



# Digital transformation for financial institutions

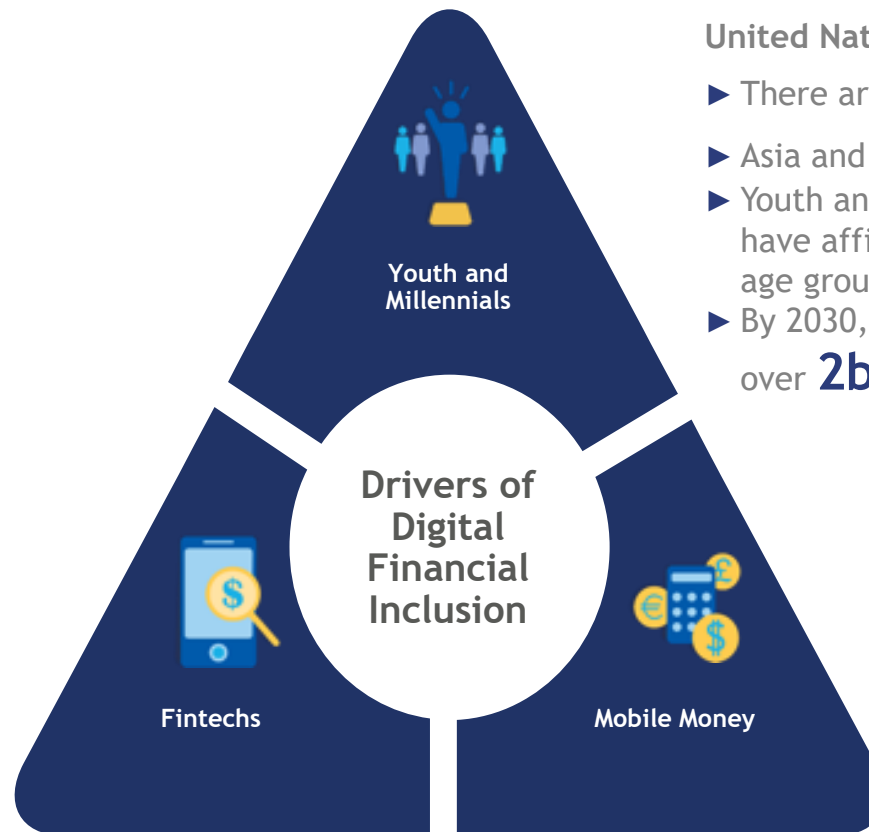
*Digital Conference 2019, Nepal*

**May 2019**

# Changing with time and technology

## “New Digital Economy”

An innovation economy framed around globally connected technologies has emerged in which powerful tech companies leverage these new technologies to develop business models that deliver a different kind of consumer experience.



Lets Talk Payments reports:

### ► 8,000+ fintech startups

serve users across **16** financial services categories globally

### ► USD 45bn in capital

► Resulting in fundamental changes in the core infrastructure of the finance industry

United Nations observes:

- There are over **2.1bn** youth globally
- Asia and Africa have over **1.2bn** youth
- Youth and millennial by contrast are digital natives and have affinity to adopt digital much faster than other age groups
- By 2030, the number of youth in Asia and Africa will be over **2bn**

GSMA's SOTIR 2018 reports:

- There are **272** deployments, over **866m** registered mobile money accounts
- Mobile money industry is processing over **\$1.3bn** per day

## Are FinTechs and digital credit displacing traditional financial services? (Case of Kenya)



**~9 million users**



**Average loan size ~\$35 and increasing**

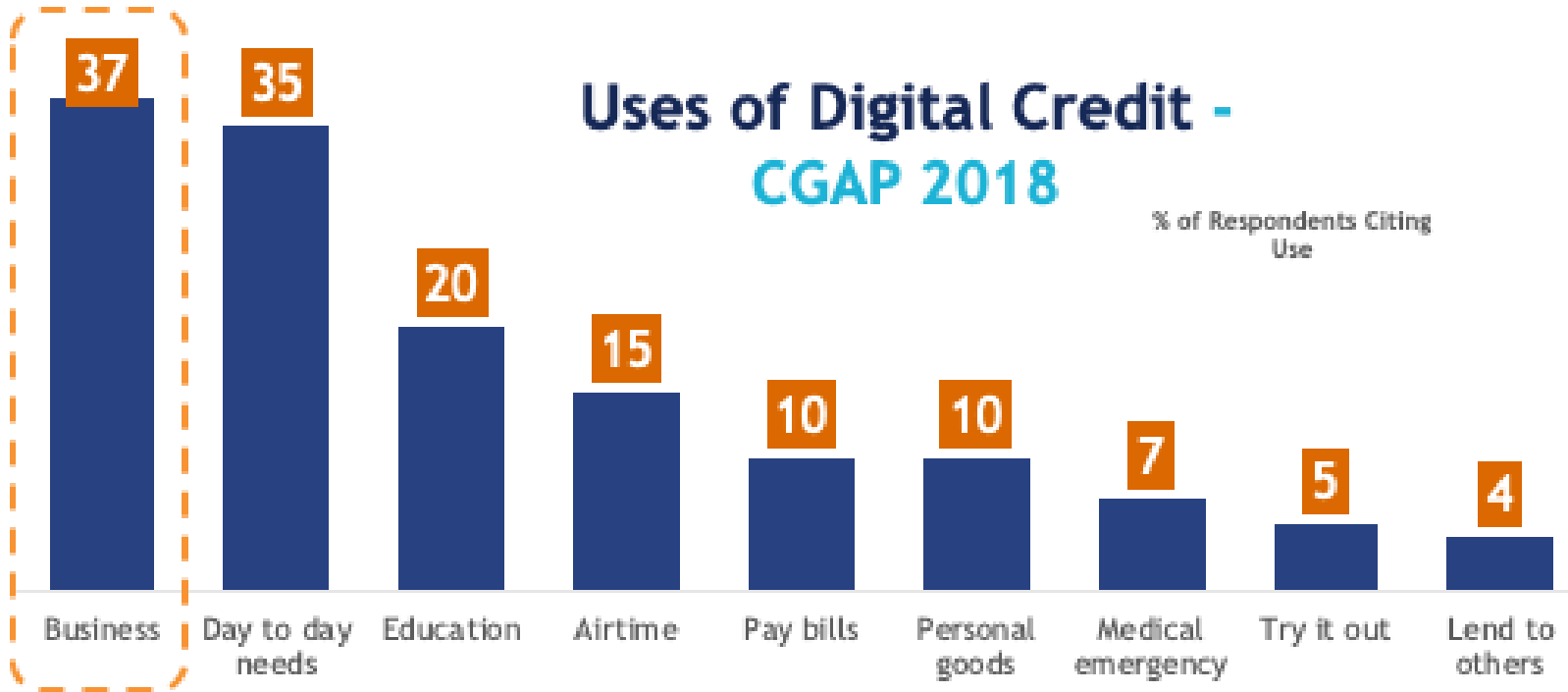
Typically repayable in a month



**APR Interest 50-600+%**

Digital credit enables access to credit for the **traditionally riskier category of customers** by slotting them with better loan grade customers with a chance for them to get lower priced credit.

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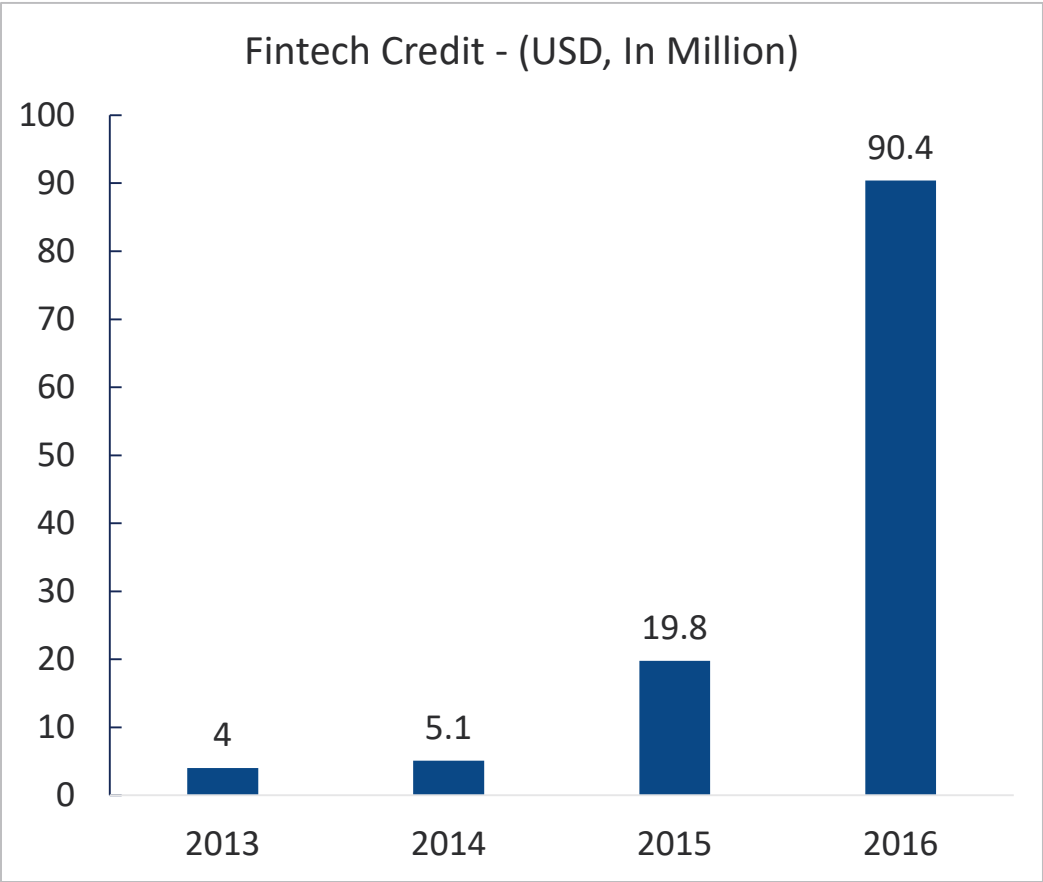
Digital loans in Kenya are used for business. Also, it is **substituting informal finance** as it provides privacy.

Digital credit **has begun to displace traditional financial services.**

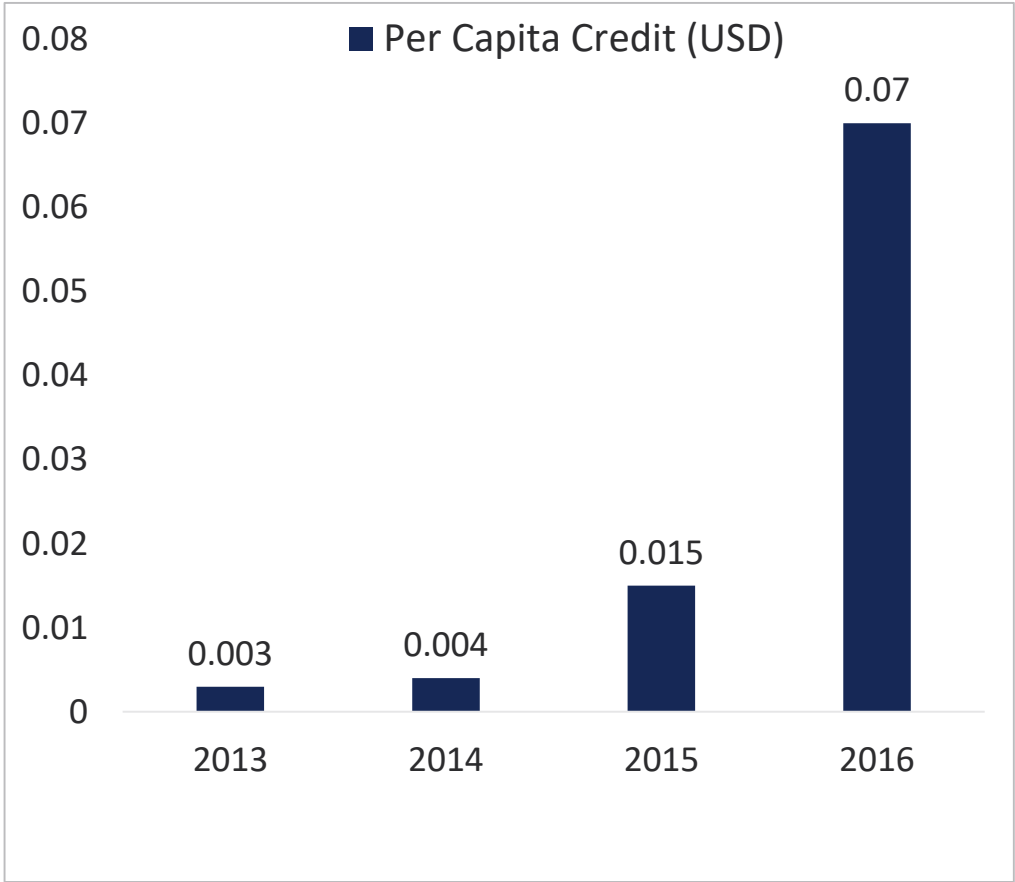
Digital credit providers will **eventually cream off the high value customers** leaving the lower value, less profitable customers in more rural locations with the traditional financial services.

# Examples: Digital Credit in India is growing rapidly

The Fintech credit grew over 180% CAGR in last 3 Years

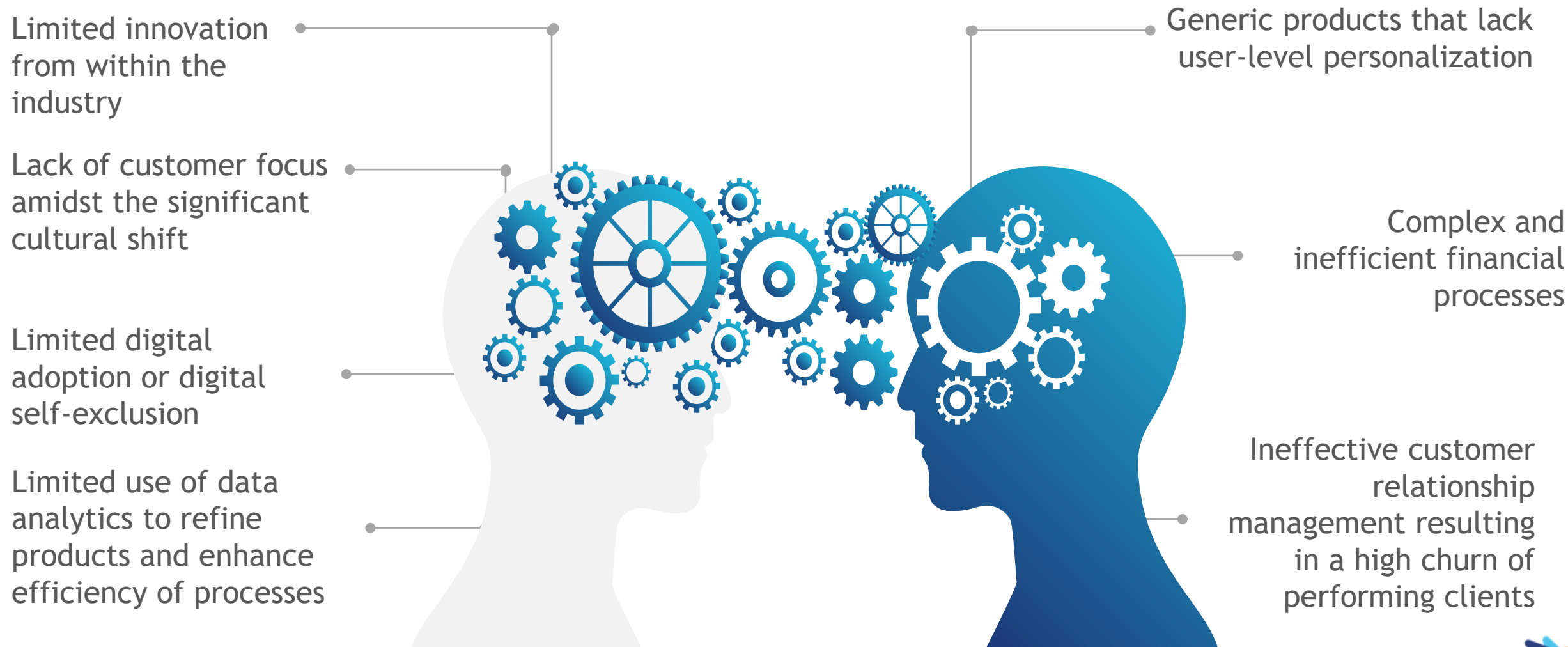


Per capita fintech credit increased over 20 times



# Is traditional financial services industry facing existential crisis?

The traditional financial services industry is impacted by a confluence of factors and the emergence of digital credit and FinTechs



# Traditional financial services industry needs to re-invent itself

For traditional financial services industry to remain relevant, it needs to transform digitally and adopt technology. To do so, it needs to:

## Reinvent its culture

Cultural change and adopting innovation mindset

## Meet users' expectations

Users expect affordable pricing, quick and easy recourse, understanding of the services, efficient processes, and human touch

## Manage time and space transitions

Leverage relationships, data, innate customer awareness, and local understanding to develop a high-tech and human touch model

## Anchor on user experience

User experience built on mimicking behaviors; intuitive services; managing adoption bottlenecks; design thinking; and personalization

## Manage emerging risks

Manage institutional risks (technology, partnerships, operational), and client-level risks (pricing, agent risks, fraud, recourse, and data privacy)



# FinTechs are disrupting traditional financial services markets

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# FinTechs are transforming financial services globally

FinTech combines innovative business models and technology to enable, enhance and disrupt financial services

**8,000+ FinTech start-ups** serve users across 16 financial services categories globally

FinTechs are leveraging on technology and **creating new distribution channels**

FinTech disrupts established business models by **creating new and efficient means of providing services**

USD 45 billion in capital has been invested in the FinTech start-ups globally

FinTechs have led to the  
emergence of **new  
customer segments  
previously unreachable**



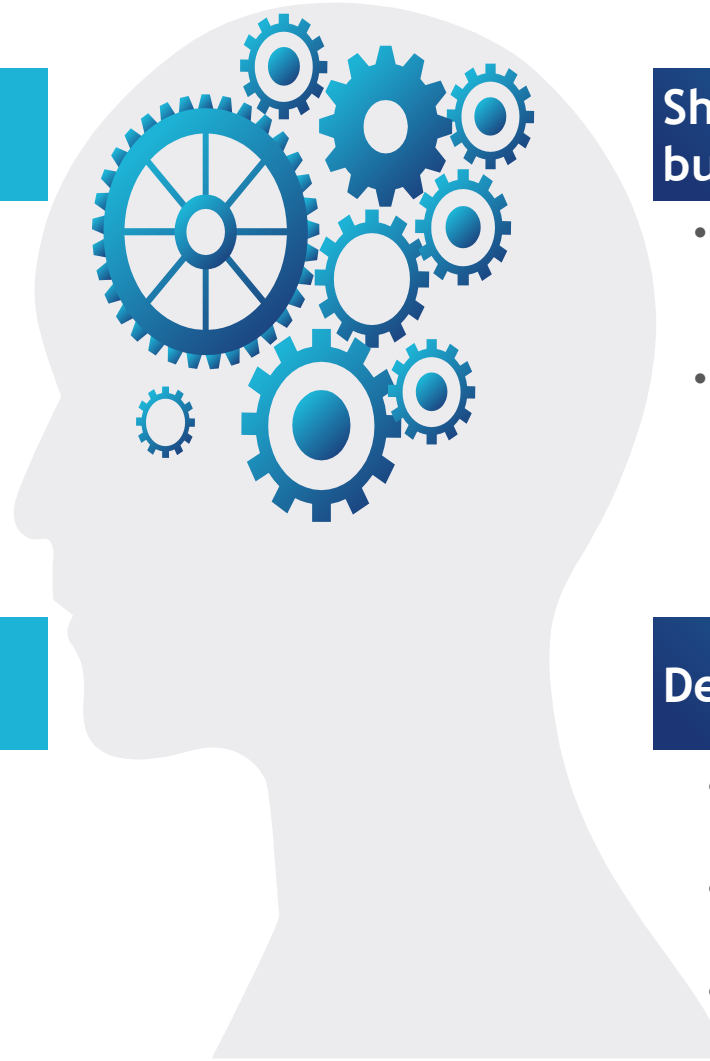
# Are FinTechs disrupting the traditional financial services industry?

## Existing gaps in services offered by traditional financial service providers

- Limited customer centricity resulting in customer dissatisfaction
- High-cost branch networks, legacy IT systems, and regulatory compliances

## Technological advancements

- Digitization of transactions, data analytics
- Better understanding of the users, personalization of solutions, and automation of processes



## Shared economy and emergence of new business models

- Shared economy provides access to high-quality assets and services at an affordable cost
- Rise of shared services such as peer-to-peer lending and insurance, interoperable platforms, and shared agent networks

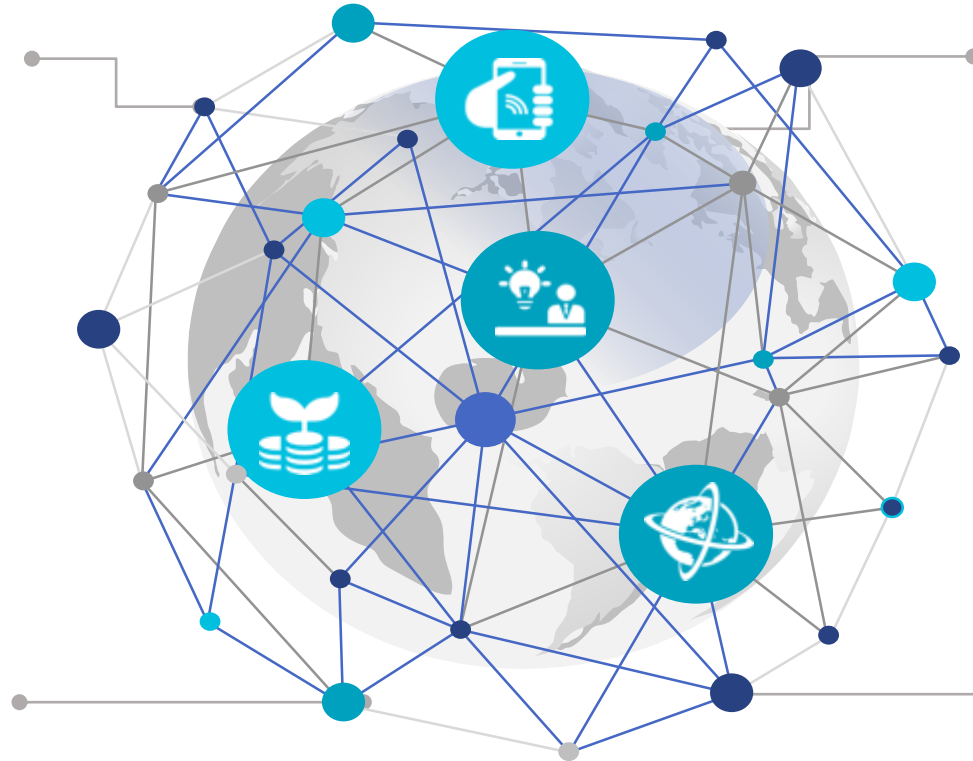
## Demographic and cultural shifts

- 50%<sup>#</sup> of the world's population is young
- Desires to transact differently from the way their parents did
- Require personalized solutions, mobile-first, priced affordably and delivered using a mix of channels

# FinTechs fill up the void

FinTechs disrupt financial services and financial information by:

Disaggregating value chains and offering better financial solutions



Making use of open platforms to provide a variety of services

Use of alternative information to complement or substitute traditional methods

Customization and personalization through better data collection and analytics

# Implementing digital transformation for traditional financial service providers

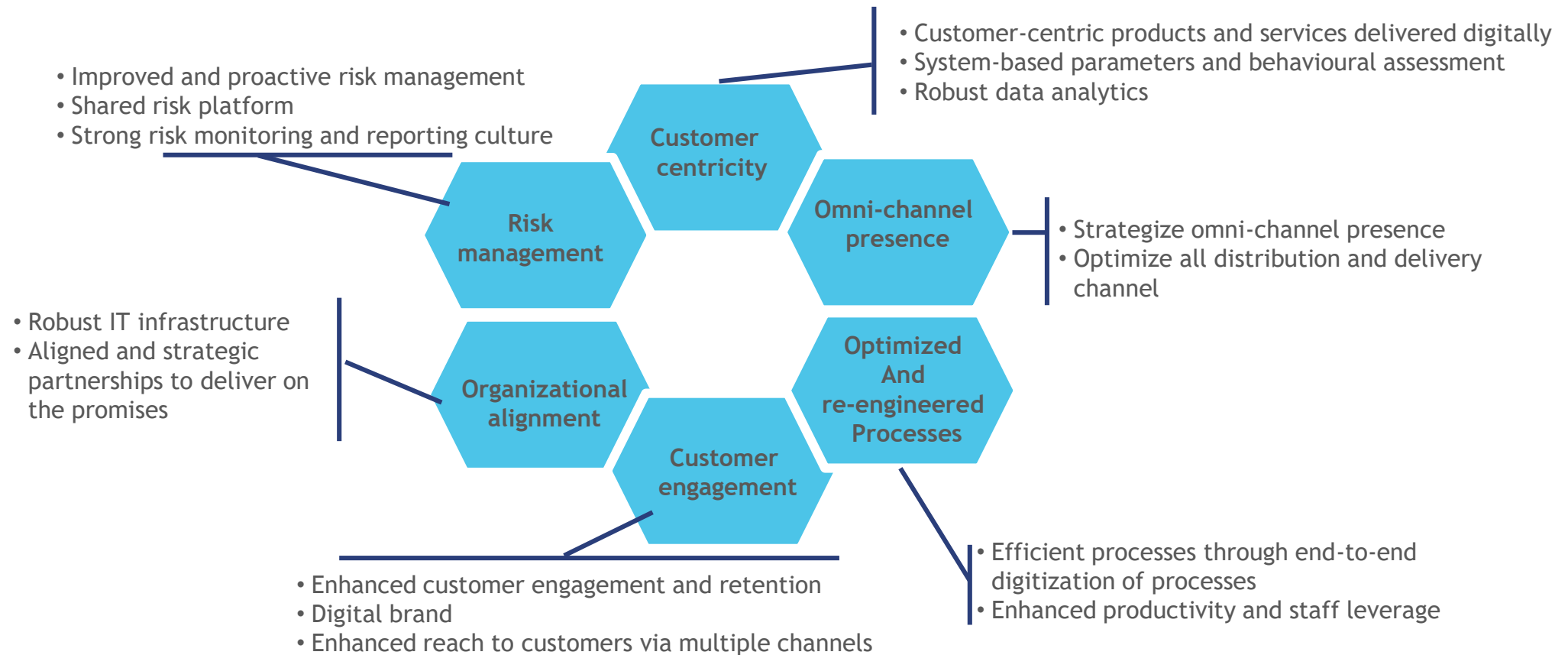
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# What is digital transformation?

Digital transformation is offering the right combination of: 1) digital solutions/tools, 2) delivered digitally, 3) riding on digital technology, and 4) providing seamless user experience.

## Digital transformation strategy development entails focus across six areas



# What is digital transformation?





# Digitize engagement with people



# Want to learn more? Join our online course on Digital Transformation for Financial Institutions

Course overview



# Broad themes of the course

- ▶ Overview of digital financial services
- ▶ Digital financial services ecosystem
- ▶ Relevance of digital financial services for microfinance and banking industry
- ▶ Opportunities and impact of digital transformation for MFIs and banks
- ▶ Case studies on impact and opportunity
- ▶ Business case for digital transformation

## Importance and relevance of digital transformation for financial institutions



- ▶ Strategies, strategic options and choices for digital transformation
- ▶ Key considerations for strategy design for digital transformation
- ▶ Formulating the right strategy
- ▶ Digital financial opportunities
- ▶ Planning digital transformation for group lending operations MFIs

## Strategic planning for digital transformation for financial institutions



- ▶ Product innovation for digital transformation
- ▶ Process re-engineering for digital transformation
- ▶ Delivery channel and distribution design

## Product, process, and channel transformation



- ▶ Emerging risks from digital transformation
- ▶ Risk management framework and approaches for digital transformation of MFIs and banks
- ▶ Risk management approaches

## Risk management for digital transformation



- ▶ Project and change management
- ▶ Engaging staff as part of the change management
- ▶ Internal organization and innovation to implement digital transformation
- ▶ Project evaluation and return on investment
- ▶ Key challenges faced in implementation of digital transformation

## Implementing digital transformation



# MSC is globally recognized as the local expert in financial inclusion



International FI consulting  
firm with **20+** years of  
experience



**180** staff in **11**  
offices around the world



Projects in **~50**  
developing countries

## Our impact so far

**300+**  
Clients

**>750**  
Publications

Assisted development of digital G2P  
services used by

**700 million+**  
people

Implemented  
**>250 DFS projects**

Developed  
**250+ FI products**  
and channels now used by  
**50 million+ people**

Trained **7,700+**  
leading FI specialists globally

## Some of our partners and clients



