Field Note 8

CHANGING CHANGE MANAGEMENT:
ADAPTING INTERNAL AND EXTERNAL CULTURE IN TIMES OF DIGITAL TRANSFORMATION

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INTRODUCTION

The ease with which customers access digital financial services (DFS) can make such implementations appear deceptively simple – with just a click on a mobile phone and a customer will be able to make payments, save money, access credit, and even become insured. Launching a digital channel is not a simple endeavor however. It requires a relevant strategy, the right technology solution, the operational know-how, and a very good understanding of customers.

The changes involved in 'going digital' touch all levels of the business and may even challenge the established business model or institutional identity. The successful implementation of a digital channel thus requires a sound change management plan. In fact, many digital projects that failed or struggled have done so because they did not address the change factors related to digitizing different areas of the organization[1].

When implementing a DFS, FIs often tend to focus on the "hard" or technical implications of the digital venture, paying little attention to other areas affected by the project. Hence, this Field Note mainly focuses on addressing the "soft" or interpersonal aspects of the digital transformation.

The internal aspects deal with how a DFS project can transform an organization and how that transformation should be handled; the challenges of managing change and staff expectations and the adaptation of business processes for accommodating the launch of a digital solution.
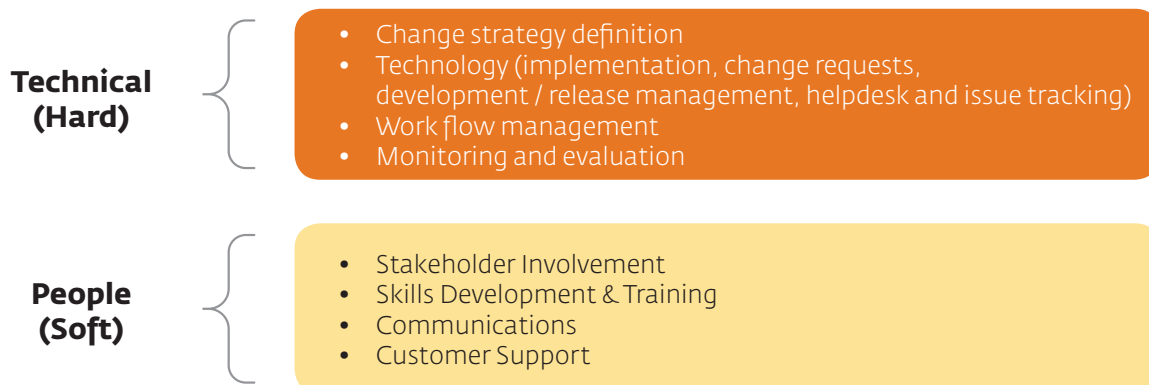
External aspects include how to introduce the new digital channel to customers and the support they need in transitioning from mainly face-to-face interaction to a more digital one. The guidance presented here is based on evidence from nine financial institutions in Sub-Saharan Africa that the research team followed during a period of four years, 2012-2018, as part of the Partnership for Financial Inclusion initiative by IFC and the Mastercard Foundation.

When introducing their digital channels, these institutions first established strategies generally centered on increasing outreach, gaining operational efficiency, and mobilizing savings. As part of their strategic implementation, some FIs tested and adopted change management mechanisms to support the introduction of the DFS, while others did not. This research note draws on their experiences and learnings on how to deal with the cultural, organizational and business process changes that impacted staff, customers and funders.

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[1] *Mckinsey https://www.mckinsey.com/featured-insights/leadership/changing-change-management*

BOX 1: DFS CHANGE MANAGEMENT FRAMEWORK

A change management strategy refers to the processes and activities put in place to prepare and support organizational change. The traditional framework for change management involves two main angles:

Technical (Hard)
- Change strategy definition
- Technology (implementation, change requests, development / release management, helpdesk and issue tracking)
- Work flow management
- Monitoring and evaluation

People (Soft)
- Stakeholder Involvement
- Skills Development & Training
- Communications
- Customer Support

The implementation of DFS is a profound organizational endeavor. In addition to the traditional elements listed above, a DFS change management framework should also include:

- **Customer centricity:** Most DFS target new and broader market segments than historically catered for by financial services providers. To ensure digital services and products are relevant and accessible to customers, it is important to understand the needs and desires of the different customer segments. When putting together the DFS change management strategy, the same logic needs to be applied. The strategy needs to put the customers at the center for the different elements of the strategy to be able to respond to the potential fears and psychological barriers customers might have in the adoption DFS.

- **Constant feedback and adaptation:** When changes are introduced, it is essential to generate constant feedback loops and to set up mitigating measures to address failure or discontent with change. It is a similarly iterative approach as for product and channel development, where customers' or users' feedback is collected through the development process to ensure the new service meets expectations. Feedback can be collected during meetings with staff or customers, or via surveys. The FI should ensure that it has the mechanisms in place to collect, analyze and integrate this feedback into the digital service and the change management plan.

- **Addressing emotional aspects of change:** The change from a mostly face-to-face interaction to a more or less digital one tends to produce a range of emotions and negative reactions in customers and staff that need to be appropriately acknowledged and addressed to ensure adequate levels of trust for the full adoption of the service.

- **Implementing a structured step-by-step approach:** The upheaval that a digital transformation brings can clash with the institutional ability to process the changes. To avoid feelings of exhaustion and uncertainty among staff and customers, the FI should introduce changes in a gradual manner over a period of time.

MANAGING THE INTERNAL ASPECTS OF A DIGITAL TRANSFORMATION

Digitization & Organizational Change

From the experience of the nine participating FIs of the study, the introduction of DFS affected their culture and identify on three levels:

1. The organization itself

The digital channel offered some FIs an opportunity to reinvent themselves. Previously, all the participating institutions were credit-oriented microfinance banks, focused primarily on offering lending products (such as individual and group loans). The digital channel created an opportunity to better understand their customers' needs and to begin offering other financial and non-financial products and services such as savings, government to people payments (G2P), and bill payments. The new ability to serve a broader market with multiple products fundamentally questioned the identity of some of the FIs, raising questions regarding 'what we do', 'who we are', 'how we work', and ultimately, 'who do we serve'? As a result, some FIs in the study fundamentally changed their business identity. Most of the participating institutions now market themselves as multi products/services. One of the institutions even changed its name, taking on the name of its agent network brand. It also eliminated any reference to lending-only operations to reflect its new multiproduct approach.

2. Gaining staff acceptance

Using digital channels tends to make operations more efficient, representing potential reductions in the number of staff needed to carry out some operations. DFS also require the bank staff to become more "technology savvy" as they might need to explain or train clients on the use of the digital channels and may require staff to work more digitally themselves. These factors generate fear and resistance to change from some staff and can adversely impact morale and the work climate.

3. Process review & improvement

The introduction of a DFS requires changes in the daily processes of FIs, with a focus on automating resource-intensive, cumbersome and paper-based procedures through process redesign in order to provide an adequate level of digital customer experience.
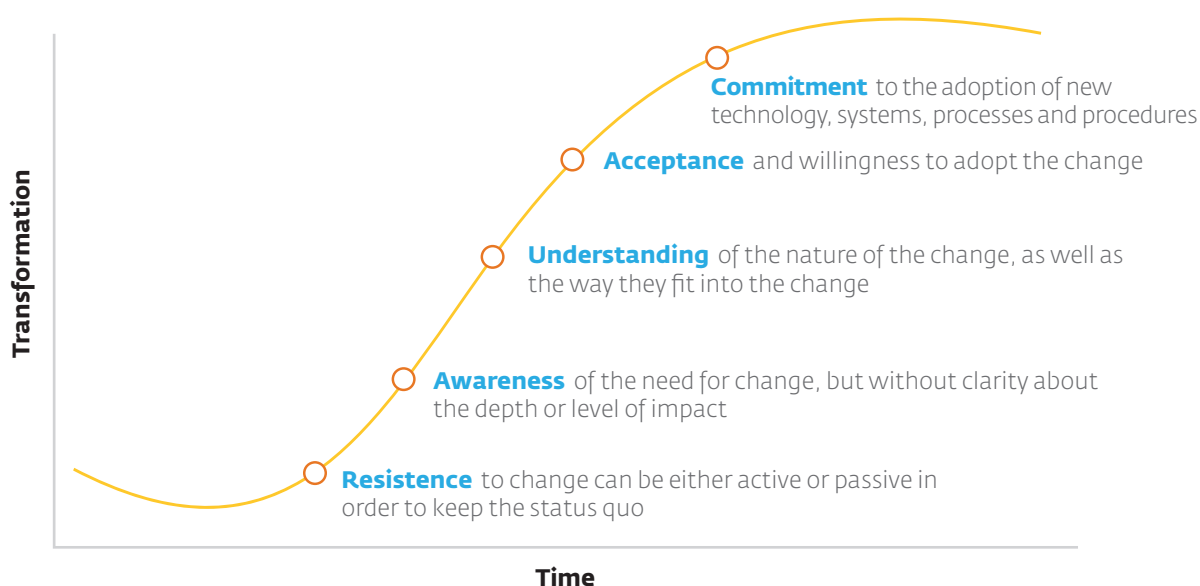
It is advisable for FIs to adopt a step-by-step change management strategy when deploying new digital channels. This can be done by implementing a sequential pilot for a new mobile application first tested with staff at the bank's head office, for instance. The application can then be rolled out to branch staff, after which it can be tested with customers at one branch, then one region, before it is rolled out to the rest of the market. In each of these stages, the FI's management should collect feedback.

This feedback should not only include KPIs but also qualitative information about barriers encountered by staff and customers when using the new channel. The stepped approach allows for testing, re-testing and fine-tuning of new processes and services in a controlled environment. This approach may also facilitate a better acceptance of changes, as new services and processes are gradually introduced and sensitized in the organization and the market.

BOX 2: THE CHANGE ACCEPTANCE CURVE FOR STAFF AND CUSTOMERS

As presented in Chart 1, the introduction of a digital channel requires a shift in the mindset of staff and clients. The FI needs to understand the path that staff and customers must go through to accept and commit to the new digital channel. The institution should create strategies for helping them to move along the change acceptance curve. For this purpose, the FI could put in place change management mechanisms to help these two stakeholder groups deal with initial resistance, creating awareness and understanding for the need of digital change, and finally foster willingness and commitment for adoption.

Chart #1: Change Acceptance Curve – Staff and Customers[2]

Commitment to the adoption of new technology, systems, processes and procedures

Acceptance and willingness to adopt the change

Understanding of the nature of the change, as well as the way they fit into the change

Awareness of the need for change, but without clarity about the depth or level of impact

Resistence to change can be either active or passive in order to keep the status quo

Transformation

Time

A robust communication scheme can play a key role in helping staff and customers move up in the change management curve. Good communication strategies help to keep these two stakeholders informed and engaged. It can also serve as a way to introduce and train people on the key aspects of the DFS. In particular, communications targeted at customers or the end-user of the DFS should highlight the value of the adopting the DFS, relying on digital means of communications such as social media networks, mobile applications and SMS for promoting and providing customer support for the new digital solution. A digital channel requires a digital communications strategy. It would defeat the purpose of having a digital channel to rely primarily on traditional communications channels such as a complaints book, newspaper advertising.

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[2] *Based on the Kubler-Ross change curve and John Kotter's change management approach.*

URWEGO: USING CULTURAL CHANGE TO RE-THINK THE BUSINESS

Urwego Bank, formerly known as UOB, is a licensed microfinance bank in Rwanda. The name change came after HOPE International acquired a majority shareholding in Urwego in late 2016. Its Mission is to further financial inclusion, with strong social and Christian faith components. Urwego offers individual and group loans as well as savings products. In recent years, the bank—which has traditionally focused on the lower income segments, especially in rural areas—decided to transition to full-fledged banking services, multiplying the offering of products and services and focusing more on serving individual customers.

In 2013 the bank implemented a digital strategy to further increase outreach, especially in rural areas, and also limit cash handling by loan officers[3]. The strategy combined a USSD mobile banking solution with a proprietary agent network, MHose. However, the implementation soon faced significant challenges. For example:

• **The high cost of agent liquidity management:** Traditional group lending methodology dictated that every member in a 15-60 person group receive their loan and make payments on the same day. This resulted in liquidity management challenges for agents, who could often not handle the required float and cash to disburse over 30 loans in a given day. It was also fundamentally challenging to provide adequate liquidity management in rural areas. To solve this, Urwego partnered with an external company that offered a super-agent solution. Despite satisfactory results, this was stopped due to the cost of the service. Urwego then decided to centralize liquidity management services from HQ. This discipline took time to evolve and an initiative to develop an overdraft facility for agents spearheaded by the super-agent was also terminated.

• **Lack of agent support mechanisms (especially in rural areas):** The expansion to rural areas via agents was more difficult than anticipated. Urwego found barriers to agent recruitment and customer uptake of the digital channels due to lower financial awareness and literacy. In 2016, due to restructuring measures, staff dedicated to the agent network were transferred to other roles linked to branches. Customer training became less frequent and no longer included any training on how to use the digital channel.

Beyond the contextual factors that made it difficult to roll out a successful agent network, the bank also faced internal challenges to adopt this radical new way of doing business:

• **Lack of Internal Alignment and Sufficient Communication:** Digital finance and retail banking were led by separate executives, and retail staff perceived agent banking as a threat to their relevance. The success of converting existing customers to the digital channel was dependent on retail staff selling the new offering to customers. However, often staff would encourage customers to use traditional cash payment methods to undermine what they falsely perceived as a threat to their job. Despite many senior staff acknowledging this challenge, there was no unified internal communication strategy to address the emotional aspects of change and sell staff on the efficiency gains derived from going digital. Nor was there a clear plan to integrate the digital channel into daily operations. This situation coincided with a period when the bank was already underperforming, resulting in high stress levels and increased portfolio at risk. At branch level, management enforced KPIs did not include metrics for the digital channel. Loan officers did not have the time or the right incentives to encourage customers to use the digital channel and instead focused most of their time on loan recovery.

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[3] *Lonie, Susie, "Field Note N7: Turning MFI Digital Strategy into Reality". The Partnership for Financial Inclusion. January 2018*

In 2017, to response to these challenges, HOPE International decided to harmonize the digital and traditional channels and to rethink the way the institution operated. It focused on increasing staff acceptance of the digital channel and on reviewing and improving processes. These on-going actions aim to address the following:

- **Internal buy-in:** One significant component of the new strategy is to address staff concerns and create the right stimuli to drive internal buy-in from branch staff. The first step was a coordinated internal sales effort to give a clear vision for mobile banking, identify staff concerns, and to provide clear and reassuring answers. Urwego then revised the incentive structures at branches and transferred ownership of many agent management processes from HQ to the branches. Monthly branch incentives include a significant component related to MHose performance. Finally, management of agent banking and the branch network were combined under one "service delivery" executive. This unification began to diminish internal competition and helped drive collective ownership.

- **A stepped approach to process improvement:** Group loan disbursement and repayment processes have been standardized to improve the customer experience. The new goal is to digitize all group transactions by early 2019 so that group disbursements and repayments will be done exclusively via MHose. This conversion is taking place via a stepped approach, first converting customers closest to agents and then extending the roll-out to all groups.

Because of these change management actions, the institution has seen an increase in the number of micro-loan customers handled via agents, from 20 percent in November 2017 to 62 percent in August 2018. The institution has also increased training for staff to enroll clients on MHose and given young staff an opportunity to take a leadership role with a positive impact on staff morale and engagement.

Supporting Staff through the Digital Transition

A critical—and sometimes overlooked—issue when implementing a new digital channel is the emotional aspect of change, dealing with the sentiments a digital transformation can provoke in staff. A DFS project can trigger uncertainty, fear, or insecurity, which creates resistance to the implementation due to low morale or staff fear about job security.

A way to acknowledge and mitigate these negative emotions is for management to implement a change management strategy that presents the benefits of the digital channel in order to create understanding, acceptance and commitment. To arrive at such a strategy, the FI should:

- Listen and document the potentials fears of staff regarding the new channel.

- Analyze those fears to identify the drivers behind them and develop ways to address or mitigate such emotional risks.

- Design communication and training activities that support the change and enhance staff's understanding of the channel and highlighting the benefits the channel can bring to them.

- See change management as an open iterative process that allows bidirectional communication with staff.

- Engage staff in the project, potentially through staff piloting and digital KPIs for all staff among other measures. All staff should feel part of the change and take responsibility for its success.

In the case of the FIs participating in the study, agent networks brought cost saving opportunities by moving transactions from branches to agents. This element created fear among the FIs' staff as staff saw their positions and salaries at risk. It was noted that branch staff—in particular tellers and loan officers—perceived agents as competitors and felt threatened.

Some tellers expected their roles to become redundant in the emergence of agents. Loan officers felt a loss of "ownership" of the customer. The research finds that such fears are primarily perception-based and not necessarily realized. In fact, the most successful agent network deployments work in tandem with existing branches to help drive customer activity[4] .

To overcome initial resistance based on such perceptions, it is essential to transmit the appropriate messages to branch staff; they need to understand the role of agents and how it complements their work. Furthermore, branch management should take ownership of the success of the DFS. Some techniques for communicating the right message to field staff include:

- To branch staff, it is necessary to explain how agents can support the lending process, client acquisition activities, and cross-selling. For instance, a communication strategy can emphasize how loan officers will become able to devote more time to loan promotion and origination or recovery tasks when an agent network can take care of loan repayments.

- FI management also need to explicitly determine and clearly communicate who is responsible for managing agents at the branch level, and the level of involvement of branch managers to harmonize digital and traditional channels.

During pilot and roll-out of the digital channels, FIs can implement specific communication initiatives to prepare staff for the cultural change; newsletters, videos, briefings, and Q&A sessions with staff, are some of the activities management should consider. Appointing a charismatic champion who is well regarded within the institution to transmit core messages can also be useful for obtaining buy-in throughout the institution.

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[4] *Buri, S., Cull, R., Giné, X., Harten, S. and S. Heitmann "Banking with Agents: Experimental Evidence from Senegal," World Bank Policy Research Working Paper, December 2017*

Complementary to sensitization and communication, successful FIs in the study also implemented incentives for branch staff based on agent performance. Implementing organization-level performance KPIs that incentivize harmonious integration between agent and branch help to mitigate staff fears about potential job losses and also serve to back up the communications strategy to enhance credibility of messaging.

In one of the FIs, branches competed among themselves based on the numbers of customers and transactions using the digital channel. Three of the participating FIs created operational dashboards for branches with KPIs linked to the performance of the digital banking channel. Two FIs introduced targets for field staff on deposit mobilization and usage of the digital channel. One institution provided incentives to customer relationship managers to support the agent network as well as branches; part of their salary was fixed, and the variable element was linked to the transactional performance of branches and agents.

In some cases, when the digital channel surpassed the number of transactions at branches, this required a restructuring of those branches. It was then important to offer branch staff alternative opportunities, including training and retraining, and new roles and functions as part of the digital channel team. Two FIs in the study experienced this.

One trend observed in the study was the restructuring of the role of commercial and front office employees. One participating FI modified job descriptions of tellers and customer service staff at branches to allow them to take over new functions, including the option of performing agent management functions. .

LAPO: SHARED IDENTITY AND CHARISMATIC LEADERSHIP[5]

LAPO Microfinance Bank is the largest national microfinance bank in Nigeria and it offers financial services mainly via the group lending methodology. It is led by its founder and Managing Director Godwin Ehigiamusoe, has a workforce of about 5,500 employees, and more than 3 million customers.

One significant asset of LAPO is the brand. The word 'LAPO' has become a generic expression for credit among Nigerian micro-entrepreneurs, mainly in the informal sector. For many clients, LAPO represents the only opportunity to access finance for expansion and progress. Such a strong brand acts as a cohesive force, maintaining customers and staff loyalty.

In 2017, LAPO piloted an agent network recruiting agents only from its very engaged customer base. This approach meant that LAPO had agents who knew the institution well and were very motivated to serve other clients, helping to reinforce a sense of shared identity. LAPO was the first MFI to put in place an agent network in Nigeria, and over time agent loyalty and a common identity have become essential assets as competition is growing and targeting LAPO agents.

LAPO's pain point lays not in customers' uptake of the service, but with internal buy-in. Branches saw agents as competitors, affecting promotion and growth of the digital channel during the pilot. Due to the scale of the pilot (50 agents), the MFI did not consider it necessary to communicate to all employees the benefits of having an agent network - a fundamental aspect of promoting change and internal buy-in. As a result, staff did not have a broader understanding of why LAPO was implementing an agent network and the potential impact on the growth of the institution. The lack of communication contributed to field staff viewing the new channel as a threat, resulting in a lack of support for critical activities such as facilitating customer acquisition and deposit mobilization.

The initial result of the pilot revealed this challenge, and LAPO decided to develop a change management strategy to address field staff resistance to the digital channel. The strategy took a two-fold approach, introducing both communication and training activities to keep employees informed of the change process and its impact, to remove obstacles and opposition to change, and to ensure continued productivity throughout the agent roll-out process.

- **Robust communication plan:** The first step was to inform all staff via e-mail about the change management initiated and to open multiples channels of communication, including through videos and a dedicated e-mail address.

- **Addressing emotional aspects of change:** Another component was to create an institutional video in which the MD explained to the team the nature of changes, the reasons behind them, as well as the impact that digitization may bring. Through this video, the MD addressed feelings of uncertainty and fear staff could have and assured them that the digital strategy would not lead to job losses. The MD also described his vision for LAPO and established a sense of urgency, inviting staff to engage with and support digital financial services as the catalyst for institutional growth. His charismatic leadership and legitimacy helped to gain internal support for the digital channel.

- **Training sessions:** A change management plan, which included training strategies (such as training trainers and general induction for all 5,500 staff on digital channels) was presented to LAPO's senior management. Regional facilitators participated in the training trainers' sessions in Lagos and Benin City. This training was then rolled out to branches and the regions. As a result, every LAPO employee has received training on digital channels. It is important to note that all training included an evaluation form to gather feedback from staff about the training as well as the level of retention of critical knowledge about the digital channel.

- **Constant feedback and adaptation:** The dedicated change management e-mail address helped to facilitate employee feedback on the ongoing change management program, as well as to amplify messaging to staff. Management sends frequent e-mails to reinforce critical messages supporting the change management strategy following training sessions.

Integrating digital channels into daily operations: process improvement with a customer centric focus

A thoughtful digital transformation requires changes in the organizational structure and daily processes, such as abandoning resource intensive, cumbersome and paper-based procedures through process redesign and automation.

As part of the digital transformation, FI's key business processes—such as loan evaluation, disbursement, and repayment as well as savings' account opening and collections—need to be reviewed, improved and remapped according to the needs and potential uses of the new digital channel. Some new procedures will have to be created, including for customer enrollment, reporting and fraud prevention measures. The FI will need to acquire new technology tools or replace legacy infrastructure to support automation, system integration, and data extraction and analysis. Additionally, new skills will be brought in and some staff will have to be retrained to move from paper-based processes to new digital solutions. To coordinate all these transitions, FIs need to have in place strong strategies or ways that will help staff and customers adapt to the new digital era.

It is important that FIs keep the user in mind when making these process improvements and changes. Users can be the staff of the institution, the agents, or clients. Understanding and including the user perceptive allows the institution to design processes and services that are intuitive, facilitating change and supporting channel adoption. In order to this, FIs will find it helpful to:

- Identify the primary users of a process and invite them to participate in process development and to provide feedback on how to simplify or improve it.

- Map out changes and discuss these with users to verify that revised processes meet users' expectations.

- Test the revised processes with actual users before the revised processes are rolled out to gather additional feedback and make necessary adjustments.

The FIs in this study primarily revised existing processes and introduced new ones with regards to customer enrollment, loan origination, loan repayment and disbursement, withdrawal, account opening and savings collections.

1. Customer enrollment

New channels usually rely on new technologies such as tablets and biometric readers to facilitate remote customer registration. For most institutions in the study, bank customers needed to register separately for the use of the mobile banking channel or the agent network. In the case of two financial institutions in the study, all customers had to register for mobile banking and were then automatically enrolled in the agent network, avoiding the need for dual enrollment and making the change more comfortable for clients.

In many cases, customers need to register at branches first where biometric information is taken and digitized. In some cases, if the customer is not enrolled, she can still use agents but only for cash-in transactions for which biometric identification is not required. Although this process is not completely digital, ensuring that it works properly, and that the client only has to enroll once is an excellent way to create trust in the service and promote change.

Furthermore, branch enrollment is an opportunity for institutions to educate customers on the use of the new channel. The first contact with the digital channel is critical—the customer will benefit from some hand-holding during this first encounter. On the downside, customers must visit the branch for enrollment and onboarding, which means this strategy is not easily scalable.

In one participating FI, branch staff accompany new customers to the closest agent, make introductions and support the customer and agent during this first encounter, ensuring a seamless transition to the digital channel.

2. Loan processes

Loan processes may also change with the introduction of digital channels. If the regulation allows, the individual loan application can be redesigned so that it can start remotely at the agent or another digital channel. When loans can be repaid at agents or via mobile phone, those business processes should be adjusted to reflect the use of technology. While credit committees

are still required for larger loan amounts, the digitization of the processes for microloans frees up time for the loan officer and field staff. The FI should be aware of this new free time to recalibrate loan officers' productivity targets, e.g. number of loans processed and number of clients handled.

Two FIs in the study launched nano-loans supported by a fully digital process, eliminating the need for staff-led credit committees for small loan amounts and requiring a significant mind-set change for branch staff. When the institutions introduced the nano product, they made it a point to communicate the reasons for these new loans and the role of field and branch staff in supporting and promoting the service. Agents also needed to be adequately trained so that they understood how the nano loan worked and were able to promote it to customers.

3. Account opening and savings collection

Mobile applications and the use of a tablet or a mobile phone allow customers to open MFI accounts on site, instead of visiting a branch. For one FI in the study, field staff can use the digital application to register customers, open accounts, and immediately send a digital version of the collected documentation to the back office, which performs final check-ups on the same day. In another participating FI, roaming staff gather information and facilitate KYC via a smartphone application. In some markets, agents can facilitate account opening by collecting documentation and information for the KYC (although only bank staff are authorized to open accounts on behalf of the MFI).

Lastly, new technologies bring opportunities to incorporate traditional and informal ways of saving and to digitize them. In the case of one institution in the study, a mobile teller collects savings on demand in a way that mirrors informal 'susu collectors', which helps to engage the customer through a familiar service. A customer who cannot visit a branch or an agent to make deposits can pay a monthly fee and be visited by roving staff who collect the savings in-situ and the customer immediately receives an SMS confirming the transaction.

Another institution launched a digital group account, targeting low-income SACCO groups. This account connects the group account to a mobile banking platform, which also reduces the possibility of fraud. Group account holders exclusively use agents to perform cash-in or cash-out transactions.

Additionally, it is important to avoid misassumptions on the type of DFS customers might want to use. For example, one institution assumed customers wanted debit cards and issued these to many existing customers. The institution required that customers picked up the cards at the branches. However, since customers did not see the use of the cards, less than 10 percent of the cards issued were picked up and used by customers.

BOX 3: APPROACHES TO INTEGRATING GROUP OPERATIONS INTO THE DIGITAL CHANNEL

The banks participating in the study have used digital channels for two primary services: (1) the collection of loan repayments and; (2) to mobilize savings.

The case for loan repayments

One of the main challenges shared by several of the participating institutions was to not disturb the group lending methodology that they traditionally employ. The microfinance group lending methodology has been an efficient way to expand access of credit to customers who cannot provide collateral or who only qualify for loans of smaller amounts. Groups' social cohesion and peer pressure act as risk mitigation as group members guarantee each other's loan repayments. Traditionally, all payments are done in cash during in-person group meetings, where deposits are physically handed to the loan officer to take to the financial institution. The established group lending model requires physical presence of borrowers and loan officers.

The digitization of the repayment process in the group lending methodology can be a challenge. The primary dilemma is how to maintain the group dynamics when clients can individually repay their loans at agents at their convenience, as opposed to repaying in-person at group meetings and being subjected to the social pressure and solidarity to attend meetings and make timely payments. For example, FINCA chose to revise its methodology and processes to demonstrate to the market and microfinance industry that repayments at agents can also be effective for group clients.

The MFI put in place a change management strategy that reviewed existing group lending methodology and processes and communicated those changes to both clients and field staff to properly integrate the digital channel in its operations. Methodology changes included enforcing groups meetings to ensure group dynamics and trust did not get diluted because of the digital channel. FINCA now asks customers to bring their individual agent payment receipts to the group meetings for accounting purposes and does not allow cash payments to the group leader. Additionally, FINCA DRC also uses roving agents that participate in the group meetings to process payments in situ.

As a result of these changes, agents perform 72 percent of all of FINCA's cash-in transactions[6] (mainly loan repayment. This has improved operational efficiency, allowed for cost savings, and ultimately improved the customer experience.

The case for promoting savings mobilization

At the core of LAPO's success is the group methodology, which reinforces the idea of community and shared values among customers, and in which members—the vast majority being women—repay their loans, save and share experiences during the weekly group meetings. Given that LAPO's group lending methodology has been key to its expansion, it needed a change management mechanism to preserve the group lending methodology while introducing the use of the digital channel for savings mobilization.

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[6]   *As of December 2017*

To promote the digital channel, LAPO decided to develop an agent network to facilitate savings for customers outside the group meetings. Given that LAPO's customers typically make daily or weekly small deposits with informal susu collectors, its management saw an opportunity to mimic and leverage the susu collector model through its agents. This provided its customers a familiar channel that would mobilize savings but also preserve the group lending model.

After deciding to focus on savings mobilization for testing the agent network model and with a stepped change approach for the introduction of this channel, LAPO obtained the following results:

- The institution was able to increase the amount of savings mobilized through the agent channel seven-fold from January 2017 to December 2017.

- In March 2018, the number of deposits through the agent network was over NGN 50 million (around USD 140,000). Of these, 35 million (USD95,000) are retained; that is, 70 percent of those micro-savings are held by the institution.

- Initial cost comparison indicates that it is cheaper to mobilize deposits through agents (versus branches). In fact, LAPO's initial cost-saving analysis shows a 17 percent cost saving per transaction when using agents for deposit mobilization.

It is important to note that after finalizing the pilot, LAPO is now exploring how to incorporate loan repayment as part of the services agents provide. It will however, only happen after piloting the service first to understand and document clients' reactions and how it may impact the social dynamics of the group lending model.

UNDERSTANDING AND MANAGING EXTERNAL EXPECTATIONS: CUSTOMERS AND FUNDERS

Digitization and customers

Introducing digital channels changes the touch points between the FI and customers. In some cases, it makes face-to-face interactions less frequent while increasing the ability for clients to transact at their leisure. It also broadens the variety of touch points between the FI and customers, requiring FIs to ensure a unified user experience across interfaces (for example, agent and self-service through mobile applications). It is thus key to adoption that the perspective and feedback of clients are incorporated into the concept, prototype and final version of the digital channel. Additionally, using digital tools for collecting customers' feedback (i.e. chat bots, online platforms, social media) on the new service contribute to improving the DFS by creating acceptance and commitment among customers to the use the digital service. .

There is a delicate balance between the use of enhanced technology and the expansion of digital financial inclusion. New technologies, such as smartphones, are still not available to the majority of the poor in developing markets. Focusing on developing sophisticated technology can thus create a mismatch between advanced technology and the FI's customer base, backfiring in terms of poor uptake. For example, one of the FIs in the study chose to create a mobile solution available only for smartphones based on the prediction that the mobile Internet would soon overtake USSD technology. This resulted in most of its customer base being excluded from the mobile banking service as they did not have access to smartphones, affecting adoption and activity rates.

Building customer trust to facilitate change acceptance

Using digital channels, such as agents and mobile applications, has the potential to enhance the customer experience with the institution. Nevertheless, the introduction of digital channels can represent a major change from the way customers interact with FIs, creating initial resistance and a need to properly support customers through the change acceptance curve.

It is therefore critical to ensure that all key operational processes for the digital channel implementation are working seamlessly to avoid creating customer pain-points and provoke initial resistance. It is also important to build customers' trust on the new channel as a means

of ensuring commitment to change and future adoption. Building customers' trust in the new digital channels involves dealing with three aspects: FI's operational readiness to the delivery of the digital channel, market characteristics, and customers' expectations about the appropriate user experience.

- **FI's operational readiness to deliver the digital channel:** The FI's inability to fulfill customers' expectations regarding the reliability of a new DFS can hinder customers' acceptance of change process and trust. It was noted in the study that the following operational areas can create problems for building customer trust:

- ° **Poor agent quality:** Customers' trust and the reputation of FIs can be damaged if agents are not selected on proper merits. In the study, FIs have generally recruited agents from their own customer base or agents who have a previous record working with MNOs to address this issue.

- ° **Connectivity issues:** and delays in transaction processing and notifications (i.e. SMS receipts) can create doubts among clients about the safety of their money. To address connectivity at agents, FIs should put in place network connectivity redundancy plans. This could include using a POS with more than one SIM card (from different MNOs) or providing two Internet lines for those agents connecting online. Additionally, system integration is critical to ensure that transactions from the digital channel system are correctly recorded in all back-end systems of the institution.

- ° **A lack of a clear enrollment process:** In eight out of nine institutions in the study, bank customers needed to separately register to be eligible to use digital banking. Some of these registration processes are still manual and require the customer to go to branches more than once, presenting an obstacle for customers to start using the channel. Designing a paper-lite (or paper free) process for client enrollment can facilitate a better customer experience. If regulation allows, registration should be done directly in the field by the agent. Two FIs in the study tested using a tablet with a biometric reader to register clients at the agents, contributing the digitization of the customer registration process and providing a better customer experience.

- **Inadequate** issue resolution: can make customers feel vulnerable or at disadvantage. They may fear that the institution accepts their money without accountability. Hence, FIs should put in place the processes and tools (call centers, data extraction tools, system alerts, reports) for prompt resolution of customers' issues and complaints. One participating FI uses a system that allows the call center staff to access all information regarding a transaction, enabling them resolve issues while on calls or, where necessary, escalate the issue to the right level.

- **Market characteristics:** It is essential to understand the level of maturity of the market's current usage of DFS. The study found that transitioning customers to a digital service and building initial trust was more challenging for FIs operating in markets where DFS is a new phenomenon and where these FIs are first movers. Therefore, the FIs operating in this type of market needed to invest more in marketing, training, and hand-holding clients to support the learning process, and in so doing, building trust in the digital channel. In markets where the use of DFS was more common, customers were more adept in using agents and mobile banking for financial transactions. The customers in these markets do not see DFS agent networks as something new, but rather as a different version of the familiar MNO mobile money agents. Hence, in such markets, FIs tend to have an easier task in building trust in the use of the digital channels. Marketing and promotion campaigns centered around the value proposition of DFS, and it was more critical for each FI to differentiate its offerings from those of other actors in the market. FIs may reinforce the digital aspects of the channel by leveraging social media (Messenger, WhatsApp, Facebook) and other digital tools (such as, SMS) to promote the channel and to provide customer support as this can also help to facilitate the transition from face-to-face interaction to a digital experience.

- **Customers' previous digital experience and perceptions:** If the customer base is new to the DFS, some handholding may be necessary to support the change and adoption process of the customers. Here, it is important to provide necessary training to support the client to understand the value of the digital service and how it works:

- To introduce clients to the new channel, some participating FIs use their branches to provide customers with an overview of the channel. At the branches, customers can watch videos or read marketing materials explaining how to use m-banking, agents or

cards. In other cases, a customer relationship officer or loan officer accompanies the customer to transact with agents or perform a mobile banking transaction for the first time. This interaction has proven crucial for assuring customers' active adoption of the service.

- Marketing and promotion materials play a pivotal role in helping clients understand the value of the channel. These materials should be clear and self-explanatory; and if necessary, available in local languages and with guiding illustrations and clear step-by-step instructions. For example, one FI's marketing department has started distributing "Welcome Flyers" to onboard new customers. However, the marketing materials are yet to be translated into the local languages, which could constitute a barrier to adopting new technologies.

- In the case of agent banking, providing proper signage and recognizable branding (the same color scheme as branches, for example) creates the sense that the agents are part of the FIs, thus fostering trust.

In the study, three FIs benefited from word-of-mouth promotion. The use of ambassadors can also help generate trust and credibility for new users. One institution is using videos featuring a famous local actor as an ambassador and training customers on basic financial literacy concepts, with the goal of increasing trust in digital financial services. One institution uses social networks (Facebook and WhatsApp) to facilitate the promotion of new digital services and interact with customers.

Social media can be useful also for gathering feedback about customers' digital experience with the institution, and thus be useful tools in the change management strategy. Customer feedback helps the FI refine the digital services offering. One of the MFIs in the study is using Facebook and chat bots to interact with customers and to resolve issues, while all the institutions have put in place call centers to manage the relationship with customers and agents. Another MFI participating in the study is exploring potential partnerships with a Silicon-Valley fintech company to engage digitally with customers via a platform to influence their financial behavior, while one MFI is already working with the same Fintech company on a similar approach (see case study on next page).

JUNTOS AND ACCESS BANK TANZANIA: DIGITALLY ENGAGING CUSTOMERS TO INCREASE ACTIVITY

Juntos is a Silicon Valley technology company designing financial tools that drive engagement and usage of financial services among the newly banked. JUNTOS's technology allows FIs to build a trusting relationship with end-users, improving overall customer activity rates.

Juntos develops personalized customer engagement messages based on data-driven segmentation strategies. These personalized messages are designed using human-centered design principles. Users receive messages on their mobile phone and can reply to them, initiating an interaction that can last months. Juntos employs automated 'chatbots' to understand the impact of these messages on customer activity. Over time, Juntos is able to segment users into groups according to their engagement level (i.e. the frequency users respond to messages).[7] Using a digital solution like Juntos can help an FI support customers' transition to digital services for the following reasons:

- Stimulates clients to use technology to solve problems or questions related to DFS. By using the same device (ex. mobile phones) for transacting, doing inquiries or getting support customers get used to the technology that enables DFS.

- Allows FIs to gather data that can be used for improving the DFS. For example, if customers have specific questions or inquiries regarding a particular process or functionality of the DFS, the FI can investigate why that particular process is creating those questions and make improvements as needed, facilitating the adoption of the digital service.

- Support the training of customers. FI can send personalized messages in local languages to train clients in the use of the digital channel as well as highlighting key attributes or messages that can help customers embrace the DFS.

AccessBank Tanzania is a FI serving its customer base via mobile and agent banking. In 2017, the FI partnered with Juntos to increase customer activity and educate new users about the mobile banking product. During the project, Juntos digitally communicated with approximately 140,000 AccessBank customers, ranging from small business owners in the capital Dar es Salaam to farmers in rural areas.[8]

Firstly, Juntos tested 125 messages in Swahili during a four-month period. These messages were crafted based on previous customer segmentation and were intended to prompt customers' interaction on topics such as planting for farmers, savings for small business, registering for mobile banking, trust in agent and banking institutions, and establishing saving habits after completion of a loan. During this stage, Juntos was able to learn and iterate rapidly based on customer reactions to the messages. This iterative process constantly incorporates customer's feedback, putting customers' needs and concerns at the center.

After the initial test period, the messages were then transformed into multi-month messaging experiences. Hence, Juntos designed a randomized controlled trial (RCT) intervention—randomly assigning users who receive the message and matching them to control group customers with similar pre-experiment activity who do not receive the messaging service. By comparing these two types of customers, AccessBank was able to understand the way Juntos messages affected the behavior and usage of the digital channel.

The results showed that the group receiving the messages experienced an 8 percent increase on overall balance (Current + Savings Accounts, Monthly) and a 40 percent increase on the Average Current Account Balances (Monthly). The group not receiving the messages experience a dropped in balances over RCT period. Per these results, it appears that the use of digital communications with a human centric design can positively contribute to engage customers, foster trust and adoption of the new digital channels.

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[7] Dean Caire, Leonardo Camiciotti, Soren Heitmann, Susie Leonie, Christian Racca, Minakshi Ramji and Quiyan Xu, "Data Analytics and Digital Financial Services" . The Partnership for Financial Inclusion. 2017

[8] Marc, Katie and Johnson, Kate, "Juntos White Paper: Building Customer Relationships at Scale in Digital Financial Services http://juntosglobal.com/wp-content/uploads/2018/07/Juntos-White-Paper-Building-Customer-Relationships-at-Scale.pdf

Aligning external funders' expectations to the goals of FI's digital channels

Due to the potential for massive customer outreach, digital channels have attracted the attention of a variety of funding sources, including the donor community and private investors. The international community of funders offer support such as partial subsidies for technical assistance, investment in to research and development, and debt and equity financing (commercial, blended and concessional) to expand services to underserved segments and markets. Several funders have expressed interest in supporting innovative digital delivery models as a development initiative, as they could reduce costs and support outreach to new client segments while expanding financial inclusion.

For this purpose, funders have supported FIs to move into the digital financial services era, including the design and testing of new digital financial products and delivery methods. This funding allows FIs to innovate with less financial risk. For example, one FI in the study was able to be the first bank in its country to offer agent banking, giving it a competitive advantage over other financial services providers. Similarly, another FI in the study was able to redefine its strategic orientation because of access to external funding. Before offering DFS, this FI was mainly focused on lending. By having access to external funding to test DFS and create new financial products, this FI now considers itself a multi-product bank, with a focus on both savings and lending.

However, partnerships with funders can also create key challenges and risks for both the FI and the external funder. Aligning partnerships with the right strategic relevance for both institutions can mitigate risks that the partnership is unequal or distracts the FI from its overall vision.

In order to overcome these challenges and as part of its change management strategy, FIs should consider the following:

- Aligning the vision of the FI with the goals for the external funding: FIs should seek to obtain funding for digital ventures that respond to their needs of improving operations or that are market-driven. In order to avoid strategic, operational and reputational risks, FIs should not enter into a partnership with an external funder if the intended digital service is not adequate for its market niche or segment. For example, support for a mobile banking application that runs only on smartphones is probably not appropriate for a FI aiming to serve the base of the pyramid.

- Understanding the FI's internal capacity: To properly manage change and funders' expectations, it is important for both the FI and external funder to assess and recognize the FI's internal capacity to deliver a digital channel strategy. Assessing the internal capacity of the FI should also help to manage the risk of not being able to deliver the funder's expected targets. For example, if an FI has legacy systems that cannot integrate to digital applications, heavily manual processes, and/or a lack of internal human resources capacity, the FI should not take external funding for a digital venture until those areas are improved. Alternatively, the FI can work with the funder to explore using a portion of the funding to build the necessary internal capacity as a first step in the digital transformation.

- Recognizing that the external funding will help to launch the channel: The FI should make realistic assumptions and adequately model the income and expenses of the digital channel so that it can get a sense of when the channel can become self-sustainable[9]. Doing so should help to manage the financial risk as the FI can evaluate the impact of a potential exit of the funding source on future expansion and operations of the digital channel. Additionally, this should help to keep the vision that the channel or product should be commercially viable.

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[9] Rodriguez, C and Conrad, J, "*Aligning Expectations: The Business Case for Digital Financial Services. Best practice financial modeling for financial institutions. The Partnership for Financial Inclusion. July 2018.*"

CONCLUSION

When implementing digital channels, FIs face changes that can impact identity and culture. The digital metamorphosis affects an institution at multiple levels, including its culture and structure. In the case of the former two, a digital transformation can represent a unique opportunity for FIs to reinvent themselves. As a case in point, for all of the FIs in the study, the introduction of digital channels allowed them to redefine their business models and operations.

Reaching new segments and offering new products influenced their core business strategies, such as the types of clients they aimed to reach and how they should reach them. In some case cases, the digital transformation helped to reposition the FI in the market, from a mono- to a multi-product institution. Consequently, the change management strategy must consider this broader impact on an institution and its stakeholders to identify the appropriate internal and external communication techniques, and incorporate continuous feedback mechanisms to quickly assess and react to the results of the digital transformation.

In the case of the effects of the DFS implementation on staff and customers, the study shows that it is not easy to successfully manage change as this requires dealing with the emotional aspects and initial resistance of staff and customers. Hence, a FI should design change management strategies that foster acceptance and commitment, such as training for staff as well as using promotion and marketing techniques to help clients understand the new channel and build trust. Additionally, the FI must demonstrate the value of change for both staff and clients and/or provide incentives to embrace the change to successfully implement and manage the digital transformation.

The digital channel opened up options to offer new financial products and services and to reach new customer segments and geographic areas.

AUTHORS

Gisela Davico
For 13 years, Gisela has been an advocate for the development of better policies for financial inclusion as strategies to achieve greater social wellbeing. She was the research lead for IFC's MFI Longitudinal study.

Christian Rodriguez
Christian is a digital financial services specialist with the World Bank Group. He has over 15 years of experience working with financial institutions in Africa, Asia and Latin America in the design and implementation of digital banking solutions.

Contributing Authors
Julia Conrad, Lesley Denyes, Soren Heitmann, Susie Lonie and Rita Oulai

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