

Ujjivan Financial Services



Michael & Susan Dell
FOUNDATION

Ujjivan Case Study

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GEETA GOEL
PORTFOLIO DIRECTOR, MICROFINANCE
MICHAEL & SUSAN DELL FOUNDATION

EXECUTIVE SUMMARY

Established in 2005 as a for-profit, non-banking financial institution (NBFC), Ujjivan Financial Services Pvt. Ltd. pioneered a sustainable, scalable model to provide microfinance loans to the urban and semi-urban poor. By combining the practices of the Grameen, group-based lending model with consumer banking's sophisticated technology tools and professional management practices, Ujjivan managed to achieve profitability within five years – while also making measurable progress against its social goal of fighting poverty. The Bangalore-based company now serves nearly 1 million customers across 20 Indian states.

Since its inception, Ujjivan has successfully demonstrated that poor urban communities offer a viable financial services market, and that commercial success can be achieved in tandem with measurable social progress. This success has helped spur a new sector of urban microfinance institutions (MFIs), whose sustainability and innovative business approach has been robust enough to attract private investors.

IDENTIFYING THE OPPORTUNITY

Microfinance isn't a new concept. The original Grameen Bank model, pioneered in Bangladesh as early as 1976, focused on the rural working poor, typically extending unsecured microloans to small groups of women who pledged to cover any debts as a group. By 2005, when Ujjivan began operations, rural microfinance programs already had a proven track record in India. Both government-sponsored and private institutions had established a successful practice of providing affordable microcredit to groups of poor, entrepreneurial women seeking to improve their lives, and of recouping their loans.

But when Ujjivan first pioneered microfinancing in urban communities in India, the prospects for success were too risky to attract mainstream investors. The transient lives of the urban poor made entry into this new business sector appear something of a gamble. But the urban India market was also rich with opportunity. Factory and domestic urban workers were underserved, but still needed loans for adequate housing, healthcare and education. This community represented a significant customer base that was unserved by the banking industry and was instead forced to rely on high-priced, neighborhood moneylenders whose exploitative interest rates often drove people into inescapable debt.

In 2006, the Michael & Susan Dell Foundation identified urban microfinancing as a sustainable means of improving both the income levels and quality of life in India's slums, and opted to invest in Ujjivan in hopes of jumpstarting a new, sustainable sector.

“We felt that if a sustainable model could be created through catalytic funding, then we could attract mainstream investors to fuel the work going forward,” said Geeta Goel, Portfolio Director, Microfinance-India, Michael & Susan Dell Foundation. “By making an equity investment in Ujjivan, we set an expectation of sustainability from the very beginning.”

FINDING A SOLUTION

In some ways, it seemed obvious that the market for such services existed. After all, while the rural poor account for nearly 500 of India's 600 million poor, another 100 million impoverished urbanites were cut off from access to traditional financial vehicles. In the absence of retail banking services, unlicensed moneylenders were the sole providers of financial services in urban slums—lending at exorbitantly high interest rates and using practices unchecked by regulators.

“It was an enormous gap in the financial services industry, and provided a big opportunity,” said Samit Ghosh, Ujjivan's founder and chief executive .

But providing microfinance services to the urban poor came with the risks of both an untested market and an untested business model. The Grameen lending model depended on the stability of rural communities where residents live for generations. This stability fosters considerable social pressure against individual defaults, since longtime friends and neighbors are held responsible for repayment. In urban settings, by contrast, many poor communities are largely populated by people who have migrated from rural areas in search of work or business. As such, these urban neighborhoods are much more fluid, and the bonds of social accountability much weaker.

After 30 years in the commercial banking space, Ujjivan founder Samit Ghosh was well versed in risk evaluation – and he knew that urban microfinance, like any truly ground-breaking undertaking, carried plenty of risk. But he also recognized the massive need for accessible financial services among the urban poor who were striving to improve their lives and the lives of their children. The key to success, he believed, was to combine the best of what Grameen and consumer banking had to offer. Ujjivan would bolster the on-the-ground customer approach used by practitioners of the Grameen model with a deeply experienced team of banking professionals and a robust data management system. And it would rely on structured market research to identify target customers and build relevant products to meet their needs. By building a strong business and management infrastructure, Ujjivan could achieve both scale and sustainability. From the beginning, Ujjivan set ambitious goals: To break even within three years, and to reach a million customers across urban markets within six years.

EXECUTING TO PLAN

Ujjivan's founders recognized the importance of comprehensive market research and conducted extensive studies using an external firm and its own internal data. The research encompassed family income, education level, standard of living, and neighborhood security and stability issues. What it showed was that the urban markets presented ample opportunity for microlending institutions, with distinct requirements for an impoverished urban clientele. The research effort helped identify where Ujjivan could find its core customers, which markets were overly risky, and which already had ample service from competing MFIs. And it highlighted the importance of managing political relationships.

Urban markets presented ample opportunity for microlending institutions with distinct requirements for impoverished urban clientele.

But Ujjivan's founders' own deep experience in retail banking also heavily influenced the company's approach: While the Grameen model was highly effective in reaching core microfinance customers, it lacked the sophisticated back-end data processing and tracking that enables effective measurement and efficient business operations. To gain scale on a sustainable basis, Ujjivan set out to establish create a hybrid microfinancing model which would employ the technology, tools and professional management practices of consumer banking alongside the highly personalized and community-based Grameen approach to customer outreach. By doing so, the company was able to shift from startup to profitability within five years while making effective, measurable gains in its social goals.

In 2005, taking what it learned from the market research, Ujjivan launched an 18-month pilot across 13 branches in Bangalore. It selected stable, under-served markets, and invested in a sophisticated customer relationship tools and data management systems that offered detailed, timely insights into how the business was doing.

Product delivery quality was a key focus. Ujjivan's research showed that customers of MFIs often dropout of the program due to dissatisfaction with customer service. To address this, Ujjivan was among the first to develop a full-fledged customer service-training program that put a priority on treating customers with the same respect that any bank would offer its most affluent patron. Ujjivan also made it policy to proactively pursue any customer complaint.

Developing products that were relevant to customers was another priority. Urban dwellers were more likely to be salaried, rather than self-employed, translating into greater demand for loans to pay for housing, healthcare and education bills than found in rural communities. Loan size was also a point of differentiation; higher costs of living in cities required larger loans to meet their needs. Ujjivan recognized early that its goal of financial inclusion couldn't stop at micro-credit, and partnered with leading pan-India insurance companies to create affordable life insurance.

Finally, the pace of urban living demanded a different approach to microfinance delivery. The busy schedule of customers employed in factories or as domestic workers, made the hour-long weekly group meetings common with rural MFI representatives impractical. Ujjivan addressed this by scaling back such meetings to a half hour and shifting them, with some exceptions, to a monthly schedule.

Early in Ujjivan's development, Ghosh recognized that to attract the right employees, he'd have to offer competitive salaries, and training. "If we wanted to provide the best services to our customers, then we had to have the best motivated employees," Ghosh said.

To provide a strong foundation, Ujjivan hired leaders from the banking industry who could offer deep industry knowledge and retail experience. Drawing on this experience, the company

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SAMIT GHOSH
FOUNDER, CHIEF EXECUTIVE
UJJIVAN FINANCIAL SERVICES

established a robust training program designed to ensure a well-disciplined staff who could administer policies consistently and provide customers with a reliable experience even during periods of high growth.

Motivated employees play a critical role in providing good customer service. Following the example of other competitive retail businesses, Ujjivan put a premium on customer service by setting up a system for complaints to be address quickly.

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Using the combination of market research and the lessons it learned in its test pilot, Ujjivan was also able to expand into markets across India while avoiding those that were already congested by competitors and where the environment was hostile. By diversifying its markets, Ujjivan was also able to minimize the political risks of geographical concentration. And by closely tracking loan processing and payment, the company was able to mitigate the risk of the cash-based loans common in the sector.

PARINAAM

PARTNERING FOR SOCIAL GOOD

A separate, but important partner to Ujjivan, Parinaam operates on grant funding and private donations, partnering with other non-profit groups and service providers in the community to provide a holistic approach to social services for Ujjivan’s customers.

Starting with an eye camp in Bangalore in 2006, Parinaam partnered with local doctors and a local hospital to provide eye exams, corrective glasses and cataract procedures for Ujjivan customers and their family members and now conducts seven health camps each month. Through its health camps alone, Parinaam has served nearly 41,400 people in its initial three years.

Other Parinaam programs include tutoring, work placement, summer camps, educational scholarships and financial literacy. In these programs, Ujjivan customers receive services for free, unless they require services from external providers, such as hospitalization, in which case, those fees are deeply subsidized.

While Parinaam provides much-needed services to Ujjivan’s urban poor customers, it also plays an important role for Ujjivan. By having its employees regularly staff Parinaam events, Ujjivan gets opportunities to connect directly with customers, and gain insights into their lives.

“It helps us to build our community connections from a marketing perspective,” Samit Ghosh said. “Having that close connection with the poor is extremely important to understanding their needs.”

An example of this symbiotic relationship is Parinaam’s program serving the ultra-poor urban communities in select Ujjivan markets. By creating a program that could help stabilize the lives of these ultra-poor women both socially and financially, those women could become Ujjivan customers in the future.

Following a pilot in September 2009, this ultra-poor program, which has been awarded a \$100,000 grant from the Michael & Susan Dell Foundation, offers comprehensive social services for the whole family. Services include health care, educational support, job development, childcare, financial literacy training and social support programs for substance abuse.

In its pilot program, Parinaam took on 59 women, and 34 women completed the full year of programs. Of those, 25 have transformed their lives and are now qualified Ujjivan customers.

MOVING TO MATURITY

Globally, the microfinance industry has grown at an exponential rate over the last three decades. A 2011 Microcredit Summit Campaign report showed that more than 128 million of the world's poorest families took microloans in 2009, up from 7.6 million in 1997¹. The impact is significant: Those 128 million families account for more than 641 million people, greater than the populations of the European Union and Russia combined. The growth has attracted the attention of investors, garnering more than \$11 billion in funding in 2008 alone².

In India, the landscape is changing with non-banking financial corporations (NBFCs) like Ujjivan commanding 81 percent of the microfinance market³. Compared to the numerous small- and medium-sized non-profit players these for-profit institutions have replaced, these NBFCs have attracted equity investors and shown strong profits, with total yields of 29 percent, thanks in large part to fee-based revenues rather than higher interest rates⁴. But with growth has come controversy, as non-profit and for-profit-structured microfinance companies compete with government sponsored "self-help" groups. Moreover, in some cases unscrupulous lenders have represented themselves as microfinanciers, leading to charges of unfair rates and treatment of customers struggling to repay loans. This controversy has led to an uncertain political environment and fueled a call for greater scrutiny of microfinance firms, stiffer regulatory requirements and caps on interest rates.

The crisis in the microfinance industry has attracted more governmental scrutiny and a call for heightened regulations. In some ways, it also created a public relations black eye for the sector and its commitment to fairness in dealing with its customers, and, by extension, its social mission. But overall, these developments mark a natural period of transition for a still-young industry, as players attempt to provide greater transparency into their operations, and to define uniform industry practices, and standards for reporting on the social impact of their work.

Throughout the controversy, Ujjivan has maintained a leadership role as an advocate for the urban microfinance sector. It has also led the effort to set standards for transparency and customer protections, both through the global Smart campaign, which seeks to promote standard client protection practices throughout the microfinance industry. Ujjivan has pioneered collaboration among MFIs and working closely with state governments through the Association of Karnataka Microfinance Institutions. In India, Ujjivan has also taken the lead through the Microfinance Institutions Network to introduce Credit Bureau services in an effort to avoid credit overextension. They have also started a unique video-based financial literacy program to manage their customer's debt.

Ujjivan's rapid growth and profitability have helped ensure its long-term sustainability and draw attention and attention from both venture capital and institutional investors.

CONCLUSION

In six short years, Ujjivan has successfully pioneered a new model for microfinance that serves urban customers while marrying a high-touch, relationship-based model with the professionalism and back-end tools of the commercial banking industry. With its industry-leading reputation, a national footprint and nearly a million customers, the company has set a new standard for success for socially-driven microfinance institutions.

For the Michael & Susan Dell Foundation, making an equity investment in Ujjivan put the company's twin goals – life-changing access to capital for the urban poor and sustainability as a business – on par with one another. By initially seeking social investors who, like the Dell family foundation, were eager to see this new model reach commercial viability without losing sight of its social goals, Ujjivan has built a strong base. Its rapid growth and profitability have helped ensure its long-term sustainability and drawn attention and investment from both venture capital and institutional investors.

Finding innovative opportunities for growth will be critical as the company matures. To this end, Ujjivan is using market research as a guide to developing additional products that better meet the needs of its customers. For instance, while the group-lending model works well for urban poor customers in initial loan cycles, the approach has limitations as loan sizes increase. Going forward, Ujjivan will shift away from the group model after the third or fourth loan cycle, instead issuing loans to individuals who have developed a credit history. These individual loans, which will account for a mere six percent of Ujjivan's portfolio in 2011, will be a key growth driver, accounting for as much as 80 percent within the next five years. As the customer base matures, Ujjivan's average loan size is expected to more than double from 10,000 rupees to 20,000 rupees.

Ujjivan is now looking for opportunities to deepen its relationships with customers through additional products, such as other types of micro-insurance; remittance services and a government-subsidized pension program; longer-term higher education and housing loans; and a secure and affordable savings system for the urban poor (which will depend on regulatory changes that would allow the company to accept savings deposits.)

¹ Larry R. Reed, State of the Microcredit Summit Report 2011, http://www.microcreditsummit.org/SOCR_2011_EN_web.pdf

² International Association of Microfinance Investors, Microfinance Overview, http://www.iamfi.com/microfinance_overview.html

³ Devyani Parameshwar, Neha Aggarwal, Roberto Zanchi, Sagar Siva Shankar, MicroBanking Bulletin, Issue 20, September 2010. "Indian MFIs: Growth for Old and New Institutions Alike."

⁴ Devyani Parameshwar, Neha Aggarwal, Roberto Zanchi, Sagar Siva Shankar, MicroBanking Bulletin, Issue 20, September 2010. "Indian MFIs: Growth for Old and New Institutions Alike."

⁵ Social Performance Management report, Delphi Research Services Pvt. Ltd, 2010

KEY LESSONS

Choose the right investors. Part of Ujjivan's success was driven by the fact that it partnered with like-minded investors who shared the company's dual goals: creating a sustainable, for-profit business model to provide microfinance services to the urban poor and helping improve their lives through access to adequate housing, education, healthcare and more.

"Ujjivan was able to bring mainstream best practices of a consumer bank into microfinance while balancing its social mission," said S. Viswanatha Prasad, founder of Caspian Advisors and co-founder of the Bellwether Microfinance Fund. By carefully setting expectations among its investors for modest, but sustained growth, Ujjivan was able to avoid any pressure to drive higher profits at the expense of the company's social mission, Prasad said.

Take a leadership role. Ujjivan took a leadership role in tackling the issues of regulation, responsible lending and consumer protections raised by concerns over unfair lending practices in some sectors of the industry. Upon reaching profitability, for example, Ujjivan voluntarily reduced interest rates for its customers. Through its actions, the company was able to be part of the solution, and reinforce its brand to government officials, its customers and potential customers as a valuable industry partner.

Build a strong infrastructure. Decades of experience in the commercial banking industry helped Ujjivan's founders recognize the importance of investing in both employees and technology. Ujjivan made early, significant investments in an information management system that enabled it to access timely, sophisticated analysis of financial activity and customer relationships.

The company also built a team of experienced professionals from the banking and microfinance industries, and compensated them in a way that would make a career with Ujjivan attractive. The company also made investments in a robust training program, which enabled it to have confidence that its policies were administered consistently and that its customers could rely on good service. This approach, in combination with continual investment in its employees, helped Ujjivan gain recognition from the Great Place to Work Institute, India and the Economic Times as the "Best Place to Work in the Microfinance Industry" in 2009. The list also named Ujjivan as one of the industry's best places to work in 2010.

Keep the social mission in focus and gauge its impact. To ensure the success of its double bottom line mission while creating a sustainable commercial enterprise, Ujjivan created the Parinaam Foundation in 2007, a separate, non-profit organization that provides social services to its customers and their families. This structure enabled Ujjivan to focus on its microfinance business, while accomplishing its social goals through its strategic partner, Parinaam. This alliance has helped Ujjivan deepen its relationship with its customers, who visit their local Ujjivan branches for Parinaam health fairs, classes and other services.

Upon reaching profitability in 2010, Ujjivan also established a "Social Development Fund," allocating funding for education-oriented needs identified by the local branch staff and customers. In this way, Ujjivan has created an innovative opportunity to directly make a social impact in the lives of its customers while simultaneously involving them in the process.

For Ujjivan as for the industry generally, the social impact of microfinancing can be difficult to measure. An initial study conducted by an external agency on behalf of Ujjivan reported several positive outcomes, including increased monthly incomes after the third loan cycle and improvements in well-being. The study also found that the short-term ability of microfinance to drive social change is limited in the absence of an accompanying raft of anti-poverty efforts.

Additional studies of customers, including tracking over time, will elucidate Ujjivan's impact over the long-term, and help the company adjust its efforts to improve outcomes on both fronts.

Nonetheless, Ujjivan has gained widespread recognition for its commitment to transparency in reporting on social performance indicators, winning the 2009 Social Performance Reporting Award (Gold), from the Consultative Group to Assist the Poor (CGAP) and partners including the Michael & Susan Dell Foundation, the Ford Foundation, and the Social Performance Task Force (SPTF).

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