Reflection 17. Be More Than Virtually Present

Digitisation, and digital finance has disrupted all forms of retail finance, no more so than in East Africa the home of M-Pesa. On the positive side, digital channels have enabled hundreds of millions of people worldwide to access financial services. Mobile money and agent banking have brought a wide range of financial services to doorsteps. Once onboarded and familiar with accessing financial services through mobile phones customers learn to access new services on their own. From an institutional perspective the cost of onboarding and service provision have decreased, whilst physical infrastructure requirements have reduced significantly.

Nature of Digital Financial Services: But here is where there is a fundamental change. The discussion around digital financial services is around UI/UX – User Interface and User Experience, i.e., ensuring the design around the interface – typically, the mobile phone – and the flow of the service or transaction can be understood by the consumer and operated without error.

Over time through testing and operational experience pain-points in the service are identified and improved. This can be seen through the evolution of M-Pesa, through confirmation messages and the expansion of call centres, for example.

Challenges of Virtual Presence: Despite the sincere efforts of the fintech industry, there are challenges which are introduced because of the virtual nature of services.

a) *Service recovery*: What happens when thing go wrong. This has been a continuous focus of Safaricom, they have provided a wide range of solutions to ensure fewer and fewer M-Pesa transactions go awry and to resolution when things go wrong. However, is this the case for other fintechs, who don't have the resources of Safaricom?

b) *Trust and communication*: Not every fintech is created the same. This was seen during the expansion of digital credit lenders in Kenya, where there were widespread reports of abuses in communications, in exorbitant interest rates, raising real questions about informed consent.

c) *Downtime*: Virtual services go down, fortunately, not often, nevertheless, when they do it can create real difficulties.

d) *Relationship*: As services have become more virtual and more dependent upon third parties there is a significant risk that financial service providers become more distant from their customers. Customer relationships weaken and there is less loyalty. Once strong relationships become transactional.

e) *Transactional services*: Increasingly financial services have become transactional, based around a particular service, or use case. It is the strength of financial technology. But it also has costs.

f) *Need for greater customisation*: Whilst digitisation can have huge impact, in many areas such as digital agricultural finance there is often a need for greater customisation, around value chains for example. In this context one size fits all, hasn't been very successful.

So, if being virtually present has its advantages, and costs what can be done to manage the challenges?

a) *Be very good at being virtually present*: Invest in UI/UX and service recovery. Identify and manage the weakness of being virtually present.

b) *Identify areas in which technology can facilitate transactions, but where there is still a strong relationship component:* This could be an area where microfinance institutions with a field presence have an advantage. Savings groups work in part because of village level relationships.

c) *Invest in the 'man in the middle'*: Bangladesh has a different form of bank agent than in most countries, where an agent is expected to be able to deliver a wider range of bank services facilitated by technology. In digital agricultural finance the 'man in the middle' has been shown to be key in driving some services. See blog: Has digital agricultural finance come of age?

d) *Communicate*: Communicate virtually, use technology to facilitate communications, but ensure consistent communications through multiple channels including in person and through agents.

e) *One to many*: Retain physical outreach and contact with clients, even where this more often one to many rather than one on one.

f) *Invest beyond transactional services*: For example, through value chains and supply chains, and for slightly larger loans where relationships and assessments are still important and go beyond automation.

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

David Cracknell

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