Session Title: "Mainstreaming Social performance for Banks: What can we learn from industry leaders?"
Date: February 19, 2018
Time: 9 a.m. India Standard Time
Speakers: Laura Foose, SPTF (*moderator*); PN Vasudevan, Equitas Small Finance Bank; Gaurav Malhotra, CDC Group; Badr El Din Ibrahim AGFUND (*Note: speaker not present for the plenary but sent questions ahead of time.)*

- Laura Foose opened the plenary session by introducing the Universal Standards for Social Performance Management, which is a manual of management practices for all providers that have social impact and social performance.
    - The Universal Standards serve as a way for the industry to standardize social performance management practices. They don't dictate what organizations' social goals should be; rather, they identify the best way for organizations to meet and monitor their social goals.
    - Financial service providers (FSPs), networks, investors and other stakeholders created the Universal Standards.
    - The Universal Standards are divided into six main dimensions:
        1. Define and monitor social goals
        2. Ensure board, management, and employee commitment to social goals
        3. Design products, services, and delivery channels that meet clients' needs and preferences
        4. Treat clients responsibly
        5. Treat employees responsibly
        6. Balance financial and social performance
    - The Universal Standards were written with microfinance institutions in mind. Now SPTF is working with CDC Group to make sure the Universal Standards apply to all types of service providers, such as banks, SME finance institutions and FinTech.

- **Question to PN Vasudevan of Equitas: What role does leadership play in maintaining social performance?**
    - **Answer:** First, the Equitas mission statement does not use the word "poor," as it is a judgment of others' financial status. Second, it does not give the false promise of pulling a person out of poverty. However, it says they will give access to finance.
    - On social side, Equitas has an ecosystem of social activities which clients are welcome to use. Financially, the company will stand committed to social activities. For example, 5% of profit will be given to a trust for delivery of social activities, such as building schools and hospitals.
    - To exist, the investors need returns; however, the organization will be efficient and not charge the client more to get those returns. In 2005, Equitas started loans at 25% with 7.5% operating costs when others were giving at 48%. The reduction came from technological efficiencies, which helped cut costs. These were all incorporated in the charter from the beginning and openly communicated with employees and investors.

- **Question to PN Vasudevan: How is social commitment translated to field staff and operations?**
    - **Answer:** Per policy, people do not handle too many activities. Each staff member is conducting distinct actions, like organizing groups or collecting money. This helps in specialization and better efficiency. However, all staff members are updated about other

verticals. Also, the CSR branch of Equitas is connected to all hospitals, and, in case the borrowers need help, the branch helps them out.

- **Question to PN Vasudevan: What attributes to Equitas being the most preferred organization to work in?**
  - **Answer:** Psychological connections exist. Equitas presents the activities of the CSR commitments to all employees. Most employees are not part of microfinance but are with retail lending/deposit taking.

- **Question to PN Vasudevan: How are social objectives discussed during the board meeting?**
  - **Answer:** Presentations are made from the CSR head, and board members go though field work at least once. The diversity of the board members gets more ideas on the table. Board meetings are also used to discuss various social motivations like helping other NGOs, etc.

- **Question to PN Vasudevan: Dimension 6 of the Universal Standards is called "Balance financial and social performance." This involves setting sustainable growth rates, offering prices that are affordable and competitive with the market, and aligning expectations with board, investors, and lenders on social return. How does Equitas deal with this dimension?**
  - **Answer:** Competition is very limited to make money through segments which are not served by mainstream bankers. This section is serviced by moneylender and other social groups. In this scenario, financial service providers have a choice to make as much money as they want. But Equitas does not exploit and overcharge. In this space, responsible pricing and lending becomes important. Equitas made a call that they will never have more than a 20% return, given India's inflation. If ROE becomes more than 20%, then pricing must be adjusted.

- **Question to Guarav Malhotra of CDC: How does CDC work to balance social and financial performance?**
  - **Answer:** CDC is set up to balance social and financial performance in a sustainable manner. It looks for a return without compromising on social impact. CDC is not a control-oriented organization. CDC looks for businesses that share the same fundamental beliefs. The evaluation of social and commercial performance is equally rigorous, and CDC provides help to its investees to improve its social impact on businesses. Customer centricity and empathy is important for the organization.

- **Question to Guarav Malhotra: How can you compare social performance of banks, microfinance institutions, and FinTech?**
  - **Answer:** Sustainable impact equals social performance. One way to go is to put out a sustainable report and make it central to the organization. Also, being socially responsible is where opportunity lies. FinTech can be broken down into lending (technology-enabled lending leading to lower cost, easier collection lending), payments (reducing cash), and then investment and savings. All have different social impact and inclusion impact. For example, FinTechs' concentration on making cost-effective remittances is an area of efficient impact.

- **Question from Badr el Din Ibrahim to panellists: Where do Equitas and CDC typically see the organizations start in the Universal Standards?**
  - **PN Vasudevan:** The first step is at the philosophy level of the original intent of the company.

  - **Guarav Malhotra**: Banks are of the opinion, “Let’s get the businesses running first, then incorporate the social angle.” But social impact should be the start. How is the organization forming the statement of intent?

- **Audience question: How does the organization incentivize middle management to comply with social objectives? Is it just through efficient functioning of specialized activities?**
  - **Guarav Malhotra:** There is not too much differentiation in compensating for achieving social objectives because they’re integrated into the larger schemes.
  - **PN Vasudevan:** There is no incentive at all for staff for doing more activities than required, such as forming more groups or doing better collections, because that can backfire. The push to becoming unsustainable comes from greed for incentives. We have a very strong risk management team that randomly picks groups to audit for lending processes to ensure behaviour is proper. Also, every field staff goes through a training certification.

- **Audience question: How is social performance maintained through change in leaders and change in business, such as the launching of an IPO?**
  - **PN Vasudevan:** There was no change at all. Having the returns and social performance/empathy working together is the sweet spot.

- **Audience question: How can you ensure sustainable growth?**
  - **Guarav Malhotra:** Check if the institution is pushing field staff beyond capacity (operational and risk management capacity). If yes, then it’s unsustainable.