

DFS Toolkit for Financial Institutions: External Analysis

Use this document as a guiding tool to facilitate
assessment of external environment

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Vision for DFS Strategy in [FI]

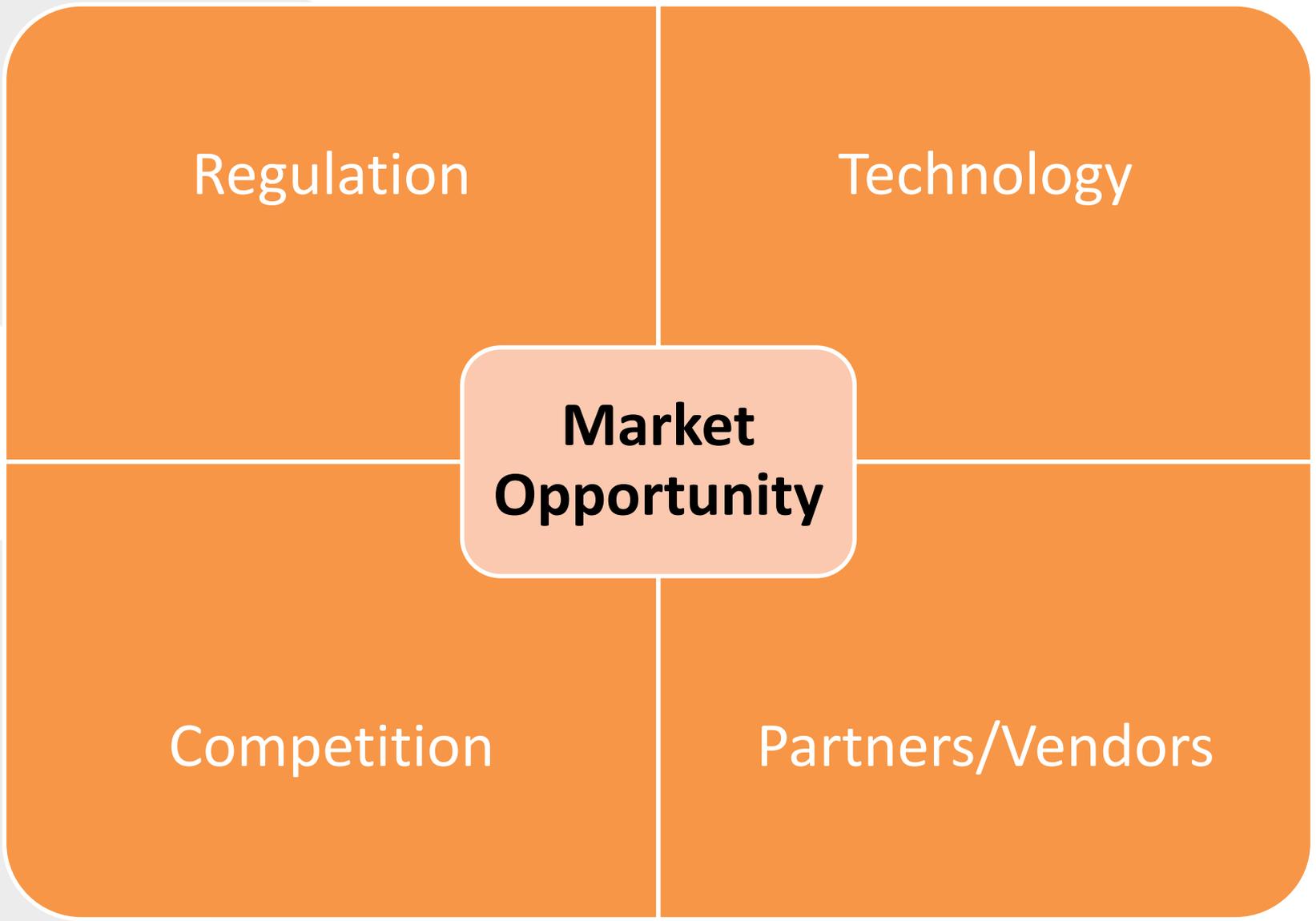
[“vision statement”]

E.g. *“Use technology enabled channels to support bank expansion (geographic and customer numbers) in a manner that is both cost efficient for the bank and convenient for the customer.”*

Overview of External Analysis Components

- This document serves as a guidance tool for the analysis of the regulatory, technological, competitive, and collaborative opportunities, as well as demographic and cultural factors that will help drive the adoption of the target channels. It aims to help a financial institution:
 - Identify if there are any regulatory and country infrastructure conditions that would affect the ability to offer the new channel, and how to comply.
 - Develop an initial mapping of existing providers and partners and their solutions in the market to support the channel.
 - Review the market usage (benefits, weaknesses, risks), appetite and perception of the new channel you are considering.
 - Perform an initial needs assessment of the potential customer market for the channel.

Framework for External Analysis



External Analysis: Regulation

- It is critical to engage Central Bank and regulators to become familiar with and understand:
 - What regulations or industry guidelines currently exist?
 - What is being considered for the near and medium term?
 - How do FIs need to comply?
- Consider answering in-depth questions such as those on the following slide to reduce risks, prepare for success and create a sustainable solution.

External Analysis: Regulation

Key Questions

Comments

What regulation (current and pending) can affect the channel? For each player, including agent networks?

Many agency regulations mandate that agents operate in online mode, which may impact selection of technology solution.

Is there regulation governing the use of non-bank agents? (i.e. services allowed at agents, including CICO, account opening, etc.)

If not, how does the regulator view the use of agents for the handling of deposits and withdrawals?

Are there AML/CFT regulations? What KYC/AML requirements are necessary for the channel?

A flexible regime for AML/CFT, including KYC, is critical for transformational branchless banking.

Is there regulation governing the use of electronic money? Via mobile, mPos or POS ?

A key question is whether non-banks are permitted to issue electronic money and, if so, under what conditions and subject to what regulation.

Is there consumer protection regulation that governs bank and non-bank financial service providers?

Pricing and processes for customer redress must be transparent when banking transactions are performed outside of a traditional bank branch. Electronic payments also raise issues regarding data security, privacy, and confidentiality of customer information.

Is there regulation governing the operation of payment systems?

Inclusive payment system regulation and effective payment system oversight are needed to achieve scale.

Is there regulation governing competition relevant to the banking and telecommunications sectors?

Policies governing competition among providers will affect key issues such as fair access to bearer channels by competing providers.

Are we able to comply with all regulations? Do we need to apply for a different license?

External Analysis: Technology

- To evaluate technology readiness, consider the maturity level of existing technologies in the local market. Likewise, assess the coverage and quality of ICT infrastructure and electricity in the country. Consider:
 - How well developed, far-reaching and reliable is the mobile communications infrastructure? Is the MNO industry monopolistic or competitive? What is the availability/quality of data? Is USSD available?
 - Are there any other considerations or challenges, such as electricity/power outages?
 - At a more granular level, what is the quality of mobile coverage and electricity supply in your target markets?
 - How dense is ATM coverage in the country? Agent banking locations?
 - What technology developments or trends are affecting or could affect the industry? How quickly are new technologies, such as smartphones, being adopted?

External Analysis: Competition

- Gather market intelligence about competitors or other organizations using similar channels to support your case for new channel implementation. Alternatively, if there have been any failures on the market, analyzed lessons learned.
 - Which competitors are using a similar channel? What is their model? What results have they been able to obtain so far? Can you obtain numbers on registered versus active users, value/volume of transactions, geographic reach?
 - What is the market served currently by your competitors and what is the potential market to be served?
 - Are your competitors working with a reliable channel provider? Do they have exclusivity?
 - Is the channel solution meeting the needs of your competitors? What were the main challenges they had during implementation?
 - For similar channel implementations that failed or are not yet meeting expectations, what are the main reasons for their failure? How do you plan to avoid falling into a similar situation?

External Analysis: Partners

- Identify potential partners your financial institution could collaborate with. The type of partners you are looking for might be non-financial entities that provide the transactional or technology infrastructure to support your channels.
- Players may include: ATM networks, Technology Service Providers, Agent Networks, Platform Providers, Mobile Network Operations and Local/Regional Switch Managers. Consider:
 - What is their offering/solution? How long has it been available, post pilot, on the market? How many active users and other partners do they have? What volume of revenues flows through their solution? Are there multiple partners involved in the offering? If so, can you meet with them? How is their solution priced? What would you have to pay to use it or work with them? How much do they charge for services? **Do they have a history of forming good working relationships with third parties?**
 - What could be the role of the potential partner for the implementation of the channel? That is, could the partner be a service provider? A technology provider? Or can it be a co-implementation partner?

External Analysis: Partners, ctd.

- What value does the potential partner bring to the implementation of your new channel?
- Likewise, what is the value of your financial institution to this partner? For example, would you help this potential partner reach a new market segment or cross-sell services? What is the potential revenue value your financial institution can bring to this partner?
- What are the expected terms and conditions for the partnerships? Would this be an equal partnership? Would there be any trade-offs?
- What risks are associated with each potential partnership? How can you mitigate those risks? For example, does your strategy align with the potential partner's commercial objectives? Are the organizational cultures and values aligned?
- How will you designate relationship management and customer support in the SLA, i.e. who within each organization is responsible for what?

External Analysis: Agent Networks

- To evaluate the costs and benefits of managing your own network versus using a 3rd party network or network manager, consider:

| Potential Partnership Structure and Operational Considerations | Comments |
|--|--|
| Should we build our own agent network vs partner with external entities? Do we have the human capacity, technical tools and financial resources to manage a network? | Options include: a) Build from scratch; b) wholesale distributors; c) large retail chains; d) specialized 3rd party agent network operators |
| Is there an agent network manager (ANM) we can work with under our chosen structure? | Agent network managers perform recruitment, supervisory and operational roles, often forming an important link in agent liquidity management |
| Agent Selection: Are there minimum regulatory and/or institutional requirements for an agent? | |
| Are the agents trusted in their neighborhood? | |
| What is the value proposition to the agent? Is projected revenue meaningful compared to their current business? | |
| Does a potential agent's core business activity attract sufficient footfall? | |
| Upfront Capital: Can the agents afford the upfront capital costs? | e.g. Float, Technology & Marketing |
| Liquidity Management: Can agents resolve shortages of either e-money or cash in a short time frame? If not, who can support this and how? | Leverage existing FS infrastructure? Agent Network Managers? |
| Agent Training: Can we find qualified agents who can be trained on bank/FI operations? And regulatory requirements? | |
| How do we ensure that we are not fragmenting demand across too many agents? What is the optimal mix for the pilot? And beyond? | |
| Balance between One time (Registration) v/s Recurring (Transaction) Revenue | |
| What field technology options should I be considering? | Digital Field Applications (DFAs) can increase efficiency and reduce costs |
| Are there mechanisms used to monitor technology quality on the front-end (POS) like availability of devices, tracking of events (blocking, falls,...) early alerts? | |



External Analysis: Vendors

- The difference between a partner and a vendor is that a vendor is limited to providing a set of services specified in a contract. Those services might have a specific time-frame and scope. A new channel might require multiple vendors, including hardware, software, and project management providers. Consider:
 - Are there existing vendors in your country/region to provide the software for the proposed channel? Who are their current clients? What results have they obtained? Does the vendor have a local technical team? What is the cost of the software and implementation services?
 - Where could your financial institution source the hardware (POS, smart phones, ATM machines) for operating the channel? What type of hardware solutions are being used in your country? With what impact and/or challenges? Are there any regulatory considerations governing the required hardware or location where the hardware will be installed? What is the upfront cost of the hardware? Maintenance cost? Average churn rate or life expectancy?
 - Are there any vendors that can provide both the software and hardware required?
 - Would you need any project management consultancy services? If so, which local and international organizations can assist you with those services? At what cost?

External Analysis: Market Opportunity

- Similarly, perform an initial evaluation of the potential clients' perception about and need for the new channel as well as the potential market size. It is important to note that this is an initial assessment. If the financial institution takes the decision to go with the channel and a particular partner, a full market assessment needs to be performed. For the initial assessment, consider:
 - What is the expected target market for the new channel?
 - Does the potential value proposition of the new channel respond to a clear client need? How do clients move money today? How will this channel improve upon those methods? What are they willing to pay? Is there a clear business case?
 - What is your target market clients' comfort level with technology? What are the most common technologies used by your target clients? Do your clients already have access to cards (debit, credit), ATMs, mobile phones? If so, how does the new channel make use of or improve this existing access to channels?
 - Are there any literacy limitations in your client base? What can be potential education techniques or incentives for client adoption of the new channel?

External Analysis: Market Opportunity

- Based on your analysis of the external environment in which your organization must operate and compete – and building off the Internal Analysis conducted previously – you can now complete the SWOT diagnostic, by identifying areas of opportunity as well as potential threats. Develop a plan to optimally exploit opportunities and minimize or counter threats as part of your new channel strategy.

External Analysis: Market Opportunity

| | |
|---------------|------------|
| Strengths | Weaknesses |
| | |
| Opportunities | Threats |
| | |