibly even health services

One of the pioneers of 3rd generation microfinance has been the IFMR Trust Holdings, which provide a wide range of products and “Wealth Management” support to its clients

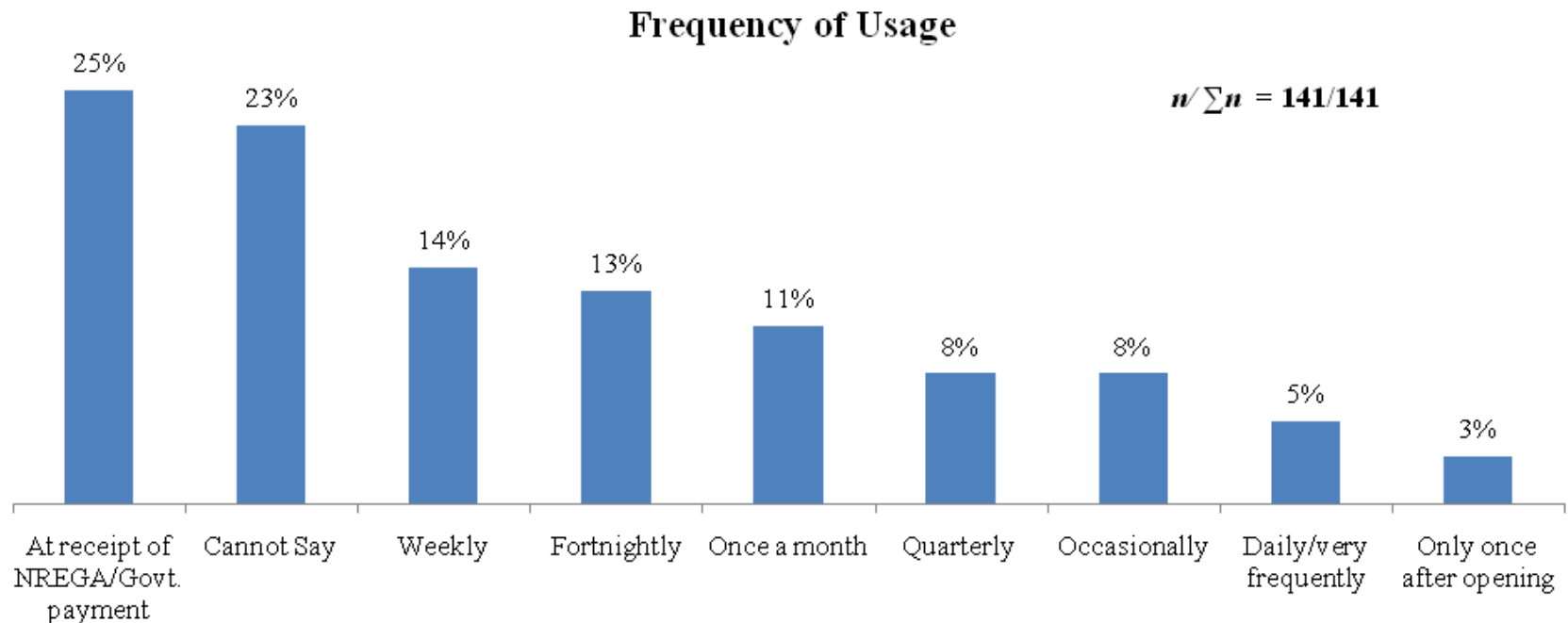
Kenya: A Range of Services – Delivered on New Platforms

M Pesa Performance Chart (2007-2010)



Back to India: Usage of No Frills Accounts

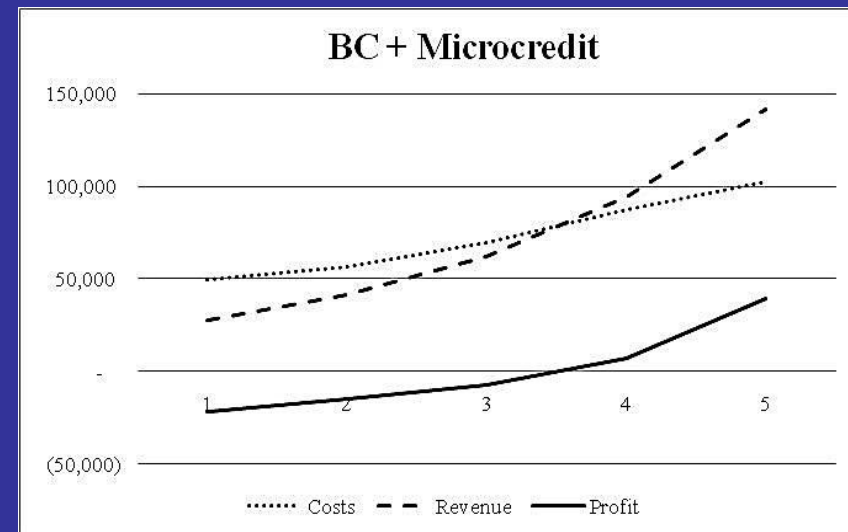
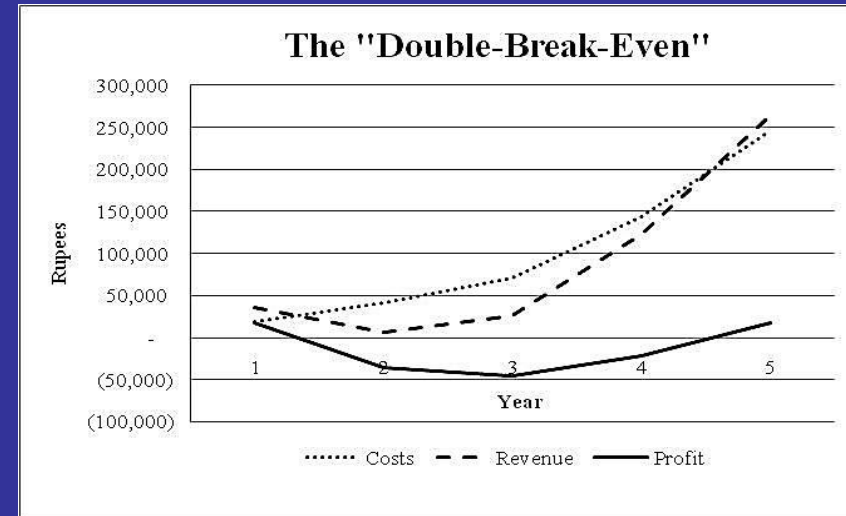
- One fourth of users access account only when they receive govt. payments.
- Many do not use at all or are unable to say how often they use it
- *Notably, in Varanasi, where BC agent network is strong, accountholders transact on a daily/weekly basis*



Costing & Pricing of Agent-based Services

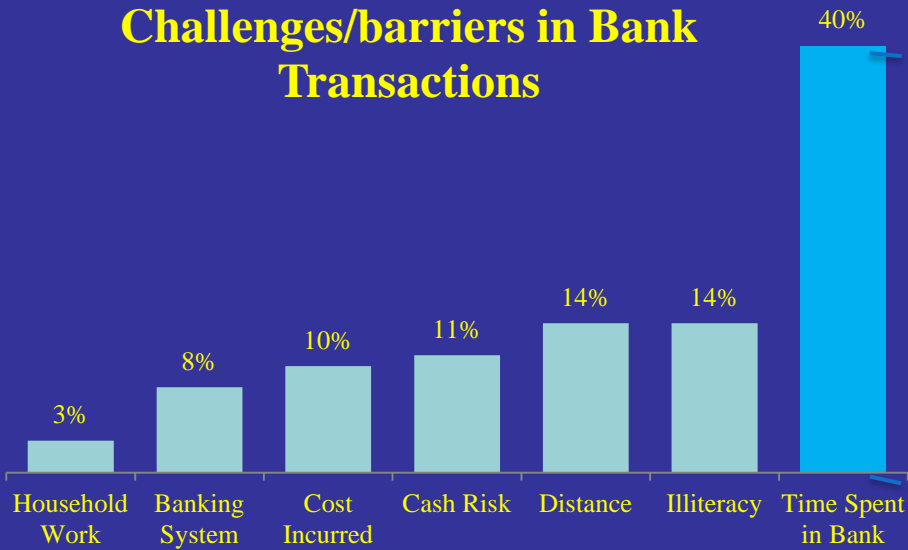
Making the numbers add-up

- Differentiating between client sign-up and on-going transaction ...
 - The double break-even dilemma: it is more effective for agents just to sign customers up
- Transaction pricing
 - Africa is ahead of Asia since paying for withdrawals is an accepted norm
 - Simple fees/percentages/tranches – all incentivise agents in different ways!
- Long-term solution: Multiple products across the platform – will revolutionise microfinance
 - Savings
 - Remittances
 - Payments
 - Top-up
 - Insurance
 - Loans

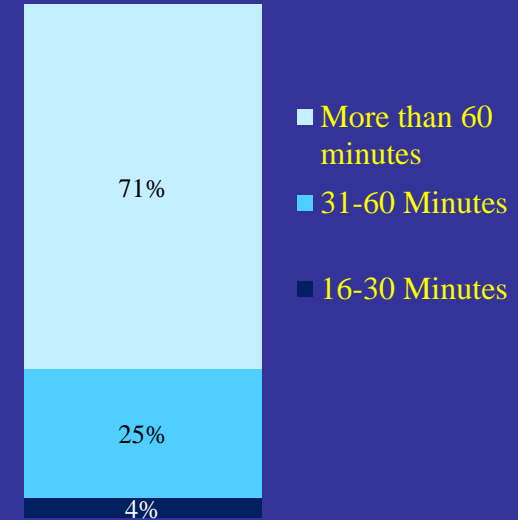


India: Barriers to Bank Transactions and Willingness to Pay

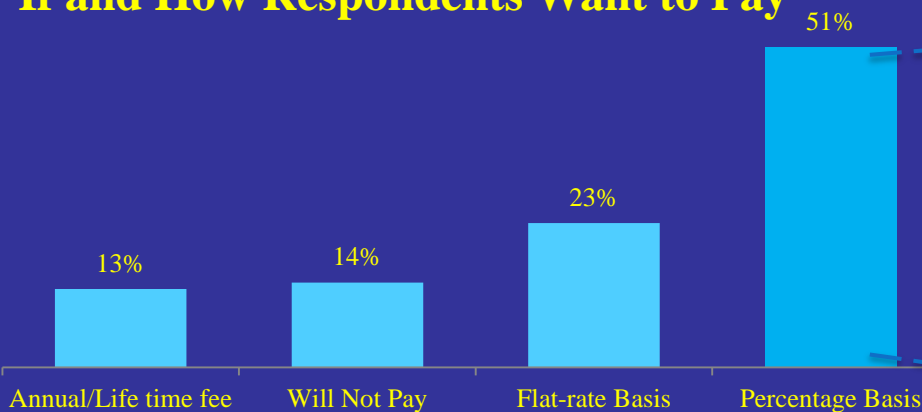
Challenges/barriers in Bank Transactions



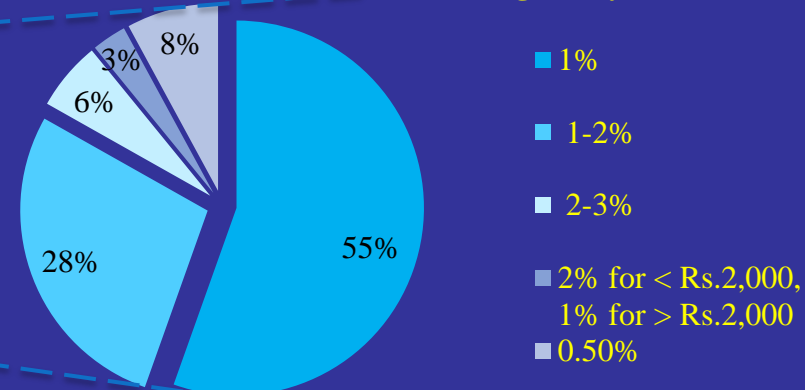
Time Spent on Bank Transaction



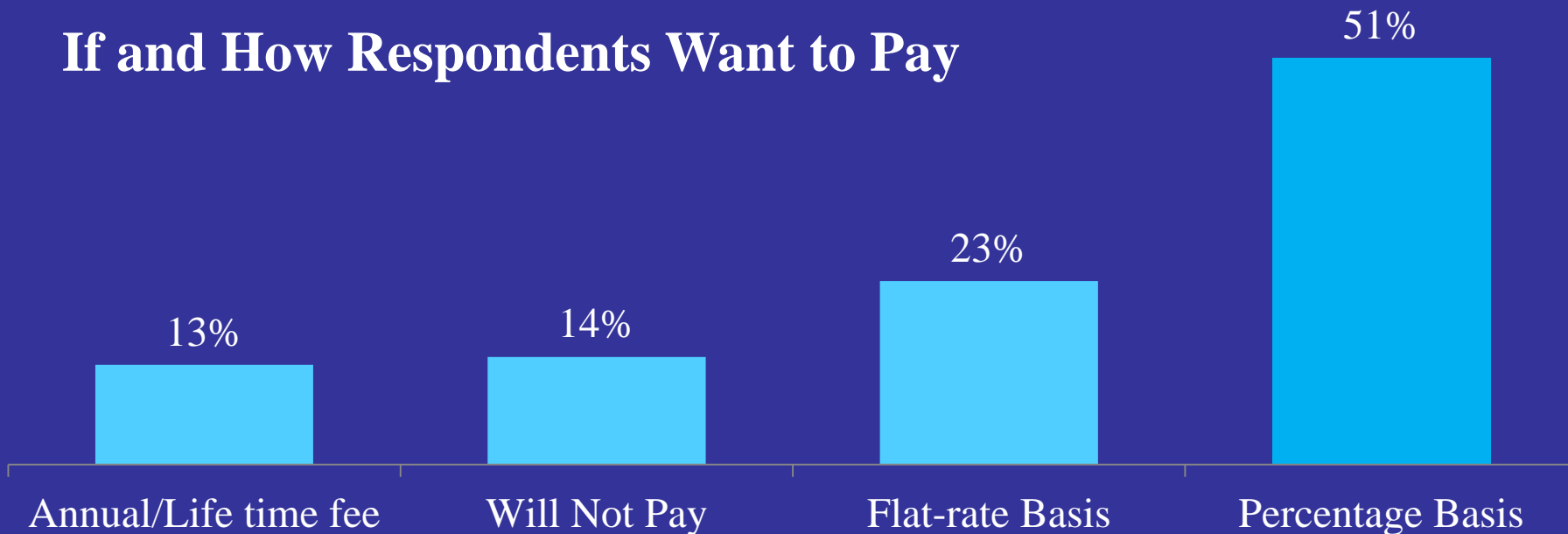
If and How Respondents Want to Pay



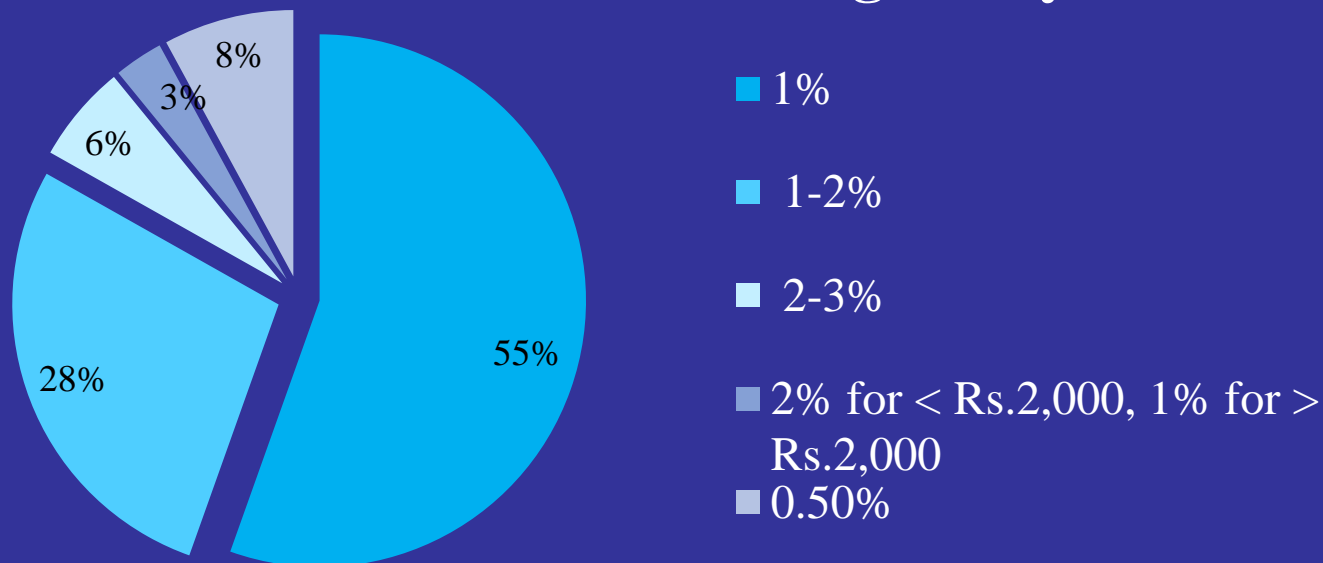
% of Transaction Amount willing to Pay



If and How Respondents Want to Pay

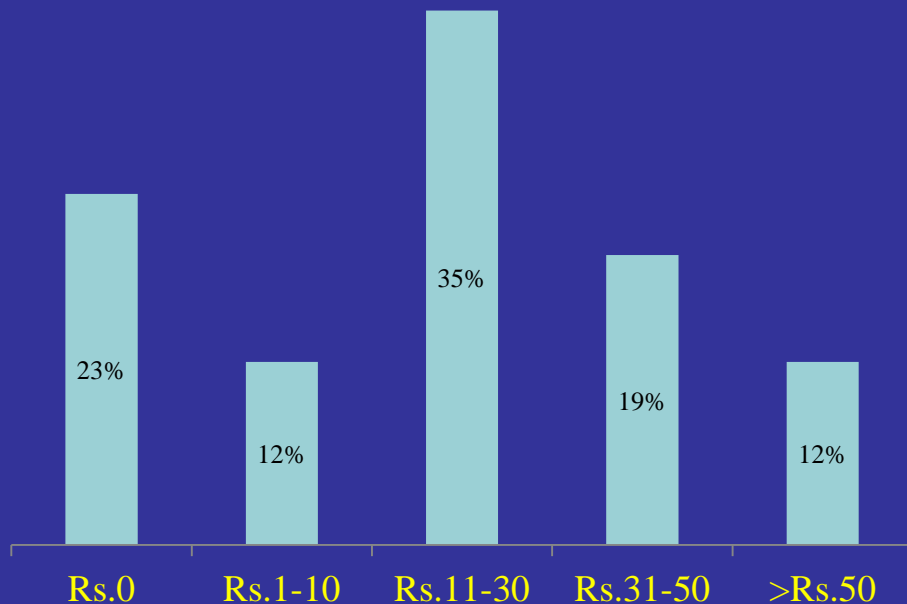


% of Transaction Amount willing to Pay



India: Cost for the Potential Clients

Direct Costs Incurred to Transact at a Bank



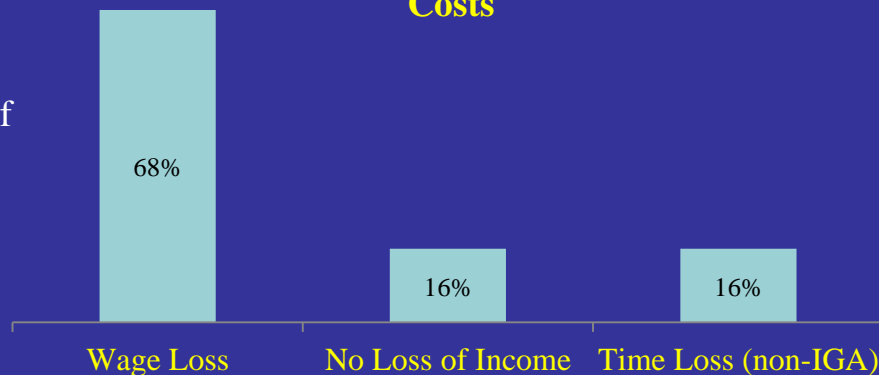
Direct Costs Involved in Transacting at a Bank

- **Transportation:** Going to the banks is an expensive affair for poor people. People use public transport like auto rickshaw, jeep or bus to reach bank. People pay between Rs.1 to Rs.50 (and sometimes even more)
- **Unintended expenses on refreshments:** Expenses on snacks and intoxicants while going or returning from the bank.

Key Findings

- Loss of wage labour or daily income (Rs.100-150) is a cost that some respondents have to bear.
- Mostly wage labourers mentioned that going to bank in itself (that takes one complete day or half) leaves them no time to search for work
- Some respondents mentioned loss of important household work as a cost

Respondents' Perception of Opportunity Costs



India: Implications of UID



No Frill Accounts

- Act as standalone KYC (Eliminate documentation hurdles of poor)
- Minimise account opening expenses for banks
- Solve problems of individual's verification at agent location (BC model)
- Anywhere anytime identity authentication will help migrants in opening bank accounts at non-native locations



Mobile Banking

- UID enabled bank accounts (UEBA)
- UID/UEBA linked mobile phones for instant balance check and remittance to another UEBA
- Cash transaction at nearest BC with quick authentication of customer's identity via online verification of UID/UEBA (facial recognition or biometrics)



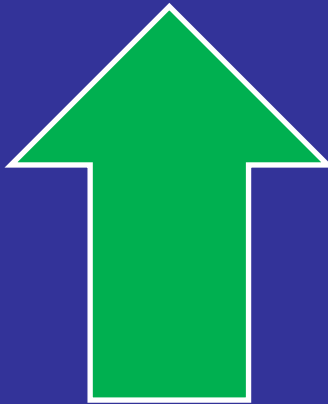
Credit Bureau (CIBIL)

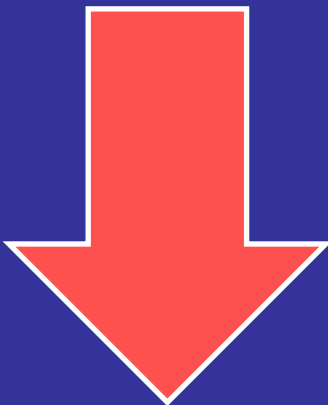
- Linking credit history to UID field will ensure accuracy and easy retrieval of data
- Improve efficiency and reduce cost involved in CIBIL checks (only UID will be required to perform a CIBIL check)
- Minimise possibilities of frauds like ghost clients
- Unique identification of a person will check multiple lending

The Post AP Crisis Future

The Indian microfinance industry is undergoing a major shake-up. This is likely to accelerate a trend where two major shifts are likely to emerge (at the MFI level and the other at regulation level)

MFI Driven

- 
- » Multiproduct
 - » M-Banking/
technology enabled
 - » Individual based
 - » Inter-operable

- 
- Mono-product
 - Labour-intensive
 - Group based

Regulation Driven

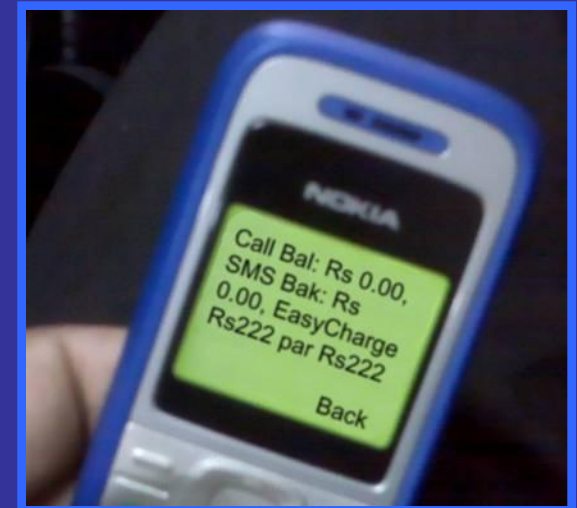
RBI wants banks to be directly involved in lending through BC Model

RBI would refine regulation till it becomes profitable for banks

MFIs may eventually end up as the agents of banks in rural areas, selling products and managing clients/repayments

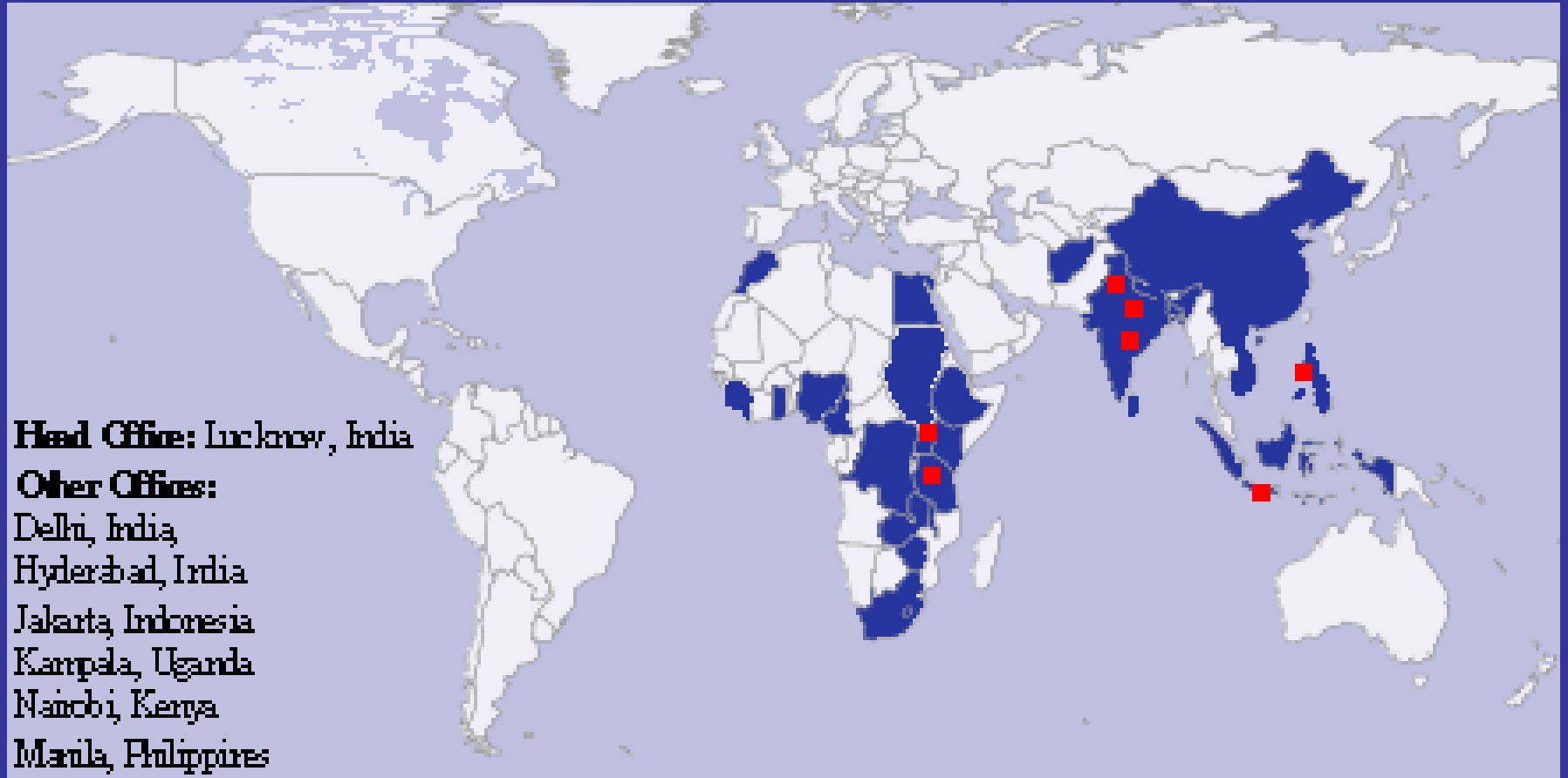
In Summary ...

- E-/M-banking revolution to bring in a market-led range of products:
 - Loans
 - Savings
 - Remittance
 - Payments and
 - Insurance products... delivered to a range of clients
- Shift to individual lending
 - Conditioning through 2-3 loan cycles in JLG then graduation to IL (economically viable loan size plus diverse product history)
 - To assess business/ household capacity
 - To respond to real financing needs
 - Probably by the banks using BCs



MicroSave

Market-led solutions for financial services



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