Case Study
RenMoney

A fully cloud-based microfinancing organisation
RenMoney, a Nigeria-based consumer finance company, is by all accounts an African success story and an example of change in the global microfinance industry. It began operations a year ago, and now has over 10,000 customers, growing at a rate of around 800-1,000 loan contracts per month.

What is all the more striking is that RenMoney has achieved all this growth while employing only one person in its IT department. This is an employee who – as the CEO cheerfully admits – is frequently underemployed.

The reason that this has been possible is that none of the company’s IT operations are locally-based – they are all up in the cloud.

RenMoney runs on a cloud-computing platform, using off-the-shelf banking software provided by Temenos. This has enabled the company to make considerable cost savings, enhancing its competitiveness, and dramatically reduce its operational risk.

And now that its system is up and running, it has plans to obtain a national microfinance licence to expand its operations across the country.

“RenMoney’s mission is to provide a unique microfinance service – T24 for Microfinance and Community Banking in the cloud allows us to concentrate fully on that goal, with no distractions.”

Olusegun Akintemi - CEO - RenMoney

The microfinance market

RenMoney’s consumer lending model firmly positions it within the burgeoning microfinance sector, which is currently experiencing strong growth in Nigeria and within Africa as a whole. There are already 654 million accounts served by the microfinance market, with an estimated 2.5 billion working-age adults globally having no access to the types of formal financial services delivered by regulated financial institutions.

The high growth potential for this sector is rooted in innovation in cloud computing, which is making it easier for smaller institutions to enter the market. The cloud-based banking model avoids risky local implementations and provides newcomers with the opportunity to rent modern IT infrastructure at monthly fees, dramatically decreasing overheads, and allowing microfinance lenders to remain competitive.

This case study examines RenMoney’s business model in the context of the microlending market, and looks at the growth potential for the sector.
RenMoney's two-pronged business model

Broadening access to consumer credit

RenMoney's objective is to provide money solutions to the lower middle class consumer segments of the Lagos market. Essentially, it’s a start-up consumer microfinancing subsidiary of Renaissance Group – a leading emerging markets investment company – supporting the aspirations of the growing middle class in Nigeria. It aims to provide broader access to consumer credit, which will support the country’s move from a cash to a transaction-based society.

RenMoney’s approach is two-pronged – first, it provides simple cash loans to individuals and groups through its website, call centre and sales agents. And, second – and more innovatively – it partners with retailers across the capital to provide point-of-sale finance for consumer goods and appliances. It offers customers the opportunity to purchase goods directly, paying for them through instant RenMoney loans.

Loan origination and credit scoring in the cloud

What makes RenMoney’s innovation possible is that staff at point-of-sale outlets process loan applications and undertake credit scoring using simple wireless devices to access cloud-based system resources. Its banking software, which keeps track of clients, payments and loans, is a software-as-a-service (SaaS) model, provided by Temenos, and run on the Microsoft Azure cloud-computing platform. In fact, RenMoney has adopted cloud computing across the organisation. Its employees type documents, run spreadsheets and read e-mails in the cloud, removing the need for any local infrastructure.

Key benefits

Cost saving - RenMoney’s primary motivation for adopting cloud technology. Temenos’ cloud-based platform has already enabled it to make considerable savings.

Through running software in existing data centres, the organisation has avoided committing capital for purchasing computer hardware, software applications, regular maintenance, upgrades and data backup. Instead, it pays a fee based on the number of customers it has, and can continue scaling up as necessary.

High speed of implementation – Without the need for physical installations, RenMoney was ready to begin trading just two months after supplier contracts were signed.

Infrastructure risk avoidance – Due to the instability of the Nigerian infrastructure, locally-managed banking software is a significant business risk. Having servers based outside of the country was therefore a major plus for the organisation, providing peace of mind that service wouldn’t be affected by connectivity issues.

RenMoney provides instant point-of-scale loans to customers purchasing household items
How Temenos is helping

RenMoney was looking for a software solution that would allow instant access to both core banking and risk management platforms. At the same time, it was a start-up microfinancing organisation, so cost effectiveness was also a high priority.

These criteria led RenMoney to Temenos, and T24 for Microfinance and Community Banking (MCB) – its cloud-hosted core banking system. With no other banking software companies offering core banking in the cloud, Temenos’ solution was immediately very attractive.

T24 enables users to access SaaS from Microsoft Azure data centres via the internet. The user does not have to use valuable skills managing an on-premise installation of the software. It simply subscribes to a service and uses the T24 core banking software on its local area network via the internet. After the organisation’s IT department leaves for the day, Temenos engineers take control of the application and execute end-of-day processes and maintain the application as may be required. In the morning, the customer comes back to work, turns on their PC, logs in and uses the system. Management reports are sitting in the printer queue ready to be printed.

Achieving a low-cost solution

This simple concept gives any user anywhere the ability to use all or part of T24 as a service without having to own the hardware, physical environment, application software or database. It enables Temenos to offer a low-cost solution to organisations such as RenMoney. Through a consumption-based pricing model, microfinancing banks can avoid the high costs associated with local data centres, resulting in increased productivity and lower total cost of ownership, while having access to modern electronic payments.

Among its benefits, a per-account billing system has helped the bank ensure that only officers with valid requirements for system resources are granted access.

With over 215 microfinance customers across 36 countries, Temenos has developed a deep industry knowledge, combined with a commitment to the broad objectives of financial markets. From this basis, it has built out a T24 core banking model bank configuration to meet the general requirements of microfinance across multiple jurisdictions and business contexts.
The cookie-cutter approach

When Chairman George Taylor looked to purchase a banking-software solution, he was very clear that he wasn’t looking for something bespoke. He wanted a platform that was ‘off-the-shelf’, and ready to go. T24 provided this, through its SaaS, completely cloud-based solution. It created a model bank template, seamlessly integrating loan origination and biometric bolt-ons into the system, in addition to establishing connections to local electronic payments channels.

A distinct advantage of having all IT in the cloud with no local infrastructure is that systems become readily replicable. The initial implementation functions very much like a cookie-cutter, capable of producing an unlimited number of further versions, with no modification necessary. Indeed, now that T24 has been implemented for RenMoney, it forms a prototype that can be rolled out across Nigeria, through a central bank-granted national microfinance licence.

The pay-per-use model makes it very easy for RenMoney to achieve scale, resulting in smooth expansion into other regions, at low risk to the business. Since it’s very expensive and risky to install hardware in other countries, this is a very easy alternative to making significant investment in local infrastructure.

This replicable, cookie-cutter solution has exciting implications for other organisations looking to scale up their operations, both locally and internationally.

Microfinance companies at the forefront of innovation

RenMoney’s desire to exploit cloud technology makes it stand alone in West Africa. However, any bank operating across multiple jurisdictions could use this implementation as a model for its own strategy, by accessing a pre-built structure directly from the internet, changing the currency code, and transferring it to another jurisdiction, with no implementation costs.

Cloud-based banking is in its early stages, but it promises to affect banks big and small. While total spending by financial-services firms on the cloud is currently only a tiny fraction of the around $180 billion being spent on IT this year, there are estimates that it will rise to around $26 billion in 2015. Undoubtedly, big banks will become more cost efficient, but we are likely to see the biggest developments within small institutions, which will no longer face the huge barriers to entry that they experienced until recently. Indeed, instead of being obliged to invest tens of millions of dollars upfront to build their own secure data centres – a prohibitive cost for many small operators – they can now subscribe to a SaaS model, costing from $10,000 per month, while dramatically reducing operational risk.

As we have seen in the case of RenMoney, an interesting feature of the birth of cloud-technology is that small companies have been the quickest to sign up to it. Without the constraints of legacy banking systems, these types of organisations have the agility to be early adopters of this new wave of technology, not only gaining a competitive advantage by containing costs, but dramatically increasing the choice and quality of their services.

“Microfinance is serving a huge market need in Africa, bringing credit lines to the ‘unbanked’. RenMoney offers a compelling proposition to Nigeria, coupling microfinance loans, with point of sale lending.”

George Taylor - Chairman - RenMoney
Typically, small financial institutions have only been able to afford less robust technology solutions, which are available from small regional companies catering for very localised requirements. With local or regional technology providers, capacity problems are endemic, leading to delays in time-to-market for new product delivery and chronic problems associated with security and interoperability with other financial systems and payments networks.

In addition, in less concentrated markets where there are many small financial institutions, organisations struggle to find employees available to be tied to the business of managing information systems. They find themselves in a catch 22 situation, where tending of transactional information systems is a specialist occupation, but a mundane one, and therefore not highly sought after by IT talent.

For a long time, small players in the microfinance sector have been looking for a solution that is affordable, manageable and capable of achieving scale, while being applicable to the needs of its local community. The business case for cloud is so compelling and the urgency so great that microfinance is leading the way through early adoption of outsourced core banking.

Collaboration through the cookie-cutter approach

Another way microfinancing banks can achieve cost savings from cloud technology is through collaboration. Due to the replicability of the cloud-based platform, there is the potential for microfinancing banks to work together in a network to optimise the cost of cloud services. This is particularly applicable to financial cooperatives, but it is theoretically possible for many types of organisation to collaborate as well.

A shared services strategy allows even a very small organisation to access the required software without the investment and risk associated with ownership, enabling it to focus its technical skills on the customer. This model enables these organisations to leverage the investments made by larger industry players, providing a much-needed pathway to achieving scale on a pay-per-use basis.

Collaboration through a cookie-cutter approach is particularly suited to microfinancing banks, as direct competition is low, with these organisations typically aiming to provide a simple, user-friendly platform to consumers, rather than attempting to differentiate themselves from similar institutions.

The path ahead

Cloud technology will undoubtedly change the delivery of financial products and alter consumer markets, offering particular benefits to emerging economies. These include the reduced costs of implementation, through eliminating the need for expensive hardware scalability and customisation.

The scalability of cloud technology will make it easier to facilitate merger & acquisition activity. It will allow access to resources previously affordable only to large, well-funded corporations. It will also improve security in emerging economies, providing data encryption, managing back-ups, and eliminating the need for physical servers. It will bring about a change in customer interactions, as more services are offered via a cloud platform. Furthermore, social media and mobile money development will also enhance the case for cloud technology adoption, particularly within emerging markets.

Community banks and microfinance institutions that aim to provide responsible credit and affordable savings instruments bear considerable cost. These costs are usually passed on to the customer, expressed in very high APRs on loans, from 40% to 120% or more, depending on term and loan size. However, technology can reduce these costs. The more microfinancing institutions adopt cloud technology, the faster competitive forces will drive cost-cutting benefits in the direction of the consumer.

“Temenos enjoys working with disruptive market entrants such as RenMoney, and recognises that speed to market and low total cost of ownership are essential when launching a financial institution – T24 in the cloud is perfectly designed for this.”

Murray Gardiner - Director of Microfinance and Community Banking - Temenos
The adoption of cloud technology involves various risk factors that need to be taken into consideration. These include a need for increased regulation for microlenders, to ensure customer-sensitive data is protected. Some countries insist that client data is not allowed to leave their national borders, which could force cloud-computing firms to build small data centres in individual markets, reducing the scope for cost savings. Many regulators also want to be able to inspect the computer server holding client data.

There are additional risks relating to the business risk of the service provider, as well as the potential for internet service disruption, either at the location of the service provider, or – possibly more likely – where the microlenders are located.

On the other hand, legislators are keen to open markets to promote financial inclusion. In order for microfinance institutions to thrive, the onus is on financial authorities to promote a policy and regulatory framework that makes them sustainable. In fact, cloud computing offers legislators the chance to set the bar of disclosure higher for small services providers without threatening their viability or dampening down financial inclusion. Cloud computing will also aid transparency, by allowing small organisations access to the same business intelligence reporting systems as large financial institutions.

Conclusion

In recent history, the financial services industry has had a central role in transforming economies around the globe, and technology has often been instrumental to this change. Cloud technology will undoubtedly change the delivery of financial products and alter consumer markets, with particular opportunities in emerging economies, including Nigeria.

Technology has over the years evolved with its attendant risks, and there are particular issues associated with developing countries, but, once they are understood and measures are put in place to mitigate them, the benefits of cloud computing technology are potentially limitless.

The superior agility of small financial institutions means they are particularly suited to embracing new technology, and, with RenMoney taking the lead in cloud banking, others will surely follow.