

Day 2 Summary Session 2

Day 2's focus is on the practical aspects of designing and delivering financial services, in reference to;

- the key principles of designing financial services,
- responding to financial needs of the clients,
- the importance of interest rates,
- market research in microfinance.

There was also continued discussion on Day 1's issues. One interesting development was a discussion thread on the competitive environment involving informal money lenders and microfinance service providers.

Key Principles of Designing Financial Services

- It was pointed out that reliability is important for the clients from the point of view of **security as well as assurance that their requirements would be met**
- Sandeep and Jitendra noted that **convenience** is becoming a major differentiator in competitive markets and that **door step services** are highly valued by clients. Peter also highlighted the importance of convenience by speaking about the importance of **proximity** and **local participation**.
- Ashish Bazaari of BGFL mentioned that in the context of individual lending the product features like **amount of loan, repayment terms and frequency and tenure of the loan need to be flexible** to suit client requirements
- It was observed that **imparting flexibility** should take into consideration the **viability of doing so** too given the costs involved. **Information Technology** was mentioned as one enabler which could potentially impart flexibility to products while minimising the costs.
- It was noted that **structure** is especially important when clients are saving with a specific purpose and a suggestion was made to develop **structured products suited to client cash flow**.
- There was an opinion that **structure and flexibility** are not complementary and that attempting to balance both in the same product might be counter productive. The response from the forum cited Jijenge account at Equity Bank as an example and countered that it was indeed possible to balance these seemingly contrasting principles.
- Clemence Tatin Jaleran of CIRM mentioned that the key principles remain the same even for **micro insurance**, though the specific regional context would also have to be studied to arrive at an ideal balance of these key principles. Premasis built upon the need for **flexibility** in micro insurance and mentioned that the client requirements with regard to on which aspects flexibility is required need to be studied during product development. He mentioned **savings linked insurance** and stressed the need for **product positioning** to be clear in the minds of the customers.

Responding to the Financial Needs

- It was noted that still in many markets the **client requirements are not examined properly** and the industry seems to be **focussed on standardisation** than in **delivering required value**. For instance, most MFIs in India have gone from lending miniscule amounts to lending standard amounts of Rs.10,000 regardless of market demand. MFI apex organisations like MFIN also attempt to restrict the number of lenders to a maximum of three. This approach needs to evolve much further to provide **client centric services**.
- As mentioned by Anupama Joshi of Sahastradhara KGFS, for all practical purposes the MFIs have very **limited understanding of client requirements** which has resulted in pushing the wrong kind of products to the wrong customers. Ideally they should identify specific client needs in the geography in which they operate and develop products to satisfy the need.
- There was a concern raised that the drive towards satisfying client needs should not be an attempt to develop products for each and every aspect thereby resulting in an **unmanageable range of products**. It was opined that a better option might be to **develop a range of products to satisfy the basic needs**.
- Krishna highlighted the fact that though many observers cite **regulation as a stumbling block** to meeting client requirements, many financial service providers like KGFS have successfully launched products that cater to client requirements like cash flow management within the ambit of existing regulatory environment. He also mentioned the BC model as a way out for catering to client requirements for cash flow smoothening and for building larger savings balances.
- Sudhanshu Shekhar highlighted the issue of **adapting products to requirements of poor people in smaller cities**. He noted that lack of appropriate products is driving multiple lending and wondered if livelihood linkages could be a solution for the requirements of clients in these cities
- Meryem raised the **issue of gender** in spending decisions of the household and noted her observations on the different purchase decisions made by men and women. She wondered if this needs to be a consideration in the course of product design. The forum highlighted the fact that in addition to product features, the places of service delivery would also depend on gender.
- Meryem also dwelt on **financial literacy**; both on the **technological as well as financial management aspects**. She also explored how the web and e-learning can be leveraged to deliver financial education, especially to young adults.
- Financially literate clients were perceived to be **actively managing their transactions, focussed on avoiding asset erosion, avoided expensive loans and used structured mechanisms to save regular surpluses**. An interesting thought that came up was that the best practices of good money managers among the target market could be disseminated among other members.

Do Interest Rates Matter?

- It was mentioned that interest rates do matter for the poor, but in reality, an **accurate comparison of interest rates** was very difficult for them due to **lack of transparency**. It is important to note that price is not often the only or most important differentiator but a more comprehensive value proposition is often expected by the clients
- Vinnie Gajjala pointed out that **technology** may be a driver which would help in **bringing down costs**. Stuart pointed to several interesting experiments in India and Bangladesh and mentioned that a lot more is in the pipeline.
- According to research conducted by Madhu in North East India, the importance of interest also depended on **geographical location**. It was more important in the plains than in the hilly area presumably due to the competitive situation

Relevance of Market Research

- Jagdeep opined that market research provides insights **into client requirements and competitive environment in the target market** and hence helps organisation **plan growth and expansion**.
- Diana Lewin observed that copying products of other service providers was quite rampant and opined that market research to understand client requirements was vital before **replicating successful models in different markets**

Informal Money Lenders vs MFIs

- Tarun started off the discussion by raising a query on the **strategy to deal with money lenders**; i.e. whether to avoid them or to collaborate in some respect.
- Peter cited his experiences in Africa and noted that in many cases money lenders are **providing valuable services** and many of them are indeed **eager to move beyond credit into savings and remittances**. Many of the respondents mentioned that money lenders were indeed providing value to the clients in terms of **timely access to money and in flexibility of repayment terms**. A doubt was also expressed on whether formal sector can ever match the kind of services provided by money lenders. Another benefit for utilising the money lenders was that the transactions were **convenient and easy to access** as compared to more formal service providers.
- One possibility that was identified was that in the future **mobile banking systems** might be able to provide the kind of value money lenders deliver. Saurubh concurred with the view that loan products customised using IT tools may indeed deliver services as effectively as money lenders.
- Pon.Ananth mentioned that in many areas money lender business was being affected due to the **entry of MFIs**. Madhu supported this view and mentioned instances where MFI loans were availed to pay off money lenders.

- One observation was that increasingly **MFI clients themselves are becoming money lenders** as well as borrowers from these money lenders due to unsuitability of product attributes to client requirements.

Role of MFIs in Managing Poor People's Money

- The discussion also continued on the role of MFIs in managing poor people's money.
- David Cracknell mentioned that **innovation in providing services follows once the basic model has been set in place** and scaled up significantly. He cited Safaricom's experience in Africa and also that of MFIs in Bangladesh to point out that this may indeed be the best way to promote sustainable innovation.
- David also highlighted the **dramatic improvement of financial access** in Kenya and mentioned the factors responsible for them. According to him, the key considerations in improving access is **accessibility to services, careful pricing, appropriate products, brand awareness, simplicity in product design and a favourable regulatory environment**.
- Anupama Joshi referred to **geographical concentration** of microfinance and pointed out that some geographies were over saturated while others remained underserved. She also mentioned that in underserved areas like Uttarakhand in India, financial education is a key requirement.
- Anton Krone cited his experience on **stokvels and burial societies** and expressed the opinion that the members in these informal mechanisms expressed interest in **moving towards more formalised options** if available.