

# DIGITAL LEADER BRIEF

## MIKROFIN (BOSNIA)

MIKROFIN, THE LARGEST MFI IN BOSNIA AND HERZEGOVINA, BEGAN ITS DIGITALIZATION JOURNEY IN 2019, BEFORE THE START OF THE GLOBAL PANDEMIC.

Bosnia and Herzegovina boasts a competitive financial services market—with one lender for every 40,000 adults and 27 MFIs across the country. In contrast to its peers in other European countries, Bosnia is far behind when it comes to digitalization. Current banking legislation does not allow the use of e-signatures, meaning that even when they use digital products, clients need to visit a branch to sign their lending agreement. For this reason, a fully digital “end to end” credit product is an impossibility at the present time.

### DIGITIZING CONSUMER LOANS

Mikrofin, the largest MFI in Bosnia and Herzegovina by market share (29 per cent), began its digitalization journey in 2019, before the start of the global pandemic. Despite the limitations imposed by the legislative framework, the company has made strides in digitalizing key aspects of its business—including marketing, scoring, and lending. Prior to this, Mikrofin offered traditional microcre-

dit services through its branch network; the typical loan approval and disbursement process took 3–4 days irrespective of the size of the loan.

Mikrofin began its digitalization work with its consumer loans. By 2019, half of its clients (and a tenth of its portfolio) was consumer loans under €1,500—and going digital offered the means to offer this product in a way that was simple for clients and efficient for the company. Today, clients apply online for consumer loans up to €1,500 and have a decision within 20 minutes. Clients can also apply via branches or project partners. The new product is fully automated, with one exception: once the application is approved, the client visits the office to sign the contract. Automatic loan analysis and credit scoring is completed using internal historical portfolio and risk data (garnered over Mikrofin’s 2+ decades of experience in the marketplace) as well as external credit registry data. To conform with laws on personal data protection, clients need to sign a consent form for Mikrofin to check their credit data; as such the application process requires the client to upload a picture of their signed form.

In terms of the digital platform—Mikrofin initially developed their solution in house, integrating all digital lending processes into their core MIS system. Its internal IT department later spun off into an independent entity of its

**MF** MIKROFIN



Mikrofin’s mission is to create and provide profitable credit and non-credit products to less privileged people who are fighting for a decent life with their knowledge and skills, and provide services with maximum respect for the time and needs of its clients.



own but the collaboration remained intact, and the new IT company went on to design and deliver a tailor-made digital lending solution.

While digital lending accounts for only a small proportion of Mikrofin's client base and portfolio at present, it is exploring how to apply its automated credit analysis and scoring to other loan products in future. The same applies to its customer care center, which was established to help Mikrofin's digital loan clients.

### MARKETING TO CLIENTS

When it comes to the digital readiness of its clients, Mikrofin identifies three cohorts with three distinct behavior patterns. The first group prefers face-to-face contact to the exclusion of digital; typically, these are older and rural clients, and it is unlikely that this preference will change in future. The second group prefers to do everything online to the exclusion of face-to-face contact; typically, these digital natives are from younger generations, and Mikrofin expects this group to represent an increasingly large share of its client base. The third and final group is comprised of clients who can adapt to digital lending with time and training, signaling the continued importance of both

marketing and customer support in Mikrofin's digital transformation journey. For this reason, Mikrofin doubles its digital marketing budget year on year—and it now accounts for 15 per cent of the overall budget. Some of the benefits emerging from this shift are increased agility, efficiency and measurability. Digital ads are cheaper than traditional print and broadcast advertisements—and offer detailed and real-time analytics on who is viewing them, who is clicking on them and what is happening as a result. Finally, it's easy and cheap to modify digital ads based on performance trends emerging from the analytics data. In the past, Mikrofin tasked a two-person internal team with producing its creative marketing assets; this year it started outsourcing its design to an external PR agency.

### THE STRATEGIC VIEW

For Mikrofin, the digitalization journey is centered around clients. Its end goal is to deliver a customer experience available 24 hours per day, 7 days per week, online and on the phone, across its entire product range. Achieving this will require a complete overhaul of Mikrofin's current governance approach, business model, information systems, operational processes and customer service approach—a complex and long-term transformation that will involve all members of the management team, board, staff and external partners. For this reason, Mikrofin has been working with the IFC on a four-month digital transformation training program. This began with a digital readiness assessment and an exercise to articulate its vision for digitalization and explore its current capacity. These activities will culminate in an overall digital strategy for the organization that will guide its work over the next three years.

To other microfinance institutions contemplating a future digital transformation, Mikrofin offers this key insight: it's impossible to develop a digital strategy in a one-day workshop. It takes time, education and iteration. It requires strong leadership from management and buy-in from all levels of the organization. The digital world may be faster in the end, but the journey to get there needs to be slow and steady.

### MIKROFIN AT A GLANCE

<b>Status</b>	1997: Founded as NGO 2001: Transforms into micro credit organization 2015: Achieves SMART certificate
<b>Portfolio</b>	62K outstanding loans; €135m portfolio
<b>People</b>	345 staff; 85 branches
<b>Services</b>	SME, housing, agricultural, consumer loans

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