We are already a payments bank

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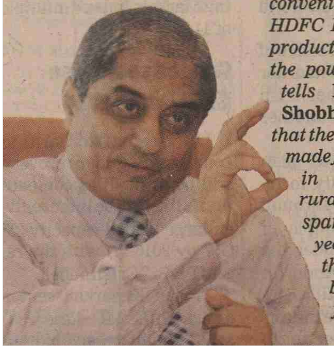
INTERVIEW: ADITYA PURI

MANAGING DIRECTOR, HDFC BANK

We are already a payments bank

HDFC Bank has been a market leader in more than one space and when it comes to technology, the private sector lender is right up there. Managing director **Aditya Puri** *hopes to be transacting at international levels very soon, dominating the digital banking space. After four years of painstaking R&D and several visits to Silicon Valley to learn how technology can be transformed into convenience for customers, HDFC Bank is rolling out products that can harness the power of internet. He tells* **Pallavi Ail** *and* **Shobhana Subramanian** *that there's also money to be made from doing business in semi-urban and rural areas and that in a span of four or five years more than a third of the bank's business will come from these areas. Edited excerpts:*



In a competitive market where technological prowess is almost evenly matched, how does a bank score with customers?

One needs to take a look at all the products and how they are offered and then compare the technology. We believe we are ahead of the others. We are not looking to be market leaders in India. We are looking to be market leaders worldwide by the end of this month, and latest by April 15, so that's the difference between us and the other banks.

We are using Big Data, which we analyse and use to determine the right product for the right person at the right time. For this, one needs data warehousing capability, appropriate algorithms, loan calculators, CRM system, outbound call centres — which HDFC Bank already has. For example, 40% of transactions occurring on Flipkart are via HDFC Bank's debit or credit cards.

With Big Data analysis, based on your lifestyle, I can offer you the right product at the right time. The information that I have is both demographic and financial. Jointly with Facebook and other such social media platforms, without breaching privacy laws, I can get psychographic information which gives me a complete picture.

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Then I have to have campaign to be able to get the product out to you at the right price. The R&D for such systems has been in place for the last three or four years.

Today you can take a mobile phone and apply for a personal loan. If you're an existing customer or a new customer, the approval happens in five minutes. If you're an existing customer, disbursal happens in 30 minutes. We offer savings on transactions made through our "Smartbuy" app. You can pay property taxes, grocery bills, petrol bills, income tax and telephone bills and transactions made this way also attract a discount offered by vendors. We have also introduced 'Chillr' to facilitate easy transfer of money.

Are you consciously targeting the youth to grow the customer base?

The youth may be the future but it's the older customers that have the money. We are targeting everybody and we segment our customer base, with the help of algorithms and analyse what product you need. For example, when you swipe a card and buy a dress, it will give you names of 10 shops in your current location where you can buy matching shoes at a discount on the HDFC Bank debit card. Our marketing is different. We do not put out front page ads but we are all over social media.

Will HDFC Bank explore options to set up a payments bank? Or is it not an attractive option?

I am already a payments bank. We are waiting to see how the payments banks operate and how they propose to deliver the money. If we believe it's a good model we can always apply for a licence later because it should be available on tap.

When are you expecting banks to lower loan rates?

Even the RBI governor has commented on the fact that despite two rate cuts transmission has not happened. The Indian Banks' Association (IBA) chairman has said that transmission will happen when the cost of funds goes down. So while the rate of deposits has gone down slightly, it's enough for a 50 bps reduction. We are almost there in terms of favourable macro factors coming in and if you look at the current industry production numbers, it is clear that we have bottomed out and are moving up.

Given inflation is easing and the deficit is under control I don't think anybody can debate that interest rates will go down. The question is, how much? It has to be a function of demand, supply and the bank's cost of funds. As of now, credit demand is not that robust and, therefore, there is not that much of an incentive to raise deposits. But there is a slight complication with the March 31 closing coming in between. So it would be reasonable to assume some movement in interest rates sometime next quarter. If your cost of funds has gone down, then you can delay the cuts by three months. But, it has to come down. So if inflation is going down, hopefully the rate of interest on deposits will go down and in turn, the weighted average cost of funds, in which case the base rate will go down.

The bottoming out of the economy is not reflecting in the credit offtake....

It is a sequential thing and will not happen overnight. Are we seeing an uptick in consumer demand? The answer is yes. We are starting to see it in consumer durables too. Do we see a change in sentiment? Yes. Are we looking at people expecting to sell a little more and consequently increase in working capital demand? To some extent, yes. Has the investment demand come in? No.

A good share of HDFC Bank's business is now derived from smaller towns, rural areas...

About 60% or 65% of India still lives in semi-urban and rural and 54% of the bank's distribution network and branches are in these regions. We are one of the few banks that are on the lending side of the balance sheet in these areas. Incrementally, the proportion coming from semi-urban and rural network is growing every month. The areas are widely spread out, there is less affluence so I think our business exposure is closer to 20-odd per cent even though the distribution is 50%. We are happy that we have gone into virgin territory both in terms of distribution and on the asset side. We want to substitute the moneylender. Over the next three to four years, more than a fourth of the loan book would emerge from these territories because these areas are growing much faster than urban India is. The customer is dispersed across a much wider geography and because the ticket size is smaller, the cost of servicing these people is much higher. But we have been doing this over three or four years, we changed our methods of selling, operations, products and now we have a very viable model.

ADITYA PURI, HDFC Bank managing director

Doesn't this impact your net yields?

Initially, the net yield will be smaller than that of urban areas but as the volumes, density, affluence in that area picks up — it will result in a longer-term benefit. But if someone else decides to enter semi-urban or rural India, it's not that easy. Here we are substituting the moneylender very substantially and we are creating a brand; 60% of India recognises HDFC Bank for all their needs.

This will also help you meet priority sector lending (PSL) norms...

Meeting the PSL norms is incidental; PSL doesn't have to be a mandate. If that's where 60% of India lives, as a businessman looking long-term, I cannot ignore those regions. I am happy to say that I am serving my shareholders as well as being a good corporate citizen. I am not doing this at a loss, I am making good money. Yes, initially, it was a loss but as the volumes come, it will equate to what I am making in urban India.