# HOW TO SUCCEED IN YOUR DIGITAL JOURNEY:
# A SERIES OF TOOLKITS FOR FINANCIAL SERVICE PROVIDERS

By PHB ACADEMY and MICROLEAD

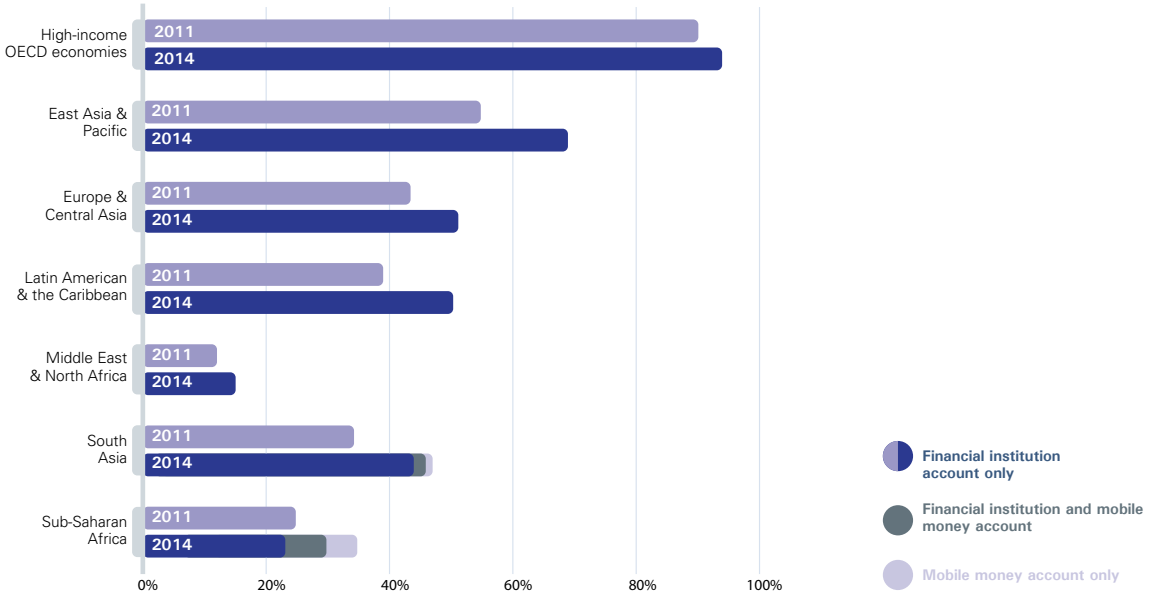
## BRIEFING NOTE

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The significant progress made on financial inclusion in recent years has largely been driven by mobile technology, digital payments, and branchless banking. With the rise of mobile penetration and mobile money usage, the number of financial account holders has dramatically increased. Opening a mobile money account can be, for many, the first time they use formal financial services, thus leapfrogging into the formal economy. This is especially true for Sub-Saharan Africa (SSA), where mobile money accounts drive the growth in overall account penetration.[1]

According to the McKinsey Global Institute´s paper "How digital finance could boost growth in emerging economies" digital finance has the potential to provide access to financial services for 1.6 billion people in emerging economies, more than half of them women and could create up to 95 million new jobs across all sectors of the economy.[2]

### Account penetration from the Global Findex (2011 and 2014)




To learn more about the World Bank's Global Findex data
http://www.worldbank.org/en/programs/globalfindex

*1 The World Bank. "The Little Data Book on Financial Inclusion, 2012 & 2015"*

*2 http://www.mckinsey.com/global-themes/employment-and-growth/how-digital-finance-could-boost-growth-in-emerging-economies*

Benefits of digital ecosystems are manifold. Digital payments reduce costs, increase transparency, boost domestic resource mobilization, and help eliminate theft and loss.[3] Digital payments also create new economic opportunities, including the ability to participate in the formal economy and gain access to new markets. This in turn advances financial inclusion, empowers women, and helps to drive inclusive growth.[4] In a nutshell, digital finance ecosystems may translate into a win-win-win situation, benefiting financial service providers (FSPs), clients and the social ecosystem as a whole.

It thus becomes more and more difficult for financial institutions to forgo technology and alternative delivery channels. But for many of them, knowing when and how to take the leap is not easy. In its efforts to support the provision of savings-led financial services to low-income people particularly women and those living in rural areas, UNCDF's MicroLead (ML) program has been supporting partner FSPs to transition to digital finance. Partner institutions have progressively gained a better understanding of the success factors and challenges associated with digitalisation. They can grasp what makes a financial business line successful and sustainable, or alternatively, assess the difficulties impeding operations in scaling up.

MicroLead wants to share these lessons learnt to FSPs worldwide interested in the digital finance transition in order to spread the delivery of better and far-reaching financial services.

In this toolkit, we make a clear difference between FSPs and Financial Institutions (FIs) (banks or non banks).

FSP is broader and covers both Mobile Network Operators (MNOs), Payment Service Providers (PSP) and FIs (banks and non banks).

When we use "FI", we refer to both Banks and Non Bank Financial Institutions (NBFIs) as opposed to MNOs and PSPs.

When we want to differentiate within FIs, we use "NBFIs" to refer to MFIs, cooperatives, SACCOs and MF Banks.

## MicroLead's Toolkits initiative

MicroLead, with the support of PHB Development, will release from November 2016 until March 2017 a series of practical toolkits to spur digital initiatives among financial institutions eager to make headway towards digital finance yet uncertain how to go about it. These toolkits complement and capitalise on existing research and publications available to digital financial service (DFS) providers (please refer to Appendix B for the Key reference publications), while leveraging more than a hundred digital financial services implementations worldwide. Further, these toolkits aim at filling a knowledge gap in the sector, as existing studies on digital finance tend to give emphasis to mobile network operators and East African models, while so few are available to the Francophone community. MicroLead's toolkits will focus on digital finance from the perspective of financial institutions, showcasing successes in West as well as East Africa and will be available in both French and English.

With this series of toolkits, a financial institution will be able to choose the best business model based on an assessment of its environment ('macro-environmental' (political, economic, social and technological) and regulatory), its objectives, capacity and readiness to carry out the efforts required.

The goal of the toolkits is threefold:

- Help financial institutions identify financially sustainable DFS business lines that fit their needs;
- Provide practical tools (institutional assessment, checklists, etc.) that financial institutions can use in their journey towards digital finance to support the effective implementation of the most suitable business model; and
- Present and learn from MicroLead partners' and other financial institutions' DFS experiences.

*3 UNCDF-BTCA, November 2015. Working Paper, "An Inclusive Approach to Digital Payments Ecosystems" https://www.betterthancash.org/tools-research/reports/an-inclusive-approach-to-digital-payments-ecosystems-accelerating-the-transition-from-cash-requires-an-ecosystem-approach*

*4 Ibid*

## The 6-step business model framework

MicroLead and PHB Development have identified six different DFS business models available to FIs.

1. Use mobile as a tool to improve operational efficiency;
2. Be an agent for an MNO or PSP (distribute an MNO's or PSP's products);
3. Use an existing agent network (of a MNO or PSP);
4. Develop their own agent network;
5. Develop their mobile banking channel;
6. Be a provider.

These business models can be conceived as different steps FSPs can follow in their DFS implementation approach. FSPs are free to start anywhere in this framework, but should be conscious that the higher up they decide to start, the heavier the efforts required.

The first two business models of this framework consist in using mobile as a service, where basic transactions are performed by FSP staff using mobile devices. Models 3 and 4 describe agency banking where an agent (of a MNO, PSP or of the FI) assists clients with the transactions if needed. Clients can also perform transactions by themselves except for cash in/out. Models 5 and 6 describe mobile banking where the clients most often perform the operations themselves using their mobile phones.

Each of these business models will be presented in a detailed toolkit, enabling FSPs to understand the associated objectives, requirements and pre-requisites needed to be able to achieve the model's goals. Toolkits will be an opportunity to shed light on the the success factors, challenges and risks to anticipate as well as present mitigation strategies, while providing a series of functional tools such as assessment and diagnosis tools, a value proposition template, cost/benefit analysis spreadsheets, etc., to guide FSPs along their digital path.

Each toolkit will be illustrated by concrete international DFS examples and will also feature inspiring detailed case studies of MicroLead's partners to support salient elements of the related model. These case studies will gather insights from different geographical and cultural environments, and extract lessons from diverse financial contexts and models, both in East and West Africa.



## A critical first step: the environment scan

An important first step for a FSP considering going digital is to carry out a landscaping of the context and environment in terms of digital finance. The IFC and MCF Digital Financial Services and Risk Management Handbook points to the lack of conducting this scan as a major strategic risk. This scan should include:

- The regulatory environment: is the agent banking legislation in place and how is it applied? Is there e-money legislation in place? E-signatories? Is there any tiered Know Your Customer procedures? Are there rules around non-exclusivity of agents? What are the limits on agents in terms of account opening and KYC?
- A SWOT and overview of the country infrastructure in place: connectivity, interoperability, payments and clearances, etc.
- A market scan taking a close look at the MNO space, third party players (technical providers), bank competition and niche positioning of the institution.

This environment scan should be completed with an internal assessment of the FSP's strengths and weaknesses.

All of these factors will play into the choice of the business model.

## Choosing the right business model for your FSP

This series of toolkits will depict six different business models a FSP can choose to enter digital finance market. The choice of the model should be based on a combination of external and internal assessments:

- External:
  - Environment scan (regulation, other players, country infrastructure)
  - Client's assessment (demand and familiarity with digital finance)
- Internal:
  - Objectives to achieve with digital finance
  - FSP's strengths and weaknesses
  - FSP resources

As a conclusion to the toolkits series, we will release a self-assessment tool that will guide FSPs in their choice of business model.

## Managing risks

New risks have emerged with digital finance, beyond operational and technical risks. As pointed out by IFC and MCF Digital Financial Services and Risk Management Handbook, several risks need to be anticipated and mitigated. Throughout the series of toolkits, we will refer to the 10 risk categories identified in this Handbook: (1) strategic risk, (2) regulatory risk, (3) operational risk, (4) technology risk, (5) financial risk, (6) political risk (when applicable), (7) fraud risk, (8) agent management risk (when applicable), (9) reputational risk and (10) partnership risk. For each of the business models, we will identify the associated challenges/ risks, evaluate probability and impact and suggest mitigation strategies. For each model, we will propose a risk management checklist and a template that a FSP can use as a reference. The list of risks will not be exhaustive but will cover the main risks identified through our experience and that of providers interviewed for these toolkits.

# Appendix A: Main concepts

We define here the main concepts that will be used throughout the different toolkits:

| CONCEPTS | DEFINITIONS |
|---|---|
| Digital Financial Services (DFS) | Refers to financial services provided to clients through alternative distribution channels (mobile, internet, agents) that have developed over the past 10-15 years. |
| Mobile Financial Services (MFS) | Refers to financial services provided to clients through mobile phones and mobile devices (eg: tablets). The term is gradually being replaced with DFS, which is broader also covering other distribution channels. |
| Alternative Delivery channels | Comprises new distribution channels that have developed over the past 10-15 years: internet banking services, mobile banking services, agency banking services (as opposed to traditional distribution channels such as brick & mortar and ATMs). |
| Financial Service Providers (FSP) | Comprises banks, MNOs, and financial institutions providing financial services to clients. |
| Non Bank Financial institutions (NBFI) | Comprises MFIs, cooperatives and SACCOs, and MF Banks, as opposed to MNOs and traditional Banks, providing financial services to clients. |
| Mobile as service | Refers to financial transactions performed by staff of the FSP using mobile technologies, such as the mobile phone or tablet, and impacting the account of the FSP. |
| Agency Banking | Clients can transact on their mobile wallet and FI account either directly themselves or be assisted by a third party (e.g: agent). Note that deposits (cash in) and withdrawals (cash out) require agent as intermediary. Agents are contracted by a FSP (FI, PSP, or MNO). |
| Mobile Banking | The client can transact directly him/herself on his/her FI account without requesting assistance from a third party (e.g: agent). Note that deposits (cash in) and withdrawals (cash out) still require an agent as intermediary. |

# Appendix B: Key reference publications

This series of toolkits complement existing publications and documentation related to the development and provision of digital financial services and alternative development channels as it:

- Provides a broader view of DFS business models beyond Mobile Money, while the reader interested in deepening Mobile Money-related business models can get a deeper dive from IFC's Mobile Money toolkit (2014);
- Further describes ADC implementation challenges from the lens of different business models for DFS hence matching with the Alternative Delivery Channels And Technology handbook developed by IFC and The MasterCard Foundation (2015);
- Leverages lessons and best practices discussed in detail in CGAP's Agent Management Toolkit (2011) and highlights customers' perspectives for different business models that are discussed at length in "Perspectives" from CGAP (2015): Designing Digital Financial Services for Smallholder Families;
- Provides a detailed exploration of different implementation paths and practical approaches on the "how to" for alternative DFS business models thereby complementing Accion's DFS toolkit for Financial Institutions (2016);
- Leverages on risks identified for Digital Finance in IFC and MasterCard Foundation's DFS and Risk Management Handbook (2016) and details the risks and mitigation strategies per business model;
- Illustrates each business model presented with case studies, complementing:
    - IFC's Mobile Money toolkit's cases (2015): MBank Philippines, Tameer Bank Pakistan, Caja Sullana Peru, Musoni Kenya;
    - Accion's case study (2015) on Digital Field Applications (Musoni Kenya, Ujjivan India, Opportunity International Serbia);
    - MasterCard Foundation's study on FINCA (2015): Best Practices for Digital Financial Services;
    - UNCDF MicroLead and Bill & Melinda Gates Foundation´s study on Equity Bank (2014);
    - The e-MfP Digital Innovations for Financial Empowerment Action Group's case study on FINCA Tanzania (2015).

Overall the initiative of the series of toolkits follows the rationale that there is not a "one size fits all" DFS business models for FSPs.

# ABOUT UNCDF

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

For more information, please visit www.uncdf.org and sign up for our Newsletter at http://uncdf.org/en/content/subscribe-our-newsletter. Follow UNCDF at @UNCDF on Twitter and Facebook.

# ABOUT MICROLEAD

MicroLead, an UNCDF global initiative which challenges Financial Service Providers (FSPs) to develop, pilot and scale deposit services for low income, rural populations, particularly women, was initiated in 2008 with support from the Bill & Melinda Gates Foundation and expanded in 2011 with support from The MasterCard Foundation and LIFT Myanmar. MicroLead is a $60 MM fund which works with a variety of FSPs and Technical Service Providers (TSPs) to reach rural markets with demand-driven, responsibly priced products offered via alternative delivery channels such as rural agents, mobile phones, roving agents, point of sales devices and informal group linkages. The products are offered in conjunction with financial education so that customers not only have access but actually use quality services.

MicroLead has been in the forefront of sharing knowledge on change management at FSPs looking to employ Alternative Delivery Channels (ADCs) as well as reaching rural populations via informal groups. Projects currently active under MicroLead focus on reaching last mile populations via digital financial services plus financial education. These projects include bank downscaling and greenfielding, financial cooperative creation and strengthening, Savings Group linkages to formal financial institutions, MFI transformation into deposit-taking institution, human-centered product design development, and deployment of alternative delivery channels such as mobile money, rural agents, susu collectors and point of sale devices. Market research, product development, channel development, product marketing, and financial education components have resulted in significant scaling up of operations.

The MicroLead programme is enabling our partners to strengthen their deposit offerings and reach into previously untapped rural markets. With a specific emphasis on savings, women, rural markets, and technology, MicroLead is a performance-based programme that builds the capacity of financial institutions to pilot and roll out sustainable financial services, particularly savings services. As UNCDF rolls out the next phase of MicroLead, its focus on rural remote populations, digital financial services, and customer-centric product design will remain.

# ABOUT PHB ACADEMY

PHB Academy provides training and coaching aimed at improving financial inclusion. We focus on increasing the take-up and usage of digital financial services (DFS). PHB Academy offers training and coaching face-to-face and online, as well as in blended format (a mix of face-to-face and e-learning). Workshops and programmes are custom-designed and tailored to our clients' specific needs. The design of our programmes is based on the latest insights in adult learning and executive coaching. We change behaviour by doing more than just transferring technical knowledge. We focus on the development of the practical skills and positive attitudes that managers and field staff need to design, manage and deliver DFS in a sustainable manner. Experiential learning methods and a focus on self-management are key to our success. Our offer is available to financial institutions, mobile network operators, remittances & payment providers and development agencies that pursue financial inclusion through innovative delivery channels.

PHB Academy is the Training & Development Practice of PHB Development, a specialist consulting firm with operations across the world. Since 2006, PHB Development has been committed to increasing financial inclusion in underserved markets. PHB has helped its clients develop viable financial services and delivery channels throughout more than 100 projects.

# ABOUT THE MASTERCARD FOUNDATION

The MasterCard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest, private foundation, its work is guided by its mission to advance learning and promote financial inclusion to create an inclusive and equitable world. Based in Toronto, Canada, its independence was established by Mastercard when the Foundation was created in 2006. For more information and to sign up for the Foundation's newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MasterCardfdn on Twitter.

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