

**FROM IDEA**

Breaking New Ground



## Alternative Delivery Channels

Building metrics and benchmarks to support sector growth

09:30 – 10:30, March 10<sup>th</sup>, 2017

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# Alternative Delivery Channels

**Building metrics and benchmarks to support sector growth**

March 2017

# FSPs are on the move in serving clients ... but where and how?

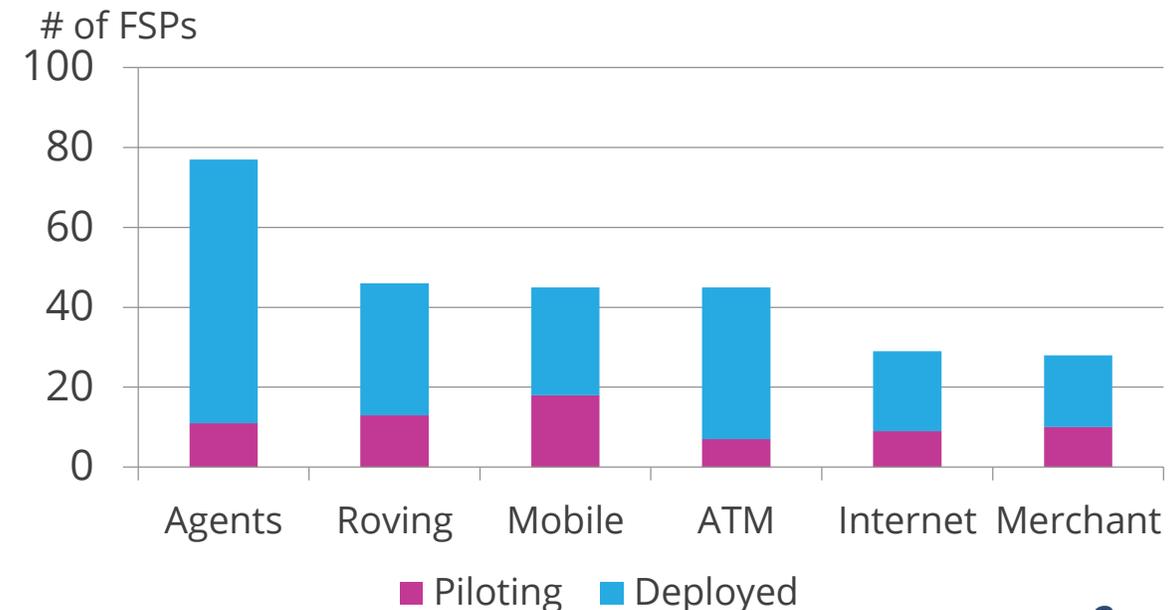
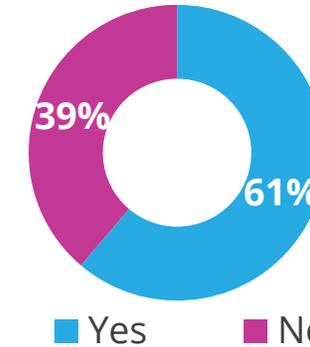
Financial service providers (FSP) are deploying various alternative delivery channels (ADCs) to serve their clients outside their branches, often enabled by technology and digitization of the service.

FSPs are developing metrics and dashboards to monitor the development of these new channels and to track them against operational and strategic goals ...

... but FSPs also need visibility onto the rest of the market

MIX has retained the final customer transaction point as the defining principle for a channel. **ADCs can be viewed as the point of service for a transaction**, irrespective of the operational or technological arrangements that led to it.

### Is your FSP deploying ADCs?



## Out of this sample, MIX has:

MIX carried out research to design alternative delivery channels (ADC) performance metrics and benchmarks.

MIX worked with MasterCard Foundation, IFC and UNCDF to identify partner FSPs deploying some alternative delivery channels to participate in this research. MIX built on initial BFA research on ADC metrics.

### Interviewed

26 FSPs, in order to understand **strategic goals**, **operating models** and **information needs** related to ADC operational and strategic management.

### Visited

15 FSPs in 3 countries (Ghana, Uganda, Tanzania), with additional visits to MNOs and other players of the financial ecosystem (aggregators, payment service providers, super agents), in order to understand FSP's **operational management** and **reporting capacity**.

### Collected data

From 16 FSPs in 10 countries, across different channels: **agents**, **mobile**, **ATMs**, **roving staff**, and to a lesser extent **internet** and **merchants**.

A list of [participating FSPs](#) can be found in the Annex.

# Standards have been adopted to shape ADC reporting

A core set of definitions and indicators has been adopted by the MIX Gold Community based on three requirements :

## *They support* **Decision-making**

MIX ensured each indicator informs at least one of the common stated goals stated by FSPs for ADC adoption:

1. Reduce costs
2. Improved client convenience
3. Reach new clients
4. Mobilize deposits
5. Diversify income

## *They are* **Easily Reported**

Research on existing FSP reports and systems set-up shows that basic transactional and account data by channels are widely available.

However, system silos and set-up limit information by client profile, client behavior, profitability and risk (see [Annex](#) for details on reporting capacity).

## *They can be* **Benchmarked**

Research confirms strong FSP interest 'know where they stand' on ADC deployments.

There is immediate opportunity to standardize on client activity and transaction types.

Profitability and more complex metrics require more work.

# Simple data points enable a range of important metrics



Basic data can be combined to provide a broad range of channel-focused and client-focused KPIs. See the full list of indicators in [annex](#).

Metrics on client profile, including gender, cannot be considered for the initial reporting standards, but should be a priority for future updates to the standards to measure important areas of client type and usage. For example, *average deposit size of female clients at agents vs average deposit size of female clients at branch*.

Channel-focused				Client-focused	
Channel scale	Channel productivity	Channel mix	Channel revenue	Client adoption	Client activity
Service points	Transactions or clients	ADC transactions	Fee and commission income	Active or enrolled clients	Transactions
<b>To</b>					
Service points or branches	Service points	Total transactions	Service points or transactions	Total clients	Clients
<b>Provides indicators of</b>					
Active service points to branches	Number of transactions per service point	% of total transaction at ADCs, number and value	% of fee income attributable to ADCs	% of clients enrolled at ADCs	Average monthly number of transactions per client
% of active service points	Value of transactions per service point	% of deposits (or withdrawals) happening at ADCs, number and value	Average fee income per transaction at ADCs	% of enrolled clients active at ADCs	Average monthly transaction value per client
	Active clients per service point			% of total clients active at ADCs	

# Indicators combine to inform key ADC strategic goals



FSPs revealed specific and detailed motivations for developing ADCs

ADC indicators do not provide an exhaustive ADC performance analysis. These new metrics can however be applied to assess the factors of ADC performance and progress towards these goals

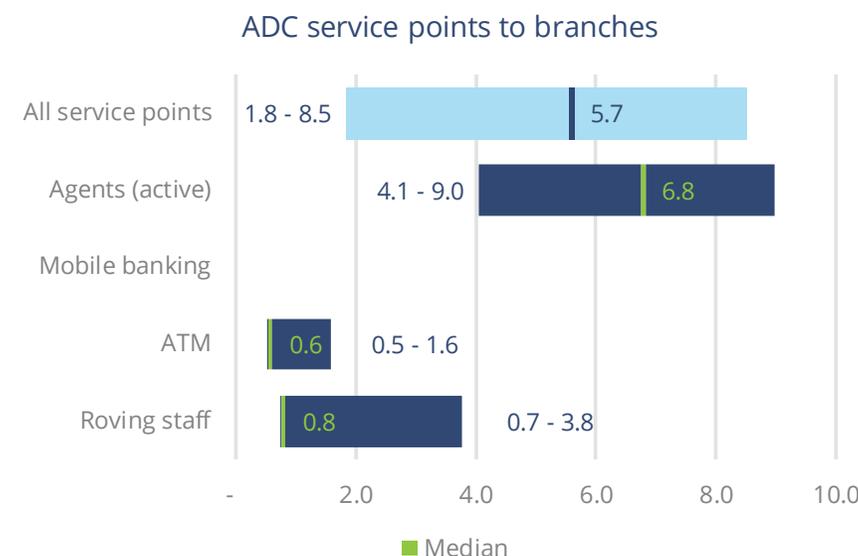
	Channel-focused				Client-focused	
	Channel scale	Channel productivity	Channel mix	Channel Revenue	Client adoption	Client activity
Reduce Cost		✓	✓			
Improve client convenience			✓		✓	✓
Reach new clients	✓				✓	
Mobilize deposits			✓			✓
Diversify income				✓		✓

*Definitions of the terms and formulas can be found in annexes at the end of this presentation.*

# Before looking at the results, a word on graphs and data

For each indicator, graphs display:

- A performance range from the 1st to 3rd quartile of available values.
  - **Blue bars represents 50% of the sample** excluding the 25% highest and lowest values.
  - Top bars **in light blue** are institutional points of comparison: total institution, branches, or all ADCs aggregated.
- A value representing the **median performance**:
  - If the median is close to one end of the bar, than observations are more clustered in that quartile. If the median is further from one end of the bar, then observations are more dispersed in that quartile.
- **What institutions are included in the pilot sample ?**
  - Institutions were approached through partners based on their **known activities in the field of ADCs**.
  - Apart from a **broad geographical focus on Sub Saharan Africa**, no selection criteria was applied to participating institutions who reported data voluntarily.
  - As a result, a **small yet very diverse set of institutions** composes the sample used in this analysis.
- **16 FSPs reported data on 28 channels:** Agents (8), Mobile (9), ATMs (5), Roving staff (6).
- Data represent results for **30-Jun-16**.



# Question

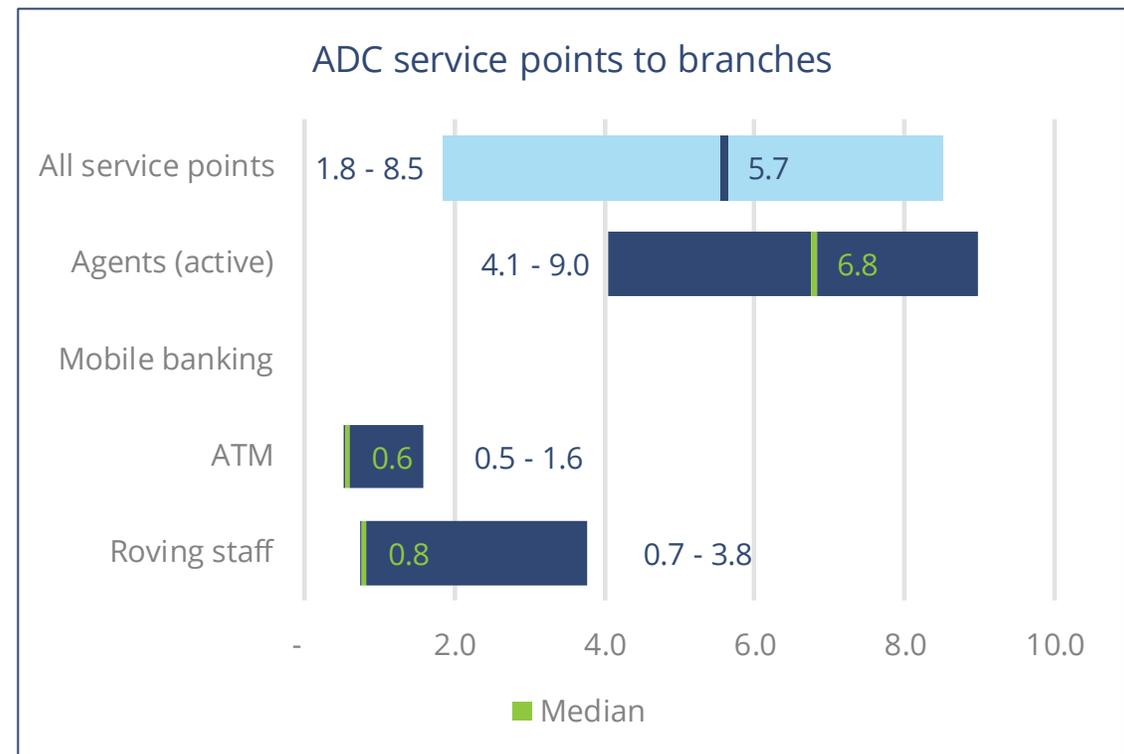
Do ADCs reach new clients by:

- a) Multiplying service point presence
- b) Complementing existing branches

FSPs roll out ADCs to reach (new) clients: thanks to a better geographical footprint in rural areas and dense urban ones, and thanks to less bank-like channels that may attract the unbanked.



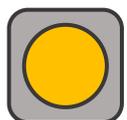
- **Do ADC service points close geographic and convenience gaps ?**
  - Agents create the most new touchpoints representing 7x branches.
  - Other channels simply extend the branch network: ATMs and roving staff are often located or based at branches.





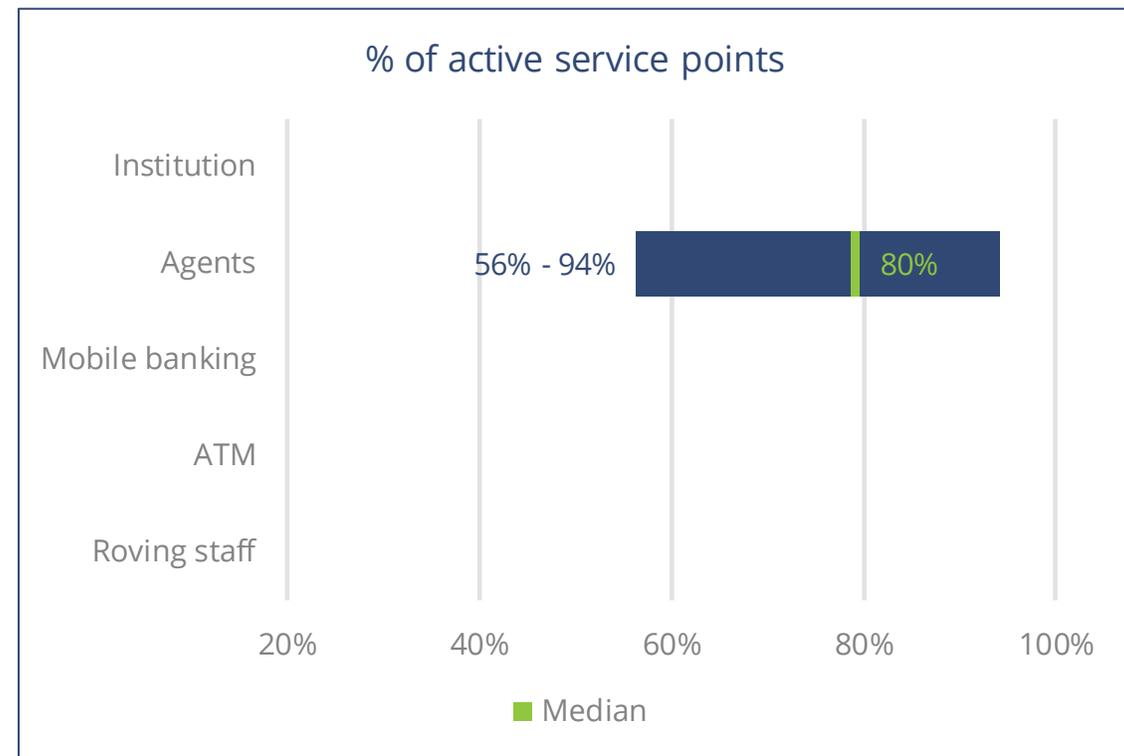
### • **Are service points up and running ?**

- Inactivity may be a problem at agents.
- MIX will also collect data on failed transactions.



### • **Are ADCs fostering new client acquisition?**

- MIX will collect and report the % of new accounts opened at ADCs, but few FSPs are tracking this information.



*FSP advice: Monitoring client profile upon sign-up for new accounts would be easier than monitoring of transactions per client profile, and would already provide useful outreach information.*

# Question

Do ADCs:

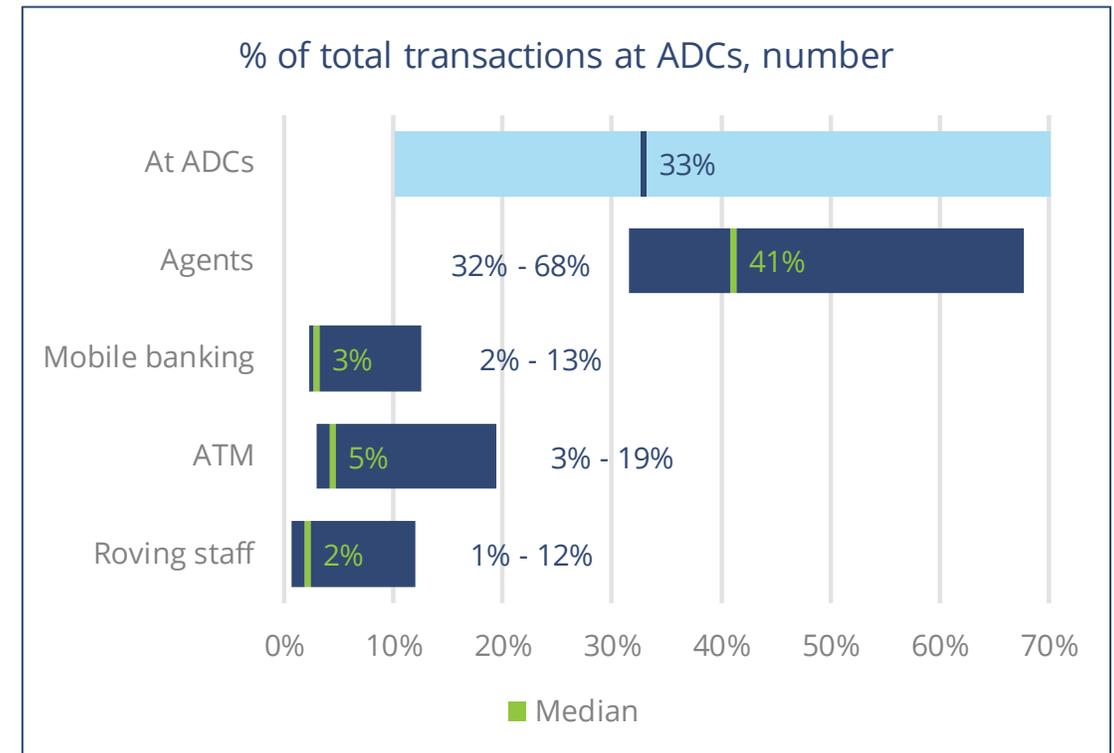
- a) Shift existing transactions from branches
- b) Enable new transactions and behaviors

Client convenience is at the heart of client-centric ADCs. It is necessary to foster adoption, which, in turn, is the first step in the journey to realizing any other ADC goal



## • **Are ADCs attracting client transactions?**

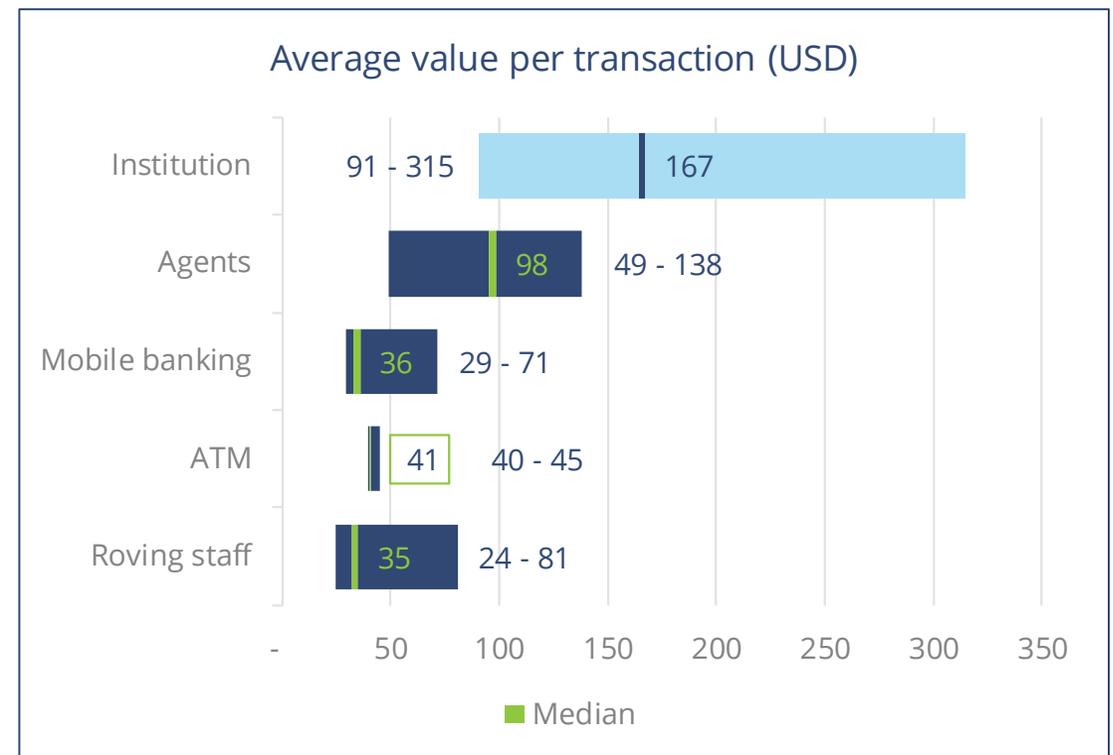
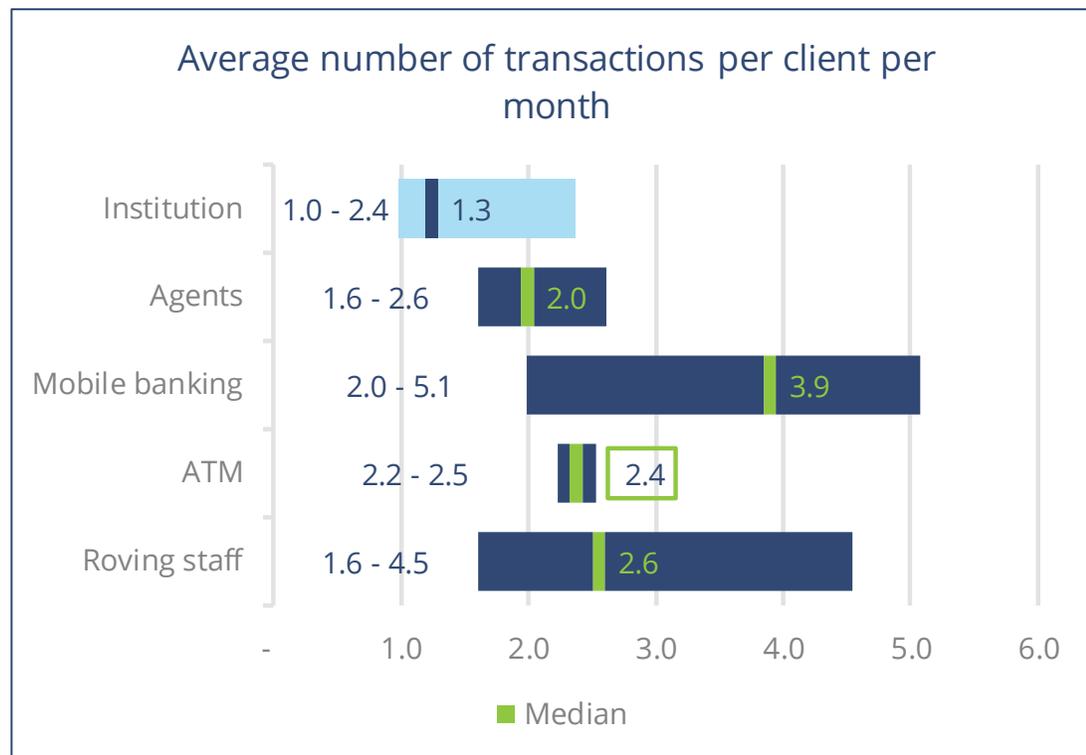
- For half the institutions, ADCs represent more than 1/3rd of all transactions (in number).
- The real driver is the agent channel with 41% of transactions in FSPs where it is deployed.
- Other channels are relatively negligible if traffic is an indicator of client convenience.



- **Do ADCs unleash different client behavior?**



- ADC users are more active than the average client and perform around twice as many transactions at ADCs (and may still transact at branches).
- Clients carry out much smaller transactions at ADCs.

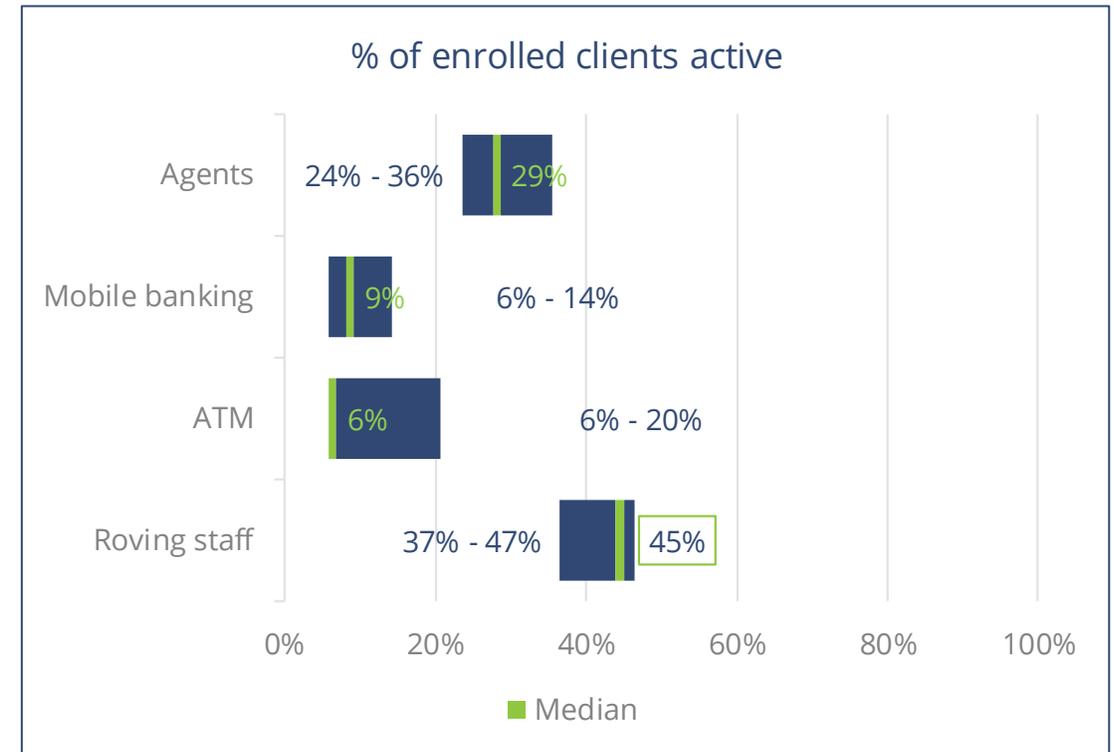
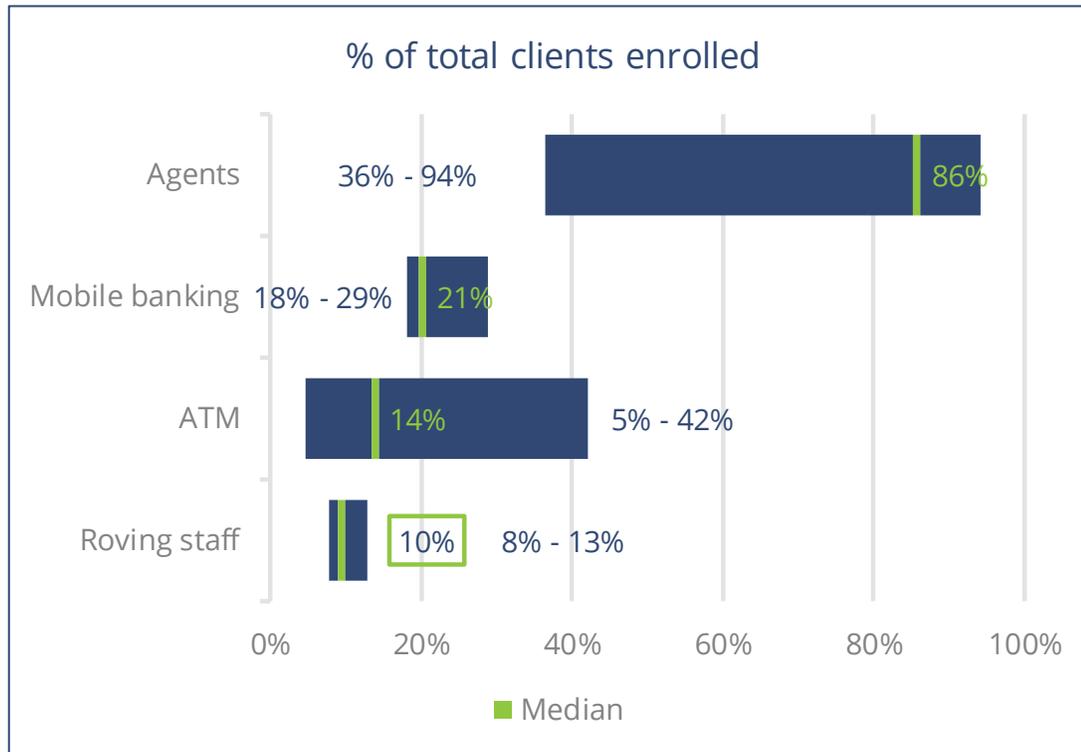


*FSP advice: FSPs will need to dive into client segments to understand if ADCs foster increased usage, attract clients who were already more active at branches, or attract new clients with a different behavior.*

- **Do ADCs generate significant client adoption?**



- With the exception of agents, enrollment at ADCs rarely exceeds 20%.
- Only a minority of enrolled clients is regularly active at the channels.
- At the FSP level, activity at ADCs does not exceed 1 in 5 clients.



## Question

Are ADCs a net contributor to deposit balances:

- a) Yes
- b) No

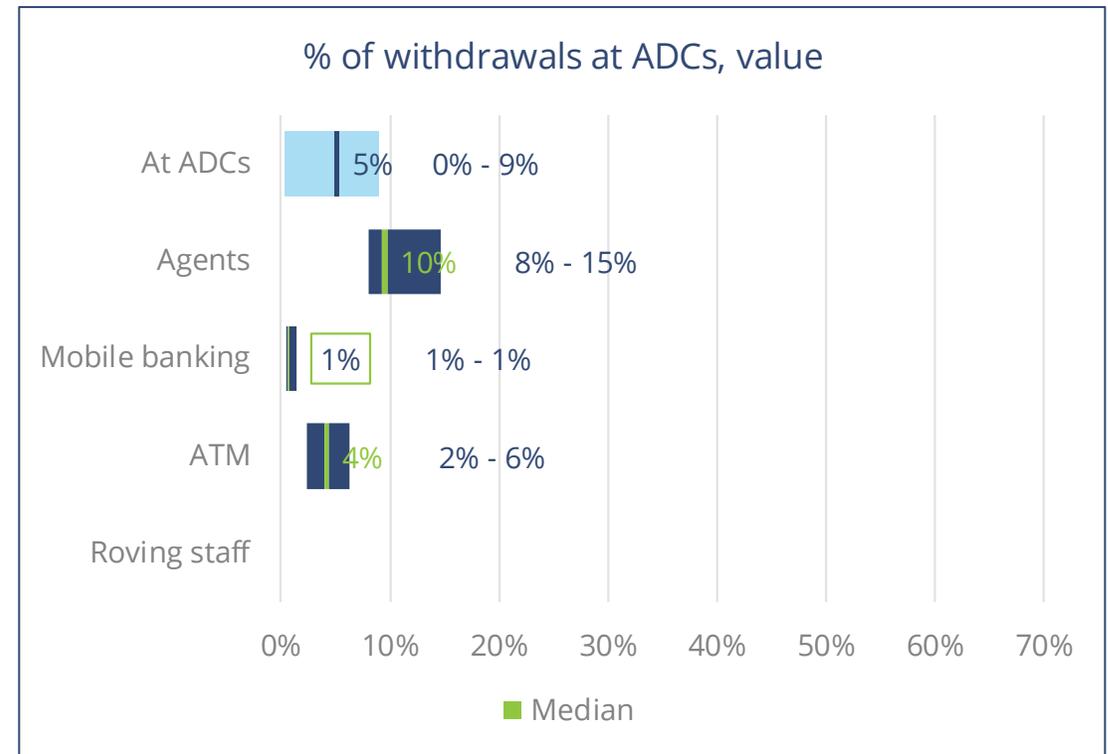
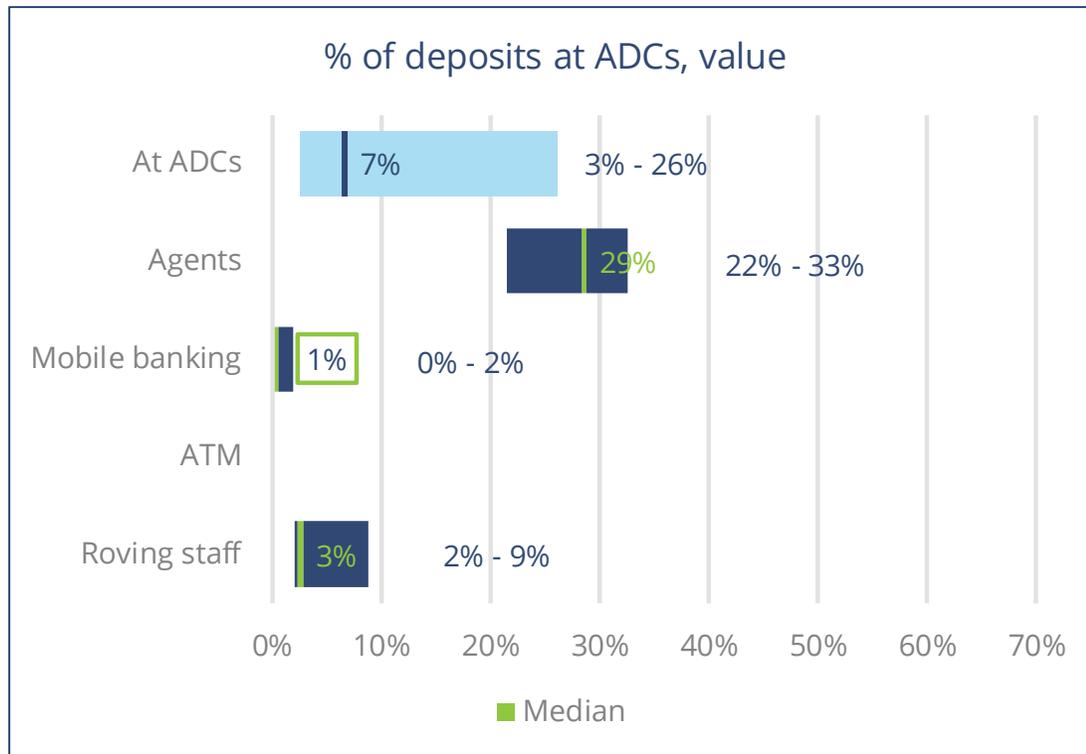
# Goal - Mobilize deposits 1/2

FSPs expect to increase their balance sheets at a limited cost thanks to large numbers of low-balance accounts.

- **Do ADCs contribute more deposits than they take away?**



- At the FSP level, there are always slightly more deposits coming in than withdrawals going out.
- ADCs increase this trend as 7% of deposits take place at ADCs and 5% of withdrawals



- **Do ADCs contribute to increased deposit balances?**
  - More frequent smaller transactions (see [slide 11](#)) may result in higher balances: greater and easier opportunities to transact may remove the need for clients to cash out large amounts.



**The impact of one channel is hard to establish:** account balances are the result of transactions across all channels.



**Loan repayments represent an important blind spot:** most FSPs don't use dedicated loan settlement accounts and cannot segregate loan repayments from deposits made with another purpose.



**Pricing may alter client behavior:** fees charged for deposit or withdrawal transactions at ADCs may displace behavior to the branch channel.

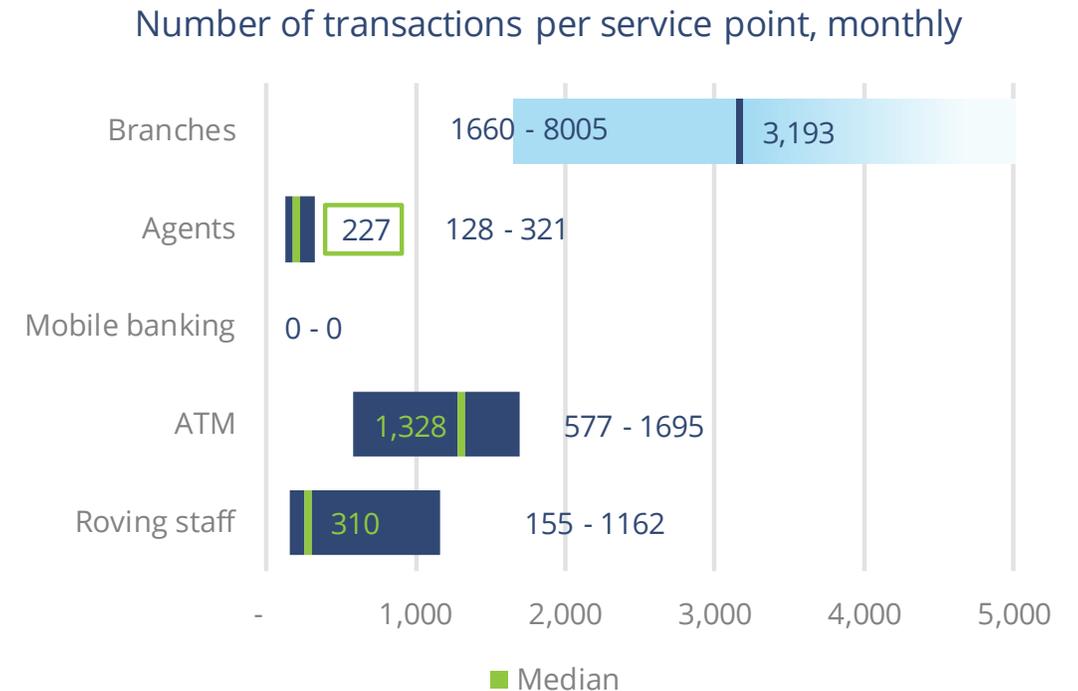
*FSP advice: Aggregated data on deposit balances is difficult to report, but FSPs can track balances linked to accounts that transact at ADCs to analyze the changes in deposit balances at their own level.*

FSPs expect to see costs decrease as routine transactions are migrated out of the (expensive) branch infrastructure and into the (less expensive) alternative delivery channels

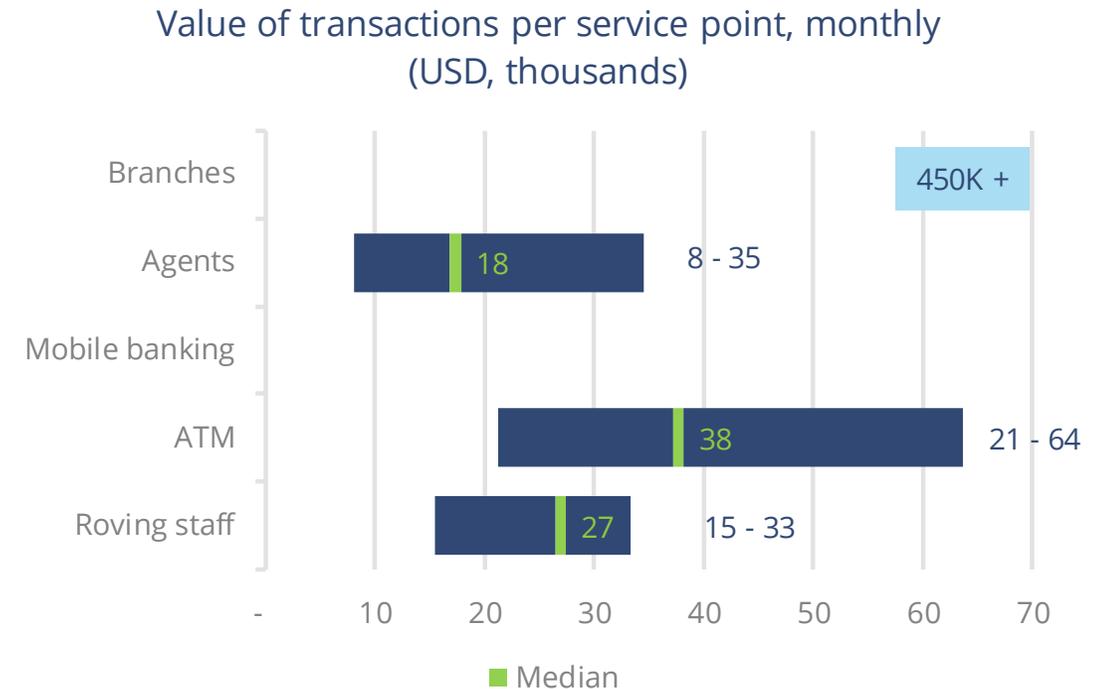


## • Are transactions cheaper at ADCs than branches?

- Benchmarks on the number of transactions per service point can help FSPs model the average cost per transaction.
  - Agents and roving staff perform ~14x fewer transactions than branches, and ATMs ~2x fewer transactions.
- Are the costs of operating 14 agents smaller than those of one branch ?



- **What channel mix to prepare for?**
  - Branch substitution is a long way to go: branches still process 30 to 60x greater amounts than any ADC service point.
  - This reflects the different nature of transactions at ADCs and branches.
  - Redirecting even a share of these transactions to ADCs will change ADC operations, and probably their cost.



FSPs want to increase the share of non-interest revenue, increasing the number of transaction per client or charging for the added-value of ADCs.

- **What is the contribution of ADCs to fee and commission income?**
  - MIX benchmarks will present the share of fee and commission income proceeding from transactions conducted at ADCs
- **Are ADC transactions generating more revenues?**
  - MIX's indicators will be able to provide an average (gross) income per transaction.
  - Combined with other indicators, this will allow FSPs to assess whether an increase in income is the result of a higher number of transactions per client or of a different pricing structure at ADCs.

## Feedback confirms usefulness of the results

- Interviews carried out after the release of the draft analysis confirm the **relevance of the selected indicators and initial results**.
- FSPs confirmed their **interest in**  **broad adoption** of these indicators, in order to align their reporting with industry standards.
- FSPs are interested in add-ons to this tool such as  **analytical models on deposit mobilization and channel cost**.

## Pilot sample size presents limitations

- Results presented accurately reflect performance ranges, but the sample size does not allow for fully robust benchmarks, or peer grouping analysis, such as by country or channel maturity stage..
- Adoption by MIX users will enable  **detailed and more robust benchmarks** of ADC performance once the sample has gained critical mass.

## Next steps

- MIX will release a **public report** this quarter, highlighting key topics of ADC performance measurement and making the standards available to all.
- MIX will **raise awareness on ADC metrics** and **train FSPs for reporting** in webinars and conferences.
- FSPs will be able to **report their ADC activity to MIX Gold clients** and participate in future **MIX ADC benchmarks starting in Q2 2017**.

 **Get involved:** let us know your ADC analysis priorities, and join our upcoming initiatives.



## Annexes

# FSPs commonly monitor transactional metrics, but little client view

Across surveyed FSPs, research showed that:

1. Basic transaction data and client / account activity were widely tracked in existing reports
2. While not always reported, transaction analysis by unique account/client, transaction type and failed transactions could be compiled
3. Client profile reporting is the exception and usually not reportable without significant effort

	Effort		
	In current reports	required to report	Not currently reportable
Client activity			
Transactions (\$, #)			
Transaction per unique account / client			
Transactions by type			
Transaction by client profile			
Failed transactions			

# Indicators and ratios 1/3

Indicator		Numerator		Denominator
<b>Channel scale and availability</b>				
Number of registered [ADC] service points				
Number of active [ADC] service points				
% of active [ADC] service points	=	Number of active service points	/	Number of registered service points
Growth in registered [ADC] service points				
Growth in active [ADC] service points				
Registered service points to branches	=	Number of registered service points	/	Number of branches
Active service points to branches	=	Number of active service points	/	Number of branches
% of transactions failed at [ADC], by number	=	Number of failed transactions at [ADC]	/	Total number of transactions at [ADC]
% of transactions failed at [ADC], by value	=	Value of failed transactions at [ADC]	/	Total value of transactions at [ADC]
<b>Channel productivity</b>				
Average number of active clients per service point	=	Clients active at [ADC]	/	Number of active service points
Average number of transactions per service point	=	Total number of transactions at [ADC]	/	Number of active service points
Average number of information requests per service point	=	Number of information requests at [ADC]	/	Number of active service points
Average monthly transaction value per service point	=	Total value of transactions at [ADC]	/	Number of active service points
Average number of deposits per service points	=	Total number of deposit transactions at [ADC]	/	Number of active service points
Average number of withdrawals per service point	=	Total number of withdrawals at [ADC]	/	Number of active service points

# Indicators and ratios 2/3



Indicator		Numerator		Denominator
<b>Channel mix</b>				
<b>Total transactions</b>				
Total number of transactions [institutional]				
Growth in total transactions, by number				
% of total transactions, by number, at [ADC]	=	Total number of transactions at [ADC]	/	Total number of transactions [institutional]
% of total transactions, by number, at ADCs	=	Total number of transactions at ADCs	/	Total number of transactions [institutional]
Total value of transactions [institutional]				
Growth in total transactions, by value				
% of total transactions, by value, at [ADC]	=	Total value of transactions at [ADC]	/	Total value of transactions [institutional]
% of total transactions, by value, at ADCs	=	Total value of transactions at ADCs	/	Total value of transactions [institutional]
<b>Credit transactions</b>				
Number of deposits [institutional]				
% of deposits, by number, happening at [ADC]	=	Total number of deposit transactions at [ADC]	/	Total number of deposit transactions [institutional]
% of deposits, by number, happening at ADCs	=	Total number of deposit transactions at ADCs	/	Total number of deposit transactions [institutional]
Value of deposits [institutional]				
% of deposits, by value, happening at [ADC]	=	Total value of deposit transactions at [ADC]	/	Total value of deposit transactions [institutional]
% of deposits, by value, happening at ADCs	=	Total value of deposit transactions at ADCs	/	Total value of deposit transactions [institutional]
<b>Debit transactions</b>				
Number of withdrawals [institutional]				
% of withdrawals, by number, happening at [ADC]	=	Total number of withdrawals at [ADC]	/	Total number of withdrawals [institutional]
% of withdrawals, by number, happening at ADCs	=	Total number of withdrawals at ADCs	/	Total number of withdrawals [institutional]
Value of withdrawals [institutional]				
% of withdrawals, by value, happening at [ADC]	=	Total value of withdrawals at [ADC]	/	Total value of withdrawals [institutional]
% of withdrawals, by value, happening at ADCs	=	Total value of withdrawals at ADCs	/	Total value of withdrawals [institutional]

# Indicators and ratios 3/3

Indicator		Numerator		Denominator
<b>Channel profitability</b>				
% of fee income attributable to [ADC]	=	Non-interest fee and commission income on transactions conducted at [ADC]	/	Non-interest fee and commission income [institutional]
Average fee earned per transaction performed at [ADC]	=	Non-interest fee and commission income on transactions conducted at [ADC]	/	Total number of transactions at [ADC]
<b>Client adoption</b>				
% of clients enrolled at [ADC]	=	Clients enrolled at [ADC]	/	Active clients [institutional]
% of enrolled clients active at [ADC]	=	Clients active at [ADC]	/	Clients enrolled at [ADC]
Growth in clients enrolled [ADC]				
Growth in clients active at [ADC]				
% of new accounts opened at [ADC]	=	Number of accounts opened at [ADC]	/	Number of accounts opened [institutional]
<b>Client activity</b>				
Average number of transactions per client	=	Total number of transactions: at [ADC]	/	Clients active at [ADC]
Average monthly transaction value per client	=	Total value of transactions at [ADC]	/	Clients active at [ADC]
Average number of information requests per client	=	Number of information requests at [ADC]	/	Clients active at [ADC]

<b>Agents</b>	Individuals or businesses entitled to act on behalf of an FSP to perform certain financial or administrative transactions. They may have a direct contractual relationship with the FSP or may be contracted by a third party (super agent, aggregator) who maintains a service agreement with the FSP.
<b>Roving staff / mobile branch</b>	Units that serve customers outside the branch and in their place of residence or business. They may or may not be associated to a particular branch. Only staff or mobile units that manage deposits or handle account opening (other than loan origination) should be counted in this category.
<b>ATMs</b>	Machines with a fixed location that customers use to access services. They may be accessed through different identification means (card, PIN, biometrics) and used for different kinds of cash or non-cash based operations (deposits, withdrawals, but also transfers, account balance consultation, etc.). They may be proprietary ATMs or managed by third parties.
<b>Mobile banking</b>	Mobile services based on USSD or SMS communications that clients can access through their own device.
<b>Internet</b>	Internet-based banking services that clients can access through a personal device (smartphone app, website) using standard internet protocols.
<b>Merchants POS</b>	Networked merchant using a physical payment processing device located at the merchant's place of business (e.g., POS) to accept payment for sales (of its goods or services) from the FI's customers using the customer's FI identification means (card or other). The merchant could be acquired by the FI, or simply part of a network enabling the merchant to process payments.

# Glossary – *Clients and transactions*



<b>Number of clients enrolled</b>	Clients who are technically and theoretically able to access a product or service through a given delivery channel. For all channels that require completing a specific enrollment process (approval of application, capture biometrics, enrolling on a mobile platform, being issued a card, etc.), only clients who have completed this process should be included. For channels that do not require any form of enrollment, institutions should report clients located in a geographic area where the channel has been deployed. This figure should be reported only for current clients (i.e. clients who have active accounts).
<b>Clients active (one month)</b>	Active means that a transaction has been performed in the prior 30 days. For clients and accounts, active denotes any financial transaction that is initiated by the client, but does not include information requests, administrative transactions or the automated payment or deduction of interest, fees or commissions. For service points, active denotes the facilitation of such transactions.
<b>Number of transactions</b>	Number of transactions that are initiated by a client on its account during the reporting period. This excludes payment or deduction of interest, fees or commissions by the FSP on the account.
<b>Cash deposit</b>	A deposit of cash onto a client's account. This should not include any over-the-counter transactions that are made in cash but are for the purpose of transfers or payments.
<b>Cash withdrawal</b>	A withdrawal of cash from a client's account. This should not include any over-the-counter transactions that are paid out in cash but are for the purpose of collecting a transfer or payment.
<b>Wallet to Bank (W2B)</b>	Transfer value from a Mobile Network Operator's e-wallet or other store of electronic money to an account at a financial institution.
<b>Bank to Wallet (B2W)</b>	Transfer of value from an account at a financial institution to a Mobile Network Operator's e-wallet or other store of electronic money, not including account at financial institutions.
<b>Transfer</b>	Transfer of value via electronic means between accounts of the same or different parties.
<b>Payment</b>	Movements of value from a client account to a third party to pay for goods or services.

# Participating institutions

MIX wishes to **thank all the FSPs and other industry players who participated** in interviews, welcomed us for field visits, and/or submitted data for the analysis.

Country	Organization
<b>DRC</b>	FINCA
<b>Ghana</b>	Advans, EcoBank, Fidelity Bank, GHIPSS, In Charge Global, MTN, Opportunity International S&L, Sinapi Aba S&L
<b>Madagascar</b>	Accès Banque, Microcred
<b>Malawi</b>	NBS
<b>Nigeria</b>	AB Microfinance Bank, Diamond Bank, LAPO
<b>Rwanda</b>	Urwego Opportunity Bank
<b>Senegal</b>	Microcred
<b>Tanzania</b>	Access Bank, Equity Bank, FINCA, Letshego, Mwanga Community Bank, NMB, Selcom, VisionFund
<b>Uganda</b>	Airtel, Centenary Bank, FINCA, Pride Microfinance Ltd, UGAFODE
<b>Zambia</b>	FINCA
<b>Global</b>	Access Group, Advans Group, Bankable Frontier Associates, IFC, FINCA Holding, Microcred Group, PhB Development, UNCDF, Women's World Banking