Equitas Micro Finance

Fastest growing Microfinance institution reliably scales with Temenos.

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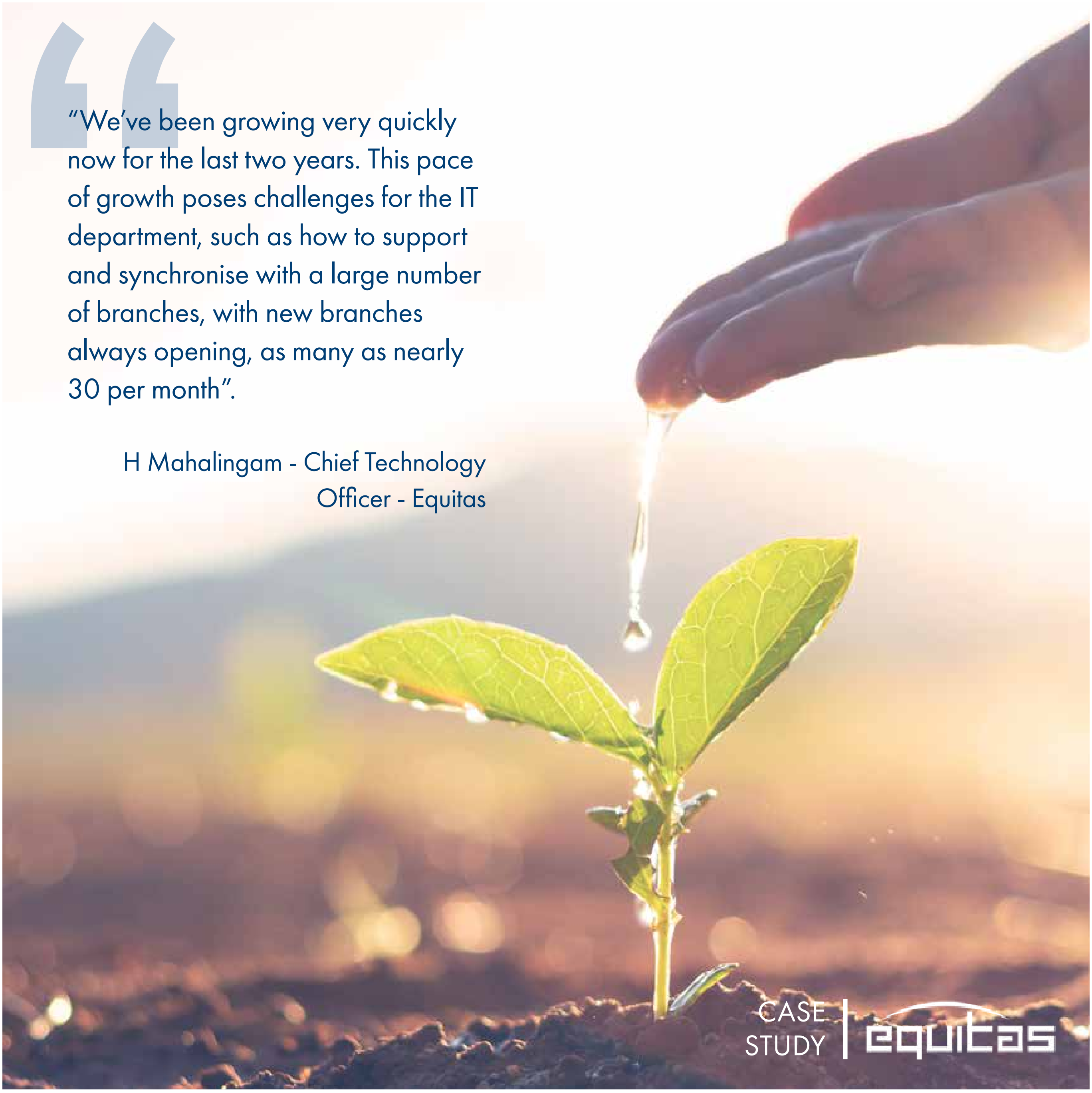
H Mahalingam - Chief Technology Officer - Equitas



Introduction

In a huge and complex economy, India's entrepreneurs come from all levels. Even those with few resources can access microfinance, credit that is available outside the conventional banking system.

Among many competing microfinance institutions (MFIs), Equitas Micro Finance India Pvt. Ltd. (Equitas) has set a number of records and is perhaps the fastest growing start-up MFI anywhere in the world, with 1.28 million customers in May 2011, up from 888,600 in March 2010 and 339,158 in March 2009.

Established in 2007, Equitas is a non-deposit-taking non-banking finance company registered with the Reserve Bank of India. The original promoters have diluted their stake by issuing shares to new institutional investors and the existing institutional investors have converted their preference shares into equity. The company concluded its second round capital infusion of Rs. 500 million in August 2008 via investors Bellwether Microfinance Fund Pvt. Ltd., India Financial Inclusion Fund and MVA Ventures.

By 31 March 2010's year-end financial results, Equitas had opened 163 branches and trebled its income from the previous financial year. The pace of growth was anticipated but nevertheless set the IT department a particular challenge.

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Challenge

Within months, the banking software that Equitas used at launch became unreliable. As more users logged in, the application layer ran into difficulties. This triggered a search for a new core banking application. In April 2009 Equitas chose to invest in TEMENOS T24 For Microfinance And Community Banking (T24 MCB) and by December 2009 it was up and running on IBM hardware, a combination chosen because of its ability to scale horizontally, with multiple applications running across different servers.

The company's strategy is to operate a centralised back office. **"We perform all processing of loans in Chennai, where we need high performance and 100 per cent availability for the core application and communications system,"** explains Mahalingam.

Equitas follows the Grameen bank model of joint liability group based lending that was pioneered by Professor Mohammed Yunus in Bangladesh, in which collective responsibility is taken for paying back loans. Equitas emphasises its fair dealing, taking a clear stand of communicating the all-inclusive IRR interest rate by printing it on each member's passbook. The company also positions itself as a technology leader, bringing the operational efficiencies of retail banking to the MFI sector to improve productivity and reduce cost to the customer. Mahalingam says that Equitas can charge the lowest interest rate to its customers because of the efficiency of its processing workflow which lowers the cost of transactions.

The company doesn't have any branches. Managers simply set up meeting places for signing up members, giving loans and collecting payments. The managers, who are Equitas employees working in the field, can therefore concentrate entirely on looking after members and recruiting. The centralised back office takes care of all administration and cash is secured on a daily basis by a subcontractor.

Greater scale with the same manpower

With the new core banking system, the Equitas head office has been able to automate most processes, cutting out most user intervention. Processes can therefore be scaled up without extra manpower.

> The same number of staff continues to handle the back end processes, despite the customer base growing from 500,000 in July 2009 to the current level of **1.4 million.**

When a loan is taken out, the loan form is completed at the branch and the forms couriered to Chennai for processing via automatic scanning and optical mark reading, followed by manual data entry of about 20 per cent of the form.

Branch managers and collection officers record the collections of cash payments towards outstanding loans and other information about meetings like attendance levels, and send the data from their mobiles to Chennai via SMS. In the other direction, the Chennai office sends out reports to the branch managers, including information about payments due. The back office is currently sending out collection details of 132,000 customers every day. It also uses the data received from branch managers to direct couriers to pick up and drop off cash at the beginning and end of each day at the branches.

High volume, high performance

The key requirements are a stable and scalable platform, which Mahalingam says has been achieved by running T24 MCB on IBM P-Series servers running the AIX operating system. **"The volume of transactions requires high performance,"** says Mahalingam.

> We closely monitor volumes and ensure the resources are in place to keep performance levels high enough as we scale up for more branches, customers and transactions".
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"We can increase processing by adding servers and storage boxes as the database grows," says Mahalingam. "There's no issue on size, it's safe and secure and will not lose data".

This scalability and the built-in microfinance functionality mean that T24 MCB closely matches the start-up business scenario faced by microfinance institutions everywhere.

Equitas is using a Microsoft platform to provide a convenient reporting layer that runs separately and doesn't impact on the performance of T24 MCB. It outputs daily reports for the branches as well as dynamic reporting in real time, all read on screen via a web browser. The same platform has to capability to provide a data warehouse and business intelligence capability, processing data extracted from T24 MCB.

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"With T24 MCB we've been able to make a lot of innovation in processes and in data capture. Productivity of our **back office has increased by around 60 per cent**". This has been achieved using the exception-based transaction posting capabilities within T24 MCB, with a configuration that now means only a very small percentage of transactions need to be manually posted to the system. The majority of data is automatically posted and therefore back-office staff can devote their time to other activities.

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Chief Technology Officer, Equitas

Seamless upgrade to retail bank status

Equitas uses this layer to provide monthly reports for its investors and for the Bank of India, which oversees the loans from banks to Equitas. In future, Equitas may become licensed as a micro bank and be regulated as such. The business is in a good position to move seamlessly into retail banking because the engine on which T24 MCB is based already contains the necessary capability. **"We'll be able to quickly configure T24 and be ready to launch as a bank, which was a very important consideration for us when evaluating the purchase,"** says Mahalingam.

Based on the initial cost of T24 MCB, Mahalingam predicts that Equitas will achieve a return on investment after 3-4 years. **"With T24 MCB we've been able to make a lot of innovation in processes and in data capture. Productivity of our back office has increased by around 60 per cent,"** advises Mahalingam.

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