PANEL DISCUSSION

SANJAY BORADE

Better than the rest

It's been 19 years since we instituted our Best Bank award that is conferred to recognise the contribution of a bank in India, that operates on a national scale and captured growth, enticed customers, has excelled in both service and strength. The award is one of its kind, since the distinction is single and undiluted for a single bank in any given year.

Such a selection is never an easy task. Indian banks have seen better years than the one that just passed by. It is easy to forget that lending money is the easier part, but it is far more difficult to recover sums due. Exuberant lending over the past few years has strained relationships between bankers and borrowers, and bankruptcy proceedings underway will redefine this relationship and the manner in which business is conducted and disputes are settled.

Our panel discussion was held against this backdrop to select a bank that had stood above the rest, had been lending in what has generally been a bad banking year, had emerged strong despite an industry in tatters, and was geared to face emerging challenges – especially on the digital front, the effects of which will only intensify in the future.

Our panel this year was chaired by Shikha Sharma, managing director & CEO, Axis Bank. Along with her on the panel were Jaspal Bindra, chairman, Centrum Capital; Parth Jindal, managing director, JSW Cement; Rajeev Gupta, founder, Arpwood Capital; Rajeev Jain, managing director, Bajaj Finance and Sunil Mehta, chairman, Punjab National Bank.

Our panel selects the best bank for the year 2017

THE PANELLISTS

CHAIRED BY
Shikha Sharma
Managing Director & Ceo
Axis Bank

Jaspal Bindra
Chairman
Centrum Capital

Parth Jindal
Managing Director
JSW Cement

Rajeev Gupta
Founder
Arpwood Capital

Rajeev Jain
Managing Director,
Bajaj Finance

Sunil Mehta
Chairman
Punjab National Bank

As always we set a base criteria for selection. Since we choose only a single bank, it must have a national impact and, therefore, assets of over ₹100,000 crore. Winners of the best bank for the previous three years are excluded to allow for a new bank to win the award.

Further, based purely on numbers, *Business India* prepared a shortlist of 10 banks to assist the panel in discussions – based on about 20 parameters, such as growth in assets, advances, deposits, low-cost deposits, net profit, market cap, fee income, cost to income ratio, credit to deposit ratio, provision coverage ratio, capital adequacy and return on asset – with panellists free to add new names to the list with mutual consensus. We had one foreign bank, five private sector banks and a few public sector banks that made the mark this year.

But numbers can never tell a full story. Bank balance sheets are only now starting to reflect reality, cloaked under 'regulatory forbearance' for the past few years. Moreover, numbers can never fully reflect intangibles like customer service or brand value.

Moreover, with the banking system having taken a setback, new competition had emerged from fintech companies and non banking financial companies. Companies too had shifted borrowings to the commercial paper market to take advantage of the difference in borrowing rates.

A panellist opined that perception plays an important role in decision making because it will determine future sustainability. While most of the sour loans were now accounted for, some had yet to be recognised for accounting purposes.

The first to fall off the list were the smaller public sector banks. Though they had shown an improvement in financial numbers this year, it was too early to tell if this was a blip and if they would go back to their old ways again. Moreover, even though public sector bank share prices had surged following the government's recapitalisation announcement – only two notable public sector banks stood out in the industry this year.

A panellist said that public sector banks are still playing the catch-up game. And while they had public faith and, therefore, parked deposits, they could offer the best term loan rates to industry. But unlike their peers, they did not chase equally lucrative, ancillary services like cash management – though some had pulled up their socks and had started to do so.

A foreign bank came up for discussion next but was dropped on account of increasing irrelevance. It had met the base criteria set for selection, had a strong book and churned out more profits on a smaller base than some of India's largest banks.

But the foreign bank had cut down on lending last year, a trend that has gathered pace over the last few years. Foreign banks in India are increasingly losing relevance from a national perspective, focussed on their niche and lucrative customer base, with their India arms turning into mere extensions of global strategy. The aggressive growth they had seen earlier, based on innovative ideas were industry standard, and without the will to expand they were losing relevance. With more innovation and growth being noticed elsewhere, the foreign bank was dropped off the list.

Two private sector banks came up for discussion next. The first was a large private sector bank, but a panel member said that there was a leadership issue at the institution. That they had missed out on an opportunity, and there was a sense of discontentment in industry about them.

The second private sector bank had grown rapidly over the past few years. It had built its book around mezzanine debt, which is high risk but high return collateralised lending. A research house had opined that its share price should be at one fifth of its current level, while another had offered strong support to it. Yet, it was only a matter of time before this bank would account for non-performing assets totalling about ₹6,000 crore, which do not show on its books yet. It fell off the list too.

A public sector bank came up for discussion next. A new leader sourced from the private sector had brought new life into the bank. It had made notable progress over the past few years, but there was a succession issue brewing. If the leader was to not continue at the post after his term ends next year, and if the new manager was selected from an internal set of managers, would the daggers be out for the consultants hired by the bank to execute a strategy that has played out over the last few years?

Business India
BEST BANK
2017
HDFC Bank

PREVIOUS WINNERS

2016
Axis Bank

2015
IndusInd Bank

2014
Kotak Mahindra Bank

2013
HDFC Bank

2012
Bank of Baroda

2011
Punjab National Bank

2010
Bank of Baroda

2009
State Bank of India

2008
HDFC Bank

2007
Axis Bank

2006
ICICI Bank

2005
State Bank of India

2004
ICICI Bank

2003
Oriental Bank of Commerce

2002
Citibank

2001
HDFC Bank; Bank of Baroda; Standard Chartered Bank

2000
State Bank of India

1999
Corporation Bank

At this point, only two banks made it to the final list -- State Bank of India and HDFC Bank. The venerable State Bank of India had made significant progress over the last few years, and had a cleaner balance sheet than most of its peers. By sheer size – a quarter of the banking industry – its impact remains disproportional.

Its digital rollout – which had started under O.P. Bhatt – had gathered pace and it had caught up with peers despite the limitations one would expect in the public sector. The bank had management depth, had merged its subsidiaries, executed a smooth succession plan, with no single individual responsible for that credit – and with no baton to pass on *per se*.

A panellist said that increasingly succession issues in the public sector are less of a problem even as almost all of the larger private sector banks seemed to have an issue with it. While SBI did have non-performing assets to deal with, these were under control and it was growing inspite of the setback its peers faced.

The second, HDFC Bank had shown consistent growth for more than a decade with a quality book. It has been rewarded by investors with the largest market cap within the banking industry – which is fuel for any bank with growth ambitions.

The panel did express two concerns about the bank. The first was about term lending, in which the bank had limited exposure. While this had shielded the bank from accumulating sour loans, as a consequence, it had also limited experience in the sector. The second was a succession plan, which – as has been seen in the past — can be a risk for a bank.

But this bank had also rolled out a digital strategy – on top of its strengths around capturing transactions and cash management, that was best in industry and it was well-placed to capture market share going into the future. Through innovation and alertness, it has made inroads even in government quarters, with a panel member saying that it would be seen as an equal or even better for executing government contracts.

When the votes were called out, the final decision went in favour of HDFC Bank. Under chairman and managing director Aditya Puri, the bank is already the largest in the private sector in India, in terms of advances as well as deposits. And with a clean book and processes well in place, it expects to surge ahead over the next few years. Our heartiest congratulations to Aditya Puri and the team at HDFC Bank for winning the Best Bank 2017!

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Managing scale and risk

If this were a hare and tortoise race, the tortoise is finally in the lead. And it has taken perseverance, consistency, an eye on quality, and a good 24 years to do so.

By domestic assets, private sector HDFC Bank has emerged as the largest private sector bank in the country, prompting the central bank to classify it as a systemically important bank. In terms of advances and deposits (and profitability) it is already larger than all other private sector banks.

If some may think it is time to pause and consolidate, HDFC Bank is readying to double in size. “We normally double every three-and-a-half years, and I see no reason why that should not continue,” says Aditya Puri, the bank’s managing director & CEO. “Prospects are fantastic. The world changes fast, but the next five years shouldn’t be a problem.”

Banking has seen several structural changes since Puri took charge as CEO in 1994. He inherited a well-respected brand, leveraged it to build a distribution network, and created products that neither the public nor the foreign banks had at the time or were able to deliver.

Getting to this size has required

HDFC Bank is set to double in size in four years

five transformations in 24 years. Starting as a wholesale bank, with a focus on transaction banking and cash management, HDFC expanded into securities and the stock market, making inroads into retail by year 2000. Two banks – Centurion Bank of Punjab and Times Bank – were acquired to gather scale, and expanded from the cities into semi-urban and rural India. Today, HDFC is seen by the market as a retail bank, though 44 per cent of its business is lending to selected areas within wholesale.

There were also at least three storms to weather during his term. In 2007, when banks across the globe and a few in India, faced setbacks, he kept charging ahead. In 2014, when banks in Africa and China lost market share to emerging fin-tech companies – Puri stepped up the pace. Today, as public sector banks grapple with sour loans, he is readying to double in size.

BEST BANK 2017

Ahead of the curve

	Total Assets 2017	Total Assets 2016	% Growth
State Bank of India	34,45,121.56	29,70,897.64	15.96
ICICI Bank	9,86,042.66	9,18,756.20	7.32
HDFC Bank	8,92,344.16	7,30,261.82	22.19
Punjab National Bank	7,33,310.91	7,12,792.96	2.87
Bank of Baroda	7,19,220.51	6,91,179.08	4.05

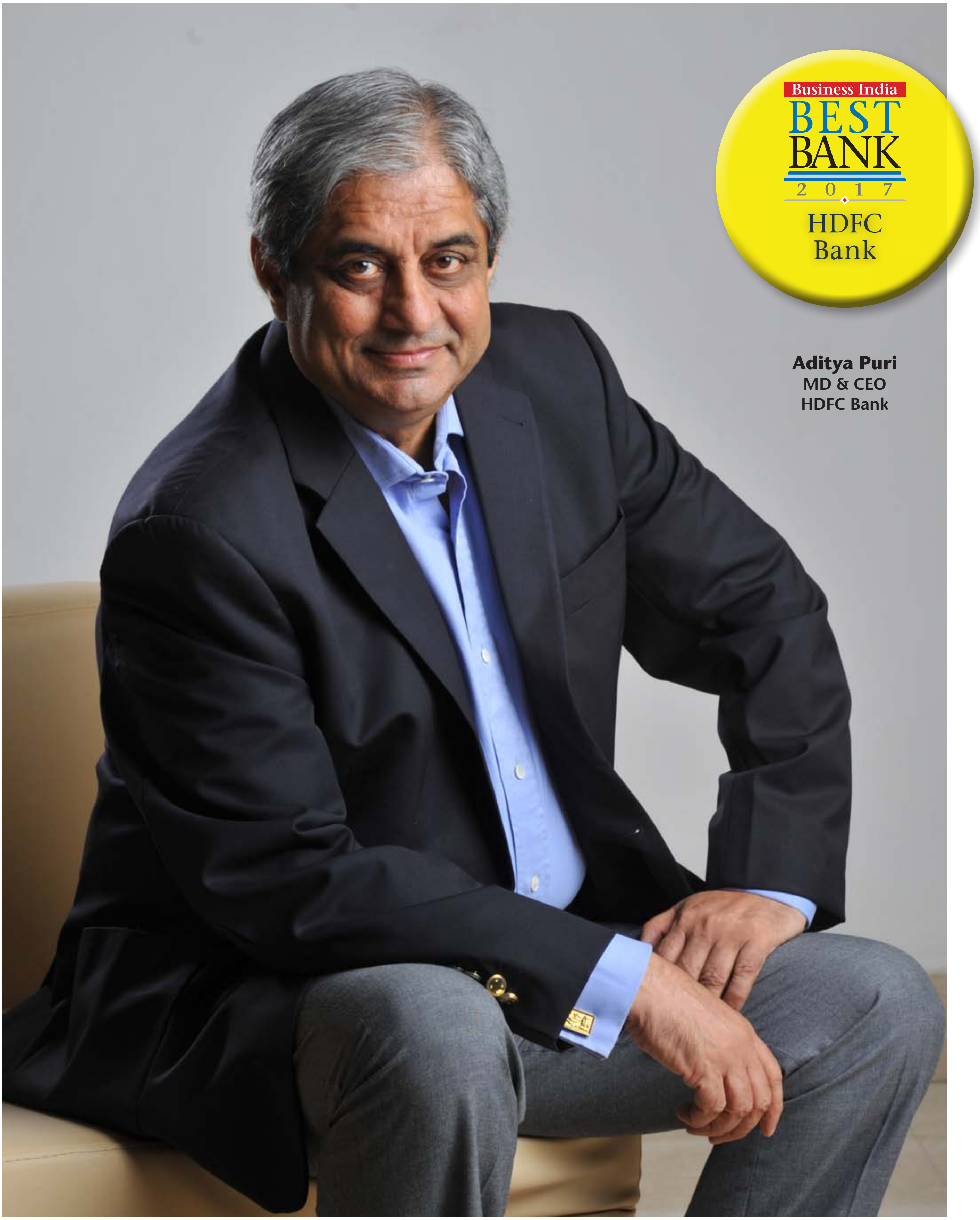
With a base of over 40 million customers, economies of scale are in full play at HDFC. In 2016-17, the bank posted a net profit of ₹15,253 crore – up by 20 per cent from the previous year. Its market capitalisation on the stock markets has crossed ₹478,000 crore, the third largest of any company in the country.

If digital is the buzzword in banking, Puri has positioned to be at the front of the line. “You ask six people what digital means and you will get seven answers,” says Puri. “But if you look at what is happening — when you have convergence of media and computing, the ability to have big data and analytics; everything being connected, it gives you the ability to alter your business model and to provide a personalised product to the customer as well as reduce cost.”

In comes Eva, a chatbot, that automates millions of successful conversations on the bank’s website and Facebook messenger every month. Leveraging artificial intelligence, Eva represents the bank to external customers, but there are at least six other bots for internal and employee use. “The next version may be able to do more like assist in transactions. We are trying to develop this as a conversation property,” says Nitin Chugh, country head, digital banking.

Then came Ira, a humanoid deployed at a branch in Mumbai, a robot and pseudo-butler that moves, guiding customers to counters and answering simple questions. In a testing phase, the bank is trying to learn what it can do and what the customers expect of it.

PHOTOS: SANJAY BORADE



Aditya Puri
MD & CEO
HDFC Bank

Sukthankar: we need people

Bharucha: HDFC is a full-fledged commercial bank

There is smartbuy.com, the bank's answer to emerging competition from e-commerce players. Products are available cheaper here than elsewhere, because the bank doesn't charge distribution, but asks for it to be passed on to the customer. There is Payzapp, an inexpensive app by the bank that has 12 million registered users.

There is a much talked about 10 second, personal loan — from the time of application to the time of disbursal — for existing customers, and 10-minute approval for others, subject to documentation.

Another loan against securities account, in a tie up with NSDL (National Securities Depository Limited), offers loans against shares. It used to take five-to-seven days in the earlier process, but can now be disbursed in five minutes.

In credit cards, with about 9.5 million customers, HDFC Bank is nearly twice the size of its nearest competitor. And the base will continue to grow. Unsecured loans have been growing at 40-50 per cent, with little sign of delinquency. "We are both the largest acquirer and issuer in the payments business," says Parag Rao, country head, card payment products, merchant acquiring services and marketing.

"The economy is growing steadily," says Arvind Kapil, group head, retail assets and unsecured loans. "What do you think will happen in a six trillion dollar economy? You will start to see Bentleys in your society. You will see a lot more Mini Coopers which you do not see now."

Such confidence in quick lending is backed by big data, advanced analytics, and initial steps in artificial intelligence, with customer construct being built through various social media. More importantly, it is linked to rising per capita income.

Data can be used, for instance, to map customer purchases and behaviour. It uses past responses to assess channel preference like whether the customer doesn't open emails, prefers to talk to a physical warm body, or over the phone. It can then predict the best date and time to approach the

Scaling up

	Net Profit		%
	2017	2016	Growth
HDFC Bank	**15253.03**	**12801.33**	**19.15**
State Bank of India	10484.10	9950.65	5.36
ICICI Bank	**10188.38**	**10179.96**	**0.08**
Kotak Mahindra Bank	4941.33	3458.85	42.86
Axis Bank	**3953.03**	**8349.67**	**-52.65**

Zaveri: legacy systems are a handicap

Kapil: brimming with confidence

customer, and the best product suited for her at that time.

Till only a few years ago, it is such changes that got people to say that banks were turning into dinosaurs. "If you look at Amazon, Facebook, Netflix or Apple, they just use the structural changes in computing and mobility to come up with a product that is more convenient to the customer and at the same time reduce cost," says Puri. "We forget that we could do the same thing in banking. So we started with zero on a plain sheet of paper. And said that, if we want to give the customer a frictionless experience, then how should he be able to deal with us."

But to be able to deliver such products also requires a strong backend — a scalable network and continually refined processes that are able to support execution without disruption. Shifting to an API (Application Programming Interface) platform, means customers at HDFC can access the bank from any device. By the first quarter of next year, customers will be able to start a conversation on the phone and carry it on in a branch.

Three years back, HDFC Bank's core banking transactions were on average 2,500 transactions per second (tps) up now to 5,000 tps. An investment plan to roll out 10,000 tps is already underway.

Transactions are emerging like never before and from all quarters — through bill payments, deposits, credit and debit cards and point of sale terminals, trade on net, emerging, small and medium corporates, through RTGS and NEFT, and through portals like Smartbuy and Payzapp. An auto loan can be sourced from seven different channels with a stream of partners within those channels, and this is only one product.

"To run a bank of this size with 4,800 branches, you need something like 4,000 to 5,000 CPUs (central processing units) on average, consuming four to five megawatt of electricity and five to six petabyte of storage," says Munish Mittal, chief information officer.

Scaling up to keep up with growth is

BEST BANK 2017

Steady growth

	Advances		%
	2017	**2016**	**Growth**
State Bank of India	**1896886.82**	**1870260.89**	**1.42**
HDFC Bank	585480.99	487290.42	20.15
ICICI Bank	**515317.31**	**493729.11**	**4.37**
Punjab National Bank	424230.49	446083.03	-4.89
Bank of Baroda	**392262.30**	**391485.99**	**0.19**

Of men and machine

In a free-wheeling interview, Aditya Puri (68) discusses a range of issues including succession planning

What is the next step for digital and banking?

Fundamentally, if you have a digital signature, a lot of the documents can move online. This will rapidly expand exponentially in a geometric progression over a period of time and it's as much a question of what we are ready for but also what the customer wants. But that doesn't mean the physical world will disappear. First, they said internet will come and bricks and mortar will disappear. Then, they said e-commerce will come. Half went there. Now all those (e-commerce) fellows are buying bricks and mortar. There will be a convergence between the physical world and the online world.

Does productivity at its peak lead to job losses?

Is there a direct linear relation between productivity, digitisation and job loss? There is, however, a co-relation in terms of more efficiency. So, if a credit analysed job can be done by a model you still need somebody to be able to make the model. You need somebody to be able to analyse that data. So, you create a different type of job. It's more a challenge of reskilling than losing jobs. Whenever there has been a technological change, the type of job changes. The auto revolution created more jobs, because automobile price fell and more people could buy cars. It's a question of how many people can reskill themselves.

You have supported demonetisation...

The cash component has gone down by 12 per cent. If it goes down by a further 12 per cent, the cost of printing and managing currency is ₹25,000 crore. You reduce the amount of cash in the system. It helped digitisation, brought a lot of new money into the system.

Is the rollout of GST smoothening?

GST is a far reaching reform. It is easy to say it could be one or two rates. The fact is: it took you 15 years and you could not introduce GST; because you never came to a conclusion. It may not have been the best GST to start with, but it is rapidly coming to what it should have been originally. If they had said that they want the GST like that, the states would not have signed. This is a temporary disruption for a reform that is so large.

Shouldn't a few public sector banks be made private? The ones that are being starved...

Some of the private sector banks also have reasonable NPAs. Privatisation could be a solution, it is not the only solution. I think moving to introduce reform is not easy. The bankruptcy code is a good reform. Recognition of NPAs is an even bigger reform. Today, a promoter is scared to lose the company. That is a big step forward.

Should promoters be allowed to buy their companies back?

If they are fit and proper, how did they land here? It doesn't make sense. You take the company to where it is. Then it comes into the bankruptcy code. Then you get it for a cheaper price. By definition,

one side of HDFC's success, incomplete without the continual improvements in processes to keep pace. Take cheque clearing for instance. HDFC Bank processes more than 60 million cheques a month. Back in the day every cheque would be processed by entering an account number. When core banking system came in, data started to be fetched from it.

That process improved to fetching only the signature of the customer, and tallying it online — so that it did not have to be keyed in again. In February, the bank will go live with auto verification of signatures, deploying artificial intelligence. The machine will verify signatures, and if it doesn't tally, then human eyeballing will take place.

Or tax collections. When HDFC started, it would take days from the time a branch could collect and till it would reach the government. The bank signed a commitment with the government to complete the process in finite time, else pay interest for the

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Collecting more

	Fee Income 2017	Fee Income 2016	% Growth
State Bank of India	**18665.02**	**16215.33**	**15.11**
HDFC Bank	10074.94	8986.77	12.11
ICICI Bank	**9390.11**	**9733.22**	**-3.53**
Axis Bank	8108.56	7982.64	1.58
Kotak Mahindra Bank	**4096.77**	**3461.72**	**18.34**

Chugh: digital dominance

you're the best guy to know how much to bid for it. And you will end up giving the banks a bigger hit than what they would have got if it hadn't gone to the bankruptcy code.

Competitors say you don't lend long term...
HDFC has never shied from long-term lending. It has shied from long-term lending in which it did not understand how it would get its money back. The structuring has improved now that people have learnt their lessons. Which if they had put in at that time, we wouldn't have been in this soup. And now, if it's a good project, we were always there.

Do you see merit in a merger with HDFC?
Whenever we see potential we shall merge. It could be the largest Indian company, still we would love to have it. It's got to do with plain economics; Deepak Parekh and I have got along fantastically well but it has to make sense. The tax rate, the capital gains tax, there are different concessions. So, if it made sense and the regulations made sense, we would love to merge. We've been hoping that the rates would come down for a long time.

Would it happen before you turn 70?
No idea. But if it did, we would merge.

Finally, on succession planning, is it a risk at HDFC Bank?
It is not an issue at all. We have both internal and external candidates. We have discussed it at the board. We will start to fine-tune it closer to 18 months before my retirement. And the replacement will be in place one year before I retire.

Life after 70, is retirement a state of mind?
It depends on that time. I am feeling fit. I play my games. I work. Maybe I will work in a company. Maybe I will start work at a non-bank. I don't know.

entire period. From five working days the process cut down to five calendar days, and is now one working day.

"The challenge is in managing transformationally, a fairly complex and sophisticated ecosystem. Technological and delivery changes are taking place, and customer expectations are changing," says Bhavesh Zaveri, country head, wholesale banking and cash management product. "Legacy systems are a handicap. In 2016, they become inflexible to meet today's demand and to connect to other surround systems. We don't allow ourselves to become a slave to our systems. We don't keep any of our systems static beyond five to seven years," he adds.

Changing processes in favour of cost efficiencies has made re-skilling of staff a continual exercise. During the heady branch expansion days, HDFC Bank's employee count rose to 92,000. Hiring froze last year with branch expansion slowing, and churn has brought the number down to 84,000.

The number is rising again but has lost pace. "As an organisation, as we are growing, there will always be areas, where we need people," says Paresh Sukthankar, deputy managing director. "If there are people who are not coming up to the standards of performance, we train them and help them come up. Beyond that is a performance improvement plan with a structured process from there".

Catching up

	NIM 2017	NIM 2016
Citi	**5.15**	**4.53**
HSBC	4.92	3.43
Standard Chartered	**4.70**	**5.46**
HDFC Bank	3.94	3.98
Kotak Mahindra Bank	**3.93**	**3.85**

Better performance

	Return on Assets 2017	Return on Assets 2016
Citi	**2.45**	**2.20**
Kotak Mahindra Bank	1.78	1.43
HSBC	**1.76**	**1.53**
HDFC Bank	1.70	1.75
Standard Chartered	**1.70**	**0.75**

Rao: what the customer wants

Mittal: tech advantage

Lending short

How did HDFC Bank skip this latest banking crisis that most public sector banks – and even a few private sector banks – find themselves snowed under? Competition argues that HDFC Bank does not do project financing, term lending, or long-term loans to industry, which has contained risk and kept its books relatively clean.

This was true in the initial years, and the bank has now started to lend across tenures. Of the total loans, 46 per cent are to Indian companies – and 30 per cent of that is of an average tenure of five-to-nine years.

HDFC Bank decided that it would participate with companies that had been in infrastructure. They were selective about who they dealt with, and put it through a good amount of risk evaluation to make sure that money wasn't being put out on the basis of fancy excel sheets.

Part of the crisis, says Kaizad Bharucha, executive director, was in terms of a mismatch in companies tie ups for input and output. "They wanted to put up world class assets and execute within a timeline, and they largely did get their projects on stream. But, after that, what do you do, if you do not have those two ends tied? And, for the guys who got it tied up, they were faced with a commodity cycle," he adds.

HDFC also has a policy of lending preferably on cash flow – be it retail or corporate – instead of collateral. The idea is to worry less about selling a customer asset in case of a default, and more about whether the customer can pay back in the first place.

Bharucha says that HDFC is a full-fledged commercial bank, and given the size and footprint, it needs to have the entire range of products. 'Wholesale' will continue to fill about half of the bank's books and, as the bank grows its assets, and with customer demand, it will find itself stepping deeper into long term lending – even if only as a measure of diversification.

It is these continuous improvements and refining of processes that has kept HDFC Bank ahead of the curve. Banks in India have tried to emulate the HDFC strategy but have met with limited success. The bank is known in the industry for its efficient processes, but how difficult can that be to replicate or improve on by others?

"You do need the framework, the processes, the policies and the ecosystem, but you also need individuals to execute," says Sukhthankar. "Likewise, no matter how good an individual, he cannot be as successful without the rest of the pieces in place."

Digitisation still has limitations, with different demographics choosing to deal differently with the bank. Moreover, law requires physical signatures and document collection in several cases, for which the branch is still relevant – as in client-servicing and to meet cash, trade and small and business requirements. As long as these pieces exist, the branch will still be relevant.

"We want to give the customer what the customer wants, when they want it and how they want it irrespective of the channels they use," says Rao.

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