



CAFRAL

CENTRE FOR ADVANCED FINANCIAL
RESEARCH AND LEARNING

Promoted by Reserve Bank of India

Urban Inclusion

Ramesh Ramanathan

November 25th 2013



Outline

Introduction to Janalakshmi

Understanding India's Enterprise Economy

The Challenges of Urban Inclusion

Janalakshmi's experiences in Customer Centricity

India's Urban Trajectory



Introduction to Janalakshmi

2000

- Sanghamithra Urban Programme (SUP) was founded by Ramesh Ramanathan
- Done under guidance of Aloysius Fernandez, Executive Director of MYRADA and with support of Rohini Nilekani

2006

- Janalakshmi Social Services (JSS), a not-for-profit company, takes over the existing portfolio of SUP
- JFS meant to be an NBFC is founded

2008

- JFS obtains new NBFC license from the RBI in March 2008 and takes over the portfolio of JSS starting April 1, 2008
- JFS gets Series A equity funding from Lok Capital, Bellwether and Michael & Susan Dell Foundation (MSDF)
- JFS introduces Core Banking System (Flexcube™)

2010

- JFS gets Series B equity funding led by Tree Line with Bellwether and individuals participating in March 2010
- JFS crosses INR 1,000 Mn of GLP to 100,000+ clients across 9 states
- JFS introduces a full range of financial products

2009

- JFS crosses INR 500 Mn of gross loan portfolio (GLP) to reach 50,000+ clients across 5 states
- JFS raises interim preferred equity round from Bellwether and MSDF
- JFS starts using Salesforce as its CRM software and introduces biometrically enabled smart cards for all its clients

2012

- JFS gets Series C equity funding (tranche #1) from CVCI in June 2011
- JFS attains INR 3,510 Mn of GLP by FY12 with 300,000+ clients across 10 states
- JFS opens 400,000+ savings and 200,000+ pension accounts

2013

- JFS gets Series C equity funding (tranche #2) from CVCI, IFIF and GAWA in July 2012
- JFS has a GLP of INR 7,423 mn with 5.5 lakh+ clients across 10 states
- Introduces Jana one - Auto loans, Individual loans, Home Improvement for customers that have evolved in the value chain



Introduction to Janalakshmi – Structure

- **Unique 2-tier structure**

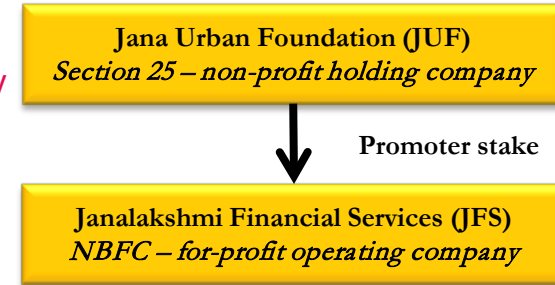
- Non-Profit Section 25 Holding Company (Jana Urban Foundation)
- For-Profit Operating NBFC

JFS is the only Financial Inclusion entity in India where the entire promoter stake is held in a Section 25 Not-for-profit company.

The structure ensures that all promoter returns are ploughed back for capacity development of the urban underbanked, with no financial benefits flowing to the promoter

- **Activities of Janalakshmi Social Services**

- **Financial Literacy:** JSS conducts financial literacy workshops that touches every single client
- **Client Analytics:** Undertakes dboth product design and insights into urban poor.
- **Education, Skills and Livelihood:** Support on kkill-upgradation, scholarships and livelihood matching for clients and their children
- **Research, Policy and Advocacy:** on Urban Poverty related issues, feeding into policy-making



Introduction to Janalakshmi – Key metrics



Financial Services Provider to the Underbanked

Zone	Total
CENTRAL	9
NORTH	37
WEST	23
KARNATAKA	21
TAMILNADU	20
Grand Total	110

- Total number of clients: 1.5 million
- Current Outstanding: ~ Rs 1,500 crore
- Total employee base: ~2,500



Introduction to Janalakshmi – 5 Key Pillars

Deep Customer Insights

High levels of customer loyalty

World-Leading Technology

Driving everything from Transaction processing to Customer Insights

Fully Aligned Talent Pool

A radical bottom-up sourcing, training and retention strategy

Breakthrough Transaction Economics

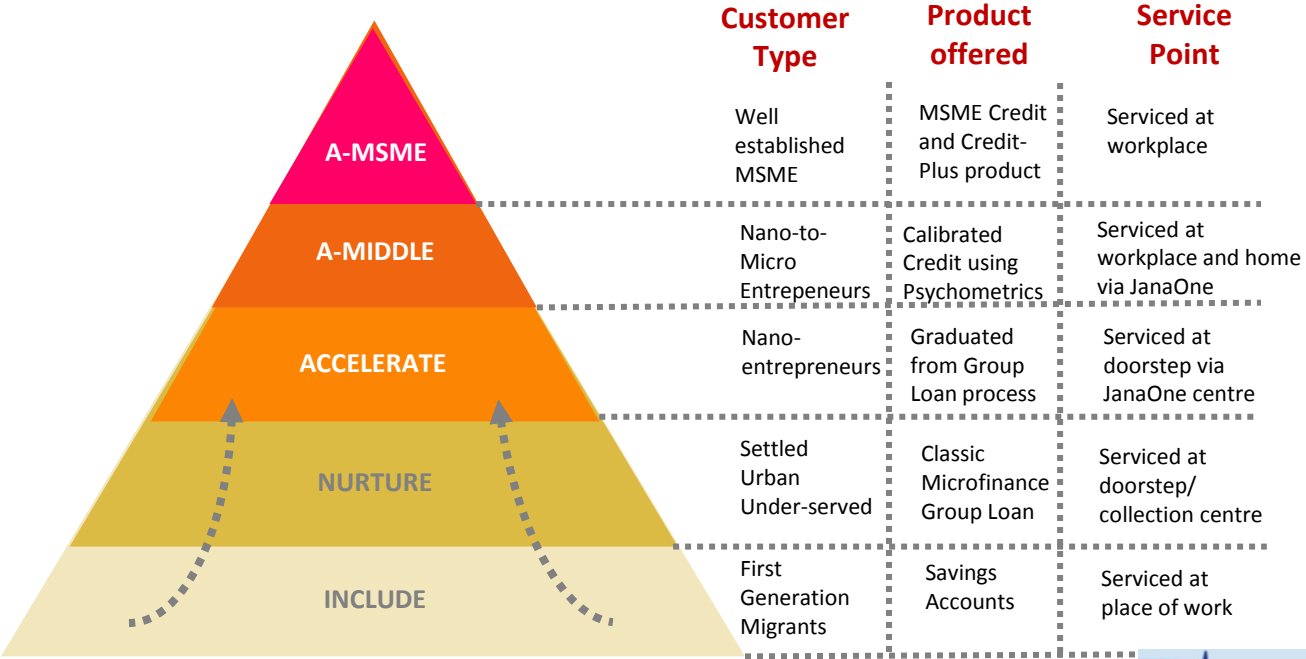
Blast the traditional bank-economics thresholds

Integrated Credit

Leveraging JFS client data



Introduction to Janalakshmi – Customer Segmentation



India's Enterprise Economy: Economic Census 2005-6

- Total of 42 mm enterprises
 - 36mm non-agri (85%)
 - 16mm urban (40%)
 - Annual growth rate: 4-5%
 - **Approx 2013 number, ~62mm**
- Major groups in non-agri
 - Retail trade: 42%
 - Manufacturing: 23%
 - Education, Transport, Restaurants: 4% each
 - Real estate: 3%
 - W'sale trade, auto repair, post & tele: 2% each

- **Number of enterprises increased from 1998-99(30.3 mn) by 11 mn**
- **However, 10 mn of this increase is in <5 employees with >10 employees reduced from 832k to 631k**



India's Enterprise Economy: Economic Census 2005-6

- Employment
 - 95% of 1-5, 65% total employment
 - Only 1.5% >10, 25% total employment
 - Total employment of 100mm
 - **This means that the other 350 million in India's labour force are outside the enterprise economy**
- Credit
 - **90% self financed, only 10% take external credit**
 - **Grew 10% from 1998-99**, where 80% were self-financed
 - Of this
 - 4.25% from govt
 - **Only 3.25% from banks**
 - 1.5% from moneylenders
 - 1% from family



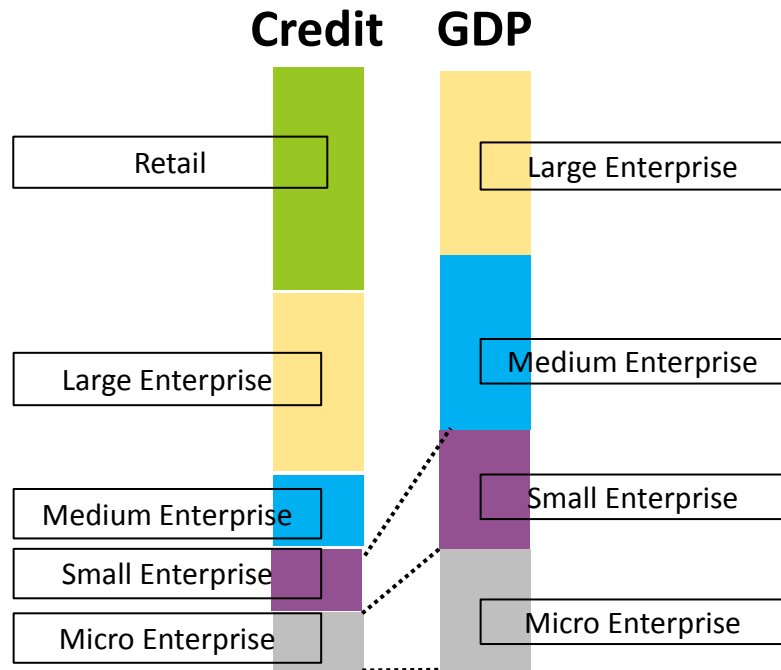
Measuring Financial Inclusion –Depth Indicator

- Traditional definition of Financial inclusion was using a ‘Breadth’ Indicator
- Need for an additional measure of ‘Depth’
 - Credit/GDP
 - All India Credit/GDP (2011-12): 64.7%
- State variations
 - Maharashtra: 111.2%
 - Bihar: 16.9%
 - Karnataka: 62.6%
- Credit/GDP highlights ‘Depth’ Challenges, where Financial Sector has to take a greater lead role, e.g. Bihar



Measuring Financial Inclusion– Slicing Depth

- While Credit/GDP is a good ‘Depth’ Indicator, it needs to be extended to look at the substructure of the economy
- At a state or district level, Overall Credit/GDP could look ok, but extending this could yield several insights
 - Credit could be disproportionately allocated to large/medium enterprises, leaving little for Micro and Small Enterprises
 - The Ocean Liners sucking up all the credit, leaving little for the Tugboats
- This problem is likely to be more acute in districts where overall Credit/GDP is high, implying good demand for credit from larger enterprises
 - To begin with, examine Urbanised Districts
- Hence, useful to extend Credit/GDP within a district

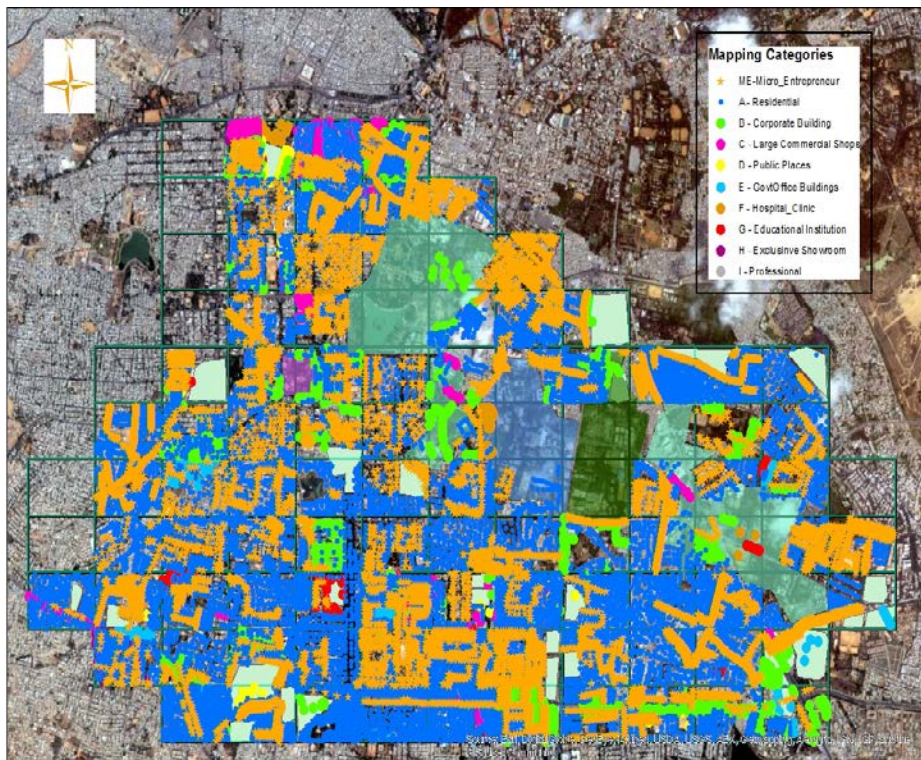


Urban Financial Inclusion – Bangalore District

- Understand District GDP
 - Trendlines
 - Sectoral contribution
- Supply of Credit in the District
 - Trendlines
 - Sectoral break-up
- Explore Credit/GDP for Bangalore
 - Asymmetries in Credit/GDP when comparing Large v/s Medium v/s Micro & Small Enterprises
- Demand for Credit from various sectors
- Data and Policy views
- Gap between Supply and Demand
- Reasons for gaps
 - Challenges of ‘Formalisation’
- Way Forward



Urban Financial Inclusion – Bangalore District MSE Study



Characteristics of M.E Population:

Total number of M.Es: **13,177**

Share of Footpath Vendors : **24.51%**

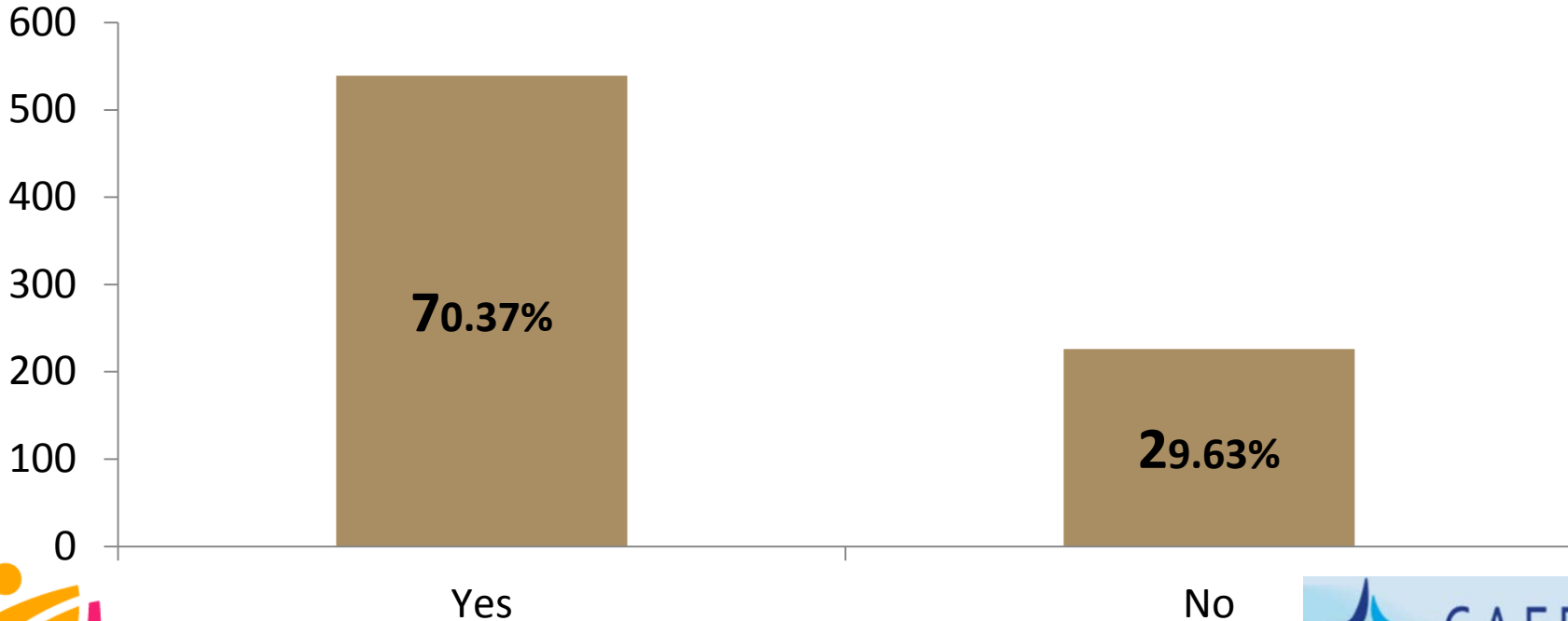
Top 5 Occupations:

Occupation	% of Total
Vegetable Vendor	20%
Automobile /Motor Repair	13%
Hotels/Restaurants	12%
Textiles	8%
Stationery	7%



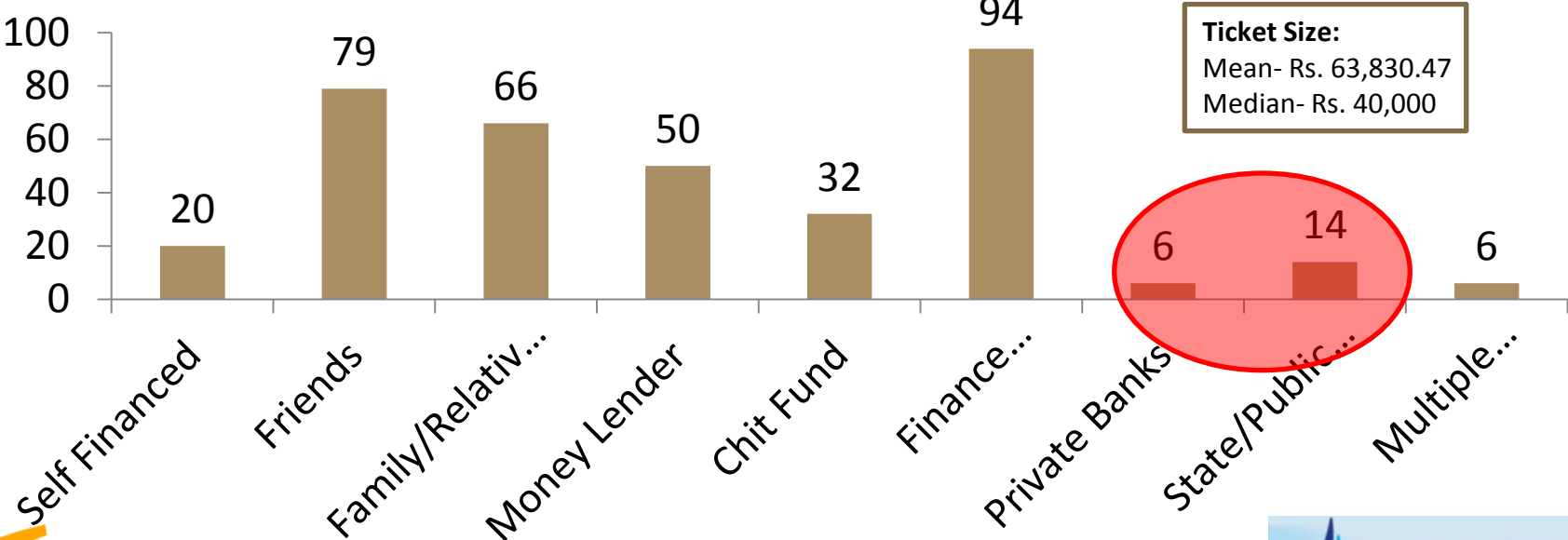
Urban Financial Inclusion – Bangalore District MSE Study

Have Bank Account?



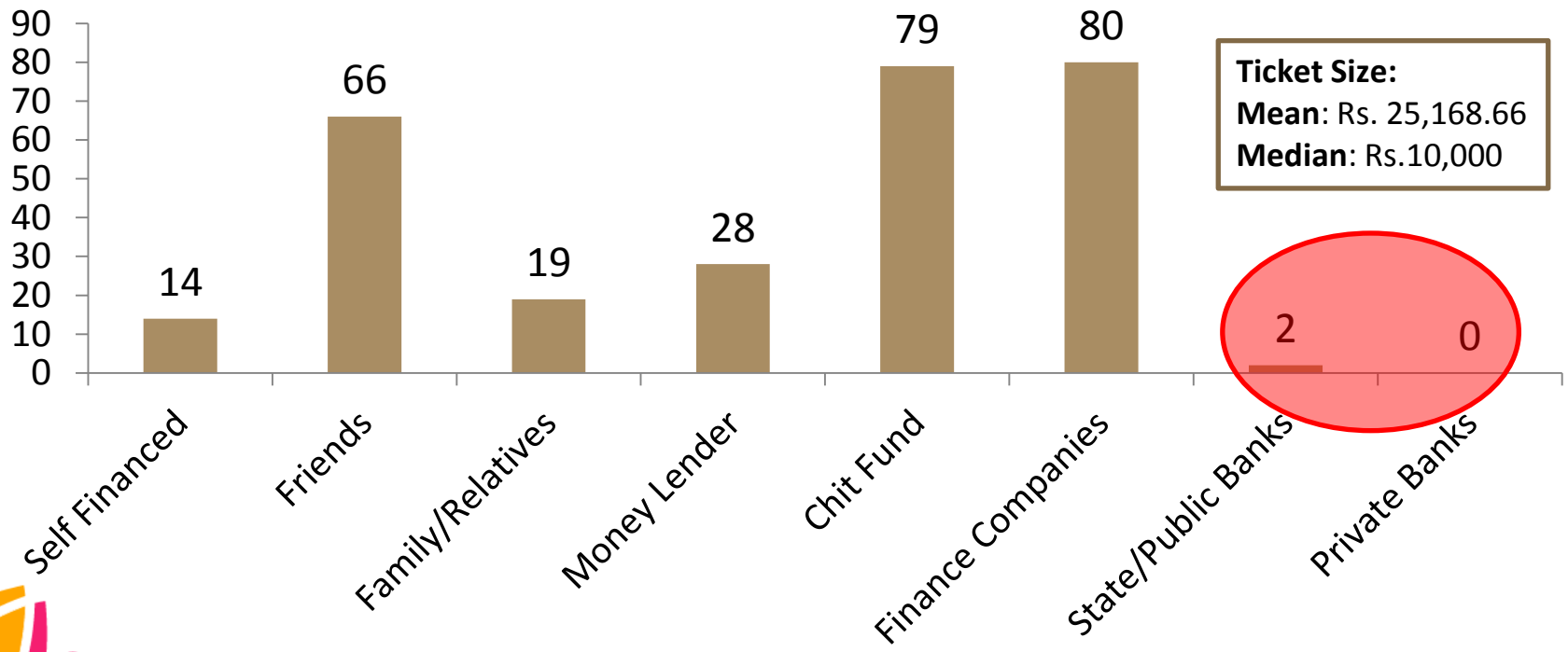
Urban Financial Inclusion – Bangalore District MSE Study

Sources Used for Capex Loans in last two years (n=368)



Urban Financial Inclusion – Bangalore District MSE Study

Sources Used for Working Capital Loans in last two years (n=297)



Urban Financial Inclusion – Bangalore District MSE Study

Estimates of Credit Demand for Bangalore Urban

1. Projected Credit Demand in 2013 for Enterprises found in Survey (Bangalore Urban)	
Number of NIC Codes Covered in Survey	35
Number of Enterprises in Bangalore Covered by 35 NIC Codes in 2013	1,96,308
(Average Credit Need for Each NIC Type) * (Number of Enterprises in Population)	Rs. 9,535 Crores

2. Projected Credit Demand in 2013 for Enterprises found in Survey (Bangalore Urban)	
Mean Reported Credit Requirement in Survey	₹ 4,16,430
Projected number of enterprises needing loan for expansion/new business	2,58,789
Total Credit Required= Mean*Projected Number of enterprises	Rs. 10,776 Crores



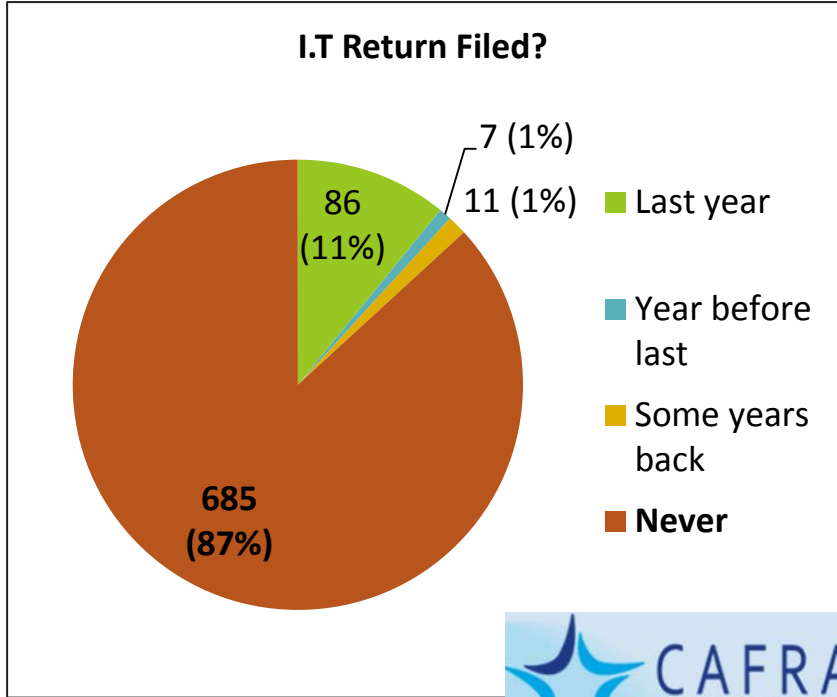
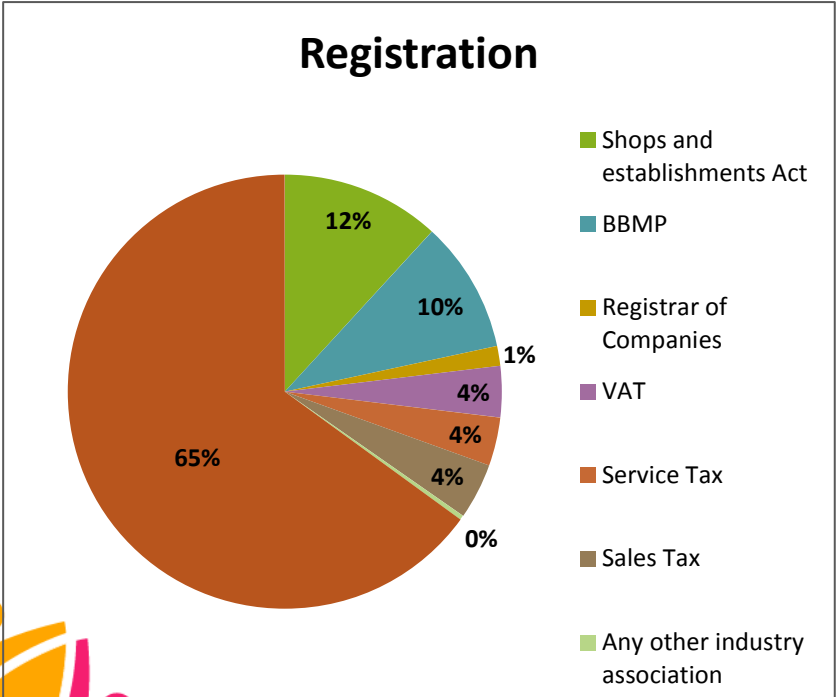
Financial Inclusion Depth – Bangalore Urban District

- Credit/GDP for Bangalore: 1.46
 - At overall level, seems good
- Significant asymmetry in credit supply
 - Micro Enterprise Credit/GDP: 0.39 (est)
 - Small Enterprise Credit/GDP: 0.75 (est)
- Large demand for credit: ~Rs 17,000 cr
 - Capital Expenditure & Working Capital
- Poor access to formal banking system
 - Despite having bank accounts
 - Despite expressed desire to link



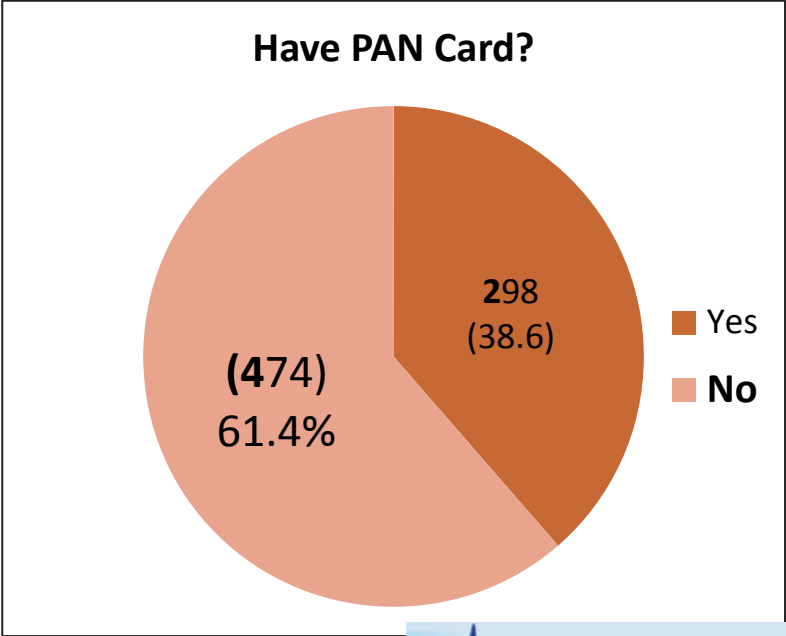
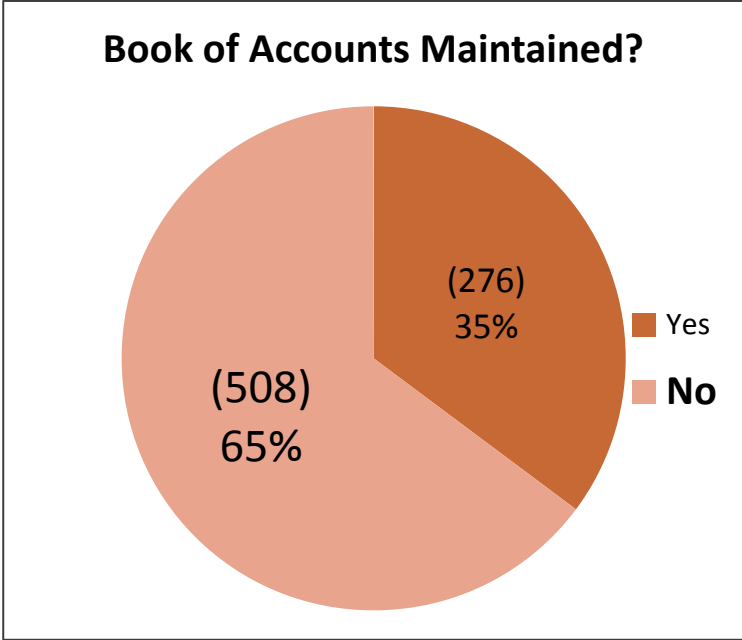
Urban Financial Inclusion – Bangalore District MSE Study

Challenges of Formalisation



Urban Financial Inclusion – Bangalore District MSE Study

Challenges of Formalisation



Urban Financial Inclusion – Bangalore District MSE Study

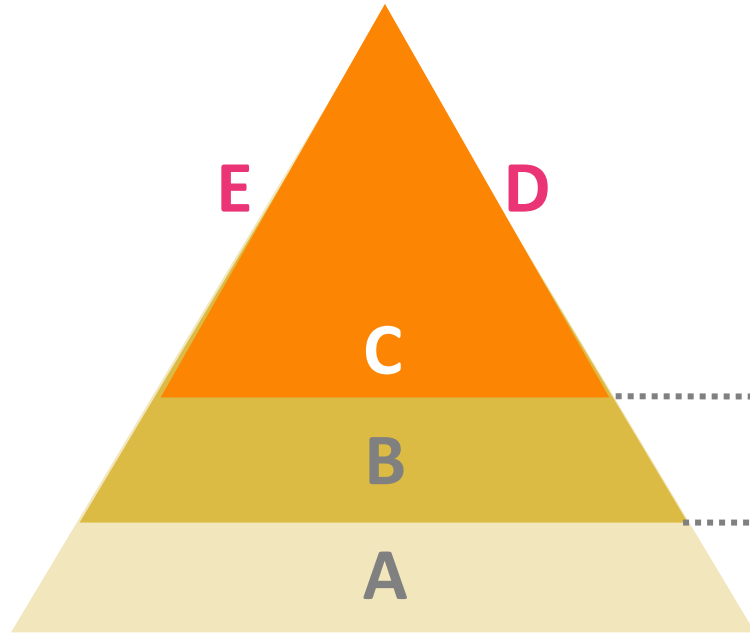
Implications of Demand-Supply Gap to MSEs

- India's Enterprise Economy
 - 4th Economic Census (1998-99) to 5th EC (2005-06): 11 mn additional enterprises
 - However, more than 10mn growth in <5 employees firms
 - >10 employees firms DE-GREW from 832k to 631k
 - Clearly, Micro and Small Enterprises will continue to be the bulwark of India's Enterprise economy
- Gaps in credit supply are structural
 - Will require both supply-side as well as demand-side efforts
 - Supply-side efforts: policy and regulatory changes
 - Demand-side: incentives to formalise/consumer protection/literacy



Customer-Centric Financial Inclusion: Experiences

The ABCDE of a Customer-Centric Financial Inclusion Institution



E: The Economic Model for these products and services, so as to make sufficient returns for the institution

D: The appropriate Distribution and Delivery of these products and services

C: Deep Customer Insights to design new customized products and services

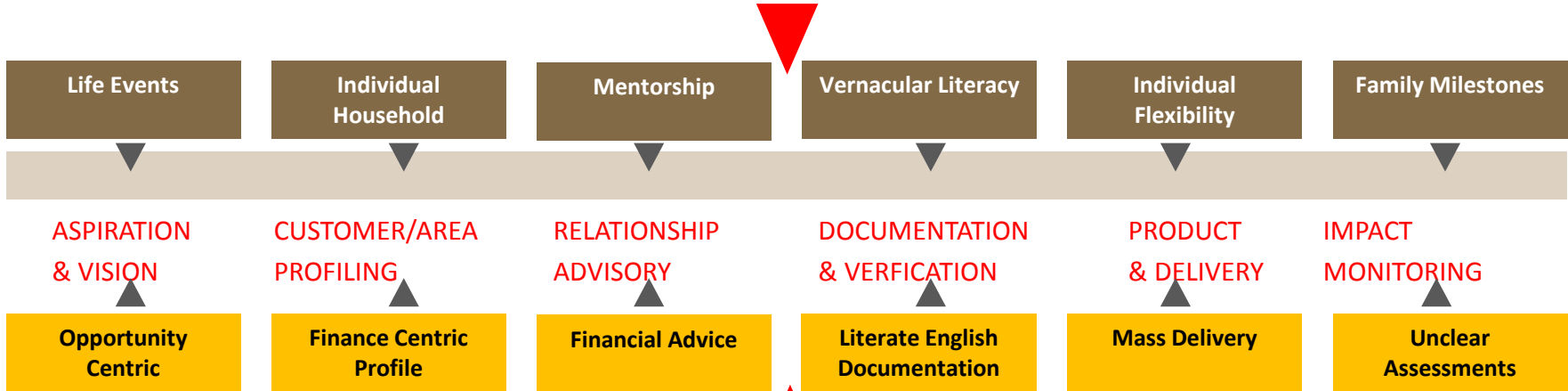
B: A sufficient base of customers who are at the base of the pyramid

A: An Adequately Sized institution with a large institutional infrastructure



Customer-Centric Financial Inclusion: Experiences

Customer View



Janalakshmi View

Since 2012, Janalakshmi and CGAP have been working on a partnership for Client-Centric Product Delivery, supported by IMRB-IL



Customer-Centric Financial Inclusion: Experiences



1
Workshop

2
Study of
products

3
Field study
methodology

4
Household
immersions

5
Study of cash
transactions

6
Stakeholder
workshop

7
Profiling
method

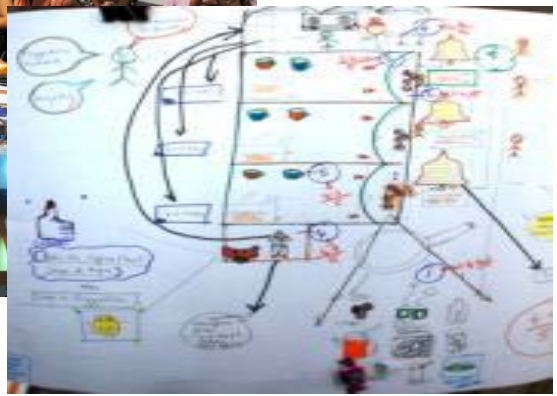
8
Process
booklet

9
Management
workshop





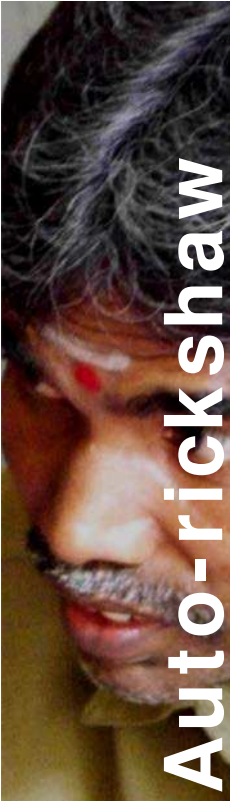
Customer-Centric Financial Inclusion: Experiences



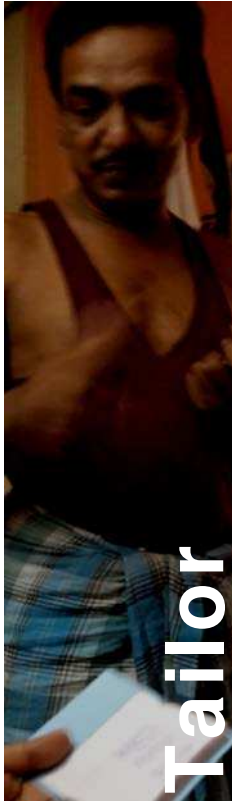
Customer-Centric Financial Inclusion: Experiences



Saree Seller



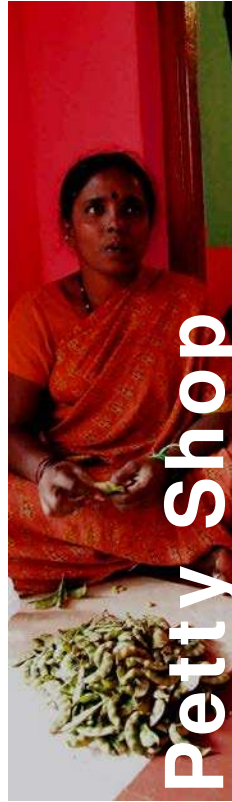
Auto-rickshaw



Tailor



Tiffin Center



Petty Shop

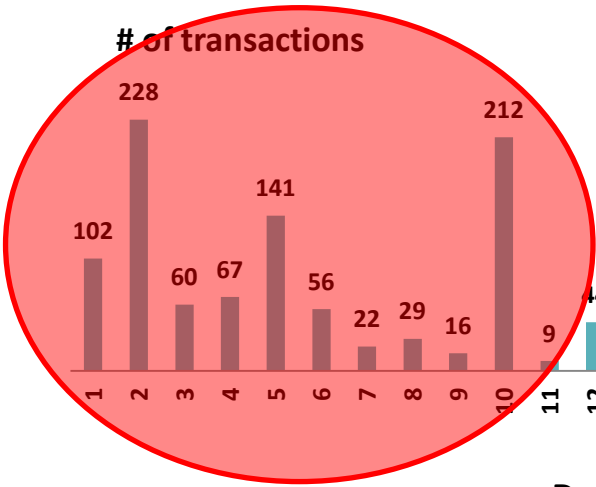


Vegetable Vendor

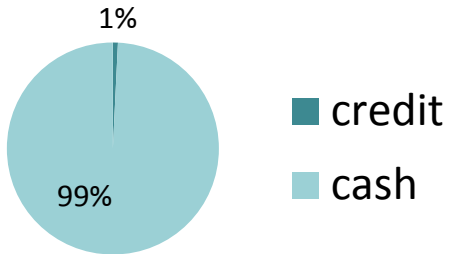


Customer-Centric Financial Inclusion: Experiences

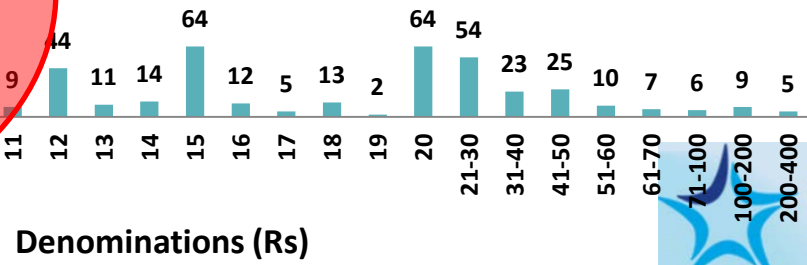
Petty Shop



Cash vs. Credit



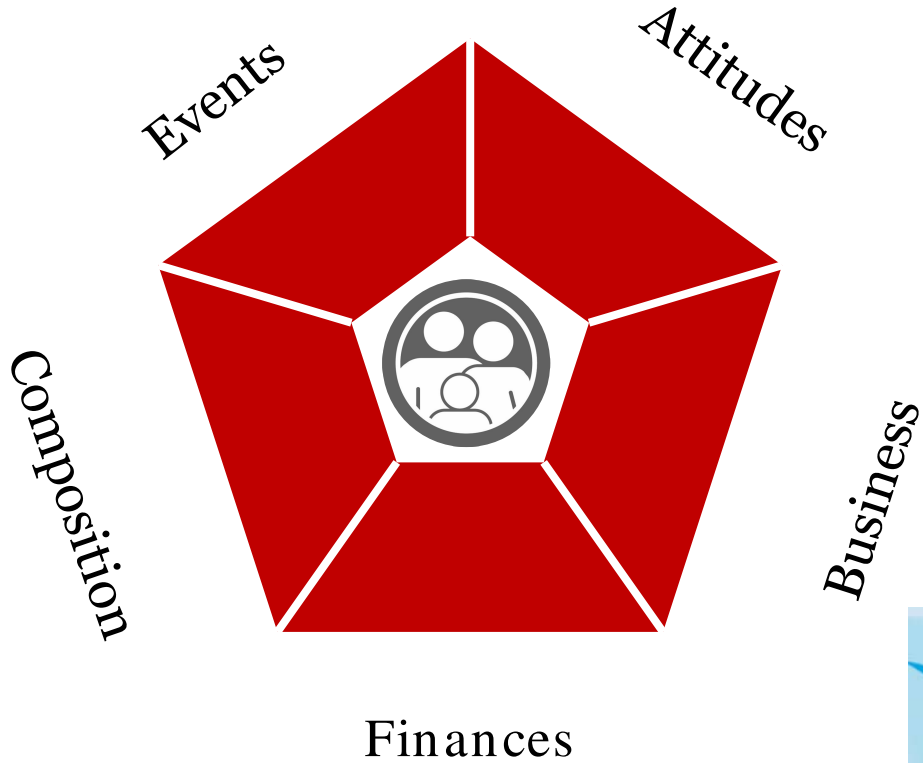
Monthly credit values, 700, 1000, 1200, 1500





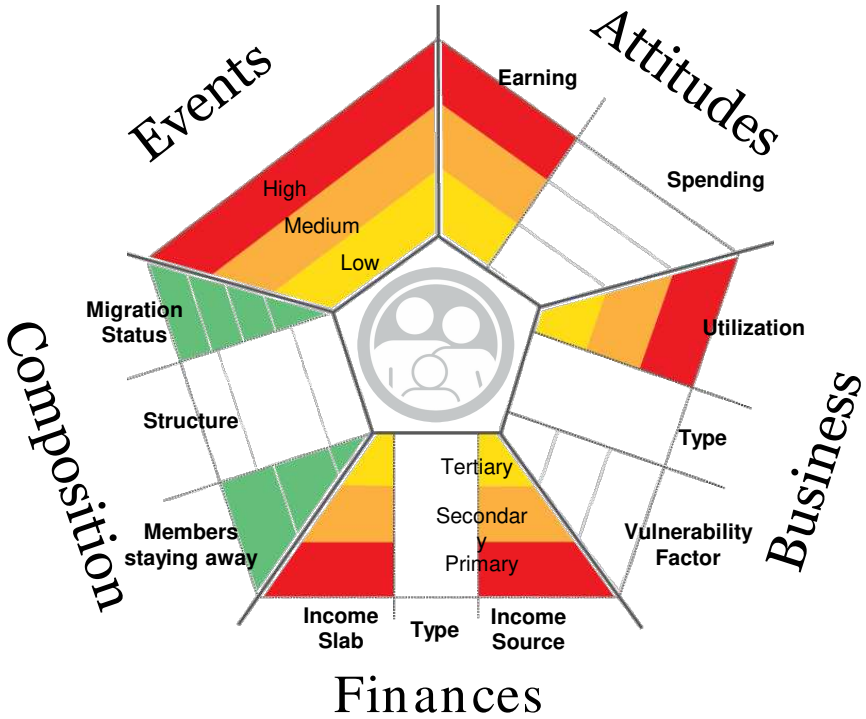
Customer-Centric Financial Inclusion: Experiences

Creating a Framework to capture the Customer-Family Profile



Customer-Centric Financial Inclusion: Experiences

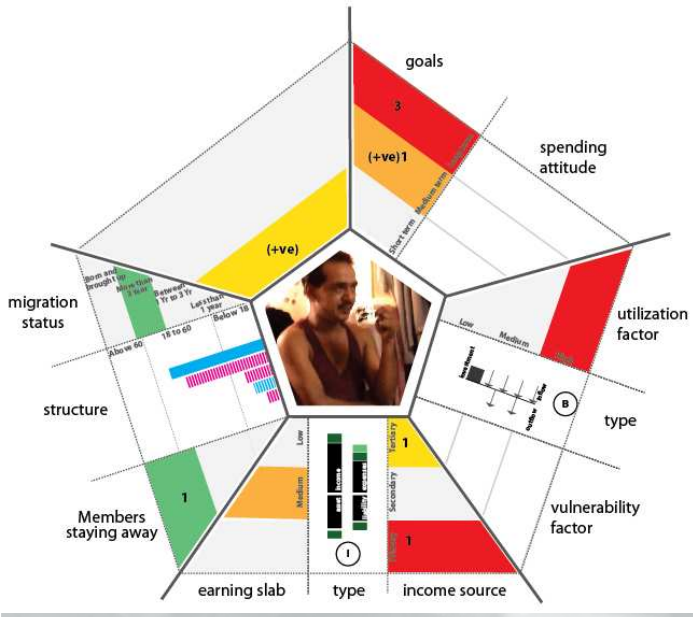
Creating a Framework to capture the Customer-Family Profile



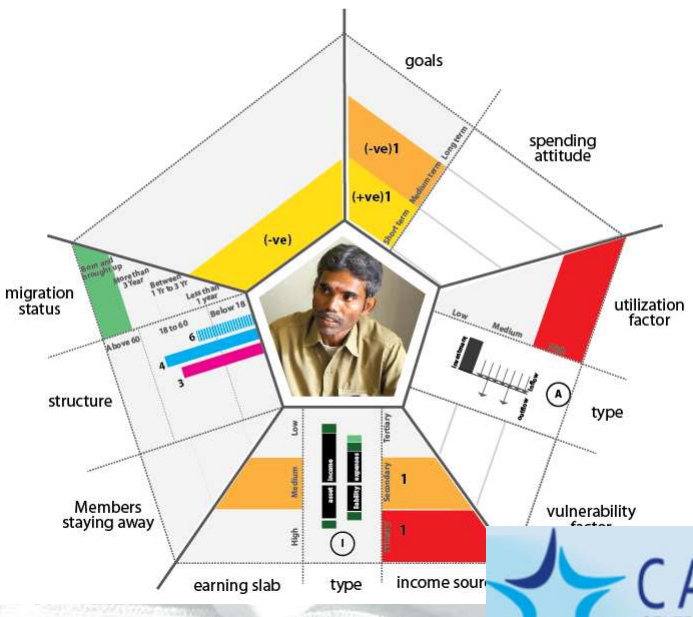
Customer-Centric Financial Inclusion: Experiences

Filling out the Profile

Tailor



Auto-Driver





Household Composition

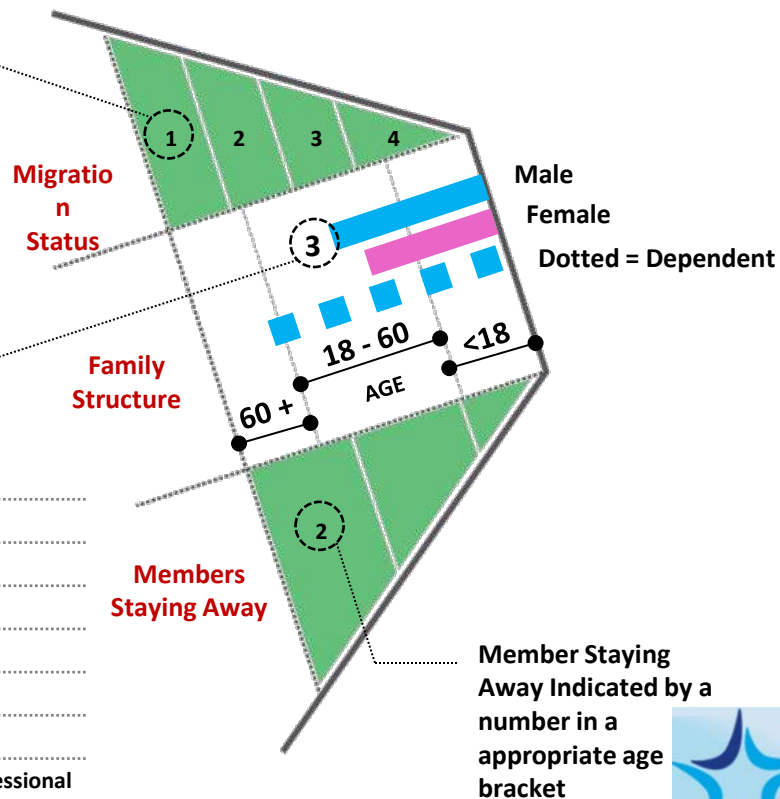
Migration Status

- 1 Born and brought up
- 2 Moved more than 5 years back
- 3 Moved between 1-5 years
- 4 Moved in the last 1 year

Education Status

(only for those above 18 yrs)

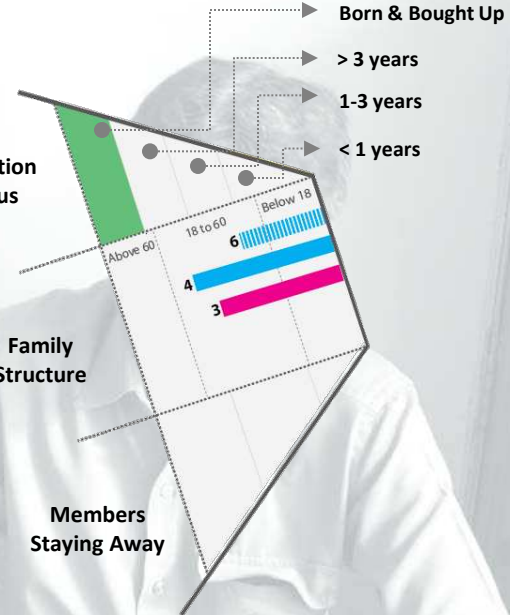
- 1 Illiterate
- 2 Literate or no formal education
- 3 School until 4th
- 4 School 5th to 9th
- 5 HSC / SSC
- 6 Some College (no graduation)
- 7 Graduation / Post Graduation
- 8 Graduation / Post Graduation - Professional



Household Composition



Gender	2 Males	3 Females
Dependent Ratio	3/5 dependents	
Age Distribution	3 Young	2 Adults 0 Old
Migration Status	2	
Members staying away	1 Parent	0 Children

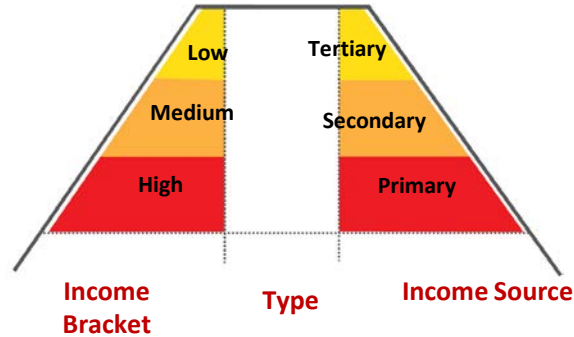


Gender	2 Males	1 Females
Dependent Ratio	1/3 dependents	
Age Distribution	0 Young	3 Adults 0 Old
Migration Status	1	
Members staying away	0 Parent	





Household Finances

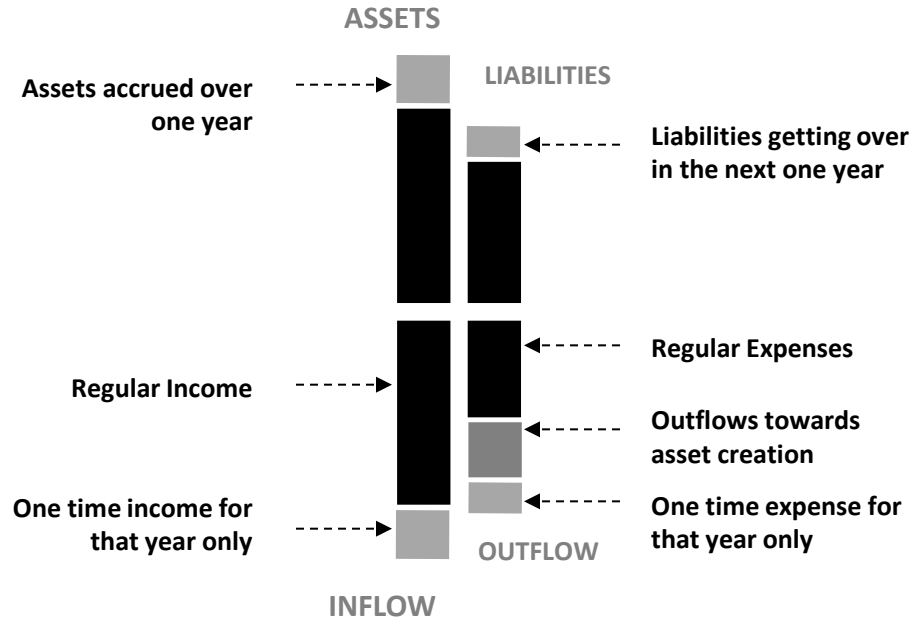


Monthly Income Bracket	Financial Type	Income Source	
Low Income 15,000 to 30,000	Income	Primary	Highest amount, or 100% to 61% of the highest amount
Middle Income 30,000 to 40,000	Outflows	Secondary	40% to 60% of Primary
High Income 40,000 to 60,000	Liabilities	Tertiary	Less than 40% of Primary



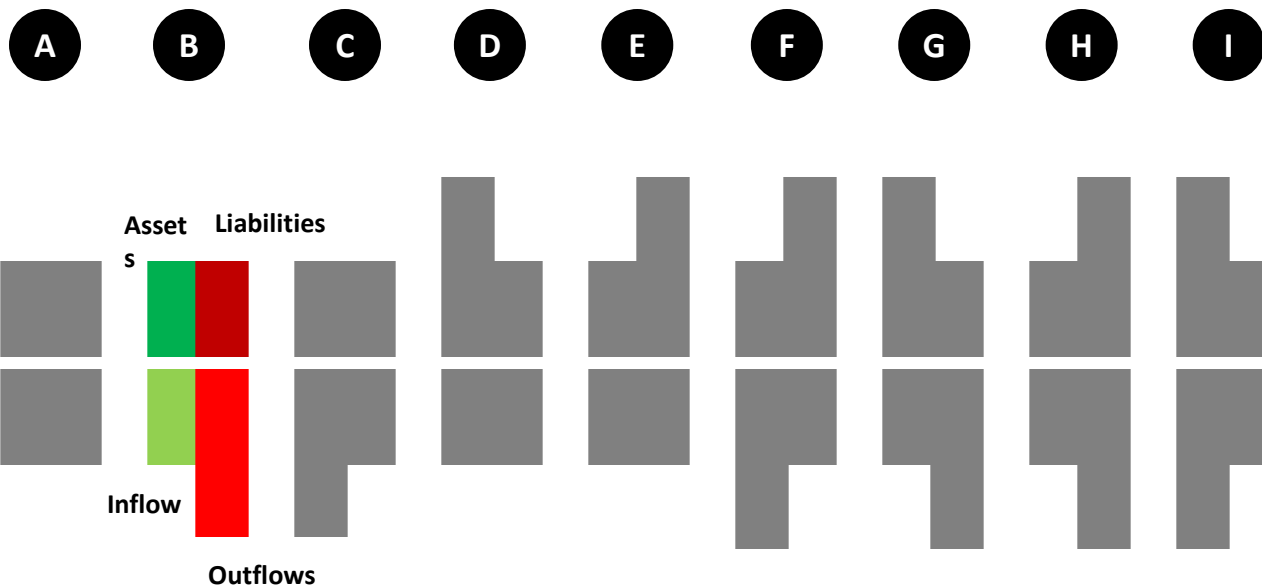


Household Finances

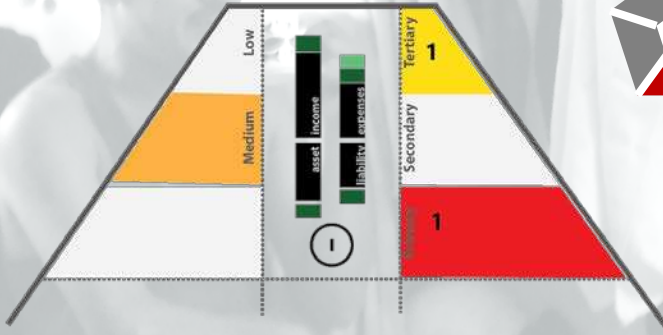




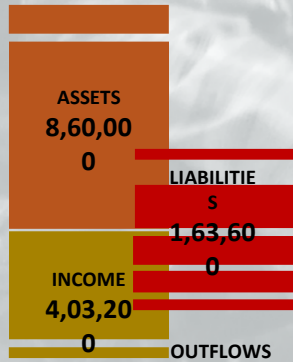
Household Finances



Household Finances



TYPE i



Income Sources

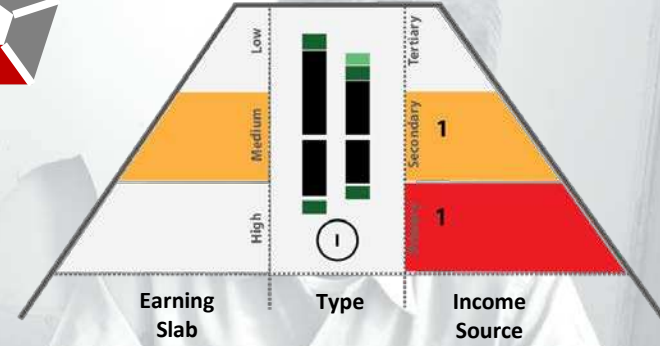
Primary	1
Secondary	0
Tertiary	1

Monthly Household Income Slab

15,000 – 30,000	Low
30,000 – 40,000	Medium
40,000 – 60,000	High

Monthly Income
~33,600

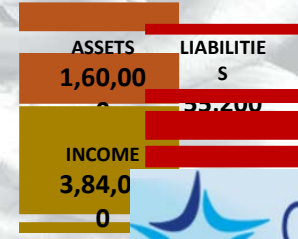
2,23,215



TYPE i

Income Sources

Primary	1
Secondary	1
Tertiary	0



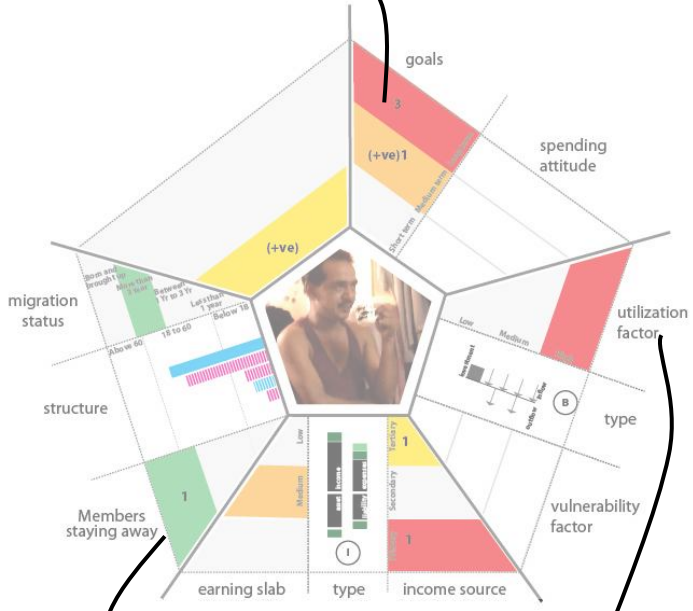
Monthly Income
~32,000



Customer-Centric Financial Inclusion: Experiences

Product Implications

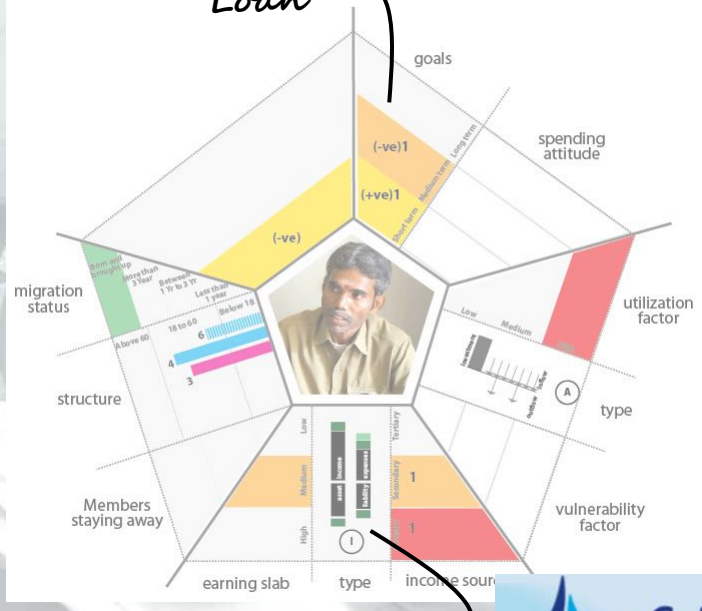
Tailor Savings



Remittance

Business Loan

Auto-Driver Housing Loan



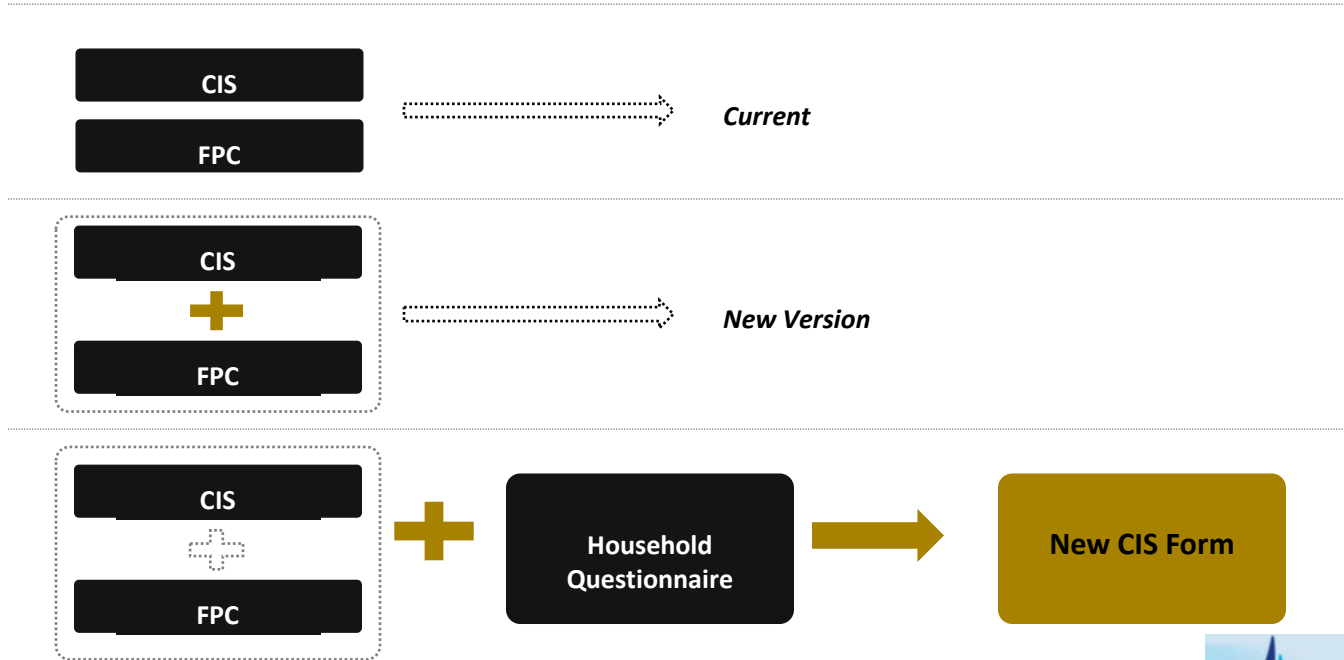
Insurance



Customer-Centric Financial Inclusion: Experiences

Internal Process/Data Implications

New Customer Information Sheet



Customer-Centric Financial Inclusion: Experiences

Internal Process/Data Implications

New Customer Information Sheet

1. Composition
2. Income
3. Expenses
4. Outflows
5. Business
6. Assets
7. Liabilities
8. Goals
9. Spending Attitude
10. Events

1. HOUSEHOLD COMPOSITION

FIELDS	Explanation	FAMILY MEMBERS											
		Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Number Male													
Number Female													
Number of Dependents													
Number of Children													
Number of Grandchildren													
Number of Other Dependents													

REFERENCE TABLE

Ta	Co	Ex
1	1	1
2	2	2
3	3	3
4	4	4
5	5	5
6	6	6
7	7	7
8	8	8
9	9	9
10	10	10

2. HOUSEHOLD INCOME

FIELDS	Explanation	FAMILY MEMBERS												Income from Other Sources			
		Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female		
Number Male																	
Number Female																	
Number of Dependents																	

5. HOUSEHOLD BUSINESS

FIELDS	Explanation	Periodicity of Outflow												
		Daily	Weekly	Fortnight	Monthly	Quarterly	Half yearly	Yearly	Other	Other	Other			
Gross Income														

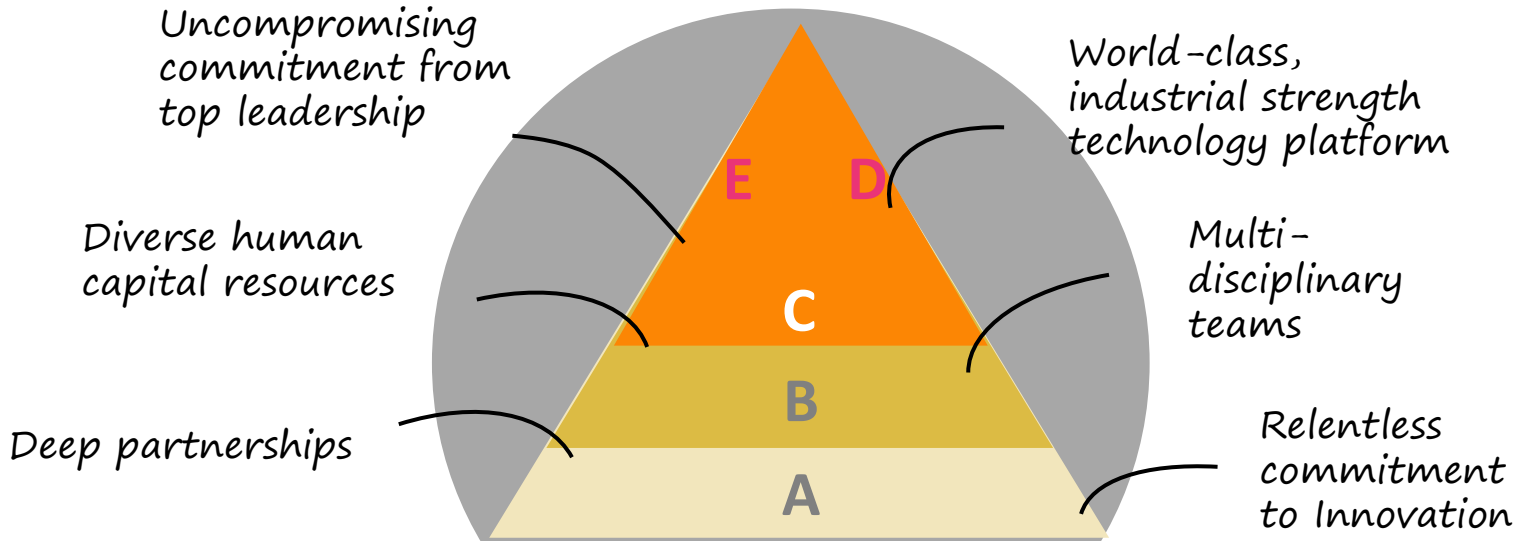
10. HOUSEHOLD EVENTS

Event Description	Event Category	Amount	Instrument	Source	Transaction Category	Financial Implication	Periodicity
Can you tell me about events that occurred in last one year?	How much money was spent or earned during this event?	What medium of instrument was used for transaction? (Give details)	From where did the money come? Did you borrow or give it from your own pocket?	Was the financial transaction successful? (Yes, no)	How did the event financial affect you? Did it have a negative or a positive financial effect or there was no considerable effect? (Yes, no)	In the particular event recurring every year or only a one-time event?	
The event category is based on the following classification: <ul style="list-style-type: none"> A - Birth / Death / Marriage / Family Separation / Divorce B - Education / Marriage C - Purchase / Sale D - Retirement / Pension / Divorce / Birth E - Health F - Money Transfer / Withdrawal / Loan G - Return of Investment H - Loan / Service I - Retirement / Pension J - Investment / Dividend K - Miscellaneous 	Differentiate between: <ul style="list-style-type: none"> 1 - Expense 2 - Income 	Differentiate between: <ul style="list-style-type: none"> 1 - Cash 2 - Cheque 3 - Demand Draft 4 - Post-Dated Cheque 5 - Other 	Differentiate between: <ul style="list-style-type: none"> 1 - Own / Family / Other 2 - Borrowed / Other 3 - Repaid / Other 4 - Other 	Differentiate between: <ul style="list-style-type: none"> 1 - Successful 2 - Unsuccessful 3 - Other 	Differentiate between: <ul style="list-style-type: none"> 1 - Positive 2 - Negative 3 - No effect 4 - Other 	Differentiate between: <ul style="list-style-type: none"> 1 - Recurring 2 - One-time 	



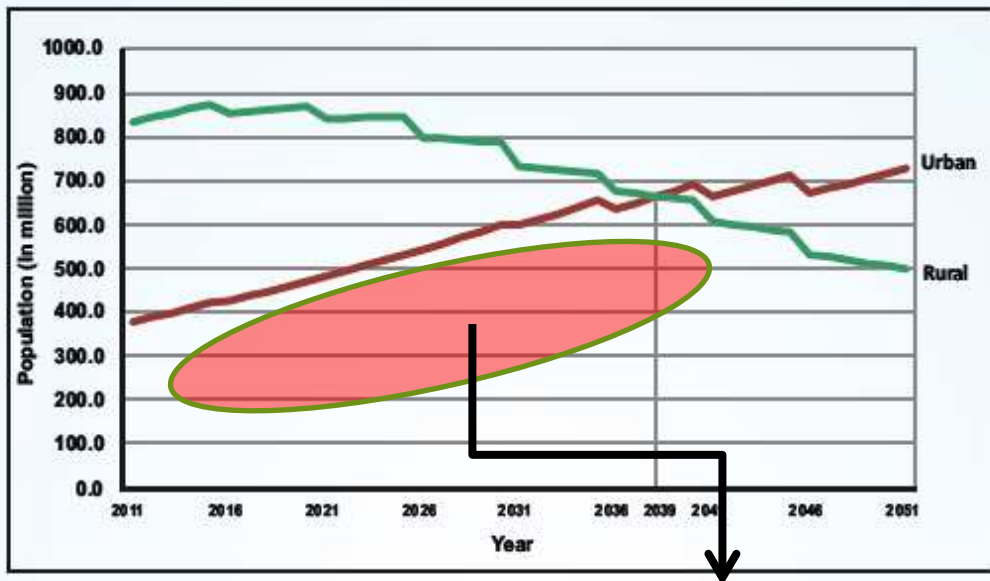
Customer-Centric Financial Inclusion: Experiences

What it takes



India's Urban Trajectory: Past the Tipping Point

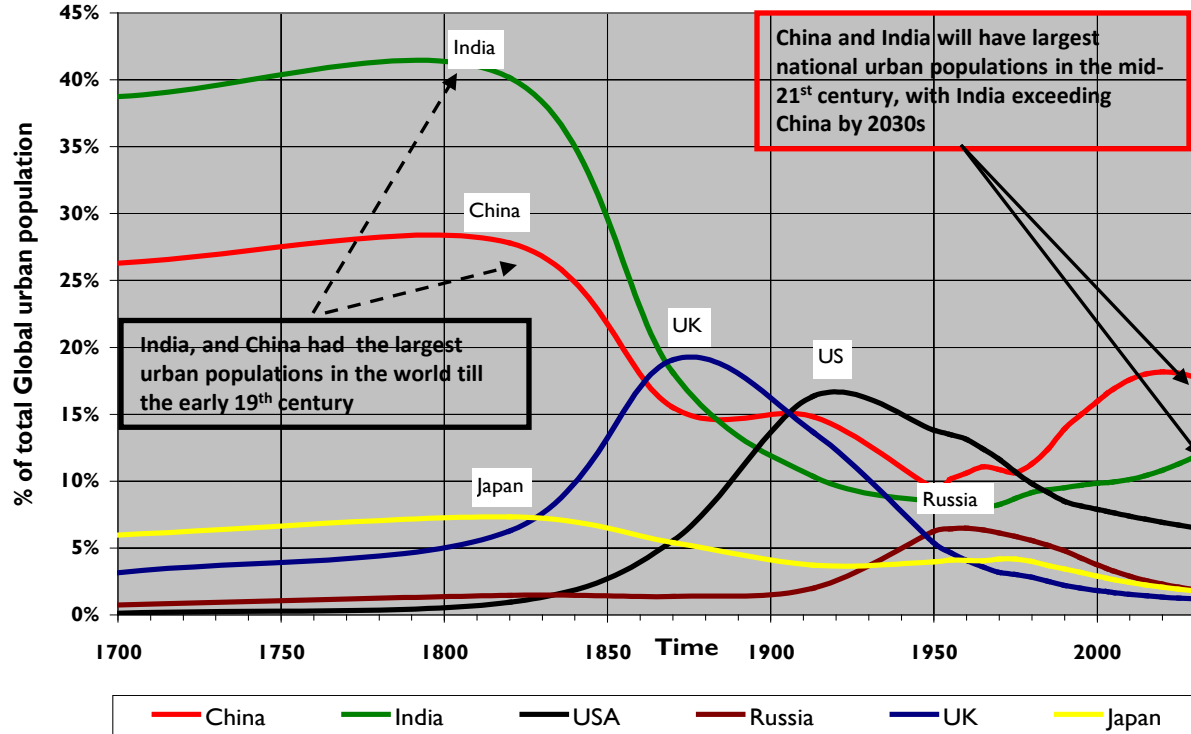
Projected urban and rural population of India: 2011-2051



300 million more people will live in Urban India in next 20+ years



Longer Term Urban Trends – Reversal to Normal

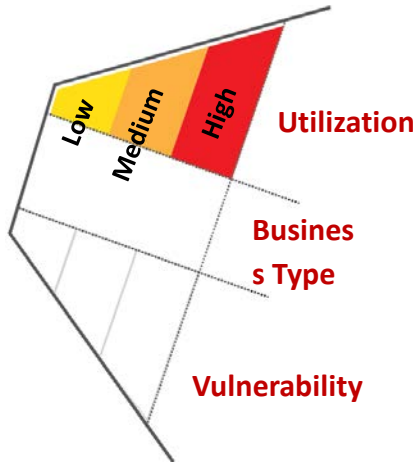


China and India will have largest national urban populations in the mid-21st century, with India exceeding China by 2030s

India, and China had the largest urban populations in the world till the early 19th century

Source: Chandler, 1987, Bairoch, 1988, UN, 2003, Visaria, 2001, Revi analy





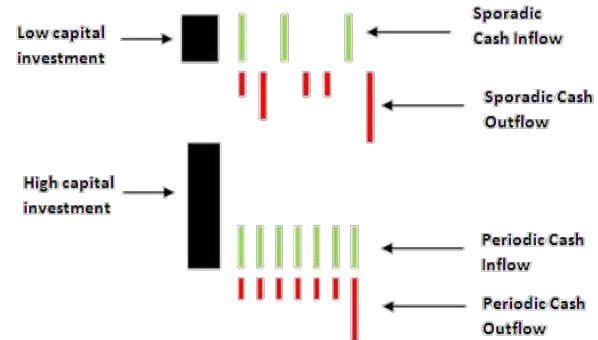
Utilization

% of the Maximum Earning Potential

Low	1% to 30% of maximum
Medium	31% to 75% of maximum
High	76% and above of maximum

Business Type

Investment
Inflow Periodicity
Outflow Periodicity



Vulnerability

Stock shelf-life

Customer Demand Adaptability : flexibility of a business to adapt to changing customer needs / demands.

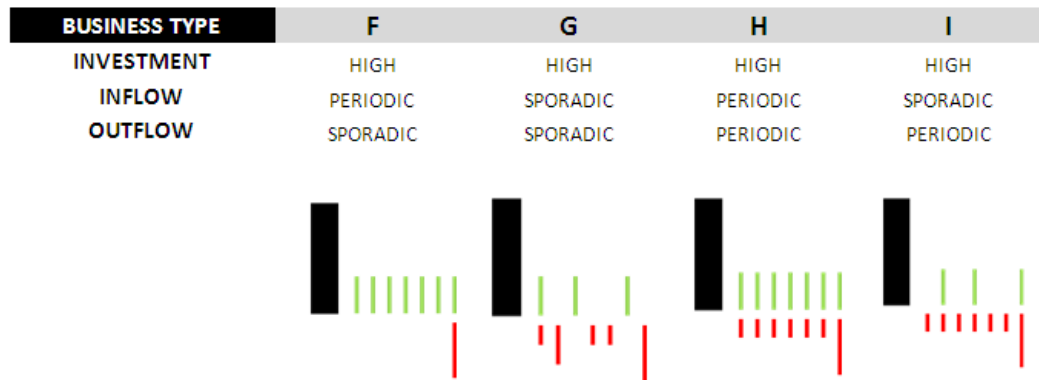
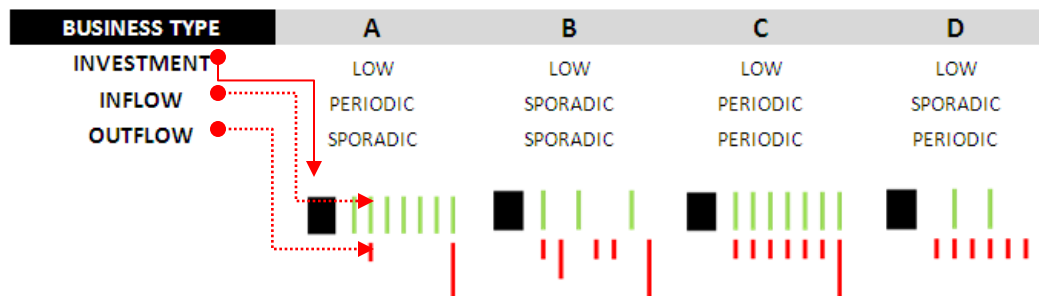
Temporary Replacement of Owner : owner's ability to leave the business unattended for a few hour(s) / day(s) to attend family obligations / functions.

Stability : how long the business has been in operation

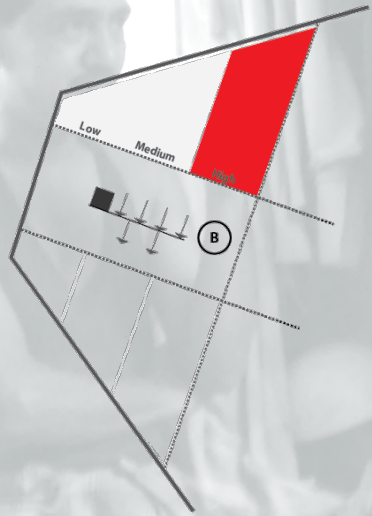
Adherence to Statutory norms : whether the business is licensed or not.



Business

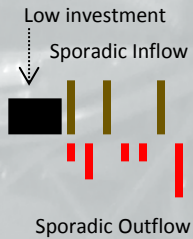


Business



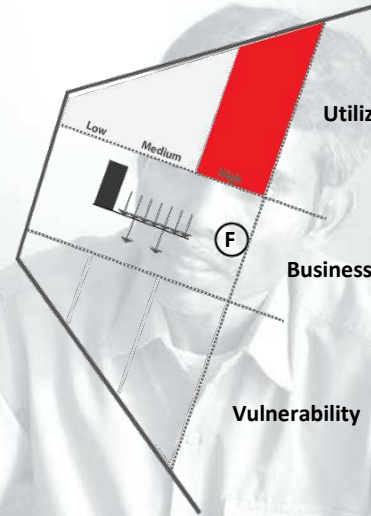
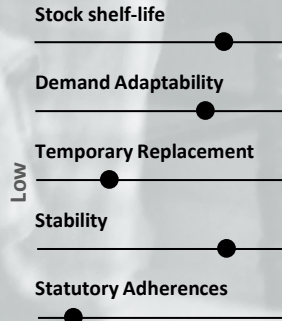
Business Type Utilization Vulnerability Factor

B **HIGH** -



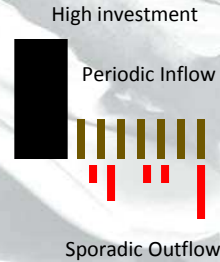
Current Turnover
1,00,000

Maximum Potential
1,20,000



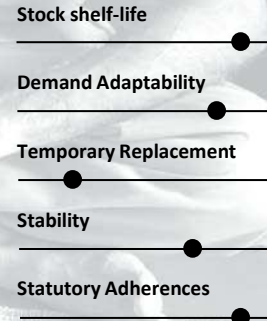
Business Type Utilization Vulnerability Factor

F **HIGH** -



Current Turnover
15,000

Maximum Potential
18,000





Events

Event Description	Amount	Instrument Used	Source	Transaction Success / Failure	Financial Implication	Periodicity
Events occurred in the last one year. First time capture will be for major events in the past 5 years	How much money was spent or earned during this event.	What medium / instrument was used for transaction?	From where did the money come? Did you borrow it from someone or gave it from your own pocket?	Was the financial transaction successful? Yes, no	Bad - brought you down and affected your finances negatively Good - helped you financially get better Neutral - Nothing significant financially	Is the particular event recurring every year or only a one-time event?

A – Birth / Death / Marriage / Family Structure Change

B – Education / Career

C – Business / Job

D - Celebration / Festivals / Rituals

E – Health

F – Asset Creation / Maintenance / Loss

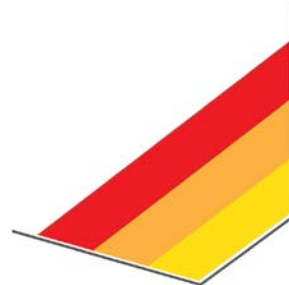
G – Natural Calamities

H – Legal Issues

I – Religious activities

J - Entertainment / Travel

K - Altruistic Activity



CAFRAL

CENTRE FOR ADVANCED FINANCIAL
RESEARCH AND LEARNING

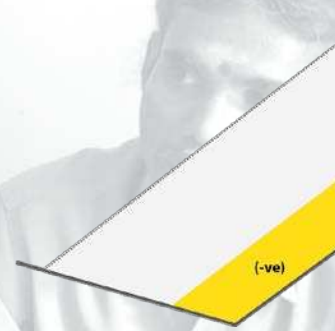
Promoted by Reserve Bank of India

Events



Low Positive Net Effect

Event	Financial Instrument	Transaction Success		Periodicity		Financial Implication	Periodicity
	Amount	Source	Source	Source	Source		
Mother Hospitalized	-75,000	CASH	Own	YES	NEUTRAL	ONE TIME	ONE TIME
House Painted	-2,000	CASH	Own	YES	NEUTRAL	ONE TIME	ONE TIME
Lost money in Chit Fund	-50,000	CHIT FUND	Own	YES	BAD	ONE TIME	ONE TIME
Trip to Ooty	-5,000	CASH	Own	YES	NEUTRAL	ONE TIME	ONE TIME
Money Returned by brother-in-law	+1,50,000	CASH	Relative	YES	GOOD	ONE TIME	ONE TIME



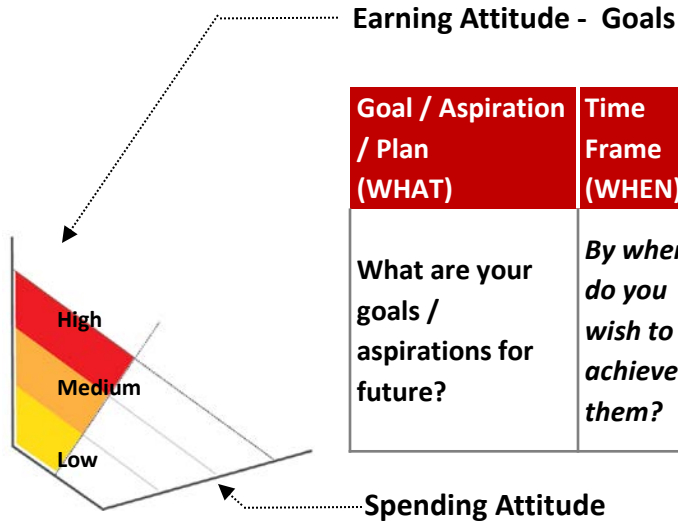
Low Negative Net Effect

Son stopped working, so went to astrologer for remedy	-10,000	CASH	Own	YES	BAD	ONE TIME	ONE TIME
Started house construction and fell short of money	-1,00,000	CASH	Informal Institute and Relatives	NO		ONE TIME	ONE TIME
Goes to Tirupati every year with family	-3,000	CASH	Own	YES	NEUTRAL	RECURRING	RECURRING
Mother's death	-5,000	CASH	Own	YES	NEUTRAL	ONE TIME	ONE TIME





Attitudes

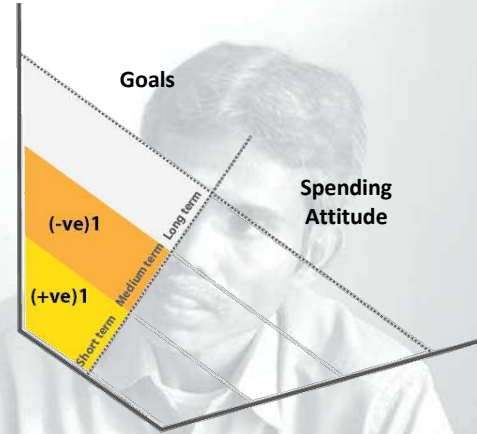
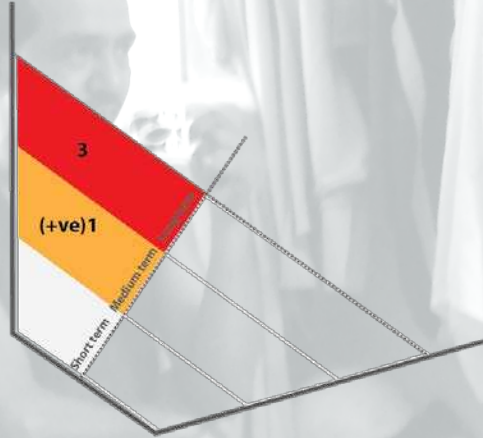


Goal / Aspiration / Plan (WHAT)	Time Frame (WHEN)	Instruments to be used & Strategy formulated (HOW)	Source (WHERE)	Driver (WHY)
What are your goals / aspirations for future?	<i>By when do you wish to achieve them?</i>	How do you plan to achieve your goal, financially?	From whom do you plan to take help for achieving this goal / aspiration?	

1. Religion
2. Education
3. Social Status
4. Altruistic Activities
5. Self Indulgence (any expense on cigarettes, alcohol, lottery, betting, drugs, etc)
6. Family Indulgence (pocket money, children's demands, spending on family members)



Attitude



		Goal Value
Mid Term	1	Positive
Long Term	3	

		Goal Value
Short Term	1	Positive
Mid Term	1	Negative

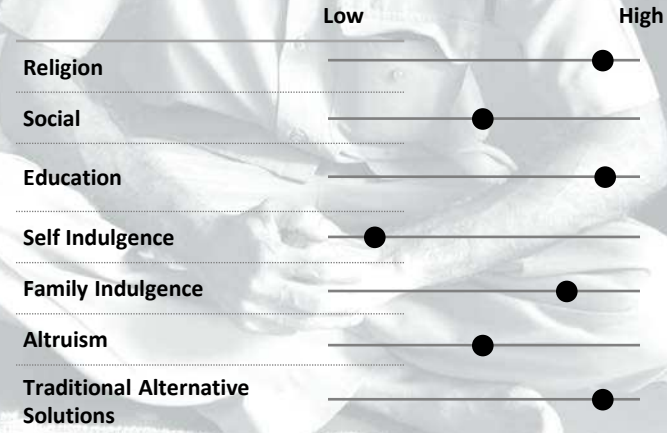
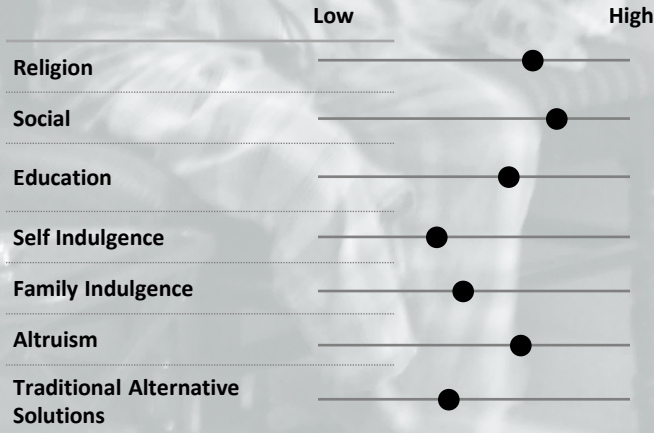
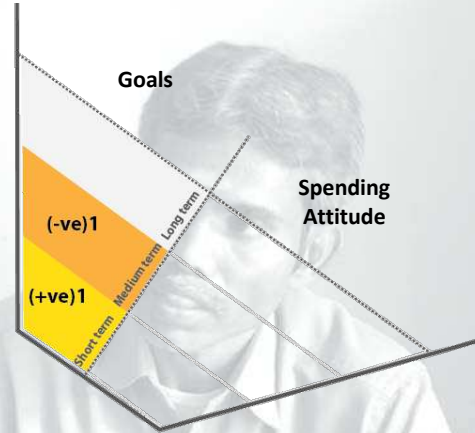
Get Daughter Married	Long Term	5,00,000	Will buy appliances , furniture, gold for dowry	Have bought appliances , gold from own money
Expand Business - adding 2 people+ 2machines	Mid Term	1,00,000	Not planned	-
Wants to Open shop for his son	Long Term	-	Not planned	-
Would like to go to USA and take	Long	2,00,000	Not	

Shop perceived to be a better and stable business than tailoring

Goal / Aspiration	Time Frame	Driver	Amount	Strategy & Plan	Action Taken
WHAT	WHEN	WHY		WHERE	HOW
Buy a Fridge	Short Term	Better Lifestyle	15,000	Plans to buy from own money	-
Finish the house construction	Mid Term	To create an asset	3,50,000	Savings	Has started putting money in chits



Attitude



Thank You!

