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CUSTOMER ACUMEN

INSIGHTS TO BUILD
CLIENTS FOR LIFE



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EDITORIAL



Dear Reader,

Small and Medium Size Enterprises (SME) and Micro, Small & Medium Enterprises (MSME) are the engines of economic growth globally. However, this very important economic segment lacks the much needed support system to ensure smooth operations in a business environment already peppered with uncertainty. As pinpointed by various surveys, SMEs and MSMEs face various business challenges, one being addressing their financial needs due to limited funding and credit options made available by banks and financial institutions. From a bank's perspective too, SMEs and MSMEs form a key and loyal customer segment and it becomes imperative that the relationship is maintained for the long run.

Customer Acumen, this quarter, takes a look at the **Banking Challenges in the MSME Sector**. Director of Svakarma Finance Private Limited, **Kalpana Iyer**, tells us about how her company is chalking a different path to overcome the banking challenges impacting these enterprises.

We feature **Jay's** views on one of the eight characteristics of a successful Trusted Advisor - Judgement. In line with the adage, elephant in the room, Kevin Simler's and Robin Hanson's book **Elephant in the Brain**, reviewed by Prasad, is about confronting our hidden motives directly; in doing so, we can understand why we behave the way we way do. In-house Cartoonist, **Vikram Nandwani** highlights the BIG challenges of MSMEs.



We hope you enjoy reading this issue and look forward to your feedback and comments on how best we can serve you.



MUSINGS

Taking Judgement Calls

- Jay



In the life cycle of leadership, there are many Judgement calls that one is asked to make. In fact, as is often stressed, the acid test of a Leader is taking decisions, and in making 'good' or successful judgment calls, she is anointed with the distinction of being an outstanding leader. So also in the case of a Trusted Advisor. Judgement is one of the eight attributes or characteristics of a successful Trusted Advisor.

So, what does it take to make good judgment calls? The wisdom of Mark Twain is that 'good Judgement comes from experience, and experience - well, that comes from poor judgment.' May one may add, '... and from learning from it'. For it is the fool-hardy one who takes big and unprepared risks - and the wise one who learns positive lessons from it.

In a well-known article in the Harvard Business Review many years ago, Noel Tichy and Warren Bennis shared their research on this subject and offered their insights. A key point was that successful leaders understand that arriving at a Judgement is not an event but a process. The process has 3 stages, they said: the Preparation Phase, the Call Phase, and finally, the Execution Phase. By addressing all the relevant issues present in the three phases one can raise the probability of success from the decision taken or, in other words, there is a positive Judgement call.

A key aspect here is that if treated as a flow (and not an event), the more successful decision makers are the ones who can take advantage of what the researchers called the 'Redo loop'. Hark back to the point earlier made about the 'wise one', aka the 'one who learns from mistakes'. This is the person who is alive to the present reality of the moment and grasps the opportunity presented by the 'Redo loop' - and this window does open both at the intersection of the three phases and during the key steps within these phases too.

The other major premise of Tichy & Bennis is that Judgement calls largely emerge out of three domains encountered by a leader: People, Strategy & Crisis. Clearly the People domain is fundamental for success as having the right team members enables one to create enhanced & hence more appropriate strategy (leading to superior execution) but also that you are better equipped to handle the resolution of any crisis (which does come up despite various proactive preventive steps) in the company of the right team.

How does all this translate in our work of becoming a Trusted Advisor? One cannot have much quarrel with the three principles outlined but there is another foundational element that overrides all of them. What I have in mind is the alignment of the value system between your client & you.

Values are the guiding lights which you operate by in the stormy sea of crisis. Picture yourself as the First Officer (Trusted Advisor) guiding the Captain (the Client) to chart out a course through choppy & turbulent business waters. Imagine the outcome if both of you are not aligned or are speaking different language at such a critical phase of the journey. Misunderstanding or trust deficit of any kind between both of you will surely mean that neither of you will survive unscathed from the storm and worse still, the vessel with many hands on-board (employees) - who depended on your collective Judgements - will be left to face an uncertain & bleak future.

To ensure that the above disastrous scene is avoided, there is a need to invest time & build relationships between the Client & her Advisor during the Preparation phase (in other words, the pre-Judgement phase). This will not just create a common language but also is the time for cementing value alignment with a clear acceptance of professional norms of relationship. When there is a fair understanding of mutual expectations, not only will better calls be made but overall it will lead to superior execution of decisions.

The final word: it is highly improbable that all Judgement calls that you make in your business (or life, for that matter) will turn out right. In fact, often what seems 'right' now may not be so, later. The environment or context in which we take our calls is often discounted when you study the event in hindsight. Yet, the call has to be made now. Continuing to weigh issues - and being worried about how history will judge your call - is vacillation & neglect of your managerial duty. The best option for you is to use wise counsel from a Trusted Advisor, but at the end of the day, it is your call.

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SPOTLIGHT

Kalpana Iyer

Director - Svakarma Finance Private Limited





Kalpana is a qualified and result oriented Banking Professional with about 25 years of successful experience in various positions.

Kalpana started her Citibank career in the credit card business. During her illustrious career with Citibank, Kalpana has held several senior level positions involving P&L accountability across consumer businesses. During her stint with Citibank, she has been involved with and credited for many firsts - setting up of an outsourced vendor for data processing for the Credit cards business, setting up of Contact Point Verification Process (CPV), launch of Card on Phone (issuance of second/supplementary card on phone), analytics based marketing programs including the use of predictive response models to name a few.

In her last role within Citibank, Kalpana was heading the Women's Banking segment and was the Head of the Microfinance lending business for Citibank in India. In her role as Head of the Microfinance business, she worked closely with the Citigroup Global Microfinance initiative. Under her leadership, Citibank India started the retail microfinance program. In a global first for Citibank, she pioneered the on-lending program with a leading MFI in South India. She had also created the product program for building an "urban" portfolio of microfinance asset in association with another leading MFI in Hyderabad.

In her other assignments within Citibank, Kalpana has been responsible for a diverse set of functions including Operations (Credit Operations for the Credit Card business in India), Marketing (for the unsecured consumer lending business), Finance & Accounting (Business Analysis for the Credit Cards business) and Human Resources (Payroll, Benefits & Compensation) giving her a complete understanding of all aspects of managing consumer businesses. She was also the Chief of Staff to the Head of the Consumer Business of Citibank India.

As part of her consulting assignments, Kalpana has worked across a diverse range of businesses such as an online travel portal, microfinance, financial infrastructure services provider (payments related), NBFC on-lending to MSME and a mid-size private sector bank and has worked on both, strategy and execution oriented assignments. She has also worked with Private Equity firms in due diligences and enabling investments in the

financial services sector. More recently, she has worked with an NBFC MFI apply to the Reserve Bank of India for a Small Finance Bank license.

Kalpana brings with her experience and expertise in identifying & building new business models & opportunities, managing people, driving strategy & execution, providing business support in key functional areas such as financial control & planning and human capital management and evaluating & managing external partners & service providers. She has an excellent understanding of the Indian financial services sector with focus on the consumer businesses such as consumer finance, micro lending & unsecured credit including credit cards.

Kalpana is a Commerce graduate and has completed her Chartered Accountancy course in 1987. She is a Fellow member of the Institute of Chartered Accountants of India. She is on the board of Asirvad Microfinance, Five Star Business Credits, Indian School Finance Company and Avaas Financiers and a Board Trustee of FWWB, Ahmedabad. Kalpana is co-promoting Svakarma Finance, a NBFC that will focus on serving the underserved micro, small and medium enterprises in India. In addition to lending, Svakarma aims to democratize the opportunity for entrepreneurs by providing knowledge support and empowerment through an ecosystem of partners.

CA: MSMEs and SMEs form the backbone of the Indian economy. What are the banking challenges in this sector?

KI: One of the biggest challenges with regards to banking with MSMEs and to an extent even with SMEs, is the lack of visibility into the financials of these enterprises. With high reliance on cash transactions, they do not account for all their earnings in their books of accounts. Their IT returns are not a true reflection of their business activity. The governance structure is generally weak and in most cases they do not comply with regulations like Sales Tax, etc.; with the implementation of GST, we are likely to see fewer enterprises that can stay out of the tax regime. All these led to most enterprises having a basic banking relationship with very limited visibility into their business. Hence most of the lending has been secured by property or some realizable asset.

CA: What role has technology played in not only shaping the banking industry but to also build a stronger connection to address the financial needs of MSMEs and SMEs?

KI: India is one of the markets with the highest smartphone users. With data becoming accessible at affordable rates, thanks to cellular providers like Jio, we now see a large number of consumers becoming digitally active. This is redefining the way enterprises reach and service their customers. To keep pace with these digitally savvy customers, most enterprises are adopting digital platforms, digital payments and digital dissemination of data. The more digital footprint the enterprise leaves in the ecosystem, the easier it becomes for banks and other financial service players to understand the enterprise and serve their needs. Thus, you see leading financial service players, including banks, adopt technology that not only enables, but also provides them a competitive edge in catering to their customer segment. Technology also improves the user interface and experience and hence brings MSMEs closer to lenders and banks.

CA: As a senior Banking professional, please tell us what are the key differences between marketing products to retail consumers versus B2B customers?

KI: Honestly, I feel organisations that can create a 'one on one' communication relationship with their customers are more likely to succeed in their mission. The mistake that most organisations do while marketing to their customers is making it a 'one is too much' communication relationship. This happens when you sell templated products to the customer rather than solutions.

CA: Acquiring and retaining customers in the BFSI sector is challenging. Please share your thoughts on how one can retain customers in the financial services sector for the long run.

KI: It is very important for organisations to understand their customers and serve their needs. To the earlier question on marketing challenges, I had spoken about the need for a NBFC to talk to customers about solutions to their needs rather than the sale of a product. This is a difficult process - this will need the NBFC to reach out to their prospects directly and understand their needs. Today, across the industry, you will find third party entities sourcing the customer. KYC has become a mere form filling activity rather than truly knowing your

customers. Finally, customers vary sharing the data with the financial service provider - for the fear of misselling, unwanted marketing calls, data being shared with the Income Tax department, etc. Thus, the relationship between the financial service provider and the customer is driven at the transaction level and not at the relationship level. In order to retain customers, the NBFC will need to understand the needs of the customer and find solutions to those needs. Today, you have technology solutions that enable you to do this seamlessly through advanced data analytics tools.

CA: Could you please share the unique characteristics of your company, Svakarma Finance Private Limited, and what makes it stand out from the competition?

KI: Svakarma Finance intends to be an impact focused NBFC that caters to the underserved enterprises. Our lending philosophy is driven on three core principles - understanding the purpose of the loan, visibility into the cash flows of the enterprise and finally security as a moral suasion. What this means to a customer is that before giving the loan, we will take efforts to understand the purpose for which he is borrowing and thus the loan amount will be linked to the business need and not dependent on any external variable. This will help us analyse his business cycle and cash flows and structure the repayments to suit the cash flows of the business. Finally, for us security from the customer is only for moral suasion and not linked to eligibility for the loan or for computation of the loan amount.

The other element that will differentiate Svakarma will be our ability to serve the customer on the three principles - what we call the LSD model - Lakshmi (L) is what we will provide in the form of loan, Saraswati (S) is what we will provide as knowledge support and Durga (D) is what we will enable through empowerment and market linkages. We are investing in creating a network of partners, our knowledge partners, who will work alongside us in serving our customers across the three components - Finance, Knowledge and Enabling Empowerment.

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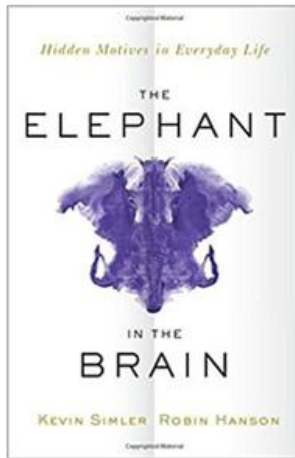
RESOURCES



The Elephant in the Brain

- Kevin Simler and Robin Hanson

Reviewed By Prasad Deshpande



This is an unusually insightful book about behaviour and the authors are as interesting as this book is. Robin Hanson is a prodigy, a late bloomer who started his Ph.D. when he was 34 years old and then made up for the lost years with a varied body of prodigious work. He is primarily an economist with an expertise in predictive markets. Simler is a programmer, with a dream job at Palantir, one of Silicon Valley's hottest start-ups, who just happened to be interested in an area far removed from writing software code.

The premise of this book in a nut shell, is that human beings are primates, and primates are political animals. Our brains, therefore, are designed not just to hunt and gather, but also to help us get ahead socially, often via deception and self-deception. We benefit by pretending that our motives are other than altruistic. The less we know about our own ugly motives, the better - and thus we don't like to talk or even think about the extent of our selfishness. This is "the Elephant in the Brain."

The writers guarantee that we won't see ourselves or the world in same way once we confront the 'Elephant in the Brain'. We learn that that much of our behaviour is for social consumption: we make decisions that make us look good, rather than good decisions. This explains why policies sometimes don't quite work in the way they are designed to do.

The authors persuasively argue that man, the 'master of the universe', is really a master of self-deception, equipped by evolution with an "introspective blind spot" that hides deeper, selfish motives, even when the same motives are easy to spot in others. 'We deceive ourselves better to deceive others'.

In fact, the institutions that we have built are in many ways designed to accommodate our hidden motives, to serve hidden agendas alongside our "official" ones.

The aim of this book, then, is to confront our hidden motives directly so that, we can work to better why we behave the way we way do: Why do we cheat? Why do we brag about travel? Why do we prefer to speak rather than listen? Why do we co-operate with each other and what norms do we all follow?

The book has a number of interesting concepts and "Press Secretary" is one of the most fascinating. The "Press Secretary" or the interpreter module is a system in the human brain whose job is to make sense of our experiences by constructing explanations and works to the best of its abilities, given the information available to it. And like a real life Press Secretary to the President of the US or a Prime Minister, the Press Secretary provides explanations sometimes genuine and sometimes counterfeit and makes it impossible for the audience in our case, our internal selves and other people, to tell the difference.

While the book succeeds dramatically in demonstrating that hidden motives are common and important, it does not tell us how to 'Train the Elephant'. That's unfortunate, since the ideas in the book are bursting with potential applications.

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FEEDBACK

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