Technology has enabled institutions and individuals with faster and more secure ways for transactions, resulting in increased efficiency. Microfinance, in particular, benefitted from the integration of digital lending in the legacy systems.

Technology is taking over every critical aspect of our day-to-day life, with artificial intelligence, Internet of things, and voice assistant. The waves of transformation are fast penetrating the microfinance sector, which is thereby gaining momentum to emerge as the novel digital system by rising over the traditional time-consuming loan processing procedures.

Microfinance institutions are thriving on the back of their competency to complete the loan quest for low-income yet aspiring business people. However, somehow they still lack the touch of digitalization to offer ‘at a tap’ service.

Here are a few ways in which it is reshaping the landscape of microfinance on the capabilities of digital solutions.

**is digital microfinance the next big leap of fintech?**

Gartner says that most banks will be irrelevant by 2030. FinTechs raised a record $39.6 Bn in 2013 says Economic Times. A large number of FinTech stakeholders are ready to disrupt the conventional means to finance; however, customer acquisition and capital investments are the two dilemmas that are holding them back.

If perceived as long-term payback opportunity, the potential of digital microfinance solutions is enormous. So, looking at the benefits such as convenience and safety that it offers to lenders and loan-seekers, digital microfinance is a significant yet effective move to unlocking lucrative prospects.
what are the key technologies that would fuel the digital shift of microfinance?

Machine learning (ML), Artificial Intelligent (AI), Cloud Computing and Big Data will turn out as critical technologies for microfinance to understand the lending cycle and predict crucial parameters such as repayments.

Today AI, ML and Robo-advisory are not mere buzzwords but emerging realities, as Chatbots have already started replacing the call centers; however, the uptake of technology can only happen with an interim period of assisted technology.

Algorithm-based lending (credit scoring model) will help lenders do away with their current diary-oriented data and shift towards digital records, which will have complete details regarding loan-seeker, interest rate, due payments, etc. The technological leap will make lending and seeking more accessible and transparent and add a layer of security to microfinancing.

are digital microfinance solutions going to boost the customer base or customer-centric model?

If there is one thing that separates and differentiates between offline and online mode of operation, it is a convenience and easy accessibility from even the remotest of the region. The use of smartphones and mobility solutions allow microfinancers to adopt a customer-centric model and personalize services based on individual preferences and tastes. It helps in creating customer experiences that not only streamline the whole process but also increase the engagement between lenders and borrowers.

With the help of information gathering and dissemination just a click away, customers will find it easy to recognize your microfinancing brand when it is placed in the app store. Numerous digital platforms of exposure, such as social media, will also offer microfinance institutions the leeway to distinguish their businesses from competitors and acquire a more extensive customer base.

what are the risk factors associated with digital finance solutions?

The key question on technology / DFS risk factors is: “Am I able to measure the service level from an end-user perspective?”

Technology Risk refers to technology failure that leads to the inability to transact. It is closely linked to operational risk. If technology failure is persistent and severe, the regulator may step in and impose penalties or revoke the license, or customers may abandon the service.
can General Data Protection Regulation (GDPR) be a hurdle to digital microfinance systems?

In the data-centric world, central agencies evince a deep concern regarding the protection of data mounting up every single day. In such a scenario, data policies like GDPR can act as a barrier, to some extent.

However, the critical question is: Who poses the greater threat to corporate sensitive data: Insiders or Outsiders? What is nowadays referred to as Cyber Risk is now part of the Top Risks discussed regularly at Board meetings around the world. And this is a fact not only for financial services firms or big banks.

In order to mitigate risk associated with data, it is vital to invest in utmost cybersecurity measures that will save not only these institutes but also customers’ lending loans.

can traditional microfinance institutes also join the digital movement (digital transformation)?

Though the shift from a conventional operational system to a digital one may seem overwhelming at first, microfinance institutes can jump into the bandwagon of digital solutions at any instance of time.

MFIs swear by their traditional underwriting methodologies, whether they involve group guarantees or individual repayment capacity assessment. These high-touch methods often yield repayment rates that other lenders only dream of. A key to success is that the methodology not only predicts the ability of a customer to repay, it actually increases motivation to repay, through peer pressure personal contact and the promise of continued access to credit.

Microfinance may wish to explore hybrid models that combines – Hi-Tech and Hi-Touch. They may find it possible to focus on market segments that are hard for digital lenders to reach. In all cases, they need to advocate for high standards of consumer protection to be enforced in their markets, to avoid being crowded out by predatory lending.

The switch from tradition system would mean handing over the data to your tech-partner and expecting a well-organized system in return.
a quick glance into the future of microfinance

Once the microfinance sector gets the slice of digitalization, there is no going back. In many cases, such as the MFIs that are members of the Microfinance Network, they are already moving along the digital journey, but few have completed that transformation.

Consistent involvement of technology will only bring better business outcomes, customer convenience, and transparency. Though big data is the big aspect of the microfinance solutions in today’s time, artificial intelligence and cryptocurrency will be its future and the days aren’t far enough when robots bring in utmost precision to your lending business.

In a nutshell, MFIs have the chance to use digital tools to pursue their missions in an increasingly digital transformation world. The key is to embrace the change that will certainly occur and to leverage these changes to innovate and grow.

My warmest and best wishes on the digital transformations for the year 2020 and beyond!

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Faheem Ali is an international speaker and has a strong management background in the Inclusive Finance and Banking domain with insightful understanding of the financial sector in various markets in Central Asia, Asia Pacific, and Africa.

Faheem has extensive experience in financial product development, digital financial product development and deployment, corporate and product marketing strategies formulation, transformation of MFIs, and credit operations. He has worked in different countries and provides training, consulting, and executive coaching services for inclusive financial service providers. Faheem has also conducted market research and numerous sessions/workshops in East African and Sub-Saharan countries, Central Asia, Asia Pacific, West Africa, and Gulf countries for financial institutions, mobile money operators, and non-financial providers including NGOs.

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