

# Deepening Microfinance Services in the Digital Era

---

David Cracknell, First Principles Consulting, [david@firstprinciples.consulting](mailto:david@firstprinciples.consulting)

# David Cracknell



30 year's-experience in financial services. Focus on strategy, digital finance, innovation, agency banking, digital agriculture, policy and regulation, service delivery, training and capacity building of boards, excos and innovation teams. Judge on banking awards.

Consulting experience in over 25 countries in Africa and Asia.

Africa: Kenya, Uganda, Rwanda, Tanzania, South Africa, Ethiopia, South Sudan, Egypt, Malawi, Mozambique, Zambia, Cameroon, Nigeria, Ghana, Senegal, DR Congo.

Thought leadership - 29 blogs on financial services, with five more planned. Available on [www.firstprinciplesinfinance.com](http://www.firstprinciplesinfinance.com), distributed on [LinkedIn](#)



# Digital microfinance - basics

- **Field based applications:** to automate loan officer operations.
- **Apps:** To engage with customers or for savings groups.
- **Origination:** Onboarding (KYC, agency).
- **Documentation:** Document management.
- **Decisioning:** Credit scoring (yes, no, maybe).
- **Monitoring and management:** Portfolio alerts, field staff management, collections.
- **Integrations:** For services and data according to our strategy.
- **Channels:** Digitisation offers the potential for new channels.

It is now a hygiene factor: Basic digitisation is no longer a competitive advantage in a mature market.

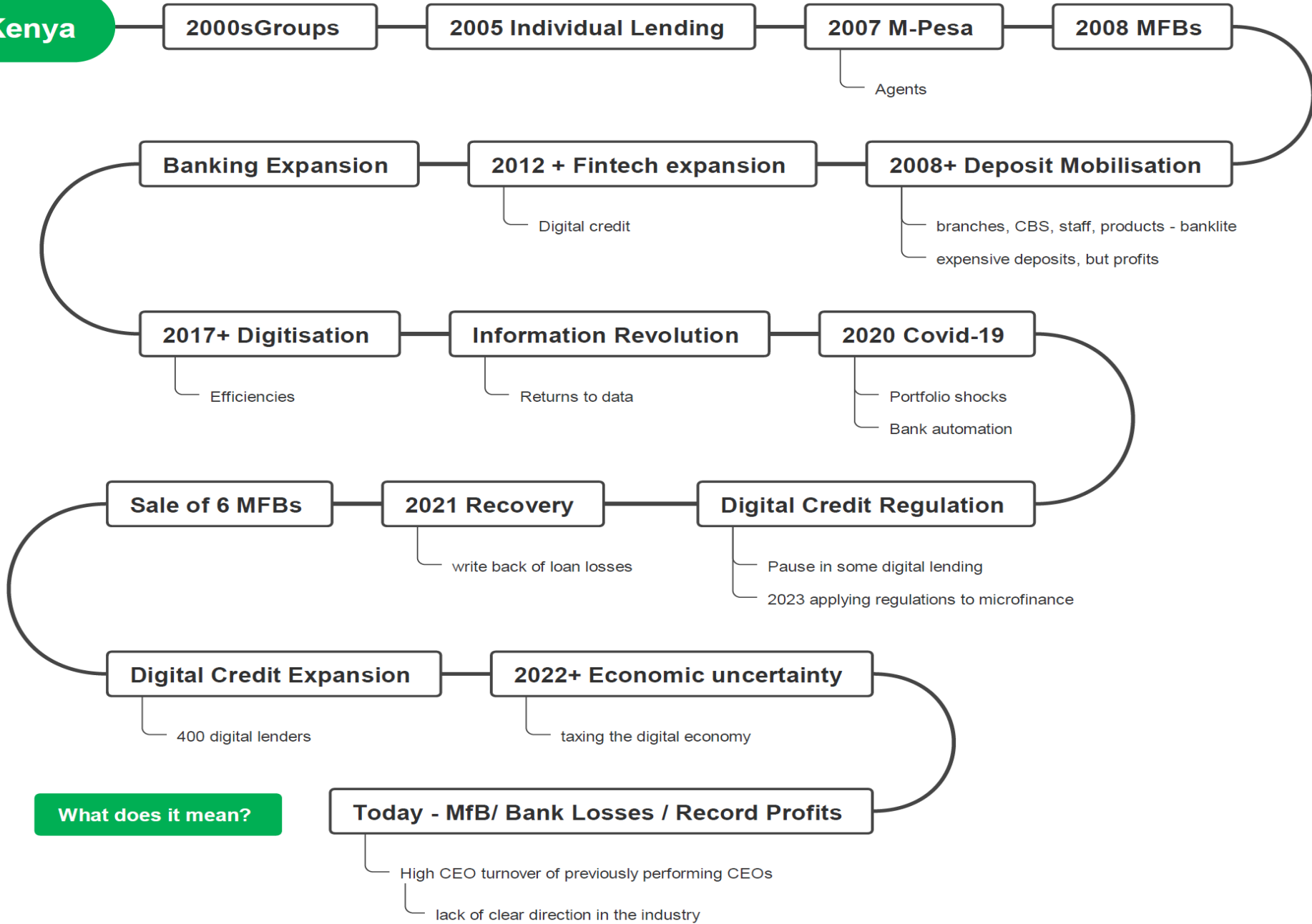
# Digital era creates strong headwinds for MFBs

---

1. Economic uncertainty
2. Evolution (Kenya)
3. Changing banking environment
4. Competition of digital credit
5. Commoditisation, bank outreach
6. Branding crisis
7. High costs of deposits
8. Legacy cost structure
9. Changing consumer behaviour



**Kenya**

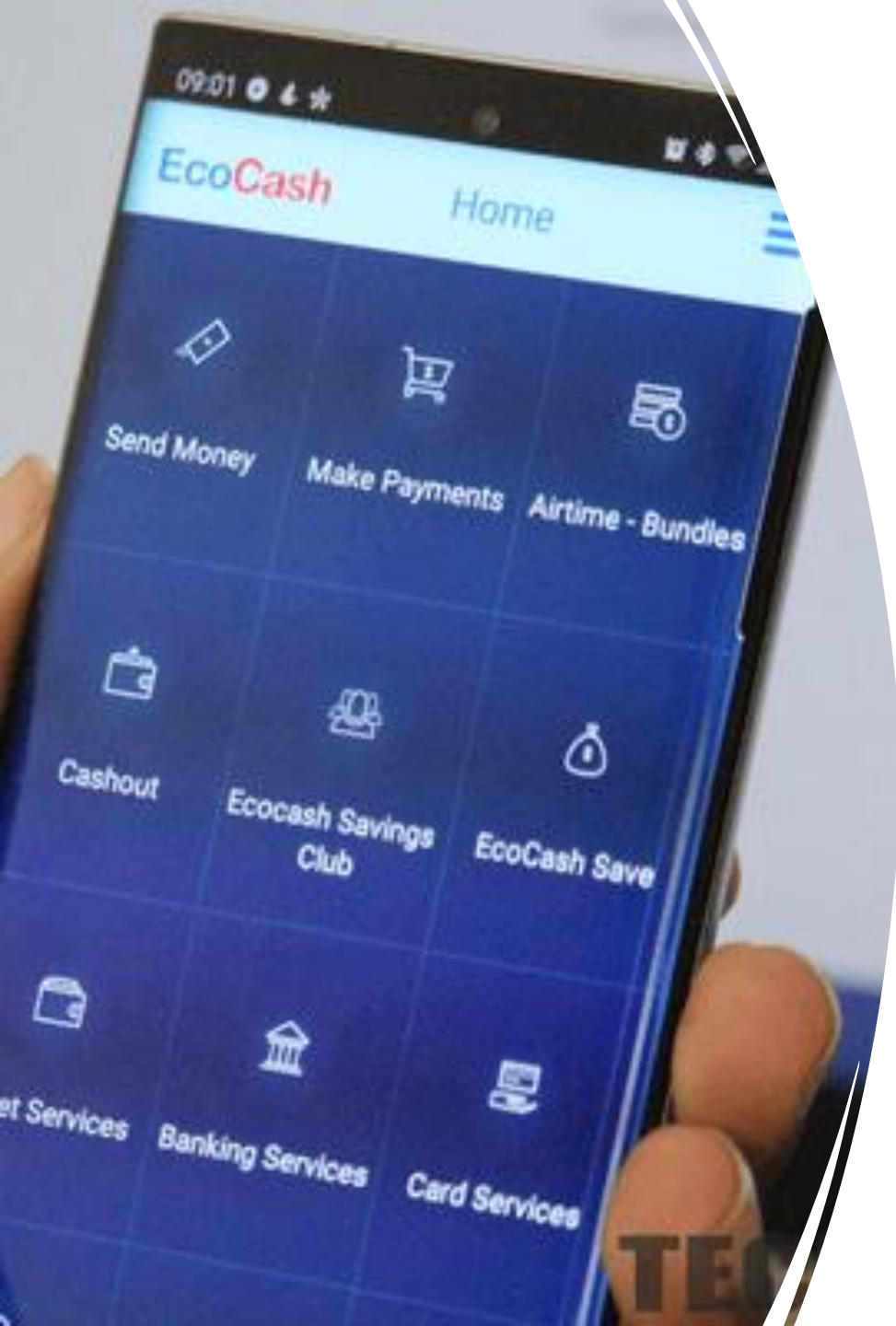


# Changing banking environment

---

- Hygiene factors have increased, back-office automation, channels.
- Increased momentum on ESG
- Green finance
- Widespread fintech / payment services
- Digital agricultural finance
- Embedded financial services
- Sector based platforms
- Traditional verticals mean less (working across silos means more)





# Competition from digital credit providers

---

- Widespread instant credit in Kenya:
  - Over 400 digital credit providers have registered with the CBK. This is expanding to MFIs.
  - Rapid growth in PAYGO based credit (MoGo, M-Kopa, Lipna Later).
  - Instant credit is offered by commercial banks against internal credit scores.
  - Similar techniques also enable MFBs to offer instant credit.
- ... the supply of instant credit has grown significantly.

# Commoditisation of financial services

---

- Commercial banks and microfinance institutions can use digital technology and digital finance to provide services cost effectively to a much wider group of customers.
- This is leading to a commoditisation of financial services.
- Its far more difficult as a customer to 'see' where to go for finance than previously. Brands have been affected.





# Legacy cost structure

- Almost all regulated financial institutions today established before 2000, have a legacy cost structure which includes high costs for IT and high costs for a branch infrastructure, and a staffing strategy which is influenced to some extent by infrastructure.





**CHANGE  
AHEAD**

# Changing consumer behaviour

---

- Consumers can more easily sign up to a bank account, and/or access financial services through a mobile.
- Repayment discipline has likely been affected by the digital revolution.
- Customer loyalty has decreased.
- New digital environment can be difficult for customers to navigate.

# Potential Strategies

- **Drive efficiencies:** It's not enough. People are important in microfinance.
- **Restructure:** It's not enough, but it will have to be done and it will help to reduce costs.
- **Focus where others are not:** Who we serve, how we serve, the financially excluded.
- **Understand your customers:** Build better services, **build around behaviour.**
- **Include high return products:** Short-term working capital, PAYGO services.
- **Collaboration:** With peers, with technology service providers, with regulators, policy makers
- **The right technology:** **Use BaaS, PaaS.**
- **Outreach:** Apps, **agents**, collaborations, third parties. User Interfaces, User Experience.
- **Drive innovation:** Innovation teams, **embedded finance, product evolution.**
- **Drive integration:** Follow value chains (not just in agriculture)
- **Build and use data:** Information decreases risk and builds new services.
- **Follow the money:** Climate change, **ESG, digital agricultural finance.**



# Financially excluded

- Rural populations: (reimagining rural finance, digital agricultural finance)
- Refugee populations: (ecosystems)
- Literacy/numeracy: (assisted transactions through agents)
- Poorer populations: (digitising savings groups, use case development)

# What do we have to invest in?



- **Strategy:** Rethink
- **People:** What skills do we need.
- **Technology:** What technology do we need, technology partnerships.
- **Research:** Understand our customers.
- **Data:** Data we use, and the capacity to use data.
- **Channels:** How we deliver our services
- **Attitude:** Re-imagine, re-think, go back to first principles.

# First Principles Blogs

1. [Seven Principles for reimagining financial services](#)
2. [Developing ecosystems for digital financial services](#)
3. [Reimagining rural finance](#)
4. [Understanding agent banking strategy](#)
5. [The potential of shared platforms for SACCOs in Kenya](#)
6. [Designing financial services for gig workers](#)
7. [Kenya's remarkable financial inclusion journey](#)
8. [Winning banking awards](#)
9. [What next for my career in retail banking in Africa](#)
10. [Kenya's draft national payments vision and strategy](#)
11. [Crowdfunding in Africa](#)
12. [African banking infrastructure in transition](#)
13. [A personal journey the ESME Oxford University fintech programme](#)
14. [Becoming a consultant in the financial services industry](#)
15. [Financial conduct in the digital finance age](#)
16. [The M-Pesa case study - Professor Njuguna Ndungu](#)
17. [Supporting fintech development in Uganda - Olga Kinconco](#)
18. [Supporting African fintech - accelerators, incubators, and labs](#)
19. [Lessons for Africa from the Kalifa Review of UK Fintech](#)
20. [Managing rural liquidity for digital financial services](#)
21. [Real world financial services: Finance and the sustainable development goals](#)
22. [Regulating alternative finance](#)
23. [Regulating nano lending in Kenya](#)
24. [Predicting the future of fintech in Africa \(recommended\)](#)
25. [Fintech generations](#)
26. [Digital finance for agriculture](#)
27. [Customer service week again - get real about service delivery in financial institutions!](#)
28. [African banks' existential branding crisis](#)
29. [Has digital agricultural finance come of age?](#)
30. [The impact of the taxation of digital finance on financial inclusion \(forthcoming\)](#)
31. [Leveraging ESG for financial institutions \(forthcoming\)](#)
32. [Formulating successful policies for financial services \(forthcoming\)](#)
33. [Weathering the storm - financial sector trends for MFBs and potential solutions \(forthcoming\)](#)
34. [Interoperability in East Africa \(forthcoming\)](#)

[www.firstprinciplesinfinance.com](http://www.firstprinciplesinfinance.com)



 42 RIVERSIDE DRIVE  
NAIROBI  
 BOX 76436 - 00508  
KENYA  
 +254-733-713380

 DAVIDJCRACKNELL  
 DAVID@FIRSTPRINCIPLES.CONSULTING  
 @DAVIDJCRACKNELL  
 FIRSTPRINCIPLES.CONSULTING