ACCION

ACCION INSIGHTS

The Tech Touch Balance

How the Best Fintech Startups Integrate Digital and Human Interaction to Accelerate Financial Inclusion

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Introduction

Digital technology continues to drive massive change throughout the financial sector. Acting strategically, inclusive fintech startups can use technology to increase access to, improve the quality of, or reduce the cost of financial services for the underserved.

However, in too many instances, fintech startups make the same mistake time and again: they build technology for technology's sake. These fintech models are great on paper but don't consider the needs and preferences of their customers. They do not use new technologies strategically and fail to transform finance into a sector that works for everyone.

Fortunately, a number of successful inclusive startups are finding innovative ways to balance new digital technologies with appropriate human interactions to engage, educate, and support their customers. Finding the right combination of "tech and touch" at the right moments during a customer's journey is a key factor in determining whether a startup succeeds or fails. Doing so will help a business acquire and retain customers, reduce expenses, increase profitability, and accelerate financial inclusion.

WHY USE BOTH TECH AND TOUCH?

Technology has brought disruptive and welcome changes to the financial service sector, particularly to how customers engage with financial services. Compared to traditional models, digital customer engagement tends to be more convenient and efficient. Technology can automate processes, create more predictable and consistent customer experiences, and allow startups to "do more" with fewer resources. For example, according to McKinsey & Company, the financial services and insurance workforce spends about 50 percent of its time collecting and processing data.[1] Digital tools that automate part or all of tasks like loan application evaluation or invoicing can reduce this burden significantly.

The technologies driving these changes can help make the formal financial sector more inclusive. There are now more than 5 billion unique mobile subscribers worldwide, 3.7 billion of them in developing markets, meaning customers are becoming more comfortable with using technology – a trend we expect to continue over time. However, using technology to improve customer engagement is still challenging and ineffective for many underserved populations; despite significant mobile Internet penetration growth in recent years, nearly 2 billion of the 5 billion mobile subscribers in the world remain offline, mostly in low- and middle-income countries. [2] And even where underserved customers have access to affordable handsets, reliable data connectivity, and stable power, many customers find accessing digital financial services challenging due to limited comfort and familiarity with these technologies, limited awareness and understanding of financial products, and little trust in financial service providers. See Box 1 for a summary of the reasons why underserved customers may prefer human interactions over digital customer engagement.

1. Michael Chui, James Manyika, and Mehdi Miremadi, 'Where machines could replace humans—and where they can't (yet),' McKinsey & Company, 2016: http://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/where-machines-could-replace-humans-and-where-they-cant-yet
2. 'The Mobile Economy 2018' GSMA, 2018: http://www.gsma.com/mobileeconomy/wp-content/uploads/2018/02/The-Mobile-Economy Global-2018.pdf

In too many instances, fintechs make the same mistake again and again: they build technology for technology's sake.

Working in underserved markets, many fintechs can find themselves caught between client preferences for high-cost human interaction and the obvious organizational advantages of using highly efficient technology to cut costs. Customer preferences are slow to change, and technology isn't going away. The task for fintech startups, as well as other financial service providers like microfinance institutions and banks, is to determine how best to balance tech and touch throughout the customer journey.

Not only is this relevant for meeting customer needs, but finding the right balance is critical to determining whether a company can successfully acquire and retain the customers it cares about and, ultimately, become profitable. A recent survey conducted by McKinsey showed that companies that add human touch to digital sales consistently outperform their peers, achieving five times more revenue and eight times more operating profit.[3] This data holds true over a four-to five-year period. While digital accessibility remains a major force in meeting customer needs, thoughtful, well-timed human interactions with customers at specific moments along the customer journey can be equally critical for a business's success. Going forward, successful financial services businesses will be marked by their ability to find this balance.

BOX 1. WHY DO CUSTOMERS SEEK OUT TOUCH IN DIGITAL FINANCIAL SERVICES?

Throughout our case studies, we highlight a number of reasons customers prefer interacting with a business's staff or representatives ("touch") when using digital financial services. Apart from overall technical limitations that may motivate customers to prefer speaking with a representative rather than a chatbot (e.g., poor Internet service), underserved customers tend to prefer touch because of the following factors:

LOW DIGITAL SAVVINESS	*Lack of familiarity with using the Internet, smartphones, or even basic mobile handsets can deter customers from a digital experience.*
LIMITED PRODUCT UNDERSTANDING	*A customer who has never taken out a loan, opened a bank account, or bought an insurance policy will likely require some hands-on support before learning about and using a new product.*
LACK OF TRUST IN FSPS	*Lower-income and underserved customers tend to be more skeptical of the benefits of financial service providers (FSPs). Greater human touch can drive credibility, dissuade fears, and ultimately increase trust.*
LIMITED BRAND AWARENESS	*Fintech startups often lack the brand familiarity that larger, more established companies have. Human touch can build awareness and ultimately trust in a new business.*
COMPETITIVE DIFFERENTIATION	*For some companies operating in a crowded market, building non-digital interactions can help the business stand out.*

3. Christopher Angevine, Candace Lun Plotkin, and Jennifer Stanley, 'The secret to making it in the digital sales world: The human touch,' McKinsey & Company, 2018: http://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-secret-to-making-it-in-the-digital-sales-world

No two organizations will be the same: each must identify its most valuable customer segments and cater to their preferences.

THE TECH / TOUCH SPECTRUM

Accion Venture Lab has worked with fintech startups around the world that are grappling with how to best use technology and respect customer preferences for human interactions. We've identified a spectrum of ways inclusive fintechs successfully balance both human touch and digital interactions to create a meaningful and effective customer journey:

- **Tech *Enabling* Touch:** In some instances along the customer journey, fintech companies may find that personal touch is critical to help customers develop familiarity, comfort, and trust in a product or service. In these cases, fintech companies still meet face-to-face with their customers, but they can leverage technology to improve in-person interactions. For example, tablets can help guide field agents in enrolling customers for a new product, WhatsApp chats and groups can help staff answer customer inquiries, and back-end algorithms can automate loan approval decisions. Customers don't need to engage with or understand the technology; instead, tech enables the financial service provider to more effectively reach customers, collect the necessary data, and/or provide the information that customers need.
- **Tech *Imitating* Touch:** In other instances, customers may feel comfortable using certain technologies, but are still uneasy doing business with the financial service provider or are uncertain about specific product details. When imitating touch, businesses will use technology-mediated approaches, such as call centers, emails, and SMS messages, that can offer some of the same benefits that face-to-face interactions between clients and staff provide without incurring the full cost of relying solely on people to resolve issues.
- **Tech *Replacing* Touch:** Finally, certain customers may be fine relying on technology and foregoing human interactions. This preference tends to arise when customers are comfortable engaging with and using technology broadly, understand the product they are using, and trust the provider. Customers comfortable with tech replacing touch also tend to have consistent Internet connectivity, reliable power, and affordable smartphones.

Importantly, it's not up to companies to decide when to enable, imitate, or replace human touch during the customer experience. Instead, companies must learn from their customers and determine when each is relevant for their customers. Moreover, the same organization might use technology to replace human agents in customer acquisition, imitate staff when making payments, and enable representatives during collections. No two organizations will be the same: each must identify its most valuable customer segments and cater to their preferences, adjusting operations from one process to the next.

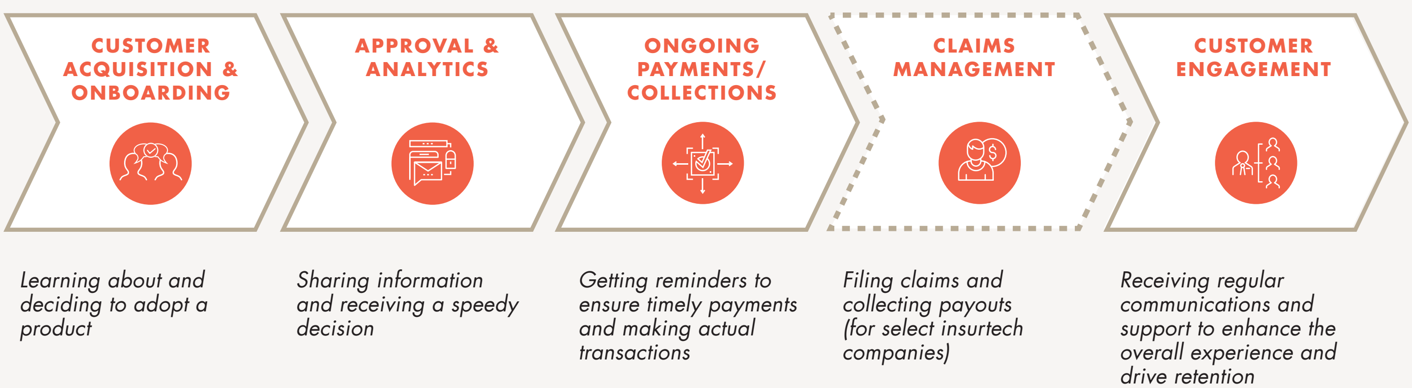
The key for fintech startups is to design an intuitive customer journey that maintains established relationships, trust, and cost-effective, scalable operations, yet still balances digital and human engagement.

THE RIGHT BALANCE ACROSS THE CUSTOMER JOURNEY

Customers have different needs and preferences throughout their lifetime with a financial service provider, from how they first learn about a product, apply for the service, make a payment, engage with a provider, deal with an issue, and decide to renew or buy a different product. In a recent study, the Center for Financial Inclusion at Accion (CFI) found that respondents across every demographic segment – men, women, urban, rural, smartphone, and feature phone users – preferred human interaction over technology at some point in their customer experience.[4] For example, customers typically prefer human touch when learning more about a product and its benefits, enrolling, and trying to resolve complaints. Respondents also expressed a preference for using technology to interact with a product or service over human representatives at some points, especially when renewing a product, repaying a loan, or processing a transaction. Though there is no one-size-fits-all model for customer preferences, our portfolio companies demonstrate broad trends that other fintech startups should consider when calibrating their use of technology and human interactions.

The key for fintech startups is to design an intuitive customer journey (see Figure 1) that maintains established relationships, trust, and cost-effective, scalable operations, yet still balances digital and human engagement. There are many factors that can influence what that balance may look like (see Box 2). As companies design and facilitate their customer journey, they can and should constantly test what their customers are or are not responding to.

FIGURE 1. THE CUSTOMER JOURNEY



4. Alexis Beggs Olsen, 'Uniting Tech and Touch: Why Centaur Products Are Better for Consumers and Providers,' CFI, 2017, http://www.centerforfinancialinclusion.org/storage/Uniting_TechandTouch_Kenya_FINAL.pdf

These case studies offer insights into how companies approach this question, the factors that affect their decision-making, and the outcomes that result from balancing tech and touch correctly.

In this paper, we highlight the innovative approaches eight of our portfolio companies use to balance tech and touch. These case studies offer insights into how companies approach this question, the factors that affect their decision-making, and the outcomes that result from balancing tech and touch correctly. The companies profiled offer a range of services, work in different markets, and serve various customer segments around the world, but are all committed to delivering high-quality, affordable financial services. In the conclusion, we provide insights into the future direction of tech and touch, and offer guidance on where startups should begin in designing their own customer experience.

BOX 2. CONTEXT MATTERS

There is no one-size-fits-all model for balancing tech and touch. Every product or service will need to adjust when to emphasize technology or human interaction and will need to take into account a variety of different contexts and local factors, including:

PRODUCT	*The more complicated the product – or the less familiar the customer is with that product – the more human touch is required. For example, more customers are familiar with savings accounts than they are with insurance products or longer-term investing.*
LABOR AND TECHNOLOGY COSTS	*Depending on the costs of human resources and/or tech in specific markets, companies may prefer to use one engagement over another to maintain their overall profitability. For example, labor is cheaper in India than Brazil; airtime charges are more expensive in Zambia than in Kenya.*
MARKET AND CUSTOMER	*In addition to differences in overall "tech savviness," in some instances, preferences for human touch can be rooted in particular cultural norms that associate face-to-face interaction with respect, credibility, and trust. For example, customers in the United States tend to have smartphones and be more comfortable with a digital experience.*

Case Study:

Apollo Agriculture

WHY TOUCH MATTERS

BACKGROUND

Apollo Agriculture delivers customized packages of seed, fertilizer, advice, and insurance on credit to smallholder farmers in Kenya. Traditionally, financial institutions viewed smallholder farmers as expensive and risky customers, but Apollo is challenging that perception by leveraging advanced technological solutions, including satellite data, remote sensing, machine learning, digital communication (e.g. Interactive Voice Response, or IVR, and SMS), and mobile money to automate and streamline traditionally high-touch approaches to smallholder finance.

WHY TOUCH MATTERS

While Apollo's business model is built on multiple forms of technology, its customer base generally does not have extensive experience using and interacting with technology. Some of the challenges Apollo has identified include:

Low digital savviness: The world's 570 million smallholder farmers historically have slower rates of digital adoption. All-digital models typically don't meet their needs.

Limited product understanding: Smallholder farmers remain one of the most underserved segments for financial services, and Apollo's value proposition, which includes a loan product, physical input distribution, and digital agronomic training, is unique in the market. While customers easily understand the package and the value it provides, conveying more complex information and compelling behavior change remotely is not easy to do.

Lack of trust in FSPs: Many smallholder farmers have limited or negative experiences with financial institutions, and digital interactions alone may not convince customers to trust and rely on Apollo's services.

Limited brand awareness: As a young startup working in remote, rural locations, Apollo has little brand recognition among its customers.

The world's 570 million smallholder farmers historically have slower rates of digital adoption. All-digital models typically don't meet their needs.

BALANCING TECH AND TOUCH

Apollo uses a blend of tech and touch along the customer journey to enhance its ability to serve its target population and increase adoption, retention, and overall profitability.

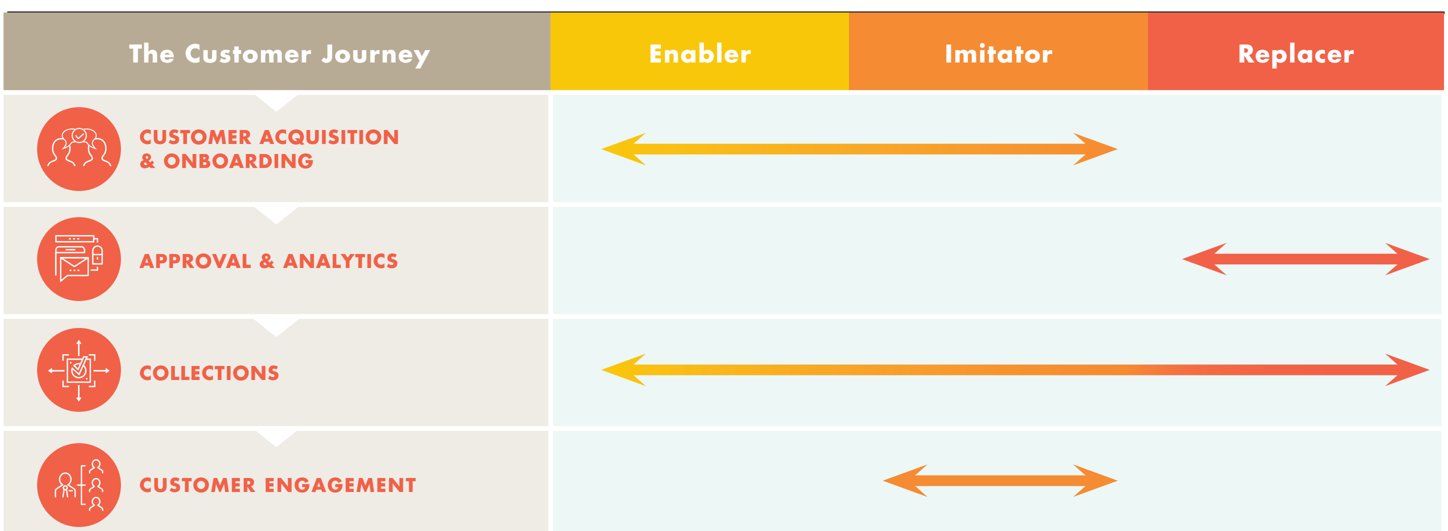
Customer Acquisition and Onboarding: Apollo uses multiple digital and in-person channels to build brand awareness and generate customer interest: it uses a call center, digital outreach via SMS and IVR, and field agents to enroll customers. This mix of enabling and imitating tech and touch allows Apollo to automate where it can, but also follow up in person with customers who need more hands-on support.

Approval and Analytics: Apollo primarily relies on tech to determine the creditworthiness of its customers: it employs a highly sophisticated, tech-driven underwriting process that leverages data collected from satellite imagery and the farmers themselves. This information helps Apollo understand individual smallholders' behaviors as well as broader agronomic conditions.

Collections: All of Apollo's loans are repaid through mobile money and require no human touch. When customers struggle to repay or are at a high risk of delinquency, Apollo quickly escalates its responses using various methods, including SMS messages, IVR calls, a human phone call, or a visit from a field agent. The ability to quickly determine how critical a collections issue is allows Apollo to tailor its approach, minimizing its costs and making the process more effective.

Customer Engagement: Apollo finds that its customers are more comfortable with voice-based communications over SMS alone. The business continues to build engagement models with that in mind.

FIGURE 2. THE TECH/TOUCH SPECTRUM: APOLLO AGRICULTURE



Case Study:

CredRight

WHY TOUCH MATTERS

BACKGROUND

CredRight is an alternative lender in India that partners with "chit funds" (the Indian version of a ROSCA, or rotating credit and savings association) to source and provide credit to underserved micro, small, and medium enterprises (MSMEs). Each chit fund member will receive a loan payout at some point in the rotation but usually does not know when. CredRight offers a complementary bridge loan to chit fund members so they have some access to funds while they await their full loan payout.

WHY TOUCH MATTERS

CredRight's customers are familiar with chit funds, which tend to be tight-knit and fairly well-established. In adding new elements to the traditional chit fund process, CredRight has been mindful to include human interaction because of the following factors:

Low digital savviness: Chit funds are primarily comprised of small business owners who have limited experience with technology and prefer face-to-face interactions.

Limited product understanding: Although chit funds are common across India, CredRight's bridge loan model is the only one of its kind in the country. CredRight requires more human touch to complete product onboarding, raise awareness, and develop a greater degree of trust.

Lack of trust in FSPs: The chit funds that CredRight works with may be decades old and are always relationship-based; their members are generally wary of sharing information with non-members.

Limited brand awareness: Working through chit fund partners is critical for CredRight to build credibility with its customers, who are unfamiliar with and potentially wary of CredRight's reputation.

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BALANCING TECH AND TOUCH

CredRight's unique model introduces digital innovation to very traditional savings groups. Because it is effectively combining something very new with groups that can be quite old, CredRight must strike the right balance between tech and touch throughout the customer journey.

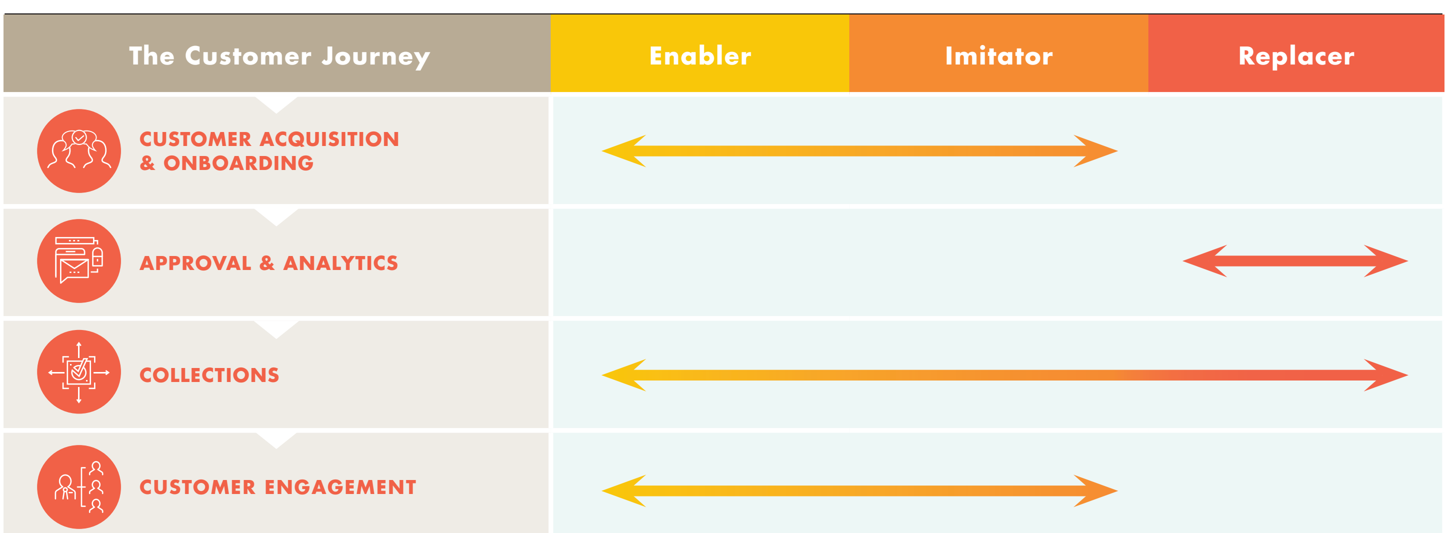
Customer Acquisition and Onboarding: CredRight uses tech to enable the sales representatives who operate out of chit fund partners' offices. These representatives interact with members directly; after explaining and pitching the product, the CredRight representative has customers fill out an online application that captures any relevant information digitally. Beyond face-to-face interactions, CredRight leverages technology to imitate touch through a call center that provides additional support, answering questions that may arise when customers apply.

Approval and Analytics: As part of CredRight's partnerships with chit funds, it receives exclusive access to chit fund member data, which covers repayment, financial, industry, and chit data from every month of the chit cycle. With these 300+ data points and any additional alternative data, CredRight underwrites borrowers. Technology replaces touch at this stage of the journey and, by automating this process and using robust, complex datasets and models, CredRight is able to run a basic eligibility check within four hours. Chit funds do not underwrite customers, so CredRight's speed, transparency, and tech-driven underwriting process enhance its reputation as a credible lender.

Collections: CredRight's collections process combines human interaction with an automated, tech-driven approach, depending on customer preference and escalation level. CredRight receives loan principal payments directly from the chit fund, and borrowers make interest payments via direct debits or post-dated checks. The ability to collect directly from the chit fund eliminates an extra step for the customer and offers greater security to CredRight. If customers are late on their payments, CredRight will escalate the collections process through calls, in-person visits, or written notices.

Customer Engagement: For any questions or issues, CredRight's customers can either approach the chit fund directly or call CredRight's customer service center.

FIGURE 3. THE TECH/TOUCH SPECTRUM: CREDRIGHT



Case Study:

ESCALA

WHY TOUCH MATTERS

BACKGROUND

Half of students who start college in Colombia end up dropping out, and 70 percent of those dropouts are because of financial reasons. ESCALA works with local employers to address this issue and offer safe, automated savings plans to increase access to higher education for low- and middle-income families. ESCALA customers also receive additional benefits, such as matching funds from their employers, savings and career advice, and discounts at designated educational institutions.

WHY TOUCH MATTERS

Promoting savings is challenging, especially for low-income customers, whose short-term needs often take priority over longer-term goals. The issues ESCALA's model has to address include:

Lack of trust in FSPs: ESCALA's customers are either financially excluded or underserved by banks and financial institutions. As a result, they are skeptical that financial service providers will act in their best interest. Human touch allows ESCALA to assure customers that they will benefit from the service.

Limited product understanding: ESCALA's end-users lack experience with traditional long-term savings plans (ESCALA's product is similar to a 401K retirement fund). Human touch allows ESCALA to engage in two-way dialogue to address customers' questions and concerns. The up-front use of human touch in generating product awareness allows ESCALA to minimize future product questions (and thus the cost and time associated with providing answers) and to drive customer acquisition.

Promoting savings is challenging, especially for low-income customers, whose short-term needs often take priority over longer-term goals.

BALANCING TECH AND TOUCH

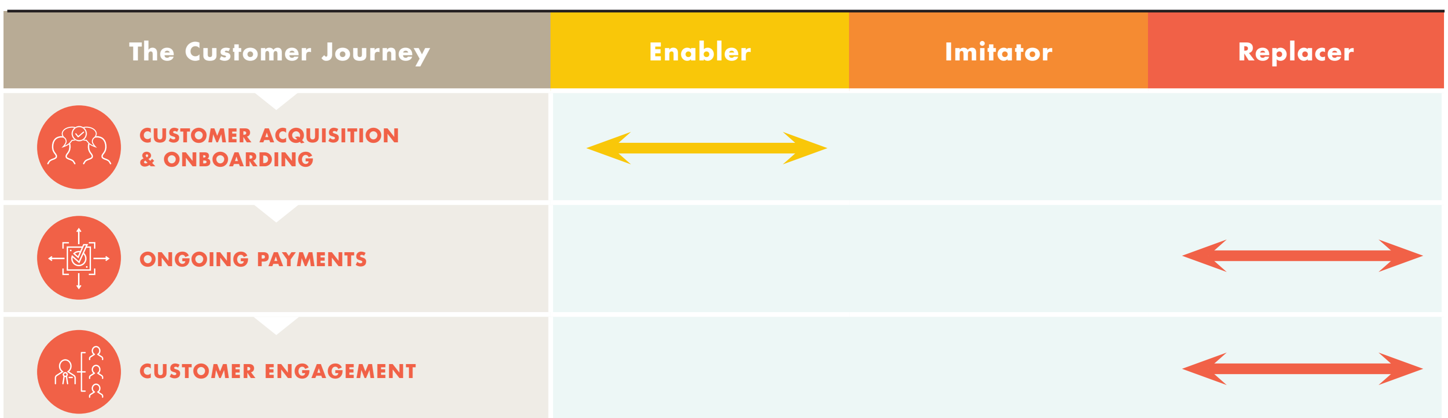
ESCALA complements its strong tech tools with human support, both directly through ESCALA representatives and indirectly through its employer partners. It uses these tools to varying degrees throughout the customer journey.

Customer Acquisition and Onboarding: While ESCALA does not use tech for acquisition, the company relies on its employer partners to raise awareness of the product and how it works through on-site workshops. By associating with its customers' employers, ESCALA develops enhanced trust. After the employer-led workshops, potential clients sign up for a one-on-one session with an ESCALA advisor who answers specific questions, adds details of how the program works, and explains how much to save in order to reach a specific goal.

Ongoing Payments: ESCALA uses tech to replace human touch at this stage by automatically deducting savings from customers' paychecks or savings accounts. This reduces effort and friction across the customer journey. ESCALA's employer partners help escalate payments-related questions or issues that may arise, but the default option of automated payments establishes and retains a low-touch approach from the start.

Customer Engagement: ESCALA also reduces friction for its end-users by creating simplified, automated tools to track and manage their savings. ESCALA sends customers monthly statements via their preferred contact method (email, SMS, or WhatsApp) and provides a personal dashboard to monitor their accounts. By providing a seamless and transparent customer experience, ESCALA drives customer retention and regular savings.

FIGURE 4. THE TECH/TOUCH SPECTRUM: ESCALA



Case Study:

Lumkani

WHY TOUCH MATTERS

BACKGROUND

Lumkani provides South Africans living in informal settlements with an insurance product that protects against loss of life, shelter, and assets. It bundles a fire and funeral insurance product with an Internet of Things heat detector that alerts its customers of a fire in or around their homes. Lumkani's heat detector serves as a product 'hook' for financial services: it makes insurance available and valuable to financially underserved communities.

WHY TOUCH MATTERS

Lumkani's bundled offering provides a unique value proposition to its customers, but making that case requires the company to adequately balance tech and touch for reasons such as:

Lack of trust in FSPs: South African consumers tend to be aware of insurance. But they are skeptical that insurers will provide the coverage or benefits that they promised. This skepticism is particularly pronounced at the lower end of the market.

Low digital savviness: Lumkani targets people living in informal settlements. These customers are highly vulnerable, financially excluded, and have little income and low degrees of digital literacy. They are more skeptical of digital channels of communication and prefer face-to-face interactions.

Competitive differentiation: Lumkani uses its customer engagement methods to differentiate itself and drive customer acquisition. A more personalized, tailored service makes customers sfeel valued and helps Lumkani stand out among other insurers.

Lumkani blends tech and touch to create an experience that treats clients with respect during a difficult time, expedites a normally cumbersome process, and helps everyone involved stay aligned and coordinated.

BALANCING TECH AND TOUCH

Like its business model, which combines intangible fire insurance with a physical fire protection device, Lumkani has developed approaches that include both tech and touch, such as:

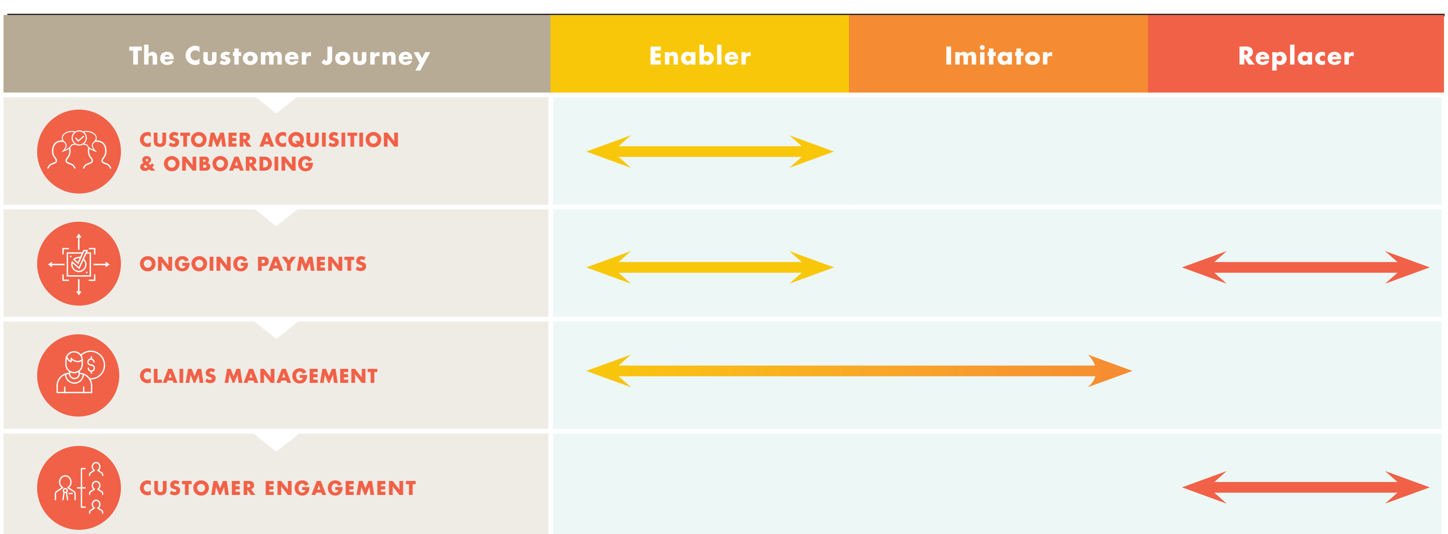
Customer Acquisition and Onboarding: Lumkani relies on a tech-enabled agent network to drive customer acquisition. Lumkani agents acquire customers through face-to-face sales pitches. The startup combines these in-person engagements with digital solutions: agents use an Android phone app to enroll customers, collect their data, and schedule the installation of the fire detector.

Ongoing Payments: Given the lack of mobile money in South Africa, most payments are made in cash. Lumkani does accept debit orders and app-based card payments, depending on customer preference. For cash payments, Lumkani agents schedule monthly payment dates. Prior to the payment date, Lumkani issues reminders via calls and SMS to preemptively mitigate any risk of default (or prompt those who may default to contact Lumkani to set up a payment plan).

Claims Management: In the event of a fire, Lumkani's heat detector triggers an alert system which immediately notifies the company, activates nearby customers' alarms, and sends all customers within the vicinity of the fire SMS notifications. To verify the fire, Lumkani calls the customer and sends an agent to their home. Lumkani works with its insurance partners to manage the risk, administration, and claims process, sharing relevant appraisal data to calculate the payout and then providing the claim payout in the form of a retail card for the value of lost items. Given the variety of stakeholders involved in the claims process, Lumkani blends tech and touch to create an experience that treats clients with respect during a difficult time, expedites a normally cumbersome process, and helps everyone involved stay aligned and coordinated.

Customer Engagement: Clients receive ongoing communication via SMS, including payment confirmation, nearby fire warnings, and marketing communications. Limiting ongoing face-to-face communication with customers helps lower costs and frees up more time for Lumkani agents to spend on closing new sales, ensuring customers pay their monthly premiums, and resolving claims.

FIGURE 5. THE TECH/TOUCH SPECTRUM: LUMKANI



Case Study:

SMECorner

WHY TOUCH MATTERS

BACKGROUND

SMECorner provides business loans to small and medium enterprises (SMEs) in India. The startup's model uses digital field tools for acquisition, alternative data for underwriting, and back-end technology to enhance operational efficiency. Initially, SMECorner was designed as a fully-digital marketplace, with an online application and customer verification tools that linked applicants to financial institutions for loan disbursement. However, given the competitiveness and saturation of digital marketplaces in India, SMECorner pivoted to direct lending and added brick-and-mortar distribution centers and loan officers to complement its online tools and presence.

WHY TOUCH MATTERS

SMECorner changed its operating model because of its customers' preference for a greater degree of human interaction, based on the following reasons:

Lack of trust in FSPs: SMECorner's physical branches provide customers with the confidence that the company is not going to disappear overnight and that it offers a credible product. The company's branch and door-to-door agents answer product questions and offer troubleshooting assistance, making customers feel that SMECorner values their feedback and listens to their needs.

Competitive differentiation: Although there is a significant debt financing gap for SMEs in India, a number of new lenders are now competing to serve this segment. This greater degree of competition underscores the need for India's SME lenders to demonstrate their value proposition and differentiate themselves from the rest of the field. Human interactions help set SMECorner apart from other lenders.

Limited brand awareness: SMECorner's branch network and trusted agents also help it build brand awareness more quickly among its customers.

SMECorner changed its operating model because of its customers' preference for a greater degree of human interaction.

BALANCING TECH AND TOUCH

SMECorner streamlines high-touch operations and processes with technology, reducing costs and making the startup's lending decisions faster than its competitors.

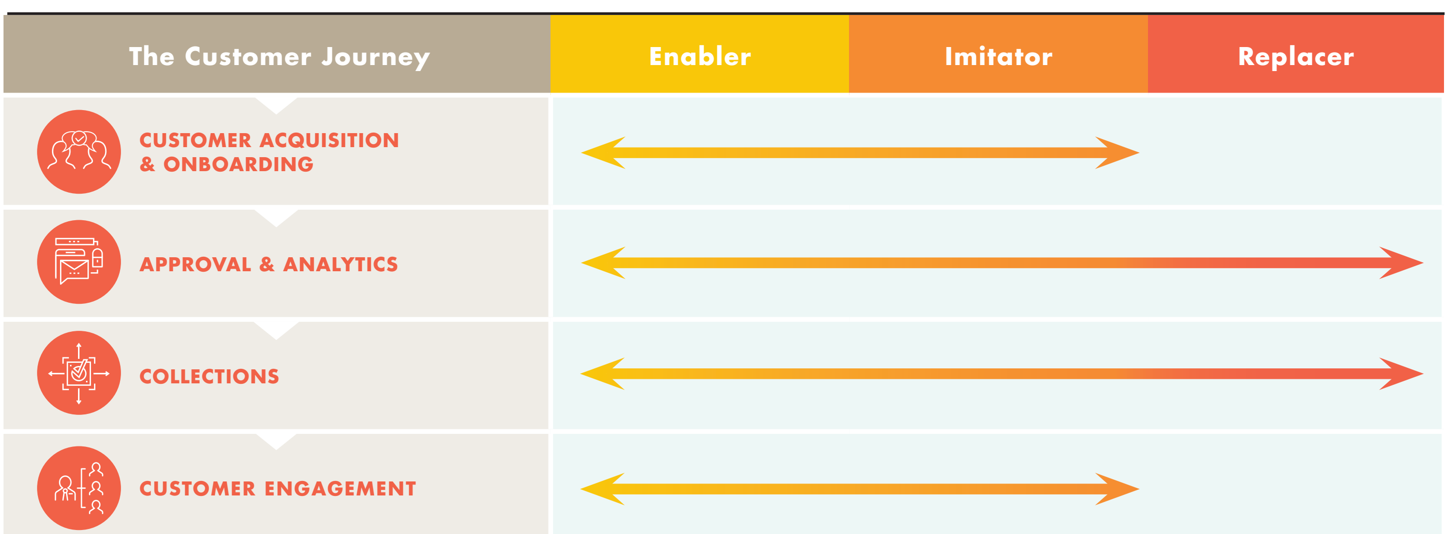
Customer Acquisition and Onboarding: Many SMECorner customers visit branches to ask questions before taking out a loan; these visits occur at urban branches with heavy foot traffic. While a physical presence is critical to SMECorner's model, the company has enhanced offline acquisition with technology: agents use tablets to help customers complete the digital onboarding process. SMECorner also uses door-to-door agents and call centers to acquire customers, and applicants may complete video interviews when they can't come to a branch. SMECorner uses an online application to enroll customers who are more comfortable using technology, or to re-enroll prior customers.

Approval and Analytics: SMECorner has replaced touch throughout the approval process, using optical character recognition in document processing and a credit mining application to scrape the web for data on prospective borrowers. SMECorner uses human touch to meet regulatory requirements, which stipulate that KYC and customer verification must be done in person. Even this high-touch requirement has a tech component, as agents' tablets guide them quickly through the verification process.

Collections: SMECorner balances a mix of tech, tech-enabled touch, and human touch throughout its collections process; its approach varies depending on customer repayment status. Customers allow SMECorner to deduct payments automatically from their bank accounts, reducing effort and physical documentation. When customers don't have sufficient funds in their bank accounts or when they fail to pay, SMECorner will call or send a collections agent to retrieve the payments. By meeting with customers, agents better understand why customers have defaulted and how to support them in developing a payment plan.

Customer Engagement: SMECorner's branch agents facilitate ongoing customer engagement. After taking out a loan, SMECorner assigns an agent to manage the customer relationship. Depending on customer preference, agents are available in-person or remotely via phone, SMS, or WhatsApp to answer customer questions, receive feedback, and provide support, particularly around loan renewal.

FIGURE 6. THE TECH/TOUCH SPECTRUM: SMECORNER



Case Study:

Self Lender

BACKGROUND

Self Lender provides "credit builder loans" to consumers in the United States, giving them the ability to build their credit scores while saving money at the same time. Self Lender lets customers take out a loan, which is placed directly into a bank account that customers cannot spend for 12 months or more. As customers pay back the loan, payment history is reported to the credit bureaus. At the end of the term, they receive the amount from the account, having built up both their credit score and some savings.

WHY TOUCH MATTERS

Self Lender's product is among the most tech-intensive of the companies profiled in this paper. It benefits from a customer base that is comfortable with technology and that tends to have trust in digital financial services. However, the startup still uses touch when necessary:

Limited product understanding: In the United States, there are 45 million "thin-file" consumers and 50 million with damaged credit. Most of these consumers are not familiar with a credit builder loan since the product has historically only been offered by smaller banks and credit unions. As such, customers have many questions about how the product works and how to resolve issues as they arise.

By imitating a real relationship, Self Lender is able to market more effectively and build trust in a crowded and competitive space.

BALANCING TECH AND TOUCH

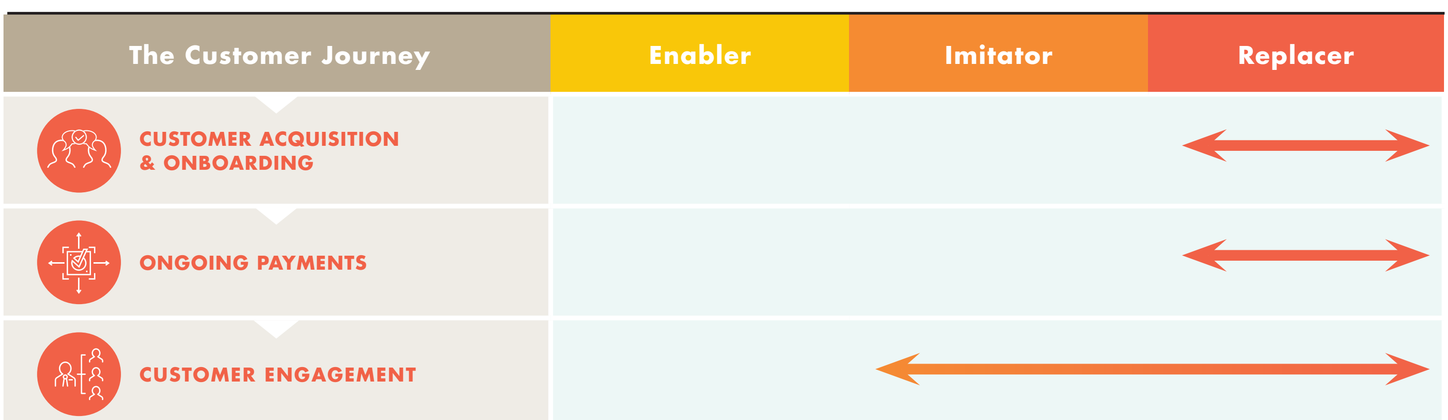
Self Lender uses tech across the entire customer journey, relying on digital communications and smart data analytics. At times, it strategically leverages touch to complement and refine tech-driven operations:

Customer Acquisition and Onboarding: Previously, credit builder loans were primarily available only through regional banks and credit unions. Self Lender's model uses tech to make that product accessible to all Americans. Customers enroll in the credit builder account and sign up online; during the application, they are supported with clear and direct messaging about how the product works and its benefits. Self Lender's customers have an option to call, email, or use a built-in chat function to ask questions about the product.

Ongoing Payments: Payments for the credit builder accounts are all made online. The lender uses automated email reminders, pulling from a customer's payment history, to determine if there are late payments. When someone is behind on their payments or has unique circumstances, Self Lender needs to react in a way that is flexible to their needs.

Customer Engagement: Self Lender has an advanced tech platform that's been developed in-house to create and manage its accounts. The technology automatically pulls the customer's credit score each month, manages payments and disbursals, and packages information in both an online portal and an app. By default, the entire process is automated. Emails to customers that go out frequently are addressed from a customer service rep (e.g., "James at Self Lender"), not just a corporate address. Similarly, its ads on Facebook leverage images from real-life iMessage conversations describing how the product works. By imitating a real relationship, Self Lender is able to market more effectively and build trust in a crowded and competitive space.

FIGURE 7. THE TECH/TOUCH SPECTRUM: SELF LENDER



Case Study:

Tienda Pago

WHY TOUCH MATTERS

BACKGROUND

TiendaPago

Tienda Pago provides small store owners in Mexico and Peru with short-term working capital to fund inventory purchases through a mobile app. Tienda Pago has a unique model in which it partners with major fast moving consumer goods (FMCG) distributors to acquire customers. Partnerships with large, well-known brands, like Coca-Cola, Nestle, and Anheuser-Busch InBev, help establish credibility and legitimacy upfront, ensure that customers receive reliable and recurring revenue, and improve relationship management.

WHY TOUCH MATTERS

Tienda Pago's customers are used to interacting in-person and building trust from continuous interactions. The company uses touch to address the following issues:

Low digital savviness: Many of Tienda Pago's clients are "mom & pop" shops that are beginning to adopt new technologies; traditionally, these shops relied on face-to-face interactions to conduct business with both their own customers and suppliers. Tienda Pago uses touch to match these customers' preferred mode of interaction, appeal to their emotions, and establish a digital relationship.

Limited product understanding: Micro-lenders have not formally targeted this market and very few distributors or FMCGs offer credit directly to MSMEs, making Tienda Pago's product new to its customers. In-person interactions allow prospective customers to ask specific questions about the products most likely to meet their individual needs.

Tienda Pago's customer engagement platform operates through SMS technology and an app; this ensures that the startup communicates with customers in a way that they can understand and respond to.

BALANCING TECH AND TOUCH

Tienda Pago uses both tech and touch in its relationships with distributor partners and shop customers alike.

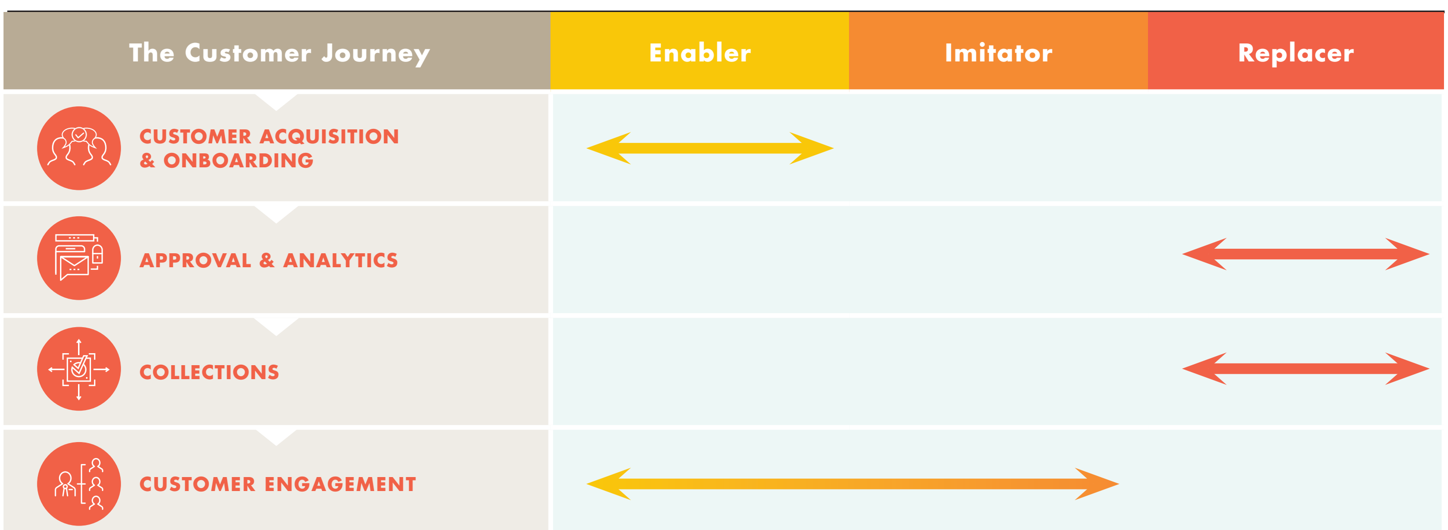
Customer Acquisition and Onboarding: The main way Tienda Pago acquires customers is through its distributor partners, who initially introduce the shops that they supply to Tienda Pago's product offering. Tienda Pago's sales associates then provide interested customers with face-to-face, one-on-one, customized onboarding. During the onboarding process, sales associates collect data on a mobile app and upload it to Tienda Pago's customer management system.

Approval and Analytics: Tienda Pago has used tech to replace human interaction and automate the approval process. The data collected by the agent is combined with sales history data (provided by the distributor); using that information, a proprietary algorithm generates a credit score and loan product offering for customers.

Collections: Tienda Pago provides a mobile communications system that both FMCGs and shops use to make or receive payments. This streamlines collections, which are often done in cash and can be time-consuming, costly, and unsafe. Tienda Pago pays the FMCG partners directly for the inventory purchases to be delivered to the small businesses, which then re-pay Tienda Pago.

Customer Engagement: Tienda Pago's customer engagement platform operates through SMS technology and an app; this ensures that the startup communicates with customers in a way that they can understand and respond to. Tienda Pago uses a variety of different channels to communicate with customers on a daily basis, including calls, WhatsApp, SMS, IVR, Facebook, and its app, depending on customer preference. Field agents, sales teams, and distributor partners also see customers regularly, answer their questions, and notify Tienda Pago of any problems.

FIGURE 8. THE TECH/TOUCH SPECTRUM: TIENDA PAGO



Case Study:

Toffee

WHY TOUCH MATTERS

BACKGROUND

Toffee is a digital insurance broker in India that offers low-cost and customized microinsurance products. The majority of the country's 1.3 billion people are uninsured, and most insurance products offer wide-based, often irrelevant coverage with high thresholds for receiving benefits and tend to have slow, complicated claims processes. Toffee's policies are targeted to specific customers' needs (e.g., personal accident and theft insurance for bicycle commuters) and are offered at affordable prices (i.e., ~$10-20 per policy).

WHY TOUCH MATTERS

Although Toffee prioritizes a digital-first approach – including designing the policy, selling the policy, mapping the benefits vis-a-vis claims, and managing the claims processing – it recognizes the benefits of human touch to its process in addressing the following issues:

Limited product understanding: Most of Toffee's customers are first-time insurance buyers and find the concept difficult to understand. Moreover, Toffee's 'bite-sized insurance' is the first of its kind in India, so it is conceptually new and different from existing insurance options. Salespeople are able to offer tailored explanations and answer questions, boosting the company's credibility.

Limited brand awareness: Toffee's channel affinity partners operate brick-and-mortar shops and sell the startup's policies as a product add-on. Toffee's customers already know and trust the shops that the startup partners with: by acquiring and onboarding customers through those affinity partners, Toffee builds trust with its target market.

Toffee's ability to leverage its channel partners allows it to meet different customers' preferences while also keeping its own costs low.

BALANCING TECH AND TOUCH

Because it works through affinity retail partners, Toffee in effect relies on human touch to serve customers at first. However, its technology streamlines internal operations, keeps costs low, and increases the startup's scalability. Examples of this balance include:

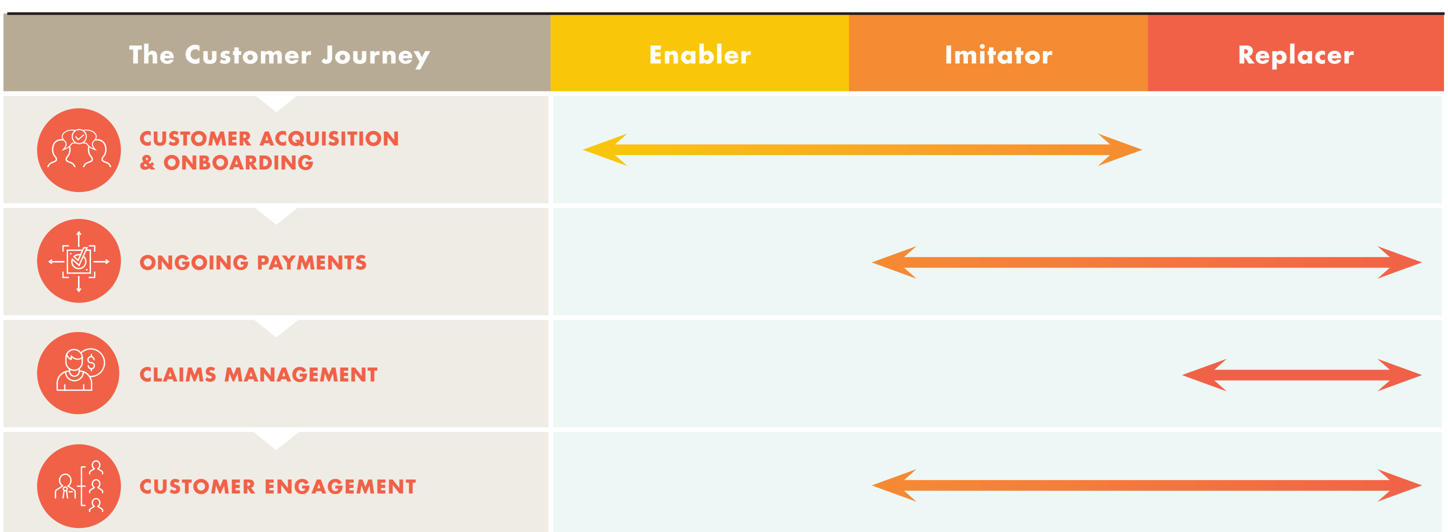
Customer Acquisition and Onboarding: Toffee uses outbound calls, video guides, and WhatsApp groups, moderated by "community champions," to educate customers about Toffee's product, explain Toffee's coverage and policy terms, and sell policies. Toffee incentivizes store employees by providing a commission per policy sold, but beyond this, Toffee's customer acquisition expenses are minimal due to its arrangements with channel partners. The majority of Toffee's onboarding experience is digitized. Upon policy purchase, Toffee performs eKYC through Aadhaar ID (a government-issued identity card system) and then provides customers with access to a portal that allows them to view coverage terms, policy details, and explore FAQs.

Ongoing Payments: Customers can pay either through a customer portal using their Aadhaar card or directly to the retail distributor, who adds the insurance policy to the final bill. Toffee's ability to accept different methods of payments and leverage its channel partners allows it to meet different customers' preferences while also keeping its own costs low.

Claims Management: Toffee's high-tech claims management process has two tiers. Claims below a pre-set threshold are automatically approved and paid out, reducing paperwork and staff time spent resolving claims. For claims above the threshold, there is a digitized process for submitting additional documentation, which is still a faster and less labor-intensive system than that of traditional insurers.

Customer Engagement: Toffee's customer engagement strategy uses a personalized chatbot to guide users through onboarding, payments, and claims management. Additionally, Toffee has tested a variety of forms of customer engagement using content creation and social media to target millennials, one of its highest-value customer segments. So far, Toffee has found the most success with Instagram and Facebook, which it uses to gain an understanding of product relevance and interest while also engaging with customers through likes, comments, and tags. In instances when customer questions or issues require escalation, Toffee calls customers to provide support by phone.

FIGURE 9. THE TECH/TOUCH SPECTRUM: TOFFEE



Conclusion

Tech for tech's sake never works. Companies can and should cater to customer preferences and balance innovative technologies with the need for human touch. That is true throughout the financial services sector, but it is especially important in providing financial services to underserved families and businesses. Venture Lab's portfolio companies demonstrate the various ways that fintech startups around the world are balancing both tech and touch, accelerating financial inclusion, and succeeding as businesses.

WHAT DOES THE FUTURE HOLD?

Within the next three to five years, existing technologies – such as low-cost smartphones with 3G and 4G connectivity – will become more widely available. These advancements will only continue. By 2025, GSMA estimates that there will be 1.2 billion 5G connections, 5 billion mobile Internet users, and almost 6 billion unique mobile subscribers.[5] Within the next five to seven years, newer technologies – such as artificial intelligence, machine learning, and chatbots – will transform how fintech companies reach previously unserved and underserved communities. Over the next decade, as these technologies continue to advance and both digital and financial literacy improve, low-income customers will be more willing to trust digital channels and use technology to engage with financial products and services.

Fintech companies focused on low-income customers will need to continue to understand their target customer segments' preferences and ensure that they are meeting their customers' needs. Institutions that find ways to balance tech and touch are the ones that will continue to succeed in this quickly-changing world.

DESIGNING A TECH AND TOUCH APPROACH

As outlined in the case studies, our portfolio companies, like other startups operating in the financial inclusion space, face a number of challenges: they are still building a recognizable brand, targeting underserved customers with low digital and financial literacy, and working in a sector that many distrust. All of them are using combinations of tech and touch to overcome these issues. All but two of the companies cited a lack of product understanding as a reason to incorporate touch into the customer journey; all but three companies recognized that touch was necessary to overcome their customers' distrust of financial services. More than half of the companies in our sample used human touch to engage with customers due to limited digital savviness and brand awareness. Finally, two companies in our sample used touch as a tool to differentiate themselves from competitors.

However, limited brand recognition, low digital and financial literacy, and distrust for financial services are just a few of the challenges that many startups face. Fintechs must also contend with limited budgets, small teams, and minimal resources. Given the variety of critical challenges inclusive fintech startups must address, how can an organization begin designing a customer experience with the right balance of tech and touch?

5. 'The Mobile Economy 2018' GSMA, 2018

Companies that continue to find ways to balance tech and touch are the ones that will continue to succeed in this quickly-changing world.

The most important factor is remembering that it's not up to the company to decide what the right balance is – it's up to the customers. To calibrate tech and touch successfully, companies should do the following:

1. **Talk with your customers.** Rather than spending time hypothesizing what you think customers need, go straight to them. It can be as simple as a survey or a focus group to ask customers what mode of engagement they prefer across the customer experience.
2. **Segment your customers.** Not every customer is the same, so companies should identify different customer groups with similar attitudes, behaviors, and needs. As preferences vary across customer segments, you may find that some customers are more receptive to one approach of tech and touch over another. By understanding how to best reach each segment, you will drive trust among all of your customers.
3. **Trial, test, and iterate.** Customer behavior is dynamic, and customer preferences change. Ensure that you constantly measure customer satisfaction levels across the customer journey. Use your findings to refine, adjust, and improve methods of engagement. Through simple A/B testing, you can identify opportunities to refine a superior customer experience in a way that is manageable and cost-effective.

THE PATH FORWARD FOR TECH AND TOUCH

As digital financial infrastructure, product awareness, and customer trust continue to evolve, we believe that fintech startups should adopt certain methods of engaging their customers. While there is no one-size-fits-all model, we believe that the future of "tech and touch" will predominantly follow these emerging trends:

- **A mixture of tech enabling and imitating touch will drive customer acquisition:** All but one of our sample companies – and all of our non-U.S.-based companies – use tech that enables touch for customer acquisition. Given that many of our companies face challenges that inhibit initial adoption – including a lack of brand or product awareness, distrust, and low digital savviness on the part of customers – fintech startups will need to continue to use some aspects of touch to acquire customers, particularly outside of developed markets. However, as customers become more comfortable with technology, companies will shift to incorporate more tech-enabled touch in customer acquisition.
- **Tech will replace touch in back-office functions:** Customers will continue to value the speed that automated back-end functions provide. Every portfolio company featured in this case study that has a loan approval and analytics stage uses technology to replace touch when assessing applications. Given the time and cost savings of automating back-office functions, we believe that fintech startups should use tech to execute such processes whenever possible.
    - **Collections:** All of the lenders profiled in this paper escalated their collections process to human interaction in the case of late repayment. Given that collections are critical to a lender's success, companies will continue to balance tech and touch based on customer repayment status. However, the non-lending companies featured in this paper's case studies, specifically those receiving ongoing insurance payments or savings deposits, all

The most important factor is remembering that it's not up to the company to decide what the right balance is — it's up to the customers.

used tech to manage collections. While this may be easier in some markets, specifically where mobile money exists or where customers have bank accounts and can use debit orders, companies will move to replace touch for payments as soon as possible.

- **Claims management:** The two insurance portfolio companies profiled in this paper use a mixture of tech and touch to improve claims management. Given the involvement of multiple stakeholders in claims management and the time lag between claim submission and payout, insurance providers will blend a variety of engagement methods to manage customer expectations throughout the claims process. However, as insurers continue automating their processes and as customers become more comfortable with digital engagement channels, claims management will also become more automated and tech-driven.

- **Technology will coexist with touch in customer engagement:** The startups featured in this paper use a broad spread of engagement methods: half relied on tech to both imitate and replace touch, and one quarter relied on tech to enable touch. This will change going forward: the industry will shift to emphasize more innovations, with more processes that use technology to imitate and even replace touch altogether. Much like the changes affecting customer acquisition, customers' increasing familiarity with technology will allow financial service providers to increasingly rely on technology for engagement.

Regardless of how an organization decides to balance tech and touch, every financial service provider must find some way to fulfill customer expectations. Finding that balance is particularly important for inclusive fintechs, which will rely on technology to scale and will depend on human interactions to win over underserved clients. Companies should recognize that when designing a valuable customer experience, balancing tech and touch is never a "one and done" process. Customer preferences are dynamic. Successful companies will continue to listen to their customers and adapt to their evolving preferences.

mastercard foundation

This report was developed with the support of The Mastercard Foundation, which seeks a world where everyone has the opportunity to learn and prosper. The Foundation's work is guided by its mission to advance learning and promote financial inclusion for people living in poverty. One of the largest foundations in the world, it works almost exclusively in Africa. It was created in 2006 by Mastercard International and operates independently under the governance of its own Board of Directors. The Foundation is based in Toronto, Canada. For more information and to sign up for updates from the Foundation, please visit http://www.mastercardfdn.org. Follow the Foundation @MastercardFdn on Twitter.

Accion Venture Lab is a seed-stage investment initiative focused on fintech for the underserved. Venture Lab invests capital in and provides support to innovative fintech startups that improve access, quality, and affordability of financial services for the underserved at scale. Since launching in 2012, Venture Lab has invested in more than 35 early-stage startups that operate in over 25 countries worldwide. Venture Lab is a part of Accion, a global nonprofit committed to creating a financially inclusive world, with a pioneering legacy in microfinance and fintech impact investing. Accion catalyzes financial service providers to deliver high-quality, affordable solutions at scale for the three billion people who are left out of – or poorly served by – the financial sector. For more than 50 years, Accion has helped tens of millions of people through its work with more than 90 partners in 40 countries. For further information, visit https://www.accion.org/venturelab.

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