

Inclusive finance: Serving the underserved

Ujjivan Small Finance Bank is sowing seeds of change by catering to the aspiring middle class, a segment with substantial growth potential, setting its sights on becoming a mass-market bank over the next few years.

- By Ashwani Mishra

Ittira Davis
MD & CEO, Ujjivan Small Finance Bank



Yogesh resides in the village of Allimaranahalli, situated approximately 60 kilometers south of Bengaluru in the Kanakpura Taluk, Ranmanagara District. He operates a small hotel, generating a daily income of about ₹10,000 with a remarkable profit margin of 50%.

In the same village, Mahadev, a local farmer, expanded his operations by acquiring more cows and constructing a new shed. As a result, he now enjoys an annual income of approximately ₹2 lakh from his milk business.

Meanwhile, Sunita, another resident of the village, made significant advancements in her life. She purchased an additional five cows and around 70 cocoons for sericulture, and she successfully built a new house.

Countless tales abound, showcasing how loans have transformed the destinies of rural inhabitants in the heartlands of India. For years, village residents found themselves vulnerable to local moneylenders who imposed exorbitant interest rates. Formal banking channels struggled to extend their reach to these remote areas due to prohibitively high operational costs, leaving the population financially underserved.

With a modest beginning to providing small-ticket loans to borrowers with limited means, to reaching a bigger objective of financial inclusion in the country, Ujjivan Small Finance Bank (Ujjivan SFB) has today evolved into a diversified retail bank serving millions of customers.

“Ujjivan SFB has played a significant role in turning my dreams into reality. The bank’s support has accounted for approximately 90% of

my entrepreneurial journey. My top priority is to repay the loan, and at the same time make enough savings through deposits at Ujjivan SFB for my child’s education. I also have plans to build a house and buy a car,” says Yogesh.

Ujjivan SFB caters to the mass market segment in India, especially those who lack access to adequate and quality banking services from other financial institutions. The bank was founded by the promoter of Ujjivan Financial Services Limited, which began as a micro finance company in 2005 with a mission to serve the unbanked and underbanked population.

In 2015, Ujjivan Financial Services received approval from the Reserve Bank of India (RBI) to start a bank under the RBI regulation and the bank commenced operations in February 2017.

From microfinance to microbanking

There is no magic wand that can bring financial inclusion to India’s underserved population. Instead, the nation requires numerous localized innovations that extend beyond basic lending practices.

“The beauty of India’s pyramid is that it is moving more towards a diamond structure,” says Samit Ghosh, Founder and Director of Ujjivan Financial Services Limited.

As per reports on domestic household income data, the low-income group (Less than 1.25 Lakh) is rapidly moving up towards 1.25 Lakh – 5.0 Lakh bracket. These aspiring middle-class families or ‘Aspirers’ are growing their income and evolving in all aspects. In this

process, they are creating demand for multiple financial products and services, to bring about an impactful financial inclusion.

“As we initiated our journey in 2005, loan sizes were around 5,000, but today the minimum loan size is 25,000 that goes up to 2,00,000 for group loans and 3,00,000 for individual loans. Their needs are also different, and they require a full range of financial services,” Ghosh says.

At Ujjivan SFB, individual loans are gaining prominence over group loans, especially in urban settings where group dynamics tend to disintegrate more rapidly. Rural settings, on the other hand, exhibit more group cohesion.

“The vision of the bank has always been to provide financial services to the underserved and unserved. We have introduced specialized loan products in our rural branches, focusing on agriculture, fisheries, poultry and cattle farming. These tailored offerings cater to specific customer needs in rural areas,” says Ittira Davis, MD & CEO, Ujjivan Small Finance Bank.

The bank also offers insurance, gold loans, MSME, affordable housing and vehicle loans. The bank has grown 264% in affordable housing portfolio in last four years as of March 2023.

Tech-enabled efficiency, inclusion

Ujjivan SFB’s early recognition of the significance of digital transformation has been evident. The bank has pursued a well-rounded strategy, seamlessly integrating traditional brick-and-mortar branches with digital initiatives. Significant investments have been channeled

into technological advancements and innovative product development to propel growth. Gradually, customer onboarding, loan application processing, and collections have shifted from manual to digital processes. The bank is committed to expanding its digital portfolio to cater to the younger generation, enabling them to initiate fixed deposits and manage their accounts digitally.

Early this year, it launched 'Hello Ujjivan,' a one-of-a-kind mobile banking app in India that enables speech, visual, and vernacular features to give bank's MicroBanking and Rural customers access to banking financial services who have limited reading and writing abilities. The app has intuitive AI and machine learning capabilities, to enable customers to transact conveniently and safely in the language of their choice, available in eight regional languages and later introduced English based on the feedback received from the bank's senior citizen customer base.

"This move aligns with the bank's mission to provide financial



Murali Chari

*Business Head - Rural Banking,
Ujjivan Small Finance Bank*

services to underserved and unserved populations," says Murali Chari, Business Head-Rural Banking, Ujjivan Small Finance Bank.

'Hello Ujjivan' is the outcome of the psychographic research undertaken with the bank's microbanking and rural customers and employees. Along with standard English language, the Hello Ujjivan App is available in eight regional languages, including Hindi, Marathi, Bengali, Tamil, Gujarati, Kannada, Oriya, and Assamese. Customers can speak to the app in their native language to perform banking transactions and access services such as paying loan EMIs, opening FD and RD accounts, transferring funds, checking account balance, and updating passbooks, among others. In August 2023, the Bank introduced a "Loan Acknowledgement process", a new feature within the application for its microbanking and rural customers. The feature is completely paperless and eliminates customers' travel time to branches in order to complete loan paperwork. Within the first 30 days of its introduction, over 20000+ customers acknowledged their loan digitally through the "Hello Ujjivan" app.

Additionally, Ujjivan SFB introduced digital Fixed Deposits (FDs) with video Know Your Customer (KYC) capabilities, making account opening faster and more convenient. The Bank's focus on digital extends to exploring options for customers to renew loans digitally, streamlining processes further.

"Our aim is to facilitate a repeat loan through mobile phones as 80% of our business is a repeat loan.

Increasing use of technology and analytics will further reduce the turnaround time," Davis says.

Moving ahead Ujjivan SFB is looking to invest in API platform, innovations, fintech partnerships to widen product offerings/ banking solutions, invest strategically to integrate technology into operations to empower customers, reduce costs and increase efficiencies.

It is also looking embrace robotic processes to automate operational processes and use data analytics to offer customized solutions.

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Out of the woods

The past few years have been full of challenges for the Ujjivan SFB. It was first hit with demonetization, followed by Covid that placed it under severe stress. The bank witnessed losses, a sharp rise in non-performing assets (NPAs) and portfolio at risk. And if this was not all, it faced a high-level exodus with eight board members including its MD & CEO leaving the bank in 2021.

Very little was going its way till Ittira Davis took charge on January

13, 2022.

“The year 2022-23 has seen the real spirit of Ujjivan. All the challenges and issues are behind us,” Davis says. “We turned around the bank and it became the most profitable year for us.”

Ujjivan SFB recorded its best performance across all parameters with PAT at 310 crore for Q423 and 1,100 crore for FY23.

In the first quarter of this financial year, Ujjivan SFB acquired about 2.6 lakh new customers in microbanking. Among the secured products, affordable housing was more than 3650 crores as of June 2023. The growth was primarily driven by home

construction and home improvement segments in semi urban and rural areas, with a ticket size of 5 lakh to 75 lakh.

The gross loan book as on June 30th was 25,326 crores, up 30% year on year and 5% quarter-on-quarter. The deposit grew 45% year-on-year and 4% quarter-on-quarter to 26,660 crores. Its retail term deposits grew 71% year-on-year to 10,970 crores, while CASA grew 27% year-on-year to 6,556 crores.

Finally, the group is now considering the implementation of a reverse merger by the end of this fiscal year. In this process, the parent

company, Ujjivan Financial Services, will merge into the bank, Ujjivan Small Finance Bank, with each share being exchanged at a rate of 11.6 per share.

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