

Scale2Save Peer Review Workshop Learning Brief Series

This learning series comprises four briefs that summarise key discussion items and learnings from the Scale2Save Peer Review Workshop held in October 2019 in Washington, D.C.

Itad developed these briefs in collaboration with Scale2Save as part of the [Mastercard Foundation Savings Learning Lab](#) activities.

Brief 2: Cost and income drivers for sustainable business models

Why is it important?

The Scale2Save programme aims to support partner banks to reach scale and sustainability with low-balance accounts. One of the programme's key learning questions explores which business models result in sustainable business cases for financially disadvantaged segments. As such thorough business case modeling is a core component of the Scale2Save supported projects and it is important to be able to compare the different business cases across partners.

Definitions and approaches

Partner FSPs have different approaches when developing their business models and measuring the sustainability and viability of their Scale2Save supported projects. Below are some of the items discussed during the peer learning event:

- **Direct and indirect costs and revenues.** Some FSPs only incorporate direct costs and revenues related to the project while others also include some of the indirect costs and/or revenues. For instance the Kenya Post Office Savings Bank (KPOSB) implemented a project to improve the customer acquisition systems within the bank and then decided to use the newly developed system across all business lines. Since then, even the revenue from customers acquired outside the project is reported as a revenue on the Scale2Save project business case.
- **Revenues from applications developed by the project but used for other products and services.** In some cases, customers chose to apply a digital application to other strands of the business. It can be argued that any revenues incurred in these cases should be accounted towards the project, as they would have not been incurred without it. Participants agreed that one way to account for these revenues would be to **differentiate between direct and indirect outcomes of an investment**, i.e. project.

Definitions and approaches...continued

For instance, account revenues from a new customer that has been acquired by means of the project could be counted as a direct revenue, while other fees that are earned from the customer's additional activities, such as a loan credited into the account to be recorded as indirect revenues.

- **The difference between static and dynamic business cases.** Dynamic business cases include a rolling budget approach, hence budgets can be updated during implementation, the approach is adaptable and possibly the break-even point changes, while targets remain the same. Nonetheless, both, static and dynamic business cases require a **margin of error** that allows to account for possible changes in the assumptions that are underlying every business case and that might result in unexpected outcomes. One concern about a dynamic business case is, however, that the purpose of a business case is less clear if everything can be adjusted.

Indirect cost and revenue drivers

Session participants shared from their own experience with changes that took place within their institutions and identified a range of drivers that supported those changes. Two guest speakers from WSBI member banks delved deeper into their experience with significant change processes their institutions undertook and what made those changes successful. These were Fernando Vega Holm, General Manager, Fedecredito and Armando Rosales, President, Fedecredito – both from El Salvador – and TPB Bank plc Chief Executive Sabasaba Moshingi in Tanzania.

- **Legitimacy & trust:** Trust is difficult to build and easy to lose. Fedecredito shared that the person who became President had been general manager of one credit union for 25 years, i.e. 'was one of them' & had deep expertise. He then gained the support of the other credit unions for the changes they implemented. Legitimacy can also be earned by having a strong influencer on the team, building respectful relationships and working with recognized experts. Fedecredito creates value that remains in the country – a trigger to passion and trust. For TPB Bank, improved financial performance was key for its newcomer CEO to gain legitimacy with the board, and increasing incentives for employees to gain support of staff to sell change internally.
- **Strong shared vision** that the change is possible and will bring gains to everyone. Fedecredito also shared that the credit unions were highly motivated by knowing that there was a lot to gain, nothing to fear or to lose. Moreover, activities must reflect the vision on a daily basis, avoid discrepancies and every person in the organization needs to know what is expected of them. They've got to believe they can do it and they must want to do it. TPB Bank also mentioned that having a vision is key when driving institutional change – to be able to develop where you want to see this institution to be in the future; develop it together with the team and make all stakeholders see how the vision will benefit the institution.
- **Patience:** change takes time, requires many conversations and on-going work in keeping teams motivated and with long term vision.

Cost and revenue drivers...continued

- **Sustained communication:** Fedecredito holds monthly general manager meetings to discuss technical aspects, performance but a portion of that meeting is reserved to assertively communicate the vision and make sure everyone is still on board.
- **Leadership and people:** TPB Bank shared that it was important to get leadership on board and also the right people and teams to drive the process.
- **Engagement with stakeholders:** TPB Bank used different strategies for each stakeholder
 - o It focused on increasing profitability to gain credibility and legitimacy from board
 - o Introduced performance management systems to increase staff engagement and make them benefit from the change (bonus)
 - o Engaged junior staff through innovation committees and other fun activities

Action points

- The Scale2Save team will develop a new comprehensive business case template for all of the project partners. This will help identify the direct and indirect costs and revenues from the projects and allow to understand the sustainability of a project. This business case template will be updated regularly.
- Build in regular (quarterly) reviews of banks' business models and systematically extract learning along the Programs core learning questions
- Find a way to measure cost per customer

Other resources

Rodriguez C. and Conrad J. (2018) Aligning Expectations: The Business Case for Digital Financial Services. *Best practice financial modeling for financial institutions*

Rodriguez C., Conrad J., Davico G., Lonie S. (2019) A new banking model for Africa: Lessons on digitization from four years of operations