CII
Confederation of Indian Industry
BANKingTECH Summit 2010

Revving up new age banking with technology*

Contents

Message

The banking sector today is fast paced and is constantly in the throes of change, with new regulations, new processes and new policies in place. Technology has played a critical role in the past in shaping the way things are today, and will continue to do more than ever before. From being just a support function, technology is now regarded largely as a strategic function aiding banking organizations.

In the Banking sector today, there is a constant challenge of addressing the various industry pressures in terms of global competition, regulation & compliance, customer expectations and efficiency of operations. Competition makes it difficult for banks to show differentiation and even harder to show profits. In this situation, competitive advantage will be derived by those banks that effectively leverage their processes and systems around customers and channels in order to deliver innovative products and services, retain the customer and enhance lifetime value. Apart from just attaining the competitive edge, several new initiatives have been taken up by banks towards sustainable development encompassing environment friendly initiatives to rural initiatives for financial inclusion.

Business Intelligence would play a strategic role as it will empower business managers to make faster, better and more informed decisions in this difficult business environment

Going forward, Governance, risk and compliance management will become a board room function rather than a back office function. The banks which will be able to effectively manage these in an integrated manner through a structured governance framework, well defined supporting processes and effective use of technology will be able to sustain value in coming competitive market.

We would like to thank PricewaterhouseCoopers for being our Knowledge Partners and to conduct and provide this report.

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N Chandrasekaran
Chairman, CII BANKing TECH Summit 2010 &
Chief Executive Officer and Managing Director
Tata Consultancy Services Ltd.

Foreword

I would like to take this opportunity on behalf of my team to thank all the banks who took part in the survey conducted by PricewaterhouseCoopers (PwC). It has been a pleasure for the entire team to be interacting with you all. The insights and views that you've provided have been extremely valuable.

We present the findings of the study jointly conducted by CII and PwC on how various banking industry heads react to the changing economic scenario after the global recession. The survey results illustrate the differences in adoption of technology in different phases of the economic cycles of downturn and recovery.

Although we have tried to be critical in analyzing each and every views of the industry with reference to the topic, there are always issues which may not have been included because of some constraints. We request the readers of this report to highlight any issue which may not have been covered adequately, in order for us to improve the content in the next year's report.

We trust you will find the survey results insightful and hope that they would serve as a catalyst for discussion and action within your bank. If you have any comments of questions regarding the study, or would like to request for additional copies, do not hesitate to get in touch with any of our representatives mentioned in this report.

Debdas Sen
Executive Director
PricewaterhouseCoopers

Executive summary

2009 was a year of immense challenges across the financial world, but it appears that the worst is finally behind us. The economic environment now appears to be conducive to growth provided the right opportunities are tapped. This research report is based on a survey conducted jointly by PwC and CII, and serves as a backdrop to the Banking Tech Summit 2010, with the theme 'Revving up New Age Banking with Technology'.

As we emerge out of the recessionary climate, there is a marked change in the perception of IT as a function, with a general consensus among banks across the board that Technology would serve as a key enabler in helping the banks to meet their strategic objectives.

With the rapidly changing technology dynamics, BANKing TECH Summit 2010 will focus on charting a road map for converting data to effective information for sustaining business growth. The summit aims to build a common platform for financial solution providers and the Indian financial community.

Given the current economic conditions, PwC and CII have jointly conducted a survey to assess how banks are leveraging technology to drive business growth and gain competitive advantage over their peers. The primary research comprised of face to face interviews with Senior IT executives at Indian banks, and was further supplemented with PwC research covering industry sources as well as PwC Global Best Practices.

Keeping in mind the theme of the survey, our questions revolved around understanding how banks are leveraging technology to grow in the New Age after the downturn, along the following four perspectives, and how banks are leveraging technology to grow in the New Age after the downturn

- Current technology usage
- Managing risk and compliance
- Customer centric measures
- New Initiatives

The key observations of the survey are summarized as under

Current technology usage

Technology is perceived as a strategic function to help meet the bank's objectives in most areas of operations. Innovations in technology, along with the changing nature of delivery of banking products and services, are perceived to have a significant impact on the existing technology landscape. Outsourcing of non-core functions was seen as a key enabler for converting capital expenditure into operational expenditure. However, challenges were seen in terms of data quality and completeness, with banks grappling for accurate customer data and a single view of the customer.

Managing risk and compliance

Banks have treaded down the path of investing in technologies for Basel II and regulatory compliance, with most banks under the process of implementing Basel II solutions for regulatory compliance. In terms of maturity of systems handling regulatory functions, most respondents were satisfied with the flexibility provided by current systems in handling changes in reporting standards and dynamic changes in compliance and regulatory requirements. Technology was also envisaged to play a pivotal role in managing the 3 pillars of operational, credit and market risks, in a multitude of functions.

Customer centric measures

Customer centric growth was seen as the key to combat competitive market scenario post the downturn. There is focus on growth in customer base through acquisition, as well as retaining existing customers and increasing their relationship value through an increased share of wallet. While majority of the respondents had invested in a CRM solution, very few respondents were tracking the ROI of the investment.

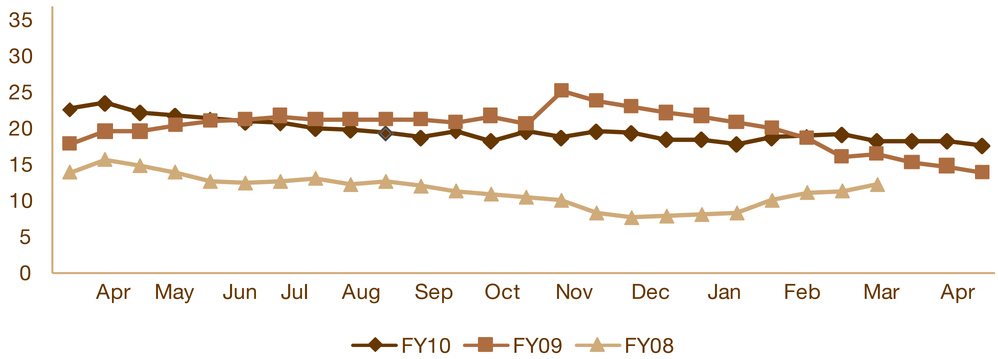
Moreover, it was felt that while operational CRM would help banks streamline their delivery channels, CRM packed with the power of Business Intelligence would provide the banks with more actionable information for enhanced decision making.

New initiatives

Centralizing of cash management was seen as a key to increasing efficiencies in the banks processes by offering improved visibility and control over cash. However, very few banks have actually implemented Payment factories at this point of time. Banks as corporations have also taken a lead in reducing their carbon footprint by introducing several initiatives such as moving to paperless and online transactions, using power efficient hardware, offering innovative products such as green mortgages, etc. In terms of tapping into the rural and under-banked regions, banks are taking new, technology enabled initiatives to tap into this sector. However, a key challenge in this segment is to win the trust and accessibility of the rural customer.

Current Banking Scenario

Loans Growth: Out of recession

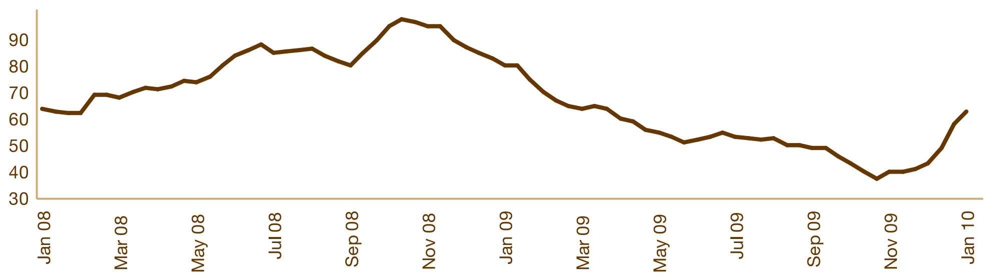


Source: RBI, PwC Research

Banking system loan growth at 14.9% YoY in end January 2010, was well above the multi-year low of 9.7% in October 2008. YTD loan growth now stands at 9.4%.

Banks disbursed Rs202bn worth of new loans during the last fortnight of January 2010. To reach RBI's target of 16% loan growth, banks will have to average fortnightly increase of Rs460bn of loans over the next four fortnights.

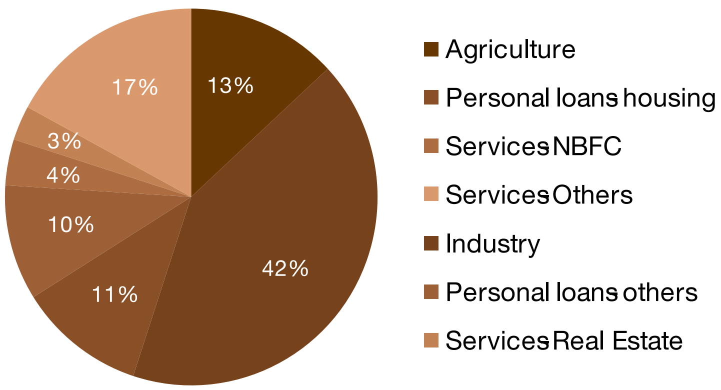
CASA: Focus on low cost funds



Source: RBI, PwC Research

Deposits increased by Rs528bn during the fortnight, and are now growing at 17.1% YoY. Incremental loan to deposit ratio (LDR) improved to 62.7%, substantially above the low of 37% witnessed in October 2009. This should help banks to grow their NII further.

Margins for all almost all banks improved QoQ(by ~25 bps) on the back of lower cost of deposits. High cost bulk deposit pricing primarily led to the fall in CoD.



Source: RBI, PwC Research

Until November 2009 (latest period for which data is available), agriculture sector witnessed the fastest growth (19% YoY), followed by industry (13% YoY) and services (10% YoY). Personal loans registered a marginal de-growth with the biggest decline of 23% YoY coming from credit cards. However, among personal loans, education and housing loans continued to grow at 29% YoY and 7% YoY. They accounted for 1.3% and 11% of system loans, respectively as at end November 2009.

Infrastructure Loans: Key driver of Loan growth

Infrastructure loans accounted for 72% of incremental addition to industry loans between December 2008 and November 2009. As such, infrastructure's share in industry loans went up from 23% in December 2008 to 29% in November 2009. Outstanding loan approvals towards infrastructure continue to be high; as these loans are drawn down over the next few quarters this sector is likely to be a key driver of loan growth.

NPA & Treasury Income: Areas of concern

Asset quality remains a key concern among most banks however the pace of slippages is declining. Recognition of NPAs in agriculture segment (defaults in loan covered under farm loan waiver scheme) aggravated the rise in NPAs for several banks.

However, no alarming rise was seen in structured loans (unlike in Q1 and Q2). However, slippages from restructured loans have to be monitored.

Banks	Treasury Inc (Rs mn)			Treasury / PBT		
	Q3FY09	Q2FY10	Q3FY10	Q3FY09 (%)	Q2FY10 (%)	Q3FY10 (%)
HDFC Bank	2321	1629	-265	25	16	-2
ICICI	9760	2970	-260	55	22	-2
Fed Bank	640	293	166	19	19	7
Corp Bank	1234	747	368	29	17	9
PNB	3410	1500	1570	21	11	10
SBI	6740	5454	4370	16	14	12
OBC	1848	1090	508	53	24	12
BOB	3469	1205	1393	35	13	14
Yes Bank	1490	496	280	91	29	15
Axis	1140	2240	1700	15	28	17
Union Bank	1010	2180	1310	11	32	17
Canara Bank	3440	4358	2950	40	39	23
BOI	4350	1511	1365	29	25	25
Allahabad Bank	2883	1680	1330	51	37	33

Source: Company reports, PwC Research

Rising bond yields impacted the treasury operation whereby declining trend in treasury profits was witnessed across banks

In a rising interest rate scenario, banks with agility to re-price their assets faster and those with high CASA would in a better position to maintain margins and bottom line growth.

Survey Analysis

Section 1: Technology Usage

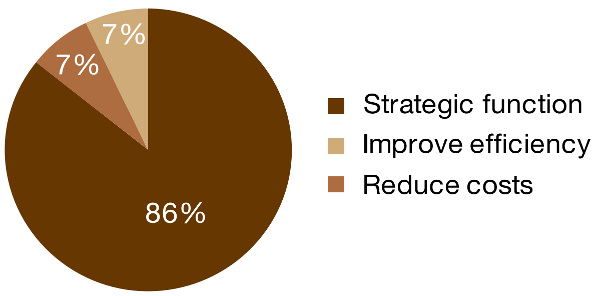
This section covers how technology is currently being used in various banks. We have covered details such as role of IT in banks, amount of outsourcing or shared service activities, maturity of information management systems and overall allocation of IT budgets in an organization.

Primary Observations:

Role of IT

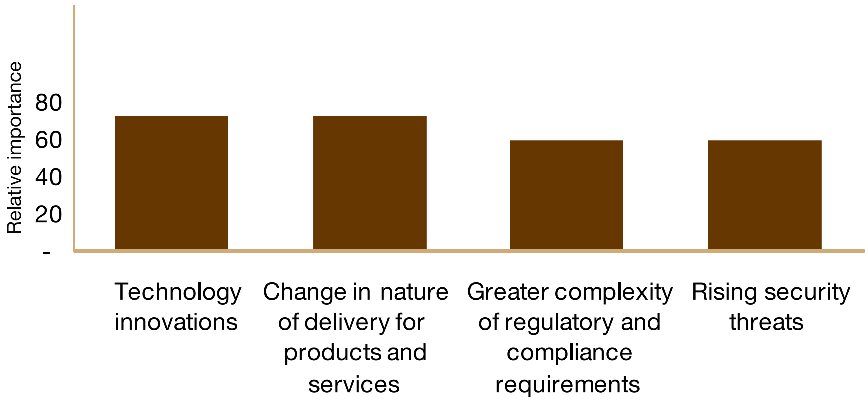
For 86% respondents, IT is a strategic function to help meet the organizations objectives in most areas of operations. As compared to last year, the number of respondents who feel IT helps improve efficiency and reduce costs has reduced to more than half from 36% to 14% showing a marked move towards meeting strategic objectives rather than just assisting in improving efficiencies.

Role of IT



Last year, change in nature of delivery for products and services far preceded other factors in impacting the technology landscape. However, in this year's response, new technology innovations have also attained prime importance, while greater complexity of regulatory and compliance requirements and security threats have been perceived to have less impact.

Forces impacting technology landscape

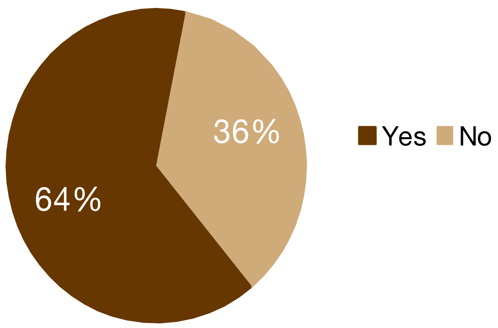


The above two trends highlight a trend of technology innovations (Business Process Mgmt, Enterprise Service Hubs, Blade servers, unstructured data aggregations etc) supporting business drivers and pushing IT function being perceived as a strategic function in Banks as opposed to a technical support function.

Outsourcing and Shared Services

As compared to last year, the response towards IT operations outsourcing has improved considerably with 86% of the private sector evaluating outsourcing. The public sector has been a laggard in it with only 33% evaluating outsourcing. Overall, the response towards outsourcing stands at 64%. Both the sectors have so far outsourced the low value add services only.

Evaluating cost reduction through shared services or outsourcing



Responses for views on outsourcing and shared services varied a lot, as the responses do not purely depend on economics but also on other factors such as, quality of service, etc. However, most respondents outsource non-core functions like IT hardware maintenance, IT application support etc.

Economics is still a major criterion for outsourcing/shared services center. One rationale favoring outsourcing and shared services is the option to convert capital expenditure into operational expenditure. Many respondents, however, were wary of ensuring that proper SLAs are in place in case they opt for shared services or outsourcing.

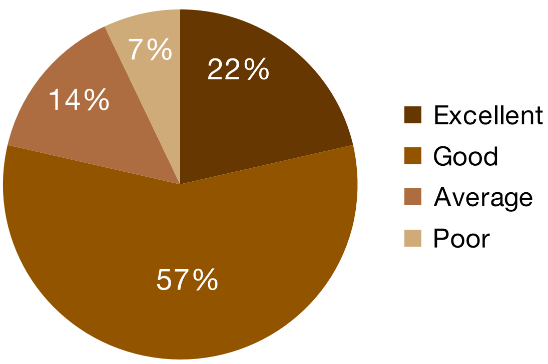
PwC's point of view is that many outsourcing deals collapse before the contract ends, citing rising costs and mistrust between service providers and customers, and implying saving money is not a sound reason to outsource. At the same time, factors that support business growth, like access to talent and capabilities – and maximising business model flexibility – are key drivers. Nonetheless, that leading outsourcing customers and service providers are shifting from traditional to collaborative business models. This is achieved via,

- Relying on multi-sourcing, joint ventures, and open business models. This would need to be supported by preparing the ground by bringing service providers together to define standards and processes that would enable them to work together while improving the bank's ability to operate global
- Good collaboration with service providers. Collaboration yields best practices in the capabilities and processes of outsourcing itself.

Maturity of Information Management Systems

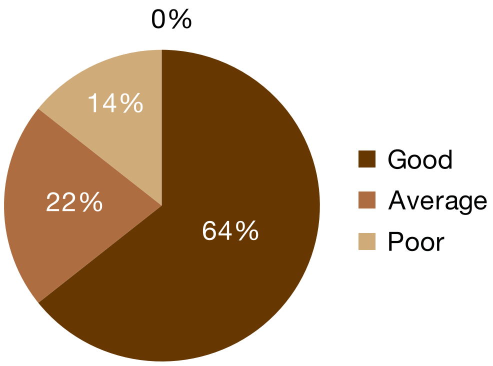
Since quality of data available is the backbone of any well-informed decision, it is imperative that banks focus on improving data quality. With regard to data quality, only 22% respondents had complete and accurate customer and accounts related data with single version of truth across source systems. 57% respondents had clean data, but there was no single version of truth across source systems. The remaining said the data was complete but lacked accuracy and had multiple versions of truth across source systems.

Data Quality



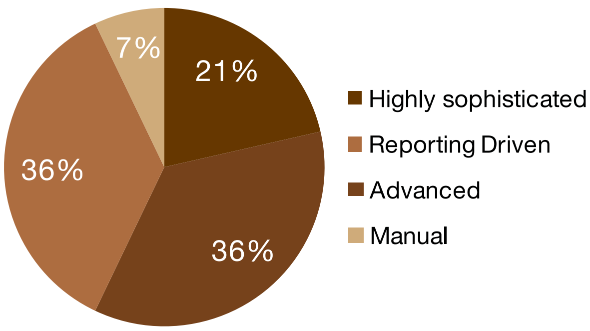
With regard to data availability, 64% respondents rated it as good with all the information required by the management available from an organized data source, while 36% lacked an organized data source and information was available to the management by reconciling data from multiple source systems.

Data availability



Seven percent respondents rated their information management system as highly sophisticated with presence of an Enterprise Data Warehouse (EDW) and system driven reporting and analytical capabilities. 36% respondents rated their information management system as advanced but lacked analytical capabilities. While 28% respondents still have a basic information management system capable of generating operational/canned reports, but does not support ad-hoc reporting and lacks analytical capabilities.

Information Management System



In PwC's point of view there is a decided need for banks in India to have an information architecture strategy covering key components such as,

- Information integration middleware: comprising of ETL/ELT tools, data services, ESB's etc
- Information repositories catering to various data granularity needs: comprising of operational data stores, data marts, enterprise data warehouse etc
- Enterprise data models: comprising of logical and physical data models capturing organizational information needs as well as industry best practices
- Information analysis, access and delivery - Analytical tools provide the capability to enrich enterprise and transactional information including industry-specific performance measurement. This is delivered via OLAP, Ad hoc Querying, Report generators, Data Visualisation, Data mining, modeling and scoring.

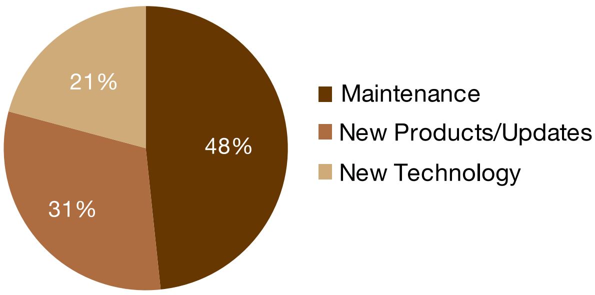
We believe that actionable information architecture would be a bed rock to deliver key business and regulatory requirements such as Basel II compliance, customer analytics, business dashboards etc

IT Budget

The IT Budget this year has shown more inclination towards New Technology as compared to the previous years. Like previously, Maintenance still bears the highest cost, of 48% at an aggregate level with New Updates on Products standing at 31%.

In PwC's point of view, outsourcing and shared service centers discussed earlier could ease a major portion of maintenance budget which could in turn be ploughed back in terms of new technology and new initiatives to support revenue and growth.

IT Budget Allocation

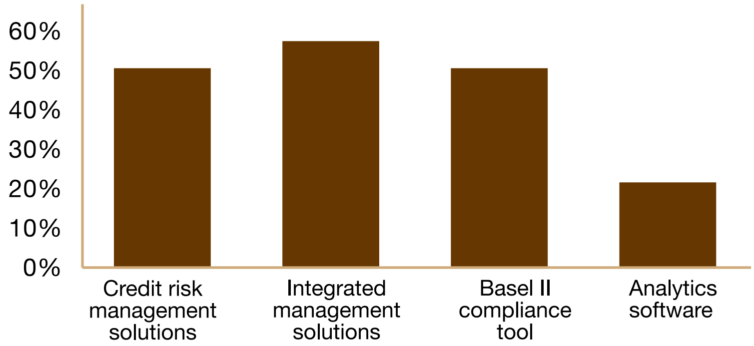


Section 2: Managing Risk And Compliance

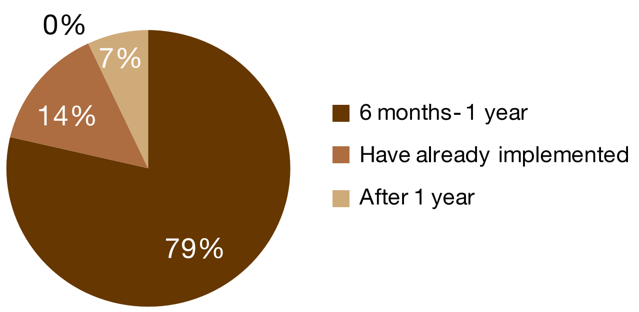
As the application timeframe for Basel II advanced approaches were announced by RBI, Risk and Compliance needs are on a priority scale for banks. To address the requirements almost half the respondents had taken an approach of a mix of in-house developed tools and off the shelf products are used. Most of the respondents expressed that no suite or tools currently address the risk management requirements comprehensively.

Investment in technology for Regulatory Compliance requirements is either through third party vendors or in-house development. Credit risk and Integrated risk management tools are popular with more than half of the banks are investing in these technologies. Compliance tools for meeting Basel II norms are also being increasingly used or are under evaluation. We asked the banks about Basel II implementation as well the state of Regulatory compliance for which 14% of the banks have responded that they have already implemented Basel II and almost 80% Regulatory Compliance technologies are under the process of implementation.

Investment in Regulatory Compliance Technologies

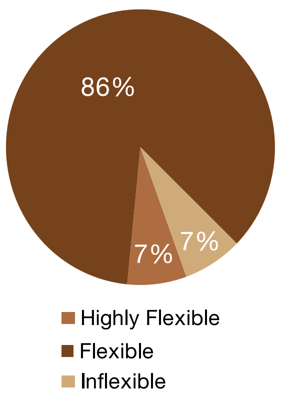


Timeframe for implementation of Regulatory Compliance

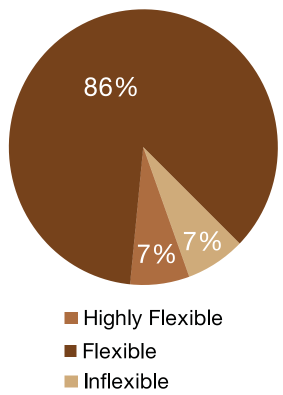


As the regulatory environment is under a change and pressure of compliance is getting higher day by day we asked about the flexibility of the systems under implementation or already implemented. To this only 7% respondents rated their processes and systems as highly flexible with regard to changing compliance and regulatory requirements where the core application system has capabilities to adapt to changing requirements as well as for the change in reporting standards. 86% respondents rated their systems as flexible where the regulatory and compliance requirements are met by making changes to some existing standalone system that interfaces with the core application system.

Current systems handling the change in reporting standards



Current systems handling the change in compliance and regulatory requirements



With regard to role that technology can play in risk management, risks were classified into three categories – Operational, Regulatory and Business. Respondents were asked how technology can play a role in managing the above identified risks. Their responses are summarized as follows:

Managing Operational Risk: As Operational Risk management is centralized function to ensure quality of data and standardized reporting across the organization. This will require technology solutions to meet the operational risk challenges in enterprise-wide deployments, data security and identity management. Respondents feel that advanced and sophisticated systems will ensure that suspicious events which can lead to fraud can be tracked and logged. Incident/Event is also tracked in a similar fashion. Tools can be used to derive patterns and analysis of such events using data mining techniques to manage operational risk.

Managing Credit Risk: For most banks, CIBIL is being used for managing credit risk of customers. The online interface of CIBIL is being used by most banks, whereas some in house systems have also been developed to interface with CIBIL at more mature information systems. In-house systems and rating models have also been developed for managing credit risk.

Managing Business or Market Risk: The role of technology was identified to be of paramount importance in managing business risk. With all requisite information available, systems are in place to generate ad-hoc reports and single source of truth can be maintained. This helps organization not only to manage business risk but also provide competitive advantage which business intelligence, analytics and data mining techniques.

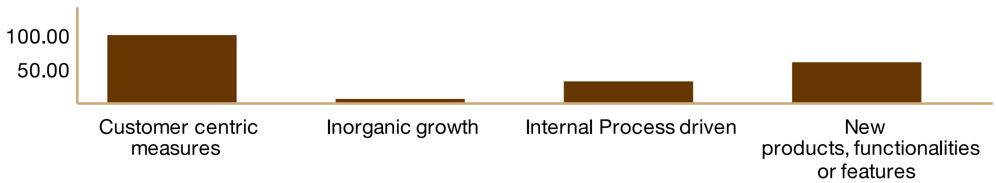
Section 3: Customer Centric Measures

In the banking industry today there is a constant challenge of addressing the various industry pressures in terms of global competition, regulation & compliance, customer expectations and efficiency of operations. Competition makes it difficult for banks to show differentiation and even harder to show profits. In this situation, competitive advantage will be derived by those banks that effectively leverage their processes and systems around customers and channels in order to deliver innovative products and services, retain the customer and enhance lifetime value.

Competitive Advantage

Banks are redefining their focus from their product lines to a comprehensive-single view of the customer. The aim today is to manage the life cycle of the relationship and not just a series of transactions. According to the survey, Customer centric measures ranked at the top, with all the respondents ranking it as a most important measure to combat competitiveness. New products and functionalities followed as the second most important strategy for gaining that extra competitive edge while internal efficiencies and inorganic growth were considered less impactful in combating competitiveness.

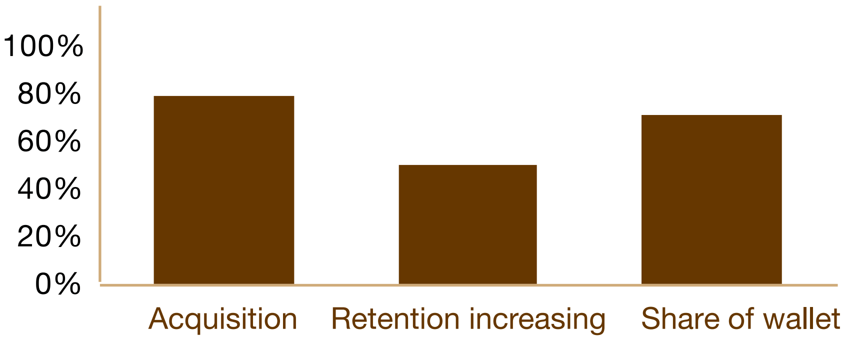
Impact of Measures to combat competitiveness



Customer Centric Strategies

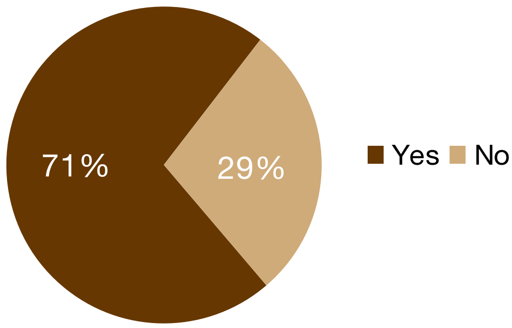
We asked the banks on their key customer centric strategies and the initiatives that they are undertaking. Banks are looking at customer data integration solutions and are linking business processes in order to provide continuity and consistency to the customer experience. Nearly 80% of the respondents believed that new customer acquisition is more challenging whereas deepening relationships with existing customers adds more value. Share of wallet has become increasingly important as it enables maximization of profitability and increased customer lifetime value.

Customer Centric Initiatives



Despite the high focus on customer centric initiatives by all the banks, it was surprising to find out that only 71% of the banks actually measured their return on investments on these initiatives.

ROI measurement on Customer Centric Initiatives

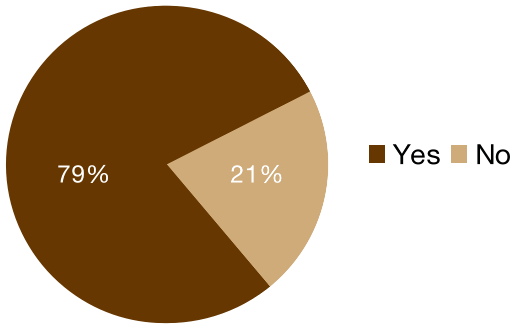


Customer Relationship Management

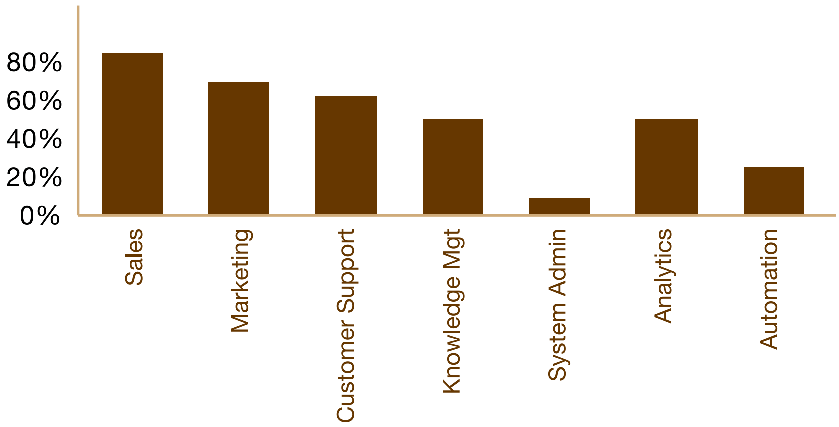
In these trying times when building new customer base is tough, banks need to focus on identifying revenue opportunities from the existing customer base and identify opportunities to cross sell. Therefore, it is of paramount importance that banks have systems in place to perform proper analysis of data to identify business potential. This helps a bank identify cross-sell and up-sell potentials. This is where technologies such as data warehousing/mining play a critical role.

Nearly 80% of the banks have some sort of CRM system in place. Out of the banks who own a CRM system, it is mainly used for the sales function. Less than 80% of the banks who have the CRM system are actually measuring the ROI on the CRM system. For two thirds of the banks who had a CRM, found its benefits satisfactory but felt that there was much more that could be gained from the system.

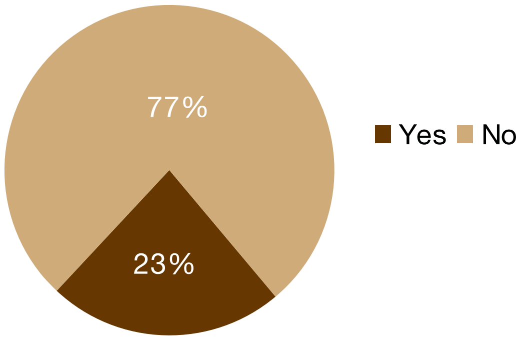
CRM system ownership



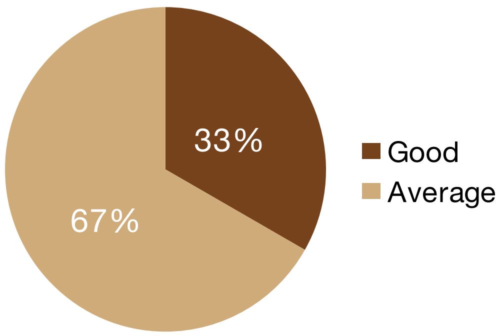
CRM Modules owned



ROI measurement on CRM



CRM Benefits Rating



Operational CRM helps banks streamline their delivery channels; however, a CRM backed with data warehouse capabilities will also help banks by indicating where to move and which customers to focus on. Data warehouse can help banks provide a single version of truth, a single view of its data across disparate systems. This is important as many banks have their data spread across different systems. Using extract, transform and load process, data from multiple sources can be pulled into a central data repository. Thus, there will be a common repository from which one can view and use information as and when required.

Just having requisite information does not solve all the problems; one should be able to make sense out of all the available information and data mining capabilities can help achieve it. Analysis of available data and recognizing patterns can be done using data mining. Implementing BI (a combination of DW, advanced reporting capabilities, analytics and data mining) solution will provide the much needed insight to business. Data warehousing and data mining can help banks identify the right customers for particular products. The capabilities of data warehousing and data mining can also be used in cross-sell and up-sell of services to customers.

Banks are pushing hard for an increasing share of customers' wallets to drive their organic growth, and many banks are focusing their strategies (and technology investments) on "raising the bar" in their delivery channel and distribution capabilities. However, many believe that banking products are easily copied commodities with marginal differentiation in the hearts and minds of customers.

To drive this growth, banks are seeking to develop a richer and more granular understanding of their markets, customer needs, propositions and marketing investment in an effort to create the competitive differentiation and a customer centric organisation that is essential to become successful. It is important to consider the following principles or strategies as a framework for designing a customer-centric bank.

Focus on the customer relationship

- Create business processes (and deploy supporting technologies) that allow the bank to have a holistic view of each customer relationship, beyond balance and transactional data.
- Communicate with customers meaningfully, relevantly, and frequently.

Create valuable (and memorable) customer interactions

- Build a culture focused on treating customers “the right way” every time, and hire talented people who are also customer advocates. Being customer-centric involves more than simply training customer service representatives on how to treat customers. The ability and the authority for real-time decisions and a 360-degree view of the customer helps this effort immensely.
- It is important that core, accurate and consistent customer information is available to customer representatives at all customer touch points.
- Simplify the customer process of dealing with the bank and optimize the bank’s efficiency by using automation tools and self-serve features.
- Implement an integrated delivery and distribution channel strategy that offers customers the access, convenience and functionality they require to transact their financial business easily and efficiently.

Utilize data analytics and data mining techniques

- Analyze transactional data as well as demographic and psychographic information in order to design successful sales and service actions.
- Apply segmentation and data mining techniques.

Whilst the majority of banks would claim to be focused on their customers, this is often, at best, an aspiration. Sitting at the heart of any such initiative is a robust customer analytics that creates truly actionable insights. From this insight comes a cycle of activities that starts with the development of individual customer value propositions designed to create value for both customers and the organisation.

Such propositions are founded on an understanding of the key drivers of customer experience preferably through customer relationship management system. These propositions, if improved, create real engagement and satisfaction for customers with the brand, product or service. Underpinning all of this is an understanding of customer profitability enabling the right investment in the right areas for the right customers, and the customer MIS to track the change.

The road to superior relationship management is a long and arduous one but great fortunes lies to those players who are persistent and hit on the right formula.

Section 4: New Initiatives And Channels

Payment Factories

Centralization is a key trend among banks which offers improved visibility and control over cash. This session will discuss the concept of payment factory as a model for centralizing payables, its implications, technology requirements, inherent risks in its implementation, SEPA and other trends supporting the concept and potential benefits drawn.

The “procure to pay” process was traditionally a process which had less of technology initiatives in the banking sector. With growth & expansion in branch network, banks are now realizing the potential of having a centralized payment factory.

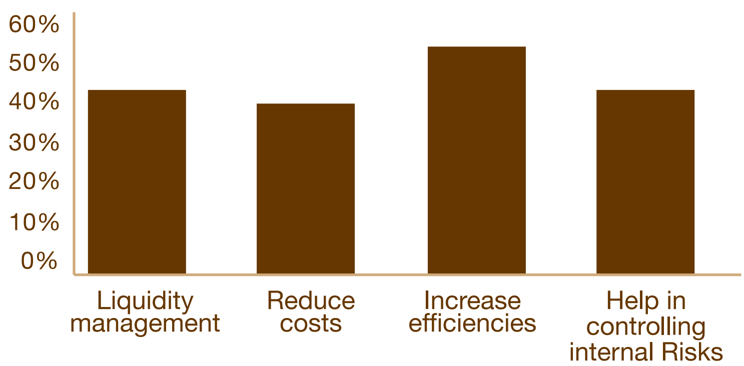
Initially banks started the centralization of payments, with Productivity improvements and control as the primary objectives. With the creation of Payment factories, banks are now able to reduce the internal risks and manage their liquidity in a better way.

On the benefits of payment factories 57% of the banks perceived increase in efficiencies while around 45% of the banks saw payment factories impacting Liquidity Management, Reducing Costs and helping in controlling risks.

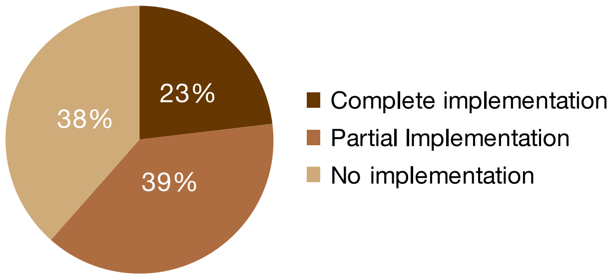
A centralized three way matching of PO, Delivery note and Invoice requires a robust work flow system covering the entire “procure to pay” process integrated to the GL system of the bank.

On the implementation of Payment factories only 23% had completed implementation.

Impact of Payment Factories



Implementation of Payment Factories



The inclusion of Asset tracking as part of creating the payment factory, will lead to greater efficiency and control in managing the assets of the bank. Banks, which are part of a large corporate group, are planning to extend this concept and operate as a shared service centre for the entire group.

With centralized Payment Factories, real time information on spends are available by business unit and organization-wide spend control measures can be effectively managed.

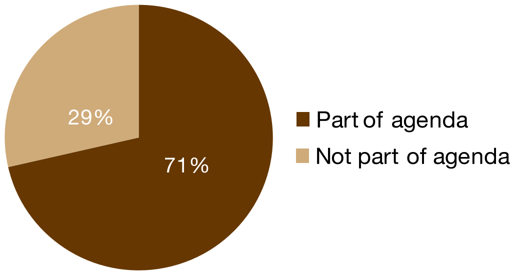
Climate Change

The green initiative is touching almost every aspect of doing business - Banking has been contributing to the green movement for many years by offering online banking. More recently, banks have added green mortgages and green credit cards to their green initiatives.

With mobile banking picking up momentum, the green initiatives of the banks will get a boost. Contactless transaction in the near future will eliminate the paper involved in retail transactions.

More than 70% of banks that we interviewed, had Climate Change as a part of their agenda with Online Banking, less paper work as environment friendly initiatives.

Climate Change



Understanding Profitable Channels, Customers and Products

Banks have always strived to understand their profitable channels, customers and products.

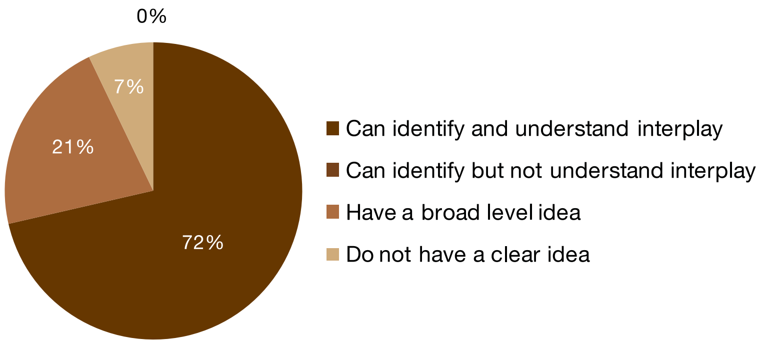
With advent of core banking identifying customer segments, channels and products became simpler. However banks still struggle to determine profitability at a customer level. For doing this bank has to identify the costs (people, infrastructure, Opex etc) involved in each of its process by product and by channel. The identification of costs is the hard part, thanks to off the shelf technology products, the customer level profitability can be arrived easily once the transfer pricing mechanism has been agreed.

Normally 50% of the CASA customers are not profitable customers for the bank. Identification of these customers and migrating them to alternate low cost channels allows in creating bandwidth in high cost channels like branches for serving the profitable segment.

Identifying the profitable customer profiles and behavior, Service & offering differentiation are the key benefits a bank can gain by identifying profitable customers, channels and products.

Respondents clearly knew profitable customers, products and channels but only 72% understood the interplay between them.

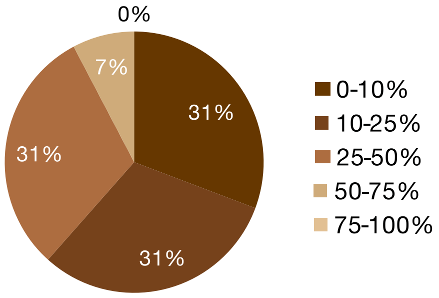
Capability in identifying profitable Channels, Customers and Products



Rural Banking

With focus on alternate customer channels, rural channels have become of crucial importance to banks. 30% of the banks had a rural base of 10-25% while another third of the banks had a base of 25-50% in the rural areas. New initiatives are being taken to step up these volumes. Innovations such as Biometric ATMs, Banks on Wheels have been adopted by several banks. Banking correspondents have been widely used for increasing the number of rural banks. Microfinance, Agro-Lending, Village adoptions, No frill accounts have been other ways of tapping into the rural sector. The key issues in tapping this large sector however have been trust, reach and traceability.

Rural Customers



An unorganized address system and technology infrastructure in rural India are some of the bottlenecks to reach and trace the customer. Coupled with the language constraints, banks have to increasingly depend on the local branches and correspondents of the bank, thereby creating a de-centralized model for reaching out to the rural customers.

The telecom revolution and Mobile penetration in Rural India will lead to increased financial inclusion in the future.

Survey Methodology and Approach

Choosing the sample population:

While selecting banks for the survey, the following factors were considered:

- Type of bank

a. Indian Public Sector

b. Indian Private Sector

c. Foreign Banks

d. Co-operative Banks

- Asset size of banks
- Deposit size of banks

An initial cut off was done to remove banks that had very low assets and deposit values from each of the bank types. In the next step of selection, the short-listed banks were divided into three further categories :

- High Asset
- Medium Asset
- Low Asset

The aim of the final shortlist was to have two banks from each type and from each asset class in the survey – a sample size of 24 which might have provided a good snap shot of the entire sector. However, in several cases, survey results were not obtained. One important facet that did not get covered due to this reason is the scenario vis-à-vis foreign banks.

Survey confidentiality

The survey results are distributed on no-name basis. Each institution's individual opinion and comment have been kept strictly confidential and responses have been presented in a way that will not allow an identification of any specific institution based on its submitted data.

Credits

We acknowledge that the highly detailed nature of the survey questionnaire required a considerable amount of effort on the part of each participating institution to provide a commensurately detailed and meaningful response. We would like to extend our thanks to each of the banks participating in this study.

Special thanks to the following members of the Banking and Financial Services team for their tremendous contribution to the interviewing, strategy, creation and finalization of this report

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About
Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry managed organisation, playing a proactive role in India's development process. Founded over 115 years ago, it is India's premier business association, with a direct membership of over 7800 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 396 national and regional sectoral associations.

CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programmes. Partnerships with over 120 NGOs across the country carry forward our initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development and water, to name a few.

Complementing this vision, CII's theme for 2009-10 is 'India@75: Economy, Infrastructure and Governance.' Within the overarching agenda to facilitate India's transformation into an economically vital, technologically innovative, socially and ethically vibrant global leader by year 2022, CII's focus this year is on revival of the Economy, fast tracking Infrastructure and improved Governance.

With 64 offices in India, 9 overseas in Australia, Austria, China, France, Germany, Japan, Singapore, UK, and USA, and institutional partnerships with 221 counterpart organisations in 90 countries, CII serves as a reference point for Indian industry and the international business community.

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PwC has offices in Ahmedabad, Bangalore, Bhubaneshwar, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune.

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