Streamlining of the Back End Credit Approval Process of Individual Lending for Ujjivan

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Comment by the Faculty

Microfinance is one of the most promising fields in Finance today. Companies like Ujjivan who have made a mark for themselves serve this area very effectively and in the process contribute to the social side as well.

R. Yadukrishnan's project is relevant for decision making and involves a host of activities at the micro level. During the course of his internship, Yadukrishnan has been able to put together a number of key observations which ought to aid expeditious decision-making. Since the portfolio of lending by a large company like Ujjivan will necessarily involve several segments, it becomes necessary to draw up guidelines for appraisal for each. However, new areas keep emerging every now and then, and these have to draw from general guidelines. A study like this helps in bringing home the distinction between general and area-specific guidelines.

Micro-finance companies have the challenge of raising the level of internal efficiency and professionalism by having full assessment and monitoring systems that will enable efficient decision-making. These companies deserve the Government's patronage for the sheer reach of their activities and the social responsibility this leads to.

Since back-end credit approval process is a key component in credit management, the exposure in a leading company like Ujjivan has greatly benefited Yadukrishnan. Studies such as this demonstrate the managerial significance of examining divisions separately for specific issues. Such a process leads to formulation of sound guidelines.

N. R. Parasuraman

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Introduction

Ujjivan is one of the largest microfinance institutions in the country with gross managed assets of about 3,038 crores as of January 31st, 2015. Ujjivan operates primarily on a joint liability group lending model, as an adaptation of the famed Grameen model of microfinance. Ujjivan Financial Services Private Limited was founded in October 2005, as a pioneering microfinance institution with an objective of providing financial services to the urban poor. Mr. Samit Ghosh. Though Ujjivan was initiated as an institution focusing on the urban poor, its customer base has expanded in time to include semi-urban and rural populations, which currently constitute a significant portion of its outstanding portfolio.

Back End Credit Approval Process

Back end credit approval process is carried out to support the Non Hub branches where there will not be any Field credit officers (FCOs). This is essentially a Quality Control step, wherein the quality of the application form, the id proofs provided etc. are validated and the decision regarding whether or not to approve the loan is taken. Being a decision making step, this is one of the most crucial and time consuming process at the Head Office. The Loan Applications coming from Branches are verified by the back end credit approval team for any sort of mistakes that might have entered during data collection at the field level depending upon which the eligibility for loan is decided. The error free eligible files are forwarded for disbursement. Credit approval team essentially consist of credit analysts, credit officer, management associate and a credit manager.

Objective of the Project

The product portfolio of Ujjivan is broadly classified into Group lending and individual lending. The process for Group lending is a completely paper free process, but that of Individual lending is not. My guide, Mr. Praveena Swamy (RCM, Ujjivan Financial Services Private limited) suggested me that, being a relatively new addition to Ujjivan's offerings, the Individual lending credit approval process has better scope for optimization. Hence my project was decided to be the process optimization of the Back end credit approval process of individual lending.

Methodology

Field Visit

Visited customer business places/houses along with FCOs and Loan Officers to study the process in the field. This helped to realise the difficulty of process at field.

Process Study

Field visit was followed by the process study and policy study of Ujjivan Individual lending.

Existing Turn Around Time (TAT) calculation

The existing turn around time for different product was calculated product wise and department wise.

This helped in understanding which department was responsible for resulting in a higher TAT.

Time Study

The time taken by different analyst staff for QC of different products were studied. This study helped in understanding the average time taken by analysts to verify files on different products.

Loan Application Tracker study

This helped in understanding the elements of data entry in the LAF tracker and also the time spent by the staff for making the entry.

Back End Credit Approval Process Streamlining- Division Of Work

To study the process and to suggest an effective framework for work division by which the turn around time can be reduced.

Occupation Study Survey Analysis

The Occupation study was carried on power loom sector at Yelahanka in order to identify the business scope in that particular sector. The analysis involved SWOT analysis, Porters 5 force analysis and simple average analysis.

TAT Calculation

No. of files with wrong tracker entry	27
No. of files with Correct tracker Entries	580
Total no. of Files processed in April	**607**

	No. of files	Avg E-E TAT	Avg Credit TAT	Avg HD TAT	Avg OPs TAT
Pending files	53	-	31 Files-4.41 Days	2 Files-7 Days	53 Files-1.58 Days
Error files	309	309 Files-7.97 Days	305 Files-2.47 Days	307 Files-3.96 Days	308 Files-1.57 Days
Error free files	171	171 Files-4.28 Days	171 Files-2.77 Days	-	171 Files-1.51 Days
Sent back files	67	67 Files-10.2 Days	65 Files-2.46 Days	11 Files-7 Days	66 Files-1.51 Days
Non Analysable Files	7	-	-	-	-
Total	**607**				

*Source: Self-analysis with data from April tracker.

The turn around time was calculated excluding the pending files. And it was found to be approximately 8 days. Helpdesk contribute to the majority factor for this high TAT. This actually is dependent on the time taken by LOs to respond. The desired TAT of Credit department is 1.5 days but the average is 2.55 days.

Process Streamlining

Currently at Ujjivan there is no specific division of work or target for files for IL approval team. This is one reason for Higher TAT. Hence my primary objective was to study the process. Thereafter the researchers spent time with the staff to identify how the time is being spent by them without fruitful work. Then finally the intern conducted a time study on various products and Quality checks (QCs) by various analysts to understand the average time a person can take in analyzing the files. The time for making tracker entry (wrt old tracker) was found to be 3 minutes irrespective of the type of product.

The following table shows the result of Time study per employee per product.

| | Time spent by staff per file(in minutes) | | | | | Average (mines) |
Product	Analyst A	Analyst B	Analyst C	Analyst D	Analyst E	
IBL	21	19	18	20	21	19.8
IBZL	18	19	17	17	20	18.2
LL	12	13	12	14	16	13.4
OMLL	16	15	15	14	15	15
HIL	15	16	14	12	12	13.8
HEL	18	17	16	15	16	16.4
						16.1

*Source : Self study

In Addition the Following Observations were Made

➢ It was observed that the staff being fresher were able to verify higher number of files in the morning session than in the evening session

➢ The files were not equally distributed. Some type of products take higher time for QC whereas some take very low time. Some staff try to take easier files all the time and finish off earlier with higher number.

➢ It was found that each time staff need to log in to the database to check LUC as it is automatically logged out after not using for some time.

➢ The QC job is a repetitive job that induces slowdown of work among analysts.

The Work Division

➢ Credit Officer should go through all files reaching the Approval and divide the files between analysts such that difficulty of work is equally distributed such that the total working hour per staff rounds to 8 hrs 30 minutes.

➢ 30 minutes relaxation time and equal work load distribution prevents partiality complaints and it will also keep up the employee morale.

➢ Since staff is highly energetic in morning session, Morning target should be 15-16 files

➢ It is either advised for the staff to finish off the LUC checks of all files together or make use of save username and password option.

➢ Every staff should conduct TVR checks or post LUC checks so that there is a change in activity.

➢ Every analyst should conduct a minimum of 10 TVR checks and 10 post LUC checks per day, but the time they chose for the same is up to them. So that they can conduct the checks when they feel they need a change from the QC checks.

LAF Tracker Redesign

The loan Application Form Tracker tracks information regarding all the loan application forms received at the back end of HO. It gives a detailed idea regarding how the process flow occurs, dates of the processesing, errors in the files, and other relevent details regarding every files that flow through each department. Data entry to tracker is an important work of analyst and all the data regarding each and every file verified need to be entered in the tracker. The tracker had headings counting up to 81 which needed data entry at different stages of analysis. During the study it was found that there are multiple redundant entries to the tracker. Of the 81 entries 10 entries were found to be redundant. The tracker was found to be non-user friendly, with non-unified formats for entries. In many instances analyst staff were found making wrong entries also.

Tracker entry took up to 6 minutes per analyst per file. On an average an analyst currently verifies 25 applications in a day. This means 150minutes per analyst is spent for data entry to tracker. There are 5 analysts and that means 750 minutes of a day is for tracker entry only. TAT calculation was carried out as a separate process at the end of the month and half of the day is spent for correcting formats and errors.

Hence it was decided to modify the tracker to make it more user friendly and also to solve the above mentioned problems.

The modified tracker locks formats for relevant cells, divided the tracker per department with departments being separated by colour codes, reorders columns as in application form order, standardized responses with drop down menus, automated error counts, Included the automated File status and the TAT calculation per file. The tracker was redesigned in such a way that it

prevents wrong entries by the staff and highlights any wrong entry if ever some may occur so that analysts can correct it accordingly.

A test run of modified tracker showed that the tracker entry time per staff was reduced to 3 minutes and therefore allowed a 75 minutes extra time per staff per day(375 minutes per day) that can be used for more productive QC process(4 more files can be analysed per staff in a day). At the same time it was able to eliminate wrong entry instances and saved the separate time that was previously needed to be spent for unification and TAT calculation. The automated file status allowed staff to analyse the number of files pending at the end of the day in a single glance.
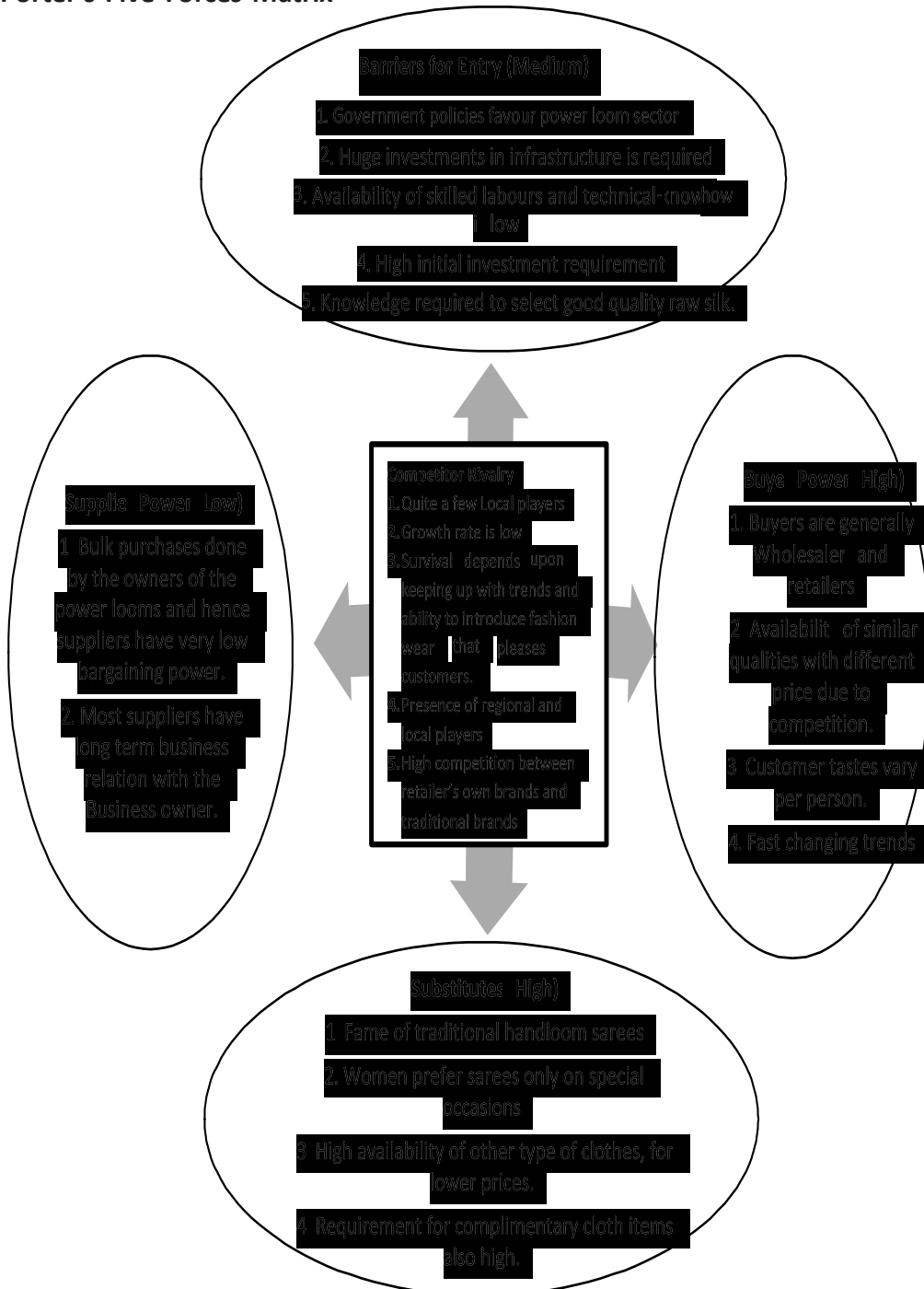
Occupation Study Survey- Power Loom

This study was conducted by Ujjivan to identify the scope of introduction of specialized product for different business segments. Different localities of Bangalore were segmented upon the industries which flourished over those areas and studies were carried out in that sector. The data was collected by LO's of Branches in those specified areas via questionnaires. Though study of multiple sectors were done, to prevent redundancy the key decision parameters of analysis, and recommendations for only one sector(Power loom) is included in this report.

SWOT Analysis for the Power Loom Sector

Strengths	Weakness
• Highly supportive government policy regime. Favourable government plans for providing subsidies, training, and health and education schemes for children of workers. • Establishment of power loom development corporation • Establishment of product development centre (by KSPDC) • Low Cost Manpower	• Neither the management nor the labour has got any formal training mostly family business • Technology level requires upgradation • Defective fabrics- low concern about quality • No regular maintenance of machinery • No direct contact with the end market • Lack of capital and proper financial support
Opportunity	**Threat**
• Untapped market • High demand Internationally and nationally • Improvement in technology to incorporate different fabrics in the machine will help them in managing risk and decreasing losses.	• Slow pace of development of infrastructure, availability of power and frequent power failures • Mechanic/labour problem(behavioural) ? High attrition rate of labourers • Low availability of good quality raw materials • High variation in silk rate in market affects business badly.

Porter's Five Forces Matrix

Barriers for Entry (Medium)

1. Government policies favour power loom sector
2. Huge investments in infrastructure is required
3. Availability of skilled labours and technical-knowhow is low
4. High initial investment requirement
5. Knowledge required to select good quality raw silk.

Supplier Power (Low)

1. Bulk purchases done by the owners of the power looms and hence suppliers have very low bargaining power.
2. Most suppliers have long term business relation with the Business owner.

Competitor Rivalry

1. Quite a few Local players
2. Growth rate is low
3. Survival depends upon keeping up with trends and ability to introduce fashion wear that pleases customers.
4. Presence of regional and local players
5. High competition between retailer's own brands and traditional brands

Buyer Power (High)

1. Buyers are generally Wholesaler and retailers
2. Availability of similar qualities with different price due to competition.
3. Customer tastes vary per person.
4. Fast changing trends

Substitutes (High)

1. Fame of traditional handloom sarees
2. Women prefer sarees only on special occasions
3. High availability of other type of clothes, for lower prices.
4. Requirement for complimentary cloth items also high.

Accessibility to Financial Support

Interested in Availing Loan from Ujjivan

	Loan Purpose		Not Mentioned
% of Customers Interested in availing Loan from Ujjivan (Overall %)	Working Capital(Out of Respondents Interested) (in %)	Capital Investment (Out of Respondents Interested) (in %)	
90%	80%	10%	10%

Recommendations for Occupation Survey

Accessible of Sources Finance	Suppliers	Friends/ Relatives	Money Lenders	Financial Institutions
% of Respondents			10%	20%
Interest Rate (Range)			36%	27%

1. Government of Karnataka is highly supportive in growth of Power loom industries so growth in their business can be expected. Though the Government is lending support for Power loom sector in Karnataka, but its accessibility is very low. Also 90% of the customers have showed interest in availing a loan from Ujjivan. Only 20% of customers are currently dependent on another Financing institutions. Hence it is recommended to lend loan for the above mentioned customers. But the loan requirement as per 80% of customers is for working capital only, so the money requirement is relatively low. During my conversation with the LO I found out that most of the customers are planning for expansion in near future. So the Loan policy should be designed according to that.

2. A second round of survey is suggested to study the amount of loan requirement as current study reveals only whether the customers are willing to take loan and their knowledge about Ujjivan.

General Reccomendation for IL Process Improvement

➢ Incorporating options to attach KYC files soft copy to Data collection Tablets to increase speed on approval

➢ Automatic rejection system in data collection system that prevents sending files with logical errors to HO.

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- Establishing a systematic order for arranging KYCs(to be implemented at Branches) in hard copy of file

- Formal training for LO's to use new technology devices that are introduced for data collection.

- Special training for LO's making high number of errors and *Incentive Plans for Zero errors.*

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