

Case Study: IBM and Fino – boosting microfinance services in India

Background

It is estimated that 60-80 percent of businesses and individuals in India lack access to basic financial services. This translates to potentially more than 500 million people without savings, credit or insurance services.

Over the past 30 years, microfinance institutions (MFIs) have been attempting to fill this void. Whilst microfinance has gained acceptance as a concept and has encouraged lenders to expand their loan books through this channel, the cost of operations continues to act as an impediment. Industry experts estimate the transaction cost to be in excess of 20%, which in turn has pushed up borrowing costs for customers.

Currently, many Indian MFIs use rudimentary technology systems that lack efficient reporting and credible transaction trails or alternatively incorporate manual operations. The high cost of independent technology, such as core banking systems, has prevented MFI investment. Inefficient operating modules and manual field operations are preventing the growth of MFIs in India and the cost of acquiring and servicing customers remains high.

Business contribution

IBM has partnered with Financial Information Network and Operations Ltd (FINO), a technology solutions provider focusing on the microfinance sector, to deploy a low cost core banking and end-to-end smart card solution for MFIs based in India.

The solution is designed to support around 200 institutions representing approximately 75 million accounts with more than half a billion transactions a month (25 million transactions per day), making it the largest core-banking set-up in India.

IBM manages all back-office processing, hosting, operations and services, while FINO concentrates on expanding the user base. The service operates on a pay per use basis, so MFIs can operate and expand their businesses without having to make any significant investment in technology or applications.

Innovation

The technology facilitates online and offline transactions at an affordable cost so that it can be used in rural areas where infrastructure is inadequate. Customers access the system using a biometric-enabled, multi-function personalised smart card. The smart cards serve as proof of identity and as an electronic passbook for customers.

This is the first infrastructure of its kind in the world that provides banking technology services on a pay per use basis.



Customers in rural India go online with the new smart card.

Benefit to community and the business

This initiative has reduced the end-to-end cost for financial transactions by about 15 times compared to normal banking costs, enabling MFIs to carry out affordable, low-value transactions. Furthermore, it allows small MFIs in India to access IBM's latest technology and processes.

Overcoming obstacles

Since its inception in 2006, over 15 MFIs representing more than 3.5 million customers have joined FINO, with many more expected to follow. Some of the key challenges associated with the deployment of this technology include:

- Gaining support from other Indian financial services firms to join the FINO network and become a utility for the microfinance market.
- The need to customise the core banking application to serve the specific needs (regarding both product and technology) of the various MFIs and their market segments.

The way forward

Over the first five years of operation, FINO aims to work with partners to grow from 3.5 million to over 25 million customers and more than 980 million transactions per year.

The vision for FINO is to enable financial service providers to reach billions of under-served clients, providing them with a greater range of services at a lower cost.