

A new world of banking

Indian banks are following their customers overseas.
But they have grander ambitions.
An India Now report.



K V KAMATH: Looking at the next horizon of growth

On 13 March 2006, the Reserve Bank of India (RBI), the country's central bank and monetary authority, okayed an unusual experiment. It allowed Bank of Baroda (BoB), Bank of Maharashtra and Oriental Bank of Commerce (OBC) to set up a joint venture bank in Malaysia. The three Indian public sector banks will hold the \$77 million equity in a 40:30:30 proportion. The bank will eventually be listed on the Malaysian bourses.

For BoB, going abroad is not particularly novel. It styles itself "India's international bank". For the others, smaller in size, it's a new adventure. And it is an indication that even the relative minnows of the banking pack in India are eyeing foreign shores for expansion. Says an OBC spokesperson: "The bank is looking at opportunities to open branches or representative offices in Dubai, Malaysia and Senegal to reap the benefits of its brand equity."

Till a few years ago - until liberalisation took off - this would have been heresy. The accepted wisdom was that India was hugely underbanked, particularly in the rural areas. It was the social obligation of public sector banks to spread in the boon-docks. Besides, how could you go abroad and compete with the likes of Citibank and HSBC. Even as recently as a few years ago, overseas branches were regarded as parking lots for senior executives over the hill.

Today, however, there has been a new dawn. Take the action in just one country - China. More than a dozen Indian banks have applied to the RBI to set up shop there. Several have already flagged off representative offices. They will convert to branches in two years, the timeframe stipulated by the Chinese authorities.

According to the RBI, as on 28 February 2006, there were 101 branches of Indian banks abroad. There were also 17 subsidiaries and 28 representative offices. Many of these are of recent origin. But they reveal only part of the picture. The RBI does not publish details of applications made. Banks, however, say that almost everyone is looking for a piece of the action.

What action? Indian banks are bit players on the world stage. The largest Indian bank - State Bank of India (SBI) - was No 93 in the list of the world's top banks, according to the July 2005 ranking by The Banker. Is it really worth the effort to go abroad?

Some see it as a simple survival strategy. The WTO norms say that several restrictions on foreign banks operating in India must be lifted. That's begun happening and these banks are going all out to rope in more corporate customers. They have the advantage of being able to offer networks and services in other countries. This is important because *Corporate India* is on a takeover spree, gobbling up scores of companies abroad. If their Indian banker

cannot aid in this effort, they will turn to a foreign banker. Aggressive foreign bankers will then leverage their toehold to capture some of the company's business in India itself.

Others don't see this as a defensive move. "The globalisation of the Indian economy has created opportunities for Indian banks to go global and offer a complete range of services to its customers," says SBI chairman Arun Kumar Purwar. "It is therefore natural on the part of SBI to accord increasing importance to expansion overseas."

The numbers at SBI give an indication of the pace of change. In March 2004, the bank had 52 offices in 28 countries. This has now been increased to 70 offices in 30



HI-TECH NETWORK: Indian banks are keeping pace with technological improvements

countries.

"Indian banks are keeping pace with global technological improvements in the banking sector," continues Purwar. "We expect that with the further opening up of the economy, they will be in a position to offer a comparable product range. In addition, their vast physical networks will offer linkages for global trade."

Purwar has launched a plan styled *Project Vijay* (Victory). Its objective is to take the bank into the Top 50 worldwide and among the first five in Asia in terms of assets by 2008.

A component of *Project Vijay* is the acquisition of banks abroad. SBI has bought 76 per cent of Giro Commercial Bank of Kenya, 76 per cent of PT Bank IndoMonex of Indonesia, and 51 per cent of the Mauritius-based Indian Ocean International Bank.

The budget for this exercise is \$100 million. That may seem a pittance when, to give just one example, Bank of America paid \$3 billion for a 9 per cent stake in China Construction Bank. But SBI, where the bankers are ultra cautious, is funding its acquisitions from the profits of its overseas operations.

The globalisation of the Indian economy has created opportunities for Indian banks to go global and offer a complete range of services.

The No 2 bank in India - ICICI Bank - is also planting its flag in different countries. It is a newcomer to this area, having set up its International Banking Group (IBG) only in 2002. It is already present in 12 countries. Some 15 per cent of its business comes from international operations.

Bhargava Dasgupta, head of the IBG, explains the reasons behind the foray. "Three years ago, we needed to look at the next horizon of growth. What we saw around us was growing globalisation. We

evaluated different strategies. Finally, we decided that the follow-the-customer approach was the most appropriate.

"The business opportunity was, first, the Diaspora. Second, Indian companies were going overseas. Our opportunity areas were: helping them to raise capital, acquire companies and set up greenfield projects. Third, India was opening up to trade. This was where we could also get involved."

ICICI Bank has taken a very different approach from SBI. While the latter is on a takeover trail, the former is setting up its own branches. (The only takeover has been of a small bank in Russia. Russian laws require two years of operation before permission to accept retail deposits is given. The acquisition thus gave ICICI Bank a two-year headstart).

Dasgupta explains that ICICI Bank has not seen any value in acquisitions as yet. It's possible to get a bank cheap, if you look hard enough. But it is likely to come with the baggage of people, technology and non-performing assets (NPAs). ICICI Bank has received permission to open representative offices in Malaysia, Kenya, Thailand and Malaysia. Its UK subsidiary

BACK WITHOUT A BANG

Many Indian banks had significant overseas operations in the pre-Independence days. Post 1947, they drew in their horns to concentrate on India, which was significantly under-banked. They are venturing abroad again or beefing up their existing operations. But progress has necessarily to be slow. Here's a look at some of them:

BANK OF BARODA



Bank of Baroda (BoB) opened its first branch outside the country in Mombassa, Kenya in 1953. Since then it has built up a network of 59 offices in 21 countries including 39 branches of the bank, 17 branches of its seven subsidiaries and three representative offices. The bank also has a joint venture in Zambia with nine branches. The latest additions are rep offices in Malaysia, China and Thailand. BoB will extend its branch network in the US and Hong Kong and launch operations in

Canada, New Zealand, Trinidad & Tobago, Bangladesh, Maldives and Sri Lanka.

BANK OF INDIA



Bank of India says it is the first Indian Bank to open a branch outside the country (London, 1946) and also the first to open a branch in Europe (Paris, 1974). The bank has a sizable presence abroad, with a network of 23 branches (including three representative offices). The international business accounts for around 20 per cent of the bank's total business.

INDIAN OVERSEAS BANK



Indian Overseas Bank has five branches abroad: two in Hong Kong, and one each in Seoul, Singapore and Colombo. It has a remittance centre in Singapore and rep offices in China, Malaysia, Dubai and

Abu Dhabi.

INDIAN BANK



The bank has branches in Singapore and Colombo. In 2005, it raised \$100 million through its Colombo branch. This money will be used to augment the assets of its foreign branches.

PUNJAB NATIONAL BANK



The bank was the first Indian bank to open a branch in Kabul, Afghanistan. It has rep offices in Almaty (Kazakhstan), London, Shanghai and Dubai (UAE).

CANARA BANK



Canara Bank established its international division in 1976. Although small in size, it has a presence in the UK, a subsidiary in



A K PURWAR: Looking to expand overseas

Hong Kong, a joint venture with SBI in Moscow and a rep office in Shanghai.

UTI BANK



A new generation bank, UTI Bank flagged off its international operations in April 2006 with a subsidiary in Singapore. It has Reserve Bank of India approval to set up a rep office in China.

On the Web

State Bank of India: www.statebankofindia.com

ICICI Bank: www.icicibank.com

Bank of Baroda: www.bankofbaroda.com

Bank of India: www.bankofindia.com

Indian Overseas Bank: www.iob.com

Indian Bank: www.indianbank.in

Punjab National Bank: www.pnbindia.com

Canara Bank: www.canbankindia.com

UTI Bank: www.uitbank.com

will open a branch in Antwerp soon.

Why are two of the largest Indian banks following totally different strategies in their globalisation quest? Which has the potential to work better? The answer lies in the fact that they are starting from different positions. "These banks are not in the same situation as us," says Dasgupta. "They went out of the country at least 40 years ago."

It's not just SBI. Bank of Baroda opened its first branch outside the country in Mombassa, Kenya in 1953. Today it has 59 offices in 21 countries. In 2005, it opened a new branch in the UK, taking its total overseas branches to 39. The first Indian bank to open a branch outside India was actually Bank of India, which set up shop in London in 1946. Even OBC, now part of the joint venture in Malaysia, had a branch there earlier. Changing Malaysian government policies - which did not allow foreign banks owned by foreign governments to operate in that country - forced it to exit. As a way out, the branches of OBC, United Commercial Bank and Indian

Bank were merged to form United Asian Bank, which was then taken over.

Despite the fact that globalisation has been low key, there are several Indian banks like these with some experience of the foreign markets. For ICICI Bank, it's all very new. "We want to learn the ropes ourselves," says Dasgupta. "We want to get our hands dirty." But when it moves beyond this learning curve, it could look at acquisitions too.

There is another reason, which nobody talks about officially. SBI and the other Indian public sector banks may be technically independent, but they still suffer from government control. "The chairmen of these banks are appointed by the government," points out a banking analyst.

In an earlier era, the SBI chairman's job was regarded as a final resting place, a reward for being a malleable handmaiden. In the nineties, SBI had more than eight chairmen in as many years.

Purwar has had a relatively longer innings. He took over as chairman in November 2002 and his term ends on 31



GROWING COMPETITION: The front-end is where the action is starting

May 2006. It is to his credit that he has not chosen the easy way out. Globalisation is just one of his initiatives. Technology upgradation and a retail thrust are others. These have already delivered results.

But the short time available to Purwar means that he has had to step on the gas. "Takeovers are a quick entry strategy, compared to setting up your own branches," says a banking analyst.

ICICI Bank chief K.V. Kamath has no such reason to be a man in a hurry. (It's a different matter that he always is in a hurry.) Kamath took over as CEO in May 1996. And everyone assumes that he will be at the helm for many more years. He has time to plan his strategy.

The bank may have started off by following its customers. Now it wants to take on the world. "So far, we have picked the low-hanging fruit - the Indian companies and the Diaspora," says Dasgupta. "Now, we are leveraging our India cost advantage. Foreign banks are using India as a

Indian banks are keeping pace with global technological improvements and will be in a position to offer a comparable product range.

back office. We have all the experience and knowhow. Why shouldn't we?"

In the UK and Canada, ICICI Bank has started retail banking operations. It is offering 25 basis points higher interest than competitors. It can afford to do so because of lower costs. "The product has been so

popular that the bank already has 22,000 customers, with 1,500 new ones signing up every week," BusinessWeek reported last year. ICICI Bank has also more than doubled the staff strength based in India to support global operations. "We want to capture the entire value chain," says Dasgupta. It's reverse BPO (business process outsourcing). ICICI Bank has the back-end sewn up. The front-end is where the action is starting.

No one is saying it out loud, but new generation bankers feel that the ICICIs can take on the Citis and succeed. Their battleground will be the retail arena, where a little higher interest can make all the difference to customer pull. A decade ago, nobody would have dreamt that Indian companies would go shopping abroad on such a scale. Nor can they conceive today where the banks will be 10 years hence. Indians, as in individuals, are all over the place in the international financial arena today. Indians, as in banks, could easily be there tomorrow. 🌈