



Qredits' Branchless Approach: the vital role of technology for MFIs

CATEGORY: TECHNOLOGICAL INNOVATION

Objective of Good Practice:

Develop an effective IT infrastructure in order to limit the physical presence of branch networks and reduce the costs of MFIs.

Year of Inception of Good Practice:

2010 in the Netherlands & 2015 in the Caribbean

Keywords:

Branchless approach - Technology support - Scale up - Data collection - Risk assessment - Application process

Overview of Good Practice

Financial sustainability has always been a goal and part of Qredits' strategy to achieve higher social impact and bigger outreach. Therefore, the organisation started its operations with the idea that they would have to be supported by a highly sophisticated IT system. Qredits' delivers finance locally in a central approach based on the use of the MicroNET system (Qredits' tailor-made MIS), a completely digitalised workflow process. The system allows all officers to work from different locations, status changes are handled by the system, documents can be generated by the system, and complete management information is directly available. This reduces travel and process costs and increases transparency. As a consequence, decentralised branches and their related costs are avoided. In particular, the MicroNET system is characterised by Internet credit applications (through which clients can apply from their own homes), and by downloadable e-learning courses and free templates (that permit potential customers to download necessary information themselves, thus increasing speed, initiating the automatic digital filing, and reducing necessary meeting time for all parties). Moreover, the system allows for a central back office since the whole work process is digitalised, and all the loan officers can be supported by one back office and one risk management unit.

Innovativeness

The building of its own technology allows Qredits to cope with two urgent challenges for any MFI. First of all, it enables scaling up and allows to manage the growth of the organisation, addressing the large market demand. Thanks to automated validation and strong data processing that have been put in place, it's possible for Qredits to process a large number of loan applications. Secondly, digital channels make it possible to speed up customer interaction thanks to automated front-end operations, dealing with the big challenge represented by new competitors with fast credit processes. Nowadays, the customer's most urgent desire is for loans to be processed on time. Therefore, the use of data has become crucial, not to make a credit decision but to give a fast indication. The online application form and risk scoring model has helped reduce the time it takes to react to a customer's demand from about 4 weeks to 2-5 working days. Other innovations are the online verification of a customer's ID and the digital signing of contracts. Nevertheless, Qredits stresses the crucial importance of maintaining a personal risk assessment be it via video conference or home visit. Although these customer visits and interviews are time-consuming and constitute an expensive part of the process, they are considered to be anchored in microfinance practices and they remain one of the core values of the organisation. It seems hard to push innovation further in that regard. However, based on the built-in risk score model, customers with a certain rating can opt for a video conference instead of the regular home visit to speed up the process.

Outcomes

The results obtained thanks to this approach are that more than 40% of loans are disbursed, with only a small increase in personnel; applications that went through the fast-track process have fewer payment problems and loan officers can spend more time on customers that appear to be at higher risk based on the data alone and larger amounts requested.

Institutional profile

Qredits (2009) is a non-profit organisation based on a unique partnership with the national commercial banks and the Dutch Ministry of Economic Affairs. Qredits supports the entrepreneurs that banks are unable to help, by providing microcredit loans, SME loans, Product Leases, or flexible credit. Many of its clients come through bank referrals. Qredits also offers mentoring programmes, customer training courses, & e-learning courses. Today, Qredits employs 100 people, works with 550 volunteer mentors, has established successful operations in the Dutch Caribbean, & started a vocational college programme to teach entrepreneurial skills.

Type of Organisation

NGO

Country

The Netherlands

Products & Services provided

- **Financial:** Business microloans; Business loans (loans > 25,000€ to microenterprises and SMEs).
- **Non-financial:** Entrepreneurship training; Financial education; Mentoring; E-learning courses.

Gross Loan Portfolio

€ 202,635,000
(as of Dec 2019)

Number of clients

9,094
(as of Dec 2019)

Target Audience

Urban population - Unemployed people or people on welfare - Women - Ethnic minorities and/or immigrants - Young people (18-25 years old) - People excluded from mainstream financial services.

Organisation Website

qredits.nl | qredits.com





Efficiency and Sustainability

By making maximum use of IT possibilities, Qredits significantly reduces costs and increases its transaction speed, therefore maximising customer service. The MicroNET system makes it possible to increase transparency and to reduce costs, in ways that make effective sustainability an option. The risks linked to customer profiles, the high face-to-face interaction and the BDS requires a high-tech environment which is cost effective and independent from the location and tailored to both the clients and the MFI. Furthermore, customised modules can be added to the MicroNET system, as it is flexible enough to grow and change with the organisation which is an essential element for any IT system.

Lessons Learnt

Some of the main lessons learnt are:

- Lower risk loans can be approved more quickly, allowing for more time to be spent on higher risk customers.
- The approval rate of applications that come through the Qredits risk scoring model with a higher score are significantly higher compared to traditional screenings of the same customers. It seems Qredits takes more risk, but the overall risk proves to be lower. It is always a combination of the score that comes out of the scoring model and a personal interview. An application can NEVER be rejected based on a score; it is merely a tool to aid in the risk assessment. Before rejecting an application, a loan advisor always reviews the file to make sure that is the right decision.
- Previously, Qredits' scoring model was semi-automatic. Qredits checked the data that the customer submitted and then requested data from outside databases (Chamber of Commerce, Credit Bureau, fraud registry etc). In this older model, the loan officer would give a sub-score on 9 variables (market situation, personal situation, etc.) and those scores were used in a model to calculate an indicative score. Currently the scoring is totally automatic, data is automatically requested and inserted into the model creating a risk score very early on in the process.
- The model is not easily transferable.
- The previous model, where a loan officer gives sub-scores, is transferable. The calculation then gives a risk score between 1 and 4 (Qredits risk rating 1-4).

Finally, based on experience, Qredits would advise MFIs to collect and keep data in a well-structured manner, so it can be possible to run queries later on. Two to three years of portfolio data will be needed before being able to build your own risk scoring model.



Further Readings

A ten-year perspective: Qredits Data-Driven High-Tech Approach to European Microfinance:

<https://cdn.qredits.nl/shared/files/documents/qredits-a-data-driven-high-touch-approach-to-european-microfinance.pdf>

