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OLD PRIVATE SECTOR BANK RANK 2

STRENGTH & SOUNDNESS RANK 2



“RIGHT NOW, OUR FOCUS IS ON ASSET QUALITY

KARUR VYSYA BANK, one of the old-generation private sector banks in the country, doesn't want to chase business simply to report big numbers. KVB, which will be celebrating its centenary in 2016, wants to complete the walk in measured steps. **K Venkataraman**, managing director and chief executive officer of the bank, tells **FE's Sajan C Kumar** that whether there is a slowdown or uptick in the economy, the bank is focused on quality of its assets. Edited excerpts:

We are into fourth quarter now. How have the last three quarters been in terms of performance vis-a-vis external economic conditions?

At the beginning of the financial year, things appeared slightly better and our confidence came from the fact that interest rates were moderating thanks to the measures taken by the Reserve Bank of India (RBI). We believed that growth would pick up during the year, specifically towards end

of the first quarter, especially since measures were taken by the RBI to control inflation. However, the situation has not improved, it has worsened and interest rates have remained elevated. The RBI's policy shift — increasing the MSF (marginal standing facility) rate — has increased the borrowing costs for banks and thereby triggered a rise in the system interest rates. We have taken a decision to absorb the higher costs of funds for the time being.

Is the bank's Q3 performance reflective of the difficult situation since the PAT has dropped by around 5%?

There were two major reasons for the drop in profits. First, our interest income itself was lower and second, even if there had been a big upturn in the economy, we would have been cautious. If we hadn't been so cautious we would have reported a 20% to 25% growth but

given that the environment was worsening, we thought it better to go slow for some time. We have tightened our credit norms further and are not picking up medium-quality assets although high-quality assets fetch us lower margins. Our advances grew at a slower pace, our cost of funds also rose and additionally, our employee costs have increased. We raised salaries by 10% and, therefore, the cost to income ratio has gone up.

What is your outlook for the near term?

The growth rate will remain the same, we have been growing at approximately 15%. Although last year we saw a good increase in the gold loan portfolio, there will be some slowdown this year due to the high price of the commodity and the government curbs. Looking ahead, things could improve as some of the companies are again evaluating their expansion plans. In our case, a number of borrowers were not utilising their limits as they had scaled down operations but they have now started looking for capital

HCBL: Taking Co-operative Banking to New Heights



"Besides, changing the prevailing mindset about Co-operative Banks, we are making efforts in the direction to develop HCBL Co-operative Bank Ltd. as a model co-operative bank equipped with international level banking services & facilities" explains

Pawan Kapoor, CEO, HCBL Cooperative Bank Limited. He is the proud recipient of 'Jewels of Uttar Pradesh' title, awarded by News Channel, Zee News for his contribution in the field of Co-operative banking in Uttar Pradesh.

To begin with, you are a Chartered Accountant by profession, how did this transformation from CA to CEO of a bank happen?

Well, like any other ordinary youth in my early days, I also intended to pursue settled career choices. With many of my family members involved in banking services, I was advised to take up CA as a profession which I did, though my heart was in IIT. After qualifying as a CA, at early stage of my career I worked with few firms but, somehow I felt I wasn't a 9 to 5 material. As, I came from a modest background, I wanted to achieve big challenges in my life and set standards for others. Then, this idea of establishing a neglected sector like co-operative bank cropped and I became part of it. We started working on this venture back in 2001. I travelled around the world, attended banking seminars and tried to learn best practices, technology innovations, and resolved to set up modern co-operative bank in our country. The Reserve Bank of India during those years had imposed ban on new co-operative banks (in the backdrop of scams in a few co-operative banks) but later on, we were granted 5(five) licenses for branches. We started by launching Branches in Lucknow and set up branches at other places in Uttar Pradesh. Since then it has been a journey of excitement, dedication and commitment which shall continue in many more years to come. Today, all our branches are well equipped with modern technologies and offer all kinds of banking services.

Generally speaking, Co-operative banks do not carry as professional image or trustworthiness as private or nationalised banks do. Do you agree? Why is it so?

I agree with you to some extent. Yes, Co-operative word sounds a little bit old fashioned to many a people. It carries a negative image. And in my research I have found that it is precisely because many co-operative banks are associated with politicians and do not keep pace with dynamism of banking industry. But it is also ironical that the largest banks in the world are co-operative banks whereas in India, we have reverse picture. Though there are successful co-operative banks in some parts of India like in Maharashtra, Karnataka Gujrat, yet there is an unsubstantiated belief that Co-operative banks may fail as they generally have unprofessional administration. It could be true but not in case of HCBL Co-operative Bank Ltd. We have a team of professionals like CA's, CS, MBA's MCA, ex-officials of RBI and other banks as directors on our board. It is surprising that a common man trusts a nationalised bank more than others without taking into note that they have more NPAs (non-performing assets). They are more prone to the risk of failure than us. Also, I believe co-operative banks have not been able to get the kind of patronage they ought to have got from RBI. It is a model which can be a catalyst to bring the unbanked Indian

economy under the canopy of co-operative banking as it has a wider outreach being a bank of middle class people, having its special focus on community banking. Financial Inclusion is need of an hour and our country can't grow without the reach of banking to the real households of the country. To my mind, we are still 25 years behind the global banking standards and in Indian economy hybrid banking model can only be successful.

There are too many banks already there, what is different about HCBL?

HCBL Bank has always aimed at catering to all the sections of society and is widely recognized as the bank of the masses and classes in its area of operation. The primary thought was to set up a bank for those people, groups in which other commercial/private banks would not take much interest in or, in other words, those people would not like to go to a bank. The idea was to offer five star banking services to those who could not afford five star services of any kind and could only dream of it. Initially, most of our customer base consisted of middle class persons and financial excluded segments of urban areas like street vendors, homemakers, hawkers, barbers, cobblers, Tea sellers, rickshaw pullers and even the beggars who are at the lowest in the strata of social pyramid. We were probably the first bank in India or may be in the entire world to offer banking services to beggars. We did sense a business model and approached them, educated them about thrift, about the benefits of their association with a bank and gradually built up a business relationship with them. Even today, they form a big chunk of our customer base and we offer them equally good banking services as a well-off may receive. You may be surprised to know that these customers not only visit our premises at times and treated like any other esteemed customer but also ask for 'Banking at my doorstep' facility. We have given them the power of negotiation and choice. This is the empowerment that I always wanted our poor and downtrodden to have. Simultaneously, we are growing commercially and offer all banking services to our customers from all sections of society.

Financial Inclusion is the buzz word these days? What does it mean to HCBL and what are the steps taken in order to ensure this?

Yes it is. I often find senior officials of different banks making presentations on financial inclusion and most of them look similar. We had started this concept even much before it became a buzz word. What is financial inclusion? Literally, it is to make sure the financial services to every citizen of this country irrespective of his economical or social stature. Generally banks think opening accounts of villagers as financial inclusion. But real Financial Inclusion is to cover the people who are financially excluded they may be a segment from urban areas also. We started our movement with opening accounts of beggars, cobblers, street-vendors etc. as I have explained to you. They are so occupied in their daily struggle that they don't have time to visit a bank. Nor they are tech savvy, so we decided to go to them. We have

dedicated team of professionals which offer 'banking at doorstep' and a very transparent money deposit mechanism. We even want to go further by implementing the Business Correspondents (BC) services also, but RBI is not permitting the same to our bank. We are also promoting skilled workers involved in traditional occupations like weaving, chikankari etc. to form a group and set up their own factories with our help under our SME promotion scheme. Our efforts are towards redefining the Financial Inclusion by focusing on social inclusion before financial inclusion. As a step towards providing banking at doorsteps our effort to financial inclusion we started two years back and started bank on wheel equipped with ATM but its again very unfortunate for co-operative sector that RBI has restricted us from doing so as they say only commercial banks can do so.

"My ultimate dream is to bring Co-operative banking to a platform where they are also professionally run, and can compete with any other Private or commercial banks. They should not be considered as a stigma in banking segment but should emerge as the most strongest contributor to the socio-economic development of the country"

I CONSIDER SATISFACTION OF MY CUSTOMERS AND MY EFFORTS IN GROWTH OF COOPERATIVE BANKING AS THE BEST AWARDS FOR ME

Since you are a profit making venture, do you undertake some CSR activities?

In many ways, whatever we have done so far is manifestation of our social responsibility; nevertheless we do other things as well. For example: we have adopted 4-5 villages in different districts like Lucknow, Barabanki and Sitapur. With the adoption of these villages, the Bank has taken the overall responsibility of the development and growth of these villages both economical and social. We provide vocational training to youth and women in those villages so that they can find a mean of livelihood. We have also installed solar lights in those villages. Regular free health camps are also organized. Apart from this, in urban areas we organize Night Shelter camps (Rain Baseras). Being a co-operative Bank, we are under no compulsion to perform CSR activities, but HCBL has taken upon itself to make difference to lives of under privileged and deprived class.

Under your leadership, you have won many accolades for HCBL. Can you please

name a few?

Our efforts have been recognized at various platforms. We won 'Banking Frontier Award 2011 for Technological Innovations and 'The Excellence Award in Cooperative Bank Development' in the year 2012. We were also awarded Banking Ultimate Channel Project Award 2012 for our E-Lobby Concept and Best Payment Projects Award 2012 for Banking Mall concept during a splendid ceremony organised at Lavasa International centre, Pune. National Co-operative Union of India in its 16th Indian Co-operative Congress Meet awarded 'Award of Excellence' to HCBL Bank for its contribution towards Co-operative Banking sector. A prominent News Channel, Zee News recognized my contribution to the field of Co-Operative banking in Uttar Pradesh by awarding 'Jewels of Uttar Pradesh' title. But, I consider satisfaction of my customers and my efforts in growth of cooperative banking as the best award for me.

It is a technology era. Today's technology becomes old tomorrow. How does your bank HCBL keep pace with this phenomenon?

To provide customers the ease of banking we have an E-Lobby at all our branches which is operational 24x7. It is equipped with cash deposit machine, cheque deposit machine, ATM's and coin dispenser so that the customers do not waste precious time by standing in long queues. Further we installed passbook printing machines and also set up information and loan kiosks to provide our customers with information about our services, technology and loan facilities. Be it any time of the day or night, our 24x7 call centre caters to all the queries of our customers and ensure best possible solution of their problems. We have tied up with National Payment Corporation of India's (NPCI) thus all banks ATM Cards are accessible to our ATM machines and customer can withdraw money by using other bank cards also. In a nutshell, HCBL Bank is a tech savvy bank providing a very convenient banking experience. Our Unique features viz E-lobby & Banking Mall have been nationally recognized and we have also been awarded for such customer service innovations.

As a matter of fact the journey so far has been very impressive, what is your future plan, your vision with regards to the bank?

We are focused for the future and have made elaborate plans for the future. HCBL is currently a UP centric Bank and is catering to a large customer base located in the state. We are currently waiting for the RBI approval for new branches and once we get it, we will expand our operation to other regions of the country. We will provide people all over the country the same high quality features and services that we are currently offering to our customers in Uttar Pradesh. "My ultimate dream is to bring Co-operative banking to a platform where they are also professionally run, and can compete with any other Private or commercial banks. They should not be considered as a stigma in banking segment but should emerge as the most strongest contributor to the socio-economic development of the country"

requirements. However, if interest rates are higher, there could be a problem. Post-elections, regardless of which party comes to power, we should see some stability and that should trigger demand in the system. It is a question of time.

What is the update on the proposed capital raising of ₹1,000 crore through a QIP (qualified institutional placement)? The bank had also raised the investment limit for foreign institutional investors (FIIs) to 40%.

The board and shareholders have okayed the move for capital raising but it is only an enabling resolution and so we may not raise money immediately. If the markets are good and the pricing is attractive, we will take a call. Our asset growth has not been as fast as anticipated and, therefore, we don't need that much capital. To that extent, we are adequately capitalised as we have close to 12% of tier-I capital. The FII limit has been raised to 40% because of the proposed QIP. Many foreign investors were interested, besides our existing investors who want to add to their stake.

KVB will be 100 years old in 2016. The bank had initiated a transformation plan based on the suggestions of consultancy firm Boston Consulting Group. Could you update us on this?

We took BCG's help in identifying the transformational needs when we grow beyond a level. Given the complexity of the growth, a proper structure and control of our operations had to be put in place. The transformation exercise is going on, and I must say it is 60% to 70% complete. As part of the exercise, we have built a platform for a higher level of growth in terms of risk management. Our spectrum of operations has been widened, we are training people and entering new and varied segments and geographies. It is also a sort of de-risking strategy.



Do you have any serious NPA problems?

Although we did have some slippages, especially in the third quarter, they are not alarming and our NPAs are manageable. The bank's gross NPA is 1.47% while the net NPA is 0.48%. As in the case of other banks, we too had some exposure to the so-called problematic segments such as infrastructure, but the loans could be recovered. We have increased our retail asset portfolio and we would like to increase our MSME portfolio to 37%. Right now, our focus is on the quality of assets.

How has the bank fared on the liabilities side? And what are your plans for new branches?

Our CASA has been growing although as a share of deposits there hasn't been too much of an improvement. At the same time, term deposits are growing because we are offering attractive interest rates. We will be expanding our network taking into consideration the requirement of manpower, as we need experienced people. Although we are still to draw up the network expansion plan, we open on average 50 to 60 branches every year. For instance, we opened 100 branches last year, but we will close this fiscal with 25 new branches. Similarly, last year we recruited 800-900 people, but this fiscal we may end up hiring 500 or 600.

ALTHOUGH WE DID HAVE SOME SLIPPAGES, ESPECIALLY IN THE THIRD QUARTER, THEY ARE NOT ALARMING AND OUR NON-PERFORMING ASSETS ARE MANAGEABLE

KVB is still known as a south-based bank. Do you want to be a pan-Indian bank?

We are slowly going pan-India but we will have a stronger presence in the south. In the north we will be growing in clusters as we have captive customers there. If the northern branches are to be opened, we have to recruit people locally and train them. That is a time-consuming process but we do aspire to become a pan-Indian bank.



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Toll Free: 1800 425 5885 www.vijayabank.com