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Indian banks ready to take on foreign players

Competition will improve services, say bankers, but they want the opening up of the sector to be reciprocal

BY DEEPTI CHAUDHARY & ANUP ROY

BANGALORE

Indian bankers say they are ready to take on competition from foreign banks, even if the multinational players are allowed to operate freely after April. A Reserve Bank of India (RBI) road map on operations of foreign banks in India would allow more of them to operate in the country with fewer restrictions, starting next year, in line with India's commitment to the World Trade Organization to open up its financial sector to foreign players.

At the *Mint* South Banking Conclave II held in Bangalore on Friday, given the change expected in the banking climate, the discussion centred around "Why do we need so many banks? Balancing inclusion and competitiveness."

The chiefs of four public sector banks—**Corporation Bank, Canara Bank, Vijaya Bank and Indian Bank**—and three private banks—**Karur Vysya Bank Ltd, Karnataka Bank and City**

Union Bank—participated in a lively discussion where they said the arrival of new players will only encourage them to improve their offerings and services. As per the road map, foreign banks may be allowed to raise their stake to 74% in their Indian operations.

While welcoming competition, Indian bankers wanted the opening up to be reciprocal.

"If a foreign bank wants to open its branches and ATMs across India, we should also be allowed to do the same in their nation," said B. Sambamurthy, chairman and managing director, Corporation Bank. He said in Singapore, for instance, where Indian Bank has been operating a branch for 60 years, it was not allowed to open ATMs.

RBI deputy governor V. Leeladhar was the guest of honour at the event, where some of the domestic issues in banking took centre stage. There were mixed views on the Union government's ambitious plan to waive off about Rs72,000 crore in loans to small and marginal farmers, which is widely seen as a populist move ahead of next year's general elections. The process of loan waiver kicks in this month and while bankers at private-owned banks said it was a welcome move, some of the

chiefs of private sector banks demurred.

P.T. Kuppuswamy, chairman and CEO, the Karur Vysya Bank, said: "In the last six-nine months, many accounts in our rural branches were shifting to nationalized banks. This is because people were hoping that as this is an election year, there would be write-offs!" He added that such write-offs penalize those who repay their credit diligently.

Others were more sanguine about the waiver, the largest ever in India.

"This kind of waiver will not happen every two-three years. It's a social obligation," said Prakash P. Mallya, CMD, Vijaya Bank, defending the move. Mallya said the initiative will not diminish the culture of repaying loans.

India has 177 banks with more than 73,000 branches. Still, only about 60% of adult population has bank accounts. Bankers say that with the number of branches per 10,000 people being 0.5 in India, compared with two globally, they are neither over-branched nor over-banked. Also, a large number of people in the country are not aware of banking facilities and still go to traditional money lenders for loans.

The bankers felt that in addition to opening branches, they also needed more innovative

ways of reaching out to people as opening a branch entails substantial investment in infrastructure.

Canara Bank CMD M.B.N. Rao said there are nearly 150,000 post offices in the country and these could be better leveraged. Indian Bank's chairman and managing director M.S. Sundara Rajan said technology was a key enabler, which helps in reaching out to people without actually opening branches. This could be done through kiosks.

With microfinance institutions reporting 99% recovery rates, banks say they know that the poor are bankable. Vijaya Bank's Mallya said financial inclusion is not about lending a small amount of money to the poor, but also serving them with a full package of services, including home loans, education loans, vehicle loans and pension products.

On the question of Indian banks being ready for consolidation, they had mixed feelings. City Union Bank chief S. Balasubramanian said different sizes of banks should exist to take care of the needs of different segments of customers.

RBI deputy governor Leeladhar said India does not need large number of small commercial banks. "We need small numbers of large banks. There could be healthy competition between large banks," he said. He added that for overall financial inclusion, regional rural banks (RRBs) and other cooperative bodies should be strengthened and that the onus for doing that lies with the commercial banks.

Bankers say both financial inclusion and consolidation could go hand in hand.

deepti.c@livemint.com