



# Financial Inclusion in India Small Finance Banks New Harbingers of Hope

## Roundtable

December 8, 2015  
Hotel Ashok, New Delhi

*under the aegis of*

**Poorest States Inclusive Growth (PSIG) Programme**

*Technical Partner*

**MicroSave**  
*Market-led solutions for financial services*

**Financial Inclusion in India**  
**Small Finance Banks New Harbingers of Hope**

**Roundtable**

Access to Finance (A2F) for the poor has been a critical development agenda that the government, civil society, bilateral and multilateral agencies, other donors, technical agencies and financial institutions have been focusing on. Different states are at varying levels of Financial Inclusion, and states with high poverty are predictably those with low penetration of financial services. These underserved poor states therefore need specific strategies and substantial dedicated resources to support innovations and scaling up of financial inclusion programmes and strategies.

The Government of UK's Department for International Development (DFID) has launched a large 7 year programme titled Poorest States Inclusive Growth Programme (PSIG) with Small Industries Development Bank of India (SIDBI) as the implementing partner, to enhance the income and employment opportunities of poor households in the underserved states in India. The purpose of the programme is to improve income and reduce vulnerability of poor people and small producers by expanding their access to finance and markets. The PSIG Programme presently being implemented in 4 poorer states-viz Bihar, Madhya Pradesh, Odisha and UP. It is envisaged to benefit the poor and vulnerable people, especially women by providing financial access to 12 million poor people, thereby helping in enhancement of their income and employment opportunities.

ACCESS-ASSIST has been assigned the task of implementing the critical policy component under PSIG, undertaking activities that will together provide a mechanism to support policy initiatives in all the areas including microfinance (challenges of both the SHG and MFI channels), other financial services (micro-insurance, micro-pensions etc) and the issues of access to banking services (BC model, mobile banking, no frills accounts etc). As part of the initiatives there has been a lot of focus on understanding and assisting the differentiated banking channels in the country to further advance the cause of financial inclusion. In this context a recommendation paper on the draft guidelines for SFBs has been submitted to RBI based on the Roundtable on Small Finance Banks organized on Tuesday, July 22, 2014 at Hotel Taj Lands End, Mumbai to discuss the draft guidelines and offer consensus based comments to the RBI. Further working towards this a lunch time roundtable on "Financial Inclusion in India-Small Finance Banks New Harbingers of Hope" was organized as a side event with the Inclusive Finance India Summit 2016 on December 8, 2015 to address and discuss the challenges that could be faced by SFBs.

**Background**

The existing business of nine out of the ten in-principle SFB licensees is almost exclusively dominated by credit. Their loan portfolio is funded by bulk loans from banks and other financial institutions, and (to a lesser extent) by their capital and reserves. Transformation will involve changes in strategy, capital structure, business models, organizational structure, HR structure, product suite and IT/MIS. It will also require greater efforts in marketing and brand-building, in

developing risk management, and compliance/ reporting frameworks, as well as in building structures for governance.

### **Summary of Proceedings:**

The session was moderated by Microsave and witnessed the presence of around 8 SFB licensees and other sector experts and regulatory agencies (**Annexure-1**).

- Opening remarks on challenges faced by SFBs
- Capacity building – this is one of the most important areas of focus for SFBs – the changing scope of activities would mean that SFBs would need to invest in capacity building activities
- There would be different challenges faced by SFBs and different types of technology would be required to overcome these challenges – these would need to be identified and infrastructure would need to be developed
- MicroSave, the technical partner for this session had identified certain focus areas and issues that were further dealt with during the roundtable.

### **Focus Areas/Issues**

The possible areas and issues that SFBs might face can be classified into 4 different categories given below:

#### 1. Deposits

Long term liabilities need to transform to retail liabilities. Another challenge for SFBs is to be able to convince customers to save deposits with these banks. The customer base must be made aware about the transition in the roles from giving out loans to accepting deposits.

#### 2. Client Segments & Products

At the initiation phase there is a need for product development and modifications to help accelerate the progress and outreach. There is also a need for segment diversification strategies (new product and new segment) which should focus on risk mitigation as well.

#### 3. Human Resource Management

There's a lot to learn from the African experience of differentiated banking when it comes to human resource management and dealing with managing the cultural shift that accompanies setting up of a SFB. Potential cultural clashes would need to be identified and proactively managed. Institutions should pay attention to staff motivation and retention. Staff would need training to effectively manage clients – shifts from lending to deposit taking. There would also be a need to manage cultural equations at different level within the institution.

#### 4. Delivery

There is a need to strategize and develop an effective delivery channels. Initially MFIs used doorstep delivery – would now have to adapt given the product offerings. Costs involved with the new channel and existing network would have to be considered before any decisions are taken.

**Opportunities for SFB licensees:**

A potential opportunity for SFBs is to target the current unbanked population as well as attempt to mobilize the dormant Jan dhan bank accounts. SFBs should also attempt to target active internet users given the relatively high penetration of smart phones.

**How to mobilize retail deposits**

The transition from being a credit institution to a credit and deposit institution would bring about challengers for SFBs. Targeting high net-worth individuals may be an option but would require SFBs to develop new products and processes. There are significant problems that may arise if the institutions focus only HNIs – high cost deposits and in case of withdrawals will pose liquidity challenges.

**What not to do**

Liquidity management perspective – concentrated deposits is not the way, diversified deposits required.

**Summing up**

- SFBs would need to invest in transforming the brand to be able to convince and gain the trust of customers to deposit savings with the institution. At the same time competition for small balances is going to be enormous with PSUs on one hand and Payment banks on the other. Under such circumstances, technology investment could serve as a differentiator. Further introduction of differentiated products and savings mechanisms (customizable products) could help in generating more deposits for the banks. Finally sensitizing the customers and making them aware about the revised role of the SFBs along with adoption of differentiated marketing strategies could advance the growth and outreach of SFBs in the longer run.

## List of Participants

<b>Sl No</b>	<b>Name</b>	<b>Organization</b>
1	Mr. Alok Prasad	Sector Expert/Ex CEO MFIN
2	Ms. Anuradha Ray	World Bank Group
3	Mr. Brij Mohan	Sector Expert
4	Mr. Dinesh Gupta	Capital Lab
5	Mr. Abhishek	Utkarsha Microfin
6	Mr. Graham Wright	Microsave
7	Mr. Jiji Mammen	Mudra Bank
8	Mr. Manoj Sharma	Microsave
9	Mr. Munish Jain	Capital Lab
10	Mr. N.K. Maini	Ex SIDBI
11	Mr. N. Srinivasan	Sector Expert
12	Mr. Paul Thomas	ESAF
13	Mr. P.S. Srinivas	World Bank Group
14	Mr. P.N. Vasudevan	Equitas
15	Mr. P. Satish	Sa-Dhan
16	Prof. M.S. Sriram	IIM, B
17	Mr. Rajeev Yadav	Disha Microfin
18	Mr. Rangarajan	Janalakshmi
19	Mr. R Bhaskar Babu	Suryoday
20	Ms. Rupali Kalita	RGVN
21	Ms. Samit Ghosh	Ujjivan
22	Mr. C.S. Ghosh	Bandhan Bank
23	Mr. Sanjay Agarwal	AU Finance
24	Ms. Ragini Choudhary	DFID
25	Mr. S. Ramakrishnan	SIDBI
26	Mr. U C Gaur	SIDBI
27	Mr. Surendra Srivastava	SIDBI
28	Ms. Veena Padia	SIDBI
29	Mr. Rajesh Kumar	SIDBI
30	Mr. P. Mohapatra	SIDBI
31	Mr. Sudhir Kumar	SIDBI
32	Ms. Sonmani Chaudhary	SIDBI
33	Mr. Saurabh Chatterjee	SIDBI
34	Ms. Archana Ale	SIDBI
35	Mr. Neeraj Srivastava	SIDBI
36	Mr. Vipin Sharma	ASSIST
37	Mr. Radhika Agashe	ASSIST
38	Mr. Priyanka Pathak	ASSIST
39	Mr. Raja Banerjee	ASSIST
40	Ms. Sayantani Mukherjee	ASSIST