

Reflection 15. Learn from Successful Fintechs - Build Continuously

There are so many lessons to learn from the fintech revolution. Much of the terminology and methodologies come not from traditional financial services, but from the technology industry. So 'agile' software development approaches – inform how to develop services, 'A/B testing' informs how to test and refine, and 'use' cases are developed which are highly focused. So, there is a discipline in developing new services, just not one that many traditional bankers would recognise.

But the subject of this blog is the necessity to build and evolve continuously. This is easily seen through an example. Kopa Kopa a Kenyan fintech helped to build merchant services through Lipna M-Pesa. As well as facilitating the payment itself Kopa Kopa had an excellent merchant portal which provided real time information on transactions to the merchant. Over time commission rates from M-Pesa were reduced, but Kopa Kopa now knew its merchants and their transactions. It was able to offer working capital loans with a difference, with loan repayments being a fraction of the value of the merchant transactions processed. This provided relatively secure lending and more rapid repayment of loans.

In the case of Kopa Kopa, and many other fintechs, the build, the evolution of the core product is where the real value is. This is very different from the approach that the banking industry takes to develop its products and services, where products are built around a core loan, whilst loan features differ, there is limited integration into the lifestyle, lifecycle, or business process of the customer.

This is changing. But it is changing too slowly. So, let us list some lessons:

1. Business Basics: Basics include the customer value proposition, the launch business case, the retail and regulatory environment. All will need to be considered, because we are innovating.
2. Evolution: A fintech will commence with a launch proposition. So, M-Pesa started around cash in cash out, person to person transfers, and select bill payments. The launch proposition created 'stickiness,' so that large numbers of people signed up. This creates the customer base to build on.

So where is the build, often it's in the application of data, often alternative data which enables the fintech and its partners to better focus products or services. Payment flows used to inform digital lending, for example.

3. Uniqueness: A challenge for many fintechs is that a simple value proposition such a nano loan, is easy to replicate, even though it may be difficult to perfect. There are more than 400 digital credit lenders that have applied to the Central Bank of Kenya. So good ideas can be copied or modified by those who are in a better position to run with the idea.
4. Platforms: Platforms are one way to create uniqueness, an individual service may be easy to replicate, but the overall offering may be much more difficult. So, the range of services that Peshesha can provide, or those that offered through the Little platform.

5. Value chains / supply chains: Working through value chains and supply chains, particularly those which are digitising offers the potential to provide a suite of services through the relationships that already exist within the value chain.

Financial institutions must reflect on these lessons, think about building products and services strategically, around lifestyles, business needs, or through supply chains and as a suite of services, or about providing the financial back end to fintech services or business solutions.

First Principles Consulting can help you think through your product development process, ideate on a core product and its evolution.

If this reflection speaks to you... speak to me so that we can inspire change, together.

David Cracknell

Additional reflections in this series can be downloaded from www.firstprinciplesinfinance.com

