Expanding Access to Finance through Mobile Payments

Lessons Learned for MFI-Mobile Network Operator Partnerships

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Introduction

Over the past year, as FINCA has engaged in a partnership with The MasterCard Foundation to significantly scale up our outreach to clients through the deployment of new delivery channels, we have learned some important best practices about partnering with MNOs and implementing mobile payments, which we hope are useful to the broader microfinance industry.

Since 2013, FINCA Tanzania has been in a partnership with Vodacom, the largest mobile network operator (MNO) in the country. Through the FINCA-Vodacom partnership, FINCA customers can now use Vodacom’s mobile wallet platform, M-PESA, to make transactions to a FINCA account for both loan installments and savings. This arrangement enables FINCA customers to transact directly from their e-Wallet, saving them significant travel and other transactional costs typical of microfinance operations. One year into the partnership, 28% of the total value of deposits and 34% of the total number of transactions were being remitted through M-PESA, and FINCA Tanzania represents the fifth largest source of transactional volume for Vodacom in Tanzania.

Benefits of Mobile Banking for Clients

- Saves Time
- Transactions from Anywhere
- Lower Costs
This case study shares lessons learned from FINCA Tanzania’s partnership with Vodacom. It is hoped that it will provide valuable information for other microfinance institutions (MFIs) seeking to create a partnership with an MNO to introduce digital finance to their customers.

## The Seven Lessons for Success

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Lesson #1: Conduct an institutional assessment and sign a Service Level Agreement before engaging in a partnership

MFIs are often at a negotiation disadvantage when it comes to partnering with MNOs, given the sheer size of MNOs as well as their market power. MFIs may come under pressure to bend to the demands of the MNO, which may dictate how the relationship unfolds and offer sub-standard quality services that can expose the MFI to operational and reputational risks, should the channel not deliver on customer expectations.

An institutional assessment should be done prior to implementing a mobile payments channel, in order to allow both parties to devise appropriate methods of engagement to ensure a win-win relationship without having one party dictate the terms of the partnership. Some important areas the assessment should cover are:

- **Strategy Alignment**: Does the MFI’s strategy align with the MNO’s commercial objectives?
- **Organizational culture and values**: An MFI’s organizational culture can conflict with that of an MNO, which is typically much more profit and commercially driven. How might this affect the partnership?
- **System compatibility**: Can the systems of the two organizations interface and ‘talk’ with each other? Is the MFI going directly through the MNO, or through an aggregator? What additional investments are needed, and who will pay for them?
- **Relationship management**: Who is managing the relationship at the MFI and at the MNO? At which level of the organization should that individual be, and from which business unit (e.g. IT, commercial, etc.)?
- **Customer support**: Who is taking care of which areas when it comes to customer support? The customer is not only a customer with the MFI, but also with the MNO.

Once the assessment has been completed, the MNO and the MFI should enter into a Service Level Agreement (SLA) that outlines the terms of their partnership before launching the channel. The SLA should stipulate the expectations with regards to the services provided and the consequences for both parties in case of non delivery to the agreed service level standards. Furthermore, the two parties should establish a working committee to address any risks and issues that are identified from the assessment, so as to ensure a smooth implementation.

When FINCA Tanzania entered into partnership with Vodacom, discussions focused primarily on the systems’ compatibility, and not enough attention was paid to service and relationship management. In fact, FINCA and Vodacom did not sign an SLA prior to the launch of the channel. As a result, FINCA found itself dealing with various departments within Vodacom as issues arose,
resulting in confusion and inconsistency among both partners on how operations were carried out, which caused delays in implementation and rollout. Eventually FINCA and Vodacom agreed to establish a single point of contact on both sides and signed an SLA, which clearly laid out how the relationship management would be handled, as well as the expectations with regards to the services. This greatly improved the responsiveness and flow of information between the partners.
Lesson #2: Ensure business ownership of the delivery channel right from the start

Mobile payments and any other delivery channel deployment will usually start off as a project to drive the initial set-up, technical support and pilot testing. At FINCA we have learned that a new channel like mobile payments can be started up as a project, but even then, the business unit—namely the Chief Operating Officer and the Head of Retail Banking—must drive its development and implementation. This is because successful sales and uptake of these new services are organized out of the branches, and the branches are under direct control of the business unit.

FINCA initially started the project with its back office staff, but since they do not have direct control over branches and thus cannot set key performance indicators and directives, initial uptake was low. Therefore, it is critical that the business unit fully embrace the new channel right from the start and take ownership of it, with IT and operations taking on a support role.

Lesson #3: Pilot before commercial launch

Like most other technologically-driven solutions, mobile payments have a significant impact on the MFI’s operations. Extensive testing is required to iron out as many technical and functional glitches as possible prior to implementation. It is recommended that an MFI run a pilot phase with a limited group of internal customers to make sure that there are no operational surprises after the commercial launch.

FINCA tested the mobile payments channel with internal customers (i.e. staff) to help identify any operational issues that needed to be fixed before offering the service to external customers. This allowed FINCA to iron out some important technical issues between the IT solution provider and the MNO, and ensured that full-scale rollout took place without any major glitches. This approach can identify technical as well as operational problems (such as reconciliations, process alignment, etc.) that can be addressed prior to market go-live. It should be noted that operational and technology issues may still emerge during implementation, so it is important to continuously monitor performance after rollout, and address any new problems as they appear.
Lesson #4: Do not force old manual microfinance processes into a modern electronic payment structure

Delivery channels such as mobile banking and agency banking add a new layer of complexity to the MFI’s processes and procedures. It is important to recognize that with these new complexities, the MFI should undertake process mapping to align its existing processes with the new channel requirement. These processes should be automated whenever possible.

At FINCA, we have learned that mapping the processes is necessary, but not sufficient, to ensure success of the new channel. In addition to process mapping, it is important to ensure that all stakeholders that are impacted by the new channel understand these processes, the risks involved at each step, and their role in managing these processes and risks.

Lesson #5: Conduct continuous risk analysis

Before launching a mobile banking initiative, it is important to have a clear view of all risks associated with the channel at all stages of the process from a technical, operational, business, operating environment, and regulatory perspective. Not only should a risk analysis be undertaken prior to launching the channel, but more importantly, this should continue throughout the life of the mobile payments channel to identify new and emerging risks, such as new types of fraud.

FINCA Tanzania conducted a risk analysis prior to engaging with Vodacom, and we identified a number of important risk areas that we were able to mitigate prior to launching the pilot. Some of the risks identified included:

- **Client dissatisfaction** when not being fully reimbursed after making a wrong transaction; FINCA has a limited liability when a customer sends money to a wrong account. This is being mitigated by customer training.

- **Reputation and financial loss** when data entry errors lead to posting customer transactions into wrong accounts. This is being mitigated by staff training and internal controls.

- **Data and financial loss** when the MNO fails to inform FINCA of process changes. This is being mitigated by ensuring clear communications protocols as part of the agreement and internal controls.

- **Internal fraud** when staff credit their own accounts as recipients or conduct other
fraud. This is being mitigated by staff training and internal controls.

- **Third party fraud** when agents or other partner organizations use customer data and accounts to conduct criminal activities. This is being mitigated by rigorous due diligence and monitoring of agents and partners.

**Lesson #6: Include a customer awareness and education campaign**

Mobile payments are a fairly new transaction method for many customers, and they may have questions about the benefits of using the channel, as well as how to use it. It is important that customers have full information regarding why they should sign up, step-by-step instructions on how to use the channel, and clear information on the security of their money while transacting.

FINCA launched a comprehensive customer awareness and education campaign to sensitize customers on these topics and also provide education on how to send payments correctly to avoid rejected transactions. Some of the customer awareness campaigns included print materials outlining steps and processes on how to use the channel, sales drives with the sales team providing training to customers, and training sessions by Account Relationship Officers during Village Bank meetings.

A FINCA customer flyer on mobile banking
It should be noted that delivering effective customer awareness and education requires multi-layered interventions that go beyond printed brochures available in branch locations. Below are some examples of the initiatives FINCA has undertaken:

- **Ensure that all staff members are well trained, particularly those who have direct and daily interface with customers.** Customers often ask staff how to use the technology, and all staff members should be prepared to answer questions thoroughly and demonstrate to customers how to complete transactions. FINCA has ensured that all of its employees—from tellers to accountants—are aware of how to use the mobile payments channel.

- **Ensure that education and awareness materials directed to clients are available and published in the local language, with clear guidelines on where and how to sign up and use the service.** If materials are only available in English, this may exclude potential customers who speak a different language. FINCA has created materials in the official Tanzanian local language, Kiswahili.

- **Education and awareness campaigns should involve live demonstrations and presentations, in addition to printed materials.** Many clients may not know how to read. FINCA trained its Account Relationship Officers in its branches to provide demonstrations at solidarity group meetings, so that they can work one-on-one with clients and help them feel comfortable making the payments using their mobile phones.

- **Customer education should not be a one-off activity, but an ongoing component of the digital financial operations.** Some institutions make the mistake of launching a customer education campaign at the time of the channel launch, but fail to continue providing ongoing support in this area. As new customers are drawn to the service, there is a constant need for customer education and training that goes beyond the launch of the pilot and eventual rollout.

Looking to the future, FINCA may explore filming short videos in Kiswahili that describe the mobile payments service, which FINCA Account Relationship Officers can play on their notebooks or tablets at group meetings.
Lesson #7: Institutions must be ready to change how they interact with customers

The introduction of new delivery channels for financial services will affect customer behavior. The ability to conduct remote electronic repayments may eliminate the perceived need for customers to meet as groups to make repayments manually and collectively. This may have implications for institutions such as FINCA that use group lending approaches, as it may impact the group dynamics and require a rethink in service delivery methods. Any MFI that has heavily invested in group lending should be prepared to offset the potential of reduced social cohesion upon the introduction of mobile payment and banking channels.

FINCA is now working to introduce additional services for its clients—such as financial education, medical, health and business management tips, and agricultural extension services—through its Village Bank meetings to ensure that group meetings remain relevant to our clients.
Conclusion

FINCA Tanzania successfully piloted and then launched this service to our clients as a new method that enables customers to transfer payments from their e-Wallets to their FINCA accounts. FINCA’s deployment of this channel has delivered benefits both to our clients and to FINCA at a business level:

- Our clients no longer use third party banks to make payments, as they did in the past. Client research has revealed that the convenience provided by this service is highly valued by clients, especially in locations where FINCA does not have operations. With the advent of FINCA’s mobile payments services, we are able to provide customers with the convenience of greater access, while eradicating the reconciliation problems associated with conducting third party transactions.

- Transactional costs for FINCA have been reduced from $1.21 for a branch-based transaction to $0.85 using the mobile payments solution. In addition, client research indicates that customers are benefitting not only from the savings in terms of transactional costs, but the reduced time and travel costs as well.

- The service has eased congestion in the branches considerably, which in turn improves customer service by reducing wait time for other services conducted at the branches.

FINCA is now committed to expanding the service, and it will engage with the other MNOs in Tanzania to ensure that the service is available to other MNO clients as well.

The mobile payments channel remains an integral part of FINCA’s delivery channels strategy for Africa. The lessons learned from the experiences in Tanzania will inform FINCA’s operations as we deploy the strategy in the rest of our African subsidiaries. Based on FINCA’s experiences to date in both Tanzania and the Democratic Republic of Congo, where we have established a successful agency banking network, FINCA anticipates that mobile and agency banking will support at least 70% of total transactions within any subsidiary where these channels are fully adopted, within three years of implementation.

Digital financial services offer a major opportunity to increase the inclusion of the poor within the financial sector, leveraging existing technologies such as cell phones to reach the most remote and marginalized communities. We hope that this case study is useful in encouraging other MFIs to embrace mobile banking for their clients so that they, too, can expand their networks and reach unbanked populations.
FINCA and The MasterCard Foundation are working together to scale up financial inclusion in Sub-Saharan Africa. By leveraging the use of technologies such as mobile payments, we will significantly increase our outreach to unbanked individuals, enabling low-income microentrepreneurs and households to improve their families’ lives and have a positive impact on the economic development of their communities.

This case study was written by Nathan Were, with the support of Edward Greenwood, Bram Peters, Frank Gamble, Gerry Lanigan, Grace Akinyi, Christina Hannum, and The MasterCard Foundation staff.