Lessons Learned Providing Financial Products to the Unbanked and Under-banked

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EFInA's Innovation Fund is made up of two types of grants: Technical Assistance Grants and Innovation Grants. Technical Assistance Grants are short term grants to pilot and test new financial products and services, while Innovation Grants are provided to launch, implement, and scale financial products/ services that have already been tested and piloted. In operating the Fund since 2009, EFInA has provided over twenty grants to commercial banks, microfinance banks, mobile money operators, and investment management companies that provide financial products and services to the low income population. EFInA believes that these grants will incentivise organisations to provide innovative financial products and services to a large number of unbanked and under-banked customers by reducing the risk associated with delivering the products and services as well as enhancing their long term commercial viability. The lessons gleaned from our grantees are not new, but reflect the experiences of the market operators within the financial services industry in Nigeria.

Organisations that seek to provide financial products and services to the low income population should consider the following tips:

1. **Enhance customers' experience:** Customer experience is defined as "the entirety of the interactions a customer has with a company and its products. The overall experience reflects how the customer feels about the company and its offerings."[1] Companies that know and enhance their customers' experience have an advantage over companies that neither know how customers experience their products nor innovate to enhance that experience. As a workaround to systemic infrastructure challenges, organisations have developed Unstructured Supplementary Service Data (USSD) service string codes in order to keep the USSD sessions short and resolve the issue of frequently dropped USSD sessions; which is an industry wide problem. One organisation built a system that allows customers using USSD to continue from where he/she left off when he/she dials back into the service; thus making it a more user-friendly way to keep that customer engaged rather than having them give up in despair from multiple sessions drop. Another organisation provided an Interactive Voice Response (IVR) for agents that provide voice prompts for less literate agents who can speak a local language but are unable to read the language.

2. **Keep an eye on the value for agents**: Ensuring strong agent value proposition is a key success factor for offering digital financial services. The EFInA Mobile Money Agent Survey conducted in November 2015 revealed that, 43% of responding agents cited the opportunity to earn additional income as the reason for becoming a mobile money agent. Among agents surveyed who were aware of and willing to disclose their average monthly commissions earned, commissions ranged from N100 to N500,000, with a median value of N4,000. 51% of those who had earned commissions earned N4,000 or less per month. The right level of agents' commissions is dependent on several factors including region where agents are located, proximity to bank, level of business activities within agent location, nature of agent's primary business, financial service needs of people within the agent location etc. Financial service providers should consider the following questions in an effort to increase the agents' value proposition:

[1] http://www.businessdictionary.com/definition/customer-experience.html

- Determine the right amount in agent commission that would motivate the agent in the specific area. Is the incentive structure appropriate for the agent or is it overly burdensome for the agent to reach or administer? How can organisations evaluate the opportunity cost of an agent's time?
- Identify which transactions would attract the most commission for agents. What is the right mix of transactions in order for the agent to be profitable?
- Based on the level of customer awareness, how many customers are projected to utilise the agents' services in order for the agents to gain sufficient commission?
- Look critically at the liquidity equation. The best way to maximise return on investment for the agent is to ensure he/she can manage liquidity easily, rather than holding larger sums in electronic money (float). Think through the agent's experience converting deposited cash to float. Ensure that there are cash centers for agents within an easy distance with good hours of operation so that agents are not shutting shop to balance liquidity. Successful providers actively monitor float and allow agents to request visits to rebalance as well as plan sales force routes to visit the agent for replenishment services. This management activity is vital to maintaining a healthy agent network.

3. **To offer financial products through a digital channel, selecting the use case is crucial:** Understanding the reason that a low income customer would select a digital financial product/service or channel over the traditional channel is important for financial services providers. There is a need to meet the customer "where they are", and truly address the customer's pain points when designing a product or service. For example, it is not enough to assume it is obvious that because a mobile money operator has "over–the-counter (OTC) send to bank" provision that the customer will understand why they should care or use it. Digital financial products and services have competition: the traditional financial products and services. While most digital financial services providers reel off the reasons for digital financial services as "low cost, safety, convenience, etc.", low income customers may not perceive the value in the same way that market operators do. Organisations that get it right have developed compelling use cases for customers to use digital financial services. Some of EFInA's grantees have discovered that conditional cash transfers offered through mobile money that reach recipients in remote locations, bulk salary payments where workers are able to access their salary without the additional cost of traveling to the bank branch, in addition to products such as microinsurance, microloans, and microsavings provide a compelling reason to take up digital financial services. The level of customer awareness and the quality of the products will determine the continued usage of the products. Low-income customers are as discerning about the quality of products and services as other customer segments.

4. **Converting processes from manual to digital is profitable.** When an organisation decides to offer digital financial services, it is important for them to audit their business processes to justify why a process should remain manual (paper based). If an organisation does not have strong justification for retaining a manual process, then they should digitise it. Based on research by McKinsey, "to meet customer expectations, companies must accelerate the digitization of their business processes. But they should go beyond simply automating an existing process. They must reinvent the entire business process, including cutting the number of steps required, reducing the number of documents, developing automated decision making…[2]" Several organisations provide digital financial products and

[2] http://www.mckinsey.com/business-functions/business-technology/our-insights/accelerating-the-digitization-of-business-processes

services, yet the customer journey is laden with paper forms. Organisations that consciously make a case whether a process should be manual or digital have better chances of reaping business efficiencies. Digital conversion is not a panacea; however to profitably serve the mass market, some level of digitisation is imperative. Organisations that are able to identify and digitise repetitive and boring tasks have more efficient processes and better customer service. Reviewing what happens to the paper trail and where it adds value is an important exercise in designing these efficiencies. Not all innovation is customer-facing.

5. **Build the agent network before launching the customer campaign:** In planning to launch a mobile money project, EFInA finds that organisations often struggle with the right building sequence. Should they build the agent network first or launch a customer campaign? Without the agents in place, knowledgeable customers have nowhere to go for transactions. However, without customers' transactions, agents are dormant. In kicking off a new project in new territory, agents' presence precedes customer awareness campaigns. Based on this sequence, initial expectations for transactions, commissions, and customer acquisition targets for agents should be modest and be expected to grow over time. However, timing is key; agents who are trained too far in advance may have forgotten the lessons by the time the customer campaign is launched.

6. **Benefit from insurance products should focus on the living.** The EFInA Access to Financial Services in Nigeria 2014 survey shows that 1 million adults (1% of the total adult population) have insurance. However, 14 million adults (15% of the total adult population) say they would be interested in microinsurance products. Our experience shows that low income customers want insurance benefits while they are alive; they don't want to think about death. Therefore, insurance products with greater uptake are those that care for customers in the eventuality of ill health, adverse effects on their business, livestock, etc., as opposed to companies offering life insurance.

7. **Develop a sustainability plan and an exit strategy:** Few organisations start offering a product thinking they will one day no longer offer it. Most hope that the product will succeed and be profitable in the long term. However, sometimes after a successful pilot, the roll-out could be fraught with challenges. When the management of an organisation decides to discontinue a product offering, does the organisation have a comprehensive exit strategy and plan? A poorly executed project termination can ruin the brand of an organisation within the financial sector. According to the EFInA Access to Financial Services in Nigeria 2014 survey, 68% of the adult population (63.5 million adults), get their financial information from friends and family. Therefore, when an organisation exits its product poorly, the word-of-mouth news taints the brand among the current and potential customers. The onus is therefore on the organisation, to think through all the stakeholders that need to be informed. How should the stakeholders be informed? Is there a customer service number for customers who have questions or complaints about the exited product? The way a product is discontinued might be more important than the way it is introduced.

Enhancing Financial Innovation & Access (EFInA) is a financial sector development organisation that promotes financial inclusion in Nigeria. Established in late 2007, EFInA's mission is to make the Nigerian financial system work better especially for the poor. EFInA achieves its mission through four pillars; Research, Innovation Fund, Advocacy and Capacity Building. EFInA is funded by the UK Department for International Development (DFID) and the Bill & Melinda Gates Foundation.