

Way Forward: Future of financial Services for the Poor

College of Agricultural Banking (RBI) and Centre for
Micro Finance - IFMR

“Microfinance: Translating Research into Practice”

January 2012

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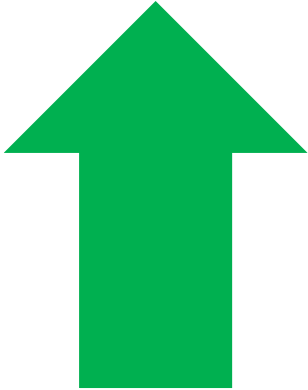
MicroSave

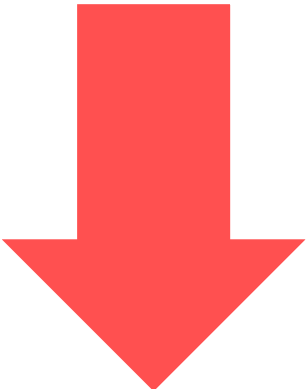
Market-led solutions for financial services

The Post AP Crisis Future (*MicroSave's* best guess as of January 2010)

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
 - » Individual based
 - » M-Banking/
technology enabled

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

Regulation Driven

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

RBI will continue to 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

The Evidence Continues To Mount ...

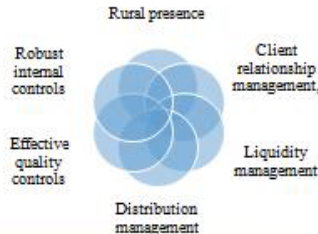
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A Growing Number of MFIs Looking At M/E-banking Technology



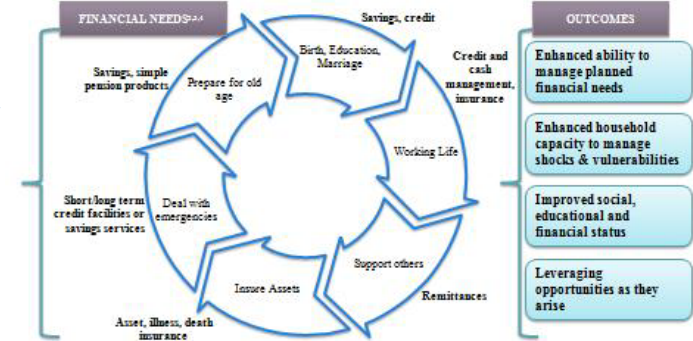
- Several other leading MFIs working on NPS Lite/IMPS ...
- ... this will probably require them to establish a network of agents to collect these (and other savings) ...
- ... thus opening tremendous opportunities for:
 - Off balance sheet lending
 - Savings & insurance products
 - Remittance management



- MFIs have a clear competitive advantage in this line of business, which requires:

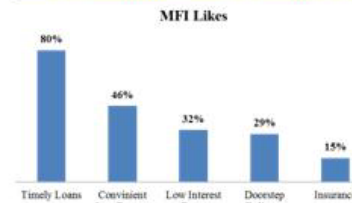
Needs Beyond Credit (and remittances) ... The Opportunity

Only one-quarter of financial households have any form of savings with formal banking institutions!

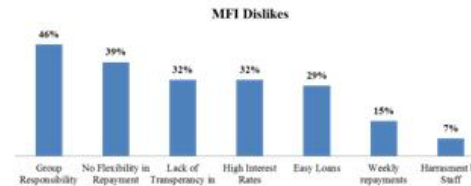


Over the years, many studies¹⁻⁴ have unequivocally established that the "unbanked" need and use a range of financial services (not just credit) and are willing to pay the "right" fee for these services.

The Demand Side Pressure For Change: Evidence from AP



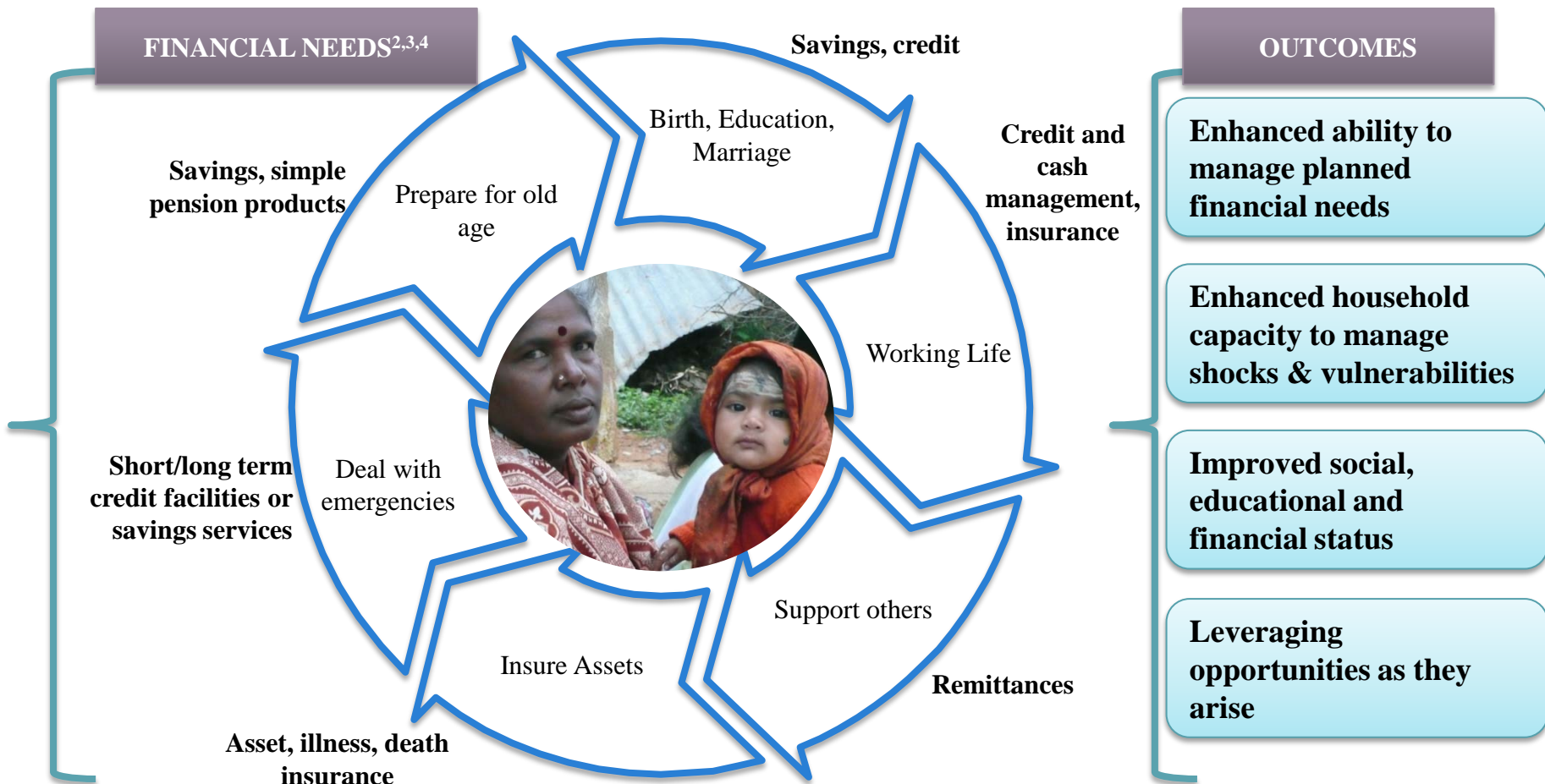
- The majority of groups mentioned need for individual responsibility products and some flexibility in repayment of instalments.
- In 29% of sessions clients reported easy loans from MFIs which tempts them to take loans for consumption purpose



- Interestingly, interest rates came in 32% of sessions as like and in equal number of sessions as dislike.
- The former compared interest rate of MFIs with other informal sources whereas later attributed lack of transparency in communication of interest rates as a factor which hides the actual charges

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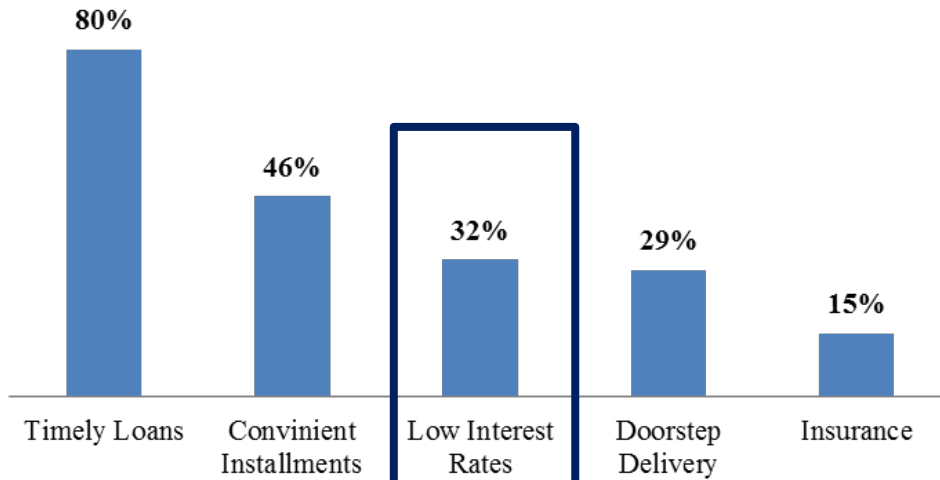
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1: Mas, Ignacio and Siedek, Hannah, *Banking Through Networks of Retail Agents*, Focus Note May 2008 and Wright, Graham, *Designing Savings & Loan Products*, *MicroSave*, February 2010
 2: *MicroSave Deposit Assessment in India*, IFC study, March 2011 and India Focus Note # (CWP)
 3: Mas, Ignacio (2010), *New opportunities to tackle the challenge of financial inclusion*

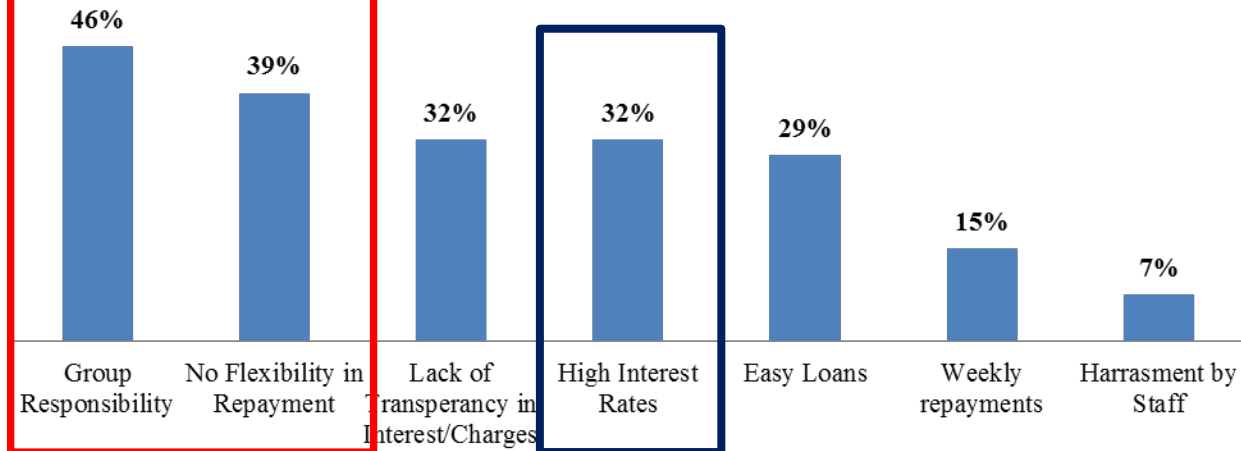
4: See *MicroSave India Focus Note # 60*
 5: Source *MicroSave*, CGAP and Accenture Research

The Demand Side Pressure For Change: Evidence from AP

MFI Likes



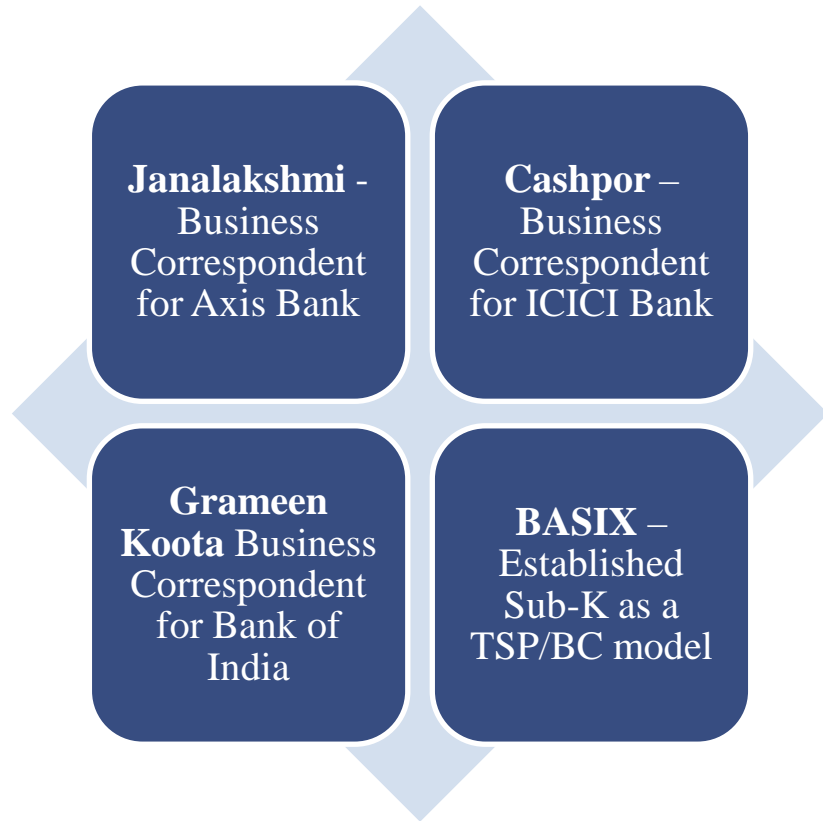
MFI Dislikes



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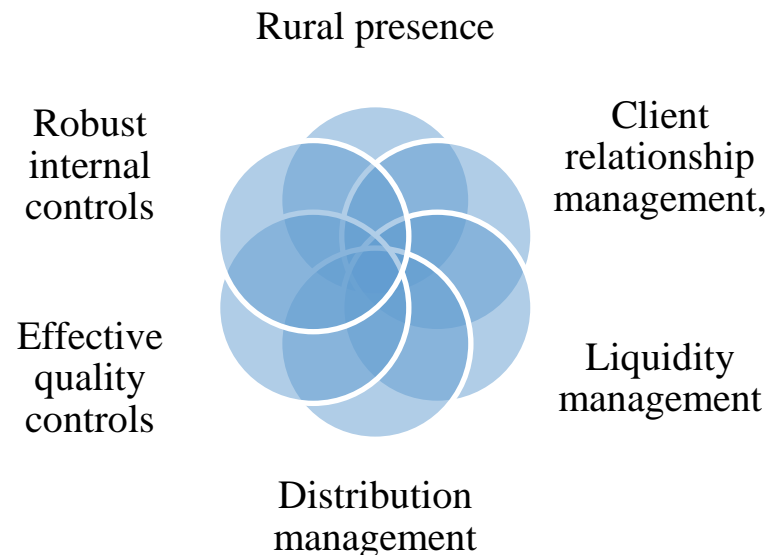
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A Growing Number of MFIs Looking At M/E-banking Technology



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Post Malegam/RBI circular:

- RBI has made it clear that it only wants to regulate bigger players...smaller ones will continue to plod along, but will be confined to limited geographies for want of equity / debt funds
- The days of sales-driven super profits are over: MFIs will have to pay much closer attention to their clients, social performance, transparency etc.
- The large MFIs with large portfolios in Andhra Pradesh (whether they took CDR or not) are at risk of collapse
- Re-engineering the larger MFIs into rural finance companies will be a real challenge.

The RBI Continues To Push For Bank-led Financial Inclusion

The regulatory environment has been progressively liberalised to enable financial inclusion including for example:

1. Permitting banks to charge a “reasonable fee” to create a viable business proposition.
2. Relaxed KYC guidelines for low value accounts
3. Acceptance of for-profit entities as business correspondent network managers.
4. Rules governing remittances were relaxed
5. Regulations designed to drive banks to open a growing number of rural branches
6. All banks have been required to come up with plans to promote sustainable financial inclusion – and to have agent-based presence in all villages of population > 2,000 by March 2012,
7. This is likely to be further extended to cover villages of population > 1,000 by March 2013.

“Let me reiterate that financial inclusion is not mere State Benefit Transfers. ... It is not enough to open a No Frills Accounts (NFA) and maintain that banking services are available. *De minimus*, four banking products need to be provided for it to qualify as availability of banking services. These are:

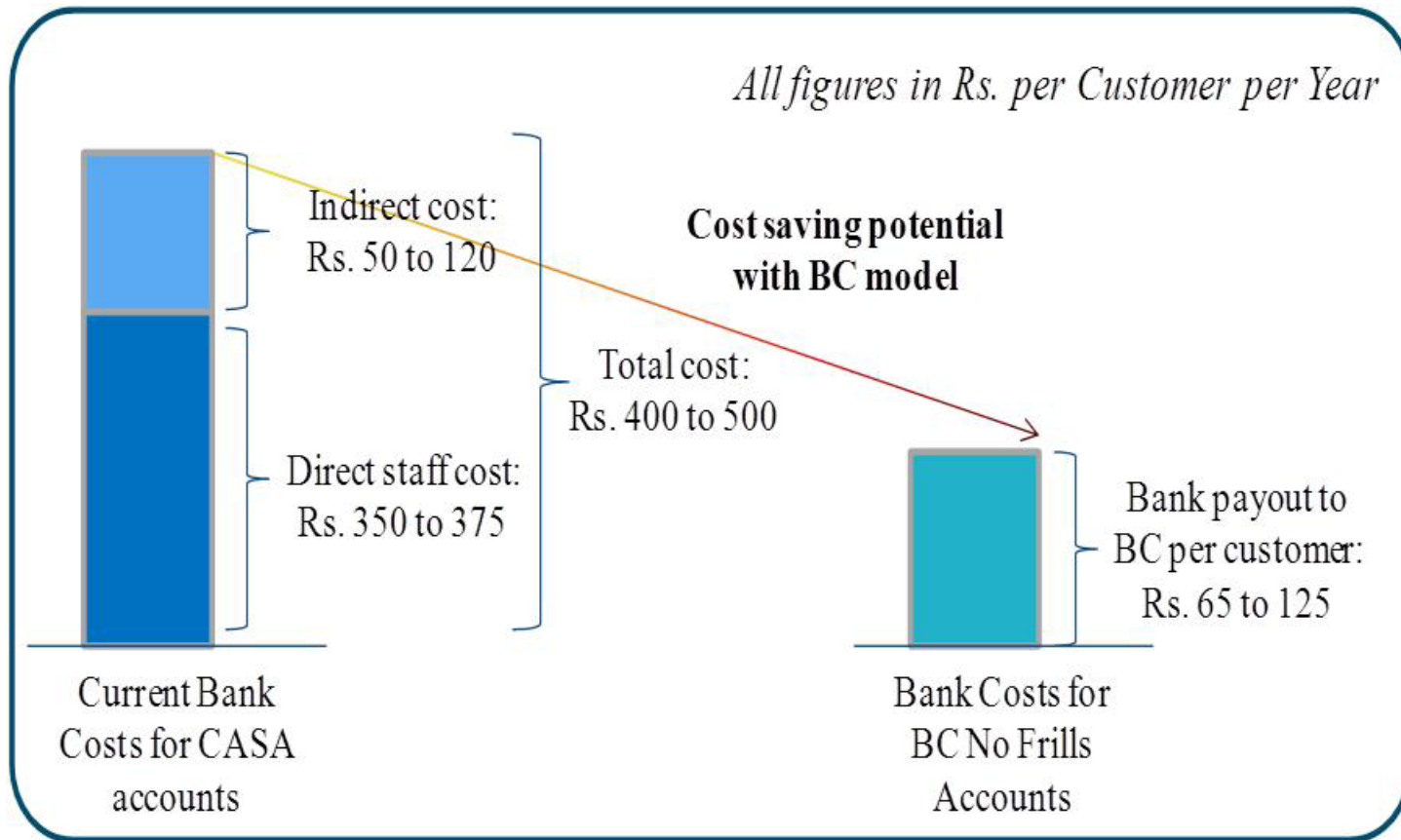
1. A savings cum overdraft account
2. A pure savings product ideally a recurring or variable recurring deposit
3. A remittance product for EBT and other remittances
4. Entrepreneurial credit such as GCC, KCC.”

– Dr. K.C. Chakrabarty, Deputy Governor RBI in June 2010

Making The Numbers Stand-up For Banks

Banks are happy serving the burgeoning middle classes in Asia and Africa – using their traditional methods, focusing on the lower volume and higher value accounts and transactions.

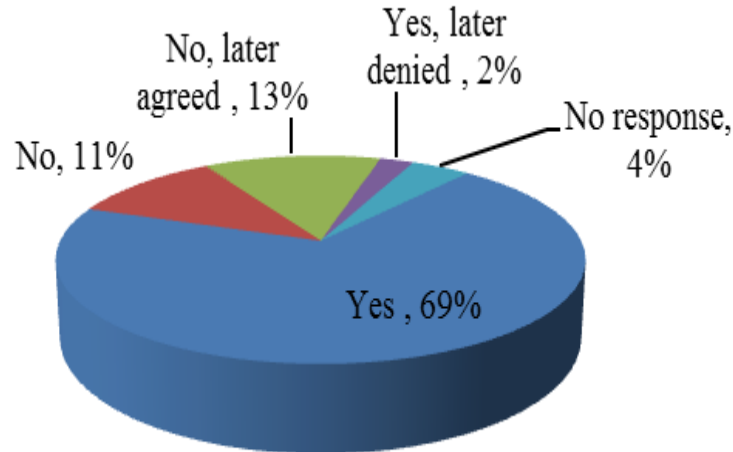
But the opportunity is becoming clearer ...



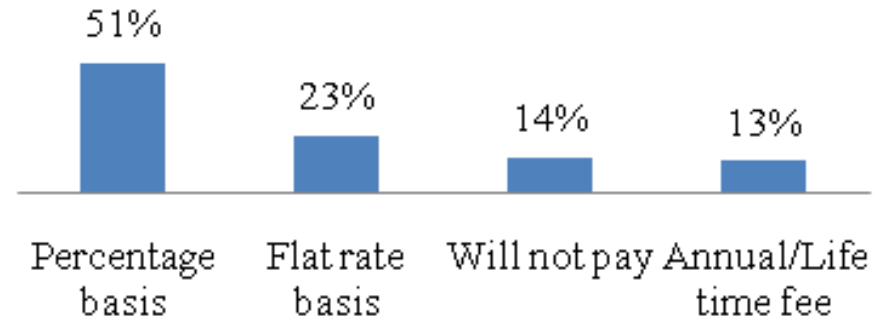
Source: Allocation-based costing analysis of SBI, PNB and ICICI Bank, based on public information such as annual reports, investor reports

And The Rural Poor Are Willing To Pay For The Services ...

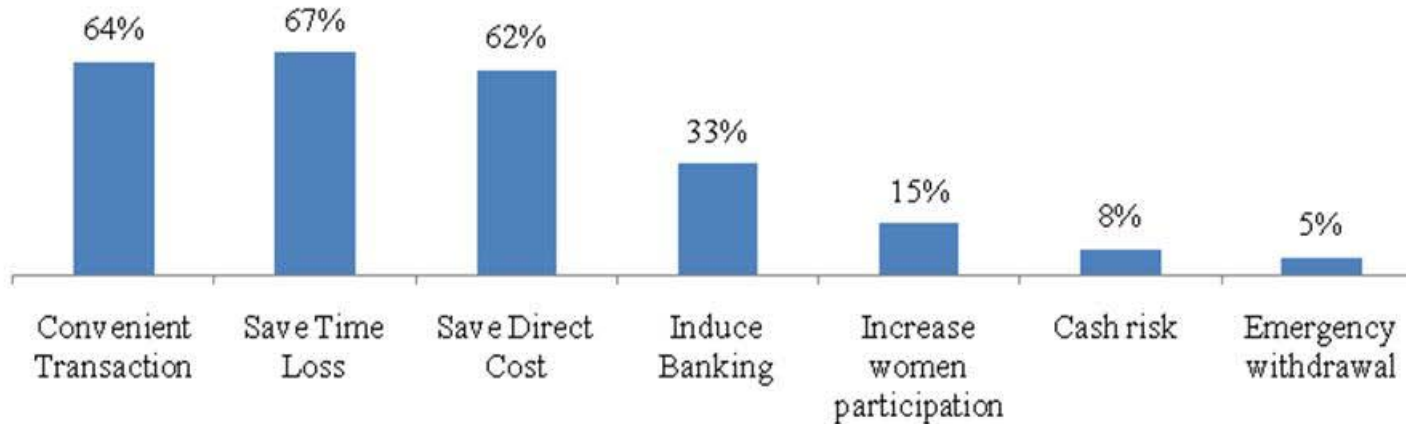
Willingness to pay for BC



Payment Preferences



Why BC Model is Attractive?



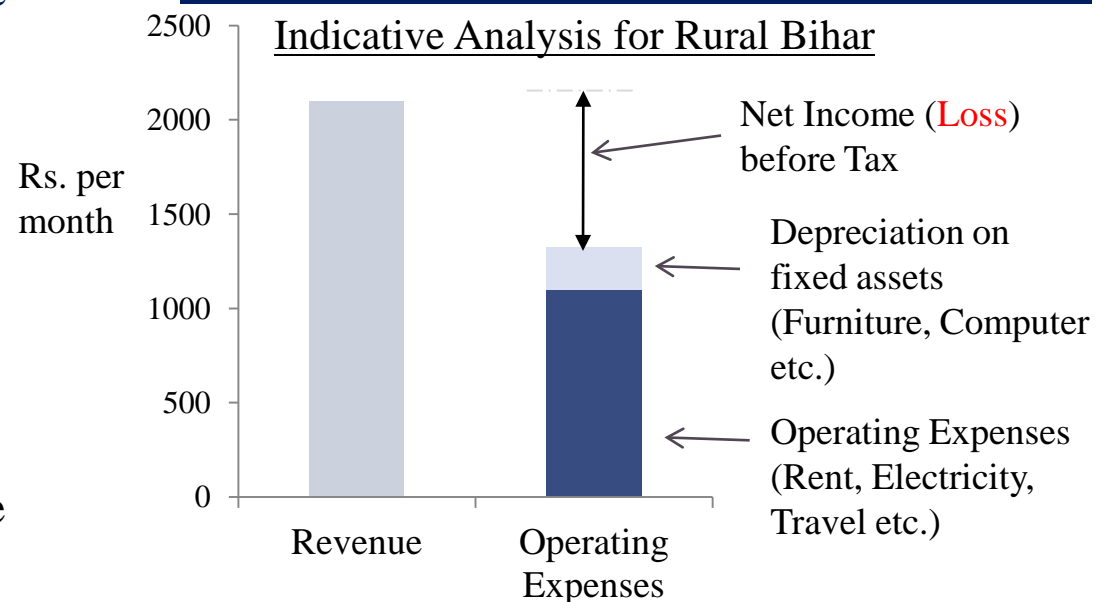
Drawbacks of Agent-based model

- Lack of product offerings
- Cost involved
- Trust in the service provider

But Business Correspondence Still Has A Long Way To Go ...

- Some Business Correspondent Network Managers (BCNMs) set up just to earn account opening commission
- Now typically reduced to mono-product:
 - Remittances (ALW/Eko *et al.*) or
 - G2P (FINO *et al.*)
- Agents in urban areas do well but those in rural areas struggle to make money on remittances
- G2P revenues variable according to State Gov't involved (some pay commission, some don't)
- Most banks and BCNMs do not encourage active NFAs
- Most agents are poorly supported/supervised:
 - Inadequate training – inception & follow-up
 - Few quality control visits
 - Limited marketing support
 - Poor support/referrals from branches
 - Limited product range
- As a result many agents are going dormant Agent churn is unsustainable

Results from MicroSave's Agent Journal Research



Ten Things That Need To Change (1/2)

1. Increased commission rates for agents until critical mass is achieved ... based on costing analyses
2. Differentiation between:
 - a. Sales agents/financial advisors
 - b. Cash in/out merchants
3. Appropriate training (induction and on-going) for both of the above
4. Systems to assist agents with liquidity management
5. Internal systems to support/provide quality control to agents
6. An external system to rate and grade business correspondent network managers



Ten Things That Need To Change (2/2)

7. Diversified range of products including:
 - a. A transaction account with a credit-scoring based overdraft facility
 - b. A pure savings product - ideally a recurring deposit with a linked (fully secured) credit facility
 - c. A payment system for EBT and other remittances
 - d. Entrepreneurial credit
 - e. Insurance (life, livestock, fire & accident)
8. National level ATL advertising and endorsement of agent-based banking
9. Local level BTL marketing of individual agent banking systems
10. Support and referral from the local bank branches



The Opportunity: 3rd Generation –Financial Institutions

3G-Financial Institutions will :

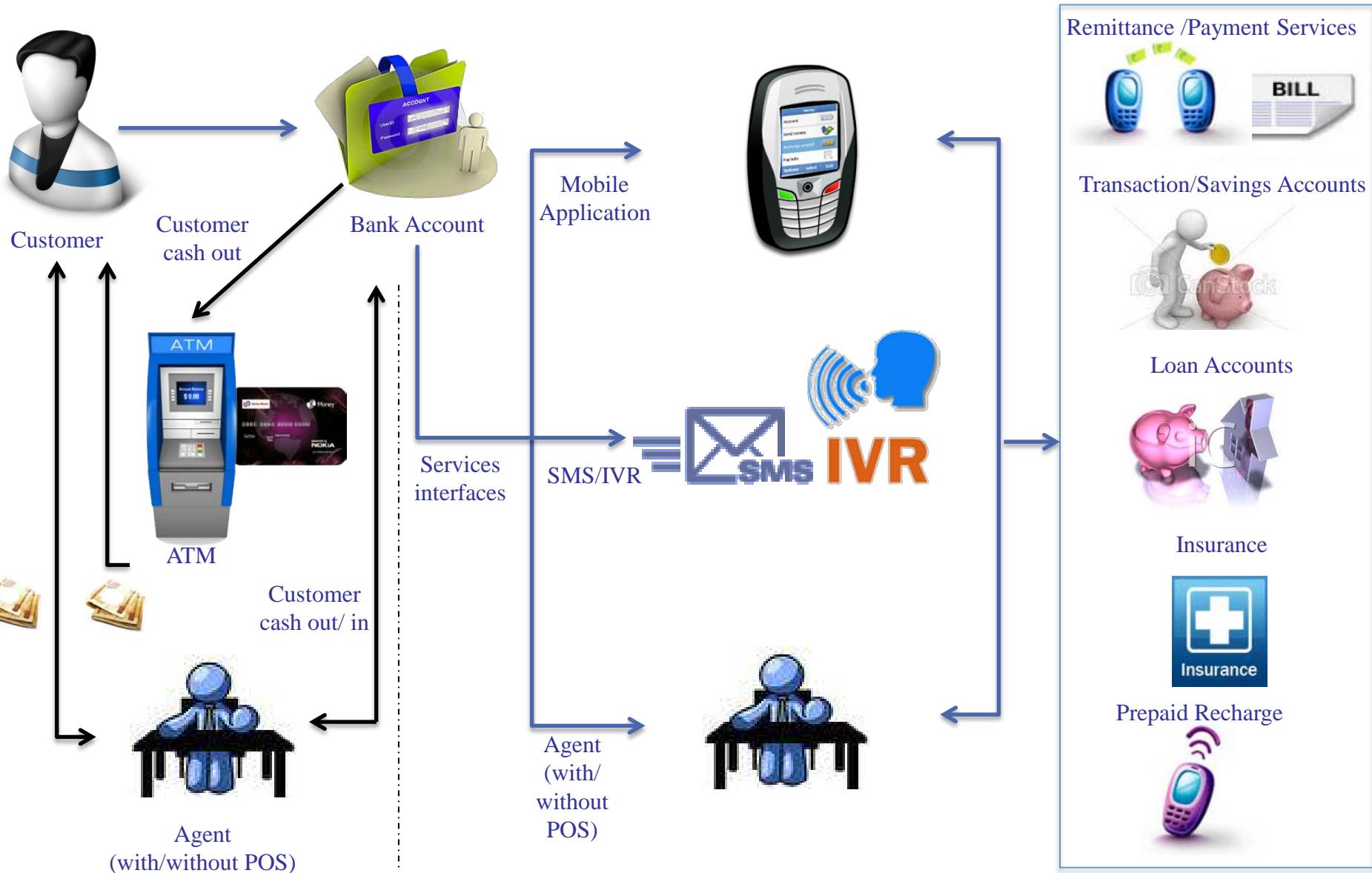
1. Offer a **suite of financial services** in response to their full spectrum of financial needs – credit, savings, remittances, insurance etc.
2. Focus on **convenience/service for clients** – so that products respond to clients' needs, and not just those of the institution.
3. **Leverage technology**, particularly e-/m-banking to increase transaction efficiency and reduce costs.

These 3 elements at the core of *MicroSave*'s approach and essential for the development of effective mobile money solutions ([MicroSave India Focus Note 65 Successful Banking Correspondents Need A Compelling Product Mix](#))

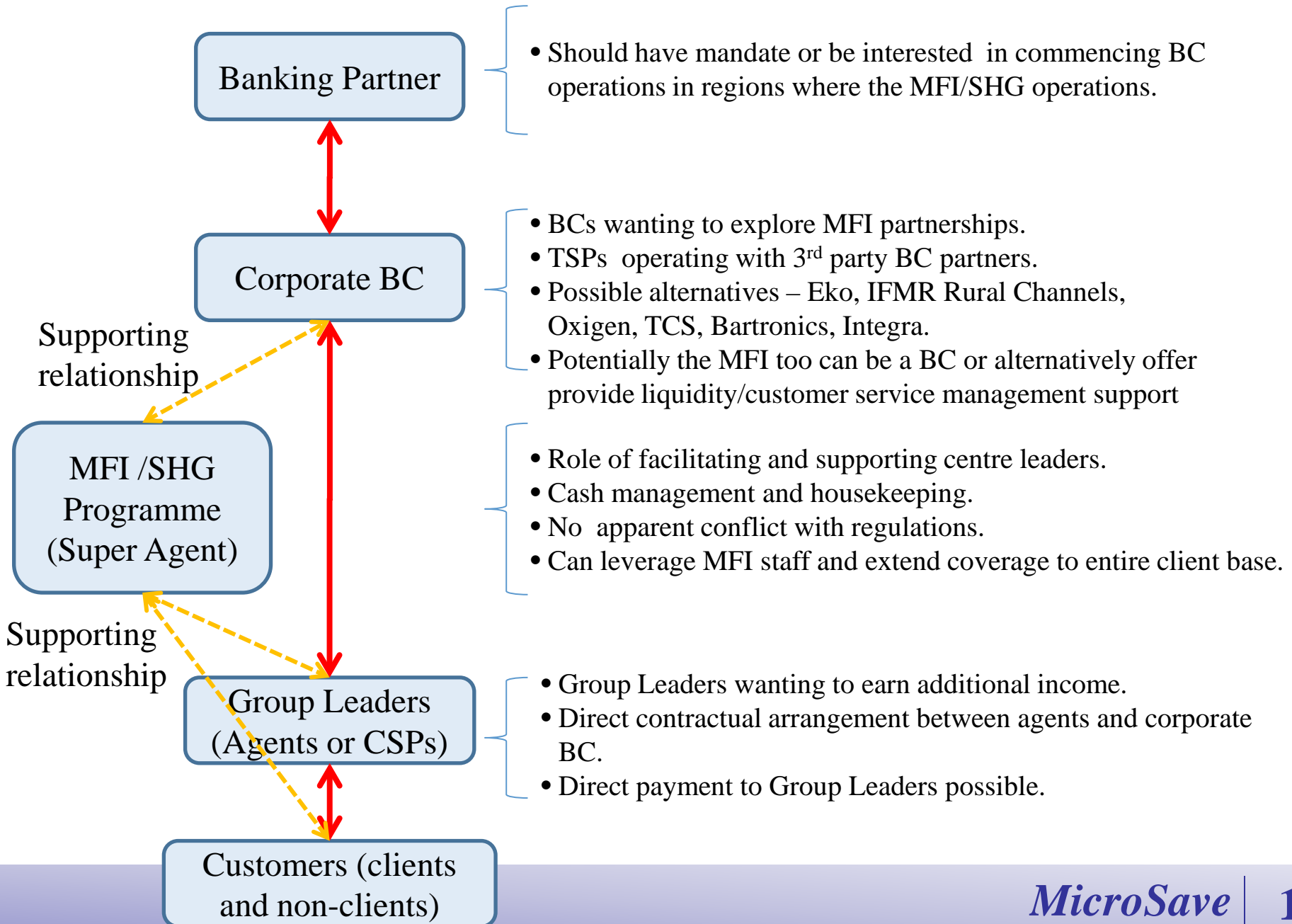


- **KGFS** epitomises this approach – and may be the model for a truly effective business correspondent network.
- **Eko** is beginning to franchise out its platform and agent management system – process maps, training materials, marketing etc.; others likely to follow.
- Together these represent a tremendous opportunity to create effective and profitable financial inclusion through harnessing the experience of MFIs ... and SHG Federations.

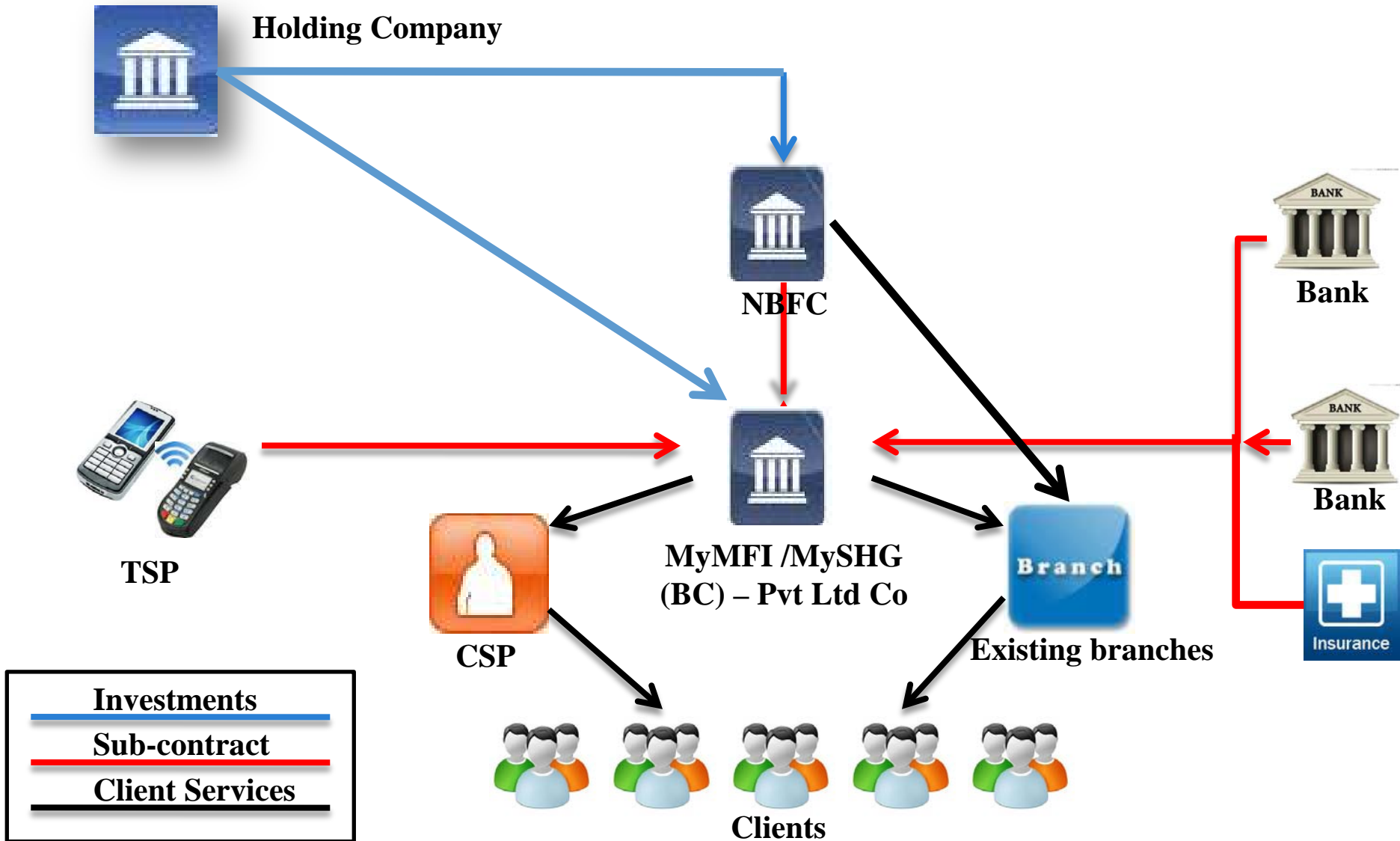
What Might It Look Like? (1/3)



What Might It Look Like? (2/3) (Subject to legal opinion)



What Might It Look Like? (3/3) (Subject to legal opinion)



Institutional Profile

MicroSave is a consultancy firm and training provider that focuses on the needs of institutions targeting under- and un-served populations and enterprises. We assist institutions such as financial service providers, telecom operators, technology service providers, fast moving consumer goods companies, livelihood institutions, and development agencies serving the base of the pyramid. *MicroSave* provides practical, market-led solutions based on the experiences drawn from working with a variety of institutions.

At *MicroSave*, we draw on a truly global perspective, and a wealth of experience. Our staff includes bankers, microfinance specialists, social scientists, management consultants, and livelihood and rural development specialists.

An important priority is remaining current with technology, financial products and processes, system innovations, and sector developments via in-house core specialisation training programmes. Our unique toolkit-based approach is tailored for each client and project, and available in 15 languages, yielding consistency and quality in output and capacity building. We offer cost-effective access to our professional staff and associates in Africa, Asia, and Latin America.

Internet and Mobile Banking (E-and M-banking)

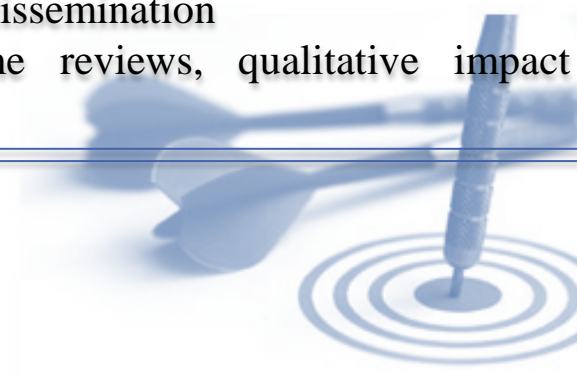
MicroSave has been at the forefront of innovative banking technology:

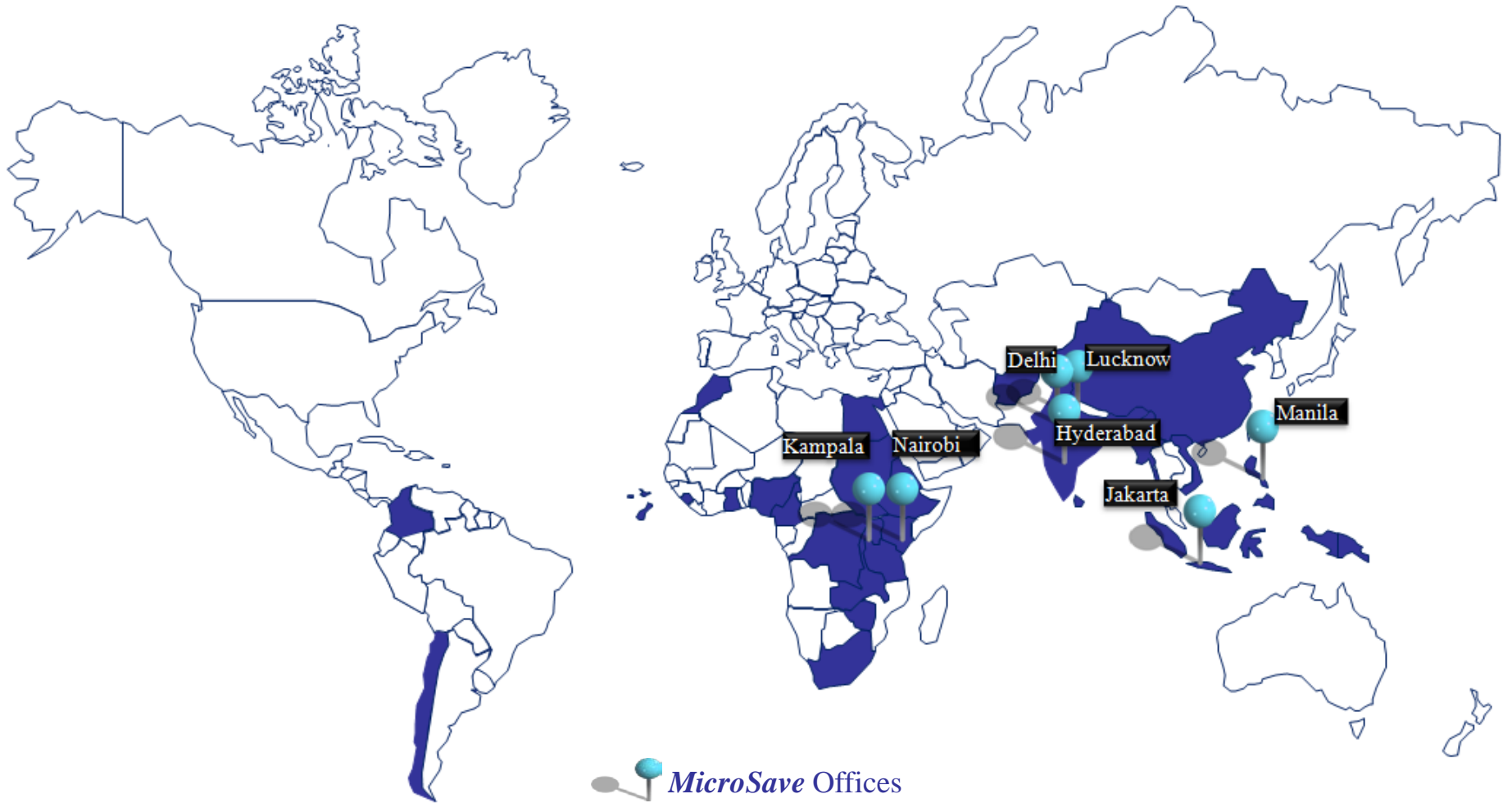
- ⊕ Steering member of the M-PESA project;
- ⊕ Prototype and agent network development for m-/e-banking in PNG, India, South Africa, Colombia, Bangladesh, Kenya and the Philippines;
- ⊕ Access to and technical understanding of mobile platforms in Africa and Asia.

MicroSave

Areas of Expertise

Financial access services	<p><i>Financial product development:</i> market research, costing/ pricing, risk analysis, process mapping, pilot-testing, and roll out</p> <p><i>Corporate governance</i> and strategic business planning</p> <p><i>Marketing:</i> customer service levels, channels (including e-/m-banking), branding, marketing campaigns, staff incentives and organisation</p> <p><i>Institutional development:</i> process re-engineering, organisational design, financial management, HR management, and internal audit and controls</p> <p><i>Risk management:</i> risk mapping, credit (financial and operational), loans processing, and delinquency</p>
Specialist services	<p>Social performance management and <i>responsible finance</i></p> <p><i>Livelihoods</i> financing, value chain analysis, and development</p> <p><i>Environmental finance:</i> for water, sanitation, and renewable energy</p> <p><i>Investor support:</i> due diligence, portfolio audits</p> <p><i>Knowledge management:</i> research, documentation, and dissemination</p> <p><i>Monitoring and evaluation:</i> project and programme reviews, qualitative impact assessments</p>
Training services	<p>Certificated courses</p> <p>Tailored programmes</p> <p>On-the-job training</p>





 **MicroSave Offices**

MicroSave (India - Head Office)
 B-52, Mandir Marg,
 Kapoorthala Crossing,
 Mahanagar Extension,
 Lucknow-226006, UP, India.
 Tel: +91-522-2335734
 Fax: +91-522-4063773
info@MicroSave.net

MicroSave (India - Delhi Office)
 396, DDA Flats,
 Sector 22, Dwarka,
 New Delhi-110045, India.
 Tel: +91-011-45108373

MicroSave (India - Hyderabad Office)
 23, Sai Enclave,
 Road No. 12, Banjara Hills,
 Hyderabad-500034, Andhra Pradesh, India.
 Tel: +91-40-23386140

MicroSave (Kenya Office)
 Shelter Afrique House,
 Mamlaka Road,
 P.O. Box 76436, Yaya 00508,
 Nairobi, Kenya.
 Tel: +254-20-2724801/2724806
 Fax: +254-20-2720133
 Mobile: +254-0733-713380
David@MicroSave.net

MicroSave (Uganda Office)
 Regency Apartments
 30 Lugogo By-Pass
 P.O. Box 25803
 Kampala, Uganda
 Tel. +256 312 260 225
 Mobile. +256 776 36 5536
Peter@MicroSave.net

MicroSave (Manila Office)
 Unit 402, Manila Luxury Condominium,
 Pearl Drive corner Gold Loop,
 Ortigas Center, Pasig City,
 Metro Manila, Philippines.
 Tel: +(632) 477-5740
 Mobile: +63-917-597-7789
Jesila@MicroSave.net