Financial Services Distribution

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Country Survey - India: A market of contrasts

Banking and insurance products are well-established among India's growing upper- and middle-income groups but other products, such as funds are not. Banks are looking at their distribution and cross- selling strategies

Although China may be grabbing most of the headlines in terms of financial services opportunities, neighbouring India, the world's largest democracy, is attracting its fair share of interest. Both are part of the BRIC (Brazil, Russia, India and China) quartet of countries that are garnering huge investment interest from the global banking community thanks to their enormous, underserved retail and mass affluent banking markets.

Both Standard Chartered and ABN Amro have recently said that China and India are key regions for their groups. Standard Chartered describes the two countries as the bank's biggest long-term opportunities. In September 2004, ABN Amro Asset Management (India) said that it had closed the largest mutual fund launch in India, raising over INR20 billion ($46 million) in the initial public offerings for four new funds. Romesh Sobti, chairman of the board of directors, ABN Amro Asset Management (India), said at the time: " This newest initiative is part of our effort to bring ABN Amro's world-class investment products and practices to Indian investors."

Wealthy... and rural

In June 2004, HSBC, the world's second-largest bank, which has spent over $3.5 billion on stakes in Chinese financial companies, acquired a 14.62 percent minority stake in Indian private bank UTI Bank. UTI has over 250 branches and extension counters, more than 1,200 ATMs nationwide and the second-largest retail banking network amongst private sector banks in India. UTI's 1 million customers have access to a range of corporate banking, retail lending and deposit products and an internet banking service.

India shares common factors with its BRIC peers - for instance, all have a growing and attractive wealthy retail and affluent market, as well as huge rural and underdeveloped regions with minimal financial services provision. While the country's growing class of affluent urbanites are attracting the likes of ABN Amro and HSBC, **India's large rural and poor communities remain underbanked - despite a number of efforts to bring them into the mainstream financial market** (see Branching Out page 10).

One bank investing in the better provision of financial services to India's rural communities is ICICI Bank, the country's second-largest bank. In 2004, it undertook several initiatives to extend its reach in this area, including the roll-out of a network of over 2,000 remote internet kiosks to facilitate the distribution of financial products.

The contrast in India's markets is probably best highlighted by two initiatives announced on the same day (25 March) by the government- controlled State Bank of India, the largest bank in the country. On that day SBI awarded a contract to Cisco Systems, the US internet technology firm, to install the latest internet protocol (IP) telephones in 4,000 more branches, bringing the total number of SBI branches with IP phones up to 10,000. SBI joins a list of global banks such as Bank of America and Lloyds TSB which have signed similar deals with Cisco over the past six months.

On the same day, in an attempt to reach out to farmers in far-flung areas of the state of Punjab, SBI launched an awareness campaign featuring a van which travels from village to village to inform farmers and other members of the local community about the bank's various products and services.

This initiative, a pilot project by the bank, was rolled out to meet the Indian prime minister's aim of doubling credit for the rural sector in three years. In an interview with the newspaper Business Standard, an SBI spokesperson said that farmers usually came for tractor loans and were not aware of other products, such as loans for school fees, cars and dairy farming that the bank offers. The van visits villages four times a month.

Demographic changes

Despite these efforts to bring India's rural communities into the mainstream financial market, it is the country's increasingly wealthy retail and affluent segments which are most attractive to both Indian and non-Indian consumer banks. Like China, India is experiencing huge demographic and social shifts, due, in part, to its booming information technology and outsourcing industries, resulting in some people becoming wealthier and moving to cities.

In a survey of India's personal financial services market by the US consultancy McKinsey in October 2004, the firm concluded that banks looking to take advantage of the opportunities in India need to be aware of three key points. These are: that retail banking is first and foremost a relationship, branch-based game; Indian consumers tend to stick with their bank; and the country's emerging high income group is beginning to open up towards consumer credit products, remote channels and cross-selling, and consumers are starting to seek out financial advice where it is needed.

For high- and upper-middle income groups, for instance, McKinsey found that some 69 percent would remain with their primary bank or financial services provider when choosing a new financial product or service, even if the bank did not offer the best price.

Banks in India offer multi--channel distribution, but McKinsey found that branch and bank staff remain the key distribution channel, especially in terms of getting product advice or comparing rates - 65 percent of Indian consumers use the branch for this purpose, compared to 16 percent who use the internet. Even relatively straightforward transactions and enquiries, such as retrieving account balances or viewing statements, tend to be done in branches - 39 percent, compared to 25 percent who go online or 23 percent who use the phone.

But multi-channel momentum is building. Nobody used the internet to bank in 1999, whereas 5 percent of Indian consumers are now using it in some capacity. Phone banking is used by 8 percent, and ATMs by 39 percent.

Cross-selling opportunities

As in China, the opportunities for more cross-selling in India are strong. In the context of a multi-channel but branch-dominated market, a desire for more financial advice among Indian consumers means more cross-selling opportunities. The consultancy found that over the past five years, the average number of personal financial services products per person in India has grown from 2.71 in 1999 to 3.27 in 2004. However, while the distribution of life insurance remains significant among high- and upper-middle income groups, penetration of securities and mutual funds remains stubbornly low - just 4 percent and 7 percent, respectively.

Unsurprisingly, banks are pushing cross-selling. SBI, for example, is planning to redeploy about 5,000 of its existing staff as marketing personnel and relationship managers across the top 50 cities in the country over the course of the next five years. By then the bank also aims to change the role of its network of 14,000 branches to help improve customer service.

This new stress on sales and marketing functions is the result of a comprehensive overhaul of the country's largest bank in an attempt to make it more competitive - especially as increasing numbers of foreign banks are entering India. The initiative is expected to be completed by 2008. "We need employees out on the street to sell and cross-sell all our loan products," the bank says.

In its report on the Indian market, McKinsey concludes that public sector banks like SBI need to offer more sophisticated products to retain long-standing customers. Foreign banks need to form more alliances with "promising" local banks - much like they are doing in China. And private sector banks such as ICICI need to improve their cross-selling capabilities.

While maybe not as intensely as China, alliances and cross-selling developments are taking place in India. In March this year, for instance, ICICI strengthened its joint venture relationship with the UK insurer Prudential - Prudential ICICI Asset Management - bringing ICICI group's share up to 51 percent. The company has grown rapidly, and assets under management have increased from INR1.6 billion in 1998 to INR179 billion as at 31 December 2004 - making it the largest private sector mutual fund company in India, with a market share of 11.4 percent.