

Summary of the MFC Conference 2017 workshop

“Understanding what it takes for an MFI to go digital”

New digital technologies are enabling MFIs to become more efficient, reduce operating costs and serve their clients better. However, to get the real benefits of digital technology, MFIs need to understand how to create and implement an effective digital strategy to enable smart digitalisation of their operations.

Moderator

Antonio SEPAROVIC, Oradian, Croatia

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Antonio is the Managing Director of Oradian, which provides cloud banking software designed specifically for microfinance institutions. Antonio brings ten years of experience implementing MFI core banking systems in Africa and Asia. His vision is to deliver financial services through technology solutions that work for the billions who are underserved.

Panellists

- **Charlene BACHMAN, Software Group, Bulgaria**

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Charlene is the Global Account Manager at Software Group, a technology provider specialised in delivery channel and integration solutions for the financial inclusion industry. Charlene is responsible for supporting microfinance networks and strategic initiatives based in Europe.

- **Dean CAIRE, International Finance Corporation (IFC), USA**

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Dean is a finance and risk management expert from the IFC, a member of the World Bank Group and the largest global development institution focused exclusively on the private sector in developing countries.

- **Kaiser H. NASEEM, International Finance Corporation (IFC), United Arab Emirates**

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Kaiser leads the Banking and Digital Finance Advisory Services in EMENA at the IFC. He has worked as an international development banker for over 30 years and is a global thought leader, disruptor and innovator with an entrepreneurial flair. Kaiser has conceptualised and developed new institutions and business models in challenging environments around the world.

- **Neoklis STAMKOS, Business and Cultural Development Centre (KEPA), Greece**
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Neoklis is the Chief Financial Officer and Head of Microcredit Department at the Business and Cultural Development Centre (KEPA), which is in the process of digitalising its operations. KEPA is an Intermediate Management Agency for National and Community Programs at regional and national level. Neoklis is also the Project Manager of the “Microstars” EU project.

- **Radu TOMA, Vitas, Romania**
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Radu is Deputy General Manager at Vitas Romania, a leading microfinance institution that has been serving Romania since 1996. Radu is a risk management expert and has been involved in credit risk model design as well as software solutions implementation. Radu is leading Vitas' current digitalisation process.

A workshop in collaboration with

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Discussion

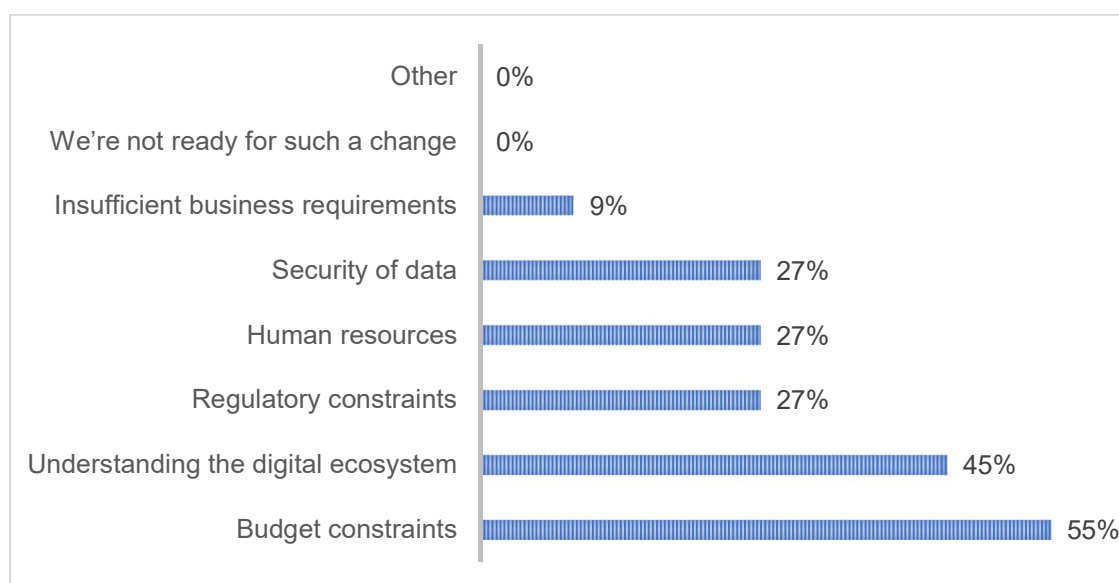
Digitalisation presents a huge opportunity that MFIs need to embrace to scale up, improve and “future-proof” their business. However, without a full understanding of the context and without proper preparation, digitalisation can become a risk that most MFIs cannot afford to take.

This workshop aimed to create an understanding of the common challenges MFIs face before and during digitalisation and to give best practice recommendations to enable MFIs to be prepared for these challenges in order to overcome them.

To start of the two panellists representing Vitas and KEPA together with members from the audience first shared the challenges currently facing MFIs in their efforts to digitalise their operations.

A key question was posed to the audience at the beginning through an online voting system (sli.do) showing the results live on screen. The participants could choose multiple answers. Out of the 50 participants, 11 people from different parts of the microfinance industry connected to the website to answer.

According to the audience, what is the main obstacle to go digital?



According to the audience, the main obstacles to digitalisation are budget constraints and a lack of understanding of the digital ecosystem.

The discussion with the panellists then focused on some recommendations on how MFIs can address the various challenges of digitalisation.

The challenge of budget constraints

Kaiser from the IFC pointed out that digitalisation is an investment that MFIs should be prepared to make in order to improve the way they serve their clients, as well as to reduce costs of operations going forward, by improving efficiency. However, the important thing was to have a strategy in place and prioritise what parts of the operational value chain need to be digitalised first so that scarce resources can be spent wisely.

What you can do to overcome budget constraints

- Define your budget by answering these questions:
 - What is the level of digitalisation you want to achieve?
 - What is the long-term vision of your digital transformation?
 - What is your budget according to the current size of your institution and how can digitalisation help you reach your growth targets (that have been identified in the strategy)?
- List the regulatory constraints that may need to be addressed.

The challenge of understanding the digital ecosystem

The digital ecosystem is not easy to understand, especially by legacy institutions that have been operating in a certain manner for years. It is important to understand the context of the digital disruption and clearly identify how best your particular institution can leverage the opportunity. Charlene from Software Group mentioned that today there are many options of core banking systems, and the challenge is to choose the one that best suits your business needs and can accommodate what is needed for digitalisation. The institution then needs to figure out which delivery channels will be used to reach clients or support your operations. Here too, there are multiple options available. Charlene and Kaiser both advised that a good way to start is to focus on clients' needs and take a client-centric approach to products and service delivery in order to understand which channel to use.

Neoklis from KEPA shared how he struggled to find the right experts who could explain the digital ecosystem in a simple manner. Without a full understanding of the options, it has been difficult to develop a plan for digitalisation that suits his business.

Neoklis also shared the challenges he faced after digitalisation: change management within the institution itself, and with his clients. He needed to choose an e-learning tool for his clients. There were many options and when he finally decided to go for one, he had to work on clients' adoption through internal marketing campaigns to make sure his clients would use the new tool they now had access to.

What you can do to better understand the digital ecosystem

- Choose a technology provider that offers capacity building and educational workshops, so you don't necessarily have to develop programs yourself.
- Attend events and opportunities that foster knowledge and collaboration among MFI managers.
- Join an MFI network of visionary institutions that are also digitalising in the same challenging environments.
- Participate in workshops to build your digital capacity by learning from others.
- Take the time to read the research papers and studies carried out by expert organisations like CGAP, IFC or Acción, to name only a few of them. The IFC, the Mastercard Foundation and Software Group recently published a handbook on alternative delivery channels that you can [download for free](#) on the IFC website (where you can find several other relevant publications).

The challenge of adoption

Radu from Vitas shared that his staff was fearful of the changes digitalisation brings. He had to explain to his staff the advantages of digital to remove fears and worries among them. Because digitalisation allows you to replace time-consuming processes with automation, his staff was afraid of losing their jobs. The front office staff was also hesitant to embrace the new tools. They could now collect more client data and create more comprehensive client reports, but they were afraid to ask clients for information. The hesitation of his staff was preventing Vitas from taking advantage of the technology and using better data to make better decision.

What you can do to get your staff onboard

- Partner with a software provider that will work *with* your staff, rather than intimidate them. A sound digital transformation will include proper staff training, at all the levels of the organisation.
- Explain that digitalisation will allow your institution to grow, so with more clients and more will, the institution's staff will also need to grow.
- Designate digital champions. Kaiser insisted on the fact that to leverage technology, you need innovators among your staff, people who will straight away understand the digital benefits and advocate for the change within your institution. And all this needs to be led by the CEO who is committed and has the requisite vision.
- Answer these questions:
 - In terms of human resources, do you have the relevant staff to implement a digital transformation?
 - How much training do you need to put in place?
 - Can you identify a project manager that will supervise the overall digital process? It's not only about implementation but also solving the issues coming up once the new system is on.
 - Do you have a change management plan in place that includes change management agents?

The challenge of developing a relevant strategy

Radu explained that one of his main challenges was localisation, the process of modifying the digital system he had to meet the specific needs of his business. Vitas is an MFI part of a larger group that decided to go digital with the same platform for all the members of the group. But the MFIs inside the group are very different. They have different regulations, business models, products and customer relationships. On the top of that, Vitas didn't have a digital strategy that would help them driving their digital transformation.

What you can do to develop a relevant strategy

- Set up a digital strategy that considers all the aspects of the business and the internal organisational processes.
- Budget it properly, including the savings you are going to make with the new digital systems you're going to implement.

How to set up a digital strategy?

Just as IT strategy is now a pillar of business strategy, so too should the digital strategy be aligned with the business. Digitalisation's entire purpose is to improve the way the institution conducts its business. Any decision to digitalise will impact the entire business, including the customer experience. Therefore, it is important to ensure that there is enough commitment from the top management for the digital transformation to happen smoothly. A participant from the audience shared that digitalisation was seen as a threat in their institution by staff who are currently performing very manual tasks. It is the responsibility of management to plan an effective change management process to ensure that employees understand the value which digitalisation can create and ensure that staff are sufficiently trained to build their technical literacy. In this way, it is also an investment in human resources. Formulating a digital strategy and then implementing it cannot happen without commitment from the CEO and top management, and buy-in from each and every employee of the institution.

Start with answering these questions:

- What is the regulatory framework in your country? What are the regulatory constraints that could hinder your plans for digitalisation? The panellists also advise to look into issues, such as (i) data protection and consumer protection laws, (ii) access to credit bureaus, and (iii) how to link the data to the new digital platform.
- How efficient are your business processes today? Take a comprehensive assessment of your business processes and make sure you document them properly.
- Prioritise the next steps. You won't digitalise all your operations at once. Which part of your operational value chain are you going to start with? All the panellists agreed on taking a step by step approach so that the process is undertaken smartly.

Neoklis explained that he was going to go digital as far as his business needs it. However, he made a point in saying that disbursing microloans is about building trust with your clients, and to achieve mutual trust, you still need to have face to face interactions. You cannot digitalise everything, you need to find the right balance between the human relationships and the automation/digitalisation of the processes. He emphasised that using automation in certain areas of his business actually allowed his staff to have more time to spend face to face with clients.

- Which new delivery channels are you going to leverage? Are you going for agent network? How is the Internet penetration among your target customers? Take a customer centric design approach to decide on the best delivery channels to use.
- Budget your digital strategy. Radu said, you need to understand the full process, how much it will cost but also how much it will save in the future. Kaiser advised, in many cases it may make sense not to spend money to build a digital platform or channels by yourself. Instead, the institution can identify an existing fintech to partner with. This would save both costs and time. The trick is to find the relevant partner and negotiate the right partnership terms. And also ensure that your IT platform can accommodate all this.
- Radu also mentioned the importance of defining your KPIs to be able to measure the success of your digital transformation.
- Hold some workshops within your institution to design the strategy. Bear in mind that your digital strategy is not different from your business strategy, digital is here to help achieve your business objectives. Document your digital strategy and share it with your staff so that they understand it.

Business case financial model: analyse the costs benefits of digitalisation

Creating a financial model to confirm your business case will help to answer the question: what value is created through digitalisation?

As mentioned by Dean from the IFC, digital data can be analysed quickly and will help you make better decisions and miss fewer business opportunities. Digitalising your data is therefore the first step of the process. Start with understanding which data you are going to collect with the new system, and how you are going to treat it. There are many ways to use the data captured and Dean spoke about the benefits of using the data to improve your credit scoring system. Capturing different or new data will again require a sound change management among your staff.

Radu explained how his credit scoring system that has been on for five years is now speeding up the process of loans disbursement and reducing the risk of non-repayment in his institution.

Your strategy will also describe which benefits you're going to reap with the new digital system, and you need to set up your priorities: is it increasing your outreach? Improving risk management? You cannot focus on everything at once. So, list the priorities and analyse how digitalisation will improve your business.

Conclusion

Antonio from Oradian wrapped up the discussion by summarizing the key points:

- MFIs must think big. Technology can breathe new life into your business and change its trajectory. It is your opportunity to save time and money, make better decisions and ultimately grow your business. This doesn't mean throwing caution to the wind and just going for it. You need an integrated implementation strategy that considers all the risks and challenges.
- Make the leveraging of technology part of your business strategy. In many cases, the right starting point is to develop a smart digitalisation strategy that builds on your existing technology platform and reflects the changing needs of the business. The most successful MFIs leverage technology to their advantage to make better and faster business decisions.
- Choose the right partner. Best practice with local support and a product that works for you is out there. A good partner understands best practice, has experience in the MFI industry and truly believes in your business. Without the right partner, you can create additional risks for your MFI and increase the challenges of digitalisation. Technology isn't just about technology.
- Never agree to anything that you don't understand 100%. Get knowledge from expert institutions, your tech provider and your peers.

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