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

The MasterCard Foundation

- 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.

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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.

2. Share next steps for tool development in 2016.

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

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Financial service providers (FSPs)

Aggregators (Network partners)

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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

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Objectives for ADCs (and belief that ADCs will):

For customers

Objective	Belief
Improve access to financial services	• Reduce costs, save time • Improve convenience and proximity

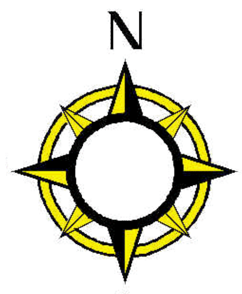
For FSPs

Objective	Belief
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

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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Focus areas for metrics

Access	Scaled Usage	Sustainability
• Physical access • Financial access • Social access • Electronic access	• Customers & accounts • Transactions	• Profitability • Asset-Liability structure • Customer size • Costing

Outreach (Access, Scaled Usage)

Sustainability (Sustainability)

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

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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!

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A FINCA branch, following the shift of much loan repayment activity to ADCs: a mixed blessing? This illustrates ADCs’ transformative potential, <u>but</u> 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

Teller cost base

2015	2017	2019
Branch teller	Branch teller	Branch teller
Branch teller	Branch teller	SME specialist
Branch teller	Branch teller	SME specialist
Branch teller	Branch teller, but can change role to... SME specialist	SME specialist

B.P.R.

CICO trx shifting to ADCs

	2015	2017	2019
Total Teller costs	$300,000	$300,000 (0%)	$75,000 (-75%)
# of Teller CICO trx	300,000	225,000 (-33%)	75,000 (-75%)
Cost per Teller CICO trx	$1.00	$1.33 (+33%)	$1.00 (0%)

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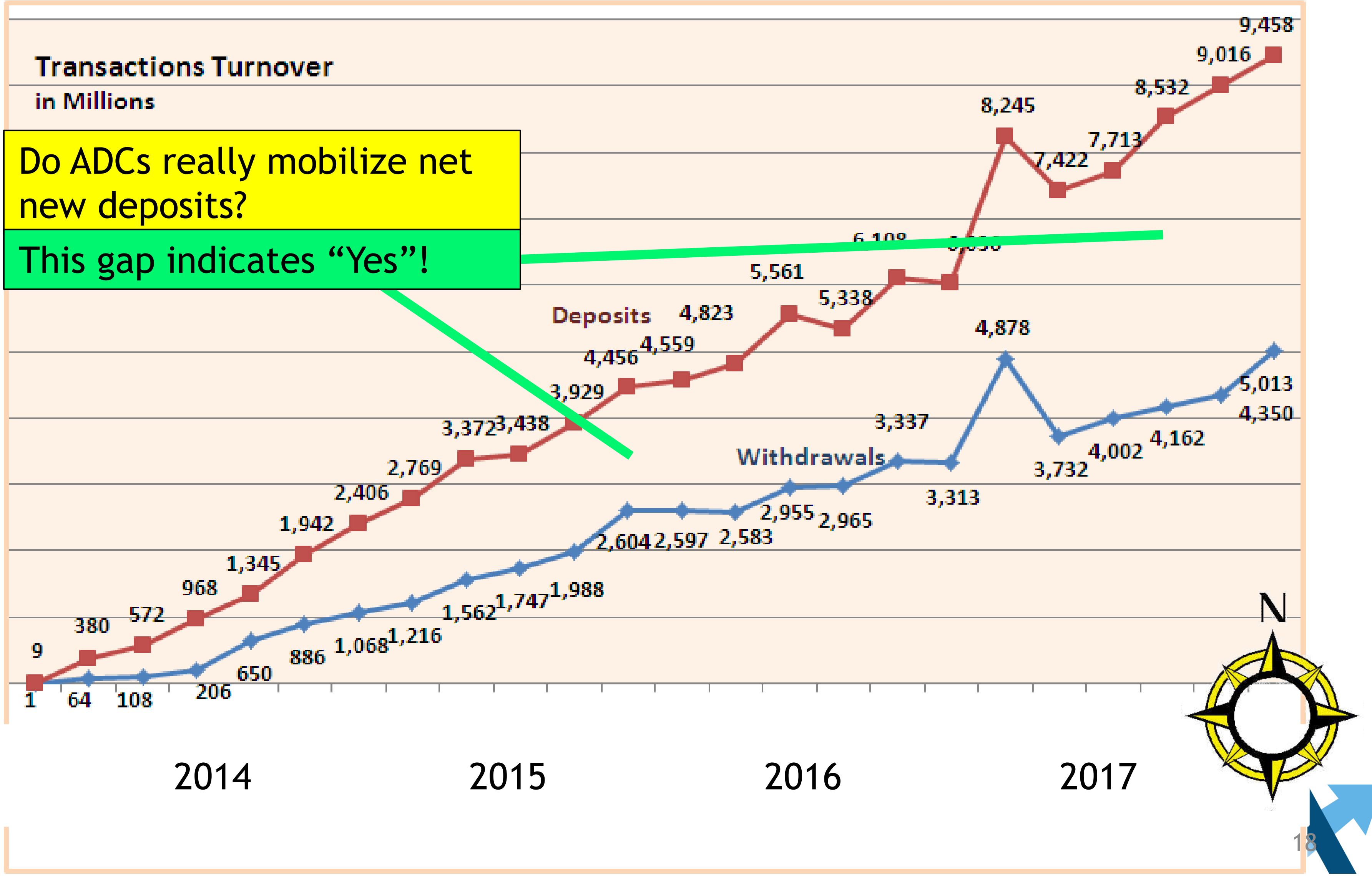
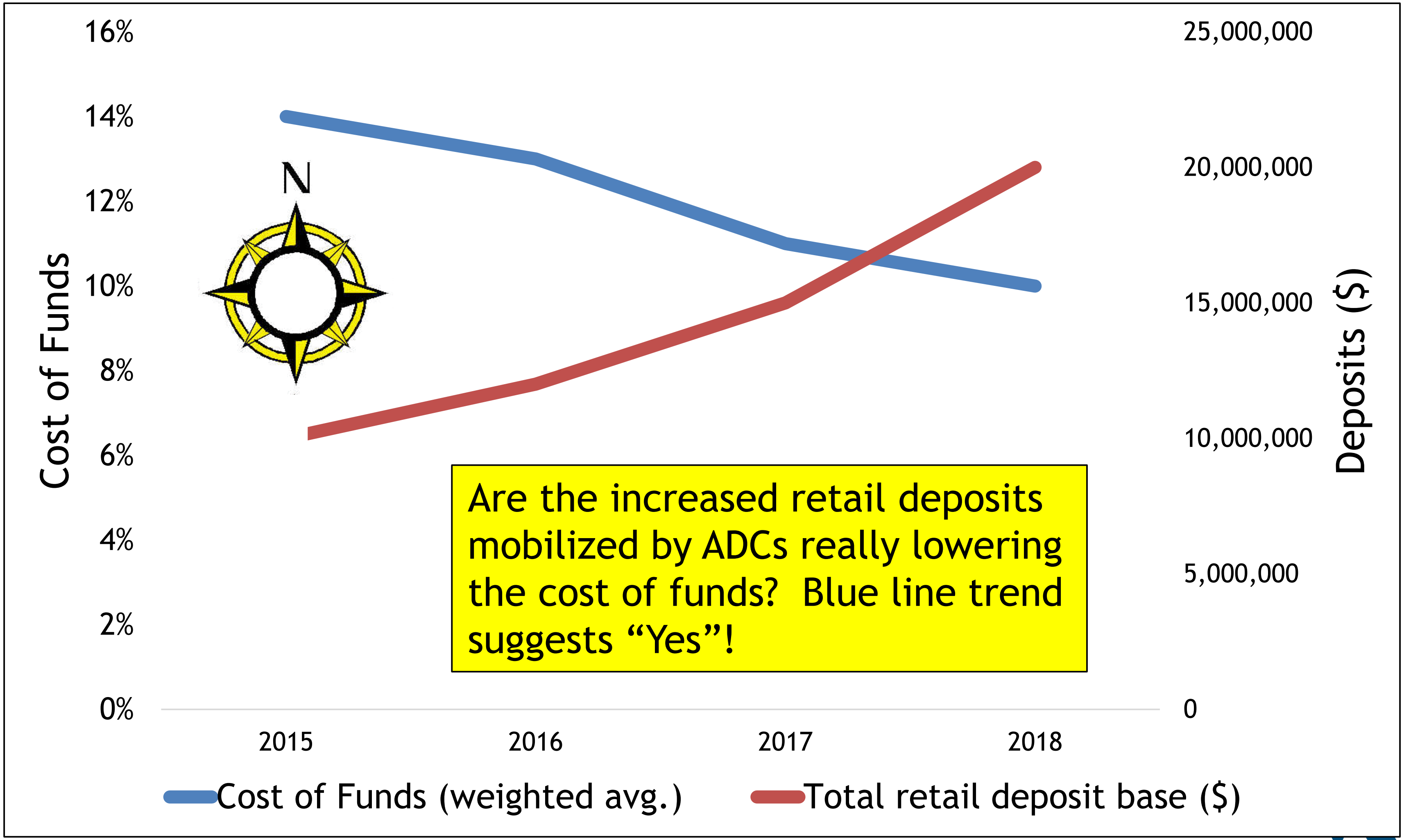
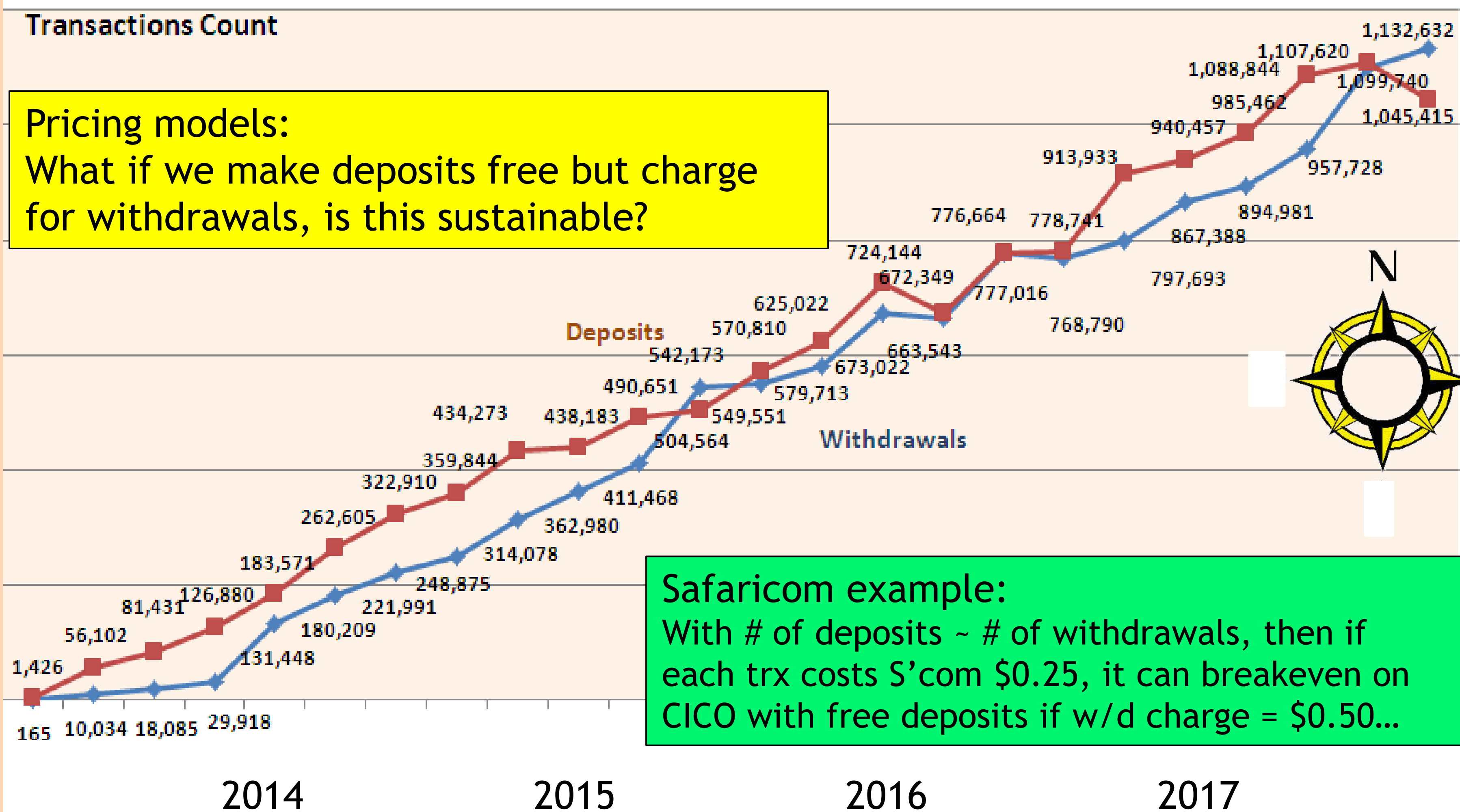
$ value of ADC trx (debits v. credits)



Sustainability: Mobilizing more and cheaper savings



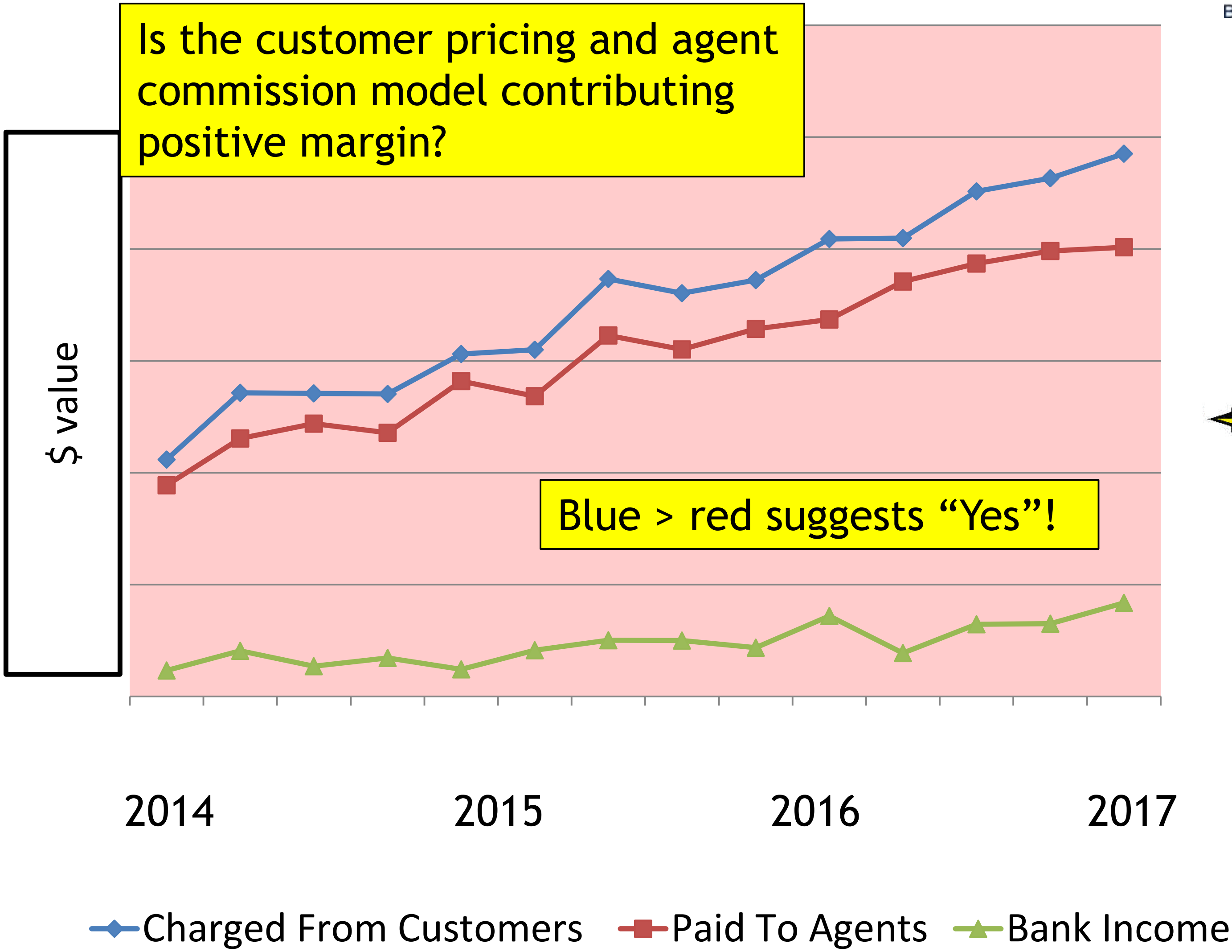
of ADC transactions (debit v. credit)

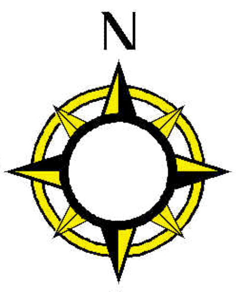


Pricing models:
What if we make deposits free but charge for withdrawals, is this sustainable?

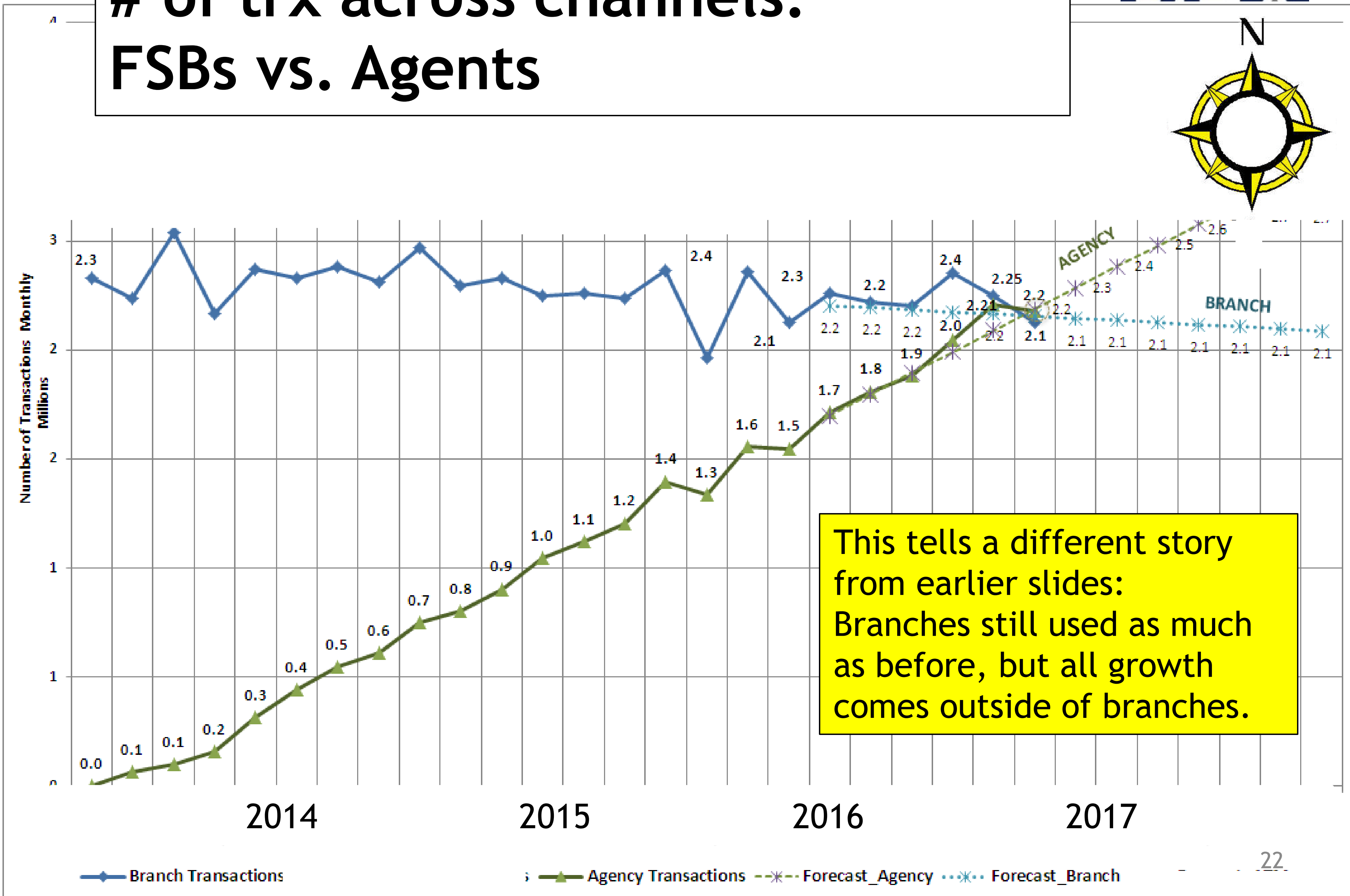
Safaricom example:
With # of deposits ~ # of withdrawals, then if each trx costs S'com $0.25, it can breakeven on CICO with free deposits if w/d charge = $0.50…

Gross margin view of agent channel





of trx across channels: FSBs vs. Agents



This tells a different story from earlier slides: Branches still used as much as before, but all growth comes outside of branches.

More insightful metrics, basic views

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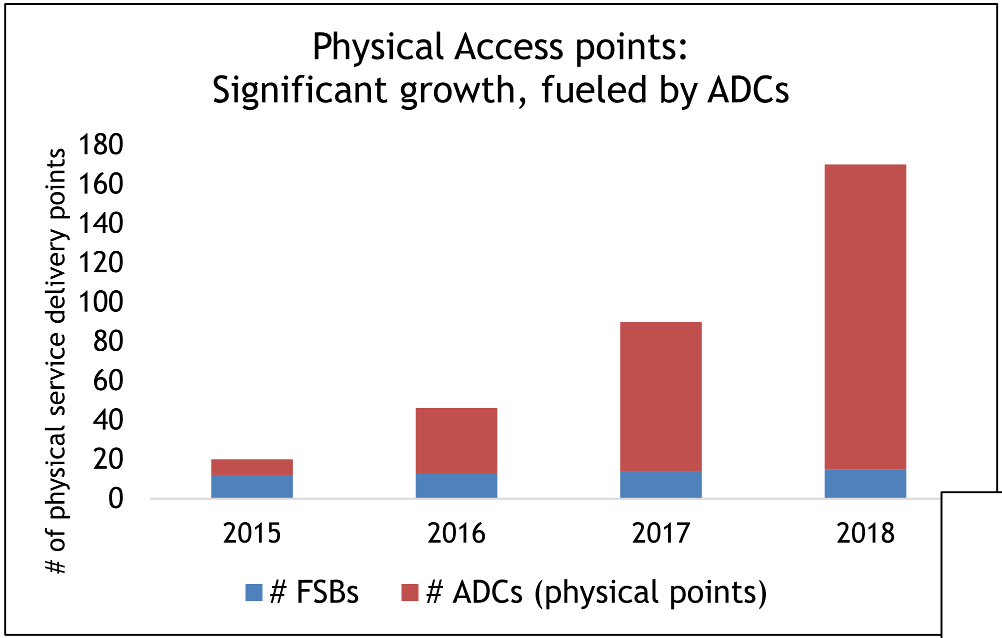

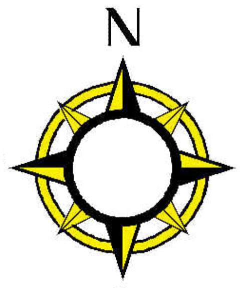

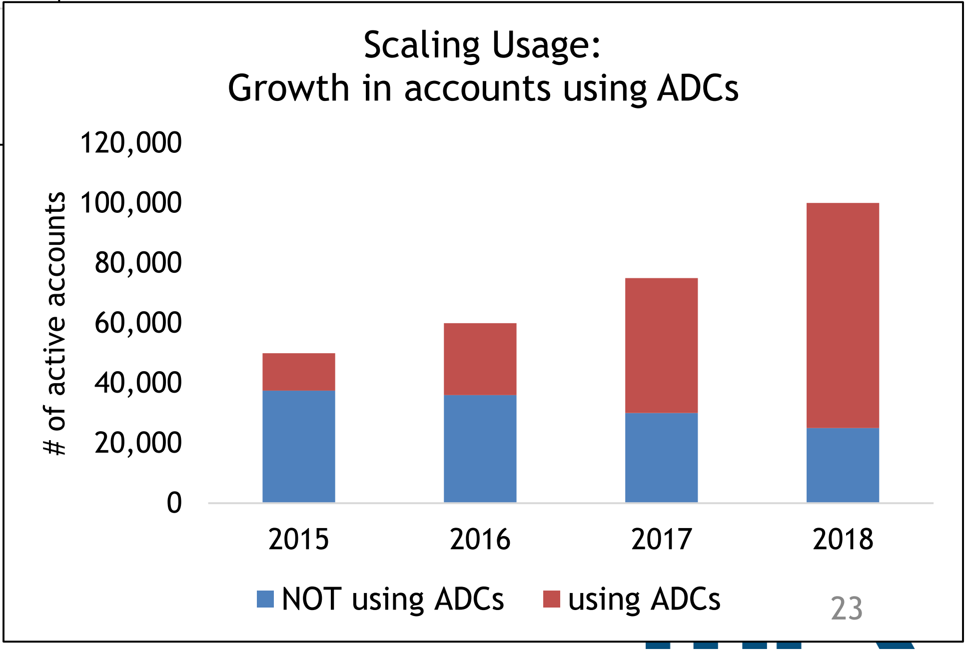

While many of you may be already capturing this data, the ability to benchmark your FSP vs. peers is lacking. This is where MIX comes in…

Another tool (come to learning lab!): Costing to help assess key ADC objectives

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- 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.

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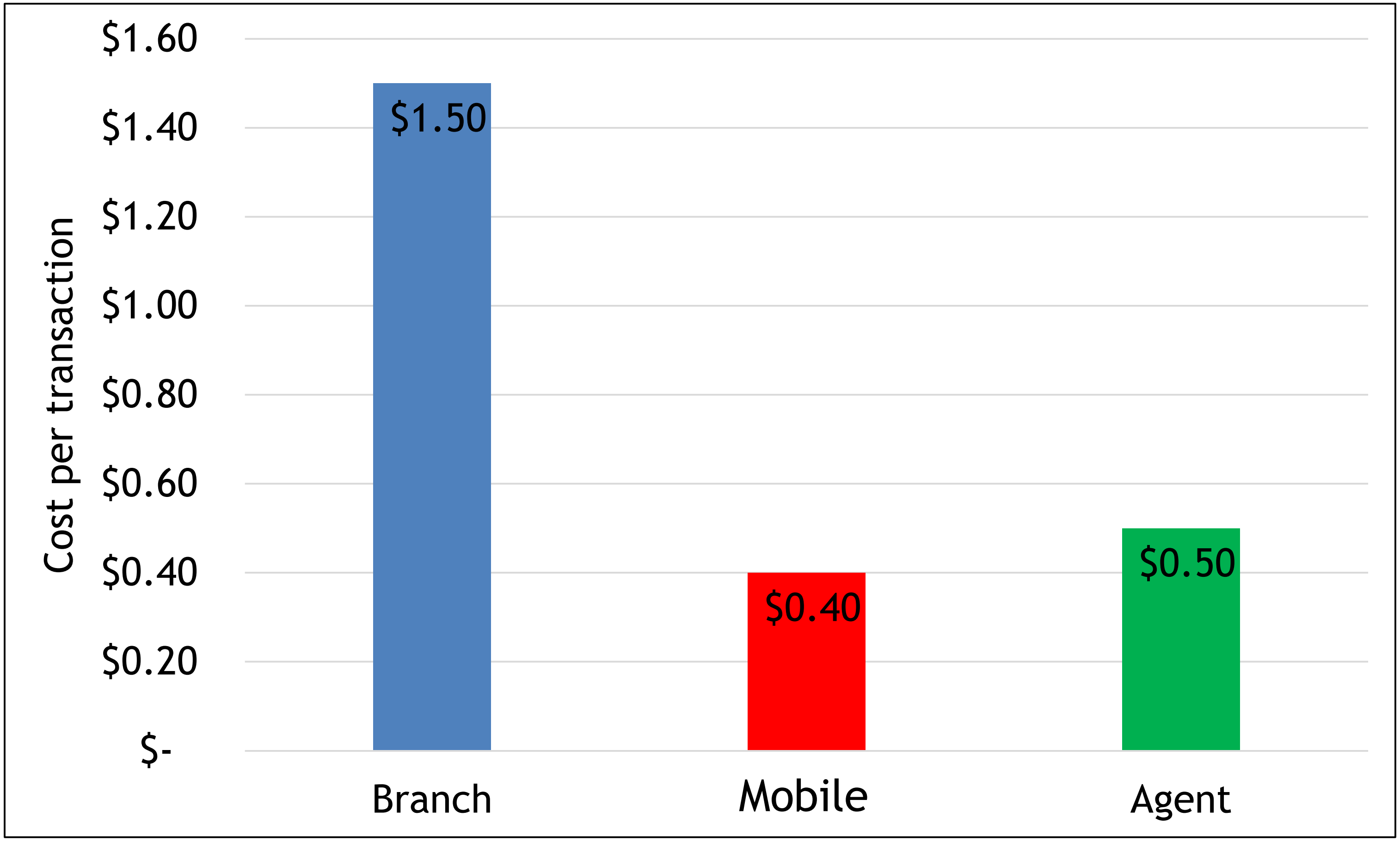
Comparing costs across channels



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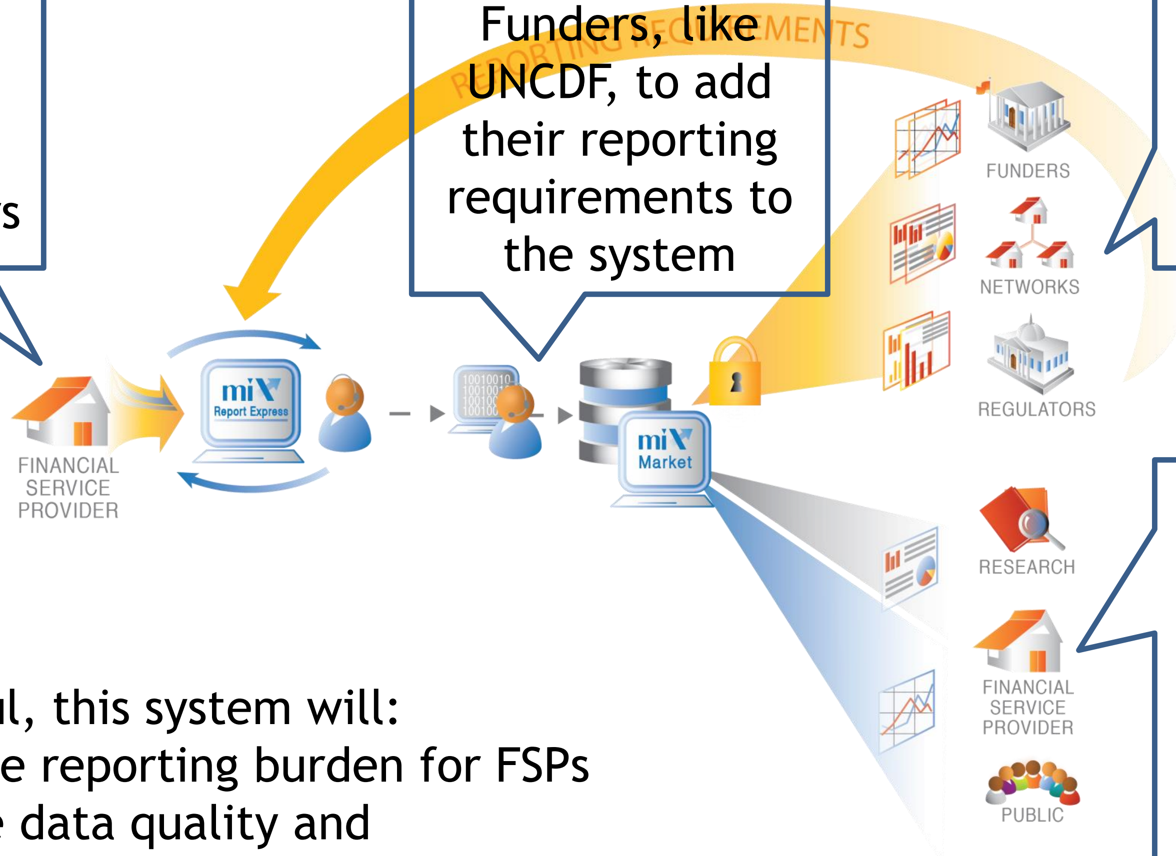
MicroLead FSPs already know MIX's shared information infrastructure …

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

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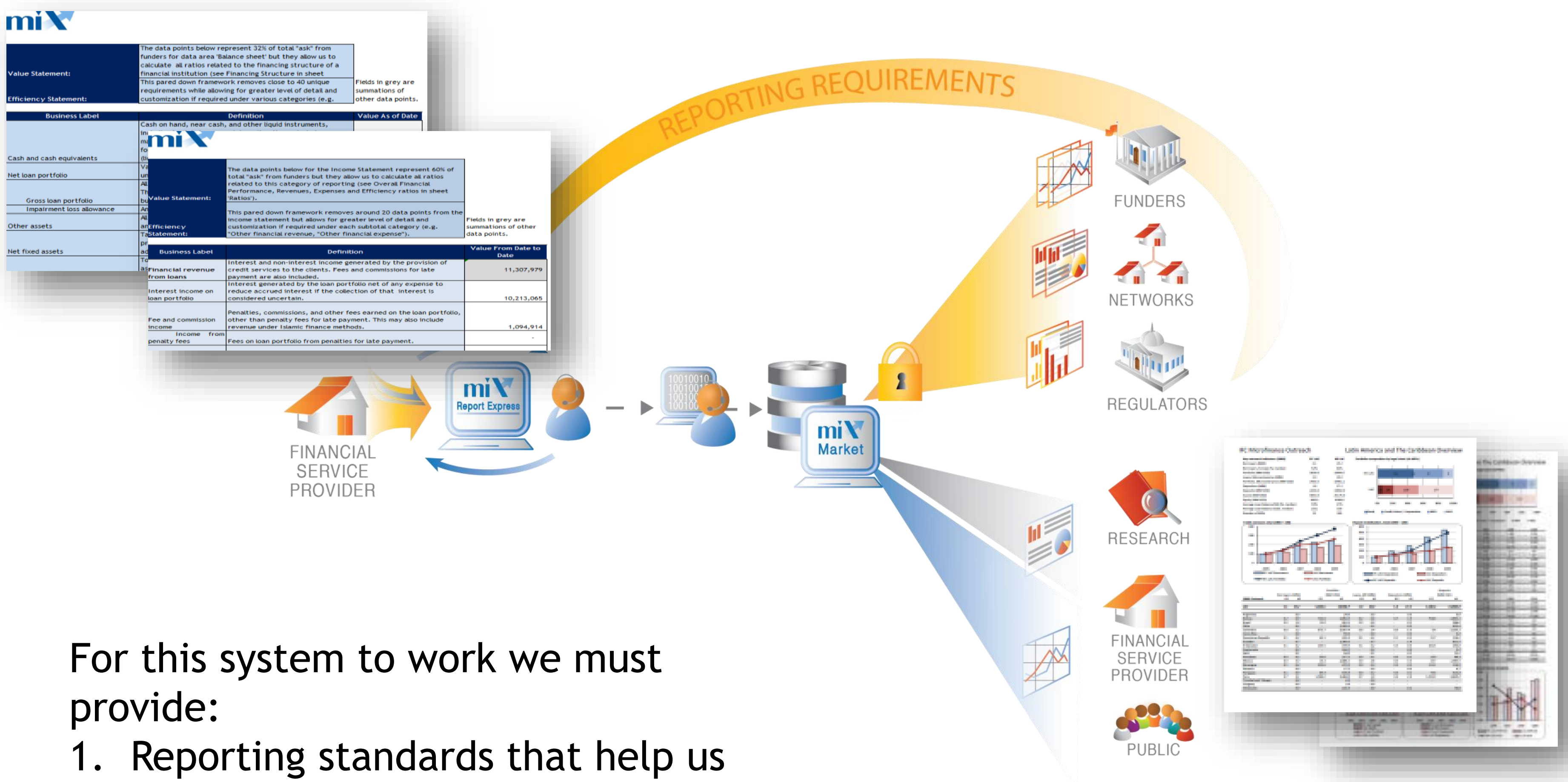
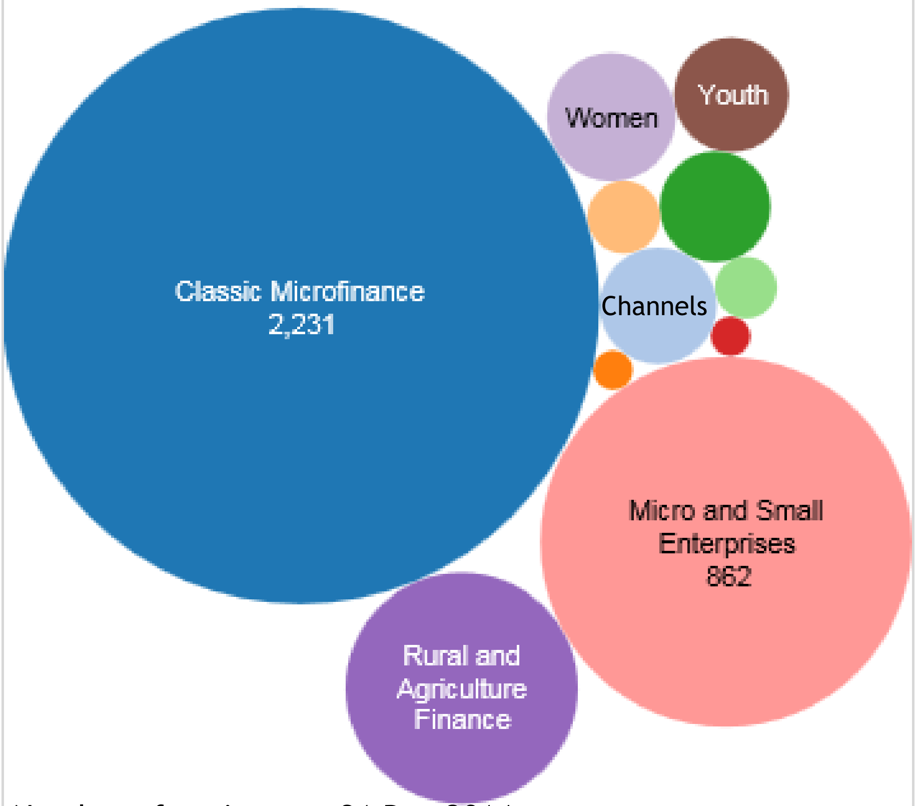
.. and the standards and data products that make it valuable



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 …



Number of projects at 31 Dec 2014

"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.

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As MIX expands to ADCs, we will focus on benchmarks …

You have strategic questions that benchmarks can help answer:	Institutional / portfolio view	Channel view
Examples		
How productive can my resources be?	-Borrowers / loan officer 250(median) 160 (25^{th}) to 375 (75^{th})	-Transactions / channel -% active accounts ?
How fast should I plan to grow?	-Δ Borrowers 20% (median) … with wild variation	-Δ Accounts / channel ?
What is a reasonable risk level?	-PAR>30 2.5%(median) 1.0% (25^{th}) to 6.8% (75^{th})	-% of fraudulent transactions / channel ?

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… 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.

Active Vs. Dormant

- A measure of usage by clients
- Gaps in reporting by client gender or location
- Are we really reporting on a common definition?

Previously unbanked

- A measure of outreach to target group
- Reported data are often constant or blank
- What are our systems set up to capture?

Rural PoS

- A measure of infrastructure in target locations
- Inconsistent trends from quarter to quarter
- Are locations coded in our systems?

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

The MasterCard Foundation

1. Preparation Phase w/ Foundation Partners in ADCs:

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

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- 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

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Key Activities in 2016+

The MasterCard Foundation

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.

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Key Activities in 2016 -

The MasterCard Foundation

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.

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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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