

Signposts to the Provision of Market-led Microfinance Services

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List of Acronyms

ARPs	Action Research Partners
ATM	Automated Teller Machine
DQA	Domicile Quick Account – Tanzania Postal Bank’s savings product
FINCA	Foundation for International Community Assistance
KPOSB	Kenya Post Office Savings Bank
MFI	Micro-Finance Institution
TPB	Tanzania Postal Bank
UMU	Uganda Microfinance Union

Executive Summary

Signposts to the Provision of Market-led Microfinance Services¹

There is increasing discussion of ‘market-led’ microfinance, of placing customers first - but how do we know if an institution is becoming market-led? The following ‘signposts’ to the provision of market-led micro-financial services reflect *MicroSave’s* experience with its Action Research Partners. As will be demonstrated a commitment to providing market-led services touches upon every aspect of a financial institution.

1. **Vision and mission statements** are focused on profitability through designing, developing and delivering quality customer responsive financial services.
2. **The Board maintains vision and mission.** A competent, knowledgeable and skill-based board prevents mission drift and supports a customer-focused agenda. It provides practical advice to management in key areas such as law, strategic planning, information technology etc.
3. **The Executive function**
 - **Focuses on its customers;** ensuring attractive financial services are delivered that are variable, frequent, convenient, affordable, and sustainable.
 - **Ensures congruence of goals and activities between the marketing and operations functions;** whilst the marketing function is focused on an external customer’s perspective of the institution, the operations function is focused internally on service delivery. Executive guidance manages potential tension between the functions.
 - **Hires and develops very competent and capable senior management;** rapid growth frequently accompanies a transition to providing market-led services. Ensuring senior management competence is vital in responding to and sustaining this growth.
 - **Actively plans the future;** strategic plans are developed, defined and redefined on a regular basis in line with changing circumstances, keeping the market led vision and mission central.
 - **Is knowledge based and opportunity focused;** it looks to add value to the Bank and its customers, through strategic co-operation, joint ventures and donor-assisted projects.
 - **Is aware of the competition,** through industry associations, personal contacts and active research. It uses this knowledge to retain its competitive advantage.
4. **The bank develops and retains customer focused staff through investing in:**
 - **Training on delivering client focused services.** Members of staff are trained in customer service, sales techniques, and in “service recovery” – identifying and resolving client difficulties.
 - **Internal communications,** through corporate notice boards and staff email systems. An inexpensive monthly bulletin is produced through which staff suggestions are encouraged.
 - **Innovative mechanisms to build staff capacity,** a mentorship programme which rotates potential managerial staff around departments. Staffs are encouraged to study not through direct payment of course fees, but through a bonus scheme that offsets the costs of successful study.
 - **Well-designed incentive schemes** which reward staff performance, and ensure improved service delivery.
5. **The bank retains a strong customer focus throughout its “front office” operations**
 - **Marketing department** maintains a customer focus in all its activities - it develops corporate communications strategies, branding strategies and product marketing plans. It communicates consistently in clear concise and client friendly language. Front line staff is provided with full information about every product, through FAQ guides and are familiar with them. Marketing and client relations are seen as a function and responsibility of all staff. The department has annual marketing audits aimed at increasing the effectiveness of the marketing function.
 - **A research department** carries out customer-focused research into customer requirements. It trains staff in customer-centred research to expand the department’s ad-hoc research ability. The department conducts regular “mystery-shopping” surveys of its own and its competitors’ products.
 - **A strong brand** has is established in the marketplace – the bank would be considered innovative, flexible, polite, and service oriented by its existing and potential customers.

¹ These signposts are given for a relatively mature MFI with front and back office operations. Newer or smaller MFIs or those operating a group-based mechanism, may have several functions performed by the same person, though the basic principles and commitment to customer service still apply.

- **A customer charter** sets customer service standards, known by the customer and staff alike, progress is measured against the charter. Customers are encouraged to report failures to meet commitments made.
 - **A feedback loop** would be in place to allow customers to feed back their perceptions, client suggestions would be welcomed and responses detailing actions taken or not would be given to the customer.
 - **A pleasant banking environment** - branches display a common corporate identity they are smart, clean and tidy. There are enough tellers and fast enough systems to serve customers quickly and efficiently. Clear signage directs customers to the correct teller. Peak period workloads are carefully managed, through a combination of information, additional resources, extended opening hours, and incentives (e.g. encouraging employers to pay salaries on different days). During slack periods surplus tellers have a second role, in research, marketing or sales.
 - **Proactive customer communications exist** Mechanisms to inform the client are well developed at branch level; through notice boards and help desks. Fees and charges are explained in clear concise customer friendly terms on posters clearly displayed in every branch. Branch security staff can answer basic customer queries.
 - **Branch managers have a developed knowledge of their local community** they are familiar with local business opportunities. Managers are available and are encouraged to see their customers on demand within reasonable limits.
- 6. Back office operations support continually improving products and processes.**
- **An accountant ensures that the bank designs and delivers efficient and profitable services**, knowing that growth is often constrained by loss making products. Costing systems are well developed with product and branch based costing analysis produced quarterly. Process audits are carried out regularly.
 - **Well-written self-explanatory procedure manuals are in place** - updates are based on staff and client feedback on systems in place.
 - **Major changes are pilot tested to ensure continued delivery of high quality services to its customers**
 - New products are pilot tested on the basis of demand-led market research in accordance with a structured process.
 - IT systems developed designed and fully tested before introduction. IT support is available locally.
 - Incentive schemes are developed through a participatory process, in accordance with best practice and pilot tested where necessary.
 - **A portion of retained earnings is held in an innovation reserve** - it is recognised that investing in innovation is likely to lead to failures as well as successes. The organisation is not afraid to fail, as long as proper processes have been utilised in assessing and testing new innovations and appropriate lessons are learned and internalised within the organisation.
 - **The bank actively mines its data to ensure delivery of high quality services to its customers**
 - Identify opportunities for enhancing service quality, through developing new markets, opening new branches and developing products, and modifying the product mix.
 - Ensure efficient use of staff based on the number and type of transactions they perform
 - Identify staffing requirements ahead of time allowing for due process to take place in recruitment and training.
 - **The bank actively manages risk** - active assessment and management of risk allows innovative new projects to be undertaken. Awareness of risk extends beyond the traditional CAMEL assessment.
 - **An engaged IT department** develops or purchases IT solutions which allow products which are flexible, convenient, which facilitate small high volume transactions. The department provides management with mined data, exception and ad-hoc reports.
 - **Internal Audit** has a management audit function aimed at ensuring efficient service delivery and customer satisfaction through customer service audits, tracking data usage, and performing process audits.

Signposts to the Provision of Market-led Microfinance Services

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Introduction to Market-led Financial Services

Historically, single product micro-finance institutions promoted their lending service to supposedly homogeneous clients, through product standardisation, forced savings, joint liability and a heavy emphasis on repayment discipline (Woller 2002). Whilst these features satisfied institutional requirements at the time, they proved not to suit the needs of customers. A range of participatory studies carried out in East and Southern Africa by *MicroSave* indicated that institutions were experiencing dropout rates of between 30-60% *per annum*, partly because products and delivery mechanisms failed to respond to customer requirements.

Woller (2002) explains the evolution of the micro-finance industry in terms of a gradual evolution in market orientation, demonstrating that a strong market orientation is a feature of every mature industry and a determining factor in the success of individual institutions. According to Kotler the marketing guru:

“Market orientation holds that success will come to those organisations that best determine the perceptions, needs and wants of the target markets and satisfies them through the design, communication, pricing and delivery of appropriate and competitively viable offerings”

As early as 1999, Rhyne and Christen (1999) identify increasing competition as driving a more market led approach.

“Competition is leading to broader geographic coverage of the market, lower loan sizes and interest rates and a more complete range of products.”

Whilst there is increased acceptance of the desirability of becoming more responsive to customers this is a particularly difficult transition for financial institutions that have been following a single product, supply-led approach. This paper uses the experience of *MicroSave* with its Action Research Partners to suggest the competencies a market-led microfinance institution needs to develop.

Why Signposts to the Provision of Market-led Microfinance?

An American economist called James Galbreith used the term “signposts” in a very specific way. He observed that organisations possessed short term monitoring indicators for measuring the day-to-day performance of their business and long-term goals. Galbreith noticed that beyond short-term measurements, there were usually few indicators that could signal whether the institution was likely to meet its long-term goals. The lack of interim “signposts” meant that evaluation of progress would be periodic and subjective and that corrective changes in direction could be significant.

Galbreith suggested that organisations create medium term measures called “signposts” that could indicate whether progress was being made towards the desired goal. In this process organisations would paint a picture of the desired long-term outcome. For example, in this context microfinance programmes might ask, “If we become a truly market-led institution what will we be like?” Against this image - periodically thereafter stakeholders could ask the question “Have we become more market-led?” and form opinions based upon their perceptions of progress.

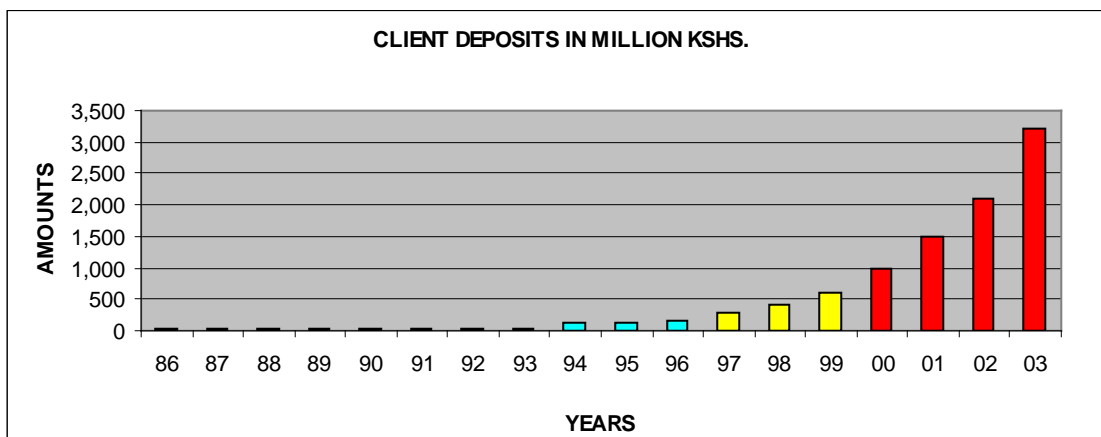
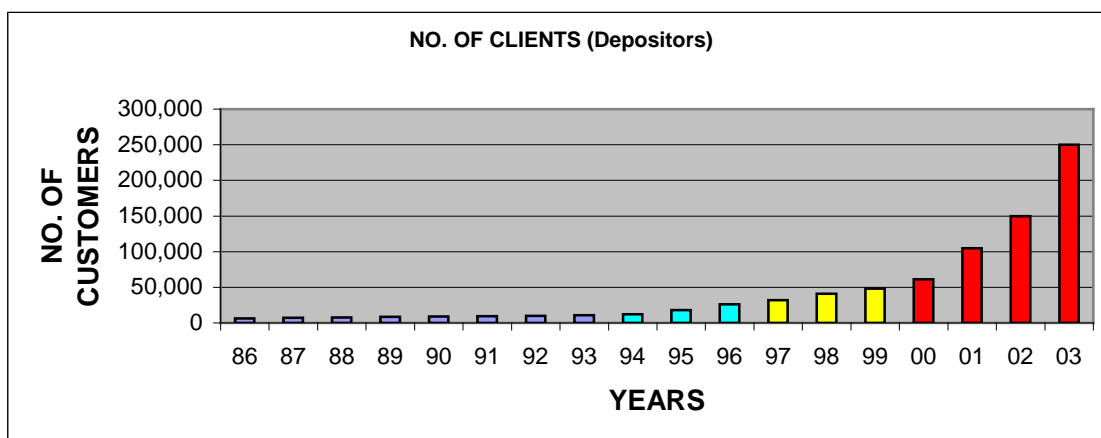
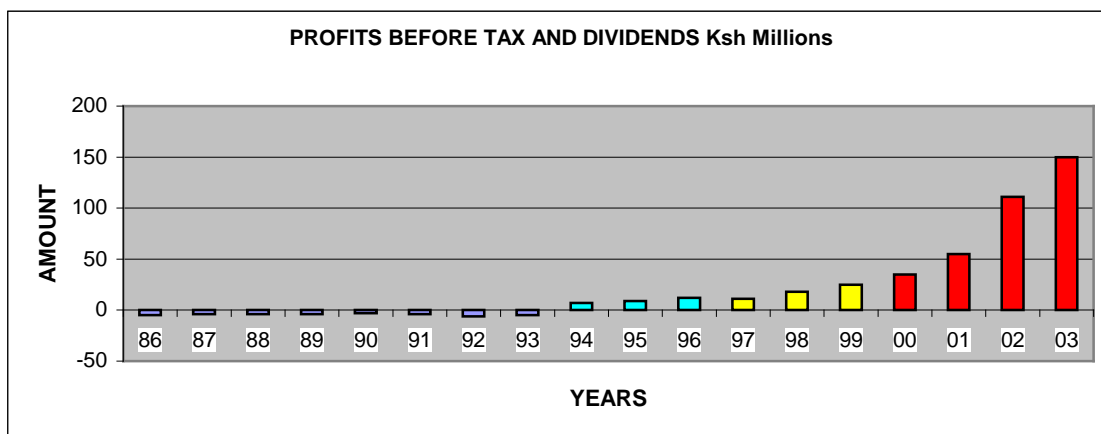
This paper attempts to create a picture of a market-led financial institution surmised from the experience of *MicroSave* in its work with its Action Research Partners. It is not intended to be a blue print for a transformation into a market-led institution; rather it is a starting point for thought and discussion.

The paper groups “signposts” into a number of categories including mission and vision, board, the executive function, staff development and retention and front office operations.

Why is it Important to Create Signposts?

MicroSave’s experience with its Action Research Partners suggests, other things being equal, that as institutions become more responsive to their customers rates of growth increase. Signposts provide guidance to institutions in their process of institutional change as they respond to market-led growth.

Equity Building Society (hereafter referred to as Equity) in Kenya provides the best example of this. In the early 1990’s Equity Building Society was a failing financial institution, today it is recording record levels of profitability and growth.



Equity’s growth is characterised by distinct phases of thinking and actions. Between 1986 and 1993, the so-called “product led” phase Equity offered one savings and one loan product to its customers. Outreach and profitability were low. Between 1994 and 1996 Equity heavily promoted its products in a “sales led” phase. Promotional events and roadshows brought modest growth and profitability to

Equity, though with only two products the impact was limited. Under a “marketing-led” phase between 1997 and 1999 Equity became much more sophisticated in the promotion and delivery of its products. Although there remained two core products, they were adjusted slightly for different market segments and sold differently in each segment. Under the “marketing led” phase customer service becomes more important and increasingly evident with the establishment of business banking counters in all branches and the relocation of Equity’s oldest branches into better premises. Since 2000 Equity has defined itself as “market-led”. For Equity this has meant placing customer requirements first in providing financial services, and continuous adjustment to be able to meet these requirements.

A market-led approach resulted in rapid change within Equity, with the creation of new departments and the institutionalisation of new skill sets. Equity created a market research department, a marketing department and new branch based positions aimed at delivering improved service. Investments were made in information systems and improvements made to internal processes and procedures. Equity became more aware of its image with its customers and sought to improve customer communications and to standardise and improve customers’ banking experience. The growth that can accompany a transition to a market-led approach necessitates a much wider growth in capacity – institution wide.

Market-led growth also changes the risk profile of institutions. For example, savings-led growth promotes significant increases in liquidity and produces a latent demand for loans. In the short term if Treasury bill rates are low profits will be constrained and may even reduce if the cost of mobilising deposits is high. In the medium term the institution risks considerable loss of reputation if it is unable to rapidly increase its loan portfolio to meet the increased demand for loans. Alternatively, if the institution meets the demand for loans, but has not invested in systems, processes, procedures and recruiting and training new staff – it risks considerable loss through loan default. The situation is slightly less challenging in the case of loan led growth as an institution can control its loan disbursements far more easily than it can control the growth in its deposit base under savings-led growth.

Organisation of Signposts

To facilitate the discussion of signposts to the provision of market-led financial services, signposts have been divided into the following six sections.

1. Vision and mission
2. The Board
3. The executive function
4. Developing and retaining customer-focused staff
5. Customer-focused front office operations
6. Continually improving back office operations

Section 1: Vision and Mission

Vision and mission statements

A commitment to providing flexible financial services is a prerequisite to becoming a market-led microfinance institution. This can be especially challenging for microfinance programmes that are operate a single methodology, as the transition from a Grameen or FINCA Village Banking approach towards offering increasingly flexible services involves fundamental changes in vision and mission. Two examples illustrate the importance of mission and vision.

Teba Bank was incorporated in 2000, formerly Teba operated as Teba Cash Ltd – a payroll office for mineworkers in Southern Africa. The newly incorporated bank required a mission and vision relevant for its move into new markets. Teba Bank’s mission became:

“To be the provider of affordable, accessible and quality financial services, principally in rural and small town southern Africa and make a positive contribution to those communities where we do business”.

Teba Bank's vision statement provides an explanation of how Teba Bank intends to provide affordable and accessible financial services, that deliver long term profitability to shareholders, whilst being customer driven and delivering high quality financial services. Teba Bank is committed to be a responsible employer and to invest in staff².

Teba Bank's mission and vision are highly visible, through the high quality of its branches, its speed of service, through competitive prices and in its product development and marketing choices.

Postal Savings Banks are not known for their commitment to providing flexible financial services, as they struggle with a public sector culture, restrictive agency arrangements and manual systems. However, some Postal Savings banks like Kenya Post Office Savings Bank and Tanzania Postal Bank (TPB) are striving to change. At TPB the commitment to providing flexible financial services starts with a client responsive mission statement.

“TPB seeks to provide total quality commercial banking to meet and exceed the expectations of the existing customers and acquire new ones while ensuring continuous growth and profitability”

TPB has taken steps to achieve its mission, through offering new products, opening new branches, through computerisation, and through developing a clearer corporate brand. However, fully achieving TPB's mission will require continuous upgrading of skills and on-going development assistance. However, the potential prize is considerable - access to customer responsive savings services for more than a million Tanzanians.

Section 2: The Board

The board maintains vision and mission

A financial institution driven by market-led demands often though not always has a competent, knowledgeable skill-based Board that prevents mission drift and supports a customer-focused agenda.

A competent, knowledgeable Board acts as a sounding board for management in the case of Teba Bank in South Africa the Board provides strategic advice in areas related to Information Technology, and government. In Equity the Board has been expanded to accommodate international expertise in banking for the poor. FINCA Tanzania, which is governed by FINCA International, has taken the step of creating a Local Advisory Board comprising senior academics, legal and human resource professionals to provide advice and support.

Where Boards can be especially important is in managing the transition of microfinance programmes, from achieving small scale social and economic goals, to becoming profit centred institutions with a customer service focus which are able to deliver market-led financial services.

Mission drift is a concern cited by those seeking to transform MFI's, namely that institutions established to serve the poor gradually move to serve higher end clients after transformation. However this can be questioned on a number of bases. *Firstly*, as Equity shows profits can be made from focusing on delivering customer value in the low-income market without charging excessive fees. *Secondly*, the low-income segment is generally less competitive and can operate on higher margins than the heavily competitive high net worth individual and corporate banking segments. *Thirdly*, even where some mission drift occurs this can be justified *if* this facilitates the growth in the institutions provision of services to the low-income segment. *Fourthly*, few microfinance programmes deliberately graduate their best clients to the formal banking sector they produce specific products to retain their high end clients.

Given that profits can be made in the low-income segment, the question for most microfinance programmes is not therefore, mission drift which implies a gradual movement towards high net worth clients, but one of conscious choice, which segments should we serve and how. This conscious choice

² A full version of Teba Bank's Vision Statement can be downloaded from www.Tebabank.co.za

is a function of the Board. An appropriate case study here is Centenary Rural Development Bank. Centenary faced significant surplus liquidity combined with rapidly reducing Treasury bill rates. In order to maintain profitability Centenary chose to move into the corporate banking market. In the space of 18 months Centenary's loan portfolio doubled. However, given the highly competitive nature of the corporate banking market and the higher loan losses experienced in this segment, profits only increased marginally.

Section 3: The Executive Function

The Executive function focuses on its customers

The Executive function ensures that the institution focuses on delivering value to customers, through tackling issues related to strategic marketing; namely corporate branding and communications, product development and marketing, creating efficient delivery channels and delivering customer service.

The Executive function ensures that attractive financial services are delivered that are variable, frequent, convenient, affordable and sustainable. These features of financial services for low-income people are explored by Rutherford in his paper "Getting Serious About Banking for the Poor" (Rutherford, 2000). Paraphrasing Rutherford, products and services must be:

<i>Variable:</i>	Allowing the customer to determine the time and nature of transactions
<i>Frequent:</i>	Facilitating frequent access by customers
<i>Convenient:</i>	Designed to be convenient for customers rather than for the financial institution
<i>Affordable:</i>	Customers should consider fees and charges reasonably priced
<i>Sustainable:</i>	An efficiently run financial institution should be able to return sufficient returns for shareholders

MicroSave's ARPs have significantly increased their focus on their customers. All ARPs have carried out research on customer needs and requirements. Most have established research and marketing departments, several have reviewed their processes and still others have conducted marketing and customer service audits. Most have increased accessibility either through extending opening hours and/or adding branches.

The Executive ensures congruence of goals and activities between marketing and operations

Management must ensure congruence of goals and activities between the marketing and operations functions. The operations function is normally mature by the time a marketing function is created. Over time both the operations and marketing functions identify strongly with the financial institution, the operations function from a largely internal perspective of daily operations and the marketing function from a more external perspective of how the institution meets the needs of its customers.

In cases where there is a well-developed marketing function, differing perspectives can lead to tensions within the financial institution. As financial institutions become market-led, the marketing, market research and customer service functions become significantly more important than in a supply driven approach, which relies more on efficient operations. Typically this results in the marketing function taking a greater role over many of the more strategic functions within the Bank such as determining which market segments to serve with which products.

For example, in Teba Bank in South Africa, it took time for marketing and operations departments to communicate effectively. However, management took decisions to embed a marketing officer within operations to focus on customer service, and to embed the sales function within operations. There is now significantly greater coordination between the marketing and operations departments.

In the case of Kenya Post Office Savings Bank the challenge was different, the Business Development Department – normally a function of marketing developed a new computerised savings account, the *Bidii* account. However, the *Bidii* account was seen as a special purpose account by the Operations Department and was always given a low priority as a result. *Bidii* has only been effectively marketed since the Operations Department took over greater ownership of the product.

The Executive hires and develops very competent and capable senior management

Ensuring senior management competence is vital in responding to and sustaining market-led growth. However, senior management skills are normally in short supply and are often more expensive to recruit and retain than the institution is used to paying. Yet, establishing a senior management cadre is a fundamental to developing a market-led institution. A few examples illustrate this point.

Credit Indemnity in South Africa developed a strong management team, which was able to manage an remarkable growth rate, from 25 branches to 120 in three years. The executive management function was shared between two Directors whose overlapping skills allowed each to add value to the work of the other enabling quick decisions to be made when either is absent. The management team of around 15 seasoned professionals brings together specialist knowledge on operational management, credit scoring, MIS, procedures, internal audit, credit control, risk management and marketing. A flat management structure and an open door policy encourages sharing of knowledge between disciplines.

In contrast in 2001 Centenary Rural Development Bank relied heavily on the skills and leadership abilities of Dirk Van Hook, the Executive Director, who died in a tragic accident. At the time the bank lacked key General Manager and administrative positions that left Centenary's middle management considerably overstretched.

Equity learned from the experience of Credit Indemnity realising that it needed to considerably strengthen its management team to facilitate growth. After careful analysis Equity employed senior managers to create or strengthen departments in Marketing and Market Research, Personnel, Operations, Legal and Compliance and Internal Audit. After a further year of market-led growth Equity once needs to recruit additional senior managers to strengthen key departments such as Human Resources and Credit.

Management actively plan the future

In order to create the type of institution that can consistently deliver the products and services that the market requires, and that can respond to rapid growth it is essential that management actively plan for the future. The emphasis here is on activity. Actively planning the future requires more than a strategic plan as evidenced by the contrasting experience of Equity Building Society and Teba Bank.

In 2002 Equity Building Society in Kenya developed a detailed strategic plan, which clearly outlines its mission and vision, its internal strengths, weaknesses, opportunities and threats and examined its external environment. However, whilst Equity's plan prioritised areas for development it failed to itemise the detailed steps necessary to achieve the specified objectives. Equity could learn from the experience of Teba Bank in South Africa.

Teba Bank uses a project management approach to manage its institutional development. Each significant development is formulated into a project that is divided into detailed stages, with responsibilities for each stage given to the appropriate member of staff or external consultant. Weekly meetings examine progress against objectives and actual and potential roadblocks are identified. An analysis of potential risks and risk management strategies is an essential part of the project management approach.

The institution is knowledge based and opportunity focused

Market-led institutions are by necessity knowledge based. They build not only upon their own experience but search out peer institutions and knowledgeable individuals offering particular skills that the institution wishes to develop. "Know how" the practical application of knowledge is particularly valued. Strategic collaborations between financial institutions in similar financial markets can produce dramatic results, where each institution builds on the strength of the other. However, due to the competitive nature of national markets frequently collaborations need to operate across borders, which can be expensive if the collaboration is not carefully conceived and managed.

Edward De Bono in his book "Opportunity Search" identified the ability to recognise and take opportunities as the single common factor behind the accomplishments of fifty extremely successful

individuals. Likewise many successful microfinance programmes are opportunity focused and look for innovative solutions to their problems. Two examples illustrate this behaviour:

Teba Bank looks for strategic partners to work with when developing new products. In order to develop a home improvement loan product looked to find people who had experience in home improvement loans, once discovered, Teba Bank developed a new loan product quickly and with minimal risk.

Equity received advice from other *MicroSave* ARPs to develop skills in marketing, credit risk management, management structure and teller operations. Peer to peer advice can be especially valuable as institutions share practical solutions to common problems.

Management demonstrate heightened competitive awareness

Competitive awareness is a feature of more developed or more competitive markets, however, heightened competitive awareness is also an aspect of market-led microfinance institutions. Market-led microfinance institutions are looking to their competition to learn from their successes and failures. However, the key distinction between market-led institutions and financial imitators is that market-led institutions are not necessarily seeking merely to imitate products, but to use competitors products as a way to benchmark and improve their own products.

In developed financial markets financial institutions use a variety of tools to investigate their competition including mystery shopping and market surveys. In mystery shopping staff from the market-led financial institution can be asked to open accounts with competing institutions and then provide comprehensive feedback on the performance of that institution. In developed markets companies specialising in financial intelligence can provide highly detailed reports. However, in developing countries the provision of market intelligence is likely to rely more directly on the customer, for this other tools are required. A particularly useful tool is *MicroSave's* Competition Matrix.

A competition matrix allows an MFI to produce detailed information on its own products relative to those of its competition. It considers elements of each product against the 8 P's. These are:

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 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.

Source: Graham AN Wright, “Market Research and Client Responsive Product Development” *MicroSave (2003)*

More details of the competition matrix and how it is constructed can be found in “Market Research and Client Responsive Product Development” (Wright, 2003).

Section 4: Customer Focused Staff

Staff receive training on delivering client focused services

Members of staff are trained in delivering client focused services. They are trained in customer service, sales techniques and in service recovery. Service recovery is the successful resolution of difficulties. In particular staff are shown that customer service should not be narrowly defined as having the right attitude when dealing with clients, but that it involves everything necessary to deliver a good service.

In a customer service workshop moderated by *MicroSave* Equity found that whilst staff attitudes are considered appropriate, many of the difficulties Equity had with delivering client focused services could be resolved through improving internal communication, providing higher levels of IT support and in ensuring that members of staff received proper training in Equity’s products and services.

Excellent internal communications are promoted

Few success factors have proven as vital and ubiquitous for the provision of market-led financial services than internal communication. Communication is vital at every level, it ensures that management have the correct information to make decisions, it ensures that staff are provided with the necessary information to provide consistently high quality services to clients. Furthermore, excellent communications facilitate the early identification of problems and difficulties.

Excellent internal communications must be fostered through a range of mechanisms these include intranets, staff meetings, weekly bulletins and the creation of key contact points. These mechanisms are explored briefly below.

- *Intranets*: Using Wide Area Networks the institution establishes an intranet, which is loaded with staff communications, policies and procedures, marketing information and Frequently Asked Question Guides. The intranet is used creatively for staff training and development through quizzes and the provision of on-line education material.
- *Staff meetings*: Staff meetings and staff notice boards are used creatively to feedback suggestions on improving customer service, in training new staff
- *Weekly bulletins*: Weekly bulletins are used to inform staff of the latest developments within the bank, used in conjunction with the intranet site.
- *Key contact points*: Key individuals are nominated as contact points for queries on products, processes, customer service, information technology etc.

Whilst good internal communications contribute to the success of a financial institution, poor internal communications can be disastrous. A few examples demonstrate this:

When launching the new computerised *Bidii* product at one of its Nairobi branches Kenya Post Office Savings Bank failed to inform staff at a very busy adjoining branch that offered the Ordinary Savings Account about the advantages of the new product, to make matters worse, staff at the adjoining branch were not asked to promote the new product. As a result initial take up of the *Bidii* product in Nairobi was slower than it should have been.

Teba Bank launched a roadshow to promote its new Grow With Us Account. The marketing roadshow visited one town to find that the local branch computer system was taken down for maintenance by another Head Office Department meaning that no new accounts could be opened during the marketing drive.

The Bank invests in innovative mechanisms to build staff capacity

A market-led financial institution regards human resource development as key to its survival. Even where fully trained front line staff are available locally, few institutions can afford to attract many from other financial institutions, and even where they can differences in institutional cultures, policies and procedures mean that most front line staff are developed internally.

- *Professionalize the Human Resource function:* As institutions grow and the pace of change increases it becomes important to professionalize the human resource function. This function co-ordinates recruitment, performance appraisal and staff development.
- *Training programmes:* Due to the cost of training for most institutions the majority of training is developed internally using staff as trainers. Unfortunately the quality of training provided is often low and there is limited if any assessment of the effectiveness of the training. The quality of training can be increased relatively easily by training selected staff in training techniques and through external review of training curricula and the development of quality training materials.
- *Rotation of duties:* The duties of branch staff are rotated around front office functions so that staff become multi-skilled in cashiering, opening accounts, customer service and service recovery. This approach makes it far easier for the branch manager to manage occasional staff shortages and periodic peaks in workload.
- *Knowledge and aptitude tests:* Staff are tested on their knowledge of products, processes and procedures. This can be done through weekly staff meetings, through intranet based quizzes and specific training events. The results are placed on staff members' personnel files and affect promotion.
- *Exposure programmes:* Selected employees take part in exposure programmes developed to learn from the best practice of other institutions. Such exposure programmes need to be carefully designed to ensure the programme will benefit the institution as well as develop the staff member. To achieve this very clear goals for the exposure programme must be established and staff must be tasked with reporting on the exposure programme and its relevance to the institution.
- *Sponsorship programmes:* Sponsorship programmes reimburse staff for course and exam related fees on the completion of professional examinations. In doing this the institution is not only being seen to reward the dedication of its staff in developing their own capacity, but it is rewarding success at every level of the institution. Some institutions especially parastatals use sponsorship to recognise length of service and seniority, through funding the further studies of senior management staff. However, this approach risks sending the wrong message to more junior members of staff that further education is only for the elite within the institution.
- *Fast track programmes:* Staff with management potential are identified and rapidly promoted through different grades and positions. They receive mentoring from their managers and senior managers.
- *Recruitment policy:* The recruitment policy reflects the changing needs of the institution - preference is given to recruiting staff with the potential to manage multiple tasks. An example of this is Equity Building Society, which recruits a large number of graduates. Equity is fortunate that there is a considerable pool of unemployed graduates so that the premium it has to pay for employing graduates is not excessive.

Well-designed incentive schemes reward staff performance

A market-led microfinance institution is concerned to maximise the performance of its employees. This has several implications. Firstly, individual staff performance is measured on a regular basis wherever

possible. For tellers this often translates into monitoring transactions per day per teller in relation to other tellers in their branch and in relation to organisational averages. Credit officer performance is normally monitored through portfolio quality, size and outreach, taking into account other variables such as geographic location and experience of the credit officer.

A market-led institution uses detailed performance based indicators to identify reasons for high and low performance. Over time it uses this understanding to screen out poor performing members of staff and to improve its selection processes.

National Microfinance Bank in Tanzania took over the mainly rural branches of the National Commercial Bank. It inherited staff and systems, which required radical attention. The new management used carefully designed performance indicators to screen staff performance with the approval of bank unions. The poorest performers were then given time to improve before any further action was taken. Staff performance improved dramatically.

In order to incentivise staff an incentive scheme must be, and be seen to be, both transparent and fair, Martin Holtmann (2002) writes

“The transparency requirement means that:

- Staff members affected by a bonus scheme should easily be able to understand the mechanics of the calculation, i.e. the system should not be overly complex;
- The scheme should contain as many objective factors and as few subjective variables as possible;
- The “rules of the game” should be made known to everyone and should not be changed arbitrarily.

In order to comply with the fairness requirement:

- The goals set out by the scheme must be attainable;
- Better performers must indeed be rewarded with higher salaries;
- Everyone must be able to achieve a higher compensation by working better and harder.”

More details on designing and pilot testing staff incentive schemes can be found in *MicroSave’s “Designing Staff Incentive Schemes Toolkit”* developed by Martin Holtmann.

Section 5: Customer Focused Front Office Operations

The marketing department maintains a customer focus in all its activities

Delivery of market-led services has cascading implications for the institution. Firstly, the financial institution must understand the needs of its customers’. To do this requires a planned and sustained programme of research. The research programme should be wide ranging and cover new product development, customer perceptions of the institution, the competition, levels of customer service, and product marketing. Staff should be included in the research programme not only to test their levels of awareness of the institutions products and services, but to gather their suggestions on where and how improvements should be made.

Secondly, the strategies of the financial institution need to focus on the articulated needs of its customers. The marketing department’s inputs are key in developing strategies on corporate communications, branding, product marketing and product development.

Thirdly, marketing must carefully design communication material to ensure that staff are able to discuss the institution, its products and services to customers in clear, concise and client friendly language. It does this through producing simple product related literature, along with Frequently Asked Question guides.

A caveat is worth making, the marketing department must work with the operations department to ensure that it does not make claims that operations cannot meet. The consequences of making exaggerated promises can be disastrous. One financial institution's CEO launched a new savings product in a branch whilst implying loans would be provided to good savers. Initial sales of the savings product were brisk but reduced drastically when the institution failed to deliver loans.

Fourthly in a market-led organisation marketing is seen as the responsibility of the entire organisation, and not just the marketing department. Of course the marketing department coordinates strategy and often has additional financial and human resources to conduct sales and marketing campaigns, but the generation and closure of most sales is the responsibility of branch and/or field staff.

MicroSave's work with its Action Research Partners has demonstrated that organisations whose entire staff are dedicated to producing sales consistently outperform those who wait for the marketing department to deliver. One reason can be demonstrated by this simple example. In Kenya Post Office Savings Bank the marketing department has 20 staff to cover more than 60 branches. Mystery shopping carried out by *MicroSave* showed that many KPOSB staff expect the marketing department to perform direct marketing activities and therefore perform very limited marketing themselves. There is a limit to the impact of the direct marketing activities of 20 staff rather KPOSB's marketing department should coordinate marketing activities through all of its branch based staff.

Fifthly, the marketing department continually tries to improve on its effectiveness. It does this through testing marketing promotions and brand perceptions with customers as well as gathering and testing frequently asked questions. However, it is very difficult for a marketing department to assess its own effectiveness due to difficulty of attribution of sales, objectivity and lack of measurable performance indicators. An alternative approach is to employ external financial marketing professionals to perform a marketing audit of the institutions products and marketing department.

A research department carries out customer-focused research

Market intelligence is highly valued by a market-led institution, much of this intelligence is internally generated, partly because, information of this type is especially valuable to competing institutions, but also to facilitate speed of response to any issues identified.

Typically several types of research are conducted which include research on product development, customer perceptions of the institution, its products and services; mystery shopping of its own and its competitors products, product marketing and customer service research. Taking each of these in turn

- *Customer perceptions of the institution:* Customer actions are driven not on the basis of thorough knowledge of the institution and its services but on perception. The institution seeks to adjust customer perceptions through corporate branding initiatives.
- *Mystery shopping surveys of its own and its competitors' products:* Mystery shopping is an incredibly valuable tool in establishing the extent to which changes in policies have been understood and are being implemented by staff. Mystery shopping also allows the institution to compare certain aspects of its services with those provided by its competition.
- *Product marketing:* A market-led institution is able to market its products effectively to its clients. It does this through careful research that allows the institution to explain its products and services in clear, concise client friendly language.
- *Customer service research:* Internal and external research into customer service identifies issues in the design and delivery of service. Well-facilitated workshops that draw participants from across the institution can be particularly effective at identifying service issues and potential solutions.

A strong brand has been established in the market place

Brands are especially important for financial services. In a competitive market client choices are made on the basis of perceptions of the institution and its products. Perceptions drive sales because financial

services are “invisible” - they cannot be touched, neither are they easily compared between institutions because of their complexity.

Branding is a conscious and deliberate attempt to create positive perceptions in the mind of potential customers. To build a strong brand a financial institution ensures a consistent physical identity and maintains high standards of customer service and customer communications.

A strong brand drives Word of Mouth marketing. Word of Mouth is the single strongest driver of sales. In *MicroSave's* study of the competitive environment in Uganda (Wright and Rippey, 2003) no fewer than 58% of respondents cited that recommendations from family and friends as the key factor determining their choice of financial institution.

Equity Building Society gradually improved its brand, through creating a consistent physical infrastructure, through improving customer service and communications, and through publicity and public relations. Publicity surrounding its 20th Anniversary celebrations served to effectively promote the Equity brand and to build Word of Mouth. Within two months the number of new savings accounts being opened increased from 4,000 to 15,000 per month.

In a few cases a strong established brand needs to be modified. Take for example FINCA Uganda, which has cultured its image as a micro-lending institution to the extent that the institutional tag line proudly proclaims its mission “Small Loans - Big Changes”. In 2004, FINCA Uganda is likely to become a regulated financial institution under the Microfinance Deposit Taking Act. Under this act FINCA Uganda will need to modify its brand to include savings services and move away from a market “position” or image, of an institution that serves only groups of women sitting under mango trees.

A customer service charter establishes clear customer service standards

A customer service charter is a public document that commits a financial institution to delivering specific and measurable standards as part of its wider mission of providing quality financial services to its customers. Such charters aim to create clarity and uniformity in the delivery of service across the organisation. Customers are encouraged to report failures to meet commitments made.

A review of customer service at Tanzania Postal Bank recommended that performance standards were developed for the speed of deposits, withdrawals, crediting interest, replacing passbooks and queuing time and that TPB should implement consistent client communications. Once standards were developed and tested internally that TPB published a customer service charter.

Feedback loops allows customers and staff to feed back their perceptions of the institution

Feedback loops are mechanisms that facilitate communication around an organisation. These loops work from management to staff, management to customers, within management and also from customers to the bank. A customer-focused institution develops extensive feedback mechanisms that enable it to rapidly identify and respond to problems and issues. Feedback mechanisms with clients include:

- *Suggestion Boxes:* A clearly labelled suggestion box is placed strategically inside the branch where clients will notice it. The challenge is to encourage customers to use the suggestion box. Feedback is important. Notice boards placed beside the suggestion box provide feedback to clients on the results of their suggestions.
- *Client based research:* Client based market research is conducted through focus group discussions, this research is used to identify clients perceptions of the institution, to improve products and services, to identify service issues and to improve communications.
- *Surveys and questionnaires:* Surveys and questionnaires are used on opening and closing accounts, and periodically for other activities to elicit strategic information from customers.

In each case customers are informed of key results from the research and the actions that the institution is taking in response. More details of *MicroSave's* work on the feedback loop is contained within a

study by Michael J. McCord during which he examined the feedback mechanisms of five East African microfinance institutions (McCord 2002).

The institution ensures a pleasant and efficient banking environment

Branches display a common brand - they are smart, clean and tidy. There are enough tellers and fast enough systems to serve customers quickly and efficiently. Clear signage directs customers to the correct teller.

In microfinance programmes operating front and back office operations ensuring a pleasant and efficient banking environment is an essential element of customer service and marketing. The banking environment impacts directly on outreach and profitability.

Teba Bank ensures that customers are assisted to complete withdrawal vouchers and that teller operations are efficient; passbook printers and cash counting machines are used to ensure that transaction times are minimised. Teba Bank recently completed a review of all of their branches to ensure that there were sufficient teller positions, that queues moved effectively and that customer service advisers were able to perform their function effectively.

Equity ensures that there are sufficient teller positions to service their customers and for their corporate customers they offer a premium banking service, which ensures that business customers are serviced rapidly and in privacy. An account opening desk ensures that new accounts are opened quickly and conveniently, digital photographs are taken at the branch rather than requiring customers to obtain their own photographs. Extended opening hours at weekends and month ends ensures capacity to meet demand.

Tanzania Postal Bank is moving its outlets away from the major post offices and into dedicated premises this enables the bank to control its operating environment and to provide better service to customers. However, the manual processes involved in its flagship products, the Postal Account continues to limit the attractiveness of the bank for many potential customers.

Peak period workloads in branch-based banking are a major determinant of profitability. The number of customers that can be served during peak periods determines the capacity of a banking network. Therefore, it is critical that peak period workloads are carefully managed. Peak workloads are managed through a combination of disseminating information, reallocating resources, extending opening hours, and introducing appropriate customer based incentives, considering each in turn:

- *Information dissemination:* Information is disseminated carefully, through appropriate signage and notice boards. Common information requirements are identified and innovative mechanisms used to communicate effectively to clients, for example, in some banks salary boards are used to identify which salary payments have been received by the bank.
- *Reallocating resources:* Ensuring all teller positions are occupied during peak workloads reduces the impact of peak periods on customers. Various strategies are adopted to achieve this including part time working, and reallocation of duties during month ends.
- *Extending opening hours:* Opening hours are extended during peak periods such as month ends, and for the payment of school fees.
- *Introducing appropriate incentives:* Incentives are provided to employers to adjust the payment date of their payrolls, or to customers to encourage the use of alternative automated services.

As organisations staff themselves to manage peak workloads, managing periodic (often monthly) slack periods are also important. During slack periods surplus tellers can be given a second role, in research, or marketing.

Proactive customer communications exist

All market-led financial institutions have proactive mechanisms to communicate with their customers and to allow their customers to communicate with them. There are many reasons for this:

- *Ensure service is in line with customer expectations:* Effective communications ensure that customer expectations are in line with the service that the bank is able to deliver.
- *Allow customers to pre-screen themselves against the services on offer:* Effective communications through product brochures enables customers to make their own product choices thereby maximising service, whilst minimising customer interface time.
- *Decrease service time:* Branch level communications, through notice boards and signage allow queries to be managed without the customer queuing unnecessarily, thereby significantly increasing service speeds.
- *Resolution of service issues:* Mechanisms that facilitate gathering feedback from clients such as customer surveys, focus group discussions, suggestion boxes and fraud hotlines allow identification and resolution of customer service and operational issues.

For example, Teba Bank in South Africa has clear product related information on display in both poster and leaflet form and customer service advisors to assist the client. The posters are placed in metallic frames to ensure that they attract client attention and are maintained in pristine condition. Posters are rotated regularly.

Equity performed research on their products and services with their customers. After analysing the research Equity produced a letter on headed paper for all of its then 150,000 customers explaining the research that Equity had performed and how Equity was responding to the suggestions made. Where Equity could not respond this was explained too. Careful customer communications contributed to an improvement in Equity's corporate image and to rapidly increasing sales.

The challenge in a market-led institution is to maintain the quality of communications in a situation where growth becomes the norm. A growing institution faces new staff, branches and customers and frequently new products and procedures. Consistent communication with clients becomes an ever-present issue to be managed. FINCA Tanzania introduced an internal weekly newsletter to ensure staff were abreast of developments, others such as Equity Building Society, Teba Bank, Credit Indemnity and Equity have developed their own intranet sites to ensure that even the newest staff have access to accurate information.

Branch managers have a well-developed knowledge of their local community

As the organisation expands it is no longer possible to rely on the quality of personal relationships to underwrite performance. Instead, branch managers need an in-depth knowledge of their local community. Whilst products are developed nationally the ideal product mix will vary according to the economic conditions prevailing in that area. Rural areas may have needs for seasonal credit and consumption smoothing loans, urban areas greater demand for business loans. The branch manager will be able to predict potential areas for growth and the appropriate marketing approaches to use in his community.

In many cases branch managers functions can be delegated to other staff occasionally to allow the branch manager to spend more time in the community, attending marketing events, visiting potential business clients in their premises. Managers' knowledge of the local community enables opportunistic and entrepreneurial behaviour, not only in selling new accounts and loans, but also in developing appropriate public relations opportunities.

Section 6: Continuously Improving Back Office Operations

The bank designs and delivers efficient and profitable services

Growth is constrained by loss making products. Every institution that *MicroSave* has worked with to develop allocation based costing systems has had loss making products. Details of the reasons for loss making services are provided in “Product Costing and Pricing of Financial Services – The Experience of *MicroSave*”. Market-led financial institutions regularly produce product costing reports which enables the institution to determine which products to revise, which to promote and which to drop.

Providing efficient profitable products means *designing* appropriate processes and procedures, which balance client requirements for speed and service with institutional requirements for internal control and risk management. Process design or redesign starts with process mapping, looking at actual and ideal processes for the product.

Equity reworked their savings policies and procedures through a process mapping exercise. The objective of process mapping was to standardise policies and procedures, develop training guides, and improve efficiency, effectiveness and internal control. With the assistance of a consultant Equity followed the participatory process outlined in *MicroSave*'s process mapping toolkit to develop new procedures. The new procedures were then tested in one branch over the course of a month and have since been rolled out to all 15 branches.

Updated procedures led to improvements in the cycle time of various activities as indicated in the table below. Cash transaction time increased slightly due to an extra procedure being introduced to improve internal control.

Activity	Pre-pilot	Post-pilot
Account opening	12.6 minutes	9.78 minutes
Cash transaction (time with cashier)	1.96 minutes	2.17 minutes
Cash transactions (total cycle time)	7.14 minutes	4.96 minutes
Issue of magnetic cards	1 month	2 weeks

Standardisation and improvement of policies led to significant benefits to Equity which have reportedly included, better risk management, better understanding and consistent application of policies, increased capacity to handle more business. The participatory process adopted in process mapping also led to the identification of other quick wins, including improvements in branch layout.

Well-written self-explanatory procedure manuals are in place

To offer consistent levels of service even during growth requires well-developed procedures, which are well communicated to staff. For many microfinance programmes documenting procedures can be especially challenging. Whilst a small microfinance programme with a single product largely trains its staff on the job, a rapidly expanding institution with multiple products needs to formalise its training. To do this requires well-written, self-explanatory procedure manuals to be in place upon which training manuals can be developed. Fortunately, documenting processes and procedures is relatively simple if a structured process mapping exercise is conducted³.

Major changes are pilot tested to ensure continued delivery of high quality services to customers

To ensure the continued delivery of high quality financial services to its customers market-led institutions are usually in a state of perpetual change, whether in developing new products or procedures, new IT systems, incentive schemes, or in opening new branches. However, major changes need to be implemented with care only after appropriate testing has occurred. Pilot testing is especially appropriate in the introduction of new products, new systems and new incentive schemes, considering each in turn:

³ For more details on process mapping see *MicroSave*'s “Process Mapping Toolkit”

- *New products are pilot tested in accordance with a structured process:* Market-led institutions become practiced in developing and pilot testing new products. An increasingly structured, yet relatively streamlined pilot testing process is used, to introduce new products. *MicroSave's* knowledge on pilot testing new products is shared in a paper entitled “Lessons from Pilot Testing – The Experience of *MicroSave*” (Cracknell et al, 2003).
- *IT systems are fully tested before introduction:* There are few cases where failing to pilot test can be as expensive as the introduction of a new IT system. One reason cited for the relatively expensive introduction of Centenary Rural Development Bank's new computer system was the limited testing which occurred prior to the system being introduced. Even where a system is extensively tested before introduction, as in the case of Teba Bank's new Flexcube banking system, transitional difficulties can be expected.
- *Incentive schemes are developed through a participatory process and tested:* The testing of incentive schemes is especially important in order to avoid unanticipated adverse consequences. FINCA Uganda discovered this to their cost after the creation of their first incentive scheme.

A portion of retained earnings is held in an innovation reserve

It is recognised that investing in innovation is likely to lead to failures as well as successes. The organisation is not afraid to fail, as long as proper processes have been utilised in assessing and testing new innovations and appropriate lessons are learned and internalised within the organisation. To encourage innovation the financial institution invests a portion of its retained earnings in innovations and product development. The creation of an innovation reserve recognises that being and remaining responsive requires the ability to rapidly assign funds to a new initiative.

The Bank actively mines its data to ensure delivery of high quality services to its customers

Increasingly bankers use data to ensure the delivery of high quality services to customers. Data is used in a number of ways.

- *To identify opportunities for enhancing service quality:* through measuring service quality indicators, such as number of transactions per day per teller, loan-processing time, average transaction time. Identifying differences in performance between staff and between branches is key to maintaining and rewarding consistently high levels of service.
- *To maintain high levels of loan repayment through the application of credit scoring techniques:* Application and behavioural scorecards are designed on the basis of detailed knowledge of the statistical factors that appear to have a correlation with loan repayment. Enhancing scorecards requires detailed data to be continuously maintained so that statistical modelling can refine the variables and their weights within the scorecard.
- *To identify opportunities for cross selling products:* for example monitoring payments to educational institutions can identify which customers might be interested in an education loan. Monitoring the seasonality of client cash flows can be used to identify when, to whom and for how long lucrative business loan products can be provided.
- *Detailed trend analysis of data allows decisions on resource allocation to be taken:* which personnel should be recruited at what time for which branch, before the need becomes critical. This ensures that service quality is maintained regardless of growth.
- *To produce branch and product costing statements:* which identify which products and branches are making money and where changes need to be made.

The Bank actively manages risk

The growth and change that accompanies the delivery of market-led microfinance requires a continual reassessment of the risks, challenges and opportunities facing an institution. Beyond credit risk many

microfinance programmes are unfamiliar with risk identification, management, control and avoidance. The following examples are only a fraction of the heightened risks faced.

- *New staff and/or new duties:* Whilst the initial stages of market-led growth can often be managed through reallocating staff, maintaining and managing growth through the medium term requires new staff to be employed. For example, Equity expects to grow from 200 staff at the beginning of 2003 to 500 staff at the end of 2004.
- *New Services:* Introducing new products and services through different delivery channels presents new challenges, as processes are redesigned and new controls developed.
- *Information Technology:* New products and services are often underpinned by new information systems, whether this is introducing savings products at FINCA Uganda or Uganda Microfinance Union or Debit Cards at Teba Bank. New information systems bring the risk that technology will not work correctly, or will require huge additional expense. Staff training and aptitude becomes particularly important.
- *Institutional Profile:* As the institution image improves the institution attracts new customers, both good and bad. Increased profile frequently attracts defaulters or fraudsters who seek to take advantage of a fast growing bank.
- *Credit Risk:* In savings based growth liquidity is likely to increase significantly in the short to medium term. If this surplus liquidity is lent out it can result in a massive increase in the outstanding portfolio, which unless carefully managed, will lead to significantly increased credit risk. Similarly in credit-led growth the institution can develop extremely popular products, but unless these are carefully pilot tested there can be significant increases in credit risk. The challenge is that pilot testing collection mechanisms takes time and can be misleading. A collection mechanism which works well during a capital rationed pilot test may not work at higher volumes of lending.
- *Liquidity Risk:* Both savings and credit based growth will change the liquidity profile of the institution. This change in liquidity is likely to require careful management with the development/or strengthening of treasury functions and of liquidity and asset-liability management.
- *Reputation Risk:* As FINCA Uganda becomes a regulated financial institution it is developing a broad range of financial services for its actual and potential clients. However, FINCA Uganda like most NGO MFIs is primarily recognised as a lending institution. There is a considerable risk that unless the public perception of FINCA changes it will fail to mobilise significant volumes of savings from the public. Recognising this FINCA Uganda has responded with the development of marketing and communication materials and is considering a re-branding campaign.
- *New Segment Risk:* Tanzania Postal Bank decided to move into providing uncollateralised micro-loans. However, it failed to manage operational risks. It employed new staff for lending activities, operated in an area known to have very high default rates, and had a poor information system. Failure to anticipate and manage risks led to escalating credit risk and much more resource intensive solutions being put in place.

The challenge for the market-led institution is in developing its risk management procedures. Only one of *MicroSave's* ARPs has a full time, trained, risk management professional. An additional challenge is that many of the risks posed by market-led growth are operational in nature and therefore, different from institution to institution⁴.

⁴ For advice on the management of product development and operational risk see *MicroSave's* Risk Management Toolkit

An engaged IT department develops or purchases solutions that facilitate flexible products

Modern banking for mass markets in developing countries, particularly savings services, require systems and procedures that are flexible and convenient, and facilitate small, high volume transactions. Whilst suitable manual procedures can be developed as shown by the Bangladeshi MFIs, manual systems risk poor record keeping and internal control and in many marketplaces introducing an IT solution to handle high transaction volume is necessary.

Much of Equity Building Society's growth has been pinned to the introduction of a new information system. In 2000, Equity Building Society moved from manual records and 61,000 clients to computerised records and 105,000 clients. The new computer system enabled Equity to more rapidly evolve its product range.

Tanzania Postal Bank's Domicile Quick Account (DQA) is a popular computerised savings account that is much faster than the existing manual passbook savings account it suffered from one particular disadvantage; that DQA could only be used in the branch in which the account had been opened. In 2003 Tanzania Postal Bank upgraded their computer system and began to network their branches. In networked branches the Domicile Quick Account was renamed as the Quick Account. Suitable publicity and positive word of mouth resulted in a growth in the number of accounts.

Teba Bank's IT solutions have always focused on the requirement to deliver a fast efficient service, however, the legacy system the Bank developed proved to be less flexible than the bank required – making changes to products and services was becoming increasingly difficult. A major upgrade to a new banking system followed.

Internal Audit extends beyond ensuring internal control

The role of Internal Audit gradually increases. In addition to developing and/or signing off on improved procedures and processes, Internal Audit plays a key role in designing a risk management system (see discussion above).

Due to Internal Audit's familiarity with processes and procedures Internal Audit is frequently assigned a management audit function. It reviews product and branch based costing exercises. It takes part in reviewing the operation and efficiency of front and back offices. It audits the achievement of customer service standards. It assists in designing key management reports.

In Conclusion: Market-led Transformation

A market-led transformation offers clear benefits to financial institutions in terms of increasing profitability and outreach. Market led growth frequently requires a change in corporate mindset towards focusing on the customer. Further transformation is based on improvements in products and procedures, delivery channels and systems, that inevitably requires enhanced institutional skill sets.

The dangers in market-led transformation are real. The biggest single danger is from growth. In the case of savings led growth the financial institution has limited ability to control the rate of its expansion especially where Word of Mouth is strong. Rapid growth will change the risk profile of the institution - it will test systems, procedures and human resources. Further dangers result from changing institutional focus, either savings based institutions moving into credit, or credit based institutions expanding into savings.

Given risks associated with market-led growth the institution requires skills in managing change, excellent internal communications. It must carefully consider sequencing the transformation process. Ensuring processes and procedures are strengthened early in the market-led transformation is vital.

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