



MicroFinance
Network

MFN Yearly Meeting, London, April 2017: Summary

In April 2017, MFN members gathered in London for their yearly meeting. The central topic was **The Future of Financial Inclusion**. The analysis made by the members that participated in the MFN meetings in Alexandria (2015) and in Dhaka (2016) demonstrated that the external environment was showing radical changes that could profoundly impact the future of the MFIs. Therefore, the emphasis of the London meeting was on systematically analyzing the factors and the context that will shape that future. In particular, technological innovation has been at the forefront of these radical changes. Therefore, as a first for the MFN, a selected group of fintech CEOs were invited for a full day of discussion. The learning community that MFN CEOs have created was instrumental in making the discussions highly participative, open, profound and insightful. In the next few paragraphs there is a summary of the three days of discussions. Needless to say, this one page summary hardly reflects the richness of the content of the work carried out by the participants. Therefore, we encourage you to read the full report and share it within your management team. We hope the report will stimulate further discussions among them that consider, challenge, and complement its content in the hopes of shedding some light into the direction you set out for the future of the MFI you lead.

The Future of Financial Inclusion: A Leadership Challenge

In the 1990s and 2000s, MFIs were the driving force behind the growth of the financial inclusion industry. These organizations adapted, evolved, and grew exponentially by bringing commercial solutions to the social problems of dozens of millions of people at the bottom of the economic pyramid all over the world. Naturally, the industry has become more competitive and has matured. Furthermore, their current external environment is not only evolving gradually but is also going through radical changes that are redefining the industry. Traditional banks, TELCOs, multinational retailers, and fintechs are entering this market and are reconfiguring the way we understand customer needs, the value propositions that are offered, the delivery channels used, and the industry value chain configuration. This trend has potential impacts on the future of the MFIs. In this context, we asked what will be required in the coming years of the MFIs so they can have the most impact, reaching more people at the bottom of the pyramid, faster, and providing integrated solutions to their problems? Given the complexity and uncertainty of the external and operational environment of the financial inclusion industry, the essential requirement will be a new kind of transformational leadership, one that will infuse these organizations with the capabilities to set direction, dynamically learn, innovate and adjust rapidly. At the same time, leadership is required that is able to increase current efficiencies while managing strategic, structural, and cultural transformations.

During the initial session, participants developed a better understanding of the most relevant changes in the external environment: First, in general, there was consensus that MFIs are seeing governments play an increasing role in financial inclusion. Client protection initiatives, interest rate caps, and direct participation were analyzed. Second, the success of the MFIs has developed the industry and the competition has intensified. Third, participants observed deterioration of the social fabric and how it is impacting clients' behaviors. Fourth, with more credit availability there is a general rise in over-indebtedness. Finally, technological innovation is marching on at a fast, revolutionary, pace in the financial industry. However, there are also large prospects and opportunities.

During the following sessions, participants analyzed with more detail the impact of these environmental changes on the MFIs' business model: First, in the analysis of the market, they observed that clients are more empowered, and that the demographics of their related market segment behaviors are changing, thus impacting the differentiation of MFIs' value proposition. Second, consequently, the value proposition of MFIs has changed. More products, with more flexibility, more tailor-made for specific segments are being offered. Levels of service, such as same-day disbursement, more presence in the field and remote channels for assistance are increasing the ease of transactions. The challenge of fine tuning the relationship with clients is triggering initiatives that aim to balance productivity while maintaining depth of relationships. Third, the service delivery channels are changing. They are evolving from agent-based to hybrid, exploring the value add of technologies and social media. Fourth, the organizational capabilities of the MFIs have been evolving over the past ten years to fine tune the delivery of the value proposition while increasing efficiency allowing them to scale with control. However, the environmental analysis showed that MFIs will require transformational changes that will require complementary leadership skills from CEOs and their top management teams. Finally, the business model of the MFIs is also threatened by the disappearance of industry boundaries given the new kinds of organizations and competitors that have access to the clients MFIs serve and that are now

offering competing financial products and services: FinTechs, TELCOs and utility companies, multinational retailers, traditional banks and organizations that are offering integral solutions.

During the third day, the discussion was opened to include CEOs from relevant and innovative FinTechs companies. The guiding questions were: which kind of companies will lead the future of financial inclusion? - Revamped MFIs, FinTechs, or a combination of both? Are FinTechs competitors or complementors? As expected, participants concluded that there are both kinds of FinTechs. Some of them have achieved success on their own achieving significant scale and reaching millions of clients, while others are at the startup phase. Significant potential synergies and complementarities were observed if some barriers can be overcome in developing these symbiotic relationships.

Finally, we conclude that **to build the healthy, value adding, future MFIs, the biggest challenge will be leadership**. Although there was significant variation among participants as to the degree of urgency about embarking on transformational initiatives, we see three types of transformational challenges: **intrapersonal, business/organizational and with the ecosystem**. First, a sound strategy cannot be developed without a profound understanding of the relevant environment. In an environment that is dynamic, evolutionary and revolutionary, complex and uncertain, leaders face the challenge of gathering deep information, interpreting that information, and then constantly setting and resetting direction. These radical changes challenge the beliefs and personal theories of senior management, and therefore, at its core, this first type of transformation is intrapersonal, without which organizational transformation cannot occur. Second, transformation at the organizational level will involve leading the efforts to rethink the business model, identifying the new sources of differentiation, and then realigning the strategy with structures, processes, technologies and people. These changes will entail new levels of organizational integration that require creating new structures and processes that facilitate higher collaboration and horizontal coordination of key multidisciplinary projects. This type of transformation will require cultural changes, without which it will be almost impossible to build the new organization - as Peter Drucker once said: “culture eats strategy for lunch”. Finally, a third type of transformational leadership will be inter-organizational. Given all the types of organizations that now reach the BoP, leaders will have to decide on how to position the MFI within the emerging ecosystem. With the new ecosystem, new stakeholders are appearing and new relationships might need to be built: chambers, academic institutions, capital providers and innovation hotspots are a few of them.

MFN's transformational role

In 1993 the MFN was founded to help MFI members understand, in a collaborative context, the reasons and implications of transformation. At that time through communication and collaboration, the MFN was supporting its members transform into profitable, sustainable, commercial financial institutions that serve those excluded from the financial system. The members of the MFN have long since accomplished that mission. Fast forward to the present and in this new changing environment, MFN members face a new kind of transformation: the revolution of the financial inclusion ecosystem. Through this second shift, the MFN continues to provide a privileged space for dialogue, learning, and collaboration between members, and in so doing, seeks to help global microfinance leaders ensure that this is a transformation that benefits its institutions and clients.