Digital Financial Services in Malawi

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Malawi

Facts and figures

Developing customer-centric strategy for digital financial services

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According to the 2014 FinScope study, 33 percent of Malawian adults have access to banking services, which is an improvement from 19 percent in 2008. However, 50 percent of adults own a cell phone.[1] This comparison makes a strong case for using mobile financial services to overcome the low level of financial inclusion.

It has been three years since digital financial services (DFS) were offered in Malawi, yet DFS are at the start-up stage. Currently, the mobile network operators airtel money and TNM Mpamba are the market leaders in providing DFS. NBS Bank and Opportunity International

Bank of Malawi have also launched their DFS operations. Opportunity International Bank of Malawi seems to be aggressively expanding its DFS. Some other banks have collaborated with mobile network operators to enable push and pull services (mobile wallet to bank account and vice versa) for their retail depositors. A few banks are yet to finalise their strategies to either launch branchless banking or to partner with existing service providers.

This note intends to brief institutions that either have launched their DFS or want to launch their services about how to develop and finalise their strategies for DFS.

Key findings

Understand customers and define customer segments

Each interested institution should conduct market research to understand customers' needs, preferences, perceptions and behaviour patterns regarding traditional financial services (both formal and informal), payments, DFS and challenges that customers face accessing financial services. Based on research results, the institution should

brainstorm opportunities and challenges and also potential solutions, in the form of products and services, which they can offer to customers to address their needs and preferences.

The institution should also segment its target population based on research results and its

16.4 million
Total population

1.3 million
Number of registered digital financial service customers

378,122
Number of active digital financial service customers

20,260
Number of digital financial service agents

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1 http://www.finmark.org.za/wp-content/uploads/pubs/Broch_FSMalawi_2014.pdf

What needs are we meeting?	How do we meet those needs?	How do we communicate our solution?	How can we do so and all make money?
• Market research • Segmentation	• Product development • Delivery channel development • Customer service • Partnership • Interoperability	• Marketing • Branding • Financial education	• Pricing • Agent business case • Risk management • Customer feedback
Ensure we understand the need and whose need it is	Ensure delivery is needs focused	Communicate the right messsge	Have realistic assumptions and reality checks

experience and understanding of the activities in which the population is involved (e.g., civil servants, farmers, wage labourers, women, students, employees). The institution should finalise one or several customer segments that it wants to reach, as segmentation is the key driver for decisions on other key elements of the strategy.

Product concepts must be field tested to gather feedback from potential customers. It has been observed from other markets that customers are willing to pay for services but the price has to be reasonable and competitive with existing options.

Develop business model

Developing an agent network is costly. It involves designing systems and then recruiting, training, managing and monitoring agents. Crafting a distribution channel is also time consuming. A poorly developed or implemented strategy can pass an unwanted advantage to a competing institution. DFS represent a new offering, and most potential customers are not yet aware of its nuances. Any refinement or change in agent strategy could confuse consumers.

As per regulations in Malawi, no agent exclusivity is permitted. However, in medium and small trading centres and villages, it is difficult to find many enterprises with sufficient liquidity to become agents. In this scenario, mobile network operators and banks must target the same one or two enterprises as their agent(s). Yet, there is a practical limitation for entrepreneurs to become agents for many institutions as the entrepreneurs need to provide their funds as liquidity with several institutions. An institution should consider this limitation when defining its business model.

Generally, institutions have three business model options: 1) Establish an agent network, 2) Partner with an existing DFS provider to utilise its agent network, or 3) Use a combination of both models. All options have their advantages and disadvantages. Setting up an agent network gives the institution full control, but it is a very resource intensive exercise. Partnering with an existing DFS provider can give immediate access to thousands of agents, but the institution will have limited/no direct control and will have to share transaction revenues. The institution should consider its internal capacities and its mission and vision to arrive at the right business model.

Define value propositions

The customer value proposition often revolves around making financial services accessible, reliable, affordable and convenient. The institution must provide real-time confirmations, which can help to build confidence in the system. Customers should be able to access a range of financial services at a reduced direct and indirect transaction cost (i.e., saving on travel to/from transaction point and service time to access financial services). The value proposition should clearly communicate why the customer should register and transact with that particular institution and what benefits he/she will receive.

Understand customer journey and provide customer support

As indicated in the 2014 FinScope study, whilst 20 percent of the population knows about mobile money, only 4 percent actually uses it. An institution needs to identify the pain points of different customer segments, and communicate its solutions to them and

why its service will help in customers' daily lives. Appropriate products and services, customer education, clear marketing and communication efforts and effective agent network management are the key drivers for improving usage of DFS.

Agents are the first point of contact, and they are responsible for answering most customer queries. Point-of-sale material such as tariff charts, descriptions of available services and proper agent branding is also key to educating customers. However, sometimes customers do need to contact the institution. Yet, many financial institutions in Malawi do not have dedicated toll-free call centres, which can be used to communicate with customers or to enhance marketing efforts and quality of operations.

Designing a strategy is the first step for any institution interested in DFS. The key steps to design and rollout a strategy are the following:

1. Understand the customers and define different customer segments that you want to reach
2. Develop a business proposition and model that will offer a business case to your institution and all other key stakeholders
3. Define value propositions for different user segments
4. Define different products and pricing; agent network strategy and management; and, marketing, promotion and customer service strategy
5. Obtain approval from Reserve Bank of Malawi for pilot testing
6. Prepare and conduct the pilot test with rigorous monitoring
7. Review the pilot, amend as required and rollout the solution

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