

Address by Shri. P.T. Kuppuswamy, Chairman and CEO, Karur Vysya Bank

It gives me great pleasure to be in your midst this morning. I am happy to learn that the Bharathidasan Institute of Management regularly arranges for such interactive sessions with Corporate Heads to enable the students to listen to and learn from their experience and expertise. I feel privileged that I too have been provided with an opportunity to meet and interact with you all .

I shall share with you this morning my perceptions on some contemporary trends in the banking industry which are likely to impact its immediate future .

Like all other sectors , the financial sector is also undergoing a paradigm metamorphosis from being providers of plain vanilla financial services to that of one-stop shop financial Supermarkets . We today witness revolutionary changes in service support , competencies and perspectives . There is constant innovation and reconfiguration of products and services that lead to value creation or value addition .The conventional definitions of banking, insurance and investment management are undergoing a sea change. Fierce competition has resulted in financial institutions competing not just with similar institutions in their own segment . The walls that separated financial services are being ruthlessly blown apart and there is now convergence of such services . Hence today, you will find that banks do not confine themselves to the narrow definitions of traditional or conventional banking activities . Venture into merchant banking , life and non-life insurance , mutual funds and investment banking on their own or through tie-ups are the order of the day .Insurance products no longer provide risk protection alone, but serve as investment products as well . Security brokers look beyond trading in securities as focus now shifts to include commodities and currencies as well . Mutual funds offer under a different nomenclature. The formal division of services has now worn so thin that even post offices are looking beyond postal services and are now major competitors to financial institutions as they mop up substantial funds from investors in the form of small savings . They offer traditional banking products like saving bank and deposit accounts with facilities of standing instructions and are soon likely to venture into setting up of ATMs as well . Postal Insurance continues to be very popular in the rural areas even today.

Under such scenario , the banking industry has already begun the process of redefining its boundaries , refining its products and services , providing alternate delivery channels and improving the flexibility of such delivery to cater to all the financial intermediation requirements of the customers . The success of the banking industry will lie broadly on how it responds to the following challenges:-

- Focus on technology
- Customer support
- Response to competition
- Improved transparency
- Competency of the workforce

FOCUS ON TECHNOLOGY: Technology is no longer confined to the back office to consolidate Management Information Data . It is now a potent tool used for strategic business planning .Technology brings in fundamental changes not just in product differentiation and delivery but also influences productivity , efficiency and profitability . Technology enables banks to provide better services to the customers wherein the

branch is not necessarily the delivery point of banking services. Mobile banking and Net Banking are new definitions for 'Convenience Banking'. The spread of ATMs across the country, even to rural areas, mean that front office counters of the banks are no longer the focal points of banking business for many. Today technology makes all the difference to the quality of service as well as profitability of a bank. Funds credit mechanisms like the National Electronic Funds Transfer and Real Time Gross Settlement, expansion of MICR technology and introduction of cheque truncation are some of the utilities of technology which aid efficient funds management of the customers.

Banks are also able to save on costs. A banking transaction routed through the ATM or the Net, works out to only a fraction of the cost of a similar transaction put through at the branch counter. Technology also provides a mine of information to the banks about its customers which can be put to good use to obtain a better picture of customer preferences, risk and profitability, besides aiding better house-keeping and improved management of assets and liabilities.

The new generation private sector banks assured in the age of technology in the Indian Banking system when they started offering a bouquet of technology backed products like Phone Banking, Net Banking and Anywhere Banking. Karur Vysya has also been a pioneer among the old private sector banks when it first ensured computerization of all its banking transactions under Total Branch Automation, before smoothly shifting gears to achieve 100% networking of all its branches under Core Banking Solution. KVB takes pride in providing technological services on par with any of the new generation banks but at an affordable price.

CUSTOMER SUPPORT:

Today's customers are no longer investors or buyers of financial solutions. As a service that requires high level of customer interface, understanding customer requirements and evolving customer-centric business strategies is the prime focus area for banks. Banks are, these days, redesignating themselves as financial supermarkets that are one-stop shop counters for a range of financial products. The buyers market has taken over and is now incumbent on the banks to cater to the specific needs of individual segments of customers be it senior citizens, armed forces, SSIs, SMEs, corporates or even the socially and financially challenged groups. As mentioned by me earlier technology is playing a vital role in redefining the frontiers of customer services provided by banks.

Customers are now looking for multiple channels of delivery and flexible working hours neither the clock nor the geographical locations are constraints or even relevant. While some banks have introduced the system of 24hr banking and 8-8 banking, most of the banks, taking cost in operational efficiency into consideration, prefer the technology route. Hence the 24*7 services of the ATMs offered by the banks have found many takers among the customers. It is even jocularly remarked that customers would prefer to queue up in front of the ATM rather than at the branch counter. Easy to use procedures, flexibility of timings and multiplicity of locations have ensured that ATMs are popular even in rural areas. Even illiterate women in rural Kerala, whose husbands are away in the Gulf, reportedly prefer to use ATMs rather than lining up at the bank counters to withdraw cash.

Strangely, technology has also aided a great deal in ensuring the Government of India's stated objective of financial inclusion of all sections of societies, which is that every

household should have a bank account. Even daily waged labourers prefer to save their money not just because it is safer to park the money in a bank than retain it on their person, but because they have the flexibility of withdrawing the money at any hour or at any convenient location.

The business community and the corporates have the advantage of the efficient payment and settlement system, which banks are now able to offer. The anywhere banking facility enables access to his bank account by a customer at any branch of the bank. Net Banking that enables issue of instructions and transfer of funds between accounts across banks, apart from facility to affect bill payments and booking of air and rail tickets, all from the comfortable confines of the customers' office, is another customer-friendly convenience that is finding increase acceptance and demand from customers. The Real Time Gross Settlement (RTGS) product that provides for real time transfer of funds inter-bank and intra-banks is a system, along with Electronic Funds Transfer System, which will eventually displace the present paper transaction system of issuing checks and demand drafts. Increase acceptance and usage of credit and debit cards among customers and acceptance of these cards by merchant establishments is also paving the way for a more efficient and cash-less system of effecting payments. Particularly, e-shopping, aided by these cards is gaining popularity among the youth.

In order to ensure a good quality of customer support, banks will also go for mutual understanding with other banks to share facility, which will help to improve the collection mechanism and also to reduce cost. Tie-ups with other members of the financial sectors like insurance and mutual funds will ensure that all financial products are available under a single roof. Tie-ups with retail outlets will ensure improving business volumes besides shoring up the revenues of the banks.

RESPONSE TO COMPETITION:

Competition is inevitable as more number of banks aim for their share of the market pie. Most banks eye the corporate sector and the metro and the urban markets for business. Technology is today the differentiating factor. But as more and more banks come under the Core Banking solutions umbrella, with little to distinguish between the products and services offered by various banks, service and cost alone will be the determining factors in ensuring the profitability and success of the bank.

The preferred route to beat domestic competition is to go global in search of new business and better profits. But the presence of Indian Banks abroad is, to say the least, negligible, not to mention the none too significant business volumes.

The currently favoured response to cut competition is to put an end to it by way of consolidation, through Mergers and Acquisitions. The popular perception is that big is buoyant. But the fact remains all that is big is not necessarily efficient and all that are efficient need not necessarily be big. Some of the behemoth banks have survived only on governmental or regulatory support, whereas some of the best run banks of the country belong to the old private sector genre.

An answer to competition can be found by banks, by entering into niche markets. The bigger banks with wider networks may find themselves drifting towards corporate clients or high networked individuals for business. Some banks may find the niche in mortgage products, while others in lending to SMEs or traders. Retail business is reaching new heights in the lending portfolios of Indian Banks and some banks may successfully fill

the slots for such lending. Micro credit is another area that is gaining the attention of several banks.

Niche banking can also take the form of emergence of niche players within the industry dealing exclusively in specific segments like housing or credit cards or insurance or mutual funds and yet remain as a consolidated entity through sharing of the infrastructural facilities, be in office space, database or manpower.

In spite of the widespread expansion of bank branches, post-nationalization, rural markets are still an unexplored area for banking business. So, some banks may find it expedient to shun the Metro and Urban markets and gravitate towards the Semi-urban and rural areas and build their foundations at the grass route level

But with the intensity of the competition that is building up, the rule of the market has to eventually prevail .while the strong banks will survive, the weaker ones have to wither away.

IMPROVED TRANSPARENCY

With the introduction of financial reforms, the Indian Banking Industry has been pushed into the open to achieve international standards of prudential accounting norms for classification of assets, income recognition and loss provisioning .The scope for ensuring openness and transparency in bank management has also been ushered in. Corporate Governance will determine the way the Board of Directors manage their banks. This will mean that the management will be accountable to the Board and the Board to the stakeholders. Banks will have to adopt the best global practices of accounting norms and reporting. More transparent disclosure norms will ensure that banks resort to self-regulation rather than base their working on regulatory requirements.

COMPETANCY OF THE WORK FORCE:

HR practices and training is engaging the immediate attention of banks these days. HRM strategies include managing change, building up a team of committed human capital and improving team work. Knowledge levels are very important and sufficient training should be afforded to the staff. The existing staff will have to upgrade their skills to keep pace with the sweeping changes that are taking place on the technology front in Indian Banks. Only this will help in improving the quality of service to the customers as well as justify the investments made in technology and the salaries paid.

With priority accorded to technology in banking operations, IT professionals will find more opportunities in the banking industry. The wide variety of asset as well as liability products with little product differentiation, the need to build volumes in spite of competition and engineering new products mean that marketing professionals will also be in great demand in the banking industry. Specialists will also be required in the fields of Treasury Management, Credit and Risk Management as well as Human Resources Management.

So, whither Indian Banking, in the days to come? The liberalization process that started during the early 1990s has seen a vast change in the entire banking system in the country. It goes to the credit of the Indian Banking System that the industry has responded effortlessly to the shift from a regulated environment to one based on the market forces. The public sector banks, which were once considered the epitome of inefficiency have risen out of their slumber and responded buoyantly to the changed

competitive environment: whereas a few tech-savvy new private sector banks that were launched with great fanfare have collapsed like a house of cards.

The strength of the Indian Banking Industry can be judged from the response of the banks to the introduction of prudential norms on asset quality. In the decade since the introduction of the concept on Non Performing Assets, the percentage of Gross NPA's which stood at around 21% of the total advances in 1996 has dropped to about 3.5% by 2006. After providing for the bad assets, the Net NPA is only at about 2%. Of course, the setting up of fast-track Debt Recovery Tribunals and banker friendly legislations like the SARFESI Act, besides permissions to grant concessions to bad borrowers through the One Time Settlement Scheme and revive sick units through debt restructuring have helped the banks manage their bad advances in a more competent way. Hence the implementation of stringent BASEL II norms to ensure capital adequacy and putting in place efficient risk management systems in March 2007 many not necessarily jolt the Indian banks.

2009 is sure to be a determining year in the history of the Indian banking industry, if the Government and RBI go ahead with their stated objective of providing a level playing field for the foreign banks to operate freely in India. Foreign banks will undoubtedly bring with them the latest technology in banking, newer international version of products, besides wider geographical reach as well as enormous resources. Hence the current scramble among the Indian banks to grow the inorganic way by way of mergers and acquisitions under the cover of size to preempt any hostile attempts at M&A. We may be looking at a scenario changing from one of large number of small banks to that of small number of large banks. But considering that there are only 22 Indian banks in the top 1000 banks in the world and only 5 in the top 500, size of Indian Banks may not mean much by global standards. In fact the monolith State Bank of India is placed at No:107 in the international bank's ranking.

Beginning with nationalization, even to this day, commercial banks are perceived to be purveyors of economic support to the Indian agriculture and industry. In fact, the Narasimhan committee's recommendations to do away with the system of directed lending to priority sector did not find favour with the Government even though it accepted other far-reaching recommendations for liberalization in the financial system. Rural India constitutes 74% of the total population with 58% of the disposable income. Whether global banks will submit to such protectionist measures in banking operations that will hit their bottom lines has to be taken in to consideration. Further, no one can understand and cater to the psyche of rural India as Indian banks have been doing since nationalization. Under such circumstances, relevance of Indian Banks in the system will continue unabated, no matter what the size.

The future never follows the trends of the past. It is always unpredictable with sharp curves leading to steep peaks and low depths. How far this will apply to Indian Banking remains to be seen.

I thank you all for your patient hearing. I wish you all the very best in your life and career.

Thank you!

Profile of Shri. P. T. Kuppuswamy, Chairman and CEO, Karur Vysya Bank

Shri. P. T. Kuppuswamy joined as Officer in Canara Bank in 1969. He worked as inspector of branches there for 5 years and worked as branch manager for a period of 13 years.

Promoted as General manager in October 1997 and had been heading the Calcutta Circle of the bank covering six States for a period of 4 years showing an impressive performance.

Joined KVB as Executive Director on 09.07.2001 and was elevated as the Chairman and Chief Executive Officer of the Bank on 01.06.2002.

He had been a member of several committees constituted by the IBA/RBI on prudential norms. He had participated in the 43rd International Banking Summer School held in USA in the year 1990.