

Suryoday Small Finance Bank focuses on 3 core areas

Simplicity, Customer Experience and Compliance will be the hallmarks of Suryoday Small Finance Bank, says Baskar Babu, MD and CEO of the bank:

'We always believed that if we can dream it, we can do it!' – Baskar Babu

From the very beginning, when Suryoday Micro Finance was set up in 2008, the intention was to help its customers attain sustainable financial security. Though the company was in the business of microfinance, it believed the objective would be best achieved if it could help grow out of microfinance and into the mainstream financial services.

"We wanted our microfinance customers to start saving and make it a regular habit, even if it meant saving a very small amount every day," says Baskar Babu, MD and CEO of Suryoday Micro Finance. "This is one of the reasons why we gave importance to financial literacy of our clients. The focus was to encourage the customers to open a bank account. We knew it was not viable both for the customer and us to operate an account on a daily basis for such small sums. So, we told them – all you need to do is save a small amount every day and deposit it at the end of the month. We gave a simple illustration – if they put aside ₹30 everyday, it could become over Rs 11,000 in a year and nearly ₹60,000 in five years with interest," he adds.

"So, we tried to enable the opening of bank accounts for these 'bottom of the pyramid' customers, with small savings and that is when we faced the reality. What we wanted then was to facilitate all KYC requirements for a neighborhood bank so that we could offer banking services to our customers in a seamless manner. However, the banks that we contacted were not geared to handle small ticket customers. The customers felt unwelcome and never went again to the bank if their first experience was bad thus remaining either unbanked or underbanked," explains Baskar Babu.

UNUSED POTENTIAL

He says this experience with the banks



Baskar Babu emphasizes that the key focus areas of the bank would be simplicity, customer experience and compliance

actually opened his eyes to the potential that a bank did not want to make use of and the opportunity that was there for grabs.

In 2010, around a year after launching the microfinance operations, when Suryoday wanted to borrow from a bank, it was not easy. "We could not obtain a loan from a bank, despite being a financially sound and successful microfinance company with sufficient seed funding, a respectable board, an excellent track record and all the requisite credentials. But none of these helped. At various points of time, we did not know whom to talk to in the bank. The GM in charge of priority sector lending directed us to the zonal manager, the zonal manager asked us to approach the branch, but finally the work never got done.

So, if this is the experience an organization like ours had, imagine what could be the experience of an individual customer seeking funds" he asks.

BEATING SKEPTICISM

"When we got the license from the RBI to start banking operations, some of my colleagues were a bit skeptical, saying the business is saturated with established players. I responded with my experience in trying to get a loan. I had a salary account with a bank for over 10 years but could not get a loan from the same bank without repeating all the processes I had completed earlier. There are several conditions put - provide the last 3 months' salary slips, bank statement for the last 6 months, copy of PAN card, etc. though all these details were with the bank. I then asked my colleagues to get a loan of ₹10 lakh from any bank in a day's time. Even with all the information available with the bank, the process of seeking customer information was a tedious repeat process. Most often the first contact from the bank was an outsourced person who had no clue about the customer's existing relationship with the bank. Even today, while banks talk about digitization, pre-approved/instant loans, online account opening and online sanctioning of loans, etc. the fact is something different," says Baskar Babu.

"So, when we conceived our bank," says he, "it all came down to the question whether we can do our own small bit to ease the burden on average citizens, that particular segment which has not experienced banking at all. For example, if we could offer them a loan without repeating the processes, it would be an extraordinarily good experience for them. If anybody were to ask me about the market

potential in these circumstances, I would say it is immensely large.”

INCLUSIVE BANKING

Suryoday Micro Finance received an in-principle approval from the RBI to set up a small finance bank in September 2015 and started banking operations in January 2017 with its first branch in CBD Belapur, Navi Mumbai. It currently has a network of 18 branches across Maharashtra, Tamil Nadu, Gujarat, Madhya Pradesh, Odisha and Puducherry, in addition to 217 microfinance outlets.

Baskar Babu says one of the segments the bank is targeting is senior citizens. “For an FD, we offer higher rates of interest to this segment. To start with, we offered 9.75% interest for 1- to 2-year deposits, which was the highest interest rate at that point of time. We are looking at retail deposits as a key focus area. We believe that the right products delivered at the right time, suitable and convenient to the customer will be the critical components of success and help build a healthy balance of CASA,” says he.

The bank is in the process of converting all its microfinance outlets into banking outlets and establishing a network of BCs. It believes this will help substantially increase the reach and scope of its operations. As the microfinance centers are being converted into banking outlets, the bank is working on how to provide basic banking services (savings account, current account, fixed deposits, recurring deposits and funds transfer) in a simplistic manner without incurring huge costs. It intends to bring in all the MFI customers on to this platform, in about a year’s time.

DEPENDABILITY IS CORE

Baskar Babu says the bank intends to create for itself an image of a dependable ally to its customers. “All of us know about SIPs. But, if someone wants to start a small ticket SIP, where can he begin? He does not want to become a financial wizard, but he wants to get the work done. He has to depend on a person who is conversant with the plans, the pros and cons of investment, the amount of return, etc. He must be able to take informed decisions. We have as our customers, small shopkeepers, who



Inauguration of the first branch at Belapur

would have excess cash, which they want to invest in something profitable. They would require dependable advice, so that they are not taken for a ride and we intend to fill this gap. The customer does not want to be excessively taught but he needs the comfort that the person interacting with him is dependable. We believe this is a very large space. Technology will make the transactions easier and credible relationships will go a long way in building long term associations,” says he.

SIMPLE, EASY

Baskar Babu believes offering digital banking facilities to the segment of microfinance customers will have its initial hiccups: “We have a fully digital platform, but for us to be fully digital, the shopkeepers should also get paid digitally, the maids should get paid digitally. Otherwise, it is not going to be easy for them to adopt digital mode of transactions. If they get paid in cash, they will not deposit the cash in the bank and start doing business. That transition we believe will take some time,” he avers.

The bank’s customer from the inclusive finance segment is typically a household where the annual income is between ₹1 lakh and ₹5 lakh. As much as 50% of this segment does not have a credit track record and any meaningfully operational accounts. They may have accounts for various purposes like government schemes, MNREGA payments,

etc but they may not approach a bank and take a loan. The rest have a credit track record by way of some small loans, etc. “We are offering loans of up to ₹5 lakh as of now and as much as 90% of the customers who are being funded by the bank get up to ₹50,000. We are looking at opportunities where loans can also be offered against property etc say up to ₹15 lakh and home loans of up to ₹20 lakh,” says Baskar Babu.

“In the JLG model of microfinance, we have only the basic KYC data on individual customers, not their detailed profile as the model is based on the group behavior. This is basically because we did not have any product, which we could sell to individual customers. Now as a bank, we are looking at members of the JLGs. For example, such an individual customer may have a school going child and we may be able to offer him an education loan. We intend to do this even before the customer approaches us. Similarly, another individual who is into some business can be approached proactively and offered working capital limit or overdraft facility,” he elaborates.

GRAPHICAL FOCUS, REACH

The bank’s initial focus is on Maharashtra, Tamil Nadu and Orissa. It also has operations in Gujarat and Madhya Pradesh and will progressively get into other states. “We are a technology-enabled bank. All our operations are on an efficient and robust

technology platform. We have invested in technology, including analytics, with the intention of offering best-in-class banking services to our customers. Even as an MFI, we were completely connected. It was just an enhancement for our banking operations," says Baskar Babu.

Most of the bank branches have ATMs with cash depositing facility and some come with locker facilities as well. However, there are no immediate plans for offsite ATMs.

SIMPLIFIED BANKING

"While we may claim banking has gained substantial penetration in the light of the government's recent efforts, it is still not accessible to many," says Baskar Babu. "One big need is to simplify banking. What we plan to do now is if someone has a savings bank account with us, he should be able to buy mutual funds or insurance and get basic advice on these online. We intend to roll out such a service in the next couple of months where once someone opens a savings account with us, when he / she visits our site, based on his profile he or she will have

Retired bankers as partners

Suryoday Small Finance Bank has a proposal for retired bankers, who would want to be entrepreneurs. RBI has mooted that banks can open fixed point delivery units (banking outlets) manned either by the bank's staff or business correspondents to improve its physical presence. The bank is seeking aspiring bankers to take up such an offer. It is also intending to set up such outlets at almost one-fourth the cost of a physical branch. Bankers who have just retired or taken voluntary retirement, or those who have been working in banks for 20 years can take up the proposal, says Baskar Babu. These prospective partners can put up branches, take staff on their rolls and train them to operate the outlets. They can earn a fee income (by mobilizing deposits and sourcing loans) to cover all expenses, and also make a profit.



Smile agents in a branch

options available online with advice. They will only need to pick and choose the right product. If anything more sophisticated is needed, he would be advised to contact the nearest branch, where he would be provided with all the necessary help. The idea is to have small ticket, simplistic transactions and always convenient."

Does he have a USP for the bank?

"I am not focusing on a USP. I am saying these are the requirements for a bank. If these transform themselves into a USP, it is incidental. Even with the customer base we have - 8 lakh active customers today - we wish to do a meaningful job and achieve a growth of 10 times within the next 5 years. Our key focus areas are simplicity, customer experience and compliance. This may look very simple, but these factors are core of any banking operations. We have attempted and reasonably succeeded in giving a touch of simplicity in our digital modes - internet banking and mobile banking. We want to keep this moving on a much larger scale. When I say compliance, it also includes transparency. We do not want to only sell products, but act as facilitators to meaningful products that will enhance the financial well-being of the customer. We will also ensure that the customer to whom we offer the service gets the class of service which probably he or she may not get from other banks," responds Baskar Babu.

INCLUSION IN TRUE SENSE

"I would like Suryoday Small Finance Bank

to be the most respected SFB in the years to come. Because, only such an entity will be able to do a purposeful job for the benefit of the customer segment which we serve," he says.

He also emphasizes that he would not measure his bank's performance by the percentage of branches it will have in the rural and urban areas, but the impact it will be able to create. "So, if we are able to start with 2 districts and do an impactful job there by achieving financial inclusion, by having outlets all over, and by offering substantially high-class service at transparent costs and then scale it up to 10 to 15 districts over a period of time, we will be happy. In regulatory terms, there may be other definitions for inclusion, but what we are looking at is how effectively we are able to cover, how impactfully we are able to deliver our services in those districts while focusing on the needs of our customers both in terms of products and services," he says.

Suryoday's AUM currently stands at ₹1,250 crores. Baskar Babu says the bank is adequately capitalized with a net worth of ₹500 crore. "In fact, we are a little over-capitalized at this point of time. We intended to be so as we are in the process of transitioning," say he.

The bank intends to come out with an IPO in about 3 years' time, probably in FY 2020 and may consider raising one more round of capital at an opportune time before the IPO.

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