

‘Doorstep-delivery, driven by technology’

[Radhika Merwin](#)



Digital revolution at the base of the pyramid will begin through small finance banks

For microfinance institutions that have been following the doorstep delivery model for their lending activity, integrating savings as a product is not a costly proposition. However technology roll-out to the last mile will be necessary for a viable business model, according to Rameez Khan, Chief Executive Officer, Disha Microfin, which received an in-principle approval from the RBI to set up a Small Finance Bank. Excerpts from an interview to Business Line:

With eight micro finance institutions set to start small bank operations, what will dramatically change for customers, particularly for those in the remotest part of the country?

Microfinance companies have fundamentally been doing business at the base of the pyramid and door-step servicing on the lending side. The country's financial inclusion initiative has two main agendas. One, people should have bank accounts, thereby facilitating direct benefit transfers. Two, people should be able to borrow money for their personal and business needs. As far as lending activity is concerned, microfinance institutions have had a fair deal of success. But on the savings account front, there is still a lot more work to be done. Through the Jan Dhan initiative, while banks have been able to open accounts, it's still early days to assess its success across other parameters such as usage.

With the grant of small finance bank licence, large NBFC-MFIs are converting into small finance banks. The big advantage of this is that these institutions will also have to focus on the savings side and give options to customers to open accounts and save small sums of money. The big banks do not see offering such services as lucrative because of the costs involved. MFIs, on the other hand, have been following the doorstep delivery model in the remotest part of the country. For them to integrate savings as a product for their customers is not a costly proposition.

So what will dramatically change is that there will be a far deeper reach of savings account and, thereby, banking services for these customers.

But on the lending side, there is still lots to be done. These customers are still paying high interest rates on loans, upwards of 20 per cent.....

So the other significant change that will happen once these MFIs start small finance bank operations is on the lending side. Once these institutions have the ability to raise deposits that are much cheaper than the borrowing costs they currently incur, they can pass on these cost savings to customers in the form of lower lending rates. Hence loan rates can fall substantially over the coming years.

Also, these institutions will have to focus on technology. We are seeing the shift to digital banking and more Aadhaar-based solutions. Hence the technology roll-out to the last mile will increase because that is necessary to have a viable business model. Customers will see more convenience in transacting. So technology revolution at the base of the pyramid will begin through some of these banks.

Considering that raising low-cost deposits in urban areas is already a challenge, how will players like you tackle the rural market, where the idea of savings itself is still nascent?

The business of lending is also equally challenging in such markets, where the collection process and keeping NPAs low is tough. One can also argue that extending loans is more of a challenge than raising deposits.

That said, on the savings side, there has been an issue of dormancy due to two counts. One, once the account is opened, the customer does not transfer money into the account on a regular basis. Two, the branch in which the account is opened is 10 km or even further away and hence customers may not use the account frequently. So, in that sense, our doorstep-delivery model is our key strength. We are big users of technology to offer such services. Hence our savings

account services will ride on our doorstep delivery model. We are confident that while our savings accounts will carry low balances, we will not have any issue on the usage front.

How will you tackle the cash in and cash out process at the doorstep, even using technology, since there are connectivity issues in these villages?

The customer does not require branches, only more cash in and cash out points. It is true that we need some decent data connectivity in these villages to execute these transactions. But it is not necessary that every nook and corner of the village gets data connectivity. Even if there is some coverage we can execute transactions. We will employ low-cost tools like micro ATMs. We can also employ the BC (Business Correspondent) model differently. As we do micro lending in groups we can appoint one of the group leaders as a BC and empower the person to do cash in and cash out.

How far is Disha from converting itself into a small finance bank?

We are well on our path to becoming a small finance bank. However, we still have some legal steps to follow, and there is some more work to be done before we get a final clearance from the RBI. We are looking at the first quarter of 2017 (January-March) to launch the bank.

(This article was published on September 11, 2016)

MORE FROM BUSINESS LINE

[Demonetisation sets off huge spike in tax queries](#)

[Long-term gain is assured](#)

[Widening black money net](#)