Monitoring and Benchmarking Performance towards Strategic Objectives for Alternative Delivery Channels

UNCDF MicroLead Partner meetings
March 2016
Agenda

MasterCard Foundation, MicroLead and ADCs  10 min
Why ADCs?  10 min
ADC Metrics  15 min
Reporting and benchmarking ADCs  10 min
Next steps and Learning Lab  5 min
Q&A, discussion  10 min
Alternative delivery channels are key to MicroLead goals

• MicroLead seeks to deliver deposit services that are demand-driven, and responsibly priced to rural markets, through a variety of providers.

• Alternative delivery channels are identified as key to goal success.
MasterCard Foundation Strategy supports ADC development

- To date, the Foundation is supporting 30 FSPs to test and develop ADCs to scale access to finance across more than 15 countries in sub-Saharan Africa.
- These new channels are transforming old business and service delivery models, performance metrics and measurements. They are also expected to add value and satisfaction to clients.
- In 2016, we will consolidate and leverage the work and learning of existing partners / projects, encourage ongoing learning from one another and disseminate knowledge externally to other FSPs, and the sector broadly.
- UNCDF MicroLead is a strategic partner in support of ADC development for reaching underserved client groups.
Key questions the Foundation seeks to answer

• Are clients receiving improved, more convenient, lower cost and relevant access to finance? Are clients satisfied with services?

• How are FSPs progressing towards strategic objectives with ADC performance?
  – Are FSPs increasing outreach at significant scale and are products used regularly? Are costs reducing in the FSP overall? Are cheaper deposits and reduced costs through agents helping the FSP to become more efficient?
  – At what point will channel volume and fees start to recoup the initial investment? Do FSPs align or use differing approaches to this analysis?
  – How can FSPs be better equipped to generate, analyze and use that data on channel performance for decision-making?

• Can we generate standard definitions and benchmarks for ADCs in FSPs? What systems, tools and approaches are best-suited to comparably measure the cost and revenue drivers of various channels?
Objectives for today’s session

1. Debrief with MicroLead partners on tools and metrics that supports ADC implementation.


3. Seek feedback from MicroLead partners in resonance testing tools and sharing/learning from the Community of Practice.
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Please tell us about any ADC* strategy you currently have:

1. Do you use alternative delivery channels?
   A. No, and we do not plan to
   B. No, but we are planning to
   C. Yes, but we are currently setting them up (pilot)
   D. Yes, and they are active!

2. What types of alternative delivery channels do you use?
   A. ATMs
   B. Agents
   C. Mobile phone
   D. Other

* ADCs are defined as any channel other than a full service branch.
Why ADCs? In 2014-2015, BFA tested alignment of stakeholder objectives

Financial service providers (FSPs)

Aggregators (Network partners)

The MasterCard Foundation
Key stages of ADC metrics project

What are the stakeholders’ **strategic objectives** for ADCs

How to **assess** FSP ADC performance towards these strategic objectives

What **information is required** to assess FSP and ADC performance?

What is FSP **capacity to produce and use** this information?
# Stakeholder alignment on strategic objectives for ADCs

## Objectives for ADCs (and belief that ADCs will):

### For customers
- **Improve access to financial services**
  - Reduce costs, save time
  - Improve convenience and proximity

### For FSPs
- **Savings mobilization**
  - Lower cost of funds
  - Diversify source of funds
- **Client acquisition & retention**
  - Open new accounts; re-activate and retain accounts
  - Increase activity, promote cross-sell
- **Cost reduction**
  - Infrastructure (CapEx)
  - Per transaction (OpEx)
- **Increase fee income**
  - Increase transaction income

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Source: Stakeholder discussion
Many just ‘heading north’… on faith

A compass should help this journey!

MIX & BFA are working to build this compass, with you!
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<tr>
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Focus areas for metrics

Access
- Physical access
- Financial access
- Social access
- Electronic access

Scaled Usage
- Customers & accounts
- Transactions

Sustainability
- Profitability
- Asset-Liability structure
- Customer size
- Costing

Outreach

Sustainability
Shifting activity to ADCs may improve the proposition for customer & bank

The shift from higher cost channels (Teller) to lower cost channels *eventually* benefits the bank, but only over a time period where higher cost channels are actually adjusted to higher value activity. For example, SME servicing of repeat customers in some markets may be a higher and better use of branch resources (staff and branch space).
“Shift happens!”
...be careful what you wish for!

A FINCA branch, following the shift of much loan repayment activity to ADCs: a mixed blessing? This illustrates ADCs’ transformative potential, but branch fixed costs remain... unless/until they are “re-engineered” to generate higher value-add, such as sales and marketing.
Nature of Teller cost displacement

Costs fixed in short-term...

B.P.R.

but variable in long-term

<table>
<thead>
<tr>
<th>Year</th>
<th>Branch Teller</th>
<th>SME Specialist</th>
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<tbody>
<tr>
<td>2015</td>
<td>Branch Teller</td>
<td>Branch Teller</td>
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<tr>
<td>2017</td>
<td>Branch Teller</td>
<td>Branch Teller</td>
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<tr>
<td></td>
<td>Branch Teller</td>
<td>Branch Teller</td>
</tr>
<tr>
<td>2019</td>
<td>Branch Teller</td>
<td>SME Specialist</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Teller costs</th>
<th># of Teller CICO trx</th>
<th>Cost per Teller CICO trx</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$300,000</td>
<td>300,000</td>
<td>$1.00</td>
</tr>
<tr>
<td>2017</td>
<td>$300,000 (0%)</td>
<td>225,000 (-33%)</td>
<td>$1.33 (+33%)</td>
</tr>
<tr>
<td>2019</td>
<td>$75,000 (-75%)</td>
<td>75,000 (-75%)</td>
<td>$1.00 (0%)</td>
</tr>
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CICOtrx shifting to ADCs
$ value of ADC trx (debits v. credits)

Do ADCs really mobilize net new deposits?

This gap indicates “Yes”!
Sustainability: Mobilizing more and cheaper savings

Are the increased retail deposits mobilized by ADCs really lowering the cost of funds? Blue line trend suggests “Yes”!
# of ADC transactions (debit v. credit)

Pricing models:
What if we make deposits free but charge for withdrawals, is this sustainable?

Safaricom example:
With # of deposits ~ # of withdrawals, then if each trx costs S’com $0.25, it can breakeven on CICO with free deposits if w/d charge = $0.50...
Gross margin view of agent channel

Is the customer pricing and agent commission model contributing positive margin?

Blue > red suggests “Yes”!
This tells a different story from earlier slides: Branches still used as much as before, but all growth comes outside of branches.
While many of you may be already capturing this data, the ability to benchmark your FSP vs. peers is lacking. This is where MIX comes in...
Another tool (come to learning lab!): Costing to help assess key ADC objectives

- Increase deposits
- Increase number of customers
- Increase transaction activity
- Lower service delivery costs

Need to scale-up account openings and transactions

Lowering the cost of opening accounts and processing transactions is very important, and therefore identifying which channels do this best is important to scaling up, in turn informing channel investments and strategies.
Comparing costs across channels

<table>
<thead>
<tr>
<th>Channel</th>
<th>Cost per transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch</td>
<td>$1.50</td>
</tr>
<tr>
<td>Mobile</td>
<td>$0.40</td>
</tr>
<tr>
<td>Agent</td>
<td>$0.50</td>
</tr>
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</table>
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MicroLead FSPs already know MIX’s shared information infrastructure ...

You report data here, once, for many funders

MIX works with Funders, like UNCDF, to add their reporting requirements to the system

Funders access their private reports here

You access benchmarks here for your operations and strategy planning

If successful, this system will:
1. Decrease reporting burden for FSPs
2. Improve data quality and timeliness for all
3. Provide better analytics for all
.. and the standards and data products that make it valuable

For this system to work we must provide:

1. Reporting standards that help us align on what we are talking about
2. Value-add information to support decision-making
Financial inclusion funders have expanded investments in new areas …

“Classic microfinance” represents ~80% of current commitments among leading DFIs, Foundations and other funders.

SME finance represents the next largest share

Outside of micro- and SME credit products, we see important investments in channels, rural & ag, and youth.

… and ADCs are high amongst them!

MIX analysis based on draft CGAP Funder Survey 2014 and 2015 results. NOT official survey results for distribution.
As MIX expands to ADCs, we will focus on benchmarks ...

You have strategic questions that benchmarks can help answer:

<table>
<thead>
<tr>
<th>Institutional / portfolio view</th>
<th>Channel view</th>
</tr>
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<tbody>
<tr>
<td><strong>Examples</strong></td>
<td></td>
</tr>
<tr>
<td>How productive can my resources be?</td>
<td>-Borrowers / loan officer</td>
</tr>
<tr>
<td></td>
<td><strong>250</strong> (median)</td>
</tr>
<tr>
<td></td>
<td><strong>160</strong> (25&lt;sup&gt;th&lt;/sup&gt;) to <strong>375</strong> (75&lt;sup&gt;th&lt;/sup&gt;)</td>
</tr>
<tr>
<td>How fast should I plan to grow?</td>
<td>-Δ Borrowers</td>
</tr>
<tr>
<td></td>
<td><strong>20%</strong> (median)</td>
</tr>
<tr>
<td></td>
<td>... with wild variation</td>
</tr>
<tr>
<td>What is a reasonable risk level?</td>
<td>-PAR&gt;30</td>
</tr>
<tr>
<td></td>
<td><strong>2.5%</strong> (median)</td>
</tr>
<tr>
<td></td>
<td><strong>1.0%</strong> (25&lt;sup&gt;th&lt;/sup&gt;) to <strong>6.8%</strong> (75&lt;sup&gt;th&lt;/sup&gt;)</td>
</tr>
</tbody>
</table>
... and validate your capacity to generate and use that information

We know from experience to date with MicroLead partner FSPs that some key metrics related to accounts, clients and location have gaps.

<table>
<thead>
<tr>
<th>Active Vs. Dormant</th>
<th>Previously unbanked</th>
<th>Rural PoS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A measure of usage by clients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Gaps in reporting by client gender or location</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Are we really reporting on a common definition?</td>
<td></td>
<td></td>
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<tr>
<td>• A measure of outreach to target group</td>
<td></td>
<td></td>
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<tr>
<td>• Reported data are often constant or blank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• What are our systems set up to capture?</td>
<td></td>
<td></td>
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<tr>
<td>• A measure of infrastructure in target locations</td>
<td></td>
<td></td>
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<tr>
<td>• Inconsistent trends from quarter to quarter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Are locations coded in our systems?</td>
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As we embark on building metrics for benchmarking ADCs, we will want to probe system capacity further.
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Key Activities in 2016

1. Preparation Phase w/ Foundation Partners in ADCs:

**BFA**
- Consolidate *client level research and knowledge* generated through existing and new partners of the Foundation
- Consolidate *learning in ADC implementation and the business case* from the institutional perspective
- Identify gaps in the learning agenda

**MIX**
- Conduct market research for ADC benchmarking demand
- Conduct institutional systems diagnostics to understand ability to produce data for key metrics
- Test for *appetite from other stakeholders*, investors, donors to engage in ADC metrics
- Resonance test key metrics
2. Develop and Convene a Community of Practice in ADCs (BFA)

– Convene and disseminate client-level insights and perspectives and learning to current partners, and the sector broadly.

– Convene and disseminate insights on ADC metrics and the evolution of benchmarks and contribute to understanding the business case.

– We will also test for appetite from other stakeholders (e.g. national banking associations, investors) to engage in this initiative.
Key Activities in 2016 -

3. Data Collection, Analysis and Application (MIX)

- Support a pilot phase of a MIX Gold to collect high level ADC metrics from Foundation partners FSPs.
- Collect data from FSPs / self-report on a periodic basis to facilitate the engagement of FSPs in data cleaning, bank report preparation, and analysis
- Conduct portfolio-wide analysis and consolidation of ADC benchmarks
- The creation of a robust online platform for data collection, reporting and benchmarking will increase capacity for FSPs in ADC management, provide value to their operations and benchmarking for donors.
Sign up for the Learning Lab to ...

• Get a more detailed walk-through of key metrics and available tools for costing
• Pre-assess if your institution is eligible for participating in the reporting systems diagnostic and ADC benchmarking exercises
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