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# Study on the adoption of cash-lite models among MFIs in India

September, 2017

Supported by



Research partner



## Agenda

About the study

Current status of cash-lite operations

Rationale for cash-lite

Types of cash-lite models

Experience of MFIs going cash-lite

Recommendations

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About the study

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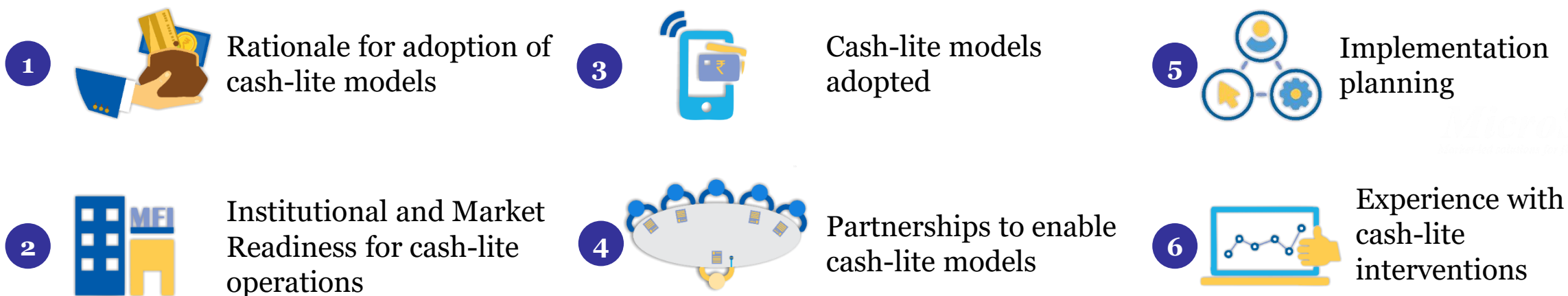
Recommendations

*The major drivers for the study are MFIs' desire to adopt cash-lite in line with the government's recent push and learn from others' experience*

## Key Objectives

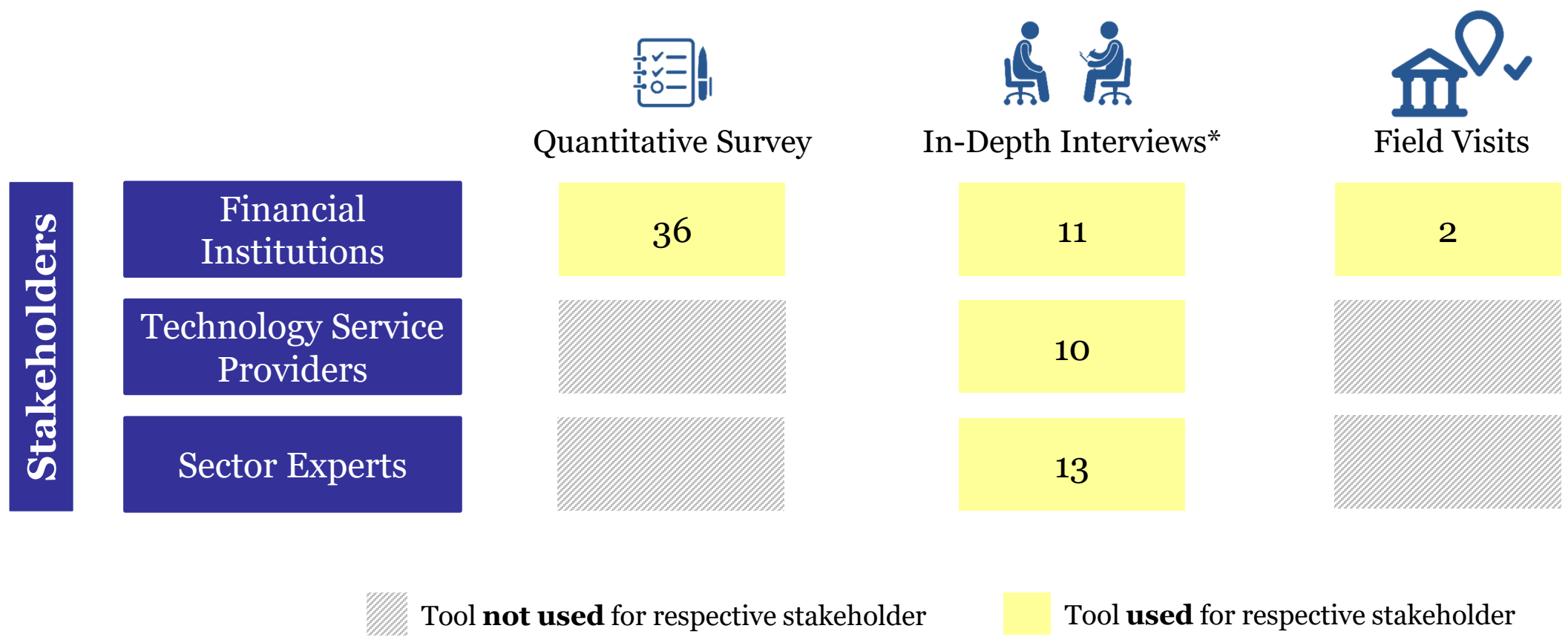
1. Overall **strategic direction** regarding cash-lite operations
2. **Current status** of cash-lite implementation
3. **Challenges in adoption** of cash-lite models for microfinance operations

## Assessment Framework



# A mixed methods approach involving three main stakeholders – financial institutions, technology service providers and industry experts

## Research Tools



# The respondents belong to diverse geographies and are primarily NBFC-MFIs

The online survey was shared with all the MFIN members and associate members. A total of 36 institutions filled up the survey, 34 of which are members, while 2 institutions are associate members.



Category of Institution

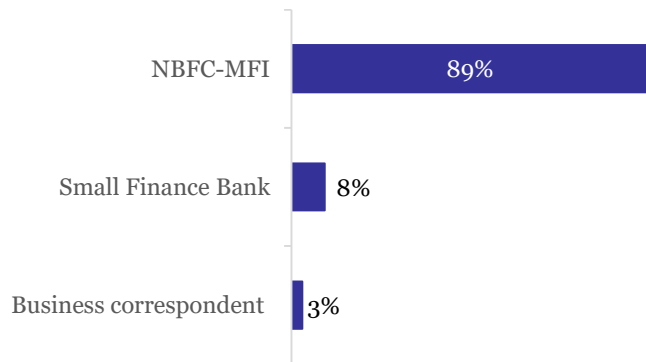


Gross Loan Portfolio

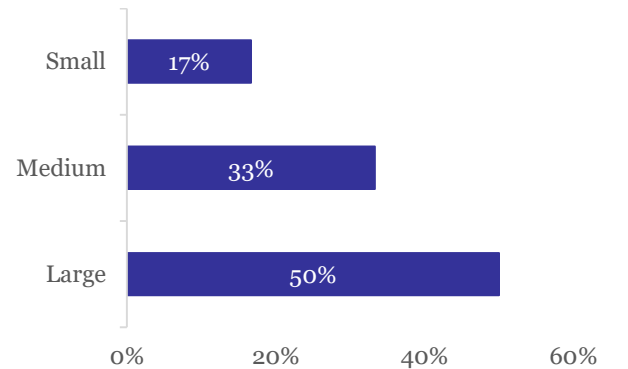


Geographical Spread

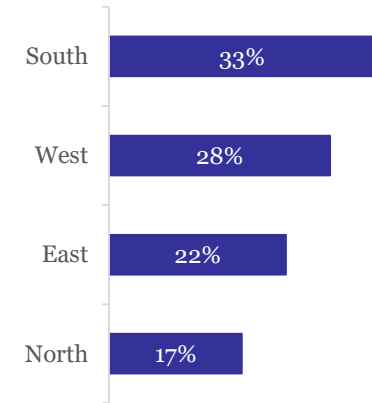
## Category of Financial Institutions<sup>1</sup>



## Distribution of institutions across their GLP (as of 31st March, 2017)<sup>1</sup>



## Geographical spread of Financial Institutions<sup>2</sup>



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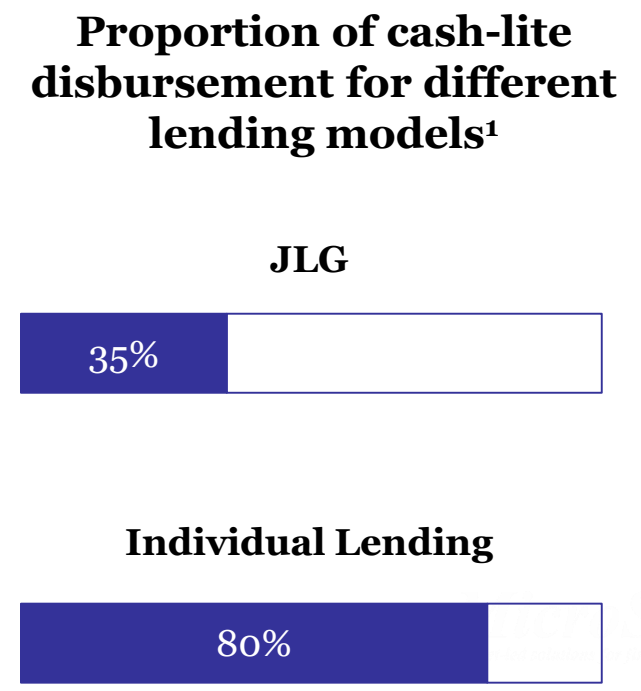
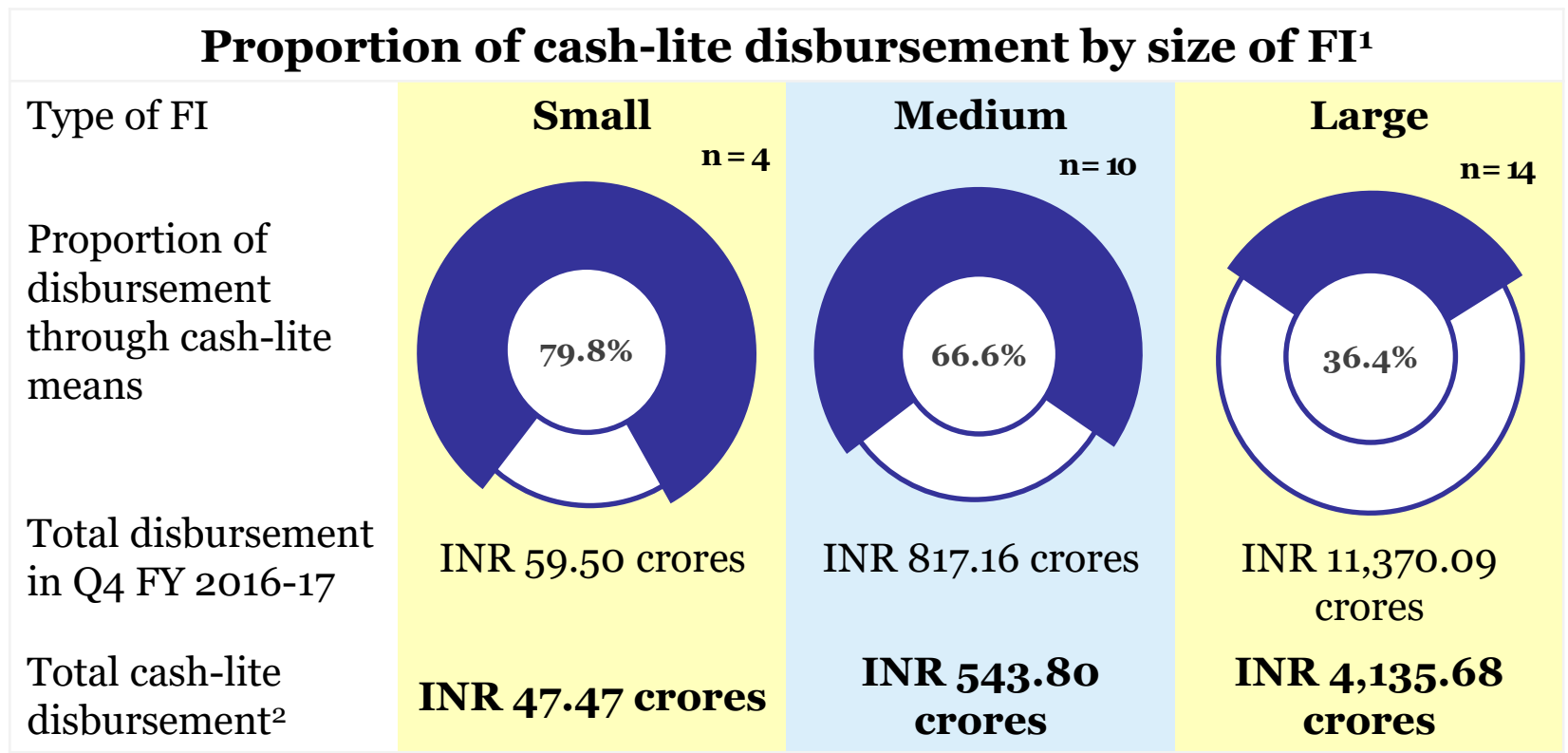
Types of cash-lite models

Experience of MFIs going cash-lite

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# The thrust towards cash-lite disbursement is evident, with MFIs of all sizes either disbursing or planning to disburse loans through non-cash means

**Current Status - 24** of the **36** MFIs who filled the online survey have reported to adopt cash-lite models for disbursement



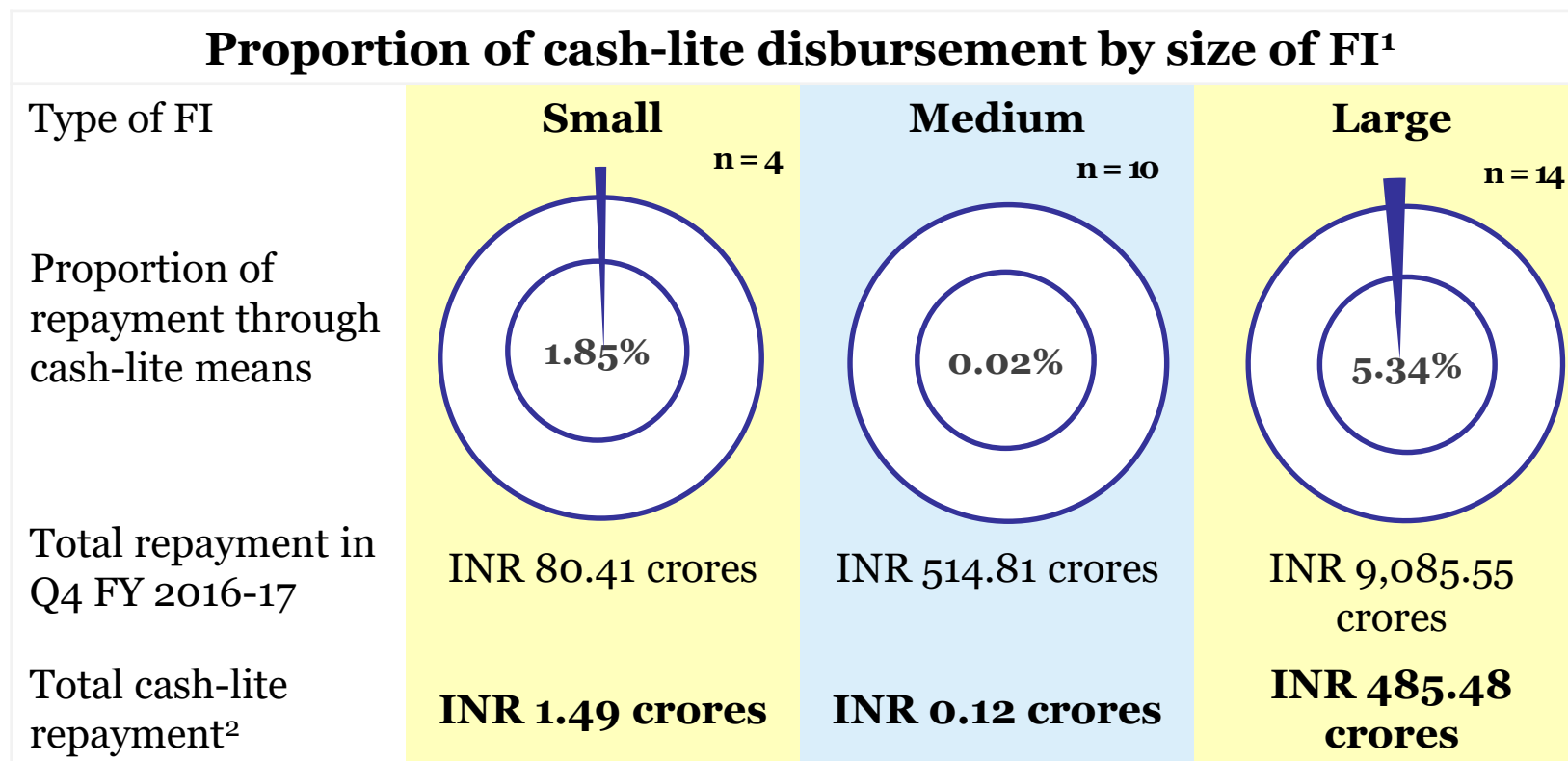
**Plan for FY 2017-18 - 12** of the remaining MFIs are planning to adopt cash-lite models for disbursement

<sup>1</sup> Source: Operational performance data for Q4 FY 2016-17 shared by 28 MFIs; Note not all the 36 MFIs who responded to the survey have provided this data.  
<sup>2</sup> Total cash-lite disbursement is the sum of the value of cash-lite disbursement in Q4 FY 2016-17 reported by MFIs; Of the 28 MFIs, 2 MFIs have not reported any cash-lite disbursement operations (left the data column blank), 1 has reported INR 0 as the value and 25 MFIs have provided values greater than INR 0. For the other MFIs who did not report such information, it is assumed that the value of cash-lite disbursement is zero

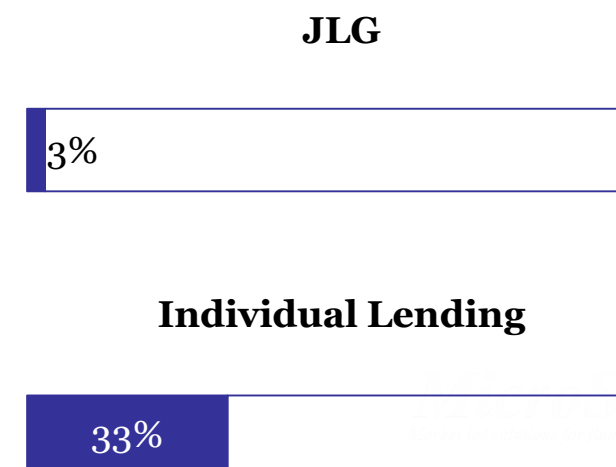


# The rate of adoption of non-cash means for repayment is low. However, many MFIs plan to commence cash-lite repayments in FY 17-18

**Current Status** - 6 of the 36 MFIs who filled the online survey have reported to adopt cash-lite repayment



### Proportion of cash-lite repayment for different lending models<sup>1</sup>



**Plan for FY 2017-18** - 22 of the 36 MFIs are planning to adopt cash-lite models for repayment while 8 have no such plans

<sup>1</sup>Source: Operational performance data for Q4 FY 2016-17 shared by 28 MFIs. Note not all the 36 MFIs who responded to the survey have provided this data.

<sup>2</sup>Total cash-lite repayment is the sum of the value of cash-lite repayment in Q4 FY 2016-17 reported by the MFIs. Of the 28 MFIs, 14 MFIs have not reported any cash-lite repayment operations (left the data column blank), 3 have reported INR 0 as the value and 11 MFIs have provided values greater than INR 0. For the MFIs who did not report cash-lite repayment operations, it is assumed that the value of cash-lite repayment is zero.

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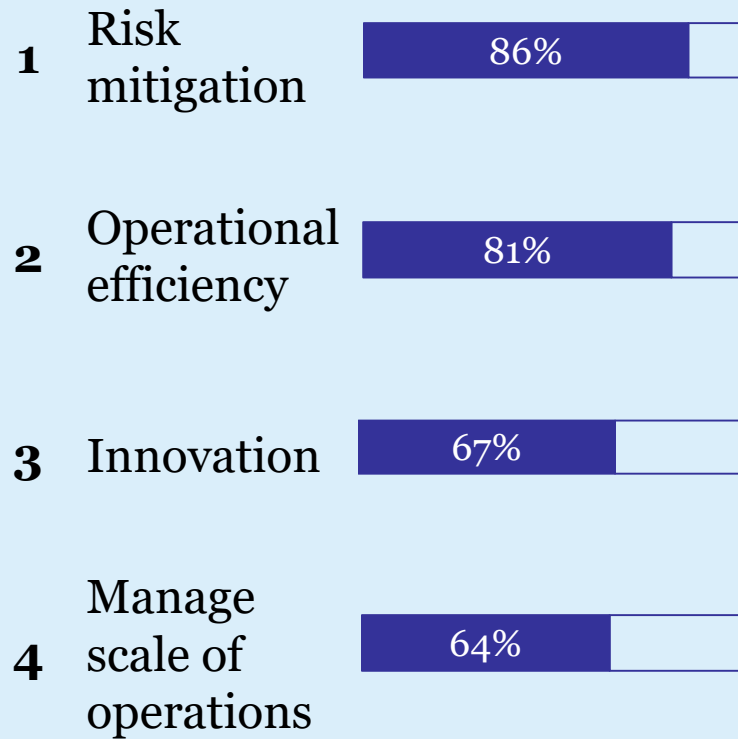
Types of cash-lite models

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## Top reasons to go cash-lite

### % of MFIs reporting high importance

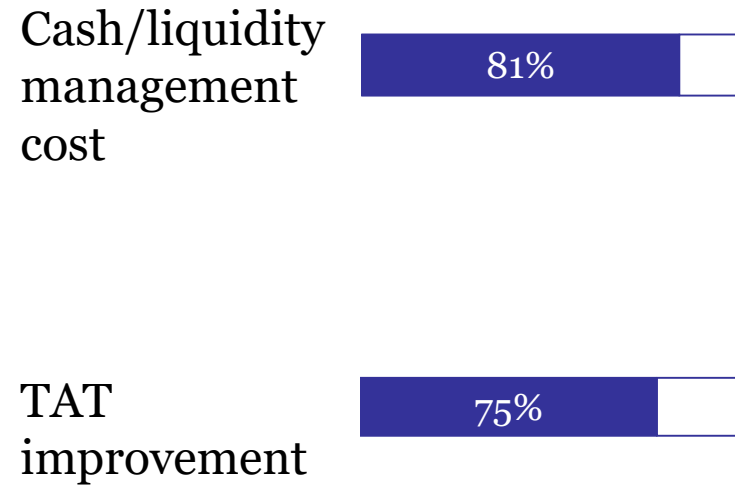


## Perception of cost and revenue benefits due to cash-lite

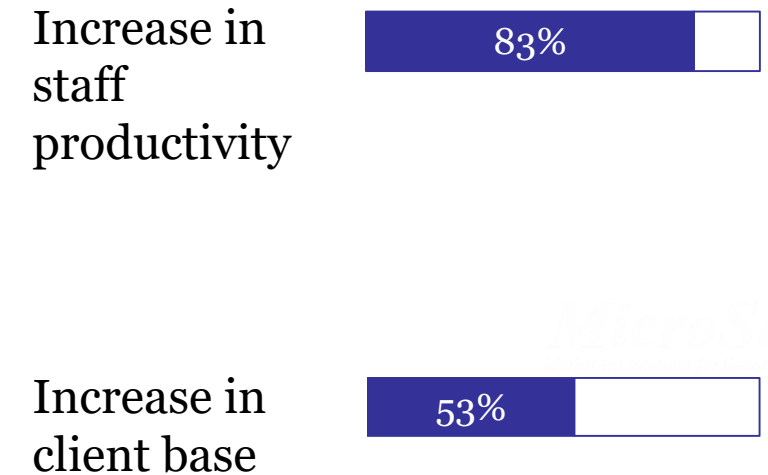
### Cost Benefits

### Revenue Benefits

### % of MFIs reporting high importance



### % of MFIs reporting high importance



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# MFI's prefer to disburse loans directly to customers' bank a/c

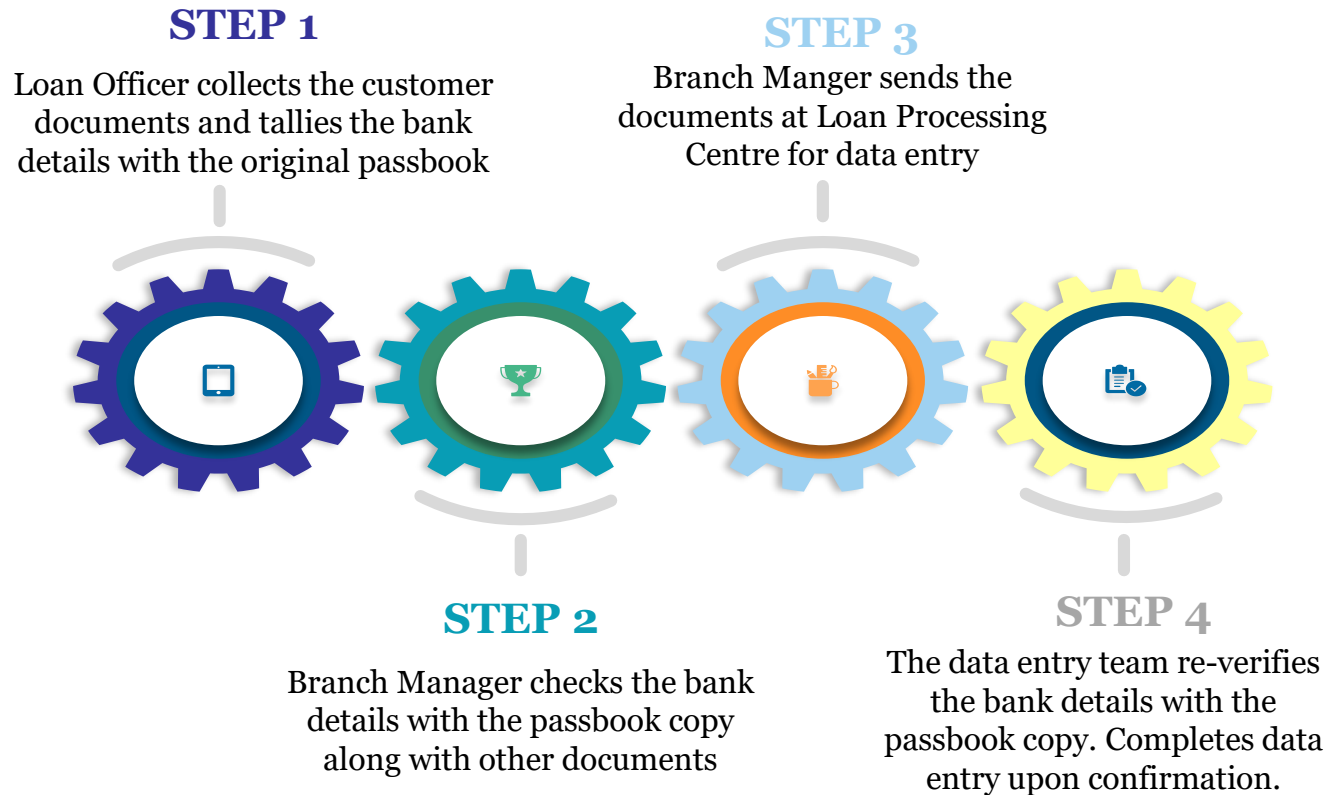
		Modes	Overall Rating	Remarks
<b>Transfer to bank account</b>	2016-17			<ul style="list-style-type: none"> <li>Preferred mode</li> <li>MFI's only need internet banking</li> </ul>
	2017-18			
<b>Cheque</b>	2016-17			<ul style="list-style-type: none"> <li>Suitable where disbursements are decentralised</li> </ul>
	2017-18			
<b>Pre-paid card</b>	2016-17			<ul style="list-style-type: none"> <li>Suitable where bank a/c penetration is low</li> </ul>
	2017-18			
<b>Mobile Wallet</b>	2016-17			<ul style="list-style-type: none"> <li>Suitable for urban and young customers, familiar with mobile-based transactions</li> </ul>
	2017-18			
<b>APBS</b>	2016-17			<ul style="list-style-type: none"> <li>Easier to implement</li> <li>One-time activity for customers to seed banks a/c with Aadhaar</li> </ul>
	2017-18			

# Case Study: Disbursement directly to customers' bank accounts

A multi-layer verification procedure is required to prevent errors and delays in disbursement; APBS can help simplify the process

An MFI based in North India has implemented cashless disbursement by directly depositing the amount into customer's bank account using NEFT platform. Currently, the MFI has established three layers to verify customers' bank a/c details.

## MFI's As-Is Process



## Challenges in As-Is Process

- 1 Delays, multiple channels, and involvement of paper work
- 2 Risk of credit of loan proceeds to wrong beneficiary account
- 3 Expensive when compared to other available solutions

## Alternative– Aadhaar Payments Bridge System (APBS)

- 1 **Errors minimised** with Aadhaar as the means for account verification
- 2 **Lower cost** in comparison to NEFT/IMPS
- 3 **Removal of maker checker process** for validation of bank account details

		Modes	Overall Rating	Remarks
<b>Cheque</b>	2016-17			<ul style="list-style-type: none"> <li>For customers using cheques</li> <li>May be preferred for high ticket size IL products</li> </ul>
	2017-18			
<b>ECS/ NACH</b>	2016-17			<ul style="list-style-type: none"> <li>Currently used for high ticket size individual loan products</li> </ul>
	2017-18			
<b>Mobile Wallet</b>	2016-17			<ul style="list-style-type: none"> <li>Suitable for urban and young customers, familiar with mobile-based transactions</li> </ul>
	2017-18			
<b>AEPS</b>	2016-17			<ul style="list-style-type: none"> <li>Requires functional agent network</li> <li>Burden of cash management if MFIs host micro-ATMs</li> </ul>
	2017-18			
<b>Pre-paid card</b>	2016-17			<ul style="list-style-type: none"> <li>Suitable for customers who don't have a bank a/c</li> </ul>
	2017-18			

# Experience from pilot test of a few repayment models

*Both AEPS and UPI offer distinct benefits, but the MFIs need to be mindful of their capacities as well as those of their customers*

A few MFIs are piloting cash-lite models using AEPS and UPI modes of payment services. Based on our interaction with these MFIs, the following are the major challenges and benefits.

## Aadhaar Enabled Payment System

### Benefits

1. **Easy** to use, **safe** and **secure** payment platform to carry out transactions
2. **Eliminates the threat of fraud**, as it is based on Aadhaar number and finger-print (biometric) of the customer
3. Facilitates **inter-operability** across banks in safe and secured manner
4. Model enables financial institutions to allow repayments to their clients using the **BC network points through micro-ATMs**
5. Almost all banks are on Aadhaar platform
6. **Less efforts for customer literacy** when compared to other models

### Customer level challenges

1. **Minimum balance** required in customer account
2. **Seeding of Aadhaar** number with bank account<sup>1</sup>
3. **Assisted transactions**, so customer needs to travel to the nearest agent/FI branch to carry out transaction
4. **Possibility of transaction failure** due to biometric mismatch

## UPI using USSD platform

### Benefits

1. **Least cost** way of money transfer when compared to other available models
2. **Telco-agnostic** – accessible through common code
3. **Device agnostic** – Works across all phones (feature and smart)
4. **Pull and Push amount** can be requested from a certain account or paid into some other account.
5. **Self-initiated transaction**, which are easy to conduct

### Customer level challenges

1. **Minimum balance** required in customer account
2. **Registration of Mobile** number with bank account
3. **Limited number of banks on the UPI platform** – Repayments through Cooperative banks is a challenge
4. **High level of hand-holding** and efforts required for customer literacy



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# Positive experiences

*MFI's that have implemented cash-lite have observed benefits related to operational efficiency. Other benefits may take longer to materialise.*

## Positive impact on operational aspects

1. Reduction in turnaround time



2. Reduction of risk



3. Reduction of reconciliation tasks



## Increased safety

1. Reduced instances of theft



2. Reduced risk of counterfeit currency



## Other benefits

Add-on services have led to:

1. Increased **convenience** for customers



2. Promotion of **repayment behaviour**



*The adoption of cash-lite may not make centre meetings redundant, however there may be a need to review their purpose and agenda*



*“Centre meetings are important and their sanctity cannot be compromised. It is for the institutions to perhaps think, how they want to use the meetings [after the introduction of cash-lite processes]”*

*– A Senior MFI Practitioner*

# Challenges

# As benefits of cash-lite are realised and gather scale, the existing implementation challenges are likely to get addressed

## Suitability of technology

**% of MFIs reporting high importance**

**Model and technology unsuitable for the customer**

58%

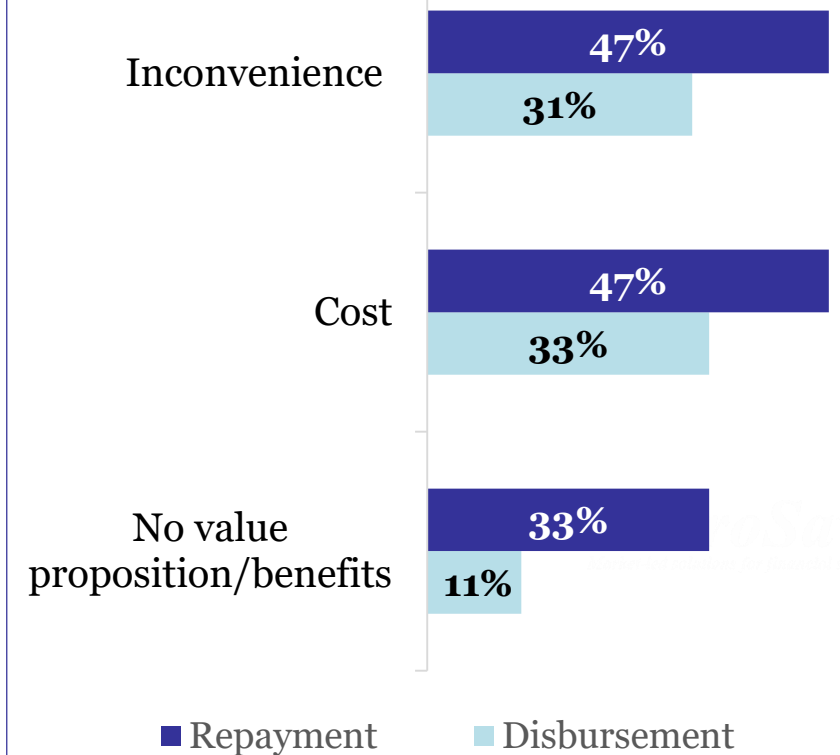


## Technology cost

- **Unaffordable cash-lite technology**
- MFIs able to fund the capex but **not opex**
- As per sector experts, **cost** of technology **likely to reduce** with increase in supply side firms

## Customer value proposition

**% of MFIs reporting high importance**



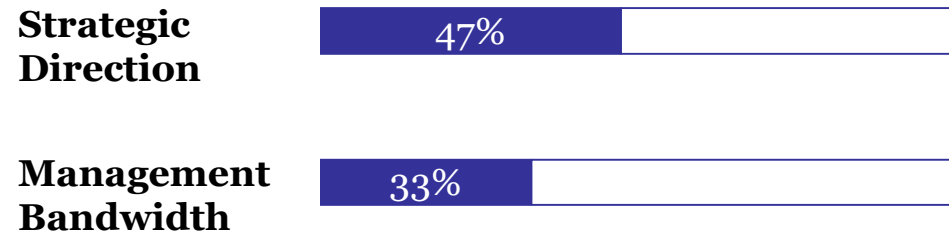
***“Any model that has charges up to 0.5% per transaction is worth it because then there are overall benefits”***

**– Senior Manager of a prominent MFI**

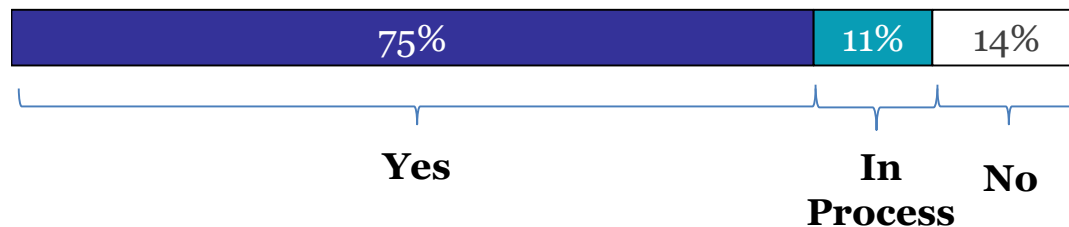
# A clear strategic direction and commitment of the senior management helps drive cash-lite adoption

## Institutional Strategy and Readiness

### % of MFIs reporting high importance



### Proportion of MFIs that have a dedicated team



- MFIs scaling up cash-lite interventions **primarily due to positive intent of their SMT**
- A few MFIs have **set up project teams to explore cash-lite models prevalent in the market**
- **Lack of management bandwidth** often causes delay in implementation
- Solutions from **TSPs do not reflect a deep understanding of the MFI customer**

# Typical MFI customer would find transition to cash-lite challenging, but efforts to create value and provide continuous support would smoothen transition

## Low understanding of cash-lite

**% of MFIs reporting high importance on low understanding/awareness on cash-lite models**

### Repayment Models

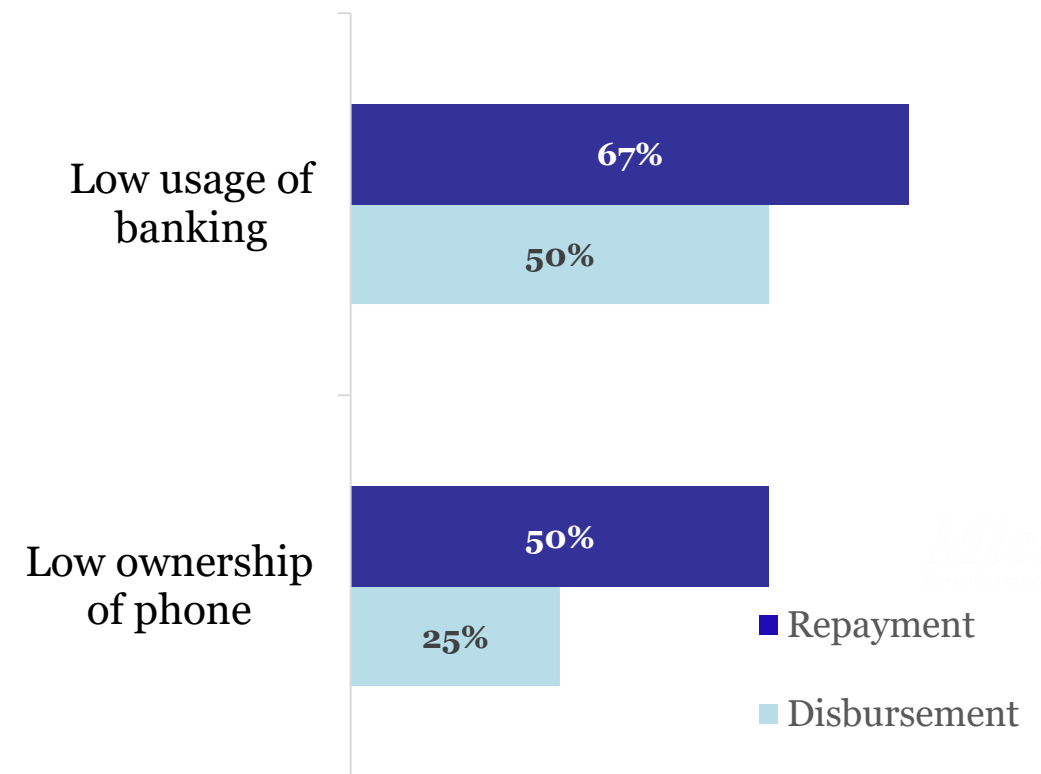


### Disbursement Models



## Low ownership of key collaterals

**% of MFIs reporting high importance**





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## Microfinance Institutions

### 1. Articulate a strategic view of going cash-lite

Cash-lite adoption is not only about **operational efficiency** and **risk mitigation**. It can create an enabling platform to **diversify product offering**, **target new customer segments** and even **modify the operating model**. To arrive at a strategic view, it is extremely important for the SMT to look at cash-lite holistically keeping in mind the current and future positioning of the MFI.

It is therefore recommended that the management:

- **Clearly identifies the strategic imperatives for going cash-lite and looks at it holistically**, at the onset
- **Simplifies and communicates the objectives** across the organisation; **Charts a clear implementation roadmap**
- **Measures progress** on the stated objectives, and takes course correction if required

## Microfinance Institutions

### 2. Define clear value proposition for customers

The success of any cash-lite intervention depends on the **response of customers**. If the customer experience is poor, he/she is not only likely to move away from the MFI but also from using digital payment solutions in the future. Thus, the value proposition for customers to go cash-lite must be clearly articulated and then communicated across the institution and to the customers.

Identifying value proposition will require MFIs to gather **customer insights**, identify **capacity/capability gaps** and collect **regular feedback**.

Possible aspects that customers value are:

- Convenient products and processes (reduced TAT, simple documentation, easy access to loan proceeds)
- Access to new and appropriate products
- Reduced direct and indirect costs
- Access to banking services (full financial inclusion)

### 3. Identify customer segments for cash-lite

Identify different customer segments within the MFI customers, based on their **readiness to transition to cash-lite**. Such segmentation may be based on **geography, urban/rural, age and/or socio-economic profile**.

For instance, it would be easier for salaried borrowers, or segments like metro cab drivers who operate with mobile wallets, to transition to cash-lite.

Potential aspects to look at to identify suitable customer segments:

- Regular income credited to a bank account
- Previous experience with using digital payments/banking technology such as ATMs and/or agents
- Located preferably in urban and semi-urban areas with good telecommunication and banking infrastructure

### 4. Leverage effective partnerships

Adoption of cash-lite requires MFIs to partner with a range of institutions such as technology service providers, banks and BCNMs, and payments solution providers. Identification of right partners ensures that the MFI can focus on their core business, that is microfinance.

Potential attributes of the 'right' partner –

- Compatibility in **business objectives**
- Compatibility in **technological aspects** including platforms and systems
- **Technical** and **operational capability**
- Ability to implement and **manage desired scale**
- **Historic record** of capabilities
- Absence of **competing interest or conflicts** for customers or product/service line
- **Commercial sustainability** for all parties in partnership

### 5. Choose appropriate technology and payment solutions

The selection of appropriate technology solutions that are suitable to the context of the MFIs and their customers is critical. Such selection should be futuristic and should aim to leverage efficiencies rather than propagate the inefficiencies of the market.

Potential parameters for technology selection include:

- **Technological infrastructure** of the MFI, its branch locations and operational areas
- **Capacities of field and branch staff**
- **Capability of end customers** and their comfort with technology (literacy, numeracy)
- **Cost** – direct and indirect
- **Capacity** of the **proposed system** to interact with the overall banking system
- **Customisability** of the solution
- Ability to **integrate** with multiple **third party systems**

# Recommendations

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## Microfinance Institutions

### 6. Establish project management protocols

To ensure that the pilot test and implementation is well planned and not ad-hoc –

#### 1. Nominate Project Champion

- Overall project responsibility
- Guidance from steering committee/board

#### 2. Appoint Project Managers

- Within MFI and Partner/Vendor
- Liaise with internal and external stakeholders, monitor progress, report to SMT

#### 3. Establish a multi-disciplinary project management team and define terms of reference

- Information and process requirement analysis
- Detailed implementation plan – roles, responsibilities and timelines

#### 4. Establish protocols for project implementation

- Project governance, change management and escalation
- Project Champion and Core Implementation team meetings
- Check-in with CEO/ED

### 7. Document processes and regularly train staff

Since adoption of cash-lite entails modification of existing front-end and back-end processes, the MFI needs to document these revised processes and train their staff on revised systems.

During the initial stage, such training to be followed by **rigorous monitoring** to ensure compliance.

A **feedback mechanism** to be established to collect inputs from the field (including field staff and customers); Findings to guide product and process modification as required.

**Refresher trainings** to be conducted at regular intervals.

Design appropriate **staff incentives** to support rollout of cash-lite.



### 8. Define internal and external communication strategy

An internal and external communication strategy is required for smooth implementation of cash-lite adoption.

**Internal communication strategy** to focus on:

- Cascading the **vision** of the institution for cash-lite
- Explaining the **role of the staff** in achieving the vision
- Generating **buy-in** and **allaying fears** of staff regarding technology and cash-lite adoption
- **Motivating** field staff to handhold customers to adopt cash-lite

**External communication strategy** to focus on:

- Communicating **value proposition** for customers in simple terms
- **Educating customers** on cash-lite processes including risks; this requires significant investment of resources
- Creating awareness among other eco-system stakeholders about the benefits of cash-lite

### 1. Need to stay patient

Investors generally tend to measure the success of their investment based on the growth of portfolio, profitability of the MFIs and consequently their return on investments. However, the benefits from cash-lite often take time and may not be tangible initially.

Thus, the investors may need to be patient during the period of transition and leverage their experience to support MFIs to undergo a smooth transition. This entails guiding management to:

- **Make a blue print** of the business proposition for cash-lite
- Establish a **strong team** to lead the transformation
- Set up **success parameters** and measure progress
- **Identify suitable partners** and technology to facilitate cash-lite adoption by leveraging their network

### 2. Invest in ecosystem

The lack of a conducive ecosystem (in terms of infrastructure and technology) is a significant deterrent towards the adoption of cash-lite models by MFIs. Donors may, therefore, need to channelise their funding resources for ecosystem development such as **development and testing of appropriate technologies, capacity building** of MFIs, **knowledge development** and dissemination, development of **financial services distribution** including agent network management and merchant acquisitions.

CSR teams (especially of MFIs) and not for profit organisations can make concerted efforts towards **educating consumers** in using new cost efficient payment solutions.

The absence of a tried and tested model for cash-lite necessitates the need to pilot test different models and payments solutions. Thus, donors and investors may provide resources and guidance to MFIs for such pilots.

# Recommendations

3

MFIN

## 1. Support Pilot Testing

With the identification of new market segments and with the advent of new technology and models that support cash-lite, it has become increasingly important for MFIs to find cost efficient cash-lite models suited to their scale and scope of operations.

Given the current financial constraints faced by MFIs when it comes to experimenting with new technology and models, it has become imperative for an institution like **MFIN** to:

- a. **support pilot testing** of the same **in select MFIs**
- b. **document and disseminate learnings from MFIs** with the larger industry

## 2. Liaison with policy makers

MFIs have stated common challenges around implementation of cash-lite models. MFIN, as the collective voice of its member institutions, should **communicate** these **challenges to the relevant stakeholders** (including policy makers) and influence them for necessary policy changes.

### 1. Address structural issues

Current structural concerns with respect to Business Correspondents has created a space for the BCs to not give all the information needed by the customer. Typical concerns with the BC model are –

1. Lack of formalised trainings for them
2. Lack of certification
3. Lack of a code of conduct

Recommendations towards this include –

1. Making all BCs **white label BCs** and calling them ‘**retailers of financial services**’
2. **Certification and registry of BCs by RBI**
3. Allowing **full interoperability** of BCs to support white labelling of BCs

### 2. Continue digital payments promotion

Implement policy level changes proposed by Niti Aayog and others to promote digital payments

### 3. Continue to promote digital payments<sup>1</sup>

#### 1. Get the unbanked populace to open bank accounts

1. PSU banks to adopt villages/districts
2. Incentive schemes for people who open bank accounts and deposit money with Small Finance Bank and Payments Banks
3. Allow opening of banks accounts at outlets of MNOs, supermarkets that have presence in semi-urban and rural areas through e-KYC
4. Incentivise NGOs to spread awareness about use of digital banking including security aspect and overall financial literacy

#### 2. Accelerate the linking of Aadhaar to bank account

1. Government to sell fingerprint dongles for feature phones to families at subsidised rates
2. Allow customers to register Aadhaar to bank account by going to any bank or their correspondents or ATMs
3. Announce special non-monetary incentives such as free lamination of Aadhaar or other document or free advice on loans or awareness about government schemes

<sup>1</sup> In December 2016, FICCI solicited IBM India's response on how policymakers could strengthen the adoption of digital payments and accompanying infrastructure. Here, we reproduce extract of IBM India's response to FICCI with their due permission

### 3. Continue to promote digital payments<sup>1</sup>

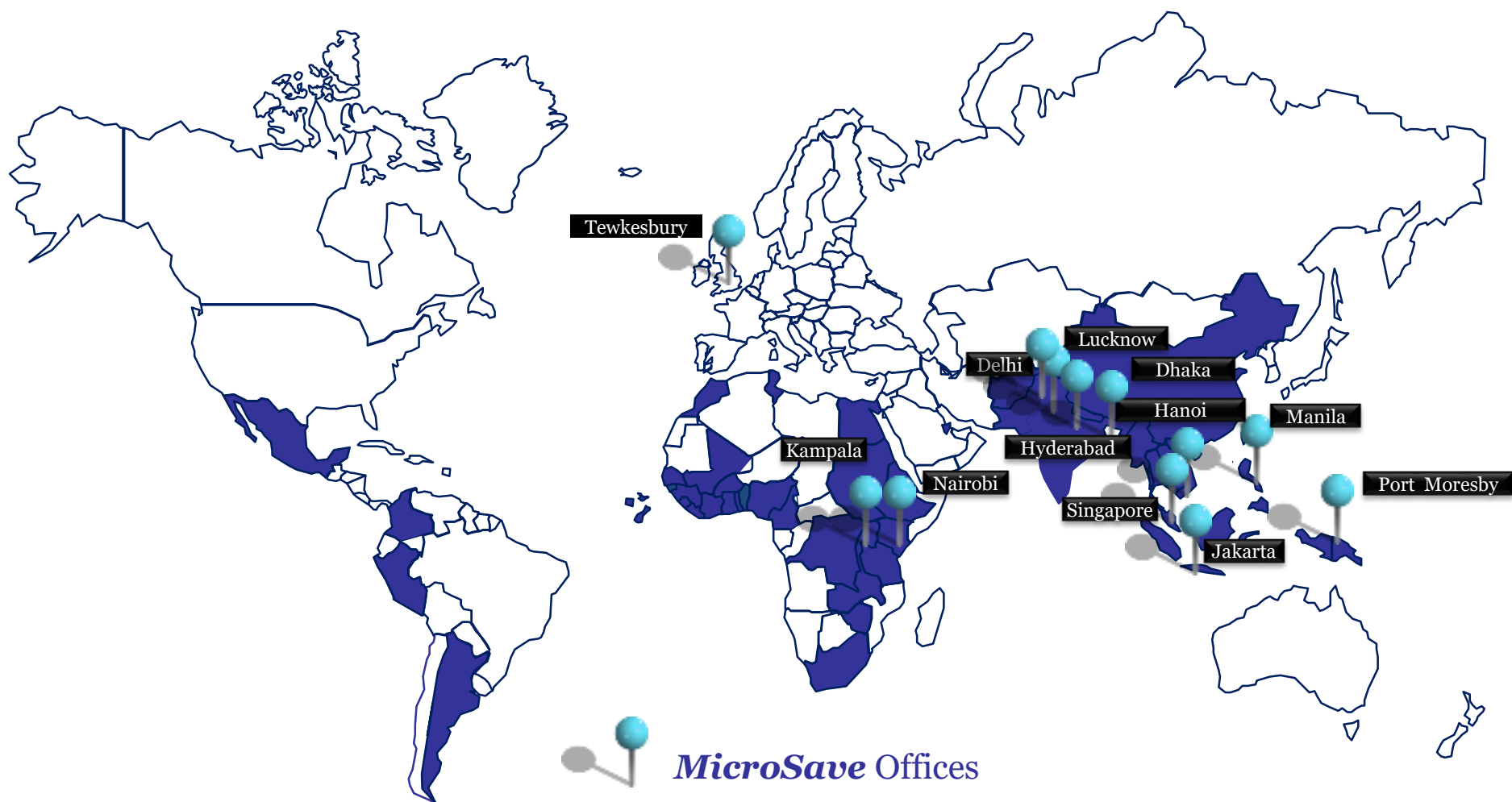
#### 3. Promote digital payments in un-organised and semi-organised industry

1. Improve USSD/SMS banking apps user interface
2. Organise hackathons to create new apps for feature phones
3. Partner with NGOs/Gram Panchayats/post offices to familiarise users first with simpler features such as balance enquiry and then to fund transfer
4. Gram Panchayats to help standardise a single ecosystem for the village, as opposed to creating confusion with multiple modes being pushed to the users

#### 4. Target specific sections/class of workers in urban areas

1. Taxi/rickshaw unions to run campaigns for feature phone based banking apps on weekly basis including education on USSD apps or other simpler apps
2. Expedite electronic toll collection
3. Merchant education drives to simplify and standardise payment methods

<sup>1</sup> In December 2016, FICCI solicited IBM India's response on how policymakers could strengthen the adoption of digital payments and accompanying infrastructure. Here, we reproduce extract of IBM India's response to FICCI with their due permission



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