

IBM Microfinance

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Ian Watson

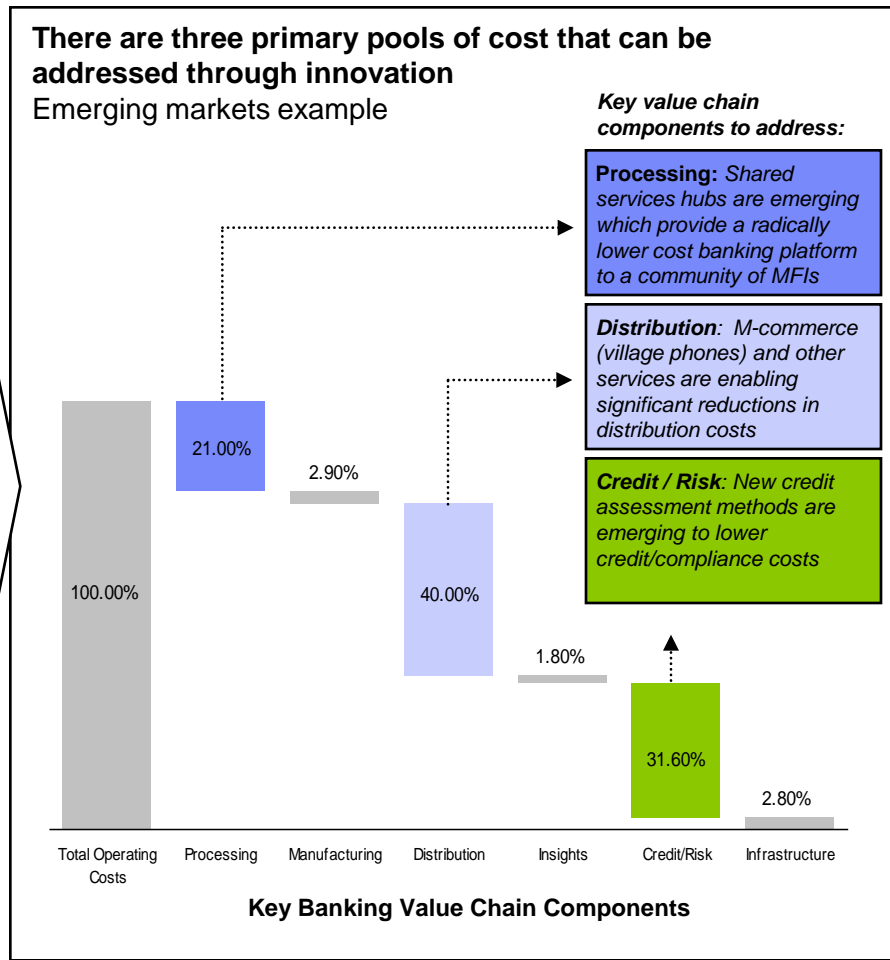
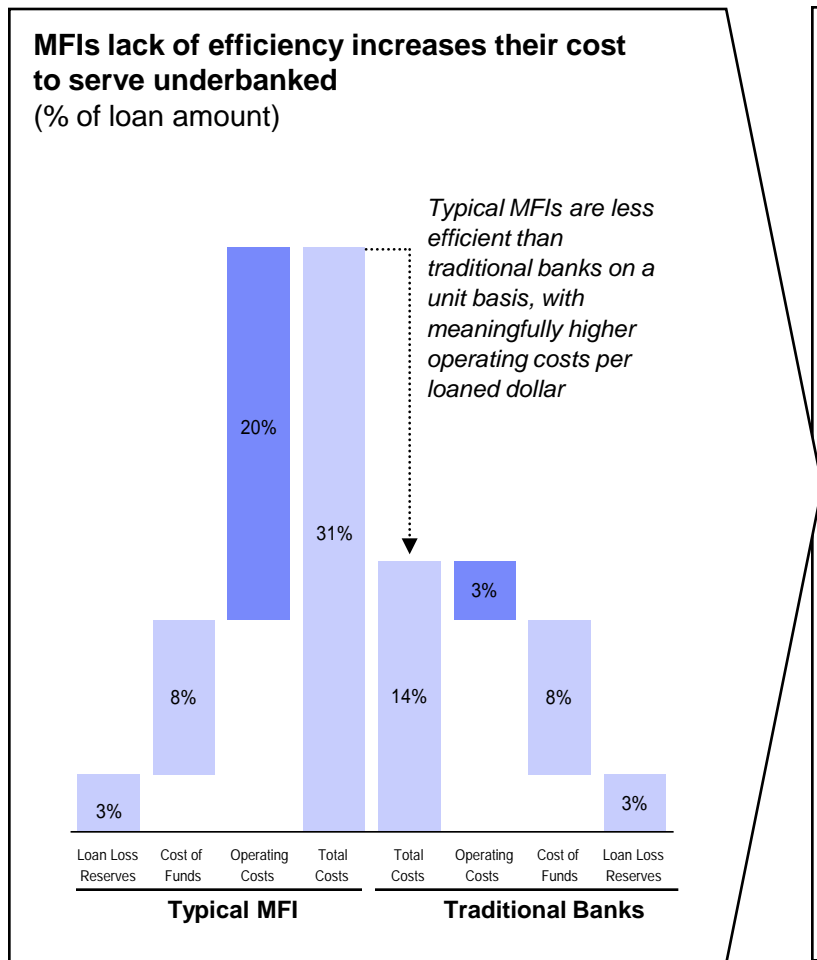
**IBM Global
Microfinance Initiative**



**World Microfinance
Forum Geneva**
Promoting Inclusive Financial Markets



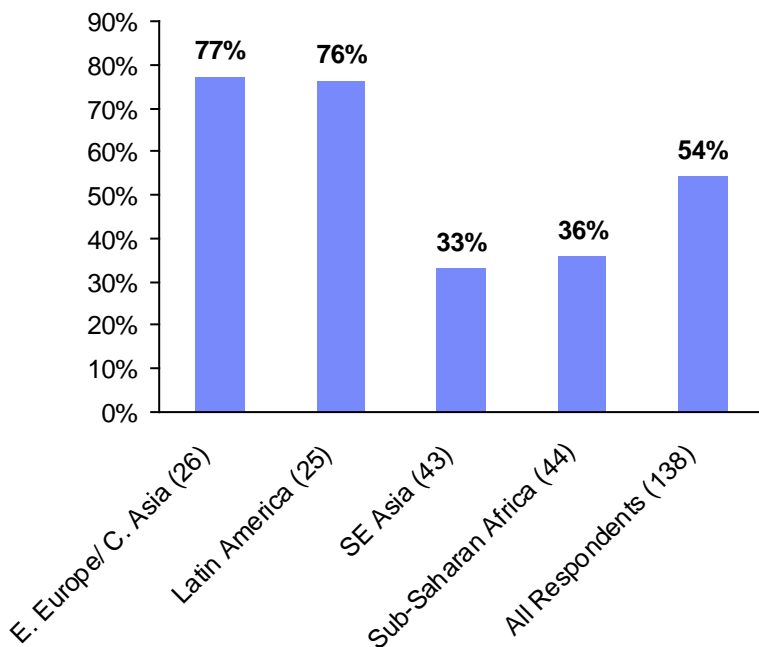
The current operating model of microfinance institutions is sometimes inefficient for satisfying the growing demand for financial services



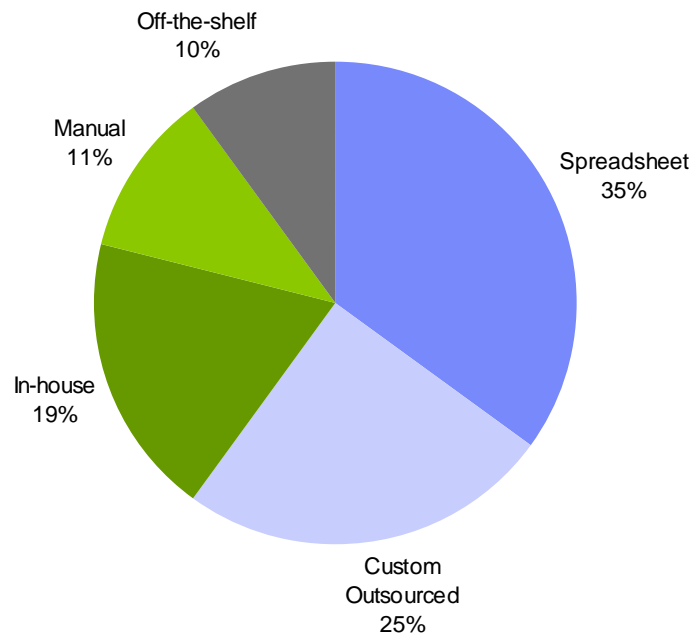
Source: IBM analysis; Presentation by Peter Bladin, Grameen Technology Center and CGAP

In the past, the vast majority of microfinance institutions did not have access to appropriate back-office technology

Use of Information Management Systems by Region



Type of Information Management System



Source: CGAP

One reason MFIs have had difficulty finding & using suitable banking software is that their functionality requirements are very different from those of traditional banks

Microfinance Functionality

- Group lending & savings
- Basic life / funeral insurance
- Collection sheets
- Bulk entry of collection sheets
- Custom schedules for loan repayments
- Partner-agency model
- Microfinance reports, surveys, and PPI
- Back dating of transactions
- Enable loan officers to “go to the customer”
- Joint liability rules & enforcement
- Offline capability
- Simple customer communications
- Easy application maintenance via management console

Traditional Retail Banking Functionality

- Individual savings & lending
- Configurable products
- Flexible organization hierarchy
- Role-based user admin
- Loan rescheduling workflows
- Custom fees & interest calculations
- Securities
- Mutual funds
- Trade finance
- Foreign exchange
- General ledger
- 360 customer view & cross sell
- Guarantees
- Leasing
- Syndicated loans
- Bill pay
- Contact log
- ATM / POS
- Credit cards
- High-volume transaction processing capability
- Brokerage
- Custody
- Market positions
- Cash management
- Mortgages
- Order book
- Settlement
- Product catalog
- Capital markets
- Money market
- Swaps
- Futures / options
- Bonds
- Application integration



Our analysis indicates that leading core banking ISV solutions may not effectively address key functional and technical needs of the microfinance industry

While the adoption of a strong MIS might seem like an obvious investment priority for MFIs, the fact remains that many MFIs are not adopting appropriate systems today

Benefits of a robust MIS

1. **Make informed decisions.** Timely, accurate data enables managers to better evaluate performance and anticipate and respond to problems.
2. **Improve reporting.** A reliable, standardized MIS reduces the time and effort spent generating reports for regulators, donors, and investors.
3. **Lower costs and improve customer convenience.** A strong MIS can help improve operational efficiency and reducing approval times for loans or other processes.
4. **Ability to readily expand into new products or regions.** A flexible MIS can grow with an MFI as it pursues new business opportunities.
5. **Build customer information database over time.** Allows more accurate and automated credit decisioning in the future.
6. **Link into external networks like payments networks or mobile banking systems.**

Reasons MFIs do not adopt an MIS

1. MFIs don't see the need for information systems, since they are able to “manage ok” with existing paper and pencil or with Excel.
2. Although banks spend 6-7% of revenue on ICT, MFIs often perceive technology investments as money not spent on core mission
3. MFIs perceive that the risk of implementing a computer system is beyond their capabilities
4. Many MFIs still operate in areas where there is limited electricity and connectivity, making the use of ICT difficult and expensive
5. The leadership just “doesn't like technology”
6. Implementation has been attempted, but failed for reasons of technology or of change management

Bansefi provides ASP core banking to small “cajas” in Mexico improving their ability to increase access and to offer better products for this segment

BatoAmigo: Participating Caja outside of Mexico City



- Small caja with 3 branches
- Currently 923 customers and growing around 40 new accounts per branch per month (120 per month in total)
- Strategy based on credit for small entrepreneurs
- Centralized credit approval process using community knowledge and other alternative tools
- Utilizes a world class core banking platform on an ASP environment provided by Bansefi

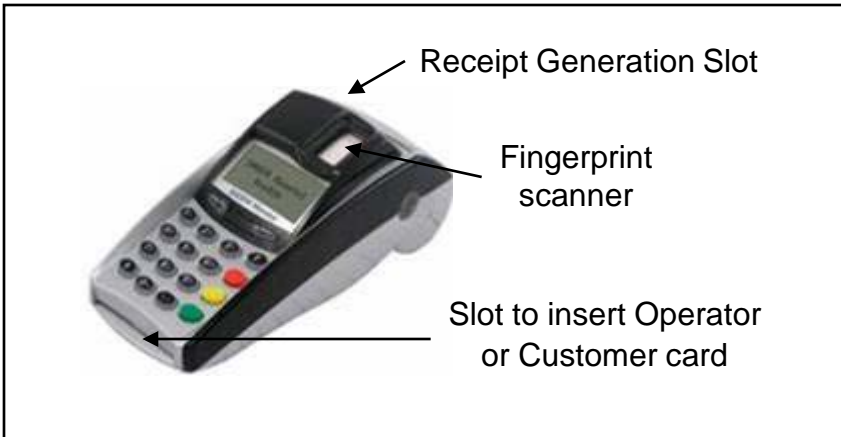
Estela Coral: Customer of BatoAmigo



- Received her first credit a year ago to set up a business selling fruits and vegetables
- Last month finished repaying the \$700 loan
- Requested a second loan to offer more products (chicken, packaged goods and prepared food) and was approved
- Plans to ask for a third loan next year to open a new location with her son
- A traditional banking credit would be difficult to get because of documentation and collateral requirements

FINO in India, with operations run by IBM, is using a flexible Microfinance front office with the capability to operate in an offline mode in rural areas

Wireless Point-of-Transaction Device



Customer Smartcard



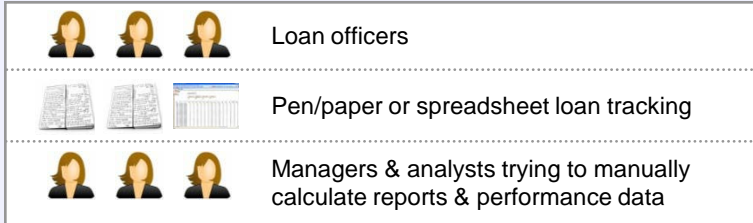
Portable Enrollment Station



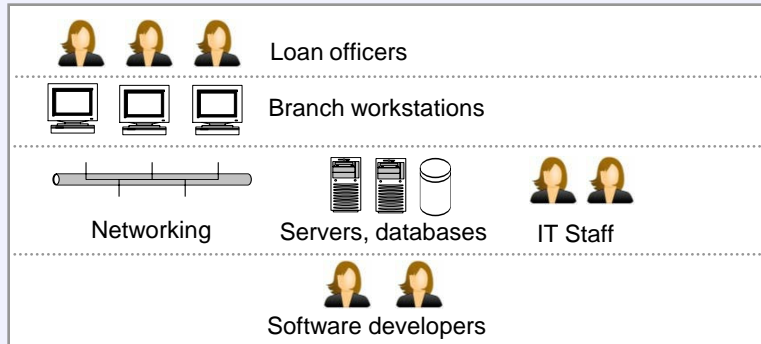
The Microfinance Processing Hub provides a shared technology platform that helps MFIs reduce costs, scale up, secure their data, and become more flexible

CURRENT SITUATION

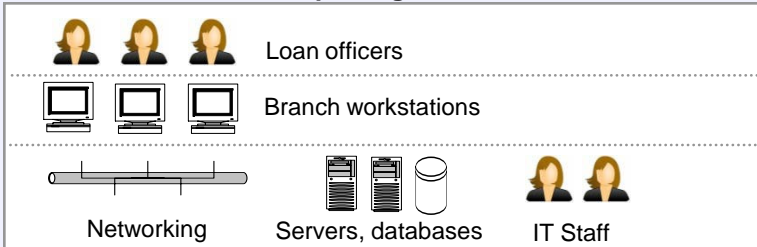
MFIs with no MIS 46%



MFIs with in-house or custom MIS 44%



MFIs with off-the-shelf / package MIS 10%

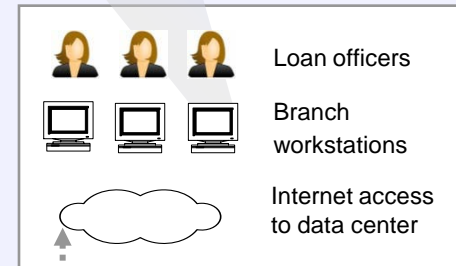


MICROFINANCE PROCESSING HUB



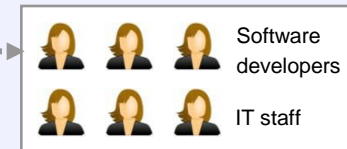
All banking functions are available via web browser on a basic PC

Outsourced MIS



\$ for services used

Financial Grid data center (serves 100s of MFIs)



- Pay-per-use arrangement, with low startup costs and easy scale-up as MFI grows
- Easier reporting & compliance
- Robust technology and security
- Ready access to rich features and new products