

# DIGITAL LEADER BRIEF

## FINCA (ARMENIA)

WITH OVER TWO DECADES OF EXPERIENCE IN THE MARKET, FINCA ARMENIA HAS BEEN RECOGNIZED AS THE BEST MICROCREDIT ORGANIZATION IN ARMENIA. ITS DIGITAL TRANSFORMATION DATES BACK TO 2018.

### OVERVIEW

FINCA's current digitalization lead, (Vardan Hardoyan, COO) came on board in early 2019, bringing his experience working for a digital bank creating a mobile lending platform. When Vardan arrived, he was met with a large organization with a good database of client information that it wasn't leveraging to full effect in order to transform into a digital lender. Much of its information lay unused, and FINCA had no process in place to mine its data for patterns and use algorithms to design new products and adjust its old ones.

From the start of the pandemic, FINCA took the decision to be conservative with its disbursements—focusing instead on using the crisis into an opportunity to retool its systems and services toward a fully digital offering. As a credit organization, FINCA is unable to offer individual or corporate current accounts, issue debit or credit cards. FINCA does, however, offer field-based loans to

farmers who don't have time to visit a branch office to apply for a microloan. Historically, loan officers approached clients in the field and helped them complete their application. Once complete, the application was forwarded to the underwriting team for a business plan analysis and a decision within 3–5 days.

In 2019, FINCA launched a tablet-based loan product wherein clients meet with a loan officer to apply for field-based loans of up to \$4,000 and have a decision and disbursement within 30 minutes. To make this happen, FINCA designed an automated risk scoring system based on patterns mined from its database. To complete the value chain – and so as to not ask clients to visit the branch – FINCA partners with a digital bank in Armenia to issue co-branded debit cards; these are similar to travel money cards, inasmuch as they are pre-printed with the card number but without a name. When the loan is disbursed, FINCA will attach the loan disbursement to a card.

Although the process can be completed quickly, at the moment it still hinges on a face-to-face meeting between the business development manager and the client. At present, FINCA is developing a contract that can be sent to the client's email address immediately, so they don't have to visit a branch to provide a signature. The next stage will be to create a process whereby clients don't meet loan officers at all. Instead, clients will complete an online loan application (via



FINCA Armenia's mission is to be an unconventional community-based financial institution that profitably and responsibly provides innovative and impactful financial services to enable low-income individuals and communities to invest in their futures.

mobile and online channels), enter their data and authorize FINCA to check their credit history electronically.

FINCA's priority is to make the application process as easy as possible for clients, and therefore it only asks them for the most basic information. This information feeds directly into FINCA's database; it includes how much money the client is applying for and their social security number. With that number, FINCA is able to access detailed information from private and state authorities—for example how much income the client has and whether they're formally employed. Based on this information, the loan application can be approved immediately. That said, digital lending only works for microloans of up to \$4,000 and 80 per cent of FINCA's clients are in this range. If the loan is an SME loan for a higher amount then a visit to a client is necessary to make business analysis.

### CHALLENGES

In addition to technical challenges, FINCA faced cultural challenges in its journey towards digital transformation. Interestingly, FINCA staff reflect that the cultural challenges proved the more difficult of the two to overcome. On a cultural level,

FINCA needed to focus on changing the outlook of clients when it came to using digital channels to manage their money; for its rural agricultural clients, this was especially true, given that most of them had never used a smartphone before. In terms of technical challenges: FINCA needed to design an automatic scoring system robust enough to not allow non-target clients to qualify for loans they can't afford, thereby driving up defaults and lowering the quality of its loan portfolio.

### LESSONS

FINCA's digitalization journey was already underway when the pandemic hit, and it used the crisis to take a major step forward in that process—putting its lending activities on a low boil and focusing instead on optimizing its processes and refining its digital lending techniques.

A related lesson for FINCA is that while it was important to leverage digitalization to improve its own efficiency as a business, it's also important to help clients improve theirs. FINCA's philosophy is that its most valuable resource are its clients, and that its own success hinges on the success of its clients' businesses. For this reason, it has started to transform its branches into training centers for farmers.

Armenia is a former Soviet country, and its agricultural clients use traditional farming methods. In addition to helping them adapt to new lending techniques, FINCA is helping them adopt modern, innovative farming and business management practices to ensure their farms operate more efficiently and profitably. This includes partnering with companies to train its clients on green issues such as renewable energies and sustainable cultivation techniques.

Reflecting on its experience in recent years, Vardan offers one final and useful insight: optimization is a continual process. While FINCA used the recent crisis as an opportunity to focus on transformation, it by no means considers the process complete. As it develops as a company, and as its clients develop their own companies, the relationship between client and lender will necessarily evolve. For this reason, FINCA keeps one eye firmly fixed on the horizon, using its experience and insights to identify the next challenge, the next opportunity, and the next phase of its development as a company.

### FINCA ARMENIA AT A GLANCE

<b>Status</b>	2003: Founded as non-profit 2006: Transforms into regulated financial services institution with double bottom-line focus.
<b>Portfolio</b>	38.5K clients; \$52.8m portfolio; \$1,456 avg loan; 35% women
<b>People</b>	400 staff; 30 branches
<b>Services</b>	Agricultural, SME, consumer loans (including installment loans and car insurance)
<b>Funders</b>	AFI, BIB, IFC, responsAbility, symbiotics, EMF Microfinance Fund

