# *MicroSave* Briefing Note # 30

## Lessons from *MicroSave's* Action Research Programme (2003)

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Under its Action Research Programme, *MicroSave* learns and disseminates lessons relating to market-led microfinance. This note documents lessons learned during 2003. Lessons learned in 2001 and 2002 are documented in Briefing Note # 10 and Briefing Note # 20.

Many of *MicroSave*'s have experienced significant growth through following a market led approach. The following lessons reflect this.

**The Action Research Partners (ARPs) as of December 2003**

***Kenya*** – Kenya Post Office Savings Bank and Equity Building Society

***Tanzania*** – Tanzania Postal Bank and FINCA Tanzania

***Uganda*** – Uganda Microfinance Union, Centenary Rural Development Bank, and FINCA Uganda

***South Africa*** – TEBA Bank and Credit Indemnity

**Unplanned explosive growth**: Responding to customers' needs with appropriate products and delivery systems, can result in phenomenal growth, particularly in the case of savings services. Unplanned growth can be fatal, as systems and procedures break under the strain. New staff induced rapidly into an institution can undermine internal control. Office space becomes cramped significantly reducing productivity. A rapid institutional response is required which may decrease short-term profitability. It is far better to prepare carefully for take off.

**Financing growth***:* Financing a market-led expansion can become a major challenge. For a credit led institution each new branch requires funds, to establish the branch, to hire additional staff and most significantly to finance an expansion in the loan portfolio. For a regulated financial institution, liquidity may be less of an issue but keeping within the bounds of the regulatory norms established by the Central Bank can become a perpetual challenge. Initiatives like the Microfinance Information Exchange (the MIX), and AFRICAP have been established partly in response the growing need for commercial capital.

**Preparing for take off**: Preparing for growth is essential. There is no substitute for ensuring that appropriate policies, procedures and management systems are in place. As an institution grows it will need to upgrade liquidity and treasury management systems, institute asset liability management, and develop new mechanisms for managing credit risk as lending changes in character and volume. Decentralisation of decision-making may be required with the development of regional management structures.

At the head office a new senior management cadre often needs to be developed and new departmental structures established. Typically, marketing, personnel and operations departments formalize and/or add senior capacity.

**Prioritising change**: In responding to challenges prioritising, sequencing and communicating change is of tremendous importance. Failing to prioritise change risks failing to resource a particular intervention properly, at worst can mean fundamental changes are not implemented in a timely fashion. Failure to properly communicate change can lead to significant resistance by those directly affected by the change.

**Automating growth**: Information systems, procedures and templates can partially automate the management of growth. Information systems once networked can facilitate much more than transactions. Networks automate inter-branch accounting, provide online real time information and through an intranet can significantly improve internal communications.

ATM machines can be installed on a Wide Area Network, decreasing the cost of transactions, increasing accessibility of services to customers and enabling an institution to manage continued growth. Even without a network a financial institution can significantly automate growth. For example, both Credit Indemnity in South Africa and ASA in Bangladesh have prepared a template for opening new branches in which each step of the branch locating, and opening process is carefully detailed.

**Rollout through standardisation**: Once financial services have been successfully pilot-tested they can be rapidly rolled out through adopting a standardised approach. A rollout team moves from branch-to-branch upgrading systems, and providing training on products and procedures. Marketing and launch activities are carefully coordinated. Activities are refined as lessons are learned.

**Process mapping**: Continuous improvement of processes and systems is essential to the delivery of market led financial services and in controlling risks surrounding growth. Growth may stretch existing processes and systems dangerously as UWFT in Uganda found after developing popular individual lending products. *MicroSave* in association with Shorebank Advisory Services developed a Process Mapping Toolkit, which was tested during the year within Equity Building Society. Initial results are very encouraging with improvements in speed of service in most areas, combined with enhanced internal control.

**Communications**: One of the most persistent issues to arise through *MicroSave* based research is the impact of poor internal and external communications. Poor communications are evidenced through inconsistent application of policies and procedures, through poor quality service and persistence of service issues. Damaging gaps can appear between management and staff and between the institution and its customers. Examples of excellent practice include creative use of intranets, weekly briefings from the CEO and the careful study of feedback loops.

**Word of Mouth marketing**: Word of Mouth is the most significant factor in the marketing of financial services. In a survey conducted by *MicroSave* in Uganda (Wright and Rippey, 2003), 58% of people surveyed said that the advice of friends and relatives was the determining factor in deciding which financial service to use.

**Influencing Word of Mouth**: Entire marketing departments in the corporate sector are devoted to influencing Word of Mouth. Yet the importance of Word of Mouth is only beginning to be recognized in the microfinance world, despite the influence of positive Word of Mouth in the growth of institutions like BRI in Indonesia and ASA in Bangladesh.

- *Design and delivery of services*: The best way to influence Word of Mouth is to deliver services to clients, in the manner they want, *and to carefully* communicate the financial service.
- *Completing the feedback loop*: Completing the loop from understanding customer needs, to implementing solutions, to informing customers of positive change is essential. In 2003, Equity created positive Word of Mouth through communicating the results of customer focused market research back to customers. Customers received individual letters, advising them that Equity had listened to concerns about Equity's services and as a result Equity was implementing a range of improvements. Where suggestions were not taken up Equity explained why.
- *Corporate branding*: Corporate branding is a deliberate attempt of the financial institution to influence customer perceptions. An institution delivers its service in an identifiable, uniform manner through a consistent infrastructure, thereby positively influencing customers' perceptions of the stability and excellence of the institution.
- *Public relations*: Ensuring that others can champion the institution creates powerful and trusted endorsements. One ARP employed a journalist as a marketing manager, which allowed it to gain positive publicity.

**Improving customer service:** Customer Service is much more than staff attitude towards customers. Ultimately Customer Service is the delivery of an effective financial service, efficiently in an appropriate manner. Taking this approach *MicroSave* examines customer service issues through the framework of the 8 P's of financial marketing (People, Product, Price, Procedures, Place, Promotion, Physical Evidence, Positioning).

A continuous focus on customer service is vital in an expanding institution, in order that service quality does not suffer during growth. Innovative methods to enhance product knowledge include using the intranet, strategically placing product posters within Head Office and training staff through branch management.

**Automating costing**: Most *MicroSave* ARPs have developed product-costing systems. However, Teba Bank and Credit Indemnity in South Africa have moved further to automate their costing systems. Credit Indemnity has introduced a data warehouse, which has allowed it to automate the production of activity based costing at product, branch, and client segment levels.

**Product development is a skill**: Product development is a skill, which can be effectively institutionalised. *MicroSave* ARPs working on successive products have in many cases been able to adapt and internalise *MicroSave*'s product development process.

**Rapid rollout through standardisation**: Maintaining a consistent multi-skilled team, who adopt an increasingly tried and tested approach to rollout has allowed *MicroSave* ARPs to rollout their financial services rapidly and effectively.

**Enhancing delivery channels**: *MicroSave's* work with Teba Bank and the rapid expansion of ATMs throughout East Africa has demonstrated electronic banking has huge potential for enhancing the delivery of financial services for the mass market. Electronic banking includes the use of Palm Pilots, ATMs, Debit Cards, Smart Cards and cell-phone banking. There are multiple difficulties and challenges to overcome before electronic banking for the poor can become a reality. These include, financial literacy, an appropriate distribution strategy, supportive infrastructure and communications and an appropriate regulatory environment. A range of partnerships will be required to develop an appropriate solution that can provide flexible, accessible, convenient low cost services. *MicroSave* explored these issues in a "Virtual Conference on Electronic Banking for the Poor", in February 2004 - the proceedings can be downloaded from www.*MicroSave*.net

**References**: **Cracknell,** David, et al. "Lessons from *MicroSave's* Action Research Programme (2003)", *MicroSave* 2004