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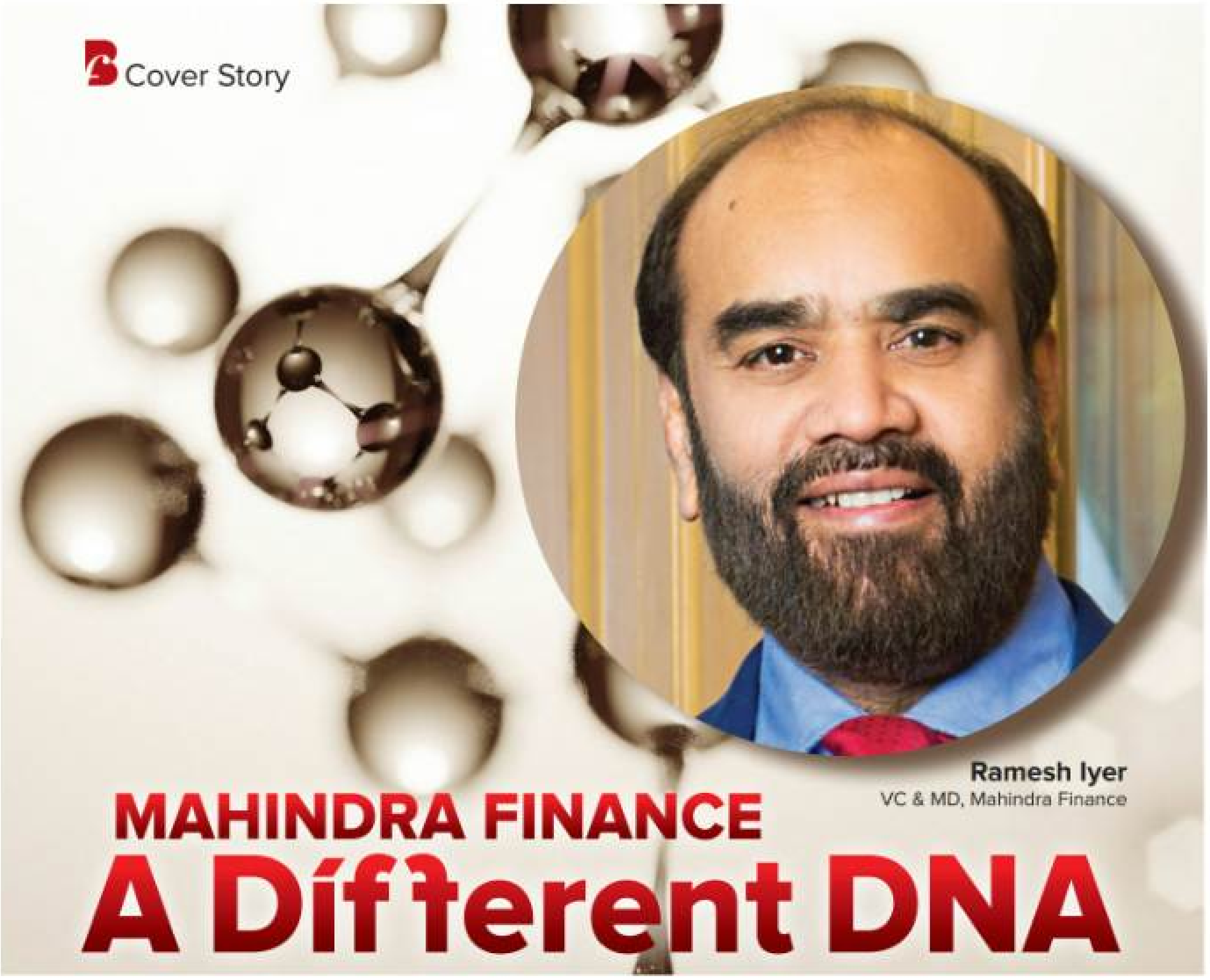
VC & MD, Mahindra Finance

MAHINDRA FINANCE
A Different DNA



Ramesh Iyer
VC & MD, Mahindra Finance

MAHINDRA FINANCE
A Different DNA

Mahindra Finance deliberately chose to start in a difficult market – rural India. Yet it has blossomed and made a mark for itself. And it continues on a fascinating journey towards the known unknown. The organization's dynamic approaches in terms of business model, people, technology, data and risk, is a template for those who aspire to think differently to change the world:

Mahindra Finance started off in 1995 with the objective of financing vehicles in rural India. A tough call in those days, where masses were migrating from the villages to the cities. Today, in terms of people, Mahindra Finance has over 30,000 employees and over 8 million customers, which is quite an achievement.

Won't there be quite a few companies that have as many customers in just the metro cities of India? What makes Mahindra Finance stand out is that its customer base is spread over 380,000 villages where it is impacting lives of people with low income, low literacy and low access with a variety of financial services.

For sure, Mahindra Finance has chosen to strive where everyone is choosing to slide. Let's find out how they are doing it.

LEARNING ORGANIZATION

Every year has been a new learning on some way or the other. The market teaches lending through partnership...the market teaches you how access a customer's individual or entrepreneurial capability rather than just his financial capability. Ramesh Iyer, Vice Chairman & MD, gives an example: "Many of the people to whom we lend are first time borrowers - they may not have a financial statement to prove their credit worth, but they have competence and capability to tell us how they will use the vehicle, what the vehicle will earn for them, what is the cost of running the vehicle and therefore what is the surplus they will generate. That helps us to understand the use of the vehicle and therefore to understand how our collections are likely to be."

Learnings are shared across geographies and product categories – the auto team learns something from the tractor team, who in turn learns something from the vehicle team, and so on. Our people take such customer insights when they design future product, policies, process, risk matrix, etc. The HO becomes a consolidating unit of taking in these inputs from various segments. The company has a formal matrix for this learning and exchange, which is an interesting example of bottom-up learning.

EMPOWERING WOMEN

Rural business is predominantly male driven. And a large percentage of the employees are males. What has the organization done to engage with women customers and women employees?

One thing that the lender has done is that it got some special funds from International Finance Corporation (IFC) which are allocated for lending to women. It created programs to provide loans specifically to women, either to set up of a small business, or to buy some vehicle, etc. So that was one activity to acquire women customers. As for having women employees, the lender has identified certain roles, such as cashiers at the branch, the back-office customer experience or customer service executive, internal auditor, etc. There are many such roles that have been identified at branch level which are very women oriented.

BEING EMPOWERED BY WOMEN

Ramesh shares an interesting insight: "We found, very interestingly, that some of our women branch managers are out performers. We have identified 2 reasons. First, by nature they are a little more disciplined, and second, they also bring in discipline in their way of communication in the branch. If a branch manager is a woman, the customers are much more well-behaved, and it brings a natural discipline in the branch. The 3rd thing is when women reach out to defaulting customers and explain to them the need to settle their loans, it is probably getting heard better maybe because the woman in the branch is reaching out to the women member of the family. There is lot of emotional connect that a woman brings in which is so heartening to note".

Raul Rebello emphasizes the use of contact center to educate customers about the importance of credit history for future borrowings

Women having a positive impact on the branch is a long-drawn conclusion, but the woman branch managers making such a big difference is a learning in the last 1-2 years for Ramesh.

MOBILE APP

Mahindra Finance is seeing material shifts in the way consumers want to engage with the company. Early the customer engagement was largely physical, whether for customer on-boarding or EMI collections.

Raul Rebello, COO at Mahindra Finance, gives a big hand to the government for speed tracking the digital ecosystem, particularly Jan Dhan, Aadhar and Mobile. Those have become the railroads for engaging with customers. Raul also acknowledges the impact of covid in digital transformation. "When people were forced to stay in their homes and make payments, we were forced to also keep the lights on in a period when our branches were closed, etc. The mobile apps became that much more relevant for Mahindra Finance. We had hardly about a 5% adoption pre-covid, that number is close to 30% active users and 50-60% registered users."

Raul acknowledges that for a customer to download a mobile app means giving precious real estate on the phone, which is not easy. That explains why the company sees prolific usage of its website. "I think that is beneficial from a transaction point of view. We see a lot of customers come on to a webpage to meet their requirements. What one can do on a webpage and on an app is pretty much similar."

What Mahindra Finance has done is make both the app and the website multi-lingual to enhance usability. Currently the app provides for 7-8 languages, which is very likely to include more over the coming period of time.

APP USAGE

The app's first usage is content dissemination, such as giving customers a view of the products and services, the eligibility to get a loan, how to make payments, etc. Now Mahindra Finance is going beyond. Says Raul: "Now that we have 8 million live customers to date, what we're trying to do is make those customers complete a lot of the self-service elements of the loan journey on the app itself. So instead of submitting documents again, for a personal loan, instead of coming to the branch and checking eligibility, we will very soon use the functionality to do this on the app. Right now, besides, collections cross-selling is one of the biggest initiatives."

The company already has a video KYC process alongside OTP based authentication process. The next step will be building chat and voice capabilities. Right now, what works is a missed call, which connects the customer to the dedicated contact centre, which speaks 9 languages.

Where voice bots will effectively get used is largely the collection function.

CONTACT CENTER

Mahindra Finance runs a 250-seat contact centre which is largely for collections. The second most important function is cross sell, which has been ongoing for the last 5+ years. Raul says the current cross-sell ratio is 60% of existing customers, who take another loan.

Raul deep dives into collections: "What we wanted to do is very earlier on in the collection journey is educate customers on the benefits of timely payments. Many of our customers have seasonal cashflows as many are associated with the agriculture sector. We are the leaders in tractor financing. So, part of the educational objective of the contact centre is to talk to customers about how they can pay their instalments basis their cash flows. For any customers who has been unbale to pay as per schedule , we educate them on why they need to keep a good credit record as it will help them in the future to get personal loans, housing loans, etc."

SOURCING CUSTOMERS

At Mahindra Finance, a lot of the leads come in from the vehicle dealers. Today, about 80-85% of the customers come via dealerships, while only 15-20% is what we organically source. The dealers are not only Mahindra dealers, but also those of Tata Motors, Maruti Suzuki, etc.

The lender is trying to reinvent itself to reach out directly to customers. For this, it has set up an open market team, which does loan mela from place to place. Of the 6 lakh villages in India, the company has customers in about 4 lakh villages. Many of the existing 8 million customers are brand ambassadors, because they've seen how Mahindra Finance has been supportive in their own journeys.

To increase sourcing, Mahindra Finance is also ramping up its branch network. It currently has almost 1400 branches, and the goal is to take that up to 2000. Raul describes the branches as acquisition points. "With rural customers, one can't be a pure play digital provider as they have seen many cases of people have come and defrauded them. So, for them, having a physical infrastructure gives that much-needed element of trust. A physical branch also gives us the capacity to cross sell, especially that we are going into SME and LAP."

Ramesh Iyer has learnt a lot from customer stories about how they will use the asset and earn an income

The branch design too is undergoing a change. The earlier design was laid out to collect money, where the whole branch is centred around the cashier. Now customers can come in and engage with a kiosk or engage with a customer facing desk. We are going to create digital kiosks in vernaculars where customers also get financial education. Naturally the floor space of the branches too is rising.

Raul dives deeper: "Customers don't just come alone; they will come with their families, and their children today are very versatile, they're helping the older generation get digitally educated. So, it is not just the customer, but the household that we have to focus upon."

Yet another approach is to shift branches from 1st/2nd floor to ground floor, so as to have easy access, particularly for the elderly customers. Further, all new branches are coming up only at ground floor level.

WOMEN CUSTOMERS

A lot of Mahindra vehicles – both passenger and tractor - are largely used by men and hence also bought by men. But what is seen today in the passenger vehicle space is that, vehicles like XUV7OO, XUV3OO, etc. now appeal to women. "We realized that we need more women employees in our offices to engage with the women customers. So, what we have taken upon ourselves is to recruit women employees to manage our new mass, affluent products," says Raul.

Further, seeing the credibility and track record established by women borrowers in the microfinance segment, Mahindra Finance is now targeting them too and women employees will facilitate that business as well.

CO-LENDING

Co-lending is very relevant today though it is taking time to pick up. It is absolutely relevant for an NBFC which has a paucity of capital but has distribution as it creates a win-win partnership.

As for Mahindra Finance, capital is not a constraint as it is one of the best capitalized NBFCs - upwards of 27-28%. "So, we would like to grow our own book itself. With existing capital, within the regulatory framework, we can double our AUM by 2025.

Mahindra Finance today is looking at partnerships with PSU and other big banks to bring in rate sensitive customers into either a co-lending or co-origination model.

Adds Raul: "A co-origination route is attractive for us because we're not putting our cost of funds on the table, we are only bringing in the ability to source customers and collect from customers and make a good profit. Nationalized banks may not be able to be as versatile and participate in lending at an outlet, we are able to that's our skill set. And the fee is very attractive for us."

Raul also emphasizes that systems on both sides have to speak very closely to each other.

EXPLOITING CUSTOMER DATA

Raul emphasizes that Mahindra Finance and the Mahindra Group is a very brand conscious and conservative organization. It always looks at new enablers from a medium to long term perspective, rather than some quick kills. Raul deep dives: "Within the

Mahindra Group, we have the more than 100 companies in auto, technology, agri, etc. The ability for us to ride on all the other group companies' data is there. What we do as a group is take a customer's consent to be evaluated and offered a financial product. With the newly launched Scorpio-N, we had 1 lakh customers who, you know, registered in a matter of an hour. What we did was, we created a very specific page, asking customers for their consent whether they would like Mahindra Finance to also partner with them, and only then roll out an offer."

ANALYTICS

Raul deep dives into data collection and analytics: "We understand Bharat, and that was our tagline. Over the last 25 years, we've engaged with millions of customers, and we have collected from each of these regional and diverse geographies, a lot of data on what ticks for a specific customer segment. We have a deep understanding from a risk framework and a propensity to cross sell and upsell. Where we are right now is how do we institutionalize a lot of this data? How do we make informed calls? This we have done over the last one year. The head of our data team is a Harvard educated MBA, and he and his team have built scorecards for us for each customer who gets on-boarded. We have an in house developed scorecard, which also takes in bureau data."

The analytics journey has a long way to go. Mahindra Finance would have captured, say 25 variable variables that are accessible to the frontline, but probably use only 10 of those 25. Raul sees his job as institutionalizing all those 25 variables to make the models really accurate.

Going beyond customer analytics, data is also used extensively when opening a new branch by triangulating a lot of datasets such as bureau data, default rates, CD ratios, etc. The team at Mahindra Finance triangulates the outside data with the comprehensive inside data.

FUTURE CONTINUUM

Raul peeps into the future: "Mahindra Finance is reinventing itself for the singular purpose to be relevant to the end consumer. While we are digitizing and becoming prolific in technology, the North Star for us is to be relevant to our customer segment that has been the semi-urban and rural customers. We have a lot of them in the informal as well as formal segment and they will continue to be our focus. But we're also moving up the value chain because Mahindra as an auto company is reinventing itself with urban and mass affluent. And we have to be relevant to that emerging segment. Whatever we are doing today in reinventing ourselves, it is for the sole purpose of being relevant to the roots and nearer to the customer, as well as being relevant to the auto and mobile world."

EVOLUTION OF RISK MANAGEMENT

One of the biggest risks that Mahindra Finance faces is that it does a lot of lending to first-time borrowers. So, the company repeatedly asks these 3 questions: (i) Will this segment be there in future? (ii) Will they survive? (iii) With so much of pressure that is happening on the earnings -with covid and inflation and other challenges - are they becoming more vulnerable than before?

Even earlier, the first-time borrowers were vulnerable to market events, but the cycles being short, the affected people could come out faster. Also, their margins were healthy and so they could absorb shocks for a period. Now, a lot of people operate on very thin margins, and any shock pushes them so much behind that bounce back takes a very long time...or the bounce back doesn't happen.

For example, post covid, many of the segments diminished as individual businesses. So, this is one new question that is being raised: What is the segment which is vanishing? So that is one.

Ramesh carries on: "The second risk that we are contemplating and querying and discussing is that the overall industry cycles have become very short. Earlier we thought that now we're coming out of a bad time, so the next 3-4 years will be good. That has now become 6 months or one year. Cycles are shorter and less unpredictable. What does that mean, it means our business models have to become super flexible."

A rigid model is sustainable only when the cycles are longer. This means that people have to become multi skilled. So, one of the tasks in a flexible model is multi skilling of people. Explains Ramesh: "In a rigid model, the lender and recovery person can be separate. In a flexible model, if tomorrow I am announcing that we are going to stop lending in a particular branch, then how we will utilize the lending staff?"

The answers are not easy. Should one build people and processes within or should one partner outside, where discontinuities can be handled easily. But with partnerships, the costs and the risks, both rises, as both sides are looking at it from their own perspectives.

The third risk is risking costs. "We know that rural is little inefficient when it comes to cost and the margins are under

tremendous pressure. Borrowing cost keeps going up and lending rates don't catch up so fast. Also, the operations cost and regulatory cost are going up, putting pressure on margin. So, the biggest risk is if margin is under pressure, then how do you bring in productivity? How do you move from physical to a tech driven model? How do you use data and digital more sensibly and therefore shift decision making to being based on data, and bring down costs?" explains Ramesh.

PEOPLE RISK

He explores a fourth area of risk. People today don't want to build a career. They don't want to stay with you for 20, 25 and 30 years. They think 5 years is too long. He raises questions: 'So how does one keep motivating people and keep them engaged to continue longer with you? What are the new opportunities that you can give them? We are a single product vertical and not a bank that has multiple products. So how do you give career direction to people? How do you keep them motivated and engaged?"

How is Ramesh taking on these risks? One is giving them a new geography and larger responsibility alongside a promotion. Another is when introducing new product, give them an opportunity to head that product. The third is through various social engagements to engage them, and thus retain them. Ramesh explains how: "When we do our CSR initiatives, we try and see how our employees can participate because people also want to have an emotional connect to the society and they want to feel respected that we contribute back to the society."

Further, if there are some really talented people, the company send them across to different group companies, and the reverse also happens. One aspect of career security for any employee is to feel relevant even as technologies and business and business models change. Apart from the person himself, the management is equally responsible to provide that opportunity of learning. These are some ways the company is trying to overcome some of these challenges.

CONCLUSION

Clearly Ramesh Iyer and his team are not running the business on a textbook model. The team is deliberately not trying to be the first or the fastest, quite unlike the fad today, but definitely it has mastered the art of tackling every problem and every opportunity in a thoughtful manner, aiming for and achieving a rare balance between values and vision.

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A Harmonious Formula

Raising funds, maintaining liquidity, controlling costs, navigating sudden twist and turns, and all the while supporting the business – these are the musical tunes for the CFO of an NBFC. Listen to the financial music that Mahindra Finance's CFO Vivek Karve is playing:

Mahindra Finance is a large company by itself, and also being part of a large group, ie the Mahindra group, which is known for its extremely high standards of corporate governance and transparency. How does this impact fund-raising? Explains Vivek Karve, CFO: "Given the conservative capital structure policies that we follow, it means that our capital adequacy ratios are quite healthy at all point in time raising funds has not been an issue for us. However, the money market and the banking credit is such a large ocean, we will somewhere have to be in line with the overall trends when it comes to the interest rate trajectory."

Karve believes that Mahindra Finance will be in the top 3-5 fundraisers in terms of the cost of capital, given its extremely strong balance sheet, very good healthy credit rating, and the strong parentage of M&M. So, where does it borrow from? "Definitely banks are an important source of borrowing for us. Around 1/3 borrowing will be from bank. Another 1/3 would be market borrowings in the form of NCDs. Another source of borrowing is securitization, which account of around 13-14%, which again comes from the banks. We are also in a deposit taking NBFC and around 10 - 12% of our liability book will comprise the FDs that we gather from general public. There are ICDs, ECBs and retail debentures as well. So, that is the broad landscape of the borrowings," explains Vivek.

Over a period of time, the company has been nurturing newer sources of borrowing, and ECB is one source has been developed over the last 3-4 years. The finance team keep rebalancing based on market conditions. Last year, the banks and the market were flushed with funds and credit was much cheaper. So, the company got over indexed on the bank and market borrowing. In the current year with so much of volatility in the in the interest rates, the larger source of one has been the bank borrowing instead of being the market borrowing.

BANKING RELATIONSHIPS

Vivek asserts that the company has a deep relationships with its bankers, the key ones being SBI, BOB, HDFC Bank, Axis Bank, ICICI Bank, and many large public sector banks. They are the largest lenders to Mahindra Finance, both for the term loans as well as securitization. Institutions like LIC and SIDBI are also significant lenders. The tenure of the company's loans generally ranges from 24 months to 60 months, with an average maturity in the range of 2.5 to 3 years, which matches the average maturity of its assets.

RISING COSTS

Pre-covid period, the operating cost ratios were around 3%. During the covid period 2020 to 2022, those ratios dipped, because mobility has almost come to a standstill. So, as a result of that in 2021, the opex ratio was 2.2 which increased to 2.7 in 2022. "The guidance that we have given to the market is that it is likely to remain in the 3-3.1% bucket in the in the current year as well as at least the next year, because of various reasons. One is that the mobility has come back, and two, the disbursement growth is much, higher throughput leading to higher traveling and headcount"

In the area of IT, Mahindra Finance is investing significantly in modernizing the entire IT stack. "So, whether it is loan origination system loan management system, we are also revamping our underwriting engine and onboarding various third-party micro services using APIs. All this also leads to certain cost. In the area of collection, we have started a contact centre and have really upped the ante on the recovery module, where we are using arbitration and litigation to improve collections."

Vivek Karve highlights the importance of training branch accountants as they are at the fore-front of customer servicing

In addition to that, the new businesses that Mahindra Finance is setting up - leasing to SMEs as well as the unsecured consumer finance business which is digitally enabled, requires upfront investments for creating new organizational structures and setting up new IT infrastructure. "Our promise to the market is that while we make these investments, our cost ratios will be elevated come 2024-25 or maybe another year, and thereafter our cost ratio should normalize to around 2.5% because the economies of scale will come in and the growth will also start showing," explains Vivek.

FALLING COSTS

One typical cost which has come down is that of security guards, as the company has now installed CCTV cameras in all branches and have taken away the security guard altogether. Also, as the digital collection ratio picks up, the cost of collection by means of using physical resources will come down over time.

LIQUIDITY MANAGEMENT

Just before covid, Mahindra Finance was not maintaining significant liquidity. It used to be in around ₹20 billion because there was ample banking liquidity and nobody had tested difficult periods like covid which created a sudden shrinkage in the liquidity. "We did 2 things. First, in the month of July & August 2020, we raised fresh capital to build that liquidity chest. And then we had a board approved policy which mandated us to maintain at least a 3-month liquidity chest, which should take care of next 3 months of debt obligations, including interest servicing, and all operating costs, which means that if the collections will be zero, how much money do I need to have today to pay for next 3 months obligation? During the COVID period, we went as high as even 4-5 months liquidity," explains Vivek.

WORK FROM HOME

The biggest change that happened during covid is that payment, borrowing and disbursement had to be continue, and hence documents started flowing in digital mode. Documents would either get scanned and then mailed, then the authorized signatory would approve, and then the payment would happen. The accounts community was quite adept and quickly got used to this new way of working, even at the branch. Further, video recording was used to ensure accuracy in cash counting.

Adds Vivek: "Overnight we enabled our people to access the servers in a very secure manner, so that data security is ensured. Of course, this was done for business and other teams as well, as almost everybody was working from home."

TRAINING & LEARNING

What Vivek sees is that training is required at the grassroot level. The branch accountants need to be trained because they are the people who are at the fore-front of customer servicing, and they are also critical to achieve the right level of governance and controls. And therefore, they must need both functional training and behavioral training. So what Vivek did in collaboration with the HR team, is developed modules for both kinds of training.

The team developed criteria as to who qualifies to undergo this training. The training was sequenced with those new in the organization getting trained first. Also, the company initiated a 'Train the Trainer' campaign. Initially the training was done online, and now it is done in hybrid model. This initiative will continue to be a work-in-progress.

RECRUITMENT

Fortunately, the people turnover in accounting and finance has been historically very, very low. And when it comes to recruiting, the company is far more focused on recruiting locally, because the local nuances are important for it. So branch accountant or cashier or back office would typically be sourced from the pool of local talent.

LOAN TRENDS

So, on an average the door-to-door maturity of the loans that the company grants is 45-48 months, which means that the average would be 24-27 months.

The average loan amount is also going up because of inflation. Actually, there are 2 aspects here. One is a mix impact and the other one is the inflation impact. So, as the share of the affluent business in the car segment slowly starts going up and those affluent vehicles are always a high-cost vehicle, that increases the average ticket size. Also, for the same vehicle, loan amounts are rising as the OEMs keep raising the prices, keeping the LTV discipline intact.

Today Mahindra Finance is predominantly vehicle finance company, with vehicle finance accounting for 96% of the book. The balance is SME loans, leasing, and consumer durable unsecured loans.

During the pandemic period, the lender had gone very slow on the CV business as the CV segment was also experiencing a down-turn. But now in the current year, with uptick in capacity utilization, it has again increased focus on CV. So, by the end of this year, the CV percentage of the overall portfolio may slightly go up again.

Among various brands, about 45% of the overall book is represented by Mahindra vehicles. "75% of our book is in semi urban and rural; so we are truly rural. We're truly a company that is anchored in rural and semi urban. We're happy and proud that our business module is a meaningful part of the overall financial inclusion agenda of the Government of India", beams Vivek.

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Smart Distribution

Mahindra Manulife Investment Management is playing the distribution game smartly by expanding geographically and leveraging technology to empower agents:

In the financial services family within Mahindra, Mahindra Manulife Investment Management is just over 6 years old. "We launched our first fund in in July 2016, and in 6 years, we've grown to roughly ₹95 bn in assets," says the smiling CEO of the company Anthony Heredia.

For most asset managers, the first few years is always dominated by liquid and fixed funds. Equity is a longer-term asset, and it takes time for people to trust track records. In that sense, MMIM is relatively fortunate as 75% of the overall AUM today is actually equity, adds Anthony.

MMIM manages roughly 19 funds of which 13 are effectively equity or variants of equity. It is present in 65 locations with its own offices. However, like the MF industry, it effectively sells through distributors and investment advisors and hence access customers much beyond those 65 cities.

The company has a team strength of around 200 people, the bulk of whom are effectively in sales and marketing roles. They are spread predominantly across investments, operations, compliance and risk. MMIM also has a small call whose focus is to deal with any aspect that CAMS cannot handle. CAMS is the register and transfer agent which serves customers through various channels.

KEY CUSTOMER SEGMENTS

Since MMIM is predominantly equity focused in terms of AUM, the largest segment is individuals. "We manage money for all customer segments, whether it be

individuals, partnership firms, corporations, banks, etc. But the bulk of it is - close to 500,000 customer folios – are individuals, in the retail and mass affluent segment. And that will remain our focus for a very long period of time," explains Anthony.

BRAND LEVERAGE

Fundamental synergy is the brand, says Anthony. "We essentially manage money for people - it is a very significant fiduciary responsibility. The intangible aspect is that of trust. And that is where the brand plays a very, very significant role, especially for someone who's starting off relatively recently like us. For us, irrespective of the target market, the Mahindra brand has the most significant value. And I would argue, we're fortunate that we have the luxury of a brand that is as recognized in Mumbai as it is in Jabalpur. In rural areas, our brand is perhaps even more recognised relative to some of our largest competitors."

Given that a large part of our industry operates a lot more in urban cities, the brand itself is a massive competitive advantage, he adds.

DISTRIBUTION

MMIM runs a b2b model and has distributors that are in metros as well as semi urban cities. Anthony argues that in rural India, the distribution footprint of the MF industry is not very significant, it will take some time. 'But one of the advantages our industry does have, and it has been only augmented during the last 30 months because of covid, is our ability to allow customer irrespective of location to transact or interact with us uniformly. So the ability for the customer experience to be consistent, whether it is semi urban or rural or top 5 city or metro is very easy because effectively the distributor or the investors themselves use a platform that he accesses, irrespective of where he is actually based," explains Anthony.

The company's geographical split is about 70-30, ie 70% from the top 30 cities and 30% from beyond. Adds Anthony: "We took a call to be as broad-based pretty much from day one and therefore, a lot of our 65 offices have been around for 3-4 years. It's not as if we started with 5 and now we are 65; we decided that we would be reasonably aggressive about our pan-India plans from the beginning."

Anthony Heredia solves the whole infrastructural bottlenecks of the past by using WhatsApp to deliver educational and promotional material

GEOGRAPHY OF BUSINESS

Geography of business is not any different for MMIM as compared to the rest of the industry. Mumbai Delhi, Bangalore, Kolkata and Chennai are effectively the 5 largest cities for the industry. Maharashtra obviously has a much larger customer base because a lot of the institutional business flows from Mumbai. Outside of these metros it is Gujarat with significant business not only from Ahmedabad, but also Surat, Baroda, Vapi, etc. Next is Telangana & AP. Top 10 would include Punjab, UP, Kerala, Telangana, Karnataka, TN, Maharashtra, Gujarat, West Bengal, etc. With the exception of Gujarat and UP, the bulk of the business comes from the main city in that state.

TECHNOLOGY AIDS EDUCATION

MMIL needed a unique approach to educating customers and distribution partners. Rather than create another multi-functional app or web portal, it has started to use WhatsApp as a very powerful medium to deliver all promotional and educational material (audio & visual) to distributors as they meet prospective investors. This solves the whole infrastructural bottlenecks of the past, ie, that of having enough brochures.

Explains Anthony: "We started this 4 months ago. We made sure that what we put through the funnel is well tested before we, roll it out for everyone. What we deliver genuinely needs to make business sense to the distributor and to the end customer. We piloted it with 100 distributors and then ramped it up to 1500. We can ramp up further and make it available to all our 9000 distributors. Every month we get feedback about what kind of information is being accessed which helps us reorient the way the menus are structured, etc, to make the system more usable."

One learning for MMIM is that while there are brochures and one-pagers on each fund, a fact sheet has now become a very common one place where a lot of information about fund performance and portfolios is available. But it is not very easily navigable in a sense that information is spread across pages and the agent might have to go from page 1 to page 18 of a pdf. So what did MMIM do. Anthony shares: "So we created a digital fact sheet, so that navigation is instant through clicks. Whether the user wants to see performance of funds or portfolio changes in time, he can go directly to that section with just one click, rather than having to go through each portfolio and try to figure it out himself. So that was something that we created."

TECH MINDSET

More than understanding what technology you can deploy, is the mind-set, says Anthony. "I want every colleague to have the mind-set that technology is going to make us much more efficient and optimal. And therefore we can deploy it to make work simpler. As long as we have that culture in the organization, innovation will become very automatic. For example, today, so much data analytics is available for the investing teams to leverage and do research in newer ways."

MMIM also leverages the Mahindra technology ecosystem. Mohit Kapoor, who is the group CTO, is also very focused on financial services. There's a lot of investment that the group is making. Secondly, Manulife has a significant expertise in how technology can be used in the investment management world. So the inhouse teams also talk to the technology teams in Manulife, especially in areas like risk management.

TAPPING THE TECHIES

Anthony thinks that the techies are a massive opportunity, but also a challenge for the funds industry. He expands: "How do we become relevant to the millennials? If you split age wise, the people who invest in mutual funds are predominantly that start above 30-40 years of age, whereas a large segment of the IT industry is younger. As an industry body (AMFI), we have been doing the campaign 'mutual fund sahi hai'. I believe that it is SIP that will bring all of those people into the mainstream, because most of them are never have the time or inclination to become financial specialists. One sign up and then month after month investment over time – that creates wealth that is aligned to a goal - that is the kind of things I think that they will lap up."

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An Intelligent Broker

Vedanarayanan Seshadri, CEO of the insurance broking arm of Mahindra Finance, reveals trends in the non-traditional business opportunities and the enabling data and technologies:

In financial year 2021-22, Mahindra Insurance Brokers Limited (MIBL) brokered roughly ₹28 billion of premiums. This year it expects to reach ₹40 billion, reveals its CEO Vedanarayanan Seshadri (friends call him Veda).

MIBL is geographically present across most of India, with particular strengths in North, West and East. It has a network of 450 branches, which cover close to 200,000 villages. The retail distribution spans across rural, urban and semi-urban, but 70-80% of the business is semi urban & rural, given the large customer base in tractor and commercial vehicles.

Among corporates, MIBL's largest customer segment is the manufacturing sector. Property, Engineering, marine are the traditional areas which continue to be showing good traction among corporate clients of MIBL.

Beyond the traditional business, the new emerging area is the liabilities business - both at an corporate level and at the individual level. That's becoming a very large and most important area of interest. Firms in services as well as manufacturing, are increasingly seeking liability protection in terms of risks which arise due to product failures, legal action initiated against any of the employees, directors and officers, liability covers to protect against cyber risks etc.

Veda deep dives into some of the newer liability related offerings: "Warranty related

Vedanarayanan Seshadri avers that a broker's job is not just to transfer risk but as much to analyze data and advise customers

issues arise for M&A related transactions and for transactions where there is a change of shareholding. Transacting entities are seeking to make these areas more watertight for disclosure related claims with a coverage and that's one of the fastest growing segments. This can be extended to IPO offerings as well where company is going in for an IPO makes disclosures in the prospects. Now there is a fundamental assumption that the data/information being provided by the company is correct. But if later some error is found or there is omission of data, then the company needs to protect its Directors and officers against lawsuits by investors against wrongful disclosure related claims are some examples.

India is seeing huge traction in terms of new enterprises being set up and existing enterprises going to the markets to seek funds. They will seek to provide the correct information, but they need a backstop in case of inadvertent errors. It is a standard product now in global markets, but in India it's an area which is of great interest and MIBL is seeing good transaction in this area, says Veda. Whereas earlier 20-25% of the companies were showing interest, today almost all companies planning to enter the market are seeking protection for these risks. This is not just for equity, but also for a range of securities offerings where representations are being made and data being provided by the company which plans to list to potential investors

Veda also gives some examples of enterprise covers which are now becoming more sought after - fidelity covers protects a company from any fraudulent acts or where someone has misrepresented and done a fraud with the customer and therefore the company is liable to pay. There is also a crime cover. These are not large from a premium perspective, but definitely important.

To summarize, property is the largest segment by premium for MIBL while liability is among the fastest growing product lines."

TECH DRIVES CX

Insurance sees tech being used in 3 key areas. First is the customer on-boarding process where there is a lot of focus on CX and making the right kind of recommendations. Here there is big scope to deploy AI & ML to leverage data available from customers and marrying it with the information available outside, with the dual objective of making the best recommendations and ensuring that the customer journey is absolutely frictionless. Retail has seen a lot of focus on customer on boarding.

The second area where tech is making an impact is claims servicing. The prime example of this is a vehicle accident claim which is supported with images and video, processed by AI & ML to determine the parts and labor cost, and that is used to derive the total estimate. This is now being used to process 60-70% of all such claims at MIBL. This technology runs at the insurer with integration with MIBL.

Veda explains the role MIBL plays as a broker in the tech enabled journey: "Ours is more of an interface to the insurer platforms. We are an intermediary and we can't adjudicate on a claim, but we can ensure that the customer experience is consistent across all insurers. So, what we do is bring all the insurers on our platform and we ensure consistency. The variables which are being assessed for the customer, the service standards which are being set by various insurers - those are areas which we focus on while also providing integration. As far as the customer is concerned, he/she sees only one face and that is MIBL. So that's the role tech is playing on the claim side."

TECH DRIVES PURPOSE

One area which MIBL handles itself is property assessments. If there is a risk which the broker needs to evaluate and give information to the insurer, the earlier process was to physically go and inspect the risk and make an assessment as to whether the property has the right kind of safety measures from the point of view of electrical wiring, flammable materials, layout, etc. Veda explains the new process: "What we are doing today is we are using technology where we use a remote device to make an assessment of the entire plant premises, get photographs, get detailed information about how the physical facilities are. Then, at the back end, we compare it with similar facilities and we're able to give a risk analysis to the customer and the insurer."

This is now becoming a very important tool because it reduces the time and cost to do an inspection. However, more important is that MIBL can now make comparisons across sectors, geographies, clients, etc, making its role as a broker more meaningful. Says Veda: "Our job as a broker is just not to transfer risk from one end to the other, but also to give advice, something which the industry often forgets. We play a fairly important role in telling the client that if they want to actually bring down the premium cost, it works best to improve the management practices of the risk on the ground – and that is the area which you should use our expertise. The more you improve the quality of the risk, the lower the premium, as the frequency of incidence comes down. That's the fundamental advice which we give to our clients and that is where they see value."

Globally some of the large brokers have what is called an underwriting pen, which means that for some lines, they actually

HR Momentum

MIBL has won a series of awards in the area of HR and Best Place to Work. Veda gives the credit for this to his predecessors. He comes from an engineering and marketing/finance background, but has worked in organizations where he had to manage a large number of people. So he doesn't see a people assignment as a different one from what he has been doing. He outlines 2 important elements from a people / talent perspective. First: "If the place of work has a very strong purpose, that is a magnet for the younger talent. So profit and purpose are not exclusive."

Veda's second observation is that talent attracts talent, and that is an important consideration. He points out that this industry is consistently going to get disrupted in the next few years. So, in the next 4-5 years, the industry will see different skill sets coming in, requiring consistent retraining and reskilling as distribution models and business models change at great speed. Veda details: "So, if we have to get our people to stay committed, invested and deliver the way we want, at least one of my responsibilities will be to give them enough opportunities to reskill, retrain and realign themselves as the business models keep evolving. And that's critical for us."

underwrite the risk on behalf of the insurer. India has not evolved to that level in terms of the ability or the regulatory comfort but that is the direction the industry can take.

BOOSTING PORTFOLIO QUALITY

The big thing MIBL brings to insurers is portfolio quality.

MIBL has to find a way to communicate to the insurer how to differentiate between a good customer and a bad customer, a good area and operation of bad area of operation, and so forth. For that, it looks at its portfolio of the book of business and looks for the fine cuts. It answers questions such as which portfolios are losing money, where the pockets of good customers are, where potential fraud risk are coming up, which areas should the insurers be more cautious and which areas they can perhaps take a little extra risk by bringing down the premiums.

Adds Veda: "The advantage we have is that while an insurance company will have data for its customers, we have data across the 30 insurers. So our assessments are that much stronger and widespread for us to have a more clear view on how to write the risk better. Beyond risk, we can also look at customer propensity for renewal, making claims, etc. We are actually working with a Chennai based startup for building a propensity model for customers who are likely more likely to renew."

The propensity models are separate for motor and health and others. This is one area which differentiates one insurance broker from another, because a 5% improvement in customer lifetime value every year has a cascading effect. MIBL is also beginning to look at the data relating to interactions across channels to figure out how to further improve the customer experience and to improve upsell and cross sell. Veda describes all this as work in progress at MIBL.

CUSTOMER CONSENT

All this data analytics rests on an important pillar of customer consent, which is very important given the privacy related issues gain prominence. MIBL, being part of the M&M Group, has an additional advantage of having potential access to customer data from the group companies, such as the vehicle buying data, the vehicle financing data, and so on. Veda underscores a key point: "Anytime a customer interacts with us, the first thing is that consent is taken and then there is a team which uses this, which allows us individual companies to use data ethically."

MIBL combines all this data with credit scores, vehicle type, customer occupation, claims data, etc, to find interesting correlations in terms of buying, renewal and more.

FOCUS ON CLAIMS

There are solutions today that can figure out the health of a person based on iris scan, face scan, etc. which basically use AI. MIBL is partnering with some health providers for providing risk scores to its potential customers when recommending to an insurer.

MIBL's in-house team is focused on improving the claims interface because that's a place where there is a lot of pain even today. So the team is focused on claims related information for both into cashless and reimbursement claims for both health and motor insurance, as health is the fastest growing insurance segment in the country and motor has been traditionally the largest.

There are off-the-block solutions available because there are readymade actuarial models for portfolio solutions. But for customer lifetime value and propensity modelling, while one has to use the base level models available, one needs to refine it based on the incoming data. Adds Veda: "There will be a need to keep doing iterations until you come to a certain level of probability which you're comfortable with. You can start with let's say an 80%

Lines of Business

Mahindra Insurance Brokers Limited (MIBL), a subsidiary of Mahindra Finance, is a composite insurance broker, ie it is present in insurance as well as reinsurance. It was born in 2004, and has been in existence for 18 years.

MIBL's business has 4 major lines. First is the retail business, which comprises personal line products like motor, health and life insurance. Second is the advisory business which is essentially for corporate clients who are looking at insuring larger risks for their business operations – eg Property, Engg, Marine etc. Third is for companies for their own people, such as liability for directors and officers of the company. Fourth is cyber insurance, for their protecting their entire enterprises, from cyber risks. Between retail and corporate, the split is now about 80:20, but the corporate business is a significant one and it continues to be a large growth driver.

MIBL also has a reinsurance arm which essentially provides a backstop for insurers for their portfolios and supports corporate clients for their large, complex risks. This line was started in 2012 and while a fledgling business is growing rapidly as well.

probability of the outcome being at a particular level. But you would want to refine it to 90-95% and that takes time."

IMPACT OF WAR

As covid ebbed, a new crisis emerged – war. War in Ukraine is the defining event of 2022, for the individual as well as for business, and more so for the insurance sector. The Ukraine war has had such a big impact that even some countries have gone bankrupt because of the rising prices of food and fuel, and the supply chain disruptions. Just imagine the chaos if another war take place, even as the world grapples with the ongoing war!

Veda adds: "War fundamentally brings uncertainty on the table, across societies and wherever uncertainty comes in, perception of risk rises. That drives people to start protecting themselves and insurance is a part of the. If there is no protection for the containers and ships to move from one destination to other, then revenue generation stops."

Every time a war happens, the risk premiums have gone up, because war impacts property, transaction and transit. Once the cost of insurance goes up and it is unlikely to come down until the risk has materially changes /improved. Veda sees war coverage remaining more of an exclusion, and if the client wants to include, the pricing will rise as war is an unforeseen event which is not budgeted for or planned for. Catastrophes are planned for, but not wars.

THE TERM BROKER

"The term 'broker' unfortunately does not carry a great positive connotation in India. In some of the other parts of the world, a broker is someone who gives advice and finds something proper for the customer and represents his/her interests. In India the term is typically associated with the real estate guy who who's just an intermediary trying to make a fast buck. We have a lot to do to change the perception of brokers and start defining insurance brokers as representing customers first. That's part of my job," concludes Vedanarayanan Seshadri.

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3 Long-term Strategic Partnerships

Manoj Agrawal: We are today in an era of partnership driven business model? What were the key partnerships for Mahindra Finance in the early stages?

Ramesh Iyer: Our earliest day partnership started with the vehicle and tractor dealers. They are the people who showed us the path to this business in the rural India. We started off as a Mumbai based one branch company that wanted to do vehicle and tractor financing. The first people we went to were the distributors and dealers who patiently heard them us about everything we wanted to do.

What we heard from them is that if you think you are going to hire people from Mumbai and put the put them in rural market, you will have a huge challenge because they may not be able to speak the local language. They may not be willing to live in rural areas, and they may not have a long-term career aspiration. At that time there was hardly any technology and data and physicality mattered over everything.

That dealership partnership, from then to now, has become a very integral part of our success story, because they now look at us as a very dependable partner. The earlier day questions such as - Will these people really want to continue only in rural? Will they sustain in rural for long, have all been answered. Now they have seen us for three decades - how we have stood with them, doing what is required. They have seen how we have understood partnering in difficult times.

Ramesh Iyer identified 3 set of people as strategic partners for their long term association with Mahindra Finance

Rural markets have disruptions coming from various fronts from time to time including climatic, political, demonetization and lately covid. There are customers who do not earn their daily income during such times. In such times, we as a financer, have 2 choices – either to take back the asset and settle the loan, or to understand the customer's problem, to understand that the customer is genuine and what he is going through is a temporary problem.

I would rather partner with him as he comes out of difficult times and I expect he will pay me back when normalcy returns. These are things which dealers appreciate as dependability.

The dependability that we have built over a period of time is what I would think has graduated from being a basic enabler to the business to becoming a large strategic partner, whom I respect a lot.

On the liability side, I humbly respect all my corporate and retail lenders who provided capital and debt. They saw us as a great brand and saw us as a great model because we were willing to go into rural where only a few were venturing to. They saw the very sustainable model that we have built over a period of time. I'm sure many of them would have initially come in to test whether this model is doable and scalable.

25-30 years back, we had a ₹50 million bank limit and today we borrow ₹300 billion. Now this scale would not have been possible if those partners had not

joined us and moved along with us from an experimenting approach to a strategic approach of supporting a rural growth story. I'm sure when originally State Bank & Union Bank of India together gave us ₹70 million limit in 1994-95, they also thought it as an experimental support to someone trying to do retail in rural. But then over a period, they saw us scale-up and our balance sheet is today ₹800 billion and they have partnered us all through. these lending partners have substantially been with us and moved from just being a support on that day to a strategic partner today.

The third angle of partnership is our employees. They are also our strategic partners - when we gave them employment in rural areas, we hired them locally. Most of the people may have thought that they are just getting a job in Mahindra....but did they know that they will make a big career out of that over a period of time? Today I am so happy to share that most of my branch managers of those days are today my product head or business heads. They rose from being a field executive or a branch manager to an area manager, then to regional manager, further to a zonal manager, to now becoming a business head. Along with the company's growth, they have definitely grown, but more importantly, driven by their belief in the business model and by working together, they have risen substantially from transaction to strategy. When they joined, they were just executing - lending some loan and recovering that loan. Today they are building the strategy for the future of this company!

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The Superglue that Binds

If a man leads an organization for over 30 years and takes it from a fledgling to an industry giant, then undoubtedly, he's more than a CEO, He is a leader. Ramesh Iyer, VC & MD, is the unstoppable driver at Mahindra Finance, and the fuel of his choice is 'Culture', which he has defined and refined to achieve his vision. Banking Frontiers explores what he thinks about culture and how he practices it:

The way an organization scouts, screens and recruits people is surely a defining characteristic of the organization's DNA. So how does Mahindra Finance do this, and why?

Ramesh Iyer says that when a new joinee is to be inducted, the first and foremost parameter to be kept in mind is the overall cultural fit. The culture at Mahindra Finance is one of respect, being friendly, and have an emotional connect among the employees. The company does not look for task masters who are professionals in a robotic sort of way, and have nothing to do with people. A leader of this kind will create a large battalion of people under him, who are not engaged.

Ramesh delves deeper into the organization culture at Mahindra Finance: "We are not a hierarchical organization. So, we have an open culture where anyone can speak with anybody, irrespective of their position within the organization. The second aspect of culture is that we are very respectful and mindful of people as human beings. Whatever be your standing in the company, we respect your standing. So therefore, when we hire somebody, we want someone who should have the feel for people. Like you use technology and you use data, you should be connected with people."

The question then naturally arises whether this culture favors extroverts over introverts?

Ramesh acknowledges that extroverts have an ability to reach out to people but believes that introverts start feeling very comfortable about it over a period of time, because they see people are reaching out them as well.

What then are the culturally difficult things to maintain in an organization?

Ramesh thinks that if someone is very hierarchical minded, it's very difficult for that person to survive in his organization, because when people go to anybody and get things done, it will make the person feel irrelevant. The second challenge Ramesh sees is that even if a person is good and transparent, it is not necessarily people below are very mature and transparent. So, some of them take an undue advantage of this and hence one has to be very mindful of this approach as well.

Ramesh also emphasizes being upfront about bad news. If someone has done a mistake, or has lost money, he/she should be the first to bring it to the attention of the management, and therefore this calls for a fearless culture. The whole organization including all managers should have the maturity to listen to any bad news. If you create a culture of authoritative fear, then such news gets suppressed, and when it comes out with a burst, can become a crisis.

Ramesh strongly believes that people should always fear the manager for their knowledge and not for their authority. If it is the latter, then people will learn to act in a pleasing manner rather than come prepared.

Building trust is another critical aspect of the organization culture. Ramesh believes that a person is a leader when people start sharing the personal issues and agendas and problems with the leader, which is an indication of trust. "Till such time, they are only discussing their official problem with me, I'm still a manager. From manager to becoming a leader, that trust has to get built with each employee and that measurement of trust is when they are even willing to confine their personal issues with you," explains Ramesh.

BIGGEST SATISFACTION

Ramesh's biggest satisfaction over the years is about the many, many people who joined Mahindra Finance at a very junior level in

Ramesh Iyer banks upon culture to build an organization that feels and works like a family

the organization in the early days. He has been able to mentor them, coach them and guide them to build their confidence and so many of them today have become business heads. Ramesh gives an example: "One such person is Dinesh Prajapti. He joined the company 24 years back in internal audit, from where he moved to accounts, and then to corporate affairs and today he is Treasury Head, a very critical position in an NBFC."

BIGGEST DIS-SATISFACTION

Ramesh narrates: "What does not give me satisfaction or what sometimes kind of shakes me up, is that in our early days, we had a very senior person heading the business and we had only a small steering committee. As we started adding new businesses and people, I probably could not give him adequate personal attention and time. The person probably started feeling a little insecure about it which caused a change in his behaviour. In such matters, counselling is so important which we did try for almost a year, post which we had to part ways. Honestly, I still feel bad about this issue and am regretting for how somebody got into such a situation."

TOWARDS MENTAL HEALTH

What is the antidote to stress arising at the workplace?

"The only thing I keep telling everybody and which I do it myself all the time, is to have one hobby. Whatever be that hobby - reading writing, dancing, singing, bowling, - but you must have one, so that beyond 5:30 pm you pursue. If you do that, you will never become imbalanced," advises Ramesh.

So, the natural question is, what is Ramesh's hobby? "So, my hobby is singing, I do a lot of singing. In fact, I'm a part of a small bhajan group where I go on weekends to some temple or some function as a group. Also, I have recorded some 1300 songs for my own satisfaction, all of which I have done while moving around in my car."

So these are the multiple dimensions of culture that Ramesh Iyer sees and practices as he builds his organization as a closely knit family.

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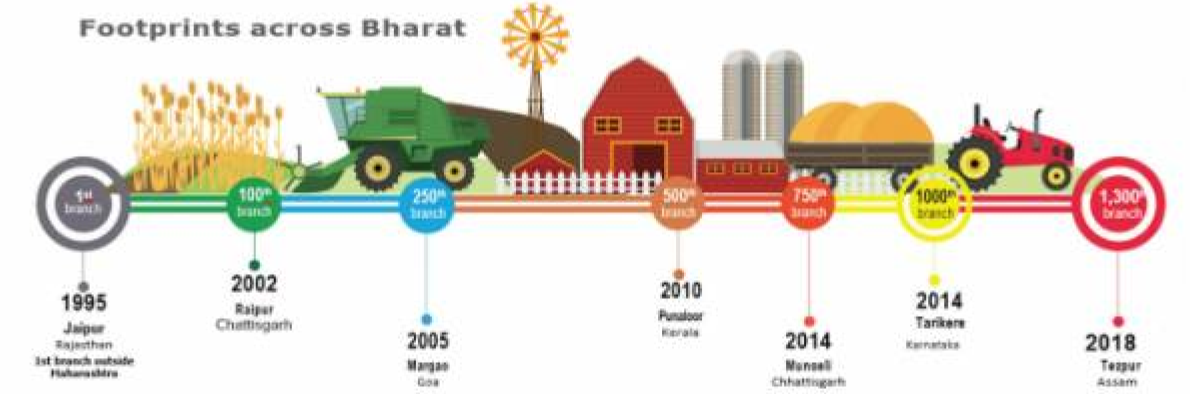

A Private Awas Yojna

Most people take the easy way of waiting for the government to fix a problem. Some don't:

It has almost taken Mahindra Rural Housing Finance (MRHF) 14 years to reach the million homes milestone. The company was formed in 2007-08 and has steadily been extending finance for housing to the underserved rural segments. And it is prepared for a long journey.

THE JOURNEY BEGINS

Initially when the team started the business, the thinking was that there will be some similarities in the customer profile to whom Mahindra Finance lends to. The assumption was that an existing Mahindra Finance customer would also be willing to take a housing loan. Rajnish Agarwal, CEO & MD interjects: "But it did not turn out like this. We found a different customer group outside of Mahindra Finance customer segment. There was a very large set of prospects who were having 'kucha' houses, or they wanted to add one room into their house and or want to build a roof for their house or convert a mud house into a brick-and-mortar house. So those were the needs of the customers, but they were not a tractor or a vehicle customer...they were rural customers looking for smaller ticket size loans."

Normally formal credit was not available to such customers, and the only practical choice they had was to borrow from a money lender. Even a money lender would not lend long term capital to these customers because their incomes were unstable and uncertain. For many of them, the property documents may not be in the name of the current borrower, but rather that of their ancestors and relatives. In many cases, the customer income was uneven and subject to extrinsic conditions like weather and mandi prices.

Rajnish Agarwal shares the journey: "We started this business to serve underserved and under-represented customers, of whom we found a very large number. We started from Tamil Nadu, then moved to Maharashtra and then kept on adding 1-2 states every year, the latest one being Odisha. Today we are working in 14 states across the country. We are also adding new products. We are present in 88,000+ villages through 750+ physical branches right now. India however has over 6 lakh villages, and there is a long way to go."

Rajnish Agarwal expects to reach the next million customers in 5 to 6 years, more than double the speed of the past

Mahindra Home Finance usually struggles to find the first one or two customers whilst starting operations in a new village. As the news spreads by word of mouth, getting new customers becomes easier. "There are villages, where we have 200+ customers. So that's how the business gets built. We increase the penetration inside the village, we form a relationship with the people and then we go to the neighbouring villages, it is an expansion of trust and partnership, not just capital," says Rajnish Agarwal

BUSINESS NICHE

Fortunately for MRHFL, there are not too many players who want to do this business with a loan size of ₹50,000-150,000. Challenges include small ticket size, physical nature of cash collection, customers not paying on due date, and some more.

MRHFL faces challenges when they have a large customer base in a region and when vagaries of nature disrupt these customers' income and their ability to repay. MRHFL experienced a huge disruption during demonetization and another one during covid however, the business managed to pick up pace over time.

Fortunately, their customers are able repay off the loan even after delays which is what covers the risk of this business and the cost of collection. So, the company tries making the EMI affordable by extending the loan tenure. If the borrower goes to a moneylender, he will pay a much higher rate of interest. Even microfinance companies lend ₹20,000-30,000 for 6-9 months, so the amount and period, both are insufficient. So that is the niche for MRHFL.

In spite of the EMI being small, there are many months when the customer doesn't earn enough or even if he earns, there are some challenges in the family, such as a medical expenses or rains or drought spoil the crops or the money which he has to get from the 'mandi' is not received in time, or if he is a daily wage worker, he's not getting work every month. How does the company handle this?

Rajnish Agarwal explains: "We have built a two-pronged approach – (i) a proprietary credit scoring model to assess agri and casual incomes (ii) flexible repayment date matching income cycles. We also have zero tolerance for wilful defaulters as they hamper our survival and service to other customers. This management would help us further the business, be answerable to stakeholders and raise funds to grow. On the whole, the business is very profitable and it meets a very important need of society; it is a socially impactful business."

NEW STRATEGY

Since this is a volume business with volatility, MRHFL has slightly changed its strategy now. It has added one more product - the affordable business - which caters to the semi-urban and more affluent class of customers. These typically are salaried customers who have a regular source of income, who are less likely to default. The margins are low in that segment, and volume is very large. "By parallelly growing our affordable and rural housing business, we are looking towards a sustainable growth for the business in the near future."

Currently more than two thirds of the business comprise of rural housing since the company started lending to rural customers. Gradually MRHFL plans to grow the affordable housing business over time. Another segment that MRHFL is trying to address is the premium and documented customer in the rural segment - typically rich farmers with land holding, tractors and utility vehicles. They will not pay high rates of interest, but the default rates also will be low, the ticket sizes will be higher and they will further de-risk the rural business in the same geography.

MRHFL has to ensure that the loan amount is being used for the purpose it is given. So, the funds are disbursed in 2-3 stages, as per the progress of the work.

THE NEXT MILLION

Team MRHFL has now understood this business very well and has put a robust credit process in place. They have introduced many new methods because now the credit bureaus are very active in those geographies because of microfinance loans been given regularly. Now 70-80% of the customers have a credit imprint. The amounts may be smaller than what they seek for housing finance, but yes, the borrowing and repayment data is becoming available to assist in further lending.

Rajnish Agarwal expects to reach the next million customers in 5 to 6 years. He has observed a tipping point - if in one village there is already 15-20 customers, every month the company gets 2-4 customers through referrals from existing customers. Then of course, the company is adding more branches and getting into more states.

MRHFL Odisha New Branch Opening

BRANCH NETWORK

MRHFL started with the help of Mahindra Finance branches so as to minimize costs initially when the business was not available. Now that the company has a solid base of customers, when it is prudent and a minimum size is achieved, a physically separate branch is set up. Earlier 80-90% of the branches were common with Mahindra Finance, but now almost 75% are independent. The company currently has 600+ independent own branches and another 125 are still common.

In a typical year, the company aims to increase their branch size by 10% in a year. A typical branch has 12-15 employees because the branch encompasses both business and support function teams . One interesting mechanism that MRHFL has deployed is that when a loan is given, for the first 12 months, the collection is done by the salesperson, and only after that is the work passed on to the collections team. This ensures that the salesperson has his skin in the loan.

COLLECTIONS

Collections started largely with cash and gradually shifted to digital, thanks to UPI. MRHFL also tied up with India Post Payments Bank about 3 years ago as for many customers, the post office was closer than the branch. Further, the lender has tied up with Common Service Centers (CSC) which are spreading wide.

Further, the company has made available all kinds of digital capabilities. "As a part of our mission for transforming lives, it has been our endeavour to drive cashless payments within our collections processes. The pandemic provided a huge opportunity for us to leverage digital tools such as UPI, Net Banking, Bharat Bill Payment System to maximize digital payments," states Rajnish Agarwal.

LOAN INSURANCE

MRHF has a loan protection scheme where we ensure that the customer's loan is protected in the unlikely event of his death. The borrower could be the only earning member in the family and the lender does not want that the liability of the loan should shift to his family. Typically this insurance adds a mere ₹20-30 to the EMI. MRHF has tied up with Kotak Life and HDFC Life for life insurance. As a housing finance company, we also extend fire insurance covers to our customers for any accidental mishaps.

FUNDING

Funding comes mainly from banks, mutual funds and pension funds. Within banks, the lender gets more funds from private sector banks as compared to public sectors banks. Even National Housing Bank (NHB) funds housing finance companies at a very nominal rate.

MRHFL is a subsidiary of Mahindra Finance. At some point of time even the regulator, National Housing Bank (NHB) was an equity participant for 10 years. Usually, NHB invests for around three – five years to initially assist the business. However, due to MRHFL's unique business model that focused on driving social impact and generated good returns, NHB extended their investment for a period of 10 years.

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