



# **MFI Digitalization Pathways Monitoring Progress in Microfinance Digital Journeys**

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## **ABSTRACT**

This paper summarizes the results of research conducted among MFC members on the digital solutions. Results are presented against the MFC's Digital Transformation Framework to illustrate the scope of the digitalization. Our research shows that MFIs' digitalization efforts focus primarily on credit processes (both its internal processes and its customer-facing processes). Other aspects of the digital journey are receiving less attention. Digital innovations are typically introduced in a piecemeal fashion within existing operational structures and business models, netting only partial gains from digital technologies.

## **1. INTRODUCTION**

Digital transformation is increasingly becoming a necessity for microfinance institutions (MFIs). The pandemic crisis revealed the need to digitalize customer service to ensure continuous access to finance. This in turned pushes microfinance providers to upgrade the back-office systems to handle data incoming through digital channels. Additionally, internal communication and connectivity systems have to be adapted to better respond to the requirements of remote work. On top of that, the ever-present pressure to reduce costs, increase efficiency and grow in terms of scale and outreach pushes the institutions to automate their processes. Not to mention the competition coming from fintechs and banks which face similar pandemic-related challenges.

While the urgency of digital transformation is well-understood, the pathway to digital transformation is neither easy nor clear, for several reasons.

First, MFIs have legacy systems (operations established in the pre-digital era) that need to be changed and replaced. This requires time and money, neither of which readily available now, when issues related to crisis management and business continuity are the top priority.

Second, digital transformation requires skills that current MFI staff typically lack and, to make matters worse, many MFIs cannot pay market-level salaries for the tech professionals who could support them to become a digital organization.

Third, technology is evolving fast, and selecting proven solutions isn't easy. With limited resources, many MFIs employ a step-by-step approach whereby they implement a select few digital solutions proven to bring value and improve operational efficiency.

Fourth, it is becoming increasingly clear that a piecemeal approach to implementing digital tools and processes isn't enough to move an organization over the digital threshold. There's more to digital transformation than new tools and protocols. People and culture play a significant role, as do the willingness and ability of customers to operate within a digital space.

The MFC research explores new initiatives that microfinance institutions introduced in 2019 and 2020 to strengthen their digital operations and apply new technologies to improve efficiency and customer service. The results of the survey are presented in the context of the Digital Transformation Framework (DTF), which serves as an organizing tool to monitor progress in digital transformation for MFIs.

## 2. DIGITAL TRANSFORMATION FRAMEWORK FOR MFIs

To capture the specific elements of the digital transformation process, MFC developed a simple framework to analyze digitization across two dimensions: the core organizational and operational areas where digital solutions are applied, and the digital tools and applications that support the digitization of the core areas. The resulting matrix (shown in Table 1) serves as the organizing framework for this case study, and it can serve as a checklist for MFIs to track their progress in digital transformation.

Digital solutions can be applied in six core business areas: customer, product, processes and systems, organization, funding and strategy. Not all tools and applications support each core business area, and not all core business areas will be supported by all digital tools and applications. However, in general, as technology evolves and becomes more ubiquitous, new tools can be applied in virtually all business areas, and therefore should be considered. For example, AI may sound seem like the stuff of science fiction, but recent use of chatbots and sound-enabled communication for clients made this application a viable option with enormous potential in the future. In the same vein, while most MFIs still use an internal MIS, the spread of cloud computing opens new opportunities for MFIs to collect, organize and analyze data without needing to maintain and update their internal home-grown systems that quickly become obsolete.

The framework may also serve to guide MFIs on which core business areas and digital transformation tools may be most appropriate to use for digital transformation. While not all core areas of the business should be digitized to the same degree and in the same way, the framework offers an initial checklist for MFIs as to what processes could be transformed, and in what order. Additional sub-categories and other types of technology solutions can be added over time to expand the framework to adequately reflect the needs of an organization.

**Table 1: MFC’s Digital Transformation Framework**

CUSTOMER EXPERIENCE	PRODUCTS AND SERVICES	PROCESSES AND SYSTEMS	WORK ORGANIZATION
Customer insights	Digital application	Anytime, anywhere, any device	Digitized internal communication
Digital marketing	Digital identification and verification	Standardized operational platform	Cross-functional collaboration / teaming
	Client documentation in digital form	Digital records/archives	Digital skills
Channels for interaction	Digital approval	Agile organization of work	Virtual workforce
Digital business support	Digital delivery		Digital stakeholder ecosystem
	Digital management by client		
	Digital repayment collection		
	Fully digital product		
FUNDING	DIGITALIZATION STRATEGY	IMPACT MONITORING	
Own online crowdfunding platform	"Test-and-learn" innovation	Digital surveys	
External digital funding platforms	Digital positioning	Digital customer impact tracking	
Funding through cryptocurrencies	Digital strategy	Impact communication and dissemination	
Other digital funding options	Digital transformation	Digital impact reporting	

### 3. NEW DEVELOPMENTS IN DIGITAL JOURNEYS

Our research findings reveal that 33 MFC members introduced at least one new digital solution in 2019 and 2020

Unsurprisingly, innovations in the area of loan origination and management prevailed among digital applications. The most popular process (implemented by 9 MFIs, or 27% of those surveyed) was an online loan application, whereby new clients fill out the application form on the MFI website, or send info about their credit needs via Viber bot or messenger.

Several institutions engaged more intensively in digital marketing and communication with their clients. Of those surveyed, 7 MFIs (21%) started promoting their products and services through social networks (Facebook, Instagram, LinkedIn, YouTube, Google Advertising) or sales and customer relationship management platforms (Pipedrive).

To improve two-way communication between an organization and the client, several MFIs installed chatbots on their websites (or Viber bots) so clients can ask questions about products and services and receive an answer from MFI staff. Some MFIs also use Viber to communicate the loan approval and other important parts of the loan process.

The second most common area of innovation is implementing solutions that improve customer experience with MFI products and services.

Several institutions (6 MFIs, or 18% of respondents) introduced digital solutions that allow clients to check product status, repay a loan through digital channels or conduct transactions (making transfers or deposits). These solutions include internet banking platforms, mobile wallets, self-service kiosks, or mobile Point of Sale (mPOS) terminals at agent stores that enable clients to transact without visiting a branch.

The third area of digital innovations is improvements in managing and analyzing the data.

A handful of MFIs (5 MFIs, or 15% of survey respondents) introduced tools that allow loan officers to work more efficiently: tablets and mobile apps that field staff can use to collect and upload client data directly and in real-time, and score loan applications. There are also examples of MFIs introducing digital tools for loan officers to optimize their travel and meetings, and to manage communication with current and potential clients. Additionally, 7 MFIs (21%) introduced new credit-scoring systems for quicker and more accurate credit appraisal.

Overall, we see notable progress in introducing digital tools and digital processes into existing microfinance processes, but no MFI has experienced a major digital breakthrough that radically transformed it into a fully digital operator.

#### 3.1. Customer: Digitize the Customer Experience

Table 2 presents examples of digital solutions introduced by MFIs in the survey.

**Table 2: CUSTOMER EXPERIENCE**

Subcategory	Examples			
Customer insights				
Digital marketing	Social networks: Facebook, LinkedIn, Instagram, YouTube, Google Advertising	Sales platform Pipedrive		
Channels for interaction	Mobile chatbot (Viber, WhatsApp, Telegram)	Website chatbot		
Digital business support	Business Club online	Digital marketplace	e-learning platforms	Educational materials

As noted, most of the innovations focused on digital marketing and channels to interact with customers. Only one example was offered for digital business support, and nothing for digital customer insights. In terms of technological tools, the majority of the applications fall into the category of social media and collaborative technologies. Data analytics and cloud computing is rarely used to enhance the customer interface and customer experience.

### 3.2. Product: Digitize Products and Services

Table 3 offers examples of digital innovations related to product introduced by the MFIs that responded to the survey.

**Table 3: PRODUCTS AND SERVICES**

Subcategory	Examples			
Digital loan application	Website loan application	Viber bot and messenger		
Digital identification and verification	Biometrics			
Client documentation in digital form	Photo of ID document	Scan/photo of business registration documents	Scan/photo of tax payment	
Digital approval	Automated credit scoring	Platform for application appraisal	Mobile phone, Viber approval	Virtual credit committee approval
Digital contract	Digital signature			
<b>Digital delivery</b>	Wire transfer to a bank account	Credit card transfer		
Digital management by client	E-client area on website	Mobile app	Self-service kiosk	Electronic wallet
Digital repayment collection	mPOS terminal for repayments	Third party terminals for repayment	Credit card repayment	Third party payment apps
Fully digital product	Small emergency loan for repeat clients	Small consumer loans	Business microloan without guarantee	

Among survey respondents, we see a variety of digital innovations related to products and services. While MFIs shun away from offering fully digital credit products, they have introduced partial digital solutions such as online loan applications, automated credit scoring that is built into the loan approval system (also available on mobile devices) and mobile POS and third-party terminals offering clients new and more flexible ways to repay. Some MFIs also opened digital channels allowing clients to manage their loans online or through mobile devices. Other MFIs are experimenting with mobile communication devices.

### 3.3. Processes and Systems: Digitize Operations

Digitizing operational processes and systems is an important part of the MFI digital transformation process. Table 4 presents examples in use by respondents.

**Table 4: PROCESSES AND SYSTEMS**

Subcategory	Examples			
Anytime, anywhere, any device	Tablets for LOs	CRM for LOs to manage activities	GPS for LOs to optimise travels	
Standardized operational platform	Comprehensive systems, new core banking system CBS	CRM for managing client communication		

Digital operations improve loan officer efficiency with mobile devices such as tablets loaded with software that uploads data in real-time, CRM tools for loan officers to manage credit activities, and GPS to optimize their client visit itineraries. In addition, some MFIs have introduced more sophisticated back-office systems (such as core banking systems) which both improve data processing capacity and integrate and manage new digital applications.

### 3.4. Work Organization: Digitize the Organization

The true benefits of digitization unfold when digital solutions enable efficiency throughout the whole organization. Technology is not a simple addition to existing systems and processes: it changes them fundamentally, which means new ways of cross-functional collaboration—both internally and with external stakeholders.

**Table 5: PROCESSES AND SYSTEMS**

Subcategory	Examples			
Cross-functional collaboration / teaming	Office 365 features and functionalities (SharePoint, Flows)	Slack	Trello	
Digital skills				
Virtual workforce/communication	MS Teams			
Digital stakeholder ecosystem				

MFC Members more and more make use of the tools that support smooth data flow between the departments. Data handling and communication within and between various teams and communities. The pandemic pushed the institutions to introduce facilities allowing employees to work remotely, not only during the lockdown but also later on. Digital access to data and documents, structured communication flows not only make the remote work possible but also strengthen collaboration and exchange between branches and functional teams.

### 3.5. Other Dimensions of Digital Transformation

The other three dimensions of digital transformation – funding, strategy and impact – seem less a current priority for MFIs, although some digital improvements can lead to improvements in some areas such as financial reporting to investors or measuring impact. However, such improvements are only a potential by-product, rather than a stated aim, of more limited digital strategies. There is little current interest among MFIs to take advantage of digital channels for funding (including crowdfunding). Similarly, MFIs don’t seem to be crafting digital strategies to frame and guide their digital transformation processes.

### 3.6. Building Wider Relationships with Digital Community

Some MFIs reported in the survey that they have developed new relations with digital community but most of these new relations are with service providers such as vendors of digital solutions or social media providers. These relations appear to be more of a transactional nature rather than strategic. Also, there is little use of cloud-based solutions and Software-as-a- Service (SaaS) options and the internally developed and managed systems still dominate the microfinance field.

## 4. NEEDS AND EXPECTATIONS

Digital transformation is a long and ongoing process that requires significant time and resources. Many MFIs surveyed reported that they could benefit from additional assistance in their digital transformation efforts.

The most-often voiced concern relates to accessing better information about digital solutions that MFIs can apply. This includes information on what's available on the market, and the benefits of each solution. MFIs would welcome learning about practical implementation examples through case studies (publications, webinars) and peer-to-peer visits—and to understand the results achieved by applying each new solution.

The second most-cited need relates to funding. MFIs lack information about funding sources for digitalization, and would benefit greatly from assistance to access these funds. Cost remains a major barrier to making digital improvements at scale.

Additionally, a smaller number of MFIs identified the need for support to implement new solutions, in the form of training and/or mentoring. Some MFIs need support in researching the needs and preferences of end-users, both clients and staff (loan officers, branch managers).

Finally, some MFIs would welcome support in working with the regulator to adapt their regulatory frameworks to make them more conducive to technological improvements that MFIs are trying to make in their organizations.

## 5. CONCLUSIONS

MFIs continue to introduce and improve digital solutions, but the speed of changes appears to slow down after MFIs adjust to the initial “digital technological shock”. New solutions most often focus on making the credit process more efficient both for credit staff and clients. However, digital innovations are limited to direct credit operations, and do not touch the organization as a whole.

MFIs still take a piecemeal approach to transformation, typically digitizing only a part of a process within the old structure and business model. They introduce a new way to communicate with clients or an online loan application or digital credit scoring, but the overall business model and process remain unchanged.

This approach may be due to the fact that until recently MFIs have been comfortable with the pre-digital status quo and felt they haven't yet outgrown existing systems. They were also mindful of the level of digital sophistication of their clients, for whom digital applications may be a constraint to accessing credit. In the “new normal”, when other products and services (e.g. commerce, medical services) are becoming more digital client quickly upgrade their digital skills, thus becoming more capable of interacting with financial services providers as well.

Yet, MFIs face other barriers to making more substantial digital investments, not least of which is lack of funds to cover the costs on digital technologies, and the difficulty in selecting the best application to enhance operational efficiency and the customer experience.

Finally, even when MFIs introduce new digital applications, they struggle to evaluate the results of their investment. In truth, assessing the gains from digital improvements and measuring their impact is challenging. Efficiency can be defined in technical and economic terms, and both aspects should be measured by MFIs—however often they lack adequate measures and methodologies to do so. This topic merits further research to develop a practical methodology to assess efficiency gains from digital transformation investments.



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**MICROFINANCE CENTRE**

## ABOUT MFC

(Heading 3) The Microfinance Centre is a social finance network that promotes fairness, inclusion, equality and responsible service. We unite 113 organisations (including 77 MFIs) across 36 countries of Europe, Central Asia and beyond, who together deliver responsible microfinance services to over 1,000,000 low-income clients.

## OUR MISSION

Our mission is to empower individuals and sustain communities through innovative social finance and microfinance

## OUR VISION

Our vision is a financial system that works for all people and all communities in a responsible and fair way.

**Our members and partners** are guided by the principles of fairness, inclusion, equality and ethical service delivery. They acknowledge and contribute to the MFC’s values of empowerment, forward-thinking and mindfulness.