

Banks should look at one customer giving more than single business



INTERVIEW

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■ India is a country of over 1.2 billion people, but if you look at the credit card numbers, they add up to only about 17.54 million, while debit cards add up to about 273.5 million? Why is the retail growth slow?

The mindset in India is not to buy too much on credit. Since debit cards are offered with a savings account many customers own a debit card, but they do not use them at POS terminals, but use them only to withdraw cash from ATMs. The important factor for both the cards is the amount of spends on them. After the 2008 global financial crisis, banks shied away from growing their unsecured loans due to delinquencies. That phase is behind us and I think the portfolio will grow at an aggressive pace.

■ Public sector banks with their larger networks are getting agile in retail lending. Is competition getting stiff?

Private sector banks always had competition from peers. In the past two years, we have seen stiff competition from even public sector banks. Branch networks in themselves do not mean anything if one does not have the service to match, reduced turnaround time and cross-selling opportunities. Even while growing the retail book, banks have to look at the credit cost adjusted yield. Retail lending is risky as the probability of delinquencies are higher as are the expenses to run an account. So it is not a story on NIMs alone. Banks also have to look at the return on assets.

■ What segments of retail are you bullish about? Of late HDFC Bank has been growing its unsecured book? Our secured to unsecured ratio is about 80:20. This has been our ratio in terms of portfolio size over a sustained period of time, so there is no single segment that the bank is focussing on. We have gone into wider geographies and our distribution strength has grown.



We are focussing on faster turnaround time while processing loans and personal customisation of products.

■ The RBI has been undertaking a number of initiatives for customer protection. What are banks like yours doing to be fair to the customer?

The initiatives that RBI has directed banks on transparency are implemented both in letter and spirit as this is good initiative for business in general. A satisfied customer is a long-term customer. Prepayment fee was only a fee income, doing away with it will not impact the bank's margin. Only from an asset liability point of view there should not be a mismatch. Banks cannot reprice liabilities (deposits) or assets (loans) in isolation,

so a balance has to be achieved between the two.

■ What are the opportunities for retail banking in India?

India is one of the few countries where we expect the GDP to grow at the rate of 9 per cent in the next 5 to 10 years. Given the kind of distribution of wealth across cities and if the credit bureaux penetrate deeper into Indian markets there will be exponential growth in retail lending. Another factor boosting growth in this segment will be the overall profile of our workforce, which is dominated by people below 30. This segment takes loans for cars and homes. The assets side for Indian banks, and for HDFC Bank, is dominated by a young population and the liabilities side by older people in

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”the 45 to 60 years age group. Normally, older people prefer not to take loans. The kind of urbanisation that took place in Asian countries like Hong Kong and China has not

taken place in India, but it is certainly happening, opening up good opportunities for banks.

■ What are the challenges? The semi-urban and rural areas are used to defaulting and getting loan waivers from the government, especially on agricultural loans? The credit bureaux have to expand, otherwise it will be a financial drain on banks. The challenges are on logistics, operating costs and the wide swings in the interest rates. Younger people who take loans, should not be so overleveraged that they live beyond their means and are unable to repay the banks. Cost to income of the banks need to remain low with one customer giving more than a single business.

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HDFC Bank is one of the few banks with a consistent growth of 30 per cent and less than 1 per cent delinquency on total advances. More than half the bank's revenues come from the retail lending book, which is dominated by commercial vehicle finance, auto loans, personal loans and credit cards. Mondal tells Manju AB about the challenges and opportunities for Indian banks in the retail space. Excerpts: