Indian Banking Sector:
Challenges and Opportunities

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Executive Summary

A distinguished panel of managing directors and chief executive officers of some of the well-known banks in the country responded to the theme on the challenges and opportunities faced by the Indian banking sector in the liberalized environment. The contributors addressed the following issues:

- Financial reforms with specific reference to Indian banking industry focusing on implications to the existing players, new entrants, multinationals, and consumer behaviour.
- New and emerging opportunities: consumer and commercial banking.
- Competition: players, intensity, market size, profitability, and growth.
- Responses to challenges with reference to restructuring, automation, product delivery, and process reengineering.
- Issues related to governance, regulation, and audit.
- Product engineering, product design, and product delivery.
- Consumer expectations, feedback, cross-selling, customer relationship management (CRM), market segmentation, marketing, branding, and new products introduction.
- HR related issues: VRS, compensation, education and training, empowerment, and career plan.
- Future scenario: Broad trends in the next five years and the expected position.
- E-banking and its importance.

Salient features of the responses included:

- The Indian banking sector is at an exciting point in its evolution. The opportunities to enter new business and new markets and to deliver higher levels of customer service are immense.
- As the Indian banks position themselves as financial service providers, banking business is getting redefined. Technology is unsettling the earlier business processes and customer behaviour is undergoing change. These have enhanced the forces of competition.
- Competitive advantage can be achieved through harnessing the potential available in the employees by creating a positive work culture and enlisting the support of all the employees to the organizational goals.
- Indian banks have adopted better operational strategies and upgraded their skills. They have withstood the initial challenges and have become more adaptive to the changing environment.
- In the complex and fast changing environment, the only sustainable competitive advantage for banks is to give the customer an optimum blend of technology and traditional service.
- Four trends are fundamentally altering the banking industry: consolidation, globalization of operations, development of new technologies, and universalization of banking.
**N Ravichandran (Professor, IIMA):** The economic reforms initiated by the Government of India roughly about a decade ago have changed the landscape of several sectors of the Indian economy. The Indian banking sector is no exception. This sector is going through major changes as a consequence of economic reforms. The changes affect the ownership pattern of banks, availability of funds, the cost of funds as well as opportunities to earn, range of services (fee-based and fund-based), and management of priority sector lending. As a consequence of liberalization in interest rates, banks are operating on reduced spread. Development financial institutions would have a lesser impact on the Indian economy. Consumerism is here to stay. Non-banking products like insurance would be a tremendous opportunity.

The economic reforms have also generated new and powerful customers (huge Indian middle class) and new mix of players (public sector units, private banks, and foreign banks). The emerging competition has generated new expectations from the existing and the new customers. There is an urgent need to introduce new products. Existing products need to be delivered in an innovative and cost-effective way by taking full advantage of emerging technologies.

The new rules of competition require recognition of the importance of consumers and the necessity to address the needs through innovative products supported by new technology. As a consequence of competition, the managerial challenges include market segmentation, product positioning, innovative delivery channels, cross-selling, etc. At an organization level, elaborate systems need to be evolved to manage, assess, and contain risk (including portfolio, client, and exchange rate).

The banks may have to reorient their resources in the form of reorganized branch networks, reduced manpower, dramatic reduction in establishment cost, honing the skills of the staff, and innovative ways of attracting talented managerial pool. The Government of India and the Reserve Bank of India (RBI) on their part would strengthen the existing norms in terms of governing and directing the functioning of these banks. Banks needs to strengthen their audit function. They would be evaluated based on their performance in the market place. It is in this context that we have invited the chief executive officers of Indian banks to respond to the issues mentioned earlier.

**K V Kamath (MD and CEO, ICICI Bank):** It is said that the banking sector mirrors the larger economy – its linkages to all sectors make it a proxy for what is happening in the economy as a whole. Indeed, the Indian banking sector today has the same sense of excitement and opportunity that is evident in the Indian economy. The fundamental structural changes in recent years have taught us many lessons. A combination of developments arising from technological advancements and a liberalized marketplace – disintermediation, blurring of traditional roles and boundaries, emphasis on shareholder value creation – has led to a transformation of the banking sector.

The ongoing developments in Indian industry and government and the integration of India with the global markets also offer myriad opportunities to the banking sector. Companies and governments are increasingly seeking high-quality banking services to improve their own operating efficiency. Companies seek to offer better customer service and maximize shareholder returns and governments seek to improve the quality of public services.

The internationalization of India offers banks the opportunity to service cross-border needs of Indian companies and India-linked needs of multinationals. The growing Indian diaspora, with its strong home country linkages, seeks a unique combination of Indian ethnicity and global standards that offers a valuable niche opportunity for Indian banks.

The biggest opportunity for the Indian banking system today is the Indian consumer. Demographic shifts in terms of income levels and cultural shifts in terms of lifestyle aspirations are changing the profile of the Indian consumer. This is and will be a key driver of economic growth going forward. The Indian consumer now seeks to fulfill his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. This is leading to a growing demand for competitive, sophisticated retail banking services. The consumer represents a market for a wide range of products and services – he needs a mortgage to finance his house; an auto loan for his car; a credit card for ongoing purchases; a bank account; a long-term investment plan to finance his child’s higher education; a pension plan for his retirement; a life insurance policy – the possibilities are endless. And, this consumer does not live just in India’s top ten cities. He is present across cit-
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The Indian banking sector is at an exciting point in its evolution. The opportunities are immense – to enter new businesses and new markets, to develop new ways of working, to improve efficiency, and to deliver higher levels of customer service. The process of change and restructuring that must be undergone to capitalize on these opportunities poses a challenge for many banks.

Going forward, this sector will witness increased competition between domestic players and possibly also from foreign banks that may seek to expand their presence in the Indian market, given the opportunities that the Indian market offers. The winners in this sector will be the players who can understand the customer, fulfil customer needs, and achieve high levels of customer retention, leveraging technology, knowledge, and human resources to provide quality products and services and manage risks and returns, thereby delivering value to all stakeholders.

S S Kohli (CMD, Punjab National Bank): Our country’s financial reform process which was initiated a decade ago has covered almost all the important facets of banking and has resulted in improved bank perform-

ies, towns, and villages as improving communications increases awareness even in small towns and rural areas. Consumer goods companies are already tapping this potential – it is for the banks to make the most of the opportunity to deliver solutions to this market.

The prerequisite for capitalizing on these opportunities is technology. Technology is key to servicing all customer segments – offering convenience to the retail customer and operating efficiencies to corporate and government clients. The increasing sophistication, flexibility, and complexity of product and servicing offerings makes the effective use of technology critical for managing the risks associated with the business. Developing or acquiring the right technology, deploying it optimally, and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost-effective and delivering sustainable returns to shareholders. Early adopters of technology acquire significant competitive advantage. Managing technology is, therefore, a key challenge for the Indian banking sector. Wide disparities exist between various banks as far as technology capabilities are concerned; the sector as a whole needs to make significant progress on this front.

Building knowledge-driven, learning organizations is important in the current scenario of rapidly evolving operating environments. Knowledge and assimilation of new ideas and trends are essential to keep the organization ahead on the curve. This is true for banking as it is for all other sectors. Banks must continuously seek to be aware of cutting edge practices in banking internationally and institutionalize this learning across the organization. This will prepare them for the future as Indian markets become more sophisticated and integrated into the global financial markets. Another critical area for the Indian banking sector is people. The ability to attract and retain talent is a key success factor for a people-oriented business like banking. Banks have to build organizations that are process-

The Indian banking sector continues to face some structural challenges. We have a relatively large number of banks, some of which are sub-optimal in size and scale of operations. On the regulatory front, alignment with global developments in banking supervision is a focus area for both regulators and banks. The new international capital norms require a high level of sophistication in risk management, information systems, and technology which would pose a challenge for many participants in the Indian banking sector. The deep and often painful process of restructuring in the Indian economy and Indian industry has resulted in asset quality issues for the banking sector; while significant progress is being made in this area, a great deal of work towards resolution of these legacy issues still needs to be done.

The Indian banking sector is thus at an exciting point in its evolution. The opportunities are immense – to enter new businesses and new markets, to develop new ways of working, to improve efficiency, and to deliver higher levels of customer service. The process of change and restructuring that must be undergone to capitalize on these opportunities poses a challenge for many banks.

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Gradualism, which was the hallmark of the Indian reform process, was indeed the outcome of the democratic polity where popular consensus is crucial....That India did not catch the “Asian flu” which afflicted the South East Asian economies in the nineties can be largely attributed to the successful implementation of prudential norms in the financial sector.

Recently, banks have adopted customer segmentation which has helped in customizing their product portfolio as well. Thus, retail lending has become a focus area particularly in respect of financing of consumer durables, housing, automobiles, etc. Retail lending has also helped in risk dispersal and in enhancing the earnings of banks with better recovery rates.

Since as much as 65 per cent to 70 per cent of the total operating costs account for establishment expenses, rationalization of manpower in the industry is crucial. Recognizing this, public sector banks have implemented a Voluntary Retirement Scheme (VRS) targeting employees at various levels as a result of which nearly 12 per cent of the workforce opted to retire. The gains in terms of...
reduction in establishment expenses arising out of the implementation of VRS will become available in the medium term. Increase in staff productivity has been visible in the immediate term. In their bid to control expenses, banks are also cutting down on tiers of control and rationalizing their branch network by mergers and closure wherever required.

With the system of prudential regulation in place, structural regulation in the banking sector has been relaxed. Private banks have been established widening the choice for consumers and increasing the market size.

Technology is emerging as a key driver of business in the financial services industry. The advancements in computing and telecom have revolutionized the financial industry and banking on the net is fast catching on. Banks are developing alternative channels of delivery like ATMs, telebanking, remote access, internet banking, etc. The payment and settlement system is also being modernized. RBI is actively pursuing the objective of establishing a Real Time Gross Settlement (RTGS) system on par with other developed economies. Customers realizing the benefits of technology are demanding more for less.

With gradual deregulation, banks are now exposed to different types of risks. In view of the dynamic nature of the financial market, banks face various market risks like interest rate risk, liquidity risk, exchange risk, etc. In respect of lending, they face credit risk which includes default risk and portfolio risk. Besides, banks also face risks like reputational risk and operational risk. Putting in place a robust risk management system is, therefore, critical.

The ultimate responsibility of the soundness of a bank rests on the board of directors. It is imperative that it ensures that the management takes only such risks as can be managed and put in place proper risk mitigation systems. This requires that the board is well informed of the management’s actions and can satisfy itself on the quality of the reports that are being placed to it. These form the basis for corporate governance. Adoption of good corporate governance practices has been engaging the attention of banks as well as the regulators and owners. Towards this end, banks in India have already put in place the Audit Committee of the Board (ACB) which has been entrusted with the task of overseeing the organization, operationalization, and quality control of the internal audit function and follow-up with the statutory and external auditors of the bank as well as examination by the regulators. Disclosure levels in bank balance sheets have been significantly enhanced while measures have also been initiated to strengthen corporate governance in banks following the suggestions of the Ganguly Committee. Banks are bringing out consolidated balance sheets reflecting the performance of their subsidiaries and providing for better transparency.

As the Indian banks move gradually beyond universal banking and position themselves as financial service providers, banking business is getting redefined. Technology is unsettling the earlier business processes and customer behaviour is undergoing change. These have enhanced the forces of competition. To survive under these conditions, the public sector banks will have to undertake business process reengineering, redefine their strategy, and reorient their organization structure. Besides, they will have to align their IT strategy and HR strategies to the overall business strategy.

Given the above challenges, what would be the likely trends in the next five years? Such vision for the banking industry may encompass the following aspects: structure; strategy; systems; staff and regulatory.

Despite liberalization, the structure of the Indian banking system has continued without much change. Public sector banks dominate the industry while the private and foreign banks have continued to co-exist. The consolidation process within the industry has been restricted to a few mergers in the private sector. However, there is recognition that ‘size is important’ and this emphasis on increasing the balance sheet can be expected to lead to consolidation in the public sector in the near future. This, of course, is strongly predicated on the enabling conditions provided by the owner (Government of India). As suggested by the Narasimham Committee, such mergers could be market-driven instead of externally imposed. The consolidation process could lead to emergence of four or five large banks with country-wide presence and offices abroad who could act as national champions. At the same time, smaller private sector banks and

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The consolidation process could lead to emergence of four or five large banks with country-wide presence and offices abroad who could act as national champions. At the same time, smaller private sector banks and foreign banks will continue to co-exist mainly as niche players.
foreign banks will continue to co-exist mainly as niche players. For instance, these banks, especially the new private sector banks, may specialize in derivative business including commodity-based products, investment banking, etc. as well as act as advisory in mergers and acquisitions.

The Development Financial Institutions (DFIs) as they exist now are no longer viable. Instead, it can be expected that their business model would follow that of banks and accordingly they would adopt the financial conglomerate model.

The other aspect of structure relates to convergence. With distinction between banks and non-banks blurring, there is increasing convergence of product portfolio. Banks are taking up insurance business and through this they aim to achieve economies of scope. The objective is to achieve cross-selling, leveraging upon their franchise value. Already, the bancassurance model has been adopted by Indian banks and this trend can only be expected to grow. This segment will also see some shake-ups in the next five years and result in consolidation or takeover of business.

Thus, the structure of Indian banking system may be expected to undergo a transformation, the main drivers of which will be consolidation, convergence, and technology. This will also reduce overcapacity in the Indian banking system and result in banking concentration.

The changes in structure would also impact on the banking strategy. Banks would grow out of their narrow focus on banking services to become financial service providers. The one-stop-shop approach would enable them to provide, besides banking services, a host of other financial products, both to the retail as well as corporate customers. Thus, the distinction between retail and corporate business would become sharper impacting on the revenue model.

Though foreign participation in public sector banks may be allowed, it is difficult to envisage government ceding control of public sector banks in the near future. Further, the government has stated that even if its stake is diluted, it would continue to appoint the CMD of banks. This would dampen any interest foreign players may show in associating with public sector banks. In essence, the next five years will see no major change in respect of public sector character of banks.

With most of the banks listed, and some of them listed abroad, the pressures on performance will be visible. Banks would be adopting international accounting standards and their balance sheets would be more transparent. Instead of maximizing shareholder value, they could be using the ‘triple-bottomline’ approach to quantify financial, environment, and social performance.

Due to adoption of technology, alternative channels of delivery would become more active. This, in turn, would result in a leaner branch network and better skilled workforce. Technology, therefore, will impact on the business model strongly by cutting down costs of delivery and transaction. The emphasis will be on acquiring new customers and maximizing opportunities for cross-selling.

Banks will also come under increasing pressure to diversify their revenue streams. Since capital market competes with the banking system closely, which otherwise is termed as ‘disintermediation,’ the importance of bank lending could be expected to decline. As a result, the share of interest income in banks’ revenue would come down necessitating them to look for other sources of revenue. Fee-based income would emerge as an important revenue stream as would income from cross-selling of products.

To drive down costs, banks may outsource non-core services. This will help in maintaining lower manpower which can be more focused on core services and reduce operating expenses.

In Indian banking, technology has become an ‘enabler’ and is moving on to become a ‘driver’ of business. Large scale computerization of branches and operations has enabled the banks to capture more of their business on computers resulting in operational efficiencies including better customer service. If this can be called the ‘first phase’ of technology adoption, it has been quite successful insofar as banks have been able to adopt IT effectively to carry out front-office operations. This phase has also seen a reorientation of the staff in terms of newer skills albeit at a lower level.

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There is no doubt that technology will become a key driver of financial business. The question is: What will be the next set of technology initiatives?

In the post-VRS scenario, banks have been able to bring down their operating costs without upsetting their business. However, the average age profile and the skill sets of employees continue to remain unfavourable to meet the challenges of change. The next five years would see the average profile of staff worsening particularly with banks going slow on fresh recruitment. Manpower planning would be a major challenge before banks.

The current indications do not reveal any change in the position of banks with regard to adoption of meritocracy. The industry level wage settlements are bound to continue at least during the 8th bi-partite settlement (2002-07). Although, per se, this would not impinge on staff motivation, there is a need for banks to break away from such industry level settlements. They can attract talent only by offering better pay.

Although banks have designated divisions as HRD divisions, they continue to perform personnel administration. On the basis of current trends, it is difficult to envisage any paradigm shift in HR policy in banks in the next five years. Ideally, banks should adopt the framework of Strategic Human Resource Management (SHRM) which aims at aligning HR strategy with business strategy.

Notwithstanding this, it can be envisaged that due to pressures of business, banks would focus on developing skills in areas like risk management, technology, marketing, etc. They could outsource training functions totally thereby saving on costs. Training could also be delivered on-line instead of the current emphasis on lecture-based inputs. The emphasis will be on developing cross-functional knowledge. The banker as known till now will have to transform into a versatile, marketing-savvy professional with sufficient knowledge about the products and services (e.g., mutual funds, insurance products, pension funds, smart cards, loans, private banking, etc) competitor charges, customer preferences, and modes of delivery.

The regulatory regime has undergone significant changes in the recent period. Prudential regulation has given place to structural regulation and the emphasis has shifted from micro-management of banks to risk-based supervision. The emphasis on self-regulation by banks will continue. Risk-based supervision provides for such advantages as it is based on the mapping of the risk profile of each bank and the required supervisory responses. Progressive tightening of prudential norms will occur and adoption of the International Standards and Codes will automatically bring the prudential norms on par with the international best practices.

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A distinction between commercial banks as providers of working capital finance and financial institutions as lenders of term-finance has disappeared and both types of intermediaries have responded to the change by developing competitive packages of financial services covering long-term project financing, short-term working capital loans along with asset-based financing, equipment leasing, and fee-based services.

Some of the proactive public sector banks have now realized that in a new business environment, they have to be flexible enough to accommodate changes and at the same time have the necessary stability to retain the core competencies to deal with change. In the post-reform environment, the sophisticated clients choose the well-informed and responsive (attentive) banks. Therefore, the banks now focus more on upgrading their knowledge base in response to the process of continuous change. In the
Electronic banking services, whether delivered online or through other mechanisms, have spread quickly in recent years. The threat of new entrants has led many banks to offer e-finance ranging from basic to fully integrated internet services. This trend seems to have accelerated in India as well.

The recent history of financial crises in the developing countries (especially the Asian financial crisis of 1997) has clearly shown the critical importance of sound regulation and supervision as a means of defending financial systems against distress and disorder. Though India has implemented various reforms since 1992 to strengthen the prudential regulation and supervision of its banking system, we still have to build robust prudential systems which can protect our banking sector from systemic crises. For prudential norms to be effective in a developing country like India, they need to be relatively simple, robust in terms of not being highly dependent upon the working of the other components of the prudential system, and easy to verify and

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enforce. Options for further reform may include higher capital adequacy standards, imposition of stringent restrictions on insider lending, explicit rules covering intervention policy in distressed banks, and allowing regulators the discretion to impose speed limits on growth of credit to high risk sectors. Furthermore, there should be greater use of the market for monitoring banks. The spread of e-finance also necessitates changes in public policy toward financial services. This involves setting regulatory and other frameworks for contract enforcement, information and privacy, and telecommunications, security, and public infrastructure for electronic transactions.

As regards governance, commercial banks pose unique corporate governance problems for managers and regulators as well as for investors and depositors. It is felt that in the case of banks, the fiduciary duties should be owed not only to shareholders but should be broadened to include creditors also. The bank directors need to take into account solvency risk explicitly and systematically when making decisions.

The primary achievement of the process of economic liberalization during the decade gone by is the macro economic stability complemented by financial stability. India has, over the years, developed a protective wall to insulate itself against the turbulent international financial events. However, the weaker spot indicating vulnerability in the banking sector is the levels of NPAs which are still not at the level of acceptability by prudent international standards. This poses a major challenge for the banking sector in the near future. Though some progress has already been made on the legal front to effect faster recovery of NPAs, as the RBI governor has rightly said, the actual results on the ground will depend on early resolution of potential conflict between what is legally possible and what is practical, reasonable, and feasible. The banks also need to develop robust internal control systems, management information systems and early warning triggers. Four trends are fundamentally altering the banking industry: consolidation, globalization of operations, development of new technologies, and universalization of banking. Addressing the risks of globalized banking is going to be the major future challenge for Indian banks.

The banks need to develop robust internal control systems, management information systems, and early warning triggers. Four trends are fundamentally altering the banking industry: consolidation, globalization of operations, development of new technologies, and universalization of banking.

- Behavioural skills which cover traits like motivation, judgement, resilience, and initiative as well as generic skills like communication, team working, and self-management.
- Business awareness which includes wider knowledge relating to the organization, its key products, competitors, etc.
- IT skills which include understanding and exploitation of IT systems to enhance business performance.
- Risk management skills which relate to the identification of risk and mitigation thereof.

With the above backdrop on HR management, some of the HR related issues which have great significance and which need to be addressed as part of the strategy to achieve optimum utilization of manpower are discussed.

Ranjana Kumar (CMD, Indian Bank): In any industry, among the various resources available, human resources are the most valuable. It is more so in the case of service industry like banking where the human factor is vitally important to render the expected customer service. Competitive advantage can be achieved through harnessing the potential available in the employees by creating a positive work culture and enlisting the support of all the employees to the organizational goals. To this end, the HR policy or HRM model should be so devised as to promote mutuality – mutual goals, mutual influence, mutual respect, mutual rewards, mutual responsibility, etc. Mutuality will elicit commitment which, in turn, will yield both better economic performance and greater human development.

The HR management has assumed strategic proportions on account of the following:

- Changing business environment.
- Consumer demands and the need for flexibility.
- Impact of technology.
- Changing organizational structures. The ultimate aim is to develop a well-trained work force, flexible and responsive to customer as well as organizational demands. HRM, therefore, should focus on developing skills, values, and behaviours consistent with a high level of personal effectiveness in the following five broad areas:
- Technical skills which are specific to a job.
With the introduction of technology on a large scale and also on account of the changing needs of the organization over a period of time, there arise situations when the management has to think in terms of shedding the excess baggage or aiming at right sizing in order to achieve the correct age and skill profiles. Under such circumstances, one of the best options available is an attractive VRS package. This would give an opportunity for those who are unable to cope with the demanding job profile and lack the motivation to put in that extra effort required to meet the organizational demands to ease themselves out.

On account of introduction of certain advanced technology, there would also be a strong case for recruiting fresh talent with attractive pay and perquisites. However, an organization cannot afford to go on inducting talent without reviewing its existing manpower and how worthwhile it is to continue with some of them in the changed scenario.

Upgradation of skills through proper training and re-training is a sine qua non for keeping the entire workforce in perfect readiness to take up the challenging environment unfolding everyday. Training is a continuous process by which the employees are honed and their skills fine-tuned. The training policy should ensure that all the employees, without exception, are given adequate inputs and training to equip themselves to be on par with the best in the industry. Sometimes they may have to even unlearn their past knowledge and re-orient themselves to the present.

Even after equipping people with the latest knowledge, the results will not start flowing unless they are empowered to deliver the vision of the organization. The vision of the organization should be exciting to the employees and a source to unleash their potential.

To revive the bank, specific programmes for different segments of branches were designed and topics like Credit Monitoring, NPA Management, HR Management, Information Technology and Integrated Risk Management were covered. Emphasis was laid on building and preparing him/her in the right place. The picture of a person and enable placing him/her in the right place. The career plans of individuals should be the bedrock on which the organization builds its succession planning.

Indian Bank is a shining example of successful HR management. Before 2000, the bank was going through a traumatic period with continuous net losses for over six years, erosion of entire networth, adverse media publicity, consequent low morale of staff, and a throttled decision making process.

To revive the bank, specific programmes for different segments of branches were designed and topics like Credit Monitoring, NPA Management, HR Management, Information Technology and Integrated Risk Management were covered. Emphasis was laid on building and preparing the second-line officers for leadership positions as part of succession planning. A novel “Vertical Integration” programme was conducted during weekends for branches which had been incurring losses or showing negative trends to inspire the entire team to redouble their efforts, re-focus their strategies, and reverse the trend. In line with the industry trend, a VRS package was

Authority and accountability go hand in hand. Authority without accountability is dangerous while accountability without authority is unjust and improper. While it is necessary to have some checks and balances in the matter of delegating authority, what is more important is the trust and faith that is being placed on them.

Every employee who joins an organization wishes to go up the ladder. Job satisfaction does not come by monetary compensation alone. Timely recognition of one’s talent and contribution in the form of promotions and placements would go a long way in sending the right signal to the rank and file. Any organization with a vision for the future would have to not only draw its plans in terms of sales, market share, etc. but also have a plan for the organizational structure with various key personnel and their position. The employees should be encouraged to draw a career plan of their own and put up their requirements like training, exposure, etc. to achieve their plans. While appraising the individuals, the management should evaluate their potential, performance, career plans, and upgradation of skills required. This would give the true picture of a person and enable placing him/her in the right place. The career plans of individuals should be the bedrock on which the organization builds its succession planning.

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offered and 3,295 persons were relieved in a phased manner to ensure smooth transition. By empowering the Circle Heads on various credit, expenditure, and staff related matters (including redeployment of staff to meet VRS contingencies), the shackles on decision-making were removed and the bank started to function with renewed vibrancy and dynamism. Promotion process was revived and conducted with greater objectivity and transparency to motivate performers. In short, the bank attained a new look mainly on account of the HR initiatives. It earned a net profit after a gap of six years and its performance improved substantially in 2002-2003. All the targets set under the restructuring plan were achieved to the satisfaction of Government of India, the owners, and RBI, the regulators.

The future of any organization hinges on the efficiency and effectiveness of its man management policies. A transparent management with a high degree of corporate governance can alone motivate the workforce to keep performing at the highest levels of efficiency over a long period. To achieve the employee loyalty to the organization, the mutuality of objectives described earlier should be developed. This can be successfully achieved only if a proper communication channel exists among the various tiers of the organization. People should be encouraged to share their views, problems, fears, dreams, etc. so that they feel that they are being cared for and their emotions respected.

Attitude is a vital emotional trait that triggers self-development and performance. The success of the top management depends on its ability to get the people with the right attitude or bringing in attitudinal changes in the existing team to form a cohesive team that ceaselessly works for the goals of the organization.

R M Nayak (MD and CEO, Lord Krishna Bank): Till the beginning of nineties, Indian banks were led by hand by the RBI. The process of integration of global markets and the resultant deregulation gave freedom to bankers to take decisions on many vital issues. Though, initially, the banks were groping in the dark, this situation heralded the welcome development to reshape and reorganize banking institutions to look forward to the future with competence and confidence.

The landscape of the banking industry underwent considerable changes during the last decade. The industry witnessed:

- Deregulation of lending and deposit rates.
- Entry of new private sector banks.
- Extensive use of technology for product innovation and delivery.
- Emergence of retail banking and new derivative products.
- Stricter provisioning and asset classification norms.
- Raising capital adequacy requirements.
- Requirements for better risk management practices and capital allocation of various risks.
- Increased disclosure requirements.
- Introduction of risk-based supervision.

The freedom from administered policies and government regulation in matters of day-to-day functioning has opened a new era of self-governance and need for self-initiative. Adherence to prudential norms on capital adequacy, income recognition, and provisioning has caused self-regulation and has laid a road map to put the banks on strong foundations. These measures have brought in transparency in balance sheets of banks revealing their strengths and weaknesses resulting in all-round good governance in the financial sector.

We see a consolidation phase taking place in the banking sector where stronger players are seeking growth opportunities through acquiring smaller players to increase their market share. Relaxation of FDI caps and voting rights would further provide impetus to merger and acquisition activity. The emergence of new banks and the liberty for banks on mobilization and deployment of resources, recruitment, expansion/rationalization of branches, etc. coupled with changes in fiscal policies like gradual reduction in CRR have thrown open a lot of challenges and opportunities for the banks making them more vibrant. These developments have necessitated professional risk management and intense practice of good governance.

Some of the challenges that the banks are facing today are:

The future of any organization hinges on the efficiency and effectiveness of its management policies. A transparent management with a high degree of corporate governance can alone motivate the workforce to keep performing at the highest levels of efficiency over a long period.
The last few years have seen many important changes sweeping through the Indian retail banking sector. Instead of merely funding ‘productive’ purposes, Indian banks have taken up funding personal consumption in a big way to meet consumer demands.

The Indian banking sector is faced with multiple and concurrent challenges such as increased competition, rising customer expectations, and diminishing customer loyalty.
nential growth for the industry comes from being able to handle as wide a range of this spectrum as possible. In this complex and fast changing environment, the only sustainable competitive advantage is to give the customer an optimum blend of technology and traditional service.

Indian banking has traversed the vicissitudes of change from an era of controlled regime to an era of liberalization, deregulation, and disintermediation. Post-1991, the financial sector reforms ushered in a welcome relief to the consumer. Entry of new private sector banks with their state-of-the-art technology, sleek organizational set-up, customer-focused approach, and competitive spirit made deep inroads into the bastion of public sector banks and consumers sensed the difference. Changes have been fast and swift and the Indian banking industry, to its credit, has adapted itself appreciably to the fast changing environment. Banks today operate in a buyers’ market and not in sellers’ market as was the case a decade ago. The main beneficiary of these changes is the consumer who has never had it so good.

With technology occupying a pivotal role in delivery of banking services, the expectations of the consumer have also been growing. Broadly, these expectations are swift service with minimal response time, efficient service delivery, tailor-made and value-added products to suit specific needs, hassle-free procedures and minimum transaction costs, and pleasant and personalized service. As different classes of customers have different expectations from the banks, we need to adopt a segmented approach to study the expectations of the consumers. For this purpose, consumers may be broadly categorized into corporates, institutional clients, high net worth individuals, and retail consumers.

Corporates typically expect excellent cash management services (CMS) from the banks. With the onset of soft interest rate regime, they expect loans from banks at sub-PLR rates as PLR rates have not moved down the way the interest rates in the system in general and on deposits in particular have fallen, given the high operating costs of the banks in India and their growing NPA profiles. Loans are priced in accordance with the rating profile of the corporates. The spreads over treasury yields have also contracted across the rating categories in the last few years apart from the yield on government securities.

Institutional customers may be regional cooperative banks, small foreign banks, private insurance companies, mutual funds, trusts, NBFCs, and provident funds. These clients need access to places within the country where their establishments have no network, foreign exchange market, money market, and services related to management and processing of receivables and payables.

The expectations of the high net worth individuals are different and this has led to the creation of personal banking divisions. This class of customers typically expects services at their doorsteps and investment and advisory functions from their bankers. This has led the bankers to turn to distribution of insurance and mutual fund products in a bid to woo these clients into their fold.

The sophistication of corporates and high net worth individuals has led the banks to cater to their expectations of availing banking services over multiple delivery channels. This has led to the emergence of internet and mobile banking.

Retail consumers (other than high net worth individuals) hold a lot of potential. Realizing their importance, banks have retail banking divisions. Retail consumers may be further sub-divided according to a variety of parameters such as occupation, income, age, and geographical profiles. The expectations of these consumers differ according to their profiles. Agriculturists, small traders and businessmen, and small road and water transport operators expect the banks to extend timely and hassle-free credit albeit at a higher rate of interest.

Salaried individuals expect two-wheeler loans, consumer credit loans, and housing loans. These middle income groups have suddenly become important for bankers as NPA levels are perceived to be minimum in this class of clientele. Housing loans with slashed interest rates from various banks have become the order of the day with both public sector banks and private sector banks wooing them alike to their fold. As these customers do not mind spending albeit out of borrowing, credit cards
come handy for the banks to cater to this clientele.

The only class of customers that has a grouse against the banks must be pensioners and senior citizens who expect the banks to pay better rates of interest on their deposits. Given the current soft interest rate scenario and squeezed margins, banks, at present, find it difficult to meet these expectations. However, it has to be borne in mind that the bank deposits offer highest safety and liquidity which cannot be matched by alternative avenues of investment.

Cross-selling is a sales promotion technique in which the manufacturer attempts to sell a related product to the prime product that the consumer already uses. This would make it more convenient for the customer to do related-item shopping. In simple terms, cross-selling is the marketing of many products to a customer according to his various needs. It is all about selling more number of products to the same customer. The additional cost incurred per product sale is nominal in case of existing customers.

Cross-selling happens only when we thoroughly understand the banking needs of the customer. This identification of needs is a function of the degree of customer relationship. The number of products sold per customer is defined as cross-sell ratio. Many banking companies are losing significant revenue by not leveraging cross-selling opportunities. Banks are not influencing buyers’ purchasing decisions while they shop. This is happening because they are not providing their counter staff with relevant information to cross-sell as well as adequate training/ awareness to enable employees to quickly and easily cross-sell the company’s full line of products. Internal marketing is one of the time-tested tools of successful cross-selling. This can be done at the counter and the staff at the counter needs to be very attentive. Cross-selling can be at the individual level and at the institutional level as well.

The trend for companies to shift from a product-focused view of the world to a customer-focused one has been developing for years as products become increasingly hard to differentiate in fiercely competitive markets. The better you understand your customers, the more successful you will be in meeting their needs. But, adopting a truly customer-focused approach can be a resource-intensive business, and many managers have questioned how far the investment is worth it. The key to this problem, and a driving force behind the development of CRM, is that new technologies can transform the technique of cultivating a loyal customer base. The retail sector has been at the forefront of using such technology.

As already noted, banks have to profile their customers and segment them based on age/life cycle stage, income and occupation, needs and preferences based on customer feedback and market research. They have to analyse the different financial needs occurring across various life cycle stages and, accordingly, bundle out banking products to cater to their needs so as to sustain relationships over time.

For managing relationships with corporates, corporate banking divisions are in place. Institutional banking is viewed as a separate focus customer segment. Institutional clients such as cooperative banks, foreign banks with a small network of branches, mutual funds, trusts, NBFCs, and provident funds must be managed with institutional banking team.

Banks need a focused marketing approach as warranted by the segment to which it caters to. Basically, the marketing plan of banks should focus on brand building and individual product marketing. This must be achieved through appropriate media planning.

The critical factors for successful marketing encompass good management of branch-based distribution, minimal response time, proactive and polite service, empowered staff with good product knowledge, ability to address customer queries, better cross-selling of various products to existing clients, effective lead management system for tracking prospects through staff referrals, tele-sales, direct mailers, local campaigns, and customer referrals. Profiling of potential customers is done by utilizing industry-specific/trade-specific information base.

At the macro level, the success of marketing can be monitored by gauging the increase in market share of the bank. At the individual branch level, the achievement of physical targets can be reviewed.

The banking sector in India has undergone significant transformation in the past few years. A conducive macro-economic environment, the landmark foreclosure law, falling interest rates, ample liquidity in the system,
the fast spreading technological revolution, and huge potential in the retail segment augur well for Indian banks. However, the numerous challenges faced by banks such as increasing competition, pressure on spreads, and systemic changes to align with international standards have necessitated a re-evaluation of strategies and processes in order to remain competitive in this dynamic environment.

The challenge is how to service mass-market customers profitably. It should be the business imperative to understand a customer’s expectations and appetite for risk. The developments in the sector should improve the cost structures of the banks. The internet has become an accepted sales channel for financial services products.

With a population of over three billion people, the 23 countries of the Asia-Pacific region represent a rapidly growing and lucrative segment of the global internet market. According to the market research firm, Yankee Group, Asia will have 374 million net users at the end of 2005. As per the International Data Corporation, the Asia-Pacific region now accounts for about a third of the world’s total users.

The incremental credit growth for working capital is likely to be low as corporates restructure, reduce inventories, and become more efficient. Credit growth will thus have to come from increasing trading activity, retail demand (as individuals become less debt averse, the younger generation is more willing to take risks), and infrastructure investment (road, power, oil and gas, and upgraded equipment to meet environmental norms).

Retail banking is the emerging phenomenon in the banking sector. The home loans alone account for nearly two-third of the total retail portfolio of the bank. According to one estimate, the retail segment is expected to grow at 30-40 per cent in the coming years.

Housing finance is poised to register an unprecedented growth rate as the tax incentives are made more attractive. A well-conceived business plan is bound to be a sure-fire hit in a country where the current urban and rural housing shortage is pegged at 7.2 million and 13.2 million units respectively. Even a 3 per cent share in urban housing demand at the rate of Rs 0.5 million per dwelling unit translates concisely into a business level of over Rs 100 billion.

Retail finance is now being used not just for ‘essentials’ like a house or a car but even for cruises, holidays, etc. Travel, in particular, has emerged as a major segment.

In the developed markets, every corporate customer could be assigned a skilled and experienced officer who can handle the day-to-day banking requirements and also act as a hub for any specialist services the corporate may want to call on. With the support of the officer, a suite of products tailored to suit the company’s particular financial requirements could be put in place. Thus, the banks should be prepared to offer a range of tailored services to suit specific business requirements.

Bancassurance is not meant to make the bank a mere vending machine of insurance products. To make it more relevant, the banks will have to develop the skills and take up the challenges to exploit the opportunities and multiply their revenues. For instance, a bank’s insurance team should provide a specialist service and be prepared to work with the corporates to identify insurance requirements and arrange comprehensive cover to protect their assets, liabilities, and cashflow. This might help the corporates discover that their current insurance is inadequate or that they are paying excessive premiums. Special insurance products for a selected pre-approved client base of the bank need to be designed and aggressively marketed.

A key driver of growth is innovation that surprises and delights consumers with new, differentiated, and relevant benefits. India will shortly become home to the second largest number of elderly persons in the world. The population of our elderly, at present estimated at 76 million, is expected to increase to 100 million in 2013. Therefore, banks should focus on unmet financial needs of the pensioners and senior citizens.

As per the census records, only 30.1 per cent of the rural households are availing banking services. One of the reasons may be non-availability of bank branches in the neighbourhood. The existing rural branches of many of the big banks are being

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Banks need to think ‘out-of-the-box’ where box is the representation of all the tested, tried things that always worked in the past. They would have to think outside the boundaries of current practices, products, services, organizations, and industries as they fall behind the treadmill of faster and more rapid pace of change. The new business environment thus puts a premium on creativity and innovation more than ever before. This calls for innovative solutions.

Banks may have to go for mobile banking services for a cluster of villages. Alternatively, technological institutions have to come out with low-cost, self-service solutions/ATMs. The government and the RBI should actively support such research efforts. Here, it is worthwhile to mention that the adaptability of the Indian rural population to high-tech devices is one of the fastest in the world. A wider dissemination of information on technologies and products to the Indian banking industry by the research institutions could benefit the banking institutions. This cross-pollination of ideas would mutually enrich the banking and the technology development processes.

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In this world of casual carelessness it’s discouraging to try to keep our morals and standards and our ideals high. We are ridiculed and laughed at by the smart sophisticate who proclaims in brittle banter that such things are out of date but no life is worth living unless it’s built on truth; and we lay our life’s foundation made of faith and love and praying and remember that ideals are like stars up in the sky. You can never really reach them hanging in the heavens high but like the mighty mariner who sailed the storm-tossed sea and used the stars to chart his course with skill and certainty you too can chart your course of life with high ideals; and love for high ideals are like the stars that light the sky above. You cannot ever reach them but lift your heart up high and your life will be as shining as the stars in the sky.

Helen Steiner Rice