

## The Financial Postman

by Kash

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### 1. Entry-barriers in the BFSI Space

A benefit of the long years spent deep within the Banking, Financial Services & Insurance (BFSI) space, across verticals within the space – as well as outside the BFSI space, is that it is easy to take an outsiders' perspective.

Certain verticals such as banking, mutual funds and insurance have minimum capital adequacy requirements, that can be an entry-barrier to an extent. Reach-based intermediation in the BFSI space, for perfectly valid reasons, does not have this entry-barrier. There are skill-requirements in the form of licensing exams that customer-facing service providers need to pass. But this is not a serious entry barrier, since most of these licensing exams test for basic rather than advanced levels of knowledge.

A natural corollary of such an eco-system is the abundance of market intermediaries, who are less serious. This lack of seriousness is manifest in various ways:

- Handling the activity as a pastime / additional source of income – not as the primary source of income;
- Being an individual service provider, rather than building a team that can enhance depth and width of the service offering to clients;
- No serious attempt to enhance knowledge or skill levels of themselves or their clients;
- Time with clients is more for executing transactions, than knowledge-sharing and relationship-building.

Given regulatory pressures and client comforts, a large mass of such less-serious market intermediaries are paper-pushers. The value they bring to the table is limited to handling paper. You see them in loan syndication, securities distribution, mutual fund selling, insurance selling etc. Since the only service they offer is asking the client to respond to information requests from the counter-party, I call them "Financial Postmen".

I have been predicting the demise of Financial Postmen for over 15 years. The fact that they continue to exist despite giant strides in digitization is amazing. Low entry barriers, and low cost of continuing in business, perhaps, account for their continued legal life, even if there is disguised unemployment, and their operations are not commercially viable.

### 2. Economic Structure of Doom

A natural consequence of disguised unemployment is low self-esteem. The Financial Postmen are unwilling or unable to move up the value chain in terms of skill-set, service offering or fee recovery. They are prepared to work for any client with the hope that they can recover a fee for time spent that might not otherwise have an economic value. Clients take undue advantage of the circumstances by demanding more and more work, for less and less in fee payments. Since Financial Postmen are low on mobility, they may subsist; others who have options may choose to move out of the industry. Thus, the economic structure can lead to doom of the industry over the medium-term.

### 3. Scenarios, Strategy & Finance

MAVUCA had to take certain calls to stay sane in this type of insane environment for debt syndication and securities distribution. We had confidence in our ability to offer immense value to clients. There was clarity that bringing down the service levels to



strategy and finance, which is more challenging than growth and diversification finance. We call this as 'Revive' phase.

There are situations when despite turnaround attempts, companies and / or their promoters face existential crises / disaster. We refer to this phase as 'Survive' phase. The requirement at this stage is survival strategy and finance – a much more challenging situation that revival strategy and finance.

The stages of Alive – Thrive – Revive – Survive represent a continuum from Zone of Sustainability to Zone of Chaos. Whatever the stage, we can add immense value for clients. We can handle the challenge of strategy and finance across these phases.

#### **4. Financial Postmen & Client Needs**

Often Financial Postmen do not recognize the difference between these scenarios. They treat every resource mobilization program as 'business as usual' finance with the incidental standardized approach to the mobilization and fee structure expectations.

This one-size-fits-all approach can be detrimental to clients. As shown in the chart, the risk to companies and promoters multiplies as they move outwards from the Zone of Sustainability. Delayed / failed resource mobilization exercises can only add to their problems.

Most companies need the benefit of strategic inputs, both on the business front and the fund mobilization front. The strategic inputs on the business front will ensure that they are configured suitably for success and excellence. Strategic inputs on mobilization might relate to legal structure, capital structure, share-holding structure, nature of financier, loan covenants, exit clauses etc.

We always advise clients to take a mature call on the situational challenges, and the nature of service offering they need.

Feel free to get in touch at [team@mavuca.in](mailto:team@mavuca.in) to share your experiences or discuss how we can help you.