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RESEARCH PROPOSAL

PREPARED FOR--

Ruby Card Finance Limited

EXECUTIVE SUMMARY

1. REENGINEER BUSINESS PROCESS
2. LEVERAGE TECHNOLOGY & SCIENCE
3. HARNESS ELECTRONIC MEDIA
4. ENHANCE CUSTOMER EXPERIENCE

ABSTRACT

The released financial statements by Ruby Card Finance Limited show the loss rates have been increasing by annualized 100 basis points. The main objective is to determine the reasons behind the decline in profitability as an attempt to craft a strategy and provide recommendations to improve the profitability of the business within the next three months.

BACKGROUND WHAT & WHY

The credit sector is biased towards lending to high-income individuals. Banks and other formal financial institutions prefer to give loans to higher-salaried individuals, preferably in areas that are closer to urban areas.

The lower-income individuals, like the blue-collar workers, SME business owners, etc. often find it difficult to access credit from the traditional financial system.

Smaller cities and rural areas face a different set of issues like inaccessibility to a formal financial institution and lack of awareness of options available to access loans. This leads to individuals from the lower-income group taking loans from moneylenders or family/friends. The interest rates paid to moneylenders can go up to 60 percent per year, forcing many creditors into a debt trap.

According to a report by The World Bank in 2014[1], **47.4%** of lower-middle income individuals were borrowing money, out of which **33.1%** borrowed from their family and friends and only **7.5%** of this lower-middle income class borrowed from a financial institution.

Thus, we want to enable more people to access credit by building better credit & lending infrastructure. We believe the basic problem in the trillion dollar Indian economy is **access to credit**.

RISKS CITED WHEN LENDING TO LOWER-INCOME SEGMENT:

1. Higher **default rates**
2. **Non-reliability** in terms of information provided
3. Difficulties in **tracking** whereabouts
4. **Verification** of employment history, credit history and other background checks
5. The slow acceptance of **CIBIL scores** and frequent job changes added to the risk when trying to decide if an applicant is credit-worthy.

ANALYSIS

Table 1 adapts and augments Jenkins and Rigg's poverty dynamics analysis[2] to summarise some of the reported factors that contribute to increased debts or inhibit individuals from repayments.

TABLE 1: EXPLAINING INCREASED DEBTS/ INHIBITED REPAYMENTS

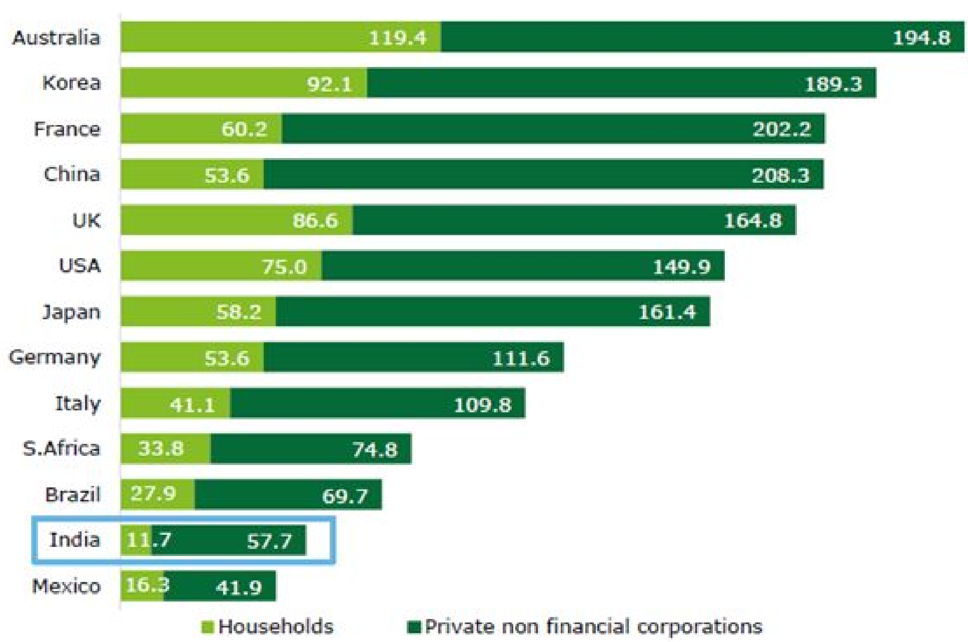
LABOUR MARKET-RELATED	
1.1	Redundancy
1.2	Lack of employability skills after redundancy
1,3	Irregular contributions from non-resident partner whose work fluctuates
1.4	Employment-related transport costs
1.5	Complexities of combining partner's employment with own higher education commitments and childcare
HEALTH-RELATED	
2.1	Postnatal depression, necessitating partner giving up work
2.2	Self-diagnosed depression/children's ill health or disability acting to disable effective budgeting
2.3	Learning disabilities
2.4	Accident/ill health leading to loss of work
EXPENDITURE-RELATED	
3.1	Setting up home or replacing household items
3.2	Festivals, traditions, family holidays, child care, etc.
3.3	Susceptibility to targeted/heavily marketed highly expensive forms of credit
3.4	Food/fuel price rises
3.5	Up-front lump-sum payment as precondition of repayment plan
3.6	Accumulating interest on unauthorised overdraft
3.7	'Punitive' bank charges

DEMOGRAPHIC-RELATED	
4.1	Prior homelessness
4.2	Birth of child
4.3	Family breakdown/reconstituted family resulting in insupportable demands on single male earnings
4.4	Debts carried from previous relationships
SOCIAL CAPITAL-RELATED	
5.1	Lack of timely information re: eligibility for assistance with home set-up costs
5.2	Contradictory information/advice from Job Centre
5.3	Poor financial literacy
5.4	Decision-making embedded in couple relationships

CREDIT PENETRATION

India ranks significantly lower than other economies in terms of credit penetration. This is because traditionally Indian banks' underwriting processes required rigorous documentation, such as income proof and credit bureau records, from potential borrowers.

FIGURE: CREDIT-TO-GDP RATIO[3]



This demand supply gap in credit can be filled by **digitising** the credit appraisal and disbursal processes. Supporting infrastructure, spurred by rising internet penetration and customer awareness, can result in innovative lending business models that appeal to retail customers and business owners, who have so far been unable to access traditional bank credit. Such digitised platforms enable **quick, digitally driven, unique credit appraisal approaches** as well as **flexible product structure to suit the income earning and repayment capacity of borrowers.**

FIGURE: INTERNET PENETRATION[4] (in millions)

According to TransUnion CIBIL's insights, credit penetration and participation of women consumers has also increased in India's credit market, with the share of women borrowers to total borrowers at about **26 per cent** as of September 2019.

With the average CIBIL Score is at **734**, self-monitoring women consumers have a higher score than the average self-monitoring male's CIBIL Score of 726. Interestingly, self-monitoring, millennial women consumers have an even higher average CIBIL Score of **735**, indicating that **64 per cent** of self-monitoring women consumers are millennials. However in India, the gap in financial illiteracy is wide with 73% of men and **80%** of women not being financially literate[5].

THE PROBLEM

CUSTOMER ACQUISITION

- ➔ Identifying the target customer is difficult
- ➔ High acquisition cost due to lack of segmentation
- ➔ Reliance on traditional direct marketing methods
- ➔ Inability to come up with differentiated offerings

CUSTOMERS' DEMANDS AND EXPECTATIONS

- ➔ Perform transactions (financial and non-financial) swiftly with a sense of security and trust
- ➔ Exchange information (to and fro) which is useful in an easily understandable format

LACK OF TECHNOLOGY INFRASTRUCTURE

- ➔ Lack of technology players devising solutions for credit disbursal
- ➔ Regulatory concerns regarding cloud services and outsourcing of infrastructure and maintenance
- ➔ Time and cost of employing advanced data mining and analytical tools

LOW INTERNET PENETRATION

- ➔ The majority of the population is still very new to the concept of smartphones and other gadgets
- ➔ The connection via the internet is still in the developing stage

ABSENCE OF FINANCIAL LITERACY

- ➔ The absence of the easy to understand language for the local people has been causing a lot of trouble
- ➔ Few proportion of population understands the working of the new technologies and money-lending rules

RECOMMENDATIONS

REENGINEER BUSINESS PROCESS

1. Continuously monitoring repayments and educating creditors on credit score can mitigate the risk of default.

2. Targeting new-to-credit retail customers to offer personal, vehicle, consumer durable, and other retail loans

3. Using market, product, and competitive intelligence to refine the marketing plan and the customer target list.

4. Carrying out unconventional methods of evaluation like lifestyle evaluation, apart from health assessment of the person, and the family relations can help get a better grasp when extending credit to lower-income individuals.

5. Disbursing loans faster than banks while encouraging customers to come back for another loan cycle.

6. Extending flexibility to pay to the bank at a later date can not only expedite the payment of suppliers but also help in getting early payment discounts. For SMEs and start-ups, who are traditionally very tight with their working capital, any extension in their DPO (Days Payable Outstanding) will always be welcomed.

7. Introducing a Joint Liability model that enables individuals to take loans in groups. Such an arrangement has traditionally seen fewer people default (or fall behind paying their debt) because of social pressure from their colleagues and friends, as all of them are liable.

8. Creating a feedback mechanism that bolsters ease of usage.

LEVERAGE TECHNOLOGY AND SCIENCE

1. Delivering credit solutions that are completely online, decreasing costs for everyone involved.

2. Online lending through apps in order to eliminate problems of reach when it comes to remote locations.

3. Building a website with lots of high-quality, original content that is search engine optimized as well as optimized for mobile traffic.

4. Optimizing the company app to rank higher in search results by paid promotions in the Apple App Store or Google Play Store.

5. Using big data tools to capture data from various sources and apply 'proprietary' algorithms to ascertain the risk category of an applicant.

6. Underwriting mechanism that reduces turnaround time by automating large parts of operations, thus minimising the requirement of human intervention and reducing process redundancies.

7. Applying customized machine-learning techniques to combined consumer trade line, credit bureau, and macroeconomic variables to predict delinquency.

8. Using optimisation techniques to ensure smooth operation of the system even under volatile load and access.

HARNESS ELECTRONIC MEDIA

1. Formulating a smart social media plan to drive traffic from Facebook, YouTube, Twitter, LinkedIn, Instagram, Pinterest, and other free social media sites to the company's website.

2. Implementing a marketing/advertising campaign with the help of influencers who have a large following on LinkedIn, Instagram, Twitter, Facebook, YouTube, and other social media sites.

3. Producing videos that describe services in an interesting and professional manner on the company website, YouTube, and other social media sites.

4. Announcing major developments in the company: new financing raised, new partnerships, new senior employees hired, and new product announcements via press releases.

ENHANCE CUSTOMER EXPERIENCE

1. Developing loan products tailor-made for the customer segment with the aim to educate individuals about available credit options and maintenance of credit health for easier credit access.

2. Personalizing customer experience to empower them to consume information and content in a format that is understandable to them.

3. Aggregating lending products of banks and NBFCs on a platform, making it easier for customers to search, compare, and apply for loans.

4. Designing a platform that enables customers to complete intended activities with as much ease as possible. Being asked a plethora of questions and for many documents at the time of registration can deter customers from registering and exploring the website.

5. Enhancing customer experience through digitisation of the onboarding processes and reducing disbursal time to 2-3 days or fewer.

REFERENCES

1. http://datatopics.worldbank.org/financialinclusion/country/india
2. Jenkins, S. P. and Rigg, J. A. (2001) The Dynamics of Poverty in Britain. Department for Work and Pensions Research Report No. 157.
3. Bank for International Settlements
4. Internet and Mobile Association of India
5. S&P survey, Dec 16 2015

QUESTIONNAIRE

FOR RESEARCH

1. Business models of successful fin-tech companies.
2. Technology infrastructure available for secure and high performance alternative lending.
3. Credit needs of blue collar workers.
4. How big is the market opportunity for alternative lending among blue collar workers, SME businesses, start-ups, etc.?
5. What problem needs to be solved that the large incumbents are not addressing? Why are they ignoring that opportunity?
6. Why are traditional financial institutions ignoring the lower-income segment?
7. How to change customer behaviour? Which approach is the most feasible and effective to beat the incumbents in a head-to-head matchup?
8. How much do customers pay for competing solutions?
9. What is the inherent risk of a joint liability model?
10. What factors make households vulnerable to debt?
11. Is there any relationship between indebtedness and poverty?
12. How to collect the money when it falls due?

FOR CUSTOMERS

1. Why aren't you able to access credit from formal financial institutions?
2. Have you ever borrowed from family/friends/moneylenders? What was their rate of interest?
3. How do you manage your debts?
4. How do you deal with 'critical moments' of financial crises resulting from/causing debt?
5. Do you save or invest regularly and consistently?
6. Do you have financial education?
7. Do you understand credits, interests, loans, etc.?
8. How many times do you use our product/service?
9. Is our service user-friendly enough?
10. Where did you hear about our product/service?
11. Are you willing to be a good reference for future potential customers?
12. What are your expectations from our product/service?