

BUSINESS STANDARD WEBINAR: SMALL FINANCE BANKS

'Bottom of the pyramid proves to be the best customers'

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Small finance banks (SFBs) have seen a sharp increase in recoveries with economic activities picking up.

And recoveries are coming from the "bottom of the pyramid" — people who made sure they didn't pile up debt and run into an overleveraged position. At *Business Standard's* virtual financial conclave Unlock BFSI 2.0, top SFB chiefs in the country seemed to be comfortable even when more than 90 per cent of their loan book froze into a moratorium in March.

By July, the moratorium loan book halved for most, and after it is over next month, the SFBs expect things will be normal and business as usual, even as the focus would continue to be on recovery for many more months to come.

The panelists for the event were Alok Misra, chief executive officer (CEO) of the Microfinance Institutions Network (MFIN), and chiefs of five SFBs — Nitin Chugh of Ujjivan SFB, P N Vasudevan of Equitas SFB, Ajay Kanwal of Jana SFB, Sanjay Agarwal of AU SFB, and R Baskar Babu of Suryoday SFB.

What is heartening in all these, as the six panelists deliberated, is that most people did not want to borrow more even when approached. This showed a certain credit discipline. The SFBs, on their part, did not want to push their borrowers.

"This is the time when customers need support and not pressure to pay up. We are not in a July-to-August relationship, our customers will stay with us for three, four, five years. If he is not earning, I am very happy to sit with him," said Vasudevan, who started with a 90 per cent moratorium on the bank's book, but has now about 43 per cent of the loan book under moratorium.

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BARRING THREE OR FOUR SECTORS, EVERYTHING IS COMING BACK TO NORMAL. THINGS ARE NOT SO BAD. CUSTOMERS HAVE INTENTION TO PAY

SANJAY AGARWAL,
MD & CEO,
AU SFB



IF MY CUSTOMER IS NOT EARNING, I AM VERY HAPPY TO SIT WITH HIM AND GIVE MY SHOULDER TO HIM TO CRY ON

P N VASUDEVAN,
MD & CEO, Equitas SFB



THE RECOVERY WON'T BE RURAL- OR URBAN-FOCUSED, IT WILL BE OCCUPATION-LED

NITIN CHUGH,
Ujjivan SFB



AN EXTENSION OF THE MORATORIUM IS NOT REALLY REQUIRED. WE ARE DONE WITH IT; THERE IS A FATIGUE SETTING IN

R BASKAR BABU,
MD & CEO, Suryoday SFB



THE TRUE NATURE OF MORATORIUM WILL BE APPARENT IN SEPTEMBER. SOME PEOPLE WILL USE IT AS EXCUSE FOR NOT PAYING

AJAY KANWAL,
MD & CEO, Jana SFB



VESTED INTERESTS AND MISCHIEF MONGERS ARE TRYING TO INSTIGATE BORROWERS. WE NEED INSTITUTIONAL AND POLICY SUPPORT

ALOK MISRA,
CEO, MFIN



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Bottom of the pyramid...

Everyone, though, agreed there was no need to extend the moratorium. "Moratorium is not really required any more. We are done with it, there is a fatigue setting in," said Baskar Babu.

The SFBs reached out to people to educate them about the moratorium, and explain that it expired after August, and that it was not a waiver. But some "local-level vested interests and mischief mongers" are instigating people not to pay, and bet for a loan waiver instead, said Misra.

Luckily, the issue has not taken a political turn, but the SFBs would be in need for institutional and policy support if the matter is politicised. It is no longer a rural or urban story, and "the recovery would be occupation-led", said Chugh.

Thankfully, "things are not so bad, and customers have the intention to pay", said Agarwal.

However, there will always be that less than one percenter, who would use any excuse, in this case the moratorium, to not pay, said Kanwal.

Liquidity is aplenty with SFBs, and despite rate cuts, depositors are queuing up to park their money as deposits, quelling fears that SFBs won't be able to compete with full-service banks in mopping up deposits.

The Reserve Bank of India's assurance that no bank will be allowed to fail, even as the PMC Bank crisis unfolded, and the fact that deposits of up to ₹5 lakh are now insured have played their part.

But SFBs had to do a lot of explaining before their customers, and as brands they are nowhere near scheduled banks even after three years of operations, the panelists said.

SFBs and their customers are increasingly relying on technology, and as much as 60-70 per cent of the recovery could be done through digital means, but with ₹2,000 being the average size of a micro-finance loan, the need for cash is there.

While this is not the time to expand into new areas, SFBs would like to sell insurance products and, maybe scale up their gold loan business, they said.

Overall, the Covid crisis has not brought about a behaviour change in the way demonetisation did. Rather, it is a pause before things normalise, the panelists said.

The panelists said SFBs wanted to become universal banks in five years, needed policy protection so that they did not fall victim to loan waivers or interest subvention schemes, a policy drive to include more from the bottom of the pyramid, etc.

RCom resolution...

The CoC, led by State Bank of India, approved of the resolution plan that involves lenders receiving ₹23,000 crore.