

'Recovery has been far more V-shaped'

Note Ban Has Speeded Up Digitisation By 3-5 Years, Says HDFC Bank CEO Aditya Puri

Mayur Shetty & Sidhartha | TNN

Mumbai: For someone who does not carry a mobile phone, HDFC Bank MD & CEO Aditya Puri has relied heavily on a digital strategy, including mobile banking, to retain the most valuable title for the bank he set up 22 years ago. In an interview to TOI, Puri speaks on why the excess pessimism following demonetisation is unwarranted.

How do you view the last 65 days after demonetisation and its overall impact?

The transitory and long-term effect should be viewed separately. The transitory pain is largely behind us. Increase in deposits has brought down interest rates. If money was destroyed it would have been destruction of wealth. While depositing cash in banks does not make it white, the fact that it was deposited against a PAN card, and that suspicious transactions were reported will help the government collect a lot of tax, widen its tax base and boost spending. The process of digitisation has been speeded up by three to five years. This will increase transparency, reduce rent-seeking, improve financial inclusion and reduce costs. The government now has to upgrade to a digital system. Like Indonesia, there should be a process where applications are filed online and deemed to be approved if there is no response in 14 days.

What is the scale of switch-over to digital channels?

Now, we have 4 lakh point of sales (PoS) terminals, compared 2.9 lakh pre-demonetisation. Card swipes have gone up by 300%.

Are you seeing a slowdown due to demonetisation?

We feel this excessive pessimism is not warranted because it affects investor and general sentiment. We spoke to top executives across industry — from Reliance and Mahindra Finance to Birla Finance, ITC, HUL, Pidilite, Marico and even Jaguar. The response was the same — recovery has been far more V-shaped than they expected. Activity is close to normal and there is general expectation of recovery in this quarter.

Are you revising your growth targets for the year?

We are seeing an uptick in consumer loans and some amount of working capital. There is a lag in cement, and people are looking forward to a recovery in the rural econo-

my. The same fellows had said that the impact (on sales) was 20-30% in November and it came down to 10% in December. While we will achieve our target rate for this quarter, there cannot be complete makeup of the business lost in November-December.

How do you deal with this pile of deposits and how much do you expect to stay with banks?

People have put a huge amount in the banking system. Half the surplus will go away once restrictions on withdrawals are removed. With a pickup in demand, we will lend the surplus by April.

So far the cloud of impropriety was on public sector banks but the role of private bank employees has come under the scanner, post-

banks, some non-banks are permanently switched in. It is important to have common international standards for all new payment applications. Otherwise in a digital environment you are only as strong as your weakest link.

Some of the card companies say that the government move to cap merchant discount rate on debit cards at 25 paise and 50 paise could backfire.

When you are creating a payment infrastructure, there is somebody, who is investing and must get a reasonable return. If you overlay this with what is required, charges on small transactions do not make a difference to banks. If for a small kirana store, the MDR (Merchant Discount Rate) is reduced to 0.25% we do not have a problem, just like at pet-

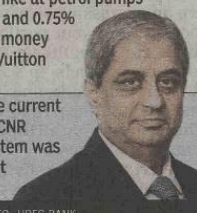
On Demonetisation Impact | The transitory pain is largely behind us. Increase in deposits has brought down interest rates. If money was destroyed, it would have been destruction of wealth

On Revising Growth Targets | While we will achieve our target rate for this quarter, there cannot be complete makeup of the business lost in November-December

On MDR | If for a small kirana store, the MDR is reduced to 0.25% we do not have a problem, just like at petrol pumps where we have accepted 0.25%, 0.5% and 0.75% MDR. But there is no need to transfer money from us to a major retailer like Louis Vuitton which has high margins

On RBI's Role | I would like to give the current RBI regime credit for managing the FCNR redemption, yield curve when the system was flush with money, and the transparent decision making on interest rate

ADITYA PURI | MD & CEO, HDFC BANK



demonetisation.

Our people worked 24 hours a day without any obligation, if a fraction turns out to be black sheep the entire system cannot be painted with the same brush. If a depositor submits all required documents, we cannot refuse cash deposits. In such cases, all we can do is to submit a suspicious transaction report, which we have done in significant number. If this information is analysed, with equal integrity by the enforcement agencies, without harassment and result-based then you will get tax.

The push for digital has come at a time when there are security concerns over transactions through electronic channels...

In cards I can say our (Indian) safeguards are higher than most other countries because of two-factor authentication and PIN. There is an inherent security built into the design of each digital instruments. When it comes to apps, unlike

rol pumps where we have accepted 0.25%, 0.5% and 0.75% MDR. But there is no need to transfer money from us to a major retailer like Louis Vuitton which has high margins. Do not make it a thing where-by you make it totally unprofitable. Even the government has agreed to pay MDR.

The feeling is that HDFC Bank's charges are among the highest in industry.

This is a wrong perception. Like there is a perception that we are an elite bank. We have the highest lending to consumers. Every product that we have is available in semi-urban and rural branches and 25% of our business comes from these branches. Whatever products I offer in Mumbai, I give in Jhumritaliya in Jharkhand and Umaria in Madhya Pradesh. As a proportion to balance sheet, we have the highest retail lending and the highest penetration of widest suite of products, including digital products.