

MicroSave

Market-led solutions for financial services

Global Issues in Microfinance ... and India



Overview

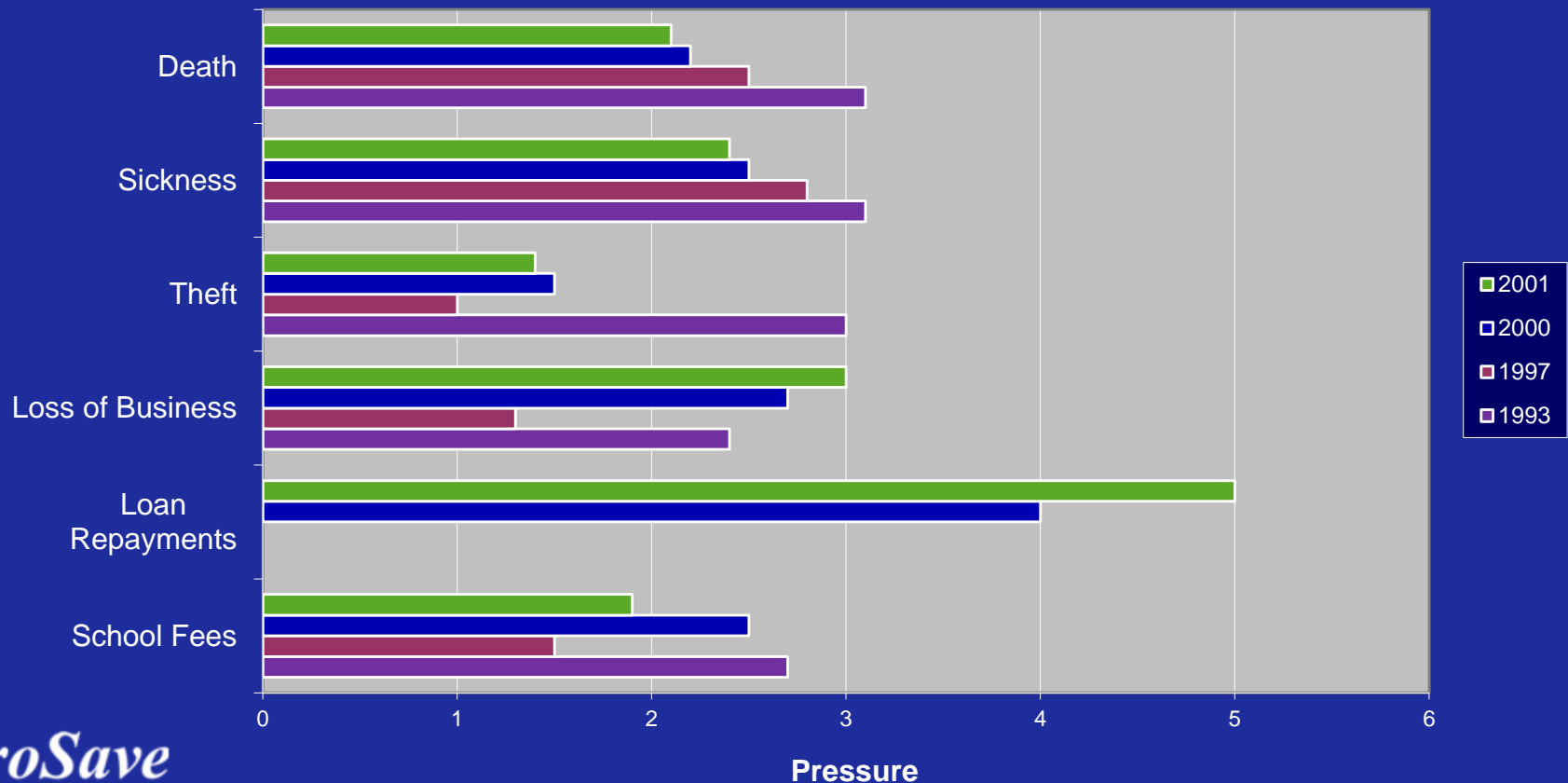
- Microcredit is not microfinance
- Product v. market-led business
- Branchless banking
- The Indian market
- The Andhra Pradesh crisis
- The future ...

Microcredit is not Microfinance

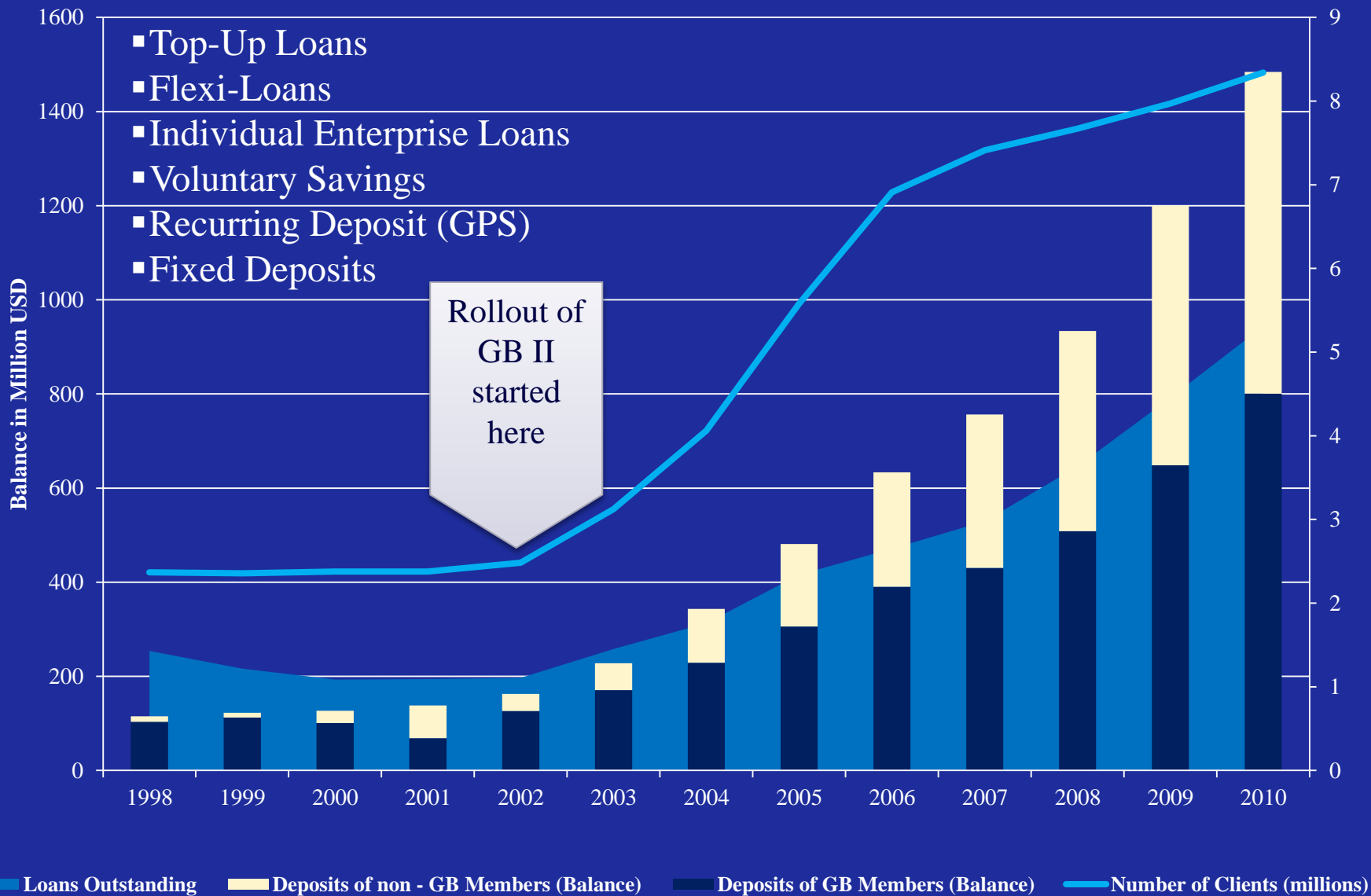


Microcredit is not Microfinance

- Regulation or a desire to “keep things simple” means that “Microfinance” is often largely microcredit
- This has important, and often has negative consequences – in terms of capital and client-service



Deposit and Loan Balance of Grameen Bank



A Product v. Market-Led Business



Household Life Cycle

Financial Needs



Product v. Market-Led Business (1)

- Time to move from standardised approaches to delivering “credit for enterprise” to respond to clients’ needs for “financial services for livelihoods”
- The market-led approach is not simply a way of solving problems such as
 - high rates of attrition/default,
 - competition and near saturation of market with one product/delivery system.
- Good double bottom line business dictates a market-led approach to microfinance.



Product v. Market-Led Business (2)

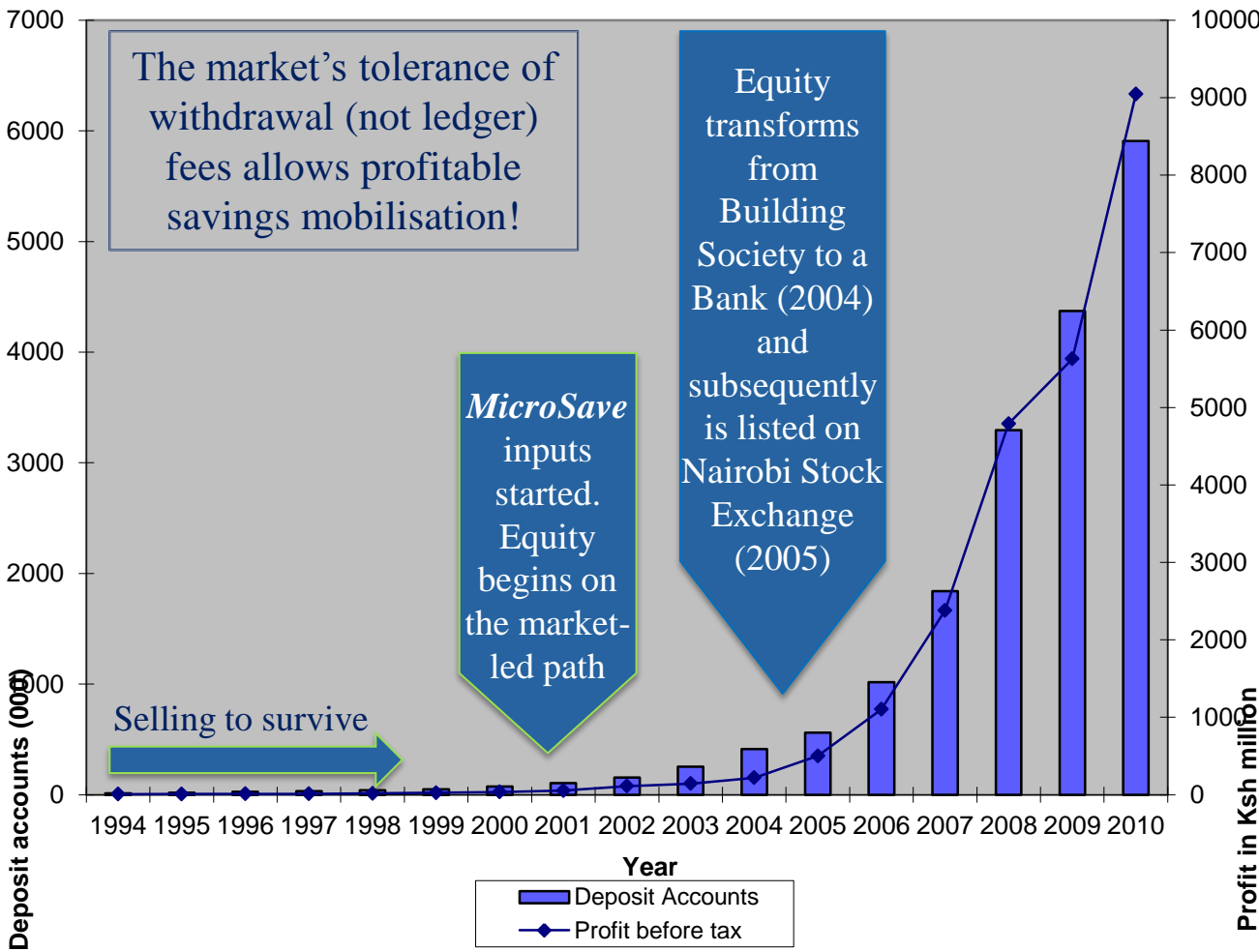
The market-led approach to microfinance should lead to:

1. Broadening the MFIs' clientele both up and down market
2. Increased sustainability for MFIs as they:
 - a. retain more clients
 - b. increase the efficiency of their delivery systems
3. A greatly diversified range of products
4. A greater diversity of delivery systems
5. Greater impact on reduced vulnerability and poverty as clients have access to a broader range of financial services.



Market-led Microfinance Right: There is a HUGE Market Out There ...

Customers and Profits of Equity Bank Since 1994



What Fuelled the Growth?

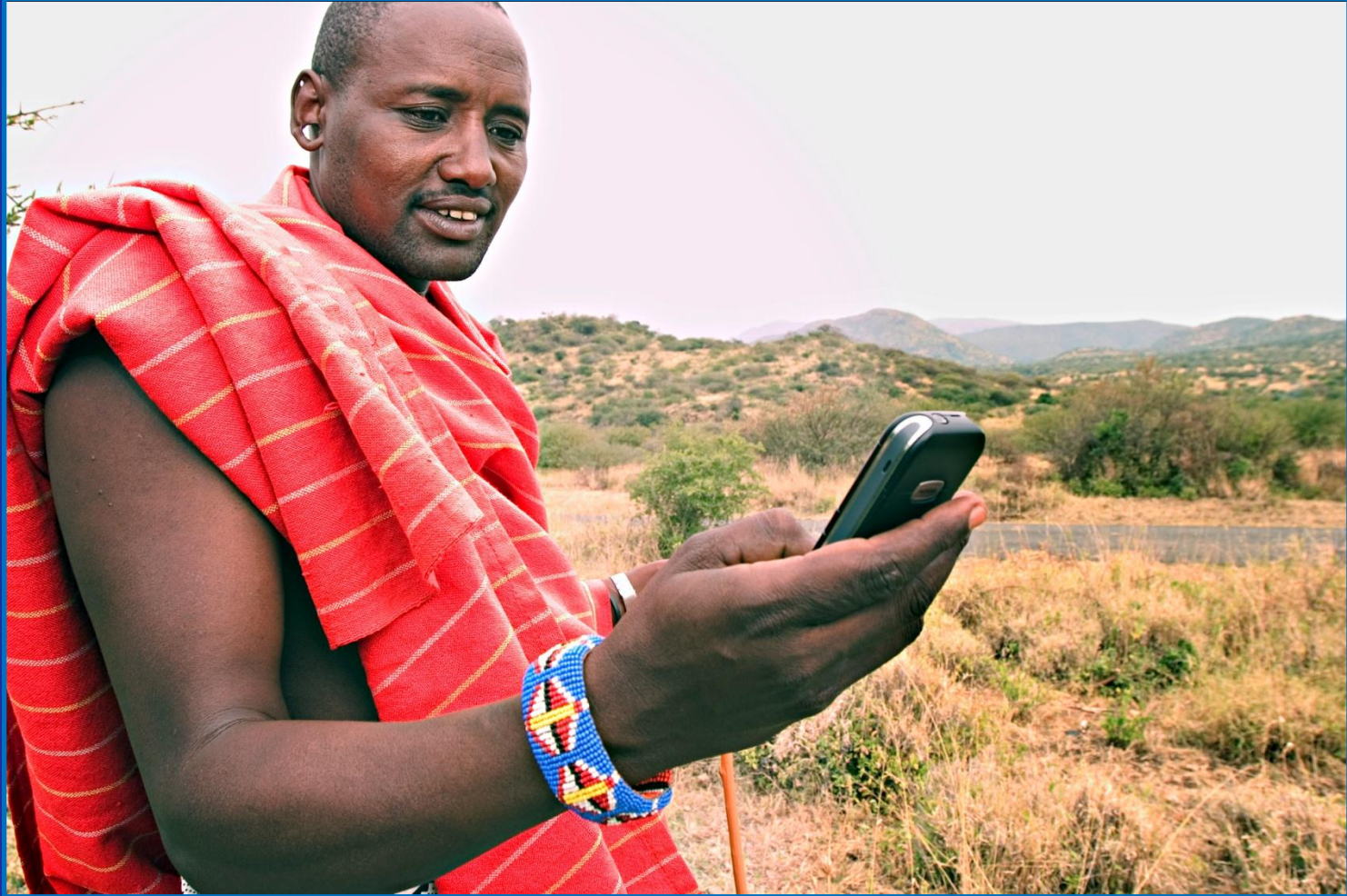
Build on a commitment to:

- Listening to clients and responding to their needs
- Excellent customer service
- Technology/delivery channels: IT/ATMs /POS/m-banking

This involved:

- Commitment to customer focus and market research/product development
- Harnessing the market-led approach, word of mouth and PR for growth
- Maintaining corporate culture and optimising corporate governance
- Management of donor inputs
- Strategy development/execution: remaining a broad based bank
- Re-engineering processes

Branchless Banking



Kenya: A Range of Services – Delivered on New Platforms

M Pesa Performance Chart (2007-2010)



Is M-Pesa An Outlier?

Company	Date	# of Customers	No. of Transaction	Value of Transactions
M Pesa Tanzania	As per Nov 2010 News report (Figures since April 2008)	5.5 million	20 million	\$ 405 million
Telenor Pakistan (Easypaisa)	As per Jan 2011 news reports (Figures since Oct 2009)		10 million	\$200 million
	As per Oct 2010 news reports (Figures since Oct 2009)		6 million	\$118 million
MTN , Uganda (Money Mobile)	As per May 2010 news reports (Figures since Mar 2009)	890,000	11.8 million	\$195 million
M KESHO, Kenya	As Nov 2010 (Since Aug 2010)	650,000		\$ 7.5 million
FINO	As Dec 2010	25 million	3 million transactions per month	

The Indian Context

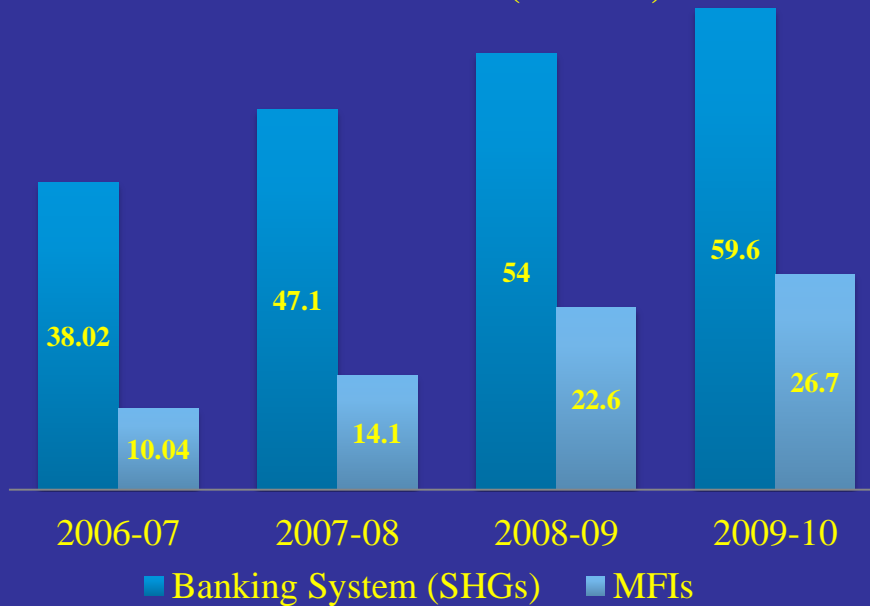


The Indian Market



Present State of Microfinance in India (1/2)

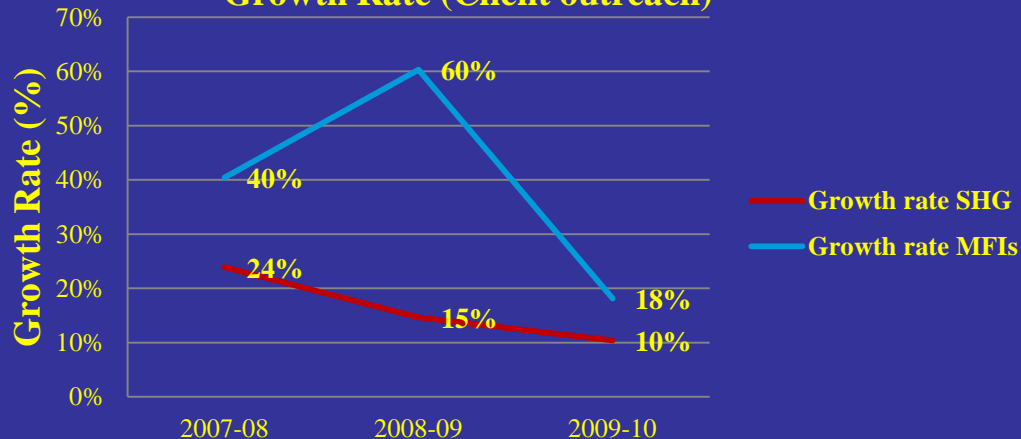
Client outreach (Millions)



Key points:

- MFIs showed a growth rate of 18% in client outreach and 57% in loan portfolio over previous year
- Growth of SHG based lending is on steady decline (10% in client outreach and 20% in loan outstanding for year 2009-10)
- Year 2009-10 experienced steep decline in the client acquisition rate of the MFIs (From 60% to 18%)

Growth Rate (Client outreach)

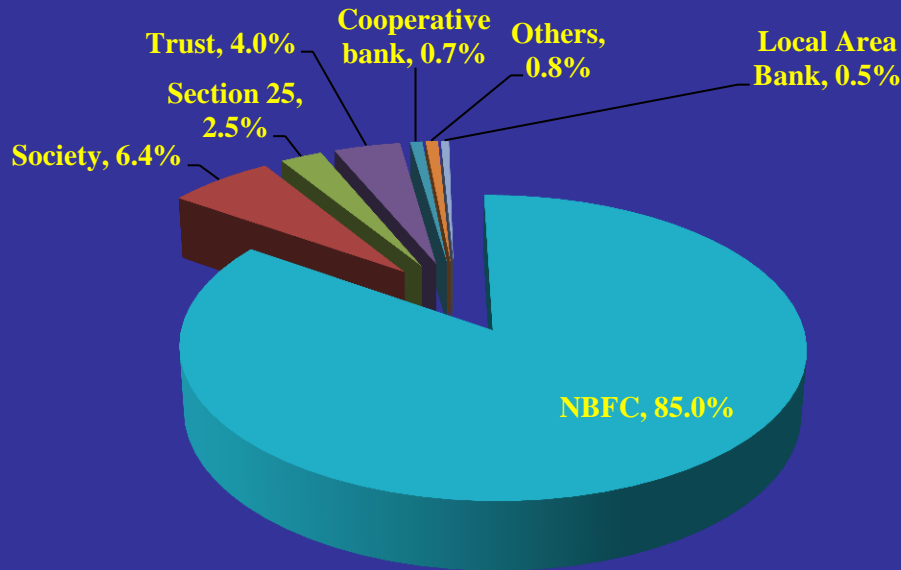


Total loan outstanding (In Billion Rupees)

	2009	2010	Growth rate
SHG (Rs Billion)	226.79	272.66	20%
JLG (Rs Billion)	117	183.44	57%

Present State of Microfinance in India (2/2)

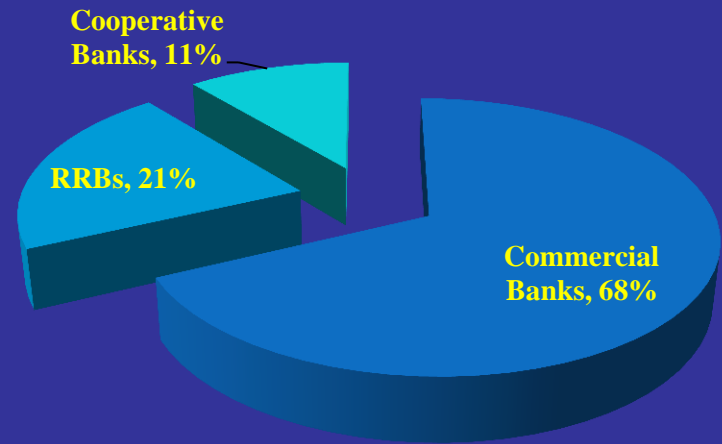
**Market Share of different forms of MFIs-
Loan volume**



**Comparison of average
loan size (Rupees)**

	Average Loan/customer 2008-09	Average Loan/customer 2009-10
SHG member	4120	4750
MFI customer	5190	6060

**Share of different Banks- SHG
loan outstanding**



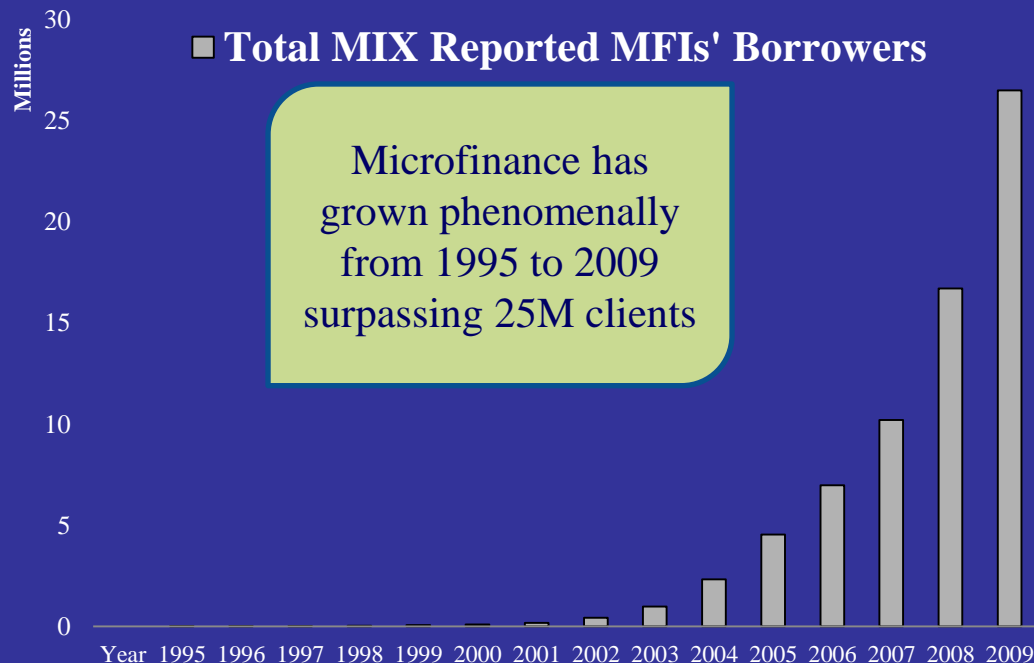
Key points:

- Among MFIs NBFCs enjoy the major chunk of outstanding loan portfolio
- In SBLP commercial banks have maximum exposure
- In both the forms of microfinance (both SHG and JLG) the average loan size per customer has shown an increase

The State We're In ...

The State We Are In ...

1. Multiple lending / over-indebtedness
2. Reserve Bank and Government worried about interest rates
3. State Governments putting restrictions/ classifying MFIs as moneylenders
4. Banks and investors looking at MF as a high risk sector
5. Stridently negative press – national and regional



How We Got Here ...

1. Very rapid growth
2. Transformation to more regulated / for-profit formats
3. Mono-product environment
4. Huge demand
5. Horizontal expansion



What Happens Next?

Worst Case Scenario...

1. Banks re-schedule/MFIs default
2. Retrenchment / salary cuts for staff
3. Contagion effect and similar legislation in other states
4. Knee-jerk reaction by banks – turn the tap off
5. State Government hostile / Central Govt. and RBI apathetic



Best Case Scenario ...

1. Field level collections resume
2. Defaults are contained and loans rescheduled
3. RBI / Central Government intervene
4. Uniform Central legislation
5. More emphasis on HR and clients



So Where Do We Go From Here?

Risks on the Horizon

1. Financial and liquidity risk: Will political risk squeeze liquidity in the sector?
2. Strategic risk: Mission drift – Is it for real?
3. Legal and Regulatory risk: Is the current regulation adequate?
4. Competition : Will any differentiation happen?



Managing These Risks

1. Moderate growth/expectations
2. (likely) Learn to live without Priority Sector Lending (banks are fighting this)
3. Clarify and document the role and contribution of microfinance in development (not a panacea)
4. Engage with Government (too late for self regulation)
5. Product development and differentiation – possibly involving m-banking/BC models
6. Address interest rate debate:
 - a. Transparency
 - b. 3rd party analysis to inform
 - c. No more super-profits
7. Move beyond just sales and numbers:
 - a. Build client relationships
 - b. Improve HR management

Implications for the MFIs

Implications

1. Debt funding will dry-up; international debt funds (even if leveraged) will have a landed costs of 14% plus
2. Growth will be affected and this may affect fund mobilisation
3. New partnerships may not be initiated.
4. Social/Patient equity will become even more important/desirable



Implications

1. Revisit business plans
2. Client focused products to be introduced – to broad-base offerings and lower costs
3. Look into the role of m-banking / BC partnerships to diversify product offerings
4. Growth to be discouraged in the short run - time to consolidate
5. Mergers?
6. Valuations will be affected in the short run
7. Build systems and bring about transparency
8. Dinosaurs and rabbits – the rabbits will survive?

3G Microfinance Institutions

“Expansion” to “Engagement”

		PRODUCT		
M A R K E T		Existing	Modified	New
	Existing	Sell more of our existing products to our existing customers (Market penetration)	Modify our current products and sell more of them to our existing customers (Product modification)	Design new products that will appeal to our existing customers (New product development)
	Modified	Enter and sell our products in other geographic areas (Geographic expansion)	Offer and sell modified products to new geographical markets.	Design new products for prospects in new geographic areas.
	New	Sell our existing products to new types of customers (Segment invasion)	Offer and sell modified products to new types of customers	Design new products to sell to new customers (Diversification)

3G-MFIs see growth in terms of improvements in their clients' financial well-being, and MFIs' ability to serve them over a long time

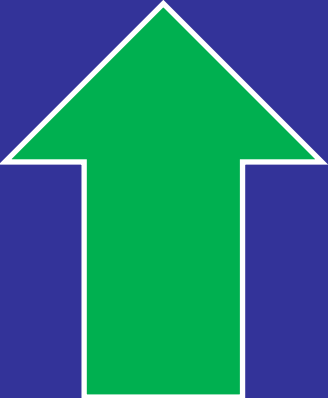
Some MFIs are even looking at using full life time value of customer analysis as a basis of their planning

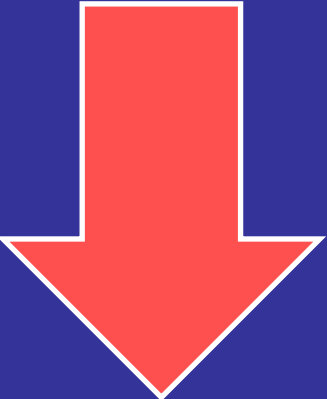
3G-MFIs grow horizontally, but they grow horizontally only to an extent that does not compromise their engagement with existing client segments

The Post AP Crisis Future

The Indian microfinance industry is undergoing a major shake-up. This is likely to accelerate a trend where two major shifts are likely to emerge (at the MFI level and the other at regulation level)

MFI Driven

- 
- » Multiproduct
 - » M-Banking/technology enabled
 - » Individual based
 - » Inter-operable

- 
- Mono-product
 - Labour-intensive
 - Group based

Regulation Driven

RBI wants banks to be directly involved in lending through BC Model

RBI would refine regulation till it becomes profitable for banks

MFI's may eventually end up as the agents of banks in rural areas, selling products and managing clients/repayments

Financial Inclusion through NFA(No Frill Accounts):

Definition (NFA): No Frills Accounts (NFAs) are basic low-cost bank accounts for transacting and saving money, with no minimum balance requirements and no ledger fees. They are intended mainly for new bank customers/financial inclusion.

Banks have also started providing small overdrafts as indirect financing to priority sector

Present Status of NFAs:

Total number of NFAs opened	50.6 million
Outstanding balance	Rs 53.86 billion
Number of overdraft provided in NFAs(from 2009-10)	0.18 million
Value of overdrafts	Rs 280 million

Way ahead:

- Use of alternative banking channels
- Focus on E/M banking channels
- Need to improve client's Financial literacy

Issues with NFAs:

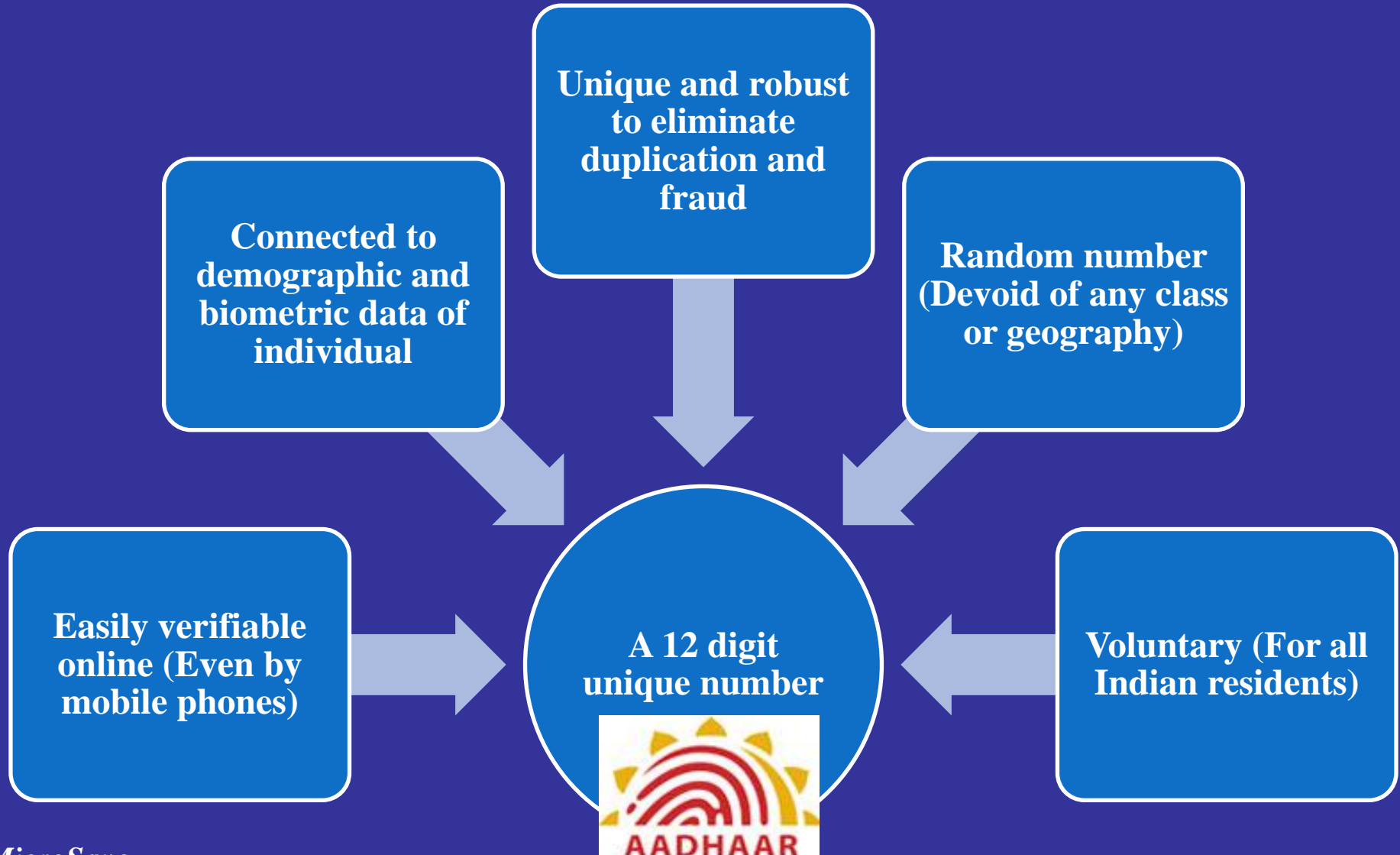
- High dormancy
- Lack of financial awareness among masses
- Questions on economic viability of NFAs for banks

Interesting government initiatives:

- Financial Inclusion Fund
- Financial inclusion technology fund

Unique Identification(UID) /Aadhaar

What is UID?



Implications of UID



No Frill Accounts

- Act as standalone KYC (Eliminate documentation hurdles of poor)
- Minimise account opening expenses for banks
- Solve problems of individual's verification at agent location (BC model)
- Anywhere anytime identity authentication will help migrants in opening bank accounts at non-native locations



Mobile Banking

- UID enabled bank accounts (UEBA)
- UID/UEBA linked mobile phones for instant balance check and remittance to another UEBA
- Cash transaction at nearest BC with quick authentication of customer's identity via online verification of UID/UEBA (facial recognition or biometrics)

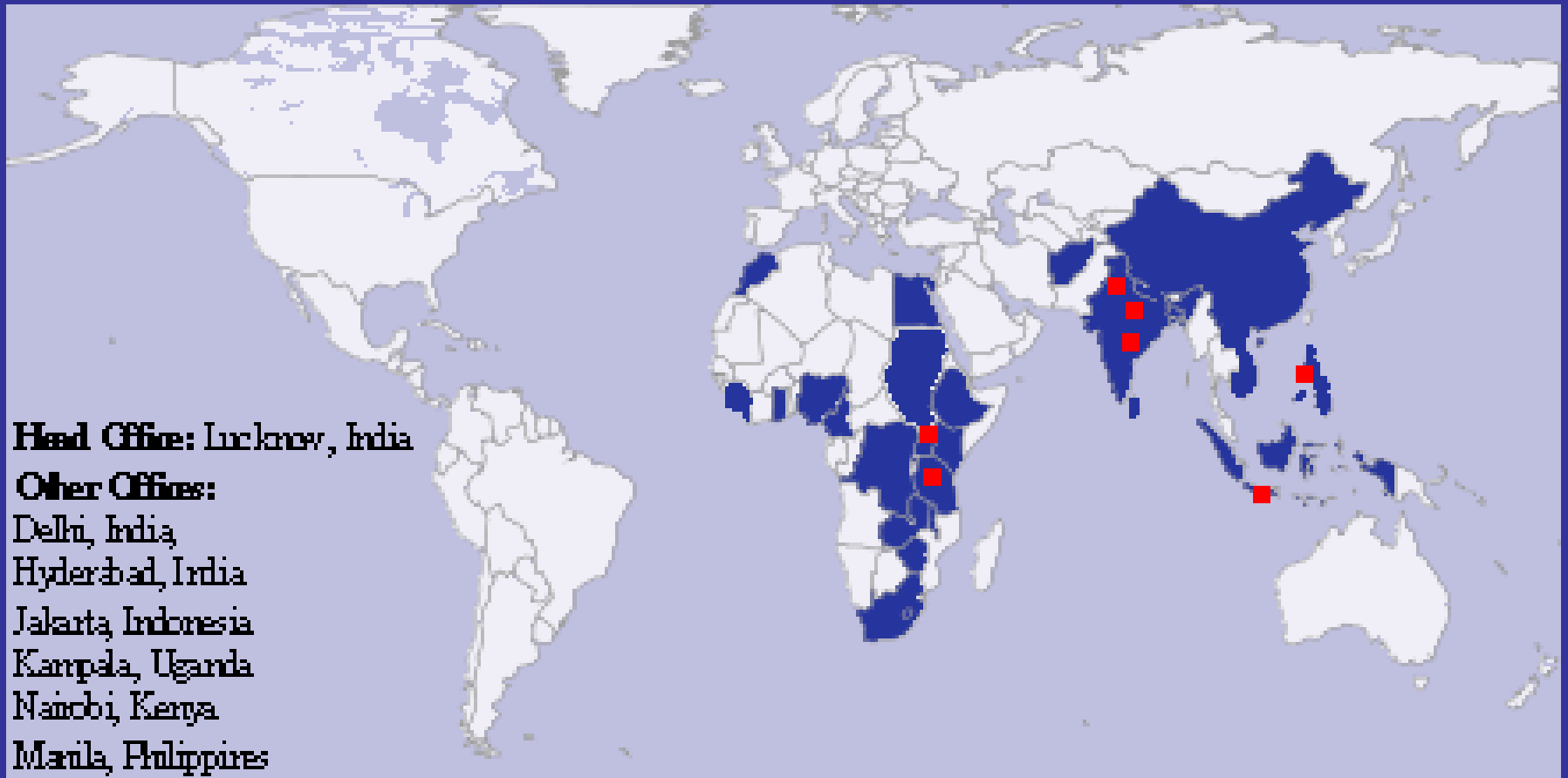


Credit Bureau (CIBIL)

- Linking credit history to UID field will ensure accuracy and easy retrieval of data
- Improve efficiency and reduce cost involved in CIBIL checks (only UID will be required to perform a CIBIL check)
- Minimise possibilities of frauds like ghost clients
- Unique identification of a person will check multiple lending

MicroSave

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