

## Licence to Skill

Rural banking, priority sector lending – the new IDFC Bank is looking forward to meeting stipulations others dread. By Dibeyendu Ganguly



**T**here was no call from Reserve Bank of India (RBI) Governor Raghuram Rajan. There was no dramatic huddle in the IDFC boardroom. When the news came, IDFC chairman Rajiv Lall was stuck in the usual morning traffic on the Haji Ali sea face. It was his secretary who called to tell him what someone in the office had just read on the RBI website — IDFC had been given a banking licence. As his car proceeded to wend its way to the company's headquarters at the Bandra Kurla Complex, Lall recalls feeling a sense of relief. "It was as if a huge uncertainty had been lifted. When the news came, it was a big shot in the arm. Without this, our future looked very uncertain," he says.

There's nothing so energising as a banking licence. With 18 months to launch, IDFC has set up its own PMO (Project Management Office), with a Gantt Chart that schedules every task till D-day. First in line are the regulatory compliances, which includes an obligation to dilute foreign holdings from the current 53% to 49.9%. To achieve this, IDFC plans to issue fresh capital to domestic shareholders, the internal deadline for which is 13 November. "Right now we operate on a monthly chart of what needs to be done, but soon we'll go weekly," says Lall.

Even as it races to meet the compliance numbers, IDFC has the complex task of recruiting a fresh set of people for its bank. Lall himself has decided to quit

his present post as chairman of IDFC and join the banking subsidiary as its CEO. Over the next year, he has to bring on board at least 500 more people to man the various verticals of the bank. "We're hiring in sequence, starting with the first three layers. They will then take care of the next layers," he says.

IDFC has seldom had occasion to deploy headhunters in the past, preferring instead to use its own private networks for luring talent. But now the volumes are high, it has brought in not one, but three firms to help it find people. "We have talked to one set of headhunters for getting CXOs and another set for middle management," says IDFC managing director Vikram Limaye. "At senior level we need people who can work together as a team. Else it could be a big headache."

IDFC has scored an early win with the recruitment of Avtar Monga as COO of the new bank, from Bank of America's global delivery centre in Gurgaon. It has also recruited a Chief Risk Officer, who will be joining in June. It is promoting internal talent to head corporate banking and retail banking. Now it's in search of senior person to head the all-important rural banking arm. "It's not the easiest of hires," says Lal. "Commercial bankers have never wanted to make careers in rural banking. This space has so far been the domain of social entrepreneurs, who are not business people."

As one of the founders of Lok Capital, a fund that works with bottom-of-the-pyramid enterprises, Lall himself is a

social entrepreneur. In fact, rural banking and financial inclusion are so close to Lall's heart that he's keen to ensure that it becomes a part of the new bank's DNA and everyone in his team is a believer. Over the next few months, IDFC plans to set up rural pilot offices which will initially engage in lending and eventually accept deposits once the bank is formally launched. Lal is determined to demonstrate his rural branches can succeed and make a profit. "With new technologies, it is possible to serve the rural customer commercially rather than a regulatory requirement. Existing banks have had a hard time with it only because of their hard-to-change legacy systems," he says.

## ELEMENTS OF IDFC'S STRATEGY

- Rural banking at the core of mission
- Set up low cost branches in tier V and tier VI towns
- Quickly develop expertise in priority sector lending
- Build a technology platform around smart phones and tablets
- Design process flows that leverage technology to cut costs

Indeed, IDFC is looking forward to meeting the RBI mandate that banks must have 25% of their branches in tier V and tier VI towns, a rule others dread. If all goes according to plan, it will more than meet the requirement within the first three years off roll out. This will help it meet the other RBI guideline that 40% of a bank's lending should be to the priority sector, which includes microfinance, low cost housing and agriculture. In the initial phase, it may buy into the priority lending portfolio of existing banks, but in the long run, IDFC Bank intends to develop its own expertise. "I consider priority sector lending to be our greatest challenge. We have to develop capabilities in this area as part of our strategy," says Limaye.

With its posh offices and background in corporate lending, IDFC doesn't quite fit the image of a rural bank. It's microfinance specialist Bandhan, the other new bank licensee, that is known for its expertise in rural banking. But the lacklustre performance of the infrastructure sector, its raison d'être, has taught IDFC some hard lessons, and it is now keen to diversify from corporate to retail banking. The new bank intends to set up more branches in smaller towns, but at the same time Limaye is clear these will need support from their big city counterparts. "These things follow the 80:20 rule. 80% of our business will come from 20% of our branches, located in the top 60 cities," he says.

Meanwhile, the cost saving technolo-

gies available to a start-up bank are set to work across the board and not just for rural banks. New and innovative process flow designs that centralise a host of operations can slash manpower and thereby space requirements at a bank branch by one-third. In line with current thinking,

IDFC has decided not to invest too much on its own branded ATMs, which will be another major cost saving. "We are targeting a cost-to-income of 35% as opposed to the current norm of 45%," says Limaye. "In order to ensure we don't get stuck with legacy technology in the future, we are looking to develop a flex-

ible, open, plug-and-play system."

The setting up of a new bank creates a ripple effect and one of the beneficiaries is the information technology (IT) industry. The IDFC Gantt chart has set February as the target for finalising technology partners for its core banking, systems integration and customer interface systems. In the running are India IT majors like Infosys, TCS and Wipro as well as global players like IBM, Oracle and Accenture. Their mandate will be to create a system that takes into account the increasing penetration of smart phones and tablets, broadband availability in villages, the Aadhar card and a host of other stuff that wasn't there when present-day banks set up their IT infrastructure. "The best-in-class tech providers are here in India, so that's not going to be a problem," says Lal. ☐

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**RAJIV LALL,**  
EXECUTIVE CHAIRMAN, IDFC

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MD & CEO, IDFC