

MicroSave
Market-led solutions for financial services

Innovations Lab for Microfinance

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Today's agenda

- ▶ Presentation on the *Innovations Lab for Microfinance* (30 minutes)
- ▶ Questions & Answers

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Innovations Lab for Microfinance

Need for an *Innovations Lab for Microfinance*

- ▶ Digital onslaught and hyper competition
- ▶ MFIs relevance in the changing landscape and context
- ▶ Need to deliver innovative solutions within space and time transitions
- ▶ Focus on customer value proposition and user experience
- ▶ Need to deliver right solutions, the right way to an evolving user profile
- ▶ Retain high touch yet deliver high tech solutions

Struggles of financial institutions to transform

01

Changing expectations and hyper competition

Lack of institutional commitment and focus

04

02

Limited understanding/experience of digital transformation

Limited resources for digital transformation

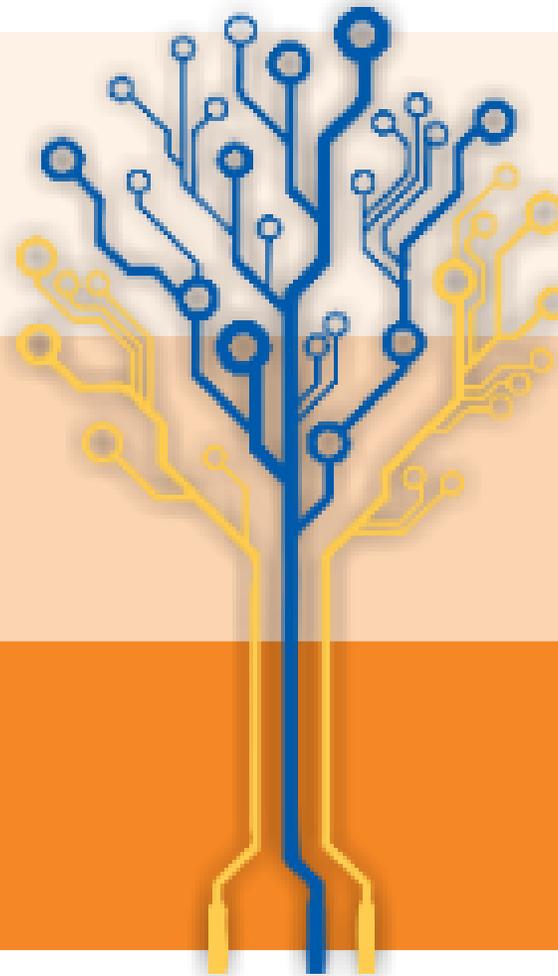
05

03

Low to moderate technical skills

Need for an articulated approach to support

06



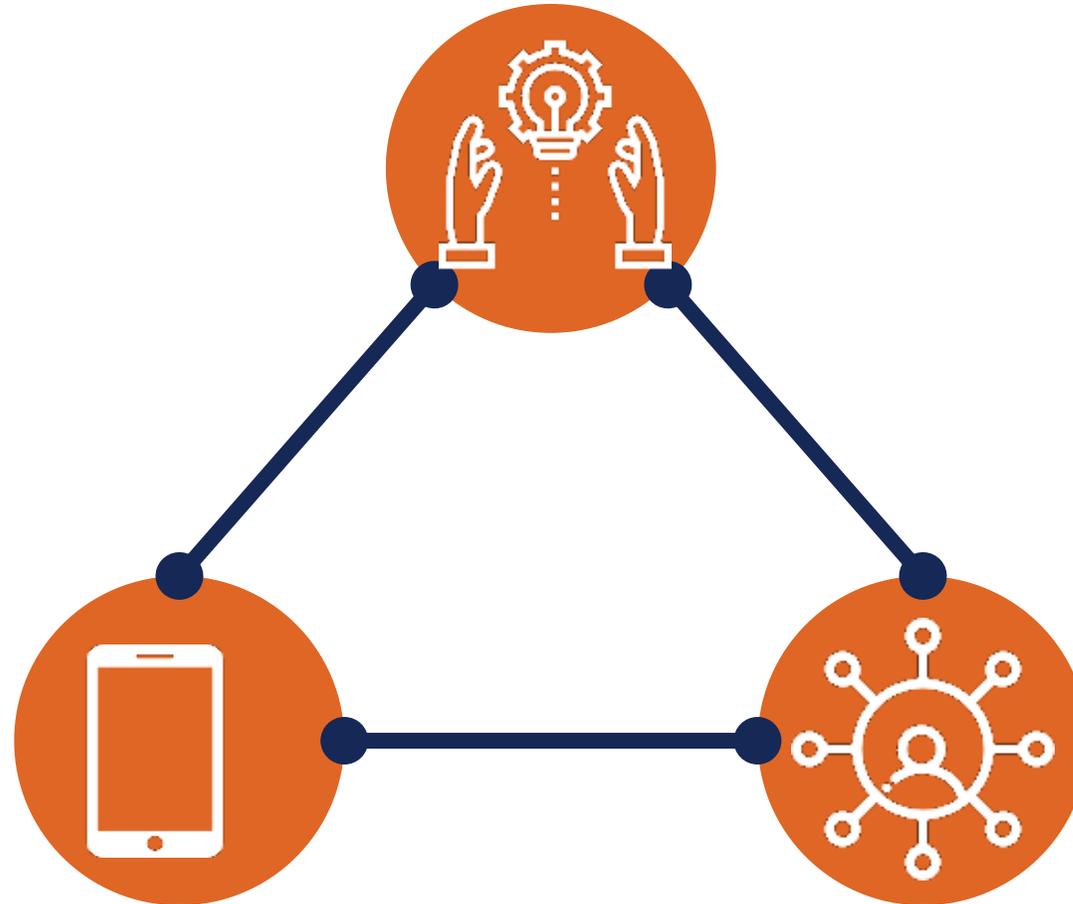
How can investors help?



- ▶ Push the reboot. A full strategy review of future focus, and the pathway to digital migration
- ▶ Learn the lingo. Teach yourself the essence of the key technologies that are looming: cloud computing, big data, AI and ML, mobility. Enhance the collective Digital Quotient
- ▶ Support the transition. Optimize the current; burn (some of) the old; midwife the new
- ▶ Prepare to experiment and burn some money. Try little bets on alternative futures
- ▶ Support institutions to rethink about their people. Which world are they recruiting for?

Innovations Lab for Microfinance - The Concept

I. Support microfinance institutions' digital transformation



II. Nurture FinTechs to support digital quest of microfinance institutions

III. Share best practices and lessons learnt in a Community of Practice

I. Support microfinance institutions' digital transformation

Provide experts, products/ solutions, policies, processes, practices, risk management, and partnerships to MFIs to transform.

Use a cascaded-approach as an efficient and effective method to transfer skills to build capacities to transform:

- ▶ Provide initial support to a select number of promising MFIs to transform
- ▶ Select staff from the MFI to provide expert services as Transformation Advisors (thoroughly trained, with hands-on experience, and certified)

Digital readiness assessment framework

Digital Readiness Assessment (DRA) to inform areas for technical support and capacity building. DRA focuses on:

- ▶ Landscape and context in which the MFI operates
- ▶ Strategic direction of the institution, its current and anticipated customer base
- ▶ Knowledge of the Board and executive with respect to digital transformation
- ▶ Existing information technology infrastructure - the core CBS and collateral systems
- ▶ Challenges currently being experienced by the institution with its information technology infrastructure
- ▶ Degree of digitisation of channels, processes, customer experience
- ▶ Digital ecosystem existing in the country, the regulatory environment, interoperability
- ▶ Resource allocation for transformation

Digital transformation components

6. Data analytics

Use data for decision making through the application of AI and ML

5. Experience-led

Ensuring that the user experience is first class

1. Strategic partnerships

Partnerships to operationalize digital banking (including FinTechs)

2. Agile enterprises

Use test and learn approaches

3. Flexible technology

Right technology architecture/ platforms and data structure that facilitate analytics



4. Human-centered design

Putting people's needs at the center of digital transformation

II. Nurture FinTechs to support digital quest of microfinance institutions (1)

- ▶ Select promising ideas and FinTech deployments with potential to resolve constraints identified on the basis of digital readiness assessment of MFIs
- ▶ Incubate such ideas to develop scalable solutions to support MFIs' transformation
- ▶ Such FinTechs are potential investments as they have a readily available client base (MFIs) and have been built grounds-up from investors' support (thus investors have innate knowledge of the promise of these FinTechs)
- ▶ Drive social and responsible design of financial solutions by FinTechs

II. Nurture FinTechs to support digital quest of microfinance institutions (2)

Key Constraints to Growth of FinTechs

Poor market understanding

- Do not address real problem - mismatch between the solution and market needs
- Poor understanding of potential market and segments
- Fintech solutions are often not geared to high volume, low value, low income segments
- Willingness of incumbents to allow FinTech solutions to be tested

Lack of funding

- Limited avenues for funding
- Limited investment from the fintech entrepreneur
- Limited venture capital and investment activity

Lack of adequate human resources and skills

- Primarily fintech entrepreneur (most likely a tech evangelist) driven
- Lack of skilled management and staff

Poor risk / regulation preparedness

- Lack of adequate preparedness for risk management
- Lack of understanding of the regulatory environment

Limited support on business skills building

- Limited understanding of business viability, scalability and sustainability
- Lack of sounding board for concepts/ ideas

Lack of regulatory support

- Lack of conducive environment from regulatory standpoint to innovate

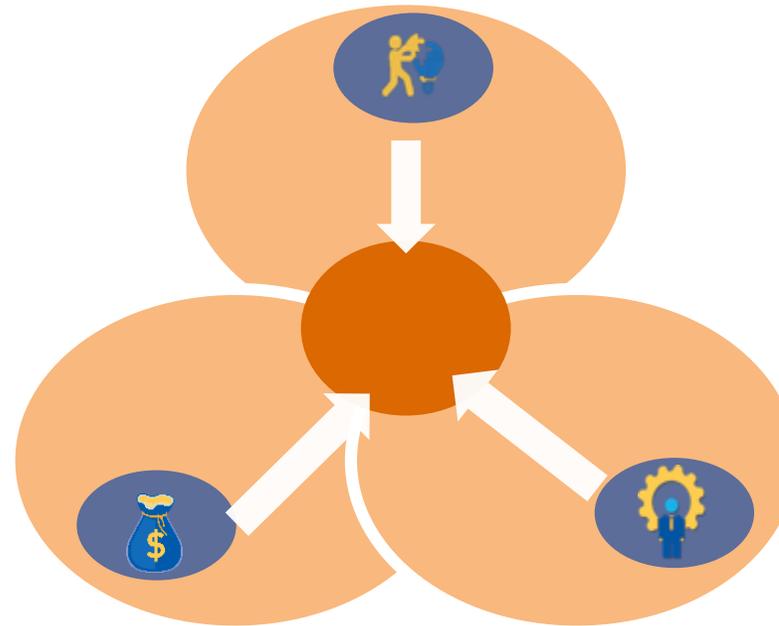
II. Nurture FinTechs to support digital quest of microfinance institutions (3)

Operational

- ▶ Problem definition and marketing
- ▶ Market insights and solutions' refinement
- ▶ Design sprints
- ▶ Mentoring support
- ▶ Strategy formulation
- ▶ Operational design and business modelling
- ▶ Product, processes, and policies development
- ▶ Regulatory and policy compliance
- ▶ Partnerships to scale-up business
- ▶ Handholding from MVP to seed funding

Financial

- ▶ Funding and capital structuring
- ▶ Financial projections and budgeting
- ▶ Investment - debt, equity, and mezzanine funding
- ▶ Funding linkages



Technical

- ▶ Design sprints
- ▶ Data analytics
- ▶ Technology validation
- ▶ APIs and linkages
- ▶ MIS and IT systems
- ▶ Risk Management
- ▶ Customer Relationship Management
- ▶ Advanced algorithms and analytics

III. Share best practices and lessons learnt in a Community of Practice

Objective

- ▶ Common identity, purpose and value for digital transformation
- ▶ Learning, knowledge management and continuous improvement
- ▶ Leveraging partnerships to reinforce microfinance and FinTechs

Approach

- ▶ Catalogue and share best practices with a specific focus on approach and process
- ▶ Provide opportunities for peer-to-peer mode of learning and information exchange
- ▶ Support change management in MFIs
- ▶ Launch webinars for MFIs' staff members on digital transformation



**Operationalising the *Innovations*
*Lab for Microfinance***

Operational plan (1)



What is Innovations Lab for Microfinance?

- ▶ A *phygital* innovation lab that provides a deep learning and development opportunity for digital transformation of MFIs running for four years
- ▶ The lab will operate at two hubs and four spokes in Sub Saharan Africa and South/South East Asia. In the first year, the lab will work with two spokes, in year 2, 3, and 4 with four spokes
- ▶ By the end of the project, we anticipate transformation of 42 MFIs and incubation of 42 FinTechs

How will the MFIs and FinTechs be selected and supported?

- ▶ In each of the locations, the lab will identify MFIs based on the digital readiness assessment. The FinTechs will be selected basis a competition
- ▶ Each year we will select 3 MFIs and 3 FinTechs per location
- ▶ The lab will provide MFIs with market insights, knowledge, and practical skills to develop, test, and launch digital transformation
- ▶ Field based behavioural research using user-centered design approach, FinTech solutions to address the digitisation problems, and handholding support will lay the foundation for digital transformation of MFIs

Operational plan (2)



What makes the lab unique?

- ▶ Focus on digital transformation of MFIs while retaining their high-touch approach
- ▶ Solutions design defined dynamically based on research and potential impact
- ▶ Emphasis on digital solution for products/services, channels, technology, processes, and user experience
- ▶ Rigorous selection process based on digital readiness assessment
- ▶ Structured and customised support to include technical assistance, mentorship, hand holding, community of practice
- ▶ Backed by experts who have over 20 years of grounded expertise in financial inclusion and digital transformation, thus, bring deep insights for use by the MFIs
- ▶ Metrics to measure and evaluate impact
- ▶ Create public goods such as blogs and research papers for wider dissemination

Next steps

Conduct a feasibility study to assess:

- ▶ Current initiatives in the digital transformation of MFIs
- ▶ The role played by FinTechs to support digital transformation of MFIs
- ▶ Need for an innovations lab for microfinance
- ▶ The business case for the lab
- ▶ Project design, governance structure, and the operating model of the lab
- ▶ Crowding-in resources for the lab



Questions and Answers

Issues to discuss

- ▶ Do investors have the willingness to support digital transformation? What is the resource commitment we can anticipate from the investors? How do we crowd in resources?
- ▶ Is there a willingness to commit funding to assess the feasibility of the lab?
- ▶ How would they like to select the MFIs or would they like the entire portfolio to be supported?
- ▶ How will the investors assess which ones to support?
- ▶ Is there merit in investing in the FinTechs as proposed in the lab's concept note?
- ▶ What should be done to ensure the MFIs' digital transformation and FinTechs' solutions are focussed on low-income, social, and responsible?
- ▶ What are the key challenges the investors see in taking forward the concept?
- ▶ Is there an interest to be part of the learning community?

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