

Issues in Branding Chit Funds

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Question posed

- Are Chit Funds viewed favourably or unfavourably by the regulatory authorities like the RBI, Finance Ministry and others?

Question posed (...contd.)

- In general, do people have a positive or negative perception about Chit Funds?

The power of language

- Are you familiar with the phrase “Emerging Markets”?
- Where did this come from? And why?

The power of language (...contd.)

- In 1981, a fund manager in Salomon Brothers New York was convinced that there was money to be made by investing in developing countries.

He floated a “Developing Countries Fund” and invited subscriptions.

The response was poor.

The power of language (...contd.)

- Convinced that his area of geographic focus was correct, he pondered the issue and came to the conclusion that this was a marketing problem.

After careful thought, he hit upon a brainwave. He decided to call his initiative the “Emerging Markets Fund”.

The power of language (...contd.)

- Bingo!

Suddenly, if people were not going to participate in this next wave of opportunity, they were going to lose out.

The Fund was oversubscribed.

The power of language (...contd.)

- A simple but brilliant change in terminology changed the perception about third world countries and helped create an entirely new and attractive asset class.

The power of language (...contd.)

- The fund manager was Antoine van Agtmae, who is today regarded as a specialist in Emerging Markets.



Which is better, favoured by policy?

- Big foreign investor

or

local small investor?

Which is better? (...contd.)

- Professionally-managed corporate entity

or

Family business?

Which is better? (...contd.)

- Big Retail

or

Mom-and-pop stores?

Which is better? (...contd.)

- Organised sector

or

Unorganised sector?

Which is better? (...contd.)

- Bank

or

N B F C?

The power of language (...contd.)

- We are led to conclusions by the language used, and the slant given, to describe categories and situations.
- “War on Terror”
- “Weapons of Mass Destruction”
- “Reforms”
- “Globalisation”
- “Free Trade”

What is the issue with this expression?

- N B F C
- It is an expression that defines this group of companies by what they are not.

What companies does NBFC cover?

- ??

Are you aware of P-to-P lending?

Peer-to-peer lending

- Practice of lending money to unrelated individuals, or "peers", without going through a traditional financial intermediary such as a bank or other traditional financial institution.
- Lending takes place online on peer-to-peer lending companies' websites.

Peer-to-peer lending

- Leaders in P-to-P lending - Lending Club, Prosper.
- The two companies have serviced 180,000+ loans with \$2 billion in total (March 22, 2012).
- 100% annual growth, one of the fastest growing categories.
- Interest rates range from 5.6% - 35.8%.
- Default rates vary from 1.5% to 10%.
- The new financing model is establishing itself in the mainstream.

Peer-to-peer lending

- This is nothing but an online version of what Chit Funds do (only slightly differently).
- Yet, somehow this is more acceptable.

What are the strengths of Chit Funds?

What are the weaknesses of Chit Funds?

How should Chit Funds be perceived?

- Concepts of Branding

Thank you