Accessing New Markets Through Innovation (1206)

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India has 600 million people who live in rural areas. They live in 600,000 villages. They are largely unbanked. You own a concept, which could go something like this: bank the unbanked. You have 600 million people who are unbanked. Can you bank them? It opens up a new horizon that is so much bigger than the horizons that we have catered to so far. It's a nice horizon to keep as a concept. It's a very difficult horizon to deliver on, because of several things. One is, it's vast--600,000 villages. It's a vast number of people.

[They have] very low savings and very low earning potential. You have to make it work. We have been on this horizon now for the last two to three years. We are making headway, but the speed that we have had in the past is not what we can have in this horizon, the reason being very simple: we are continuously trying to seek solutions that are lower and lower in cost. If you need to make rural India work for you in terms of an opportunity, you need to serve rural India at a fraction of a cost of urban India. So my rule where we say, our technology cost is one-tenth of that in the West, will not work in rural India. It may have to be one-tenth of the cost of what is in urban India and a hundredth of what it is in the West. That's a tall order, but you have to strive to make that happen. It looked like the cell phone, with the way the cost of the phone has dropped and the reach has increased, could probably be the device that could bridge this challenge in terms of cost and connectivity. The cell phone has reached 400,000 villages in India, so you already have a footprint that is reaching the masses. What we are now working on is to make the cell phone a default device in the village. We are well aware that not everyone can afford a cell phone, but just think of this scenario, where the cell phone is like an ATM. In a village of 100 or 200 people, they can afford one cell phone, or that cell phone is owned by the village shopkeeper. That cell phone is there with that shopkeeper. When you go to transact, it is yours, like you are transacting with ATM. You punch in a code, which is your access code. Then you get a menu of transactions, and you punch in those transactions. If it's routine transactions not involving cash, you can do those yourself. If it is something involving cash, we bring the shopkeeper into the deal, and he becomes the bank's agent to give out money or take in money. You now have a very neat solution. You don't need that ATM. The solution has come to you at a fraction of the cost of the ATM. You don't need everybody to have a smart card. You don't need everybody to have a cell phone. You're bringing down transaction cost dramatically. You're making one cell phone do for the whole village, but then enabling technology to make this happen. This is an oversimplified view of what really will end up happening. That's the end state, or somewhere toward the end state. That is what I've described, where we will reach in terms of solution to rural India.

Achieving Market Leadership Through Disruption (1203)

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Moving on from 1999 toward 2000 and 2001, what we saw in India was a new class. India's wealth was growing at around five to six percent annually in terms of GDP. We had crossed $500 per capita in terms of income. People's aspirations changed, and as you went toward the $1,000 number, people wanted a home and things to put in the home, a car or transportation equipment, and so on. When we looked around, we found that, except for a few companies doing one side of the business, you could have a home finance company doing some degree of home finance, could have a bank doing some degree of motor business--cars or motorcycles. Nobody was looking at consumer credit as a business that could be done with a lot of potential. We had set up a bank as a subsidiary. The bank was very small, whereas the parent, which was the project finance company, was very large. The bank itself did not have many branches. It had about 100 branches. So here we are, saying that we want to serve a country with a billion people, spread across the points where we need to be, with something like 1,000 point or 2,000 points of presence, and we need 100 branches. We want to address the consumer credit market. The challenge was: how do we do this? This was the right time for us to think in terms of disrupting the traditional model, wherein you use branches for distribution. We said, the way we can go about this is basically to use a distributed model, whereby you use third parties--we call them direct selling agents--as your nodes, and they can be in those 1,500 or 2,000 points of presence that we need. For every 20 or 25 nodes, you set up a back processing office, which is a centralized process office which controls credit quality as well as processing and disbursement. Long story short, it took us less than two years to achieve market dominance in every single area of consumer credit that we entered, whether it was mortgages, cars, or credit cards. By using a disruptive model of distribution, coupled with technology--because everything then was overlaid with technology, because the hub and spokes worked on technology, connectivity, and so on--we could do something that we might otherwise not have been capable of doing. The lesson here is that if you set your mind to achieve market leadership, probably the best way you can go about it is not to be conventional about it, but to follow a route that your competition has not taken, that your competition probably is not sure of, and that your competition probably fears. When you adopt that route, you think it through, and execute it, then you will meet with success.

Developing A Culture Of Speed (1202)

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In 1999 I was at a conference in New York about new Web and online developments, and I noticed that there were a lot of U.S. startup companies at the event. They were describing how they went about developing their businesses and bringing products to market. What struck me was the fact that at any time one company was thinking of a new product, dozens of others were thinking of the same thing. Only the first one to market was successful. This was a lesson that speed was critical to success. That same month we were developing an online trading platform for customers to trade on the Indian stock exchange. Our plan was to create something akin to the big name Western trading engines. This was the first engine of its kind for India. We had a timeline of eighteen months and a budget that, in retrospect, was very large. At the conference I learned more about a ninety-day rule that the Silicon Valley startups developed. The model used small teams and instituted a belief that if you couldn't bring a product to market in ninety days, somebody else would. I thought this was a very interesting approach. I took a flight out of New York that evening, and when I landed in London in the morning, I called the team that was working on our trading platform. I said, "Your timeline has been moved from eighteen months to ninety days, and you've been on this job thirty days, so you have sixty days to deliver." There was a big scream at first, and I said, "All right, I'll make one concession—it's ninety days from today." I also asked to look at the budget again. When I got back to India, I talked it over with the team and explained to them that they might have to re-architect what they were doing. They agreed and took a very serious look at what they could achieve in the new timeframe. One-hundred days later we implemented the project, and it cost a little more than one million dollars. If we had decided to buy an engine at that point of time, it would have cost us $12 million to $15 million. We implemented the system for one million dollars, and that engine today is one of the busiest engines in the world in terms of number of trades. We then pushed the ninety-day concept and applied it to all areas of technology. Soon after we decided to apply the ninety-day rule to all products, and it quickly became a mantra. We said that ninety days is the rule under which we will do business. The ninety-day rule denoted speed. By applying the rule, we found a solution that served us well in technology and across a wide number of other applications. We experienced so much impact that we made this proposition to the teams across the bank and the whole organization. We added speed as a fourth pillar—human capital, financial capital, technology capital, and speed as capital. This was the first time that a business was placing speed—speed to market, speed to execute, speed in whichever context—as an important component of business success. The concept was so important that we also used the term capital, which gave it a different meaning. Although this started as a technology initiative, it turned into something that was critical to our success in later years.

Embracing Technology Discontinuity (1201)

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I would like to start by looking at the mid-'90s, as applicable to the banking space, or in broader context the financial services space. Indeed, in those days, the mainframes ruled, and any application that we wanted in the banking space ran on a mainframe. We were in India, trying to induct technology into our banking operations, and the first thing that we saw at ICICI was the fact that we could not afford a mainframe, because the scale of operations was small, and the mainframes would make it prohibitive for us to induct technology. The call we had to take at that point of time was, do you postpone introduction of technology or do you look at alternatives? The alternatives were what one would call a distributed process, using what can best be described as beefed-up CPUs. We ended up choosing not the mainframe, but these vastly cheaper sources of technology solutions. We were able to demonstrate within the next three to four years that these solutions met all our needs. Not only that, but as we got into the years 2000 and 2001, when we had built up scale and could benchmark numbers, we could crank these numbers against established, much larger institutions that had globally proven that they were good at using technology. We could demonstrate that we were running technology at one-tenth the transaction cost that these companies were running at. The gain was entirely due to this decision, that you could use nonstandard solutions. We run 30 million customers today, and we have no mainframe in the bank. In fact, the number of servers that we have decreases every year. To put it in context, 10 or 12 years back we had less than 100,000 customers; we now have something like 30 million customers. This scale up has been possible in this new continuous world by embracing a discontinuity. The discontinuity was that mainframe regime as we knew it had ended, and a new regime was starting. You had to jump. The challenge always is--and this is the lesson that I draw--that whenever there's a discontinuity, you see a vast open chasm in front of you. You need to then calculate whether it is feasible to jump, whether it is reasonable to jump, and whether jumping across will land you on the other side and give you new vistas or likely cause you to fall into that deeper chasm. Our own reckoning is that if you do your analysis right, you can make the decision; you can take that leap. Part of it is a leap to faith. Much of it is based on solid foundation. The vistas beyond are indeed very welcoming.

Smart Customer Service (1204)

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In the year 2000, or around that period, if I were to look at our typical bank branch and the number of customers who came in and transacted, let me put it in this broad frame: we had less than half a million customers at that point. We had maybe a little more than

100 branches, so we weren't very large. Ninety-five percent of the transactions happened in the branch. The customer came into the branch, transacted, and went out. The five percent of remaining transactions happened over a few stray ATMs we had. The total of ATMs in the country was broadly around 100, give or take, but really nothing more than three digits. On the liability side--the deposit side--we would use the ATM to service the customer. The ATM is a machine that can be plonked everywhere, as long as you make sure connectivity is assured. In the country there were maybe 100-odd machines. We said, "In year one, we will roll out 1,000 machines, to an average of three machines a day." Now, this doesn't look large by Western standards, even these days. But just to put it in context in India, to roll out an ATM, you had to allow for three levels of redundancy in connectivity, because connectivity was so bad. Telephoning was just coming into the picture--the fixed line. A land line was a scarce commodity in those days, and cell phones were just coming on. So we had, for each ATM, a land line. We had a leased line, which was a dedicated line, but still, the reliability was not high enough. Then on top of it you had a virtual satellite link, called a VSAT link. Every ATM had to have the three levels of connectivity to ensure over 99% reliability. And of course you had to make sure there was power all the time; otherwise, your customers would get irate. It was at this situation that my customers would come back and say, "Nobody has ever used an ATM, and nobody will." We would say that nobody has ever used an ATM because there was no ATM. Let's see what happens when you have ATMs. We then said, "We'll bet on the Internet," because we were large players in the distributive space." We want to push the Internet as a mainline channel. Again, we met the same level of skepticism. Who's going to use the Internet in this country? People don't have access to a computer, which is a second level of interaction. Third is the call center. The argument was that the customer likes to go to the branch, sit there, talk, and then get his work done. My argument was that that's not going to happen here, because it's a busy branch. We want the customer to transact, get satisfied, and then leave, because he won't have the time to sit and talk. Neither will the officer have the time. That's going to be the new paradigm. You need a call center, where he can talk and can get his answer. To me, the ATM, the Internet, and the call center are all convenience points. The Internet today accounts for something like 25 percent of transactions, which you would have thought not possible in a country like India. Then you have the rest split between the ATM, which is about 40 percent or so, and the balance is the call center. The lesson here is that if you believe something is of convenience to your customer, and you can deliver that convenience at a fraction of the cost, the customer will seek you out. The customer will work with you in that context. In our case, that has meant that we have been able to keep cost low. We have been able to provide better service to the customer on a multi-channel mode. It becomes a huge selling point in the way we talk to our customers, particularly the young Indian. India is a country with 70 percent of the population under the age of 35. The young Indian, who is now savvy in all these tools, whether it is the use of the computer, cell phone, or ATM, becomes a natural to do business with us.

Technology Enabled Globalization (1205)

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I've always looked at opportunity as something that could be painted in horizons. When we were a single-product company, as a project financier, and we wanted to diversify, the first horizon of growth was consumer credit. We painted it for ourselves to see how it would look and then went about achieving that horizon of growth. The second horizon of growth we set for ourselves--and I'm going back five years--was an international opportunity. International opportunity was around the Indian citizen or the Indian company--the Indian citizen who is abroad, or the Indian company that is doing business abroad. That's where our core competence will be, in India-linked transactions. We mapped the areas around the world where we would find merit in this, doing business in this context. You had North America as a place where this opportunity existed, in Canada, the U.S.A., the U.K., the Middle East and several countries therein, Singapore, Hong Kong, and maybe parts of Africa. This is where we saw opportunity. We served this constituent set that I mentioned, but we leveraged technology, which meant that we would back-end all processing to India. By then technology had come to a level where you could do this without any risk. We would back-end technology to India; we would run a lean front-end in these countries. At this point in time, while we had, on the asset side, demand picking up from a variety of sources, there was an opportunity on the liability side to access the deposit market in the countries we were operating in, particularly the U.K. and Canada. Very quickly, we made the assessment that we could not compete with the High Street banks. This has been something that we've done all along. We make a quick assessment of the lay of the land, and then try to see what is it that we can disrupt, not try to play the conventional game. Again, we needed a disruptive strategy. We called our old friend, technology, to help us. We said, "If we can work on the Internet in a facile way in India, we should be able to work on the Internet in a facile way with our customers in both the U.K. and Canada. By back-ending most of the processing to India, we can cut cost dramatically." These are both English-speaking countries, so even the call centers could be back-ended. We rolled out this strategy in terms of accessing the deposit markets in these countries using Internet as our main channel. The long and short of this has been that the international business, which we conceptualized about five years back, is today between 20 and 25 percent of our balance sheet, and it would contribute a like amount to our profits. We know that to continue to grow, we will have to look at new horizons. Almost all the horizons that we have looked at have technology as a core solution in making that horizon work for us.