

## MicroGraam – Leveraging Cloud for Financial Inclusion

### Introduction

MicroGraam (Peer-to-Peer Micro lending Online Marketplace) is a Bangalore-based crowd-funding lending platform that aims to promote development and growth throughout India by providing underserved populations with access to formal loan financing.

MicroGraam started when its co-founders Sekhar, Sarukkai, and Rangan Varadan were discussing how several financial inclusion models would make micro-entrepreneurship and rural livelihood development a possibility. They scrutinized the then immensely efficacious microfinance model that was to be developed and made more accessible and affordable to rural and micro entrepreneurs, while still retaining the integrity of social business mission intact. In December 2010, Rangan Varadan, a finance professional and a former consultant with Infosys in their banking and capital market business started MicroGraam, a micro-lending company employing the concept of crowd-funding using online platform that was relatively nascent. The only other online crowd funding platform was 'Rang De' that had started two years before MicroGraam. With the rise in internet user base in the country and success of online commerce, Varadan expected



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much faster growth, as the model had proven successful and the initial hesitation of the lenders to do online transactions was something of the past.

How does MicroGraam work in comparison to the traditional micro-finance companies? Predominantly, funds are raised through crowdsourcing. Here, technology plays a major role in this operation. MicroGraam connects with the people who want to invest primarily through the MicroGraam portal. Since MicroGraam's goal is to offer affordable micro-credit, the use of technology platform has not only helped to cut down operations costs but also connect the relevant interested people. Varadan is quoted saying that while the operation costs of a brick and mortar microfinance is about 12 per cent, they have straightway cut it to 6.5 to seven per cent and are even confident of further cutting it down to 3.5 to 4 per cent. Though they largely do micro-credit (Rs 50,000 or below), as defined by RBI they also work with small entrepreneurs who are not serviced by the traditional financial institutions. Their goal is to drive financial inclusion in a broader sense.

With customized repayment models, complete transparency at all levels of borrowing and lending transaction, an attractive guarantee model and over 23 partner NGOs, Micrograam treats its borrowers as equal partners in its mission to eradicate poverty through financial access.

### **Company Background**

MicroGraam started in December 2010.

Rangan Varadan has more than 25 years of experience in the financial services and IT sector. His experience in the financial services domain is extensive, and encompasses the areas of securities trading, investment management, risk management, and economic modelling. Rangan was heading the operations of a Business Correspondent company after his 9 years stint at Infosys. He headed the Banking &

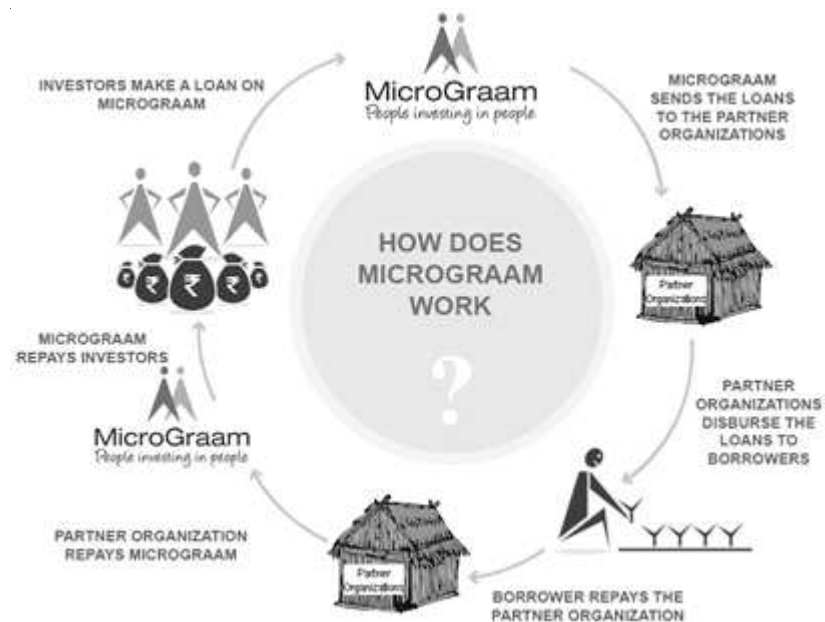
Capital Markets domain consulting group at Infosys. Prior to Infosys, Rangan was an adjunct professor at Lehigh University, USA. He also worked with an investment management firm, J W Seligman, as performance analyst. Before that he was a practicing chartered accountant working with leading banks and financial companies in India. Rangan holds a Doctorate degree in Finance from Lehigh University, Pennsylvania, U.S.A. He is also a fellow of the Institute of Chartered Accountants of India and Graduate of Cost & Works Accountants of India.

Sekhar Sarukkai is a successful serial entrepreneur; the last two companies he founded were acquired by Cisco Systems and Oracle. He is featured among Information Week's Top 25 Chief Technology Officers list. Sekhar, who holds a Ph.D. in computer science from Indiana University, is based in the Silicon Valley and has a passion for applying technology to better humanity.

In 2013 it took on board Mr. V. Balakrishnan former Director at Infosys as its Chairman.

### **MicroGraam Approach**

Micrograam's fundamentally underscores the fact – People investing in people. The Investors make a loan on Micrograam. The loans are sent to Micrograam's partner Organizations. In turn the partner organizations disburse the loans to borrowers. Needless to mention the borrowers repay the loan amount to the partner organizations and these organizations in turn pay it back to Micrograam. Micrograam then arranges for the loan to be paid back to the investors. The cycle continues successfully.



**Figure 1 : How Cloud Works for Micrograam**

(Source:micrograam.com)

### Cloud Services at MicroGraam

The transaction value of MicroGraam transactions are very small value, hence minimizing transaction costs was critical. MicroGraam has developed the virtual marketplace platform in-house using an open-source technology stack, including integration with online payment gateways with transaction costs that are in pennies. While the industry standard of micro-fund transfer costs 5%, MicroGraam for the end-to-end transaction cycle are less than 0.5%. One of the value propositions of MicroGraam is to provide a transparent and data-rich platform for lenders, borrowers and field partners. The features of the platform are rich in nature. Some of the features of the software solution are:

- Investors can sift through a borrower database that includes descriptions of the borrower, photographs and loan purpose and terms.

- Investors get apprised about the progress of the funded business or program in case of education loans.
- MicroGraam marketplace portal has given its partner organizations the functionality to directly upload new content about borrowers to the site. It provides scheduled reminders to each partner organization through mobile alerts and e-mail when it is time to provide updates about the progress of each borrower.

MicroGraam has integrated its virtual Marketplace platform with Web 2.0 social media technologies. This provides content for social media feeds. With this existing platform, new capabilities such as loan auctions and negotiation platforms, enabling lenders and borrowers to negotiate all loan terms including duration, interest rate and even field partner fees can be deployed rapidly. In fact, adding a profit-sharing model that enables lenders to act as venture capitalists sharing in business profits rather than receive interest is also a possibility. The main challenge faced by MicroGraam was in training field partner staff to fully leverage the administration portal to reduce inefficiencies in the flow of funds and information

Magiccodz is one of the offshore service providers offering a range of web designing and development services to organizations across the world has provided support in certain technology areas to MicroGraam. Magiccodz is based out of Louisiana, USA. It also has its office in Cochin, Kerala, India.

### **Nuts & Bolts**

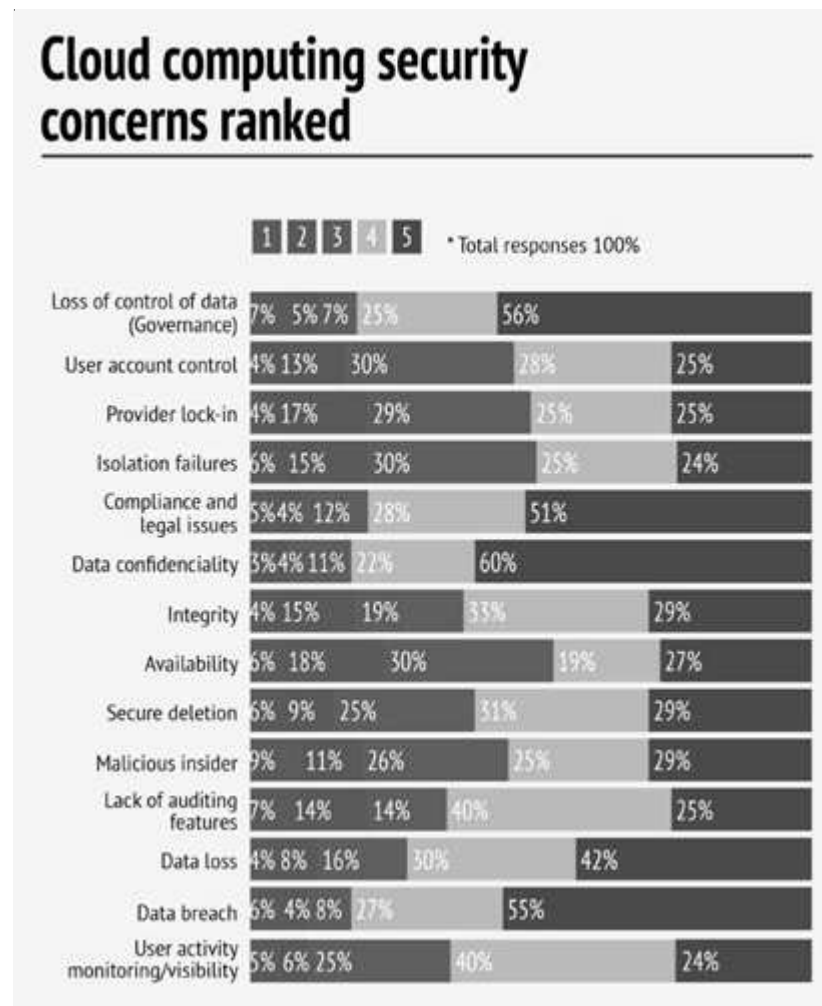
MicroGraam is built on strong and state of the art internet and mobile technology. MicroGraam strongly believes that technology will be a critical enabler for them to achieve their objective of creating financial access at an affordable price. In this regard, they have created an internet based marketplace that,

- Is Transparent
- Is Engaging

- Provides choice
- Has ability to convert data in to information for value creation

The operations are supported by mobile technology to provide real-time and cost-effective transaction and communication solution.

### Cloud in Financial Sector



**Figure 2 : Ranking - Cloud Computing Security Concerns**

(Source: <http://www.bankingtech.com>)

A recent study by the Cloud Security Alliance confirms this. Sixty-one percent of financial services industry survey respondents said a cloud computing strategy was only formative in their organizations; 39-41 percent said their IT strategy would be a hybrid mix of cloud and in-house computing; and 18 percent said their cloud strategy would largely be confined to using private clouds.

David Bannister in his article in March 2015 elucidates that, the results of the report are insightful in understanding how the financial services industry is progressing in terms of cloud adoption and how cloud providers can best serve their interests and needs. Financial services firms are also eager to see increased transparency and better auditing controls (80%) from their cloud providers, even more so than better data encryption (57%). In understanding why companies are moving to the cloud, respondents indicated that flexible infrastructure capacity was at top of their list (68%), followed closely by the need for reduced time for provisioning (63%). The top services and features being adopted when moving to the cloud include CRM (46%), application development (45%), and email (41%), rather than back-end services (20%) or virtual desks (14%). Finally, in looking at compliance regulation requirements when moving to the cloud, at the top of the list was data protection (75%) corporate governance (68%) PCI-DSS (54%) and national regulations (47%).

The overall response from companies showed a very active market for cloud services in the financial services sector, according to Chenxi Wang, vice president, cloud security and strategy at CipherCloud, which sponsored the report. "Cloud has made solid in-roads in this industry with many firms looking to harnessing the power of cloud. There's plenty of room for growth, particularly for providers who can fill the void for the auditing and data protection controls that are at the top of respondents' cloud wish list."

The survey also looked to gain insight into how finance, government, insurance, and security decision-makers take action in their

organisations, from consolidating and standardising on the most secure cloud services, to knowing what policies will have the most impact, to understanding where to focus when educating users.

### **Cloud in MicroGraam**

The use of technology can create many opportunities where none existed before. MicroGraam is testament to this fact. Its faith in open marketplaces has enabled investors and borrowers to gain the advantages of low interest bypassing more expensive routes. Mobile and Internet technologies have brought about this happy matrimony of equal Microfinance needs. This innovative business idea that has created MicroGraam came from Young Entrepreneur Rangan Varadan's mind which comes as no surprise considering that he is a PhD in Finance.

### **Use and Purpose**

There are people who put money using MicroGraam platform for non-profit and that essentially is the beauty of their model. If you go to their site, one can choose an interest rate. One can either choose to go for the maximum interest rate of 7.5-8 per cent depending on the kind of projects or as low as 3 per cent as long as the money is getting invested in a particular sector or area.

### **Awards & Recognition**

1. CNBC-TV18 and YourStory.in awarded Micrograam the Excellence in Sociopreneurship in 2010.
2. IIM Lucknow Prenena Award in 2011 for Social Entrepreneurship.
3. The Computerworld Honors Program Laureate in 2012
4. Award for Women Empowerment from the Sankalp Forum in 2014



## End Note

When Rangan Varadan was younger, he says he wanted to be a villain in a movie. After, his ambitions shifted he wanted to be like his father- a corporate lawyer. Ultimately, he ended up studying in the US, teaching for some time, going into corporate finance, and then leaving because he was more interested in people who could not access formal financial services. Does he have regrets? No, he enjoys being able to work with people and helping them improve their lives.

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