

# ArthImpact Happy Loans

Report 2017



Image from [www.youthconnect.in](http://www.youthconnect.in)

## ACKNOWLEDGEMENT

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## Contents

ACKNOWLEDGEMENT .....	2
List of Tables .....	3
List of Figures .....	3
Executive Summary .....	4
Study Details .....	5
Methodology .....	5
Findings of the Study.....	5
Customer Demographic Profile.....	5
Business Profile .....	5
Loan Profile.....	7
Loan Requirements .....	8
Experience with Happy Loans .....	11
Partner Experience .....	18
Conclusion.....	23
Happy Loans Customer Stories .....	24

## List of Tables

Table 1: Demographic Statistics of the Respondents .....	5
Table 2: Employee Statistics .....	6
Table 3: Percent of monthly sales through POS machine.....	10

## List of Figures

Figure 1: Types of Business in study sample.....	6
Figure 2: Age Range of Full time and Part time employees.....	7
Figure 3: Usage of Happy Loans.....	8
Figure 4: Average Monthly Sales .....	9
Figure 5: Average Monthly Costs .....	9
Figure 6: Average Monthly Profits .....	10
Figure 7: Loan usage by City .....	14

## Executive Summary

The ArthImpact Happy Loans Report 2017 is an assessment of the impact on business growth, financial independence, and family finances of the clients created by the product. Conducted by IFMR LEAD, the report highlights how credit extended under Happy Loans has helped its clients address a variety of their business financial needs, and provides recommendations on what aspects of the product and its delivery can be improved. The report is an outcome of surveys and interviews conducted across 4 cities and over 60 clients, and highlights the business created by Happy Loans. The report also comprises inferences from the experience of Happy Loans' partners and their feedback on the product and their collaboration with ArthImpact.

The key findings were that the loan process is straightforward; the documentation requirements are easy to navigate, and the overall process is easier and faster compared to banks. Over 50% of the sample reported a loan turn-around time of 4 days or less. The repayment process, done through automatic deduction with each use of the POS machine, was met with largely favourable reviews, especially in the months following demonetization when there was a surge in the volume of digital transactions. There were a few concerns with the repayment process that focussed on the design of the POS machine and cases where deductions continued even after repayment of the loan. Similarly, a vast majority of the sample found that the product had great value for money, with affordable interest rates and negligible application costs. There were mixed reviews on the quality of customer service and overall customer engagement, but 95% of the sample reported satisfaction with their overall loan experience.

Some of the key recommendations from the clients were: (1) repayment flexibility must be increased, with respect to loan tenure, and in terms of choice of repayment style, between EMI payments vs. automatic deduction; (2) loan sizes must increase for significant impact on the growth; (3) strengthening post-repayment processes such as the timely provision of financial statements; (5) building capacity of customer service, and devising an improved customer engagement strategy.

On the partner side, the important trends were the benefits accrued by the partners due to their collaboration on Happy Loans by being able to service the customer base that requires micro-credit, which is often overlooked by lending institutions but constitutes a very large segment. Furthermore, considering the rapid pace with which the digital financial ecosystem is evolving, the partners outlined their views on the importance of leveraging technology to reap the dividends of widespread digitization and how a product like Happy Loans fits well into this ecosystem by virtue of its simple process and ability to deliver on their guarantee of low turnaround time.

The sections that follow will discuss in detail the methodology adopted, and the findings from the study.

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## Study Details

### Methodology

The study, undertaken by IFMR LEAD, involved surveys conducted across 4 cities with over 60 Happy Loans clients, including both current and past clients. The cities that were a part of the study were Bangalore, Hyderabad, Mumbai, and Pune based on the volume and variety of Happy Loans clients in these cities.

The survey focussed on gathering client profile characteristics and a qualitative component to assess customer experience and satisfaction along the range of steps in the loan process. Data was collected and analysed on business impact, financial empowerment, and effects on family life as a result of Happy Loans. The inferences in this report, and customer profiles were derived from analysis of both the summary data on customer profile, business profile, and loan profile and requirements, and qualitative data on the loan experience, self-evaluated impact on business, and delivery.

### Findings of the Study

The findings of the study are based on analysis of survey data on customer profiles, business profiles, loan profile and requirements, as well as case studies on the clients' loan experience, delivery, and impact on their business. The findings are discussed in separate sections for each of the above, highlighting the key trends and inferences.

### Customer Demographic Profile

All the respondents who were surveyed for the study were male, indicating a clear gender divide. Although Happy Loans has some female clientele, there is a need to introduce a gender focus in their micro-lending in order to empower women entrepreneurs. The average age of the sample was 34 years, and over 80 percent of the respondents were married. On average, a client who was married reported having 2 kids. Table 1 summarizes the demographic statistics of the respondents.

*Table 1: Demographic Statistics of the Respondents*

City	Number of respondents	Percent male	Age	Percent Married	Family size
Hyderabad	11	100	34.4	91	5.7
Bangalore	10	100	37.9	70	4.1
Pune	20	100	31.3	85	5.6
Mumbai	20	100	35.7	85	5
Total	61	100	34.4	84	5.3

### Business Profile

All the respondents were at least part owners of the business. Majority of the respondents were sole owners (87 percent) followed by joint ownership with a family member (11 percent) and non-family member (2 percent). Moreover, over 80 percent of the respondents had set up the business themselves compared to the remaining who inherited the same from another family member. On average, the businesses were 10 years old but this ranged from 1 year to 47 years. Businesses surveyed in Bangalore were youngest having started on average 5 years ago and those in Mumbai were the oldest having been set up over 12 years ago. The majority of the businesses surveyed were retail stores,

dealing with products like ready-made garments, and consumer goods. Figure 1 shows the distribution of the various businesses in the sample.

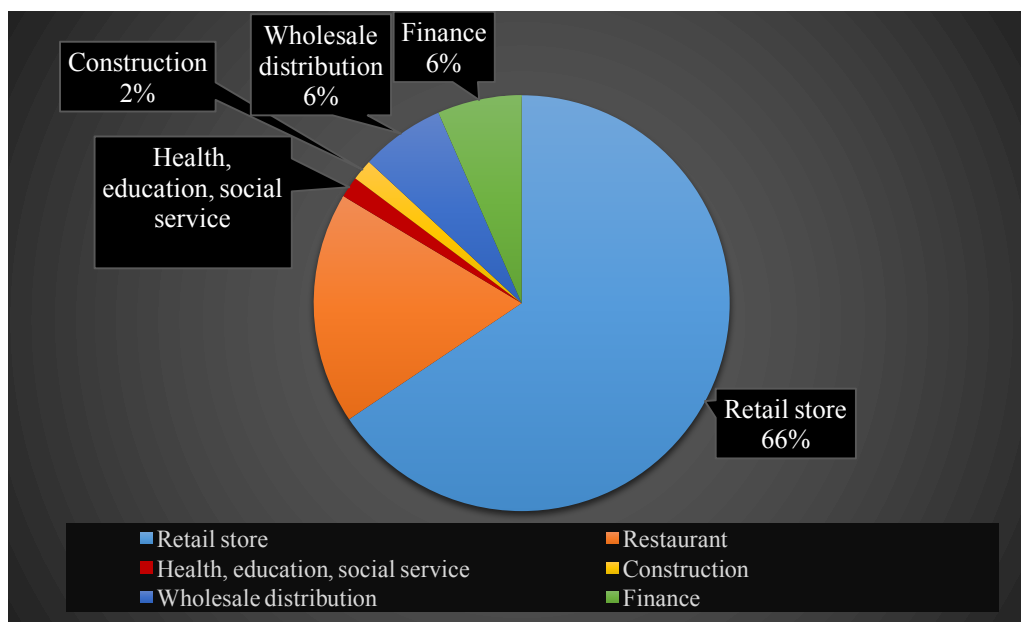


Figure 1: Types of Business in study sample

Nearly a quarter of the sampled businesses reported having no employees. In the remaining businesses, the number of employees ranged from 1 to 15 with the median number being 2. Employers hire both part-time and full-time employees. These are summarized in Table 2. As we can see, number of female workers is extremely low across the entire sample, despite most of these enterprises being environments that are suitable for women. This can partly be explained by male owners feeling comfortable with managing male subordinates.

Table 2: Employee Statistics

	Median Full-Time Employees	Percent Male	Median Part-Time Employees	Percent Male
Bangalore	1.5	98	1	100
Hyderabad	3	72	3	100
Pune	2	85	1	100
Mumbai	3	74	1	100
Total	2	84	1	100

Figure 2 illustrates the ages of full-time and part-time employees for businesses that reported having employees. Most employees, both full-time and part-time, are under 25 years old.

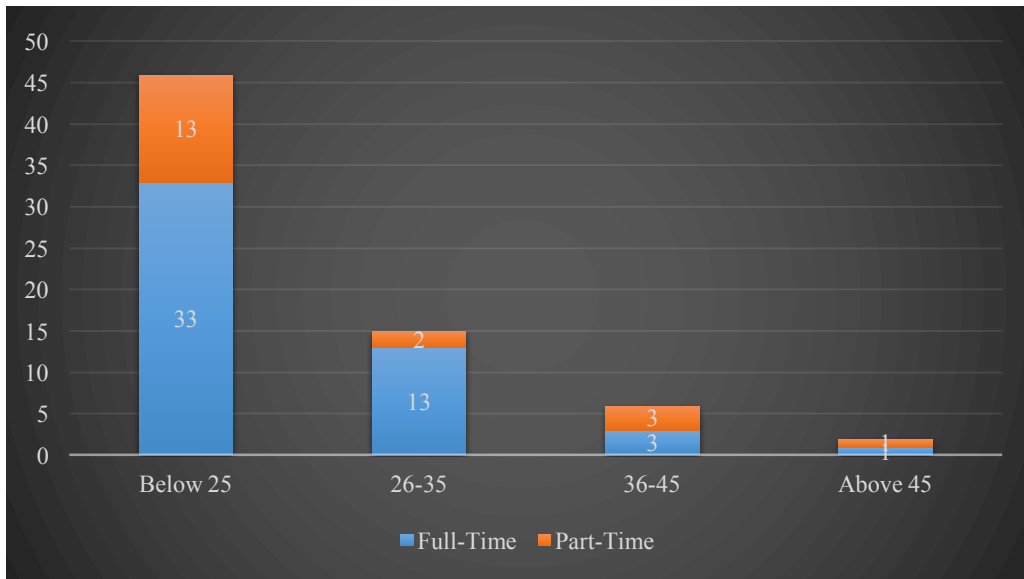


Figure 2: Age Range of Full time and Part time employees

Furthermore, data collected on salary ranges show that most of these employees get paid under INR 20,000 and INR 10,000 per month for full-time and part-time employees respectively. Only 5 percent of the clients with full-time employees reported that they pay a salary greater than INR 20,000, while all clients with part-time employees pay under INR 10,000 per month.

As a part of our survey, data on any fluctuations in employee strength over the last year was also collected. Over 80 percent of the respondents reported no change in the number of employees hired while 10 percent registered a decline and 8 percent reported an increase in their staff strength.

### Loan Profile

36 percent of the respondents had an outstanding loan at the time of applying for the Happy Loan. The median outstanding loan amount was INR 1, 25,000. The bottom quartile had an outstanding loan of INR 50,000 while the top quartile had an outstanding loan of INR 2, 50,000 on average. Majority of the outstanding loans were from Banks (41 percent) and Private Organisations<sup>2</sup> (27 percent). The rest were from Self-help groups (18 percent), Friends or relatives (9 percent) and ArthImpact's business partners (5 percent).

With regards to Happy Loans, over 90 percent of the respondents used the loan exclusively for their business, while the remaining used it for personal purposes or had yet to use the loan money.

<sup>2</sup> These include automobile loans from Honda showroom, Bajaj etc.

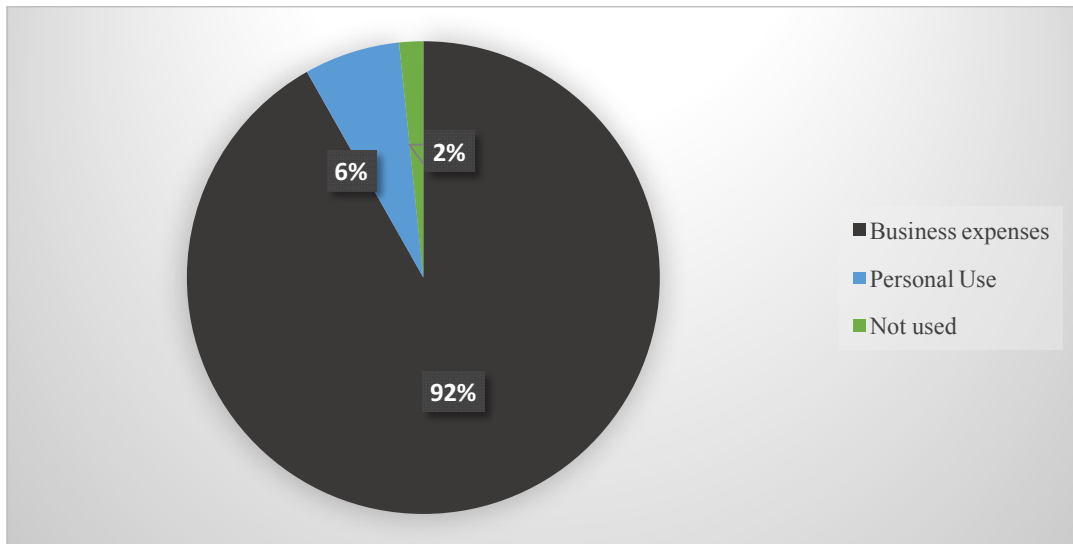
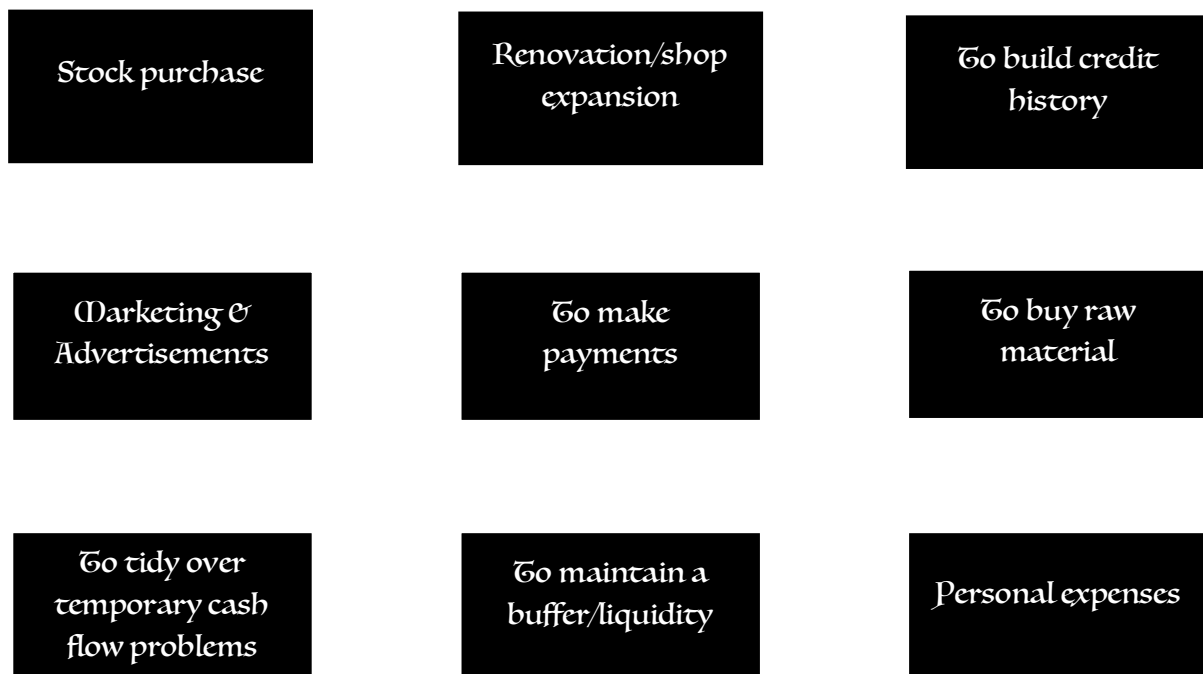


Figure 3: Usage of Happy Loans

### Loan Requirements

While micro-enterprises of the kind that constitute a bulk of Happy Loans clientele require credit, it is important to know what the common uses of credit for such businesses.



Happy Loans is specifically a micro-credit product for micro-customers. Micro-customers are typically characterized by small business size, with a handful of employees, and a relatively low value of business. The following figures illustrate the average monthly sales, costs, and profits of the sampled businesses. Over three fourth of the sample reported an average monthly sale of less than INR 3,00,000 and over two third of the sample have monthly costs between INR 1- INR 3,00,000. The monthly profit margins are low for a majority of the sample, with almost half of the sample reporting less than INR 50,000 in monthly profits.



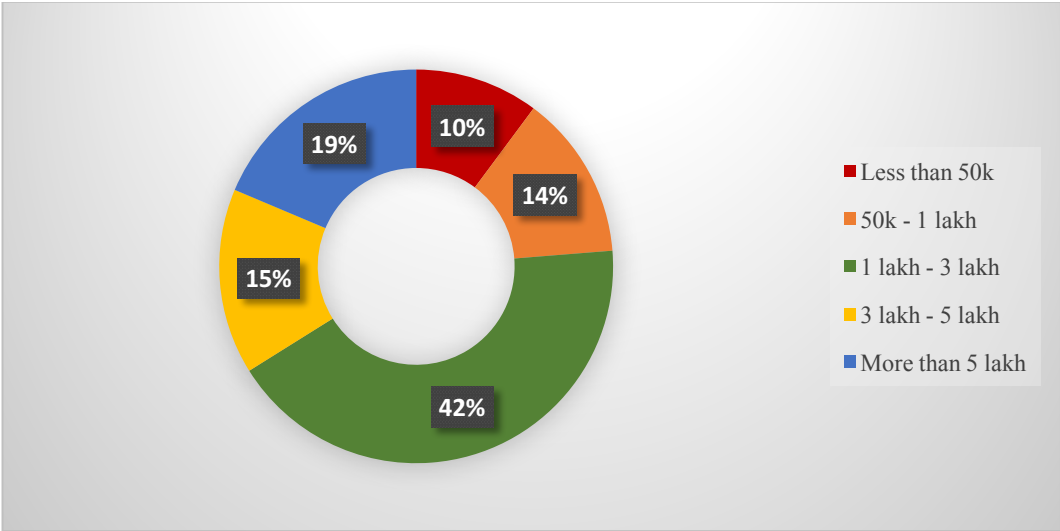


Figure 4: Average Monthly Sales

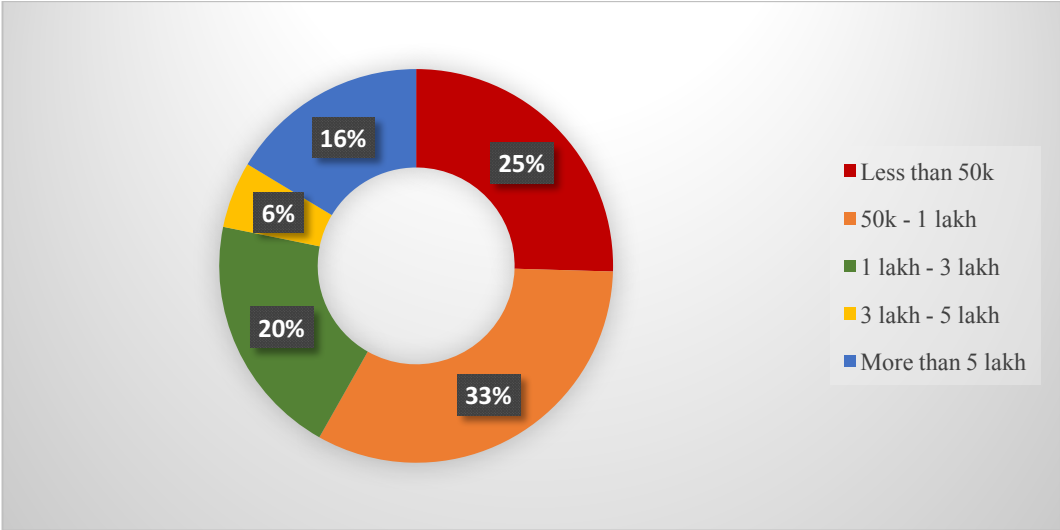


Figure 5: Average Monthly Costs

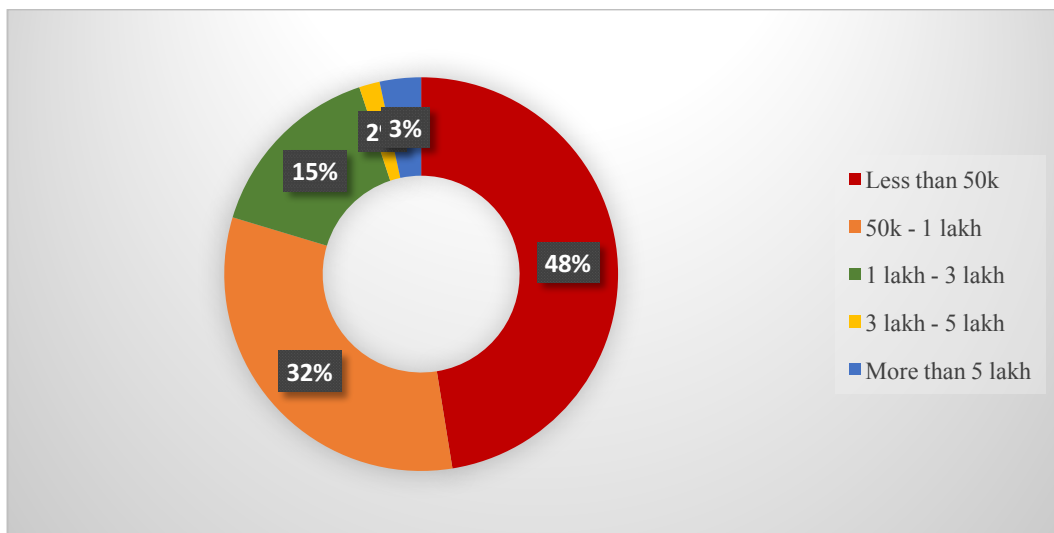


Figure 6: Average Monthly Profits

Given that Happy Loans is an end-to-end digital micro-credit product and loan repayment is done through an automatic deduction on every transaction on the respondent's POS machine, the survey also collected data on the percentage of use of these machines. The percentage of every transaction that gets deducted is pre-decided by the respondent and lender. The volume of POS use varies from business to business, and is also contingent on external factors. A good example is the surge in POS transactions in the months following demonetization. The average monthly sales through POS data are displayed in Table 3.

Table 3: Percent of monthly sales through POS machine

City	Percent
Hyderabad	18
Bangalore	32
Mumbai	29
Pune	34
Total	29

The following box presents the highlights from the above section on customer, business, and loan profiling.

- All respondents surveyed were male, with an average age of 34.
- 87% of the respondents were sole owners of their business, and over 80% set up their business themselves.
- Nearly two-thirds of the businesses were retail stores, followed by restaurants (18%), wholesale outlets and finance enterprises (6% each).
- A quarter of the businesses sampled had no employees. Among the remaining, the median employee strength was 2. Despite most enterprises being environments suitable to female employees, the number of women employed was extremely low across the entire sample.
- Approximately a third of the respondents had an outstanding loan at the time of applying for the Happy Loan, with the median loan amount being INR 1, 50,000.
- Over 90% of respondents used their loans exclusively for their business.
- The most common uses of the loans were stock purchase and shop expansion/renovation.

## Experience with Happy Loans

The qualitative section of the survey collected data on customers' experience with various aspects of the Happy Loans process, starting from the application process and documentation requirements to repayment and customer care.

### 1. Experience with loan process and documentation

The overall process earned several plaudits from the participants of the study, with a largely unanimous response lauding the process for its simplicity, convenience, and time efficiency. Clients could submit a request for a loan with just an SMS, email, or WhatsApp message. The documents required were found to be very straightforward and easy to manage, with the loan process just requiring the PAN and Aadhaar cards, and occasionally asking some clients for a copy of their trade license, passport size photographs, or a cancelled cheque.

The time taken for application is reported to be less than 30 minutes. Several clients commended the process for its simplicity, and said that compared to the corresponding process for a bank, this was far better.

*"My experience with the loan process and procedure has been excellent! It was very easy to understand and do. The only documents required were my PAN and Aadhaar Card, and I just had to reply to an SMS with either 'YES' or 'NO' for the loan. It took me 30 minutes to apply. An hour later, my loan got approved. I cannot imagine this happening if I went to a bank."*

*Happy Loans client, Hyderabad*

### 2. Loan Turnaround Time (TAT)

A key feature of Happy Loans is their ability to disburse loans in a very short time, made possible by their end-to-end digital structure, and the easy loan process. This is substantiated clearly by the data collected on loan turn-around time (TAT). The average TAT<sup>4</sup> for those interviewed was 5.6 days, while the average for Hyderabad and Bangalore were 4.5 and 6.8 days respectively. Over 50% of the respondents reported a loan turnaround time (TAT) of 4 days or less, while some reported a TAT of a week or a fortnight.

### 3. Repayment Process

In order to examine whether the repayment process of Happy Loans contributes to the overall satisfaction with the loan, the survey included questions on both the repayment process and whether it was easy or difficult, and what changes would the respondents like to see made to the process. Since process is an end-to-end digital one, repayment is done through deduction on swiping of the POS machine (mSwipe machine). The swiping is automatic, wherein every time a customer pays using the POS machine, a pre-determined percentage of the transaction amount is paid towards the loan repayment. This percentage can be changed by the client. At the end of the loan tenure, if a balance amount remains, it is then paid in lump sum. However, several clients stated that with the surge in digital transactions and use of credit/debit cards post-demonetization, the volume of POS transactions

have resulted in fast repayment under this mechanism. Moreover, since deductions are automatic and do not require any additional effort by the client, the process is considered very easy.

“Repayment process is very good and flexible. The amount gets deducted directly on swiping. No changes are required to the process, since this is very good.”

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*Happy Loans client, Bangalore*

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#### 4. Value for Money

A vast majority of the sample found the Happy Loans product to have high value for money. They found the costs associated with the loan, mainly constituting an application fee, to be reasonable and often negligible, and the rate of interest was largely considered affordable. Some respondents, however, felt that the application fee should be waived off, while others felt that given the short duration of the loan, the interest rate is quite high.

“The costs associated are very reasonable. The interest rate is very affordable.”

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*Happy Loans client, Pune*

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#### 5. Customer service & overall engagement, and overall satisfaction with the loan

Good customer service is an integral part of overall delivery of any product or service. While offering an end-to-end digital product has several advantages, it also poses challenges in the form of clients who may have low levels of digital literacy. The Happy Loans customer service received mixed reviews.

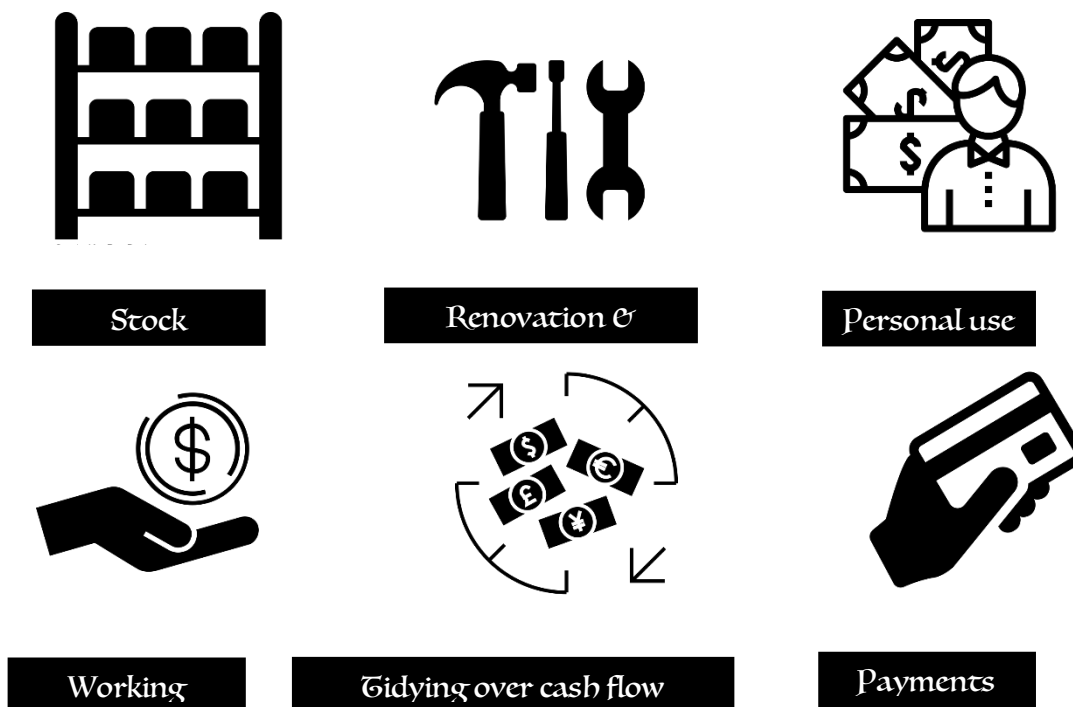
Some clients expressed their satisfaction at the competence of the customer service, and their cooperation when they faced issues with either repayment or the POS machine. On the other hand, some clients called the customer service very, very poor, further adding that the customer service personnel they interacted with added to their confusion instead of resolving their issues. These are clients for whom even small amounts of money are of high value, and thus, they expect their fears to be assuaged and queries to be addressed by the customer service department.

Regarding overall customer engagement, the clients that were happy with their customer help experience were happy with the overall engagement. Similarly, the ones dissatisfied with customer service were unhappy about the overall engagement. However, a considerable number of respondents claimed to have had zero interaction with customer engagement. Some even mentioned that they had tried to get in touch regarding a subsequent loan, but had not heard back after months passing by. Overall, while their processes seem to be in place, Happy Loans must work towards streamlining the operations of its customer service, and design a better customer engagement strategy.

**Overall, 95% of the survey sample reported satisfaction with their overall Happy Loans experience.**

6. *Loan usage*

The funds received from Happy Loans were used for a variety of purposes, illustrated in the diagram below:



Nearly 55% of the respondents said that they used the loans for stock purchase, while 16% of all respondents cited financing working capital requirements and tidying over cash flow each. A little over 10% used their loans for renovations or repairs, while half of those used the loans for personal use. Finally, 3% of respondents used the loan money to make payments.

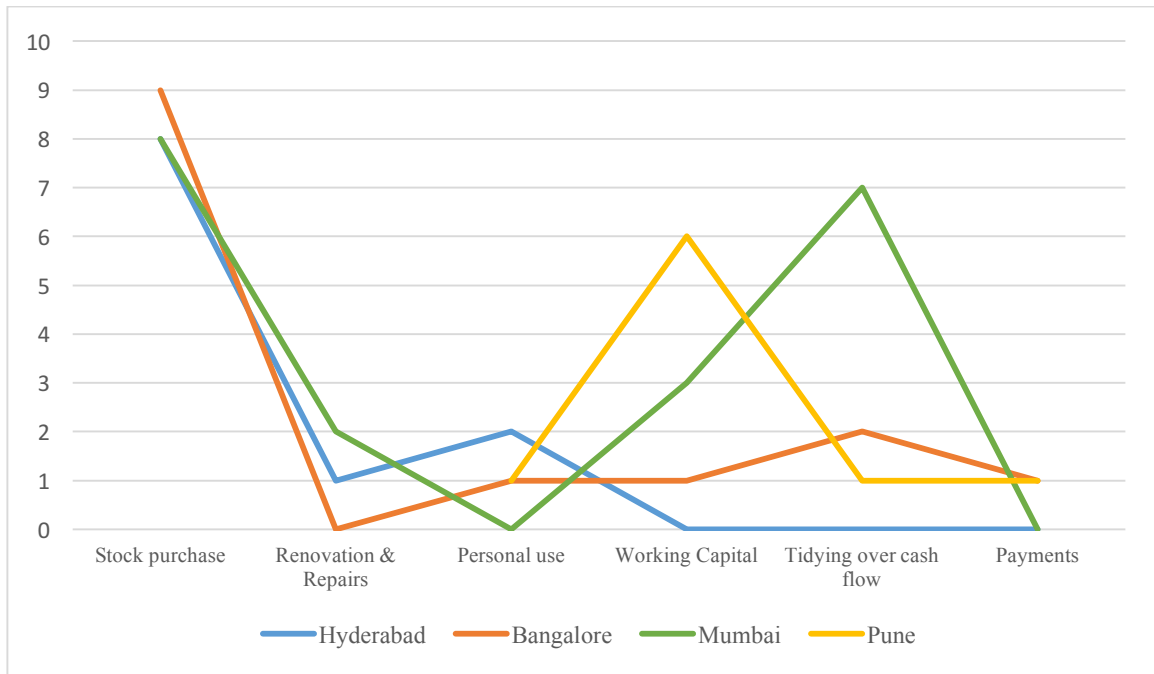
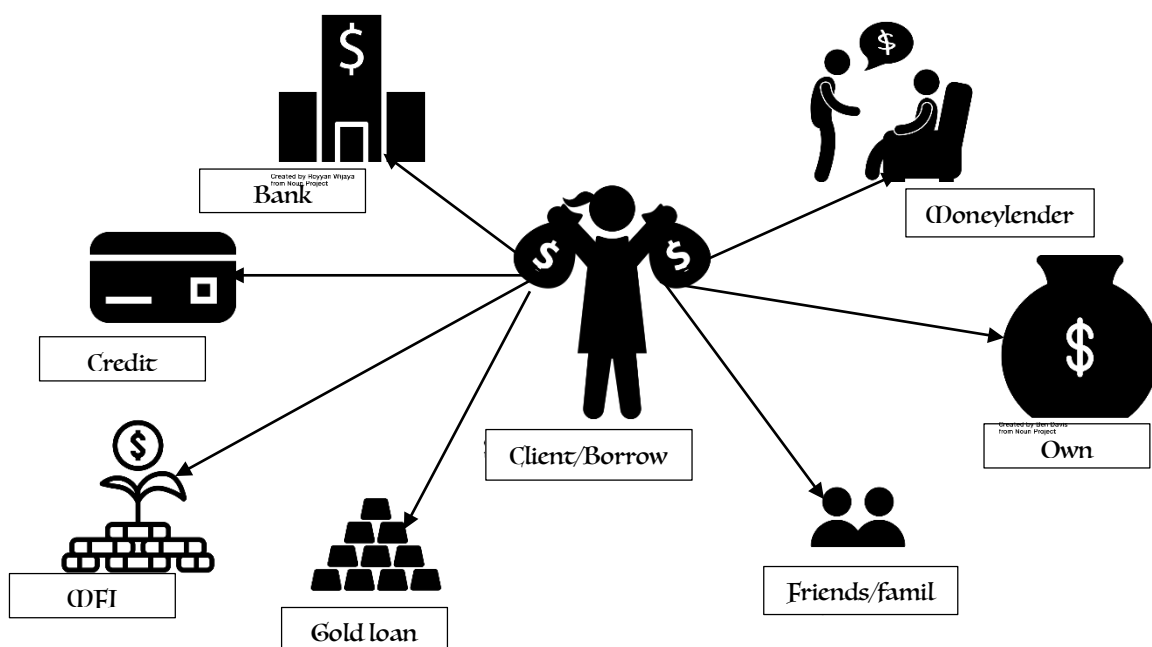


Figure 7: Loan usage by City

## 7. Alternatives to Happy Loans

Micro-enterprises have a variety of credit needs that often can't be met by one funder. The choice of credit lender is a good indicator of a client's financial literacy, preferences, and access available. In the absence of Happy Loans, our clients would borrow from two kinds of sources, broadly: formal or informal. The formal sources include loans from banks, applying for/using a credit card, borrowing from a MFI, or taking a gold loan. Prominent informal sources include local money lender, daily financiers that are local to their neighbourhoods, borrowing from family and/or friends, or dipping into one's own savings.



There are, of course, advantages and disadvantages associated with each of these lending sources. In the case of banks, the perceived advantages are higher loan amounts, longer loan tenure, and lower interest rates, but the disadvantages are much longer processing time and more documentation. With gold loans, the advantage is a lower rate of interest, but the need for collateral is a disadvantage. If a client borrows from a MFI, the key advantage is that it is a relationship-based transaction, which gives a great sense of security, and a means for any grievance redressal, but the disadvantage is the processing time, which can be damaging when a timely loan is required.

There is a trend in the perceived advantages and disadvantages with informal sources. The advantage of borrowing from a money lender or a family member is that they are readily available, and acquiring a loan is very easy. However, the disadvantage with moneylenders is the exploitative interest rates, while borrowing from family or friends contributes to a sense of financial dependence and disempowerment.

Another recurring response was that, *“I have not given this any thought, as I have never had to take a loan. I only took this loan because it was available, and it might help in the future if I need money urgently.”* This raises a question of lack of financial planning and awareness about the benefits of borrowing for business growth among some clients.

## 8. *Impact on Business Growth*

The impact of Happy Loans on business performance, while different for different businesses, can be categorized under 3 distinct opinions:

- i Happy Loans had a positive impact on business growth, and the client was satisfied with the level of growth.
- ii Happy Loans brought about a small amount of growth, but the growth was sub-par and below expectation. Moreover, this was mainly believed to be due to the size of the loans.
- iii Happy Loans had absolutely no impact on the business, which is to be expected for the amounts being given.

Additionally, some clients explained that they applied for a loan immediately after demonetization, and the loan helped them keep their business stable. Therefore, under different circumstances, the loan might have led to tangible growth in their business.

## 9. *Empowerment and Financial Independence of clients*

For many of its customers, Happy Loans signifies a source of credit that is timely and reliable, in the event of financial difficulty. In the event that an urgent loan is required for the business, be it for any reasons ranging from tidying over a cash flow problem to paying a supplier, access to Happy Loans implies that there is no need to rely on a friend, family member, or even an informal source of credit. This contributes to the feeling of empowerment and financial independence.

*“I feel self-reliant and secure of getting a timely loan in the future, if the need arises. I no longer have to rely on my family for money anymore”*

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*Happy Loans client, Bangalore*

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However, several clients argue that although the loans are disbursed timely, there is no feeling of financial independence because the amounts disbursed were too small to take care of any significant business expenditure.

“Absolutely no impact or feeling of independence. Like I said, the loan amount is too small for any effect.”

*Happy Loans client, Hyderabad*

#### 10. Impact of Happy Loans on clients' lives

Client opinion was divided on the question of the product's impact on family life. While some clients felt that the timely nature of the loan, and the availability of funds to take care of certain business expenses enabled them to not divert funds set aside for their families, others felt that compared to their business requirements, the loan amounts are negligible to have any real impact, and that there is no influence on family life.

“There has been a positive impact on the family, since sometimes you have to take out money for the business from family money, which is no longer required due to this.”

*Happy Loans client, Hyderabad*

“No impact on family, because the amount is too small for any impact.”

*Happy Loans client, Mumbai*

#### 11. The uses of Happy Loans to its clients

Happy Loans is ArthImpact's micro-credit product targeting micro-customers, particularly in the SME sector. It aims to make financing available to small and medium enterprises who might not have a formal credit history, and cannot afford to go to the bank for every financial need. It is important to recognize that Happy Loans cannot disburse larger loans without completing a few client cycles with its clients. Given this understanding, the loan product offered is thought to have helped its clients in the following ways:

- i. Happy Loans allowed its clients to scale up their businesses during peak seasons by providing funds to buy stock.
- ii. The loan product helped clients tide over poor months by boosting sales through marketing, or taking care of working capital expenses and payments.



- iii. It helped tide over cash flow issues that are commonplace in small businesses.
- iv. Happy Loans provided much needed liquidity to businesses in their time of need.
- v. It helped businesses navigate external shocks through timely disbursements of money through its end-to-end digital system.
- vi. Happy Loans contributed to decreasing its clients' reliance on informal financiers and family members for credit, leading to feeling of empowerment and financial independence.

## 12. Client Recommendations for Happy Loans

In accordance with the salient features of Happy Loans and its shortcomings, the following recommendations gained traction among clients:

- i. Clients suggested that repayment should be more flexible in two ways: (1) in deciding what percentage of each transaction gets deducted, and; (2) the loan tenure should be more flexible, and clients should be allowed to choose a longer loan duration if required. The point about flexibility of duration is particularly valid for clients with peak sales months surrounding festivals. These clients take a loan in the pre-festival months to buy stocks, but often need more than 90 days for their sales to peak up in festival season for repayment.
- ii. Apart from loan tenure, clients also stated the need for loan to increase for it to make a significant impact on their businesses.
- iii. Instead of a transaction-based repayment system alone, clients gave feedback on bringing in an EMI-style repayment option and being able to choose the repayment option based on their preference.
- iv. Some aspects of the loan process, especially post-repayment, were viewed by the clients as imperative to change. This included the timely provision of financial statements during and after the repayment cycle, since some clients said that they were unclear of the rates being charged, and of when repayment is complete due to the automatic deduction from the mSwipe machine.
- v. Customer service requires capacity building and additional personnel dedicated to specific aspects of the client experience, such as grievance redressal, loan renewal, and technical difficulties with the POS machine, among other things. Many clients felt that these are areas that can be further improved on in the case of Happy Loans.
- vi. Overall, while the customer service processes seem to be in place, there is a need to work towards streamlining these operations. Furthermore, a better customer engagement strategy could be designed to help reach out to the segment of the clients who claim to have never interacted or been contacted by customer service.
- vii. It provided much needed capital for expenses like repairs, renovations, or advertisements which otherwise get neglected in favour of making payments to suppliers and buying stock, but are important investments for future growth.

The following box presents highlights from the analysis of the loan experience outlined above.

- The overall loan process was met with a very favourable response, garnering praise for its simplicity, convenience, and time efficiency.
- Over 50% of respondents reported a loan TAT of 4 days or less.
- The repayment process was found to be very effective and hassle-free, with automatic deduction from the POS machine afforded by the end-to-end digital platform. The process was also appreciated for the flexibility it afforded.
- The costs and interest rates of Happy Loans were found to be reasonable and affordable by most of the respondents.
- The customer service and overall customer engagement were subject to mixed reviews, with some respondents recounting how their interactions helped with their issues, while others

## Partner Experience

### 1. *The process of working with ArthImpact to provide Happy Loans to the clients*

ArthImpact leverages the existing client database available with its partners by selecting customers that fulfil certain eligibility criteria. This is done in two ways, depending on the partner:

(1) The partners, who provide either POS machines or a digital trading wallet or wallet for electronic money, share information on transactional count, volume, and Gross Merchandise Volume (GMV) on their customers with ArthImpact. On the basis of their eligibility criteria and assessment using a CIBIL score, ArthImpact decides which customers they want to lend to and the amount of the loan for each client and relays this information back to their partners, who in turn extend the offers to their customers. On acceptance, the partners process the merchant's KYC and Aadhaar card. Alternatively, the partner receives the eligibility criteria for a potential Happy Loans recipient, which they use to filter the data in their customer database to identify potential merchants. These merchants are informed of their eligibility, and if they are interested, their information is passed on to ArthImpact. Their acceptance form and KYC is verified and processed by ArthImpact.

(2) In the case of other partners, the product features of Happy Loans are advertised on the partner's mobile wallet or digital platform. Interested merchants can respond to this with an expression of interest along with a few basic details like PAN card or e-KYC. The partner then extracts transaction data for these merchants and sends it to ArthImpact, who perform a CIBIL check. The remaining process is similar, with loan acceptance indication done through an OTP sent to the registered mobile number.

All the partnerships are based on ArthImpact gaining access to an existing database of potential clients, while the partners get to cater to a segment who require small loan amounts, largely outside the ambit of most other providers of credit. The table below outlines the advantages and disadvantages of the process adopted between ArthImpact and its partners, as reported by the partners.

### **Advantages**

- Having a database of clients ready to be tapped into makes for a smooth start of the partnership between ArthImpact and the lending partner
- Allowed partners to cater to small-sized retailers, a segment that needs timely and relatively smaller loans with repayment flexibility that does not cause rapid capital depletion.
- Low turn-around time
- The opportunity to service people (merchants) who earn largely in cash and have a variety of financial needs, notably needs like remittance. These are people who cannot go to a bank due to very small ticket size. The partnership facilitates conversion of physical cash to digital money, introducing flexibility to how money can be used.
- Documentation requirements are very low, which gives access to a wider range of clients.

### **Disadvantages**

- Losing out on large merchants for whom the loan amounts under Happy Loans are insignificant.
- The assessment of a merchant is done on the basis of incomplete data. For instance, if a partner has a client who runs a kirana store-cum-remittance outlet. The income information of the client is based on the remittance activity, but we don't get a full picture of the income because kirana income does not get captured well.

## **2. Client profiles**

All partners categorized Happy Loans clients as micro-customers, typically known as *mom and pop stores* that have low transaction size but decent transaction volume. Many of these merchants do not have a credit history and are ineligible for bank loans due to the absence of a banking habit.

A majority of the merchants are owners of retail stores, while a few are distributors. The predominant reason stated for this split by the partners was around usage. A loan product is much more useful for the former, while distributors require a line of credit more than a loan. The client profiles also include remittance providers, mobile repair shops, medical stores, and kirana stores.

### 3. *Loan usage*

The partners reported the two most common uses of the loan being the purchasing of stock among retail clients and payments and money transfers for clients running financial transaction enterprises like remittance services. The merchants have very specific requirements at a very specific time, and the loan usage is a function of timely disbursement because these loans are often requested to make use of opportunities to buy stock at discounted rates in bulk, usually in anticipation of peak sales season. The partners emphasized that the clients benefit from timely disbursement of loans more than from the loan amounts.

However, some partners reported that they had no information on what the loans were being used for by their clients, and could at best speculate on the basis of the client profile. The partners added that their role was more as middle-men who facilitated the loan process, extending an ArthImpact loan product to their clients, and that their role in the process was over after loan disbursement to the client.

### 4. *Benefits from the collaboration for the partners*

All of ArthImpact's partners interviewed for this study reported great satisfaction at their partnership and reported having benefited from partnering on Happy Loans. The box below illustrates how partners felt they have benefited from their partnership with ArthImpact, and how the developers of Happy Loans stand out in comparison to their other lending partners.<sup>3</sup>

- Happy Loans is the only loan product operating in the customer segment that requires smaller loans, but is the largest customer segment by number. As one of the few bank agnostic providers, the collaboration between Happy Loans and mSwipe provided the latter to access to a large base of customers that were otherwise going unserved.
- Happy Loans was a welcome partnership for Storeking, whose other partnerships lead to major issues due to a lack of flexibility with repayment, resulting in rapidly rising delinquency. Storeking shifted all their delinquent clients to Happy Loans, and saw great repayment rates. Over 90% of the clients who have finished at least one loan cycle with Happy Loans have expressed their interest to return for subsequent loans.
- Eko has benefitted from ArthImpact's ability to deliver loans at extremely low TAT. According to Eko, the *convenience quotient* for repeat customers is very high, which helps with client retention, and this is what stands out about Happy Loans.
- Similarly, Payworld singled out the low TAT of Happy Loans and ArthImpact's use of technology to create an efficient digital end-to-end platform as the highlight of their partnership.
- According to Ongo, ArthImpact stands out as they are the only one in their buffet of partners that has a product that can cater to new merchants, allowing them to address the financial needs of an entirely different client base due to their partnership.

Moreover, all the partners interviewed stated that the response of their clients regarding their Happy Loans experience has been overwhelmingly positive, with only a couple of minor recurring issues: (1) sometimes, when timely disbursement is critical, and the merchants get their loan in 72 hours instead of 48 hours, they claim that they lose their window of opportunity to buy stock cheaply. (2) There is no grace period to repayment.

5. *ArthImpact and/or Happy Loans' role in the evolving digital financial ecosystem*

India is in the midst of a widespread move towards digitization of financial instruments. We asked ArthImpact's partners about their thoughts on the future of the digital financial landscape and how they saw Happy Loans in this ecosystem. Their views are outlined below:

Traditional mode of lending will not survive beyond 5 years due to two reasons: (1) the number of clients who are still depend on traditional sources of lending are very few and; (2) these clients have been borrowing from the same sources for a long time and are over-leveraged.

There is, therefore, a need to reach out to other segments, and this is where products like Happy Loans come in. Digitization is an opportunity for companies like ArthImpact to thrive.

A major difference between traditional finance and digital finance is ascertaining end use. In traditional lending, particularly with larger loans (5 lakh and above), we often do not know what the loan is used for. On the other hand, digital finance provides the opportunity to track the usage of the loan amount.

Retailers have the capacity to grow their business but no avenue to do this, due to insufficient ability of credit. Digitization has opened the gates for such retailers to avail loans for their business. Moreover, they also get to build their credit history through such loans. ArthImpact fits right into this ecosystem, with a product like Happy Loans that helps further financial inclusion.

Digitization increases convenience. There is still a lot of hassle with financial instruments, and a lot of paperwork. More paperwork means more costs. With digitization of financial instrument, and of surrounding architecture, cost per case increases in the long run, which is extremely beneficial. A company like ArthImpact has a lower ticket size, which means that they can lend to a larger number of clients. Their potential to scale up, therefore, is massive. Digitization will further accelerate this process.

The future of the digital financial landscape can be summarized with one word – technology. For instance, a couple of new products based on Artificial Intelligence (AI) are currently in the pipeline, which will be a game changer. ArthImpact and Happy Loans fit right into this ecosystem because they are innovative and they leverage technology effectively.

Digitization of financial instruments is still at a very nascent stage. In other words, the potential is endless. In the coming years, time is going to be the major constraint: we will no longer have time to go to banks for anything. Digital finance is the future, and players like ArthImpact will thrive. An important advantage they have is that they are already in the space, and have products like Happy Loans.

6. *Future trends for products like Happy Loans and the sector as a whole*

The partners were unanimous in their predictions of rapid growth in the next 2-5 years, with technology playing a great role in driving innovation and the emergence of new products.

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*The digital finance space will evolve. I envisage in the next 2 years that the space will be overwhelmingly app-based, where you can just download the app for a product like Happy Loans, upload Aadhaar, and the loan gets credited in 2 hours. This is not a distant future.*

*-mSwipe*

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*Financial products in India are too formal. For example, we cannot be chatting on WhatsApp and doing a financial transaction. Everyone is tense while transacting. My sense of the next step is to maintain current levels of security but make finance – digital finance – more easily paced. Bring in a conversational interface to do financial transactions by leveraging AI-operated technology, and use user-data at the back-end.*

*-Eko*

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*In tier-1 cities, growth will be robust, but growth in tier-2 and tier-3 cities will be slower. There is a lot of scope for digital finance, and for products like Happy Loans and companies like ArthImpact, but a substantial onboarding of merchants in these places needs to happen first so that awareness about such products can increase, and the sector can grow as a whole.*

*-Ongo*

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*Currently, micro-lending is prominent. However, consumer lending is very important. Rural India is not poor; people have cash, but they don't know how to optimize use. We must set up retail touch points to mirror, say Amazon transactions. Consumer lending has to facilitate the building of credit histories, and is the way ahead for such loan products and the sector as a whole.*

*-Storeking*

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*We predict very robust growth. If payers like ArthImpact constantly innovate, and more importantly, if they change alongside the changes in the sector, they could be seeing 5x growth in the next 2-5 years.*

*-Payworld*

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## Conclusion

ArthImpact's Happy Loans, a micro-credit product for micro-customers, has earned several plaudits from its clients for its straightforward process, easy to navigate documentation requirements, ease of application, flexible repayment, and affordability. The overall process, in comparison to that of a bank, was found to be viewed as easier and considerably faster. In particular, the timely nature of disbursement and the low turn-around time were quoted as the main reasons that instilled a feeling of financial independence and empowerment in clients, by decreasing their reliance on informal lending sources for money in case of future need. Overall, 95% of the clients surveyed reported satisfaction with their overall experience with Happy Loans. Used for business expenses by over 80% of the respondents, particularly for stock purchase, working capital requirements, tidying over cash flow problems, or for shop expansion or renovation, several clients reported that the loan had brought about a growth in their business.

The main area of improvement was found to be customer service and engagement, with a considerable number of clients stating that they received no help from customer service or that they had never spoken to customer service. Additionally, despite the favourable response about the repayment process, a few respondents raised concerns over the design of the POS machine, and cases where deductions continued even after repayment was over. Lastly, an area that needs to be looked into is the loan amounts being given, with several clients expressing that they had seen no growth or experienced any feelings of financial independence of family benefits because the loan amounts were too insignificant.

Happy Loans has proved to be a very useful micro-credit product for its clients, contributing to the smooth functioning of their enterprises, and in several cases, growth. Addressing some of the client feedback and recommendations will help ArthImpact scale-up going forward, as they expand their clientele and forge new partnerships with other lenders.

On the partner side, Happy Loans has also been beneficial to ArthImpact's partners, who have been able to widen their reach to a larger client base due to the nature of the product and due to its fast and timely disbursal. All the partners interviewed reported that they had benefited from their partnership with ArthImpact, who in turn benefited from the access to a ready-to-tap database of clients. Furthermore, the lending partners confirmed that their merchant clients have expressed their satisfaction with their loan experience. As the digital financial landscape evolves in the face of widespread digitization of financial instruments, the partners tout ArthImpact and products like Happy Loans to thrive in this ecosystem due to their proven ability to innovate by leveraging technology. Going forward, it is important that institutions like ArthImpact and the lending partners work towards strengthening their partnerships by evolving into a system where the partners are more than just middlemen organizations. With more innovation, there will be an emergence of more products and better designed products. However, these institutions must make sure that the quality of lending improves as well by putting in place mechanisms that allow for flexible but secure lending, wherein loan usage can be tracked and lending can be used to augment small business growth.

## Happy Loans Customer Stories

Mr. Mohammed Habeeb runs a milk booth in Hyderabad. A father of 3 children, he has 8 part-time employees. He applied for and received a Happy Loan in the immediate aftermath of demonetization. The loan helped him to not only stock up but expand the offerings in his milk booth at a time when businesses were struggling to cope with demonetization. According to Mr. Habeeb, had he approached a bank for a loan, he would have lost valuable time in processing, and putting together the several documents required. The Happy Loan brought about a growth in his business. Furthermore, the experience left him feeling empowered and financially independent, *“as there is no reliance on anyone I know, friend or family, for money. If I am ever in urgent need of money for my business, I can count on this.”* The icing on the Happy Loan cake was the positive impact on his family life, since the timely loan from ArthImpact ensured that he did not have to dip into his family savings for the business to tide over demonetization.



Illustration 1: Mr. Mohammed in front of his shop  
(Photographed by Shashank Sreedharan at IFMR LEAD)



Mr. Syed Abid runs a ladies footwear store called *Shoeplanet* in Bangalore. The store was started by his father, who handed over the reins to Syed in 2014. It is a neighbourhood favourite for the ladies, looking for affordable yet fashionable footwear. Shoeplanet has built a reputation as a store that is always well stocked with a variety of offerings. Syed's Happy Loan was his first ever loan as a business owner, which he took for stock purchases. The Happy Loan helps him keep his customers happy. As a result of the loan, he has witnessed his business grow as he could increase product variety in his store, which increased footfall in his store, and consequently, sales. Furthermore, Syed feels more financially independent and secure in the knowledge that he can get a loan anytime he needs and that it will be promptly disbursed. He also finds that family savings are now easier to handle with his business doing well.



*Illustration 2: Mr. Syed Abid in front of his shop  
(Photographed by Shashank Sreedharan at IFMR LEAD)*

This is Dinesh. In 2013, Dinesh's elder brother started *Sewathi Enterprises*, a money transfer and payment services enterprise in Chembur, Mumbai, in 2013. Dinesh and his brother are joint-owners of their business. They have no employees, and Dinesh oversees the day to day. In their line of work, Dinesh needs to always be prepared with buffer money, which is not always easy to come by. As someone who works in the business of financial transactions, Dinesh found the loan process to be very convenient. *"The documents required are minimal and straightforward, turnaround time was low, and the process, including application is digital from end-to-end. The repayment process is also very easy."* The Happy Loan has proven very useful to Dinesh in building Sewathi's capacity by helping him maintain a money buffer to be prepared against unexpected service requests. *"Post demonetization and GST, it has become difficult to predict when there will be a surge in transaction requests. I am very satisfied with the growth of my business due to Happy Loan, and I want it to grow much more."* Dinesh feels that his brother and he feel more financially independent ever since they took a Happy Loan as they no longer have to rely on their father for money. Moreover, Happy Loan's timely disbursements has allowed him to keep aside more funds for his family from his share of the profits and plan his family finances better.



*Illustration 3: Mr. Dinesh in front of his shop  
(Photographed by Babaso Ombase at IFMR LEAD)*

This is Rohit Kharade. Rohit is a 27 year old restaurant owner from Pune, who took over from his father, who opened the restaurant in 1995. Father of 2, Rohit turned to Happy Loans to invest in his business, after seeing a decrease in staff over the last year. He found the loan process to be very easy. *“The documents required are minimal, the cost of applying are quite less, and the rate of interest is affordable.”* Dinesh reports an increase of nearly 50% in his business due to Happy Loans! Furthermore, he says that, *“I did not have to ask my friends or family for money, and I could afford to spend at home because of the increased profits from the restaurant.”* Dinesh feels extremely happy about the growth his business has seen after the loan, and feels more financially empowered. Happy Loans have definitely helped Mr. Kharade in his pursuit of happiness.



*Illustration 4: Mr. Rohit Kharade in front of his shop  
(Photographed by Babaso Ombase at IFMR LEAD)*

# ArthImpact Happy Loans

Report 2017



Image from [www.youthconnect.in](http://www.youthconnect.in)