

Triggering digital transformation: Reducing operating cost and expanding customer base



Business Finance for the Poor in Bangladesh (BFP-B) in association with The Daily Star organised a roundtable titled "Triggering digital transformation: Reducing operating cost and expanding customer base" on November 18, 2019. Here we publish a summary of the discussion.

Feisal Hussain, Team Leader, BFP-B

We have been supporting various innovations for the last three to four years. We are now at a stage where many business models are generating useful information about how to help small businesses.

Today, we have two important partners with us: IPDC Finance Limited, which has been testing supply-chain financing using blockchain technology to provide greater visibility of data and issuing smart contracts across the supply chain. We also have Swosti Ltd who are working to digitise the business processes within micro-finance institutions (MFIs).

Over the last ten years, there has been an increase in the number of banks and MFIs. On top of that, there are now financial technology companies and even post offices providing services which they did not before. All of it put together, there is an increased amount of competition and a threat for banks, non-bank financial institutions (NBFIs) and MFIs. Digital transformation might just be one way in which financial institutions can best manage that competition in order to increase revenue, reduce costs and create opportunities for collaborative arrangements with other new players in the market.

Mominul Islam, Managing Director and CEO, IPDC Finance Limited

In the industry of supply-chain finance, there are essentially three components: work order financing, the factoring of receivables, and distributor finance.

Currently, traditional banking deals with balance sheet-based financing, producing monolithic financial models which

leads to inefficiency. There is also a lack of major insights into customer transactions and business activities. Hopefully, supply-chain financing models implemented through platform's like ORJON will help eradicate those issues. Orjon is a digital platform which will connect corporate organisations with buyers, suppliers, distributors and financial intermediaries. The dealings between buyers, suppliers and distributors can be digitally tracked using Orjon. Therefore, real-time decisions can be made regarding amount of finance needed for customers. Manual work orders and invoice verification will be eliminated. The solution will enable us to extend financing to not only big suppliers and distributors but also to tier-2 suppliers, which will increase the competency of the overall value chain.

The use of the digital platform has enabled us to reduce interest rates by 2 percent, reduce time to disburse loans from 15 days to 2 days and increase value of loan disbursed to over 95 % of the documented value.

Naimul Hasan Khan, Vice President, CRM, Mutual Trust Bank Limited

In supply-chain financing, we have been explaining the value proposition for the clients and banks. The banks will be looking to add lots of businesses and the customer side will be enjoying shorter processing time. But what are the value propositions being offered to the buyers? In the manual regime of factoring and work order financing, the buyers

do not cooperate much because of this lack of value proposition. How should we engage them in the overall process?

A I Muqsit, CEO, Swosti

Swosti came into the market to help MFIs go paperless which will reduce the risk of errors and forgery while increasing transparency.

The 14 MFIs who are using our system can record all MFI transaction data through a mobile application. For example, field officer assigned to collect loans no longer need to carry hard copy documents with them. Through Swosti they can input all data for a group of 30 members within 5 to 10 minutes. After the field officers make their entries, members receive a simple confirmation SMS which they can easily understand. At the branch, manual voucher creation is also not needed. Branch managers can login to the Swosti system and reconcile field transactions within 5-10 mins. The system also allows correction of data entry errors by keeping a log of the individuals making any change.

We as a software company do not have access to any of the data. Our data indicates that undergoing digitisation will enable MFIs to reduce their interest rates by upto 4%. It must also be noted that bringing efficiency does not make MFI HR redundant. Rather it provides them with an opportunity to focus on more crucial part of their businesses.

RECOMMENDATIONS

Banks/NBFIs

MFIs

Regulators

Development Partners

What is required?

Move from proprietary to shared platforms

Move from manual to real time bookkeeping

Shift from hard copy to digital storage in 5 years

Develop data sharing guideline for banks & MFIs

Develop clear SCF guidelines

Invest in digital ecosystem development

Adopt a blended finance approach to commercial transactions in the financial sector

Why is it required?

Competitiveness of platforms disappear within a short time frame

It will enable efficient and transparent decision making

This will enable FIs to reduce storage costs by 50% atleast

To increase cross sector visibility of a customer's profile

To ensure that structured SCF terminologies are used in the mkt

To ensure that all market actors operate at a uniform level

To maximise commercial and social returns

What will it do?

It will enable development of cost-efficient business cases
Will focus competition on product USPs, branding and customer cultivation strategies

Reduce operating costs upto 30% and enable MFIs to offer more competitive rates to customers

Enable FIs to offer competitive rates to clients
To graduate / cross sell products to clients

It will eliminate confusion amongst SCF clients and increase their confidence on the product

Ensure the transition towards an efficient and digital economy

Catalyse expansion of supply chain finance and microfinance activities

Rafiqul Hasan Joardar, Director, AtmaBiswas

When we first started our operation in 2006, one field worker would engage with 15 to 16 committees. There were 25 members in each committee. We tabulated all the information on a collection sheet. Making various paper-based entries was highly time-consuming. We used to have three reports: daily, weekly, monthly. The manager was given the responsibility of making reports by relying on the weekly reports of field officers. The manager would then submit the report to the head office.

However, when we began working with Swosti in 2017, mobile applications became very useful in helping us generate reports, decreasing paperwork. Now, we are not forced to face delays in weekly reports. We have also established a customer welfare unit. Savings withdrawals may also be monitored through the system, where every transaction from any member is displayed. This allows us to filter fake transactions, since we can call the customer directly and confirm the authenticity of the transaction.

Digitisation in our operations has led to an increase in the portfolios managed by our staff. Other benefits include reduced costs, increased productivity and also less forgery.

Md Ashraf Alam, Chief Operating Officer, Aarong

We have around 600 independent producers who currently produce Aarong products. We have been struggling to finance the marginal producers. We supply raw materials on credit and adjust once they delivered the products to us. This puts financial pressure on us and increases chances of forgery. At times, due to delays by producers, we ended up receiving products of inferior quality.

IPDC solution has enabled us to mitigate these problems. Their highly efficient and knowledgeable team quickly understood our processes and developed customised solutions. Based on the work orders we provide to the producers, IPDC finances the producers which reduces chances of forgery and pressure on Aarong's cash flow. IPDC is also regularly in touch with our producers, updating them and conducting sessions with them.

M Solaiman Sarwar, Head of Strategic Initiatives, IPDC Finance Limited

This digital supply chain platform developed in partnership with IBM will increase financial inclusion for MSME's by creating an ecosystem. The use of the blockchain technology enables all parties in a supply chain to act on a single shared ledger. Through this system we have been able to reduce operational risks and complexities as the data is trustworthy and transparent. This enable us to offer loans to Aarong producers at 9.5%. Our engagement with these producers have been very positive.

The ecosystem ensures MSMEs get direct access to Corporates for their product/service delivery eliminating the mid-tier(s). We can now provide these MSMEs easy access to affordable finance without any collateral. This will foster faster growth and generate employment

Rizwan D Shams, DMD, IPDC Finance Limited

Our corporate partners provide us with protection for these transactions. Regarding Aarong, if any of their producer default on loan payments, Aarong will discontinue working with them. An entity which has been supplying to Aarong for more

than a decade will not become a defaulter in order to maintain this business relationship.

Professor Dr Prashanta Kumar Banerjee, Director (Research, Development and Consultancy) & Director (Accounts and Admin), BIBM

Reducing operation costs and expanding the customer base are both essential. In 2005, we had worked in the factoring area, with finances from South Asian Development Fund (SADF). Factoring is a part of the function of supply-chain financing which IPDC does. Working comfortably with buyers is one example of this. Aarong, involving its producers in such a scheme, has shown us that such a system can be successful.

The problem is that the scheme is being termed in different ways by different players: receivable finance, payable finance, reverse factoring, domestic factoring. So, different types of messages are going to the clients. A regulatory manual would be helpful to streamline messages in the market. Bangladesh Bank needs to take a lead in this and embrace the use of technology. When we started in 2005, we didn't have the required platforms or digitisation. Now, that issue is not present.

Mominul Islam, IPDC Finance Limited

In India, they have implemented factoring regulations from 2011. They have clear guidelines in relation to assignments, assigners, assignees and debtors. Over the last eight years, their factoring sector has expanded by more than ten times.

Muhymin Chowdhury, Deputy Challenge Fund Manager, BFP-B

In this competitive environment, digital transformation can be a trigger to expand the supply chain market and increase efficiency in the microfinance space. Data indicates that only 1-3% of the USD 6-8 billion-dollar supply chain market has been captured so far. Through digital transformation the microfinance portfolio can be increased from USD 14 billion to USD 20 billion.

BFP-B entered into a 1.6 million pound engagement with IPDC to launch the Orjon platform. 38% of the engagement value was contributed by BFP-B. Majority of the investment went towards platform development, hardware procurement, business development and marketing promotional activities. Through this initiative, IPDC has already onboarded 12 corporate houses and processed loans worth 20 million pounds.

With Swosti, the engagement was for 850,000 pound, of which 50 percent was contributed by BFP-B. Swosti has already onboarded 12 MFIs, processed over 100,000 loans and 30 million pound through its system. MFIs have done it through the Swosti system.

The competitive edge of any platform goes away when others start to copy it. However, investment in multiple similar systems wasteful. Institutions should move away proprietary platform and to join open platforms like Orjon. The competition should be on product USPs, branding, and customer interaction.

The regulators also need to consider a full transition to digital data storage within the next 5 years. This will enable the financial institutions to reduce the cost of storage by atleast 50 percent and offer greater value to clients.

For development partners, there is a need to invest in the digital ecosystem. We cannot digitise only MFIs or the banking sector. We can transform into a digital economy when all support functions such as auditing

undergo similar transformation.

Shyamol B Das, Chief Digital Officer (CDO), BRAC Bank Limited



When we developed the shared ATM network in 2007, the market was not ready; it was not all about technology, it was also about cost. Everyone felt that putting up 20 or 30 ATMs at their own cost is too expensive. So, BRAC Bank came up with OMNIBUS. Joining OMNIBUS helped market actors to access a common ATM network at a manageable cost. Looking back at our experience we understand that collaboration, partnership, co-creation are significant aspects of digital transformation.

Shared platform is very important. When telecom companies such as Grameenphone, Robi and Airtel came, they had individual base stations in close proximity to each other. It would have been much more efficient to have one shared base station for all companies in respective geographical locations. Such problems still prevail. Shared platform is the future and we must take it up to achieve the goals of Digital Bangladesh.

We have already initiated supply chain financing at BRAC Bank. We are in the process of selecting a suitable technological platform for that. From a credit risk management point of view, supply chain financing is crucial because it can mitigate credit risks which all the financial institutions are struggling to cope with. Such alternative financing source will give us a lot of comfort as far as utilisation, estimation and control on cash flow are concerned.

At BRAC, we are trying to build an ecosystem to identify where the work of banks stops and micro-finance takes over, and vice versa. Data sharing between MFIs, MFS and banks will no longer be an issue if these findings can be sent to the regulators since they will see the benefit of it. We will assess the benefits of the Orjon platform and determine how to collaborate.

Md Majidul Haque, Senior Assistant Vice President and Digital Banking Lead, Digital Banking Division, Prime Bank



We have been studying the scope to digitise our banking system. So far, we have identified four major areas which can pave the way towards digital transformation: service delivery and access channel, infrastructure and security, product and services and process re-engineering. I think there is great scope for collaboration with institutions such as IPDC in all these areas.

Ruhi Das, Executive Director, BASTOB



We have been benefited in multiple ways by using financial technologies. For example, introduction of online monitoring system has reduced the hassle of manual reporting which has freed up our employees for more productive work. It has improved overall efficiency of our organisation.

Mominul Islam, IPDC Finance Limited

If all large financial institutions come together, the true benefits of this blockchain based platform can come into play. Such collaboration, with strict guidelines, would increase debtors confidence and overall acceptability. We can then, collectively, bargain with the regulators.

One financial institution cannot capture the SCF market alone. The market which is around eight billion dollars currently will increase to more than 30 billion USD by 2030. Large MNCs require so much credit that no bank or financial institution can manage alone. Therefore, there is a requirement for collaboration.

The system took around one million USD to develop. If the overall market uses this, everyone's cost will reduce. The best thing is not to re-invent the development time and cost.

Afsana Islam, Private Sector Development Adviser, DFID



The platform developed by Swosti Ltd. helps assess borrowers to find information on how they have performed with other MFIs. By using alternative credit scoring, MFIs can make an informed choice on the ticket size of loans given, and whether interest rate can be reduced for that one particular customer. This opens up a new avenue for financing.

DFID has been supporting the incorporation technology at the regulatory level for many years. We are pleased to see the emergence of potential shared platforms which can benefit multiple sectors.

Feisal Hussain, BFP-B

The ecosystem is not mature enough and everyone is trying to build their own proprietary elements in it. Fundamentally, data sharing, storage, and usage will revolutionise every business. Data must be used so that customers can be assessed based on cash flow rather than assets.