FINCA International

Innovations in Community Banking

Scott Graham
Vision and Evolution of Product Development and Innovation in FINCA

- **Phase 1:** Innovation in Village Banking
  - Powerful social tool + Effective transactional system that links into the cash-flow of low-income clients
  - Value Drivers = client relationship + transactional infrastructure
    - = opportunity to add **more financial services**
      - - individual loans
      - - housing loans
      - - savings

- **Phase 2:** Innovation in Strategic Partnerships
  - Value driver= **capacity of corporate partners**, large and small
    - Insurance companies – MicroInsurance
    - Payment systems
    - Specialized Services (mobile telephones, training solar energy)

- **Phase 3:** Acceleration of Network-wide Strategic Initiatives
  - = Value driver = harnessing the **innovative drive** present throughout the organization, which is large, talented, and diverse and who **know** their clients very well and are very committed to improving their livelihoods.
    - Assess new opportunities
    - Promote innovation throughout FINCA
    - Optimize network-wide efforts.
      - - Savings
      - - Remittances
      - - Micro-insurance
      - - Technology
Innovation Arenas

**New Products**
- Savings
- Micro-insurance
- Rural/Ag lending
- Housing loans
- Money Transfers

**Delivery Channels**
- Link clients to global financial infrastructure by issuing them universally accepted cards
- Extend FINCA’s branch infrastructure through mobile banking (ATMs, cell phones, POS/Agents)
- Improve data collection and service delivery at VB meetings through digital banking

**Social Innovation**
- Health education & services
- Business development
  - Client capacity building
  - Value chain
- Micro-franchising
  - Micro-energy loans
Innovations in Savings

**FINCA will focus on generating demand and careful branching to build access, while piloting some initiatives to extend service beyond the branch.**

<table>
<thead>
<tr>
<th>Generate demand</th>
<th>Accept deposits</th>
<th>Hold deposits</th>
<th>Disburse deposits</th>
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</thead>
<tbody>
<tr>
<td><strong>Partner with affinity groups</strong>&lt;br&gt;• Market through community and religious groups that already have trust of micro saver segment&lt;br&gt;• Build trust through co-branding</td>
<td><strong>Traditional Branches</strong>&lt;br&gt;• Low-cost branching strategy, driven by strong market assessment and planning. (Cf. FINCA Tanzania)</td>
<td><strong>Communicate deposit activity</strong>&lt;br&gt;• Have easy-to-use technology to verify and communicate deposit activity and account status to customers</td>
<td><strong>ATMs</strong>&lt;br&gt;• Disburse via ATMs to illiterate poor&lt;br&gt;• Increases security w/out need for branch visit</td>
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<td><strong>Build Demand through Client Financial Education</strong>&lt;br&gt;• Strong fundamental systems allow customized marketing of similar</td>
<td><strong>“Manned” ATMs</strong>&lt;br&gt;• Full service ATM (open account, deposit / withdraw), with assistance&lt;br&gt;• Eases on-boarding of new micro-savers at lower cost&lt;br&gt;• E.g., Standard Bank in South Africa’s “ePlan”</td>
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<td><strong>Replicate products, differentiate marketing</strong>&lt;br&gt;• Strong fundamental systems allow customized marketing of similar projects, e.g., Christmas fund, School savings, etc&lt;br&gt;• Keep technology constant</td>
<td><strong>Drive-by banking</strong>&lt;br&gt;• Offer mobile banking via trucks to rural areas&lt;br&gt;• Offers face-to-face contact not available through mobile banking&lt;br&gt;• E.g., Equity Building Society in Kenya</td>
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<td><strong>Partner with AID agencies</strong>&lt;br&gt;• Pitch idea of direct depositing small portions of welfare into savings accounts as part of “pro-poor” partnership program</td>
<td><strong>Partner with established organizations to expand network</strong>&lt;br&gt;• Partner with well known retail chains, businesses that inspire trust (such as pharmacies) or post offices to take/disburse deposits</td>
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<td><strong>Solicit savers through current client network</strong></td>
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Strategic Initiative: Savings Mobilization
Micro-Insurance Market Oppty

Assumptions: Potential insurance spend set at 2% of income (which is $2/day). Benchmarks in the developed world suggest 13%, making 2% a conservative estimate. Populations served range between 3-18% based on some CGAP case studies. Assumptions result in a roughly $14.60 annual premium, or $1.22 per month, which coincides with case study data available through CGAP. Sources: Presentation by Craig Churchill, ILO, October 2005; Presentation by Michael McCord, Microinsurance Center, October 2005; UN Webdata; World Bank poverty data by region extrapolated using 20-year CAGRs.

Un-served market potential: $8-$16 billion

For the potential 1 billion clients, conservative spend on insurance may be $10-$20 billion with 80% of the market currently unserved
## Impact of Front-end Technology

<table>
<thead>
<tr>
<th>FINCA Value Chain</th>
<th>Customer acquisition and retention</th>
<th>Group Formation and Loan Approval</th>
<th>Disbursement, Monitoring and Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer training</td>
<td>Product development</td>
<td>Customer evaluation</td>
<td>Loan disbursement</td>
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<tr>
<td>Marketing</td>
<td></td>
<td>Customer training</td>
<td>Monitoring/collections</td>
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### Support
- Compliance
- Portfolio management
- Regulatory support
- Performance management

### Issues and Solutions

**Issuing cards** may attract new clients looking to access their accounts more conveniently, build credit history.

**Mobile phone, POS devices, ATMs** help increase customer outreach without incurring cost of building new branches.

Providing **hand held/portable devices (PDAs)** to loan officers improves efficiency and controls across all processes.

**Remittances** services help attract new customers.

Loans can be disbursed electronically for clients via **cards**.

Disbursement and collection of loans is handled via **ATMs, mobile phone, POS**.

Reduce possibility of internal cash theft via electronic disbursement on **Cards**.
Total Cost Savings Opportunity

- By automating processes, the total opportunity for cost savings amounts to over 35% of FINCA’s operating costs, or over $30M per year.

- This is an aspirational target, but indicates that there may be a “game-changing” opportunity, if a solution can be developed that meets one or more of the largest drivers.

ROUGH ESTIMATES

The Right EPS solution could provide among the following benefits for FINCA:

- Reducing data errors and duplication of data entry increases efficiency 17%
- Reducing loan officer costs including time and travel increases efficiency 8%
- Improving client convenience and value increases efficiency 7%
- Replacing checks reduces costs by 5%
- Reduction of use of third party banks cuts costs 2%
- Reducing fraud and improving data transparency increases efficiency 2%

Front-end Technology Strategy

1: Staff Efficiency
Eliminate re-keying of information, reduce errors, improve speed of data availability for reconciliation.

Key Requirements
- Loan officer collects application information or records how much was repaid/disbursed
- Information is transmitted to main databases remotely or uploaded
- Simple computations for scoring loan applications

2: Transactionality
Enable FINCA to process transactions in the field or at satellite locations via a closed network

Key Requirements:
- Client authentication (PIN, biometric)
- Live or off-line (smart card) authorization, secure processing.
- FINCA loan officers perform transactions at regular VB meetings or at satellite outlets/offices

3: Inter-Operability
Clients use ATMs/Point of Sale outlets/mobile retailers on interoperable networks to conduct banking transactions, remittances, bill payments, purchases, etc.

Key Requirements:
- Requires customers to have a universally accepted card or mobile phone enabled for banking transactions
Benefits to Clients

Lower interest rates on loans
Increased access to their accounts.

Lower exposure to theft or loss of funds
Lower transaction costs
Business opportunities
Micro-Energy Lending

Finca Solar Marketing Campaign at Kawempe Branch February 2009
Solar Lighting...in a rural pharmacy

Josephine Kemugisha, Pharmacy Owner and Solar Client

Josephine Kemugisha, Pharmacy Owner and Solar Client
...and in a rural school in Uganda