Digital Financial Services and Microfinance: State of Play

A framing note to inform the Evolution of the Client Protection Standards

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Collaboration between the Smart Campaign and the Accion Channels and Technology Team
Digital Financial Services and Microfinance Institutions

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Digital Financial Services and Microfinance Institutions

1. Introduction

The Client Protection Standards were created to operationalize where the microfinance industry sets the bar in terms of the minimum behaviors clients should expect from institutions with which they do business. Building off of the seven Client Protection Principles (CPPs), the Client Protection Standards specify what ‘doing no harm’ must entail in practice. The current 30 standards represent the output of several years of industry collaboration and input managed by the Smart Campaign (See Annex B for the complete list of the standards). For the standards released in January 2013 as part of the Client Protection Certification program, the Campaign worked with a Task Force of over 30 experts representing various stakeholders to develop and vet the recommendations. The standards are truly a public good for and by the industry.

Standards which reflect social norms and expectations of an evolving industry must be dynamic. In order to incorporate an ever-growing sector and its diversity of products, services and related client-protection risks, the Smart Campaign has begun to work to evolve and improve its standards. One of the key directions of industry evolution is towards the use of Digital Financial Services (DFS). Therefore in partnership with the Accion Channels and Technology team, and under the management of an Evolution of Standards working group, the Smart Campaign began a work stream to understand the emerging risks to clients of Digital Financial Services and how best to mitigate those risks.

Given the Smart Campaign’s momentum of working directly with microfinance and financial service providers since 2009, the workstream initially sought to understand the intersection of two big questions:

- What are the emerging risks to clients using digital financial services? How do these risks align with the seven Client Protection Principles?
- How are microfinance providers using digital financial services?

It is the intersection of these two key inquiries from which the first set of recommendations for the Evolution of the Client Protection standards will emerge. These recommendations will be shared publicly in late September 2014 for several months of open comment and feedback. These recommendations will then be discussed, debated and tested in the field for viability before becoming a permanent part of the standards and part of the Client Protection Certification Program.

It is anticipated that most immediate application of these recommendations will be to microfinance institutions as part of the Certification program, however the Campaign firmly believes that the Client Protection Principles and standards are relevant and applicable to the wider ecosystem encompassed by all digital financial services.

2. Purpose of this Note

In the context of the Evolution of Standards of the Smart Campaign and its Digital Financial Services (DFS) work stream—which analyzes the risks that the use of these services poses to clients—this paper aims to provide a deep dive into the intersection of DFS and microfinance.

Since DFS covers mobile financial services and branchless banking¹, it would be difficult to track exhaustively how microfinance institutions (MFIs) are using DFS. We have focused on branchless banking and mobile banking², a component of DFS, because of the promising opportunities it presents for financial institutions in reaching scale, leveraging existing deployments, and tapping into large populations at the base of the pyramid (BoP).

¹ Delivery of financial services outside conventional branches by using technology channels such as cards, POS, ATMs, and mobile phones
² Mobile banking, for the purpose of this research, incorporates mobile money and mobile payments
Therefore, this desk research is intended to fill a knowledge gap in the intersection between DFS and MFI by providing an overview of the uses of DFS, especially with regards to mobile banking, and by answering the following questions:

- What is the role of MFIs in DFS?
- Why is there a need for partnerships?
- What are the benefits for MFIs of implementing mobile banking?
- What are the most common DFS implemented by MFIs and how are MFIs implementing them?
- What are the key success factors and challenges?
- What are the risks to customers in implementing these services?

Understanding the scale and use of DFS in MFI operations will help the Smart Campaign in narrowing the scope for its initial set of recommendations by understanding what is salient and being used in the field. Indeed this research will help the Smart Campaign be in a better position to improve the existing Client Protection Standards to pinpoint safeguards to minimize and mitigate against risks to clients when MFIs implement DFS. Building off this document, subsequent phases of the research will include a comprehensive client protection risk to matrix which, when combined with this note, will lead to key recommendations for service providers implementing DFS who strive to meet the Smart Campaign’s principles of Client Protection.

3. Opportunities and Challenges for MFIs in Digital Financial Services

The revolutionary use of mobile phones in emerging markets presents MFIs—already providers of financial services to the BoP—the opportunity to improve customer service to current customers by providing ubiquitous, safe and convenient ways to disburse and repay loans, save money, and check their balance; to increase customer outreach by bringing services beyond brick and mortar branches; and to reduce operational costs or generate additional revenue which could be translated into a possible reduction in the interest rate. Therefore, there is the potential for to have more access to quality and affordable financial services.

- Evidence shows that mobile money deployments could help MFIs to improve operational efficiency, reduce costs, and better serve their existing customer base. These services though have been led mainly by mobile network operators (MNOs) and to some extent large banks. While MFIs are distinguished for their expertise in knowing clients’ needs and having high interaction with them; their success with large innovative technology projects or delivery channels is far less recognized. Of those MFIs that have successfully leveraged mobile banking, the majority are usually located in markets where the mobile service is widely used.

- Nonetheless, mobile banking involves the use of technology, non-cash transaction (in the form of electronic money complementing cash in and cash out transactions), and the participation of different actors with different levels of liabilities (e.g., MNOs, financial institutions, agents, and third-party providers). As such, mobile banking poses risks to clients (e.g., fraud, data privacy and security, service availability, hidden prices and fees, discrimination, insolvency, non-authorized ads, inadequate mechanisms for complaint resolution, etc.)—risks a MFI should pay attention to in order to provide quality services.

- MFIs can incorporate mobile banking into their business processes (e.g., loan disbursements, loan repayments, savings, and insurance) or act as agents of mobile money providers; MFIs are potential teammates if service providers want to tap into a large clientele at the BoP and/or work with patient agents aiming not only to acquire commissions. The third option—pursued by few MFIs due to large resource requirements—is to launch the service themselves either by designing and implementing the service in-house or partnering with a mobile solutions provider. Evidence has shown that this option is cumbersome, time-consuming, and costly for a MFI. Worth noting is that MFIs are still figuring out the best way to leverage mobile banking services in their processes and day-to-day operations under the regulatory, cultural and competitive environment they operate in. The ongoing and planned implementations will spur experimentation and help find successful deployments—scalable business models using mobile banking.
With an increasing number of mobile money/banking deployments and MFIs participating in these deployments as well as an increase in users of the service such as customers, non-profit organizations, and governments, there seems to be an opportunity for MFIs to play a role in the mobile ecosystem. In order to do so, MFIs must develop the capabilities required (e.g., stable infrastructure and technology systems, adequate process, competitive personnel, experience in partnerships, etc.) to take advantage of mobile banking services already available or soon to become available in their countries.

Some new MFIs are launching their operations using only mobile banking from the very beginning. This shortens the journey through organizational changes and investments upfront. From existing MFIs to new MFIs, mobile banking is not only changing the way MFIs operate but also supporting new business models with the inclusion of mobile technology and data analytics in credit scoring, decision and under-writing processes.

The critical success factors for leveraging mobile banking are regulation, partnerships, and channels strategy. It is important to also recognize that MFIs work in markets with different levels of maturity of the mobile ecosystem and adoption of service, aspects which contribute to the success or failure of the channel as well. While the mobile money industry continues to grow, there remain challenges to its sustainable, scalable, and inclusive growth. These implementations require substantial investment, skilled resources, adequate infrastructure, agile processes, and a conducive regulatory environment among other factors to foster customer adoption/usage and subsequently reach scale. As such, service providers need to carefully assess why, when, where, what, how, and who with, before embarking on this journey.

Accion’s Channels and Technology team has already played a supportive role to some MFIs in analyzing deployments and providing guidelines (e.g., how to pursue partnerships, how to closely collaborate with regulators, liabilities with regulator by working with partners).

4. Role of MFIs in Digital Financial Services

a. State of play in deployments

In 2013, according to the ITU, there were as many mobile cellular subscriptions as people in the world with mobile penetration at 96% globally and 89% in developing countries. According to GSMA –MMU deployment tracker and Mobile Money Adoption Survey— there are more mobile money accounts than bank accounts in 9 markets and more mobile money agent outlets than bank branches in at least 28 countries; services are present in 84 countries across different regions. Also 89% of the implementations, 209 out of 233, provide p2p domestic transfers which do not require a bank account. As of 2014, MNOs still lead the mobile banking industry with more than 60% of the total number of deployments. Nonetheless, as of Feb 2014, only 13 deployments have reached scale, meaning that only 5% have more than one million active accounts.

By incorporating the use of mobile phones, organizations provide customers access to a wide range of services such as mobile banking, money transfers, mobile payments, and internet. In other words, customers could now perform p2p transfers, top-up, bill payments, merchant payments, loan payments, loan disbursements, savings, insurance, and any other payment streams such as g2p, b2g, and b2p through their mobile phone devices.

While there are incentives for implementing DFS, the implementation of branchless banking and mobile banking tend to be divided along geographic lines. Latin America has a long history of innovative experimentation with mainly banking agents (also known as non-corresponding banks); known examples are Brazil with approx. 400,000 correspondents, Mexico with approx. 22,000 correspondents, Peru with approx. 17,000 agents, other countries with strong banking agents are Colombia, and Ecuador. More recently, there are mobile money implementations throughout Latin America; Brazil, Paraguay, and Guatemala have paved the way to innovation but have yet to see any important uptake. Africa in contrast seems to be the leader in

4 Cameroon, DRC, Gabon, Kenya, Madagascar, Tanzania, Uganda, Zambia, and Zimbabwe.
mobile money with success cases in Kenya, Tanzania, Uganda, and South Africa; among these mPesa is the leader. Other notable implementations of mobile money exist in Asia, Afghanistan, Pakistan, Philippines and Bangladesh.

b. The need for partnerships
Among the different service providers (e.g., MNOs, banks, and third party providers), MNOs and large banks are still the leaders of mobile deployments, operating under an MNO-based, Bank-based, or hybrid (MNO/Bank) based model. It’s worth noting that MNOs’ business models are often closed-loop and based on transfers and payments –mainly motivated to reduce prepaid churn and airtime distribution costs; their services access the poor but lack high quality services because of an incipient knowledge of the needs of customers at the BoP. Big banks’ models do not necessarily reach the poor and often have limited understanding of the mobile money market. Third-party providers such as aggregators, integrated solution vendors, technology and credit card providers also strive for having relevant participation. There are few successful third-party-based cases, however third-party providers lack market power and footprint compared to MNOs and big banks.

Each model has pros and cons and each provider has strengths and weaknesses. While tapping into a vast population at the BoP is attractive, the incentive of each service provider may vary. If a provider were to tackle the BoP with customer-centric products, there is a need to identify the best partners to work with as there are a myriad of conditions and resources required for success. Teaming up with the top players will help build synergies and increase the chances of customer adoption, provided products/services are easy to use, appropriate, reliable, affordable, understandable, available, and accessible.

While MFIs are an attractive partner for tapping into a vast poor customer base whom they know well, few have been tapped due to a dearth of scalable business models and innovative solutions. If working alone on a deployment MFIs would probably hinder rapid scale-up with the high quality this service requires. Few MFIs have the resources to lead mobile banking deployments let alone reach scale.

c. What are the benefits for MFIs?
The high-touch and in some cases labor intensive model of microfinance poses limitations to reach scale; MFIs face challenges such as high operational costs and efficiency. By using mobile banking services MFIs could scale their operations quickly, provide customers high value and convenient services, cross-sell products, increase customer loyalty and transparency, and decrease cases of fraud and theft. Despite these potential gains, there is not much evidence on whether mobile banking services help MFIs to reach out to new customer segments.

The benefits for MFIs, while promising and vast, depend upon the business case on what the institution is trying to achieve with the channel and could include:
- Better service to clients and loyalty: by using mobile phones and/or agents, clients can pay their loans easily without incurring additional costs in transportation/time, and theft risk; customers could also receive reminders and alerts;
- Customer outreach: MFIs could access difficult and costly to reach areas;
- Increase customer service, education and capacity: by leveraging digital channels to better inform the client, remind them of alerts, and empower them to better use the service;
- Increase transparency and security: by moving cash to electronic streams, MFIs have the opportunity to be more transparent, reduce fraud risks, provide secure options to clients and field officers and reduce thefts;
- Operational efficiency: reducing branch congestion, improving the time spent by field officers in the field –e.g., less time in cash collection if done by mobile phones and more time left for loan monitoring and/or client education;
- Cost savings: using mobile banking to disburse loans rather than distributing coupons or checks, which implies logistics and personnel costs;

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5 Zonna in Zambia, Selcom in Tanzania, Cellulant in Nigeria and Kenya
6 There are some exceptions such as Tameer and Telenor in Pakistan, BankO in Philippines, Opportunity International in Malawi, and Musoni in Kenya
Cross-selling and product diversification: by offering additional products such as savings and micro-insurance. If a client has the opportunity to save money through her phone, she will create a financial history that would allow her to access credits to use other products later on. This may also represent lower cost of funds for the MFI due to the client’s ability to save;

Increase revenue: In some cases, there is also the possibility—depending upon the business objective of the channel—that MFIs would receive revenue from transactions commissions and cross-selling of additional products.

Therefore, there are ample opportunities for MFIs to implement mobile banking into their services and tag along successful deployments. As there are different stages of development in the mobile money ecosystem, MFIs need to analyze their current environment and define their strategy for the adoption of mobile banking.

d. How can MFIs incorporate mobile banking?

MFIs have the option to provide additive or transformative DFS. In countries where there is a mobile banking infrastructure, MFIs could leverage those services in their loan disbursements, repayments, deposits, and insurance, and could act as agents or master agents on behalf of DFS providers (e.g., MFIs in Kenya and Tanzania). This requires collaboration between MFIs and service providers (See Annex Partnerships: Deployments of mobile banking in MFIs) and a close analysis of the conduciveness of the regulatory environment.

In environments where no mobile money solution has been launched, MFIs have several choices:

- Wait until there are enough solutions providers and assess credible and solid partners with which the MFI could partner with to launch the service; the service provider could also be a credit card company (e.g., Urwego Opportunity Bank, UOB, partnered with mVisa in Rwanda to use visa’s mobile platform);
- Use mobile phones for achieving internal improvements and/or for non-cash purposes such as to collect information, verify customers in the field before moving ahead with the underwriting process (i.e., bureau and scoring), consult customer status on payments and history, send payment reminders, check bank balance and any other commercial information. MFIs could pave the way of their readiness by using mobile phones for internal improvements and non-cash purposes before deploying mobile banking services;
- Lead deployment of mobile banking. Though, leading a mobile money service is complex due to the levels of readiness, know-how, investments and effort it requires.

e. What approach could MFIs take?

It is important to note that the use of mobile banking services creates a need for options beyond conventional delivery channels where clients could cash in and cash out. That is, agents such as mom and pop shops, post offices, and pharmacies act as “human ATMs”. Since a mobile banking service needs to prove its convenience and serve the needs of its customers, it requires a critical mass of quality agents.

MFIs have two approaches:

- To incorporate the use of mobile banking in their business processes (i.e., loan disbursements, loan payments, savings, and insurance); or/and
- To act as agents of the mobile providers.

The mobile banking service could be incorporated as follows:

- Use the bill payments functionality of the mobile providers and act as another type of merchant (i.e., water, electricity, schools, financial institutions and other service companies). However, this process requires integration in order to be efficient:
  - For allowing minimal reconciliation. It is critical to avoid manual reconciliation. Conversely, some institutions postpone integration and perform manual reconciliation, which we have found could potentially lead to perpetrating frauds to clients, misconduct of agents, and collusion between clients, agents and the service provider’s personnel.

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7 This research makes special emphasis on financial transactions done through mobile phones and does not cover additional uses such as data collection, notifications, and innovation in underwriting process.
For allowing seamless integration by integrating the institutions’ systems and including a middleware layer; a middleware performs automatic updates and reconciliation of information in real time. The level of investment and time of implementation depends on the maturity of the market; for example, markets like Kenya have a compelling number of technology providers with experience working with MNOs. In some cases MFIs have built their own middleware but this requires resources that a MFI usually does not have. A middleware is an attractive option as it improves customer trust in the system. In contrast, a lack of integration presents barrier for adoption, for example after a client pays a loan through an agent, her loan may still show up as outstanding in the MFI’s system up until reconciliation issues are solved, thus the client will be impeded to perform additional transactions;

- Implement digital financial service from inception. We have seen some MFIs in Africa (e.g., Musoni) and Asia (BanKO) do this;
- Use a provider’s solution and customize it according to the MFI’s needs or create the solution in-house. Evidence shows that the process of incorporating DFS by these MFIs is gradual. Later on, depending on the level of maturity and adoption of mobile banking services in the country, MFIs integrate or complement their offer;
- Use parallel wallets and link mobile accounts, that is, some MFIs have leveraged USSD options to perform transactions but this in addition to an existing mobile money service usually creates confusion to customers, who now have to memorize the USSD code for each service. This requires a careful customer-centric approach to make the whole experience of using either service seamless for customers.

f. How are MFIs incorporating loan repayments, disbursement, and savings today?
Based on current implementations, the most common service offered to clients is loan repayments followed by savings and loan disbursements. According to CGAP8, MFIs that have implemented those services have reduced costs, fraud and risks of transporting cash for both clients and field officers. Fifteen deployments out of 233 currently live implementations (or 6%) provide loan repayments or mobilize savings or loan disbursements, and five out of these fifteen have a partnership with MFIs. Only 6 deployments include mobile micro insurance9. Overall, the inclusion of these services is still incipient.

- Loan repayments: represent a quick win for MFIs as they could leverage a wide network of agents of a mobile provider (e.g., SMEP, K-Rep, and Faulu in Kenya). While this immediately improves individual lending repayments, there are some concerns regarding how this could affect the dynamic of group lending; but after some implementations MFIs have reported it brings added value to both the customer and field officer as they have more time to go over financial education and loan progress than counting cash during the group meetings. Another concern, which will depend on the MFI’s business processes, is the adjustment to new payment options for customers used to MFI officers collecting the repayments;
- Loan disbursements: in contrast to loan repayments, loan disbursements still present challenges due to liquidity constraints at the agent, amount to disburse, and disbursement limits per agent per day. In some cases customers have to cash out at several agents –which hinders convenience of the model, or cash out several times at an agent –which hinders affordability as it is more costly for the customer, depending on the fee structure of the service;
- Savings: MFIs could increase savings mobilization by using mobile banking. Clients could either transfer money from their mobile account to their savings account by using their phones or going to an agent (e.g., KWFT in Kenya, and BRAC in Bangladesh).

g. How are MFIs acting as agents?
Acting as agents of a mobile service could provide MFIs experience on how to handle these services and options to further their offers and partnerships. At the same time, MFIs could also confront challenges such as branches with liquidity issues demeaning quality of the service, unclear incentive structures between the service provider and MFIs –let alone between the headquarter and branches- and, as a consequence, a lack

9 Colombia with Bancolombia ‘Ahorro a la mano’, Burkina Faso with Inovapay, Burundi with MobiCash, South Africa with Wizzit, Tanzania with mPesa, and Afghanistan with mHawala
DFS and MFI

of incentive to provide quality service at the branches. Therefore, MFIs could adopt an incremental approach and ensure with data analysis where and what kind of services to implement, for example restrictive services (branches with only customer onboarding and registration) and added services (cash-in and/or cash-out). In mature markets with wide mobile use, MFIs could have additional revenue by acting as agents if they smartly decide what services to offer in their branches.

5. MFI Success Factors in implementing mobile banking

The role a MFI could play is strongly influenced by the level of maturity and development of the mobile ecosystem. For example in markets like Kenya, Tanzania, Philippines, Bangladesh, and Uganda, MFIs can ride along the existing mobile money roads. In contrast, in nascent mobile money markets, MFIs will have to go through more costly, difficult, long, and cumbersome processes. Some of the critical success factors are:

- **Regulation:** dealing with regulation and regulators is a critical success factor. There is increasing concern over the need for the mobile banking regulatory environment to strike the right balance between risk and access. That said; regulators have the challenging task of keeping a ‘proportionality’ principle in which the cost of regulating should not outweigh the impact of risk. As mobile banking involves the use of technology, non-cash transaction (in the form of electronic money complementing cash in and cash out transactions), and the participation of different actors with different levels of liabilities, regulators face the challenge of monitoring risks (e.g., KYC, fraud, money laundering, liquidity, solvency, client protection of rights and funds) and at the same time increasing access (e.g., easy enrollment and onboarding with account opening, synergies and leveraging infrastructure, etc.)

Without an enabling market and regulatory environment, MFIs will struggle to participate in mobile financial services. Nonetheless, MFIs can and should play an active role by:

- Building good relationships with the agencies regulating DFS;
- Providing them feedback on the dynamics of the industry and any implementation they are planning to go through, and
- Creating alliances with like organizations to increase their influence in developing inclusive policies by using digital finance.

This close collaboration will improve the balance between mobile microfinance and client protection (see text box).

- **Partnerships:** MFIs could leverage existing infrastructure and networks of agents of service providers and can prove to be a valuable partner to tap into a large customer base at the BoP and leverage the knowledge MFIs have of their customers and branch network. On the downside, MFIs frequently do not have negotiating and bargaining power. It is commonly perceived –if not accepted- that MFIs have a power imbalance with large third party providers (e.g., some may require exclusive contract conditions, abusive price tariffs, unfair revenue model, etc.) This could jeopardize the quality of service customers receive. Before embarking into a partnership MFIs should consider:

- Alignment of business objectives: it is important to clarify each party’s and value proposition to participate in these deployments;
- Client Protection Issues including privacy, security, intrusive marketing and ads to customers of MFIs from service providers, and clear definitions of who owns client data;
- Integration: integrating systems could be a double-edged sword if first service providers do not have appropriate application program interfaces for integration (this was a big hurdle of mPesas mobile payments) or secure systems to synchronize with; or if MFIs lack readiness and system stability to go through an integration and data synchronization;

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**An example to learn from:**

Afghanistan Telecomm Operators Social Association (ATOSA), was formed in 2011 by Afghan Telecom, Afghan Wireless Communications Company, Etisalat, MTN and Roshan, to provide a forum to share experiences in implementing mobile financial services and strengthen the enabling environment. ATOSA touches upon topics such as security, client protection, public-private partnerships, and lobbying for better public policy.
Interoperability: this reduces client opportunities to transact with clients of other service providers. However, the level of interoperability required varies depending on the market share of the service provider. Lately, regulators are paying more attention to interoperability as this could increase access with quality at affordable prices (e.g., Tanzania is moving forward on this front).

MFIs could be favored when large service providers companies make explicit commitment to work with the BoP. It has been proven that MFIs could increase their power of negotiation by associating with other MFIs or cooperatives (e.g., MABS rural in Philippines)

- Clear channels strategy and channel-product-client mix: mobile banking deployments require a high volume of transactions, a large customer base, a distinctive value proposition, and vast resources. A MFI channels strategy should be supported on a careful assessment of the country’s legal, regulatory, and competitive environments.

- Proven structured approach for implementing mobile banking services: as with any service that uses technology intensively, replaces cash, and reduces human interface, each mobile banking implementation presents its own complexities and challenges. MFIs are working by trial and error, but it is critical first to understand the ecosystem and level of maturity of mobile banking in each country. MFIs should support their implementations on industry guidance:
  - Perform a feasibility assessment and market research
  - Identify value proposition
  - Identify the niche market
  - Define the business case and assess it, which includes a cost benefit analysis
  - Implement the channel
  - Define, execute, monitor, measure success and improve testing and pilot phase
  - Perform full scale roll-out and develop extensive agent footprint
  - Monitor and maintain/improve quality of service

Overall, though the participation of MFIs is still nascent, there is space to leverage the full potential of financial services. **MFIs seem to be placed at the right time to take advantage of the opportunities they have ahead: the widespread use of mobile phones, adoption of mobile payment and transfers, and moreover the benefits that mobile promises to improve operations, reduce costs, and better serve their clients—who in many cases may already be using mobile money services provided by other service providers.**

6. MFI challenges in the implementation of mobile banking

MFIs face the following challenges:
- External environment: lack of adequate partners (mobile banking, technology providers and platforms) and/or few successful implementations, regulatory restrictions, lack of interoperability;
- Internal environment: skilled and experienced personnel, poor technology infrastructure and technology instability (inadequate MIS or core banking systems) and the need to integrate with other platforms, operational agility (inadequate process to support the implementation of the mobile channel), budget constraints to develop the channel/mobile banking, lack of sponsorship from management;
- Lack of clear value proposition for clients to switch from cash to mobile banking or to a mobile wallet;
- Lack of feasibility study and research on client needs and behavior, leading this to poor customer centric product/services;
- Lack of business case and understanding of the costs involved for these initiatives;
- Measuring what success means in implanting and rolling-out the channel (customer/operational metrics);
- Lack of negotiating power with the service providers; if possible to create alliances with other MFIs or cooperatives to increase the negotiating and bargaining power;

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10 Channels & Technology at Accion has developed a channels methodology that aims to support MFIs to properly plan, pilot, roll-out, and operate scalable and effective delivery channels
11 According to CGAP, there are two necessary but not sufficient conditions to implement mobile banking services: authorization to use retail agents as CICO points and development of risk-based anti money laundering and combating financing of terrorism rules adapted to the realities of remote transactions conducted through agents
Also, as any other service provider, MFIs face the following barriers for adoption, which is influenced by the culture and behavior of the clients they serve:

- Population / client trust on the mobile service and in some cases on the banking system: users will not change to mobile money services or mobile wallets unless there is a strong value proposition associated with these services
- Customer education / illiteracy and Financial literacy
- Trust and confidence: the implementation of mobile money and mobile banking services involves the use of technology, minimum or non-human interaction, and lack of tangible physical cash that hinders user confidence
- Data security and privacy

On the regulatory restrictions, the position taken by the regulator affects the implementation of mobile financial services. Moreover, the existence, or lack thereof, impacts the ability of MFIs to play a role in mobile banking. MFIs may need to overcome stability in regulation (unclear or conservative guidelines could hurt innovation), non-existing regulation, additional license required for mobile transactions (does regulation make it possible to disburse loans in cost-efficient ways?), restrictions on loan disbursement, KYC, and AML/CFT rules.

7. Raising risks to clients in implementation of mobile banking

It is important to consider the risks MFIs and more importantly the clients they serve face due to the complexity of mobile banking services and the different players that participate (e.g., MNO, agents, third party providers, etc.).

The implementation of mobile banking services and the use of non-banking agents carry operational, financial, reputational (poor customer adoption, trust, and perception), technology, regulatory, compliance, liquidity, financial, legal, international, market, and credit risks.

Considering the focus of the Campaign and the Evolution of Standards, we have emphasized risks that hinder quality services to clients aligned with the Client Protection Principles of the Smart Campaign (appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and mechanism for complaint resolution). MFIs will need to ensure that the service provided by each of the players in the value chain ensures the same quality of ‘high touch’ service they provide to customers.

See DFS - Risk to Clients Mapping on next page. Additional risks to be examined in subsequent research.
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| 1 Clients      | Clients do not make informed decisions because there is not adequate information by providers | Clients are not adequately communicator nor trained on: (i) Service understanding (e.g., how does it work, how to use the service, how to register, how to opt-out) (ii) Trust in the service (e.g., reinforce Client confidence in the service, security of data) (iii) Client service (e.g., where to complain/call if the service does not work, if the transaction did not go through, if the agent does not provide adequate service, etc.) | 1. Appropriate product design and delivery, 3. Transparency, 7. Mechanism for complaint resolution | ↑ | - Focus education on client understanding of the service, trust in the service and how the provider will support if things go wrong.  
- Continuously reinforce client education and keep an open channel of communication.  
- Perform periodic client surveys. | Medium/High |
| 2 Clients      | Inadequate or lack client care channel | Provider offers inadequate support, dispute resolution, and complaints mechanisms to clients. When issues occur: (i) clients do not know who to approach to, (ii) these centers are not accessible, (iii) call centers do not adequately deal with client queries and complaints, (iv) client’s concerns are not addressed in a timely and fair manner. | 1. Appropriate product design and delivery, 7. Mechanism for complaint resolution | ↑ | - Inform and educate client regarding call center/complaint line and corresponding channels.  
- Clearly define which provider is ultimately responsible for resolving clients issues and the time those issues should be resolved. | Medium/High |
| 3 Clients      | Data protection and security | Client identity is stolen and may be used to open an account or perform transactions (identity theft) | 6. Privacy of client data, 7. Mechanism for complaint resolution | ↑ | - Incorporate data security and encryption requirements. However, this could limit the possibility of using SMS technology for monetary transactions and USSD for Txs with higher amounts;  
- Establish minimum security requirements to the mobile money provider;  
- There is need to clearly identify who is financially liable to refund funds to the client if those are stolen. | Medium/High |
<table>
<thead>
<tr>
<th>Who is affected?</th>
<th>Risk</th>
<th>Description of risk</th>
<th>Maps to Smart Campaign Principle</th>
<th>Potential Impact of Risk on Client</th>
<th>Mitigant (options and considerations)</th>
<th>Control of Financial Institution</th>
</tr>
</thead>
</table>
| 4                | Clients | Fraud perpetrated on clients | Clients are defrauded and lose their funds when: (i) Service presents faulty security that allows information to be stolen and misused; (ii) Transactions after a downtime are lost; (iii) Clients share their PINs with another person; or (iv) a non-Client use a friend or family Client’s account (more than one user of the service) to perform unauthorized transactions instead of the registered Client; | 1. Appropriate product design and delivery, 5. Fair and respectful treatment of clients, 6. Privacy of data, 7. Mechanism for complaint resolution | - Improve/repeat client education, users should understand the importance of a PIN and not disclose their PIN number to any other user.  
- If clients suspect the agent of fraud, they should be able to contact the call center or any client care channels or go to the nearest provider shop and report the case for investigation.  
- Regulate for security minimums.  
- Perform account monitoring and other controls supported by technology to evaluate Txs for strange behavior in order to reduce attractiveness of the service for criminal activity (monitoring systems could detect unusual patterns).  
- Evaluate to set Txs limit to avoid ability to cleanup an account in a period of time. However, this needs a study because evidence has shown that limits on Txs may hinder repeat use of the service. | Medium |
| 5                | Clients | Data privacy | Users are not informed/misinformed on how their data and history is being used or shared. Hence: (i) users information could be inappropriately sold or track without users consent; (ii) users could start receiving abused/unauthorized advertising online and cross-marketing. | 1. Appropriate product design and delivery, 3. Transparency, 5. Fair and respectful treatment of clients, 6. Privacy of client data, 7. Mechanism for complaint resolution | - There is still a debate on allowing clients to share data voluntarily, to opt-out as a default from data tracking.  
- The Federal Trade Commission’s report, Protecting client Privacy in an Era of rapid change, urged providers to adopt three practices: (i) privacy by design, (ii) simplified choice for businesses and clients, and (iii) more transparency. | Medium |
| 6                | Clients | Agents incompetence lead to lack of service | Clients cannot access the service because agent does not know how to perform the transaction. | 1. Appropriate product design and delivery, 5. Fair and respectful treatment of clients, 7. Mechanism for complaint resolution | - Reinforce agent training and monitoring.  
- Inform and train client regarding available call centers where they could inform about these agents.  
- In cases where receiver cannot cash out money after a period of time then funds should return to sender and sender should receive a notification. | Medium |
<p>| 7                | Clients | Blocked access to funds or float | Agents often have either cash or float when client is asking for other so they can’t get their money. | 1. Appropriate product design and delivery | - Improve liquidity management such as providing credit, improving procedures and repeat training and monitoring at agents. | Medium/High |</p>
<table>
<thead>
<tr>
<th>Who is affected?</th>
<th>Risk</th>
<th>Description of risk</th>
<th>Maps to Smart Campaign Principle</th>
<th>Potential Impact of Risk on Client</th>
<th>Mitigant (options and considerations)</th>
<th>Control of Financial Institution</th>
</tr>
</thead>
</table>
| 8 Providers, Clients | Insufficient Transparency and disclosure of information | Information on roles and responsibilities of the agent, product fees, prices, terms, conditions, mechanism to address Client’s complaints, and timelines of updates/changes are not disclosed to client. | 3. Transparency, 5. Fair and respectful treatment of clients, 7. Mechanism for complaint resolution | ↑ | - Establish minimum disclosure and transparency requirements and frequency to the mobile money provider.  
- Inform and educate client regarding call center/complaint line and corresponding channels. | Medium/High |
| 9 Clients | Agent’s misconduct or corruption leads to lost funds | Agents charge unauthorized fees or agent does not clearly disclose fees/prices to the client. | 1. Appropriate product design and delivery, 2. Prevention of over-indebtedness, 3. Transparency, 4. Responsible pricing 5. Fair and respectful treatment of clients | ↑ | - Disclosure of fees.  
- Inform and educate client regarding call centers/complaint line where they could inform about these agents. | Medium/High |
| 10 Clients | Agent’s discrimination against clients due to lack of liquidity. | Agents discriminate against Clients due to lack of liquidity. | 1. Appropriate product design and delivery, 5. Fair and respectful treatment of clients, 7. Mechanism for complaint resolution | ↑ | - Define clear recruitment, selection, and monitoring process for agents.  
- Improve liquidity management procedures at agents.  
- Inform and educate client regarding call center/complaint line and corresponding channels. | Low/Medium |
8. Annex A

a. **Partnerships: Deployments of mobile banking in MFIs**

Since it is difficult to identify all mobile banking implementations, the table below –while not exhaustive- provides an overall idea of what MFIs are doing/offering in the mobile money space and the most commons services they offer. This table shows strong cases of partnerships.

<table>
<thead>
<tr>
<th>Country</th>
<th>MFIs</th>
<th>Model</th>
<th>Services offered</th>
<th>MFI features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>KWFT</td>
<td>Partnership with mPesa</td>
<td>Loan repayments and deposits using mPesa’s bill pay functionality</td>
<td>300m active borrowers, loan portfolio of $140mm</td>
</tr>
<tr>
<td>Kenya</td>
<td>Faulu</td>
<td>Partnership with mPesa</td>
<td>Loan repayments and deposits (M)</td>
<td>$58.7mm gross portfolio, 79m active borrowers as of 2012</td>
</tr>
<tr>
<td>Kenya</td>
<td>K-Rep</td>
<td>Partnership with mPesa</td>
<td>Acting as agent of m-banking services</td>
<td>36 full banking branches, over 25,000 loan and 146,000 savings clients</td>
</tr>
<tr>
<td>Kenya</td>
<td>SMEP</td>
<td>Partnership with mPesa</td>
<td>Allows customers to: Group loan repayments, deposit and withdraw savings, check account balance</td>
<td>Launched in 2009. 51m customers</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Tujijenge</td>
<td>Partnership with mPesa</td>
<td>Individual loan repayments</td>
<td>Launched in 2009. 12m customers, as of March 2010</td>
</tr>
<tr>
<td>Mali</td>
<td>KAFO Jiginew</td>
<td>Partnership with Orange Money</td>
<td>Allows customers to deposit and withdraw funds, transfer money, pay bills, and increase call credit.</td>
<td>Launched in 2009 with 300 customers to start; 280,000 depositors and 46,000 borrowers; 102 of its 169 branches are Orange Money agents</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Vision Fund</td>
<td>WING Cambodia</td>
<td>Acting as agent of m-banking services. WING used VisionFund outlets as WING Cash-X-press points for CICO</td>
<td>By end of 2009 Vision Fund had 98m customers, $21.1mm loan portfolio outstanding</td>
</tr>
<tr>
<td>Philippines</td>
<td>MABS (60 rural banks)</td>
<td>Partnership of banks, supported by USAID</td>
<td>Banks are resellers (agents) of GCash in rural areas to 1,019,183 clients.</td>
<td>Closed in 2012 having provided 322 rural banks TA and training in a range of services incl. microinsurance and mobile phone banking. Disbursed more than 3.2 microfinance, microagr, and housing microfinance loans totaling more than $960 million and were managing more than 1.4 million microdeposit accounts with balances of more than $48 million.</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>BRAC</td>
<td>Partnership with bKash</td>
<td>Acting as agent of m-banking services. BRAC is still adjusting the pilot, there are 2000 clients participating in the pilot repaying loans</td>
<td>Biggest MFI in Bangladesh, 6.3mm active borrowers.</td>
</tr>
<tr>
<td>Country</td>
<td>MFI</td>
<td>Partnership Details</td>
<td>Services</td>
<td>Notes</td>
</tr>
<tr>
<td>---------</td>
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</tr>
<tr>
<td>Mongolia</td>
<td>XacBank</td>
<td>P2p transfers and links customer’s current account with her mobile money account,</td>
<td>62m active borrowers, 140m depositors, 80m card holders</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>Tameer Microfinance Bank and Telenor</td>
<td>Partnership between Tameer and Telenor, 2nd MNO)</td>
<td>EasyPaisa Allows customers to Loan repayments and deposits</td>
<td>120m customers, $23.6mm portfolio outstanding, $17mm in deposits</td>
</tr>
<tr>
<td>Malawi</td>
<td>Opportunity Bank</td>
<td>By itself</td>
<td>Provide m-banking services to their customers. Allows customers to deposit and withdraw funds, transfer money, pay bills, and increase call credit.</td>
<td>Supports local microfinance organizations that provide innovative financial solutions. 150,000 customers as of 2007; double from inception.</td>
</tr>
<tr>
<td>Kenya</td>
<td>mPesa and Equity bank of Kenya</td>
<td>Partnerhis</td>
<td>mShwari, Microsavings</td>
<td>Service has 4.8mm accounts with an average savings of USD4.2 and a total of USD 21mm, the number of loans is 1.3mm while the outstanding loans on day 30 are 3.8%, the average loan size is USD 13</td>
</tr>
<tr>
<td>Philippines</td>
<td>BankO</td>
<td>By itself</td>
<td>Payments, savings, credit, and insurance products</td>
<td>Established in 2009 as a milestone partnership between the Bank of the Philippines Islands (BPI) and Globe Telecom. Has extended over 2B Philippine pesos in loans to its partner MFIs, successfully reaching over 400,000 micro-entrepreneurs.</td>
</tr>
<tr>
<td>Kenya</td>
<td>Musoni</td>
<td>By itself (example of a pure mobile model)</td>
<td>Credit and savings</td>
<td>Musoni Kenya, founded in 2009, is the first 100% mobile microfinance institution in the world. The company has established five branches, serves over 10,000 clients and has disbursed loans with a combined value of over $15m to Kenyan micro entrepreneurs. In April 2013 Musoni created two subsidiaries: Musoni Services and Musoni Investments.</td>
</tr>
<tr>
<td>Mexico</td>
<td>Compartamos</td>
<td>Partnership with Oxxo</td>
<td>Banking agency</td>
<td>Compartamos Banco, S.A., a Mexican bank specialized in microfinance, is the largest lender to microbusiness owners in Latin America. Established in 1990 and headquartered in Mexico City, Compartamos provides small loans to low-income Mexican individuals and business owners. Has coverage in over 90% of Mexico.</td>
</tr>
</tbody>
</table>
b. Terminology

- **AML/CFT**: Anti-Money-Laundering and Combating the Financing of Terrorism
- **Branchless banking**: an alternative delivery channel that allows MFIs to offer customers financial services beyond the frontiers of brick and mortar branches by using mobile phones of non-bank retail agents. It incorporates technology channels such as cards, POS (point of sale), and ATMs
- **CICO**: cash-in and cash-out transactions
- **DFS**: Digital financial services, the mix of branchless banking and mobile banking services. DFS = BK and MFS
- **Insurance**: Practice by which a company or government agency provides guarantee of compensation for specified loss, damage, illness, or death in return for payment of a premium
- **KYC**: Know Your Customer refers to the process used by a business to verify the identity of clients. Also refers to bank regulation which governs such activities. KYC policies are becoming increasingly important globally to prevent identity theft, financial fraud, money laundering and terrorist financing.
- **Loan Disbursement**: The distribution of funds acquired through receipt of a loan contract
- **MNO**: Mobile network operator
- **Mobile banking services**: provision of services such as mobile banking and mobile payments by either a financial institution or a MNO in partnership with a financial institution
- **Mobile banking services models**
  - MNO-led model, the most prominent business model
  - Bank-led model, led by a bank or an institution with a financial license (e.g., XacBank in Mongolia)
  - Third-party-led model, the institution or organization is created for this purpose (e.g., wizzit, WING, Yellow Pepper, g-Cash). Usually this organization receives a license from the central bank to offer financial services or to partner with a financial service provider
  - Hybrid model, usually a joint venture between an MNO and a financial institution (e.g., Tameer bank in Pakistan which partnered with Telenor; Telenor owns 51% of Tameer bank)
- **Providing mobile banking solutions**
  - A SIM-integrated service, like the one implemented by mPesa requires active participation of the MNO because the SIM card is pre-loaded with the application
  - USSD solutions, supported by all phones and requires minimal involvement of the MNO in the installation or implementation. A short-code access must be negotiated with the MNO.
- **Payment stream usages through mobile banking**
  - Bill: Payment of utilities (e.g. water and sanitation, electricity, gas) as well as school fees and healthcare costs
  - Merchant: Payment for goods and services acquired through merchants and retailers
  - Loans: Re-payment of debts as through MFIs, banks, or other parties
- **Payment Types**
  - B2G Transfers: Business-to-government payment
  - B2P Transfers: Business-to-person payment
  - G2P Transfers: Government-to-person payment
  - P2P Transfers: Person-to-person payment
- **Savings**: Income retained; deferred consumption.
- **Top-up**: To replenish credit as to a mobile SIM card
- **USSD**: Unstructured Supplementary Service Data is a protocol used by GSM cellular telephones to communicate with the service provider's computers.

<table>
<thead>
<tr>
<th>1</th>
<th>Client Protection Principle 1: Appropriate Product Design and Delivery Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 1</td>
<td>The FI designs products that are appropriate to client needs and do no harm</td>
</tr>
<tr>
<td>1 2</td>
<td>The FI seeks client feedback for product design and delivery</td>
</tr>
<tr>
<td>1 3</td>
<td>The FI does not use aggressive sales techniques</td>
</tr>
</tbody>
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<thead>
<tr>
<th>2</th>
<th>Client Protection Principle 2: Prevention of Over-indebtedness</th>
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</thead>
<tbody>
<tr>
<td>2 1</td>
<td>The FI conducts appropriate client repayment capacity analysis before disbursing a loan</td>
</tr>
<tr>
<td>2 2</td>
<td>The FI incentivizes quality loans</td>
</tr>
<tr>
<td>2 3</td>
<td>The FI uses credit bureau and competitor data, as feasible in local context</td>
</tr>
<tr>
<td>2 4</td>
<td>The FI Management and Board is aware of and concerned about the risk of over-indebtedness</td>
</tr>
<tr>
<td>2 5</td>
<td>The FI's internal audit department monitors that policies to prevent over-indebtedness are applied</td>
</tr>
<tr>
<td>2 6</td>
<td>The FI avoids dangerous commercial practices (i.e., avoids combining loan products to meet the same need, or restricting the loan use; sets prudent limits to allow for the renewal of a loan in case of early repayment; sets guidelines for appropriate rescheduling policies)</td>
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<thead>
<tr>
<th>3</th>
<th>Client Protection Principle 3: Transparency</th>
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<tbody>
<tr>
<td>3 1</td>
<td>The FI fully discloses cost and non-cost information</td>
</tr>
<tr>
<td>3 2</td>
<td>The FI communicates proactively with clients in a way that clients can easily understand</td>
</tr>
<tr>
<td>3 3</td>
<td>The FI uses a variety of disclosure mechanisms</td>
</tr>
<tr>
<td>3 4</td>
<td>The FI leaves adequate time for client review and discloses at multiple times</td>
</tr>
<tr>
<td>3 5</td>
<td>The FI provides accurate and timely account information</td>
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<tr>
<th>4</th>
<th>Client Protection Principle 4: Responsible Pricing</th>
</tr>
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<tbody>
<tr>
<td>4 1</td>
<td>The FI offers market-based, non-discriminatory pricing</td>
</tr>
<tr>
<td>4 2</td>
<td>The FI's efficiency is in line with its peers</td>
</tr>
<tr>
<td>4 3</td>
<td>The FI does not charge excessive fees</td>
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</tbody>
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<tr>
<th>5</th>
<th>Client Protection Principle 5: Fair and Respectful Treatment of Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 1</td>
<td>The FI culture raises awareness and concern about fair and responsible treatment of clients</td>
</tr>
<tr>
<td>5 2</td>
<td>The FI has defined in specific detail what it considers to be appropriate debt collection practices</td>
</tr>
<tr>
<td>5 3</td>
<td>The FI's HR policies (recruitment, training) are aligned around fair and responsible treatment of clients</td>
</tr>
<tr>
<td>5 4</td>
<td>The FI implements policies to promote ethics and prevent fraud</td>
</tr>
<tr>
<td>5 5</td>
<td>In selection and treatment of clients, the FI does not discriminate inappropriately against certain categories of clients</td>
</tr>
<tr>
<td>5 6</td>
<td>In-house and 3rd party collections staff are expected to follow the same practices as the FI staff</td>
</tr>
<tr>
<td>5 7</td>
<td>The FI informs clients of their rights</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>6</th>
<th>Client Protection Principle 6: Privacy of Client Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 1</td>
<td>The FI has a privacy policy and appropriate technology systems</td>
</tr>
<tr>
<td>6 2</td>
<td>The FI informs clients about when and how their data is shared and gets their consent</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>7</th>
<th>Client Protection Principle 7: Mechanisms for Complaints Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 1</td>
<td>The FI's clients are aware of how to submit complaints</td>
</tr>
<tr>
<td>7 2</td>
<td>The FI's staff is trained to handle complaints</td>
</tr>
<tr>
<td>7 3</td>
<td>The FI's complaints resolution system is active and effective</td>
</tr>
<tr>
<td>7 4</td>
<td>The FI uses client feedback to improve practices and products</td>
</tr>
</tbody>
</table>
10. Annex C – About the Authors

Smart Campaign

In response to a strongly recognized need to assure safe and responsible treatment of their clients, microfinance industry leaders from around the world came together in 2008 to agree on a set of Client Protection Principles to guide the microfinance industry. They recognized that when financial services are delivered in accord with the principles, clients are enabled to use financial services well and providers build a foundation for healthy operation for years to come. Launched in October 2009, the Smart Campaign was created to put the principles into action. Engaging the entire microfinance industry, the Smart Campaign has become a global movement to embed client protection into the DNA of the microfinance industry and the broader financial inclusion space. The Smart Campaign works with microfinance leaders from around the world on a common goal: to keep clients as the driving force of the industry by providing microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients. The Smart Campaign believes that protecting clients is not only the right thing to do, its the smart thing to do.

Today, the Smart Campaign is truly a global effort with a wealth of tools and resources and an ambitious action agenda. It is changing the way microfinance institutions protect their clients. Industry uptake has been overwhelmingly positive: it has garnered over 4,000 endorsers from 139 countries, including over 1,200 MFIs. At present, 15 MFIs have achieved Client Protection Certification, reaching close to 5 million clients. These institutions have met rigorous criteria for their treatment of clients, as verified by third party certifiers. The Campaign is now recognized as the go-to place for client protection, which gives it both enormous opportunity and enormous responsibility to carry its work forward.

Accion Channels and Technology Team

The Accion Channels and Technology Teams are responsible for supporting microfinance institutions and banks implementing and managing their digital financial service channels. The expertise range from strategy development and planning to project management and implementation of technological and channel innovations. The team has hands-on experience increasing consumer adoption of digital financial services and enhancing its implementation. Accion has worked closely with its partners in Colombia and Ecuador implementing channels such as ATM’s, minibranches, mobile banking, and agent networks, and advised and supported these institutions during the stages of strategy planning, defining objectives, market research, development, testing, and launching, as well as training management and field staff. The Accion Marketing Team has led in-depth demand-side projects to understand constraints to adoption and usage of a variety of technology-enabled products.

11. References

References used for this research are shown below. Worth noting is that there are few studies regarding how MFIs are currently or planning to use branchless banking and the intersection of mobile and microfinance.

- Mobile banking study: Experiences and perspectives of MFIs by MFO and TripleJump http://www.fgda.org/dati/ContentManager/files/Documenti_microfinanza/Mobile-Banking-Study.pdf, TripleJump and MFO interviewed 123 MFIs in 2013, 73 responded the mobile banking survey. Only 13 MFIs were providing mobile banking services.