SANDEEP BAKHSHI IS...

Decongesting ICICI Bank

Among Indian lenders, ICICI Bank got pummelled more than others — be it bad loans or governance issues. Now, the mantle of restoring confidence in the institution is on a veteran banker. If Sandeep Bakhshi pulls it off, he can be the Gorman of Indian banking, say MC Govardhana Rangan & Shilpy Sinha

The 11th floor executive dining arena at the ICICI Bank Towers in Mumbai's financial district had an unwritten rule on who sits where on the table. That was mostly driven by hierarchy. That has changed since Sandeep Bakhshi occupied the corner office in October 2018.

And that's just the beginning.

Succeeding someone as a chief executive when the scenario is normal is an ideal position to be in, but Bakhshi does not have that luxury. Even for troubled institutions, the challenge mostly would be either financial or a tarnished public image. For Bakhshi, after a tumultuous 2018 for the bank, it is both.

As Bakhshi sets out to reinvent the institution that has played a role for over two decades in different avatars, the job on hand is to remove the cobwebs that have grown over the years, project an image that's compliant and friendly, and also lay out a path that would be less bumpy in the future.

Along the way, there would be compromises and confusion though.

It is "profitability over top line," says Sandeep Batra, president-corporate centre at ICICI Bank, who moved along with Bakhshi to the parent company from the life insurance venture. "We won't do things that we don't understand. We have become very particular about where we would be lending."

The intentions are right and the strategy is clear. But the more difficult part is to junk past priorities and direct staff to think and act differently.

"Now, they will be averse to sectors where they have burnt their fingers," says Sidharth Purohit, analyst at SMC Global Securities.

BYE BYE PROJECT FUNDING

Shedding the past is more important for a struggling institution than executing new ideas because the weight of the past if allowed to fester could leave any new initiative ineffective.

In what could well be the most significant statement of his stewardship, Bakhshi has said no to project funding — the seed which was sown in 1994 as Industrial Credit and Investment Corporation of India that evolved into ICICI Bank.

"We are not going to project finance," says Batra. "That's very clear. We are willing to lend wherever people are putting in equity."

The aversion to project funding is understandable. The banks' stressed assets — bad loans plus the restructured loans — is at 8.54% of total loans. The chunk of bad loans is because of lending to power projects and other infrastructure-related ones.

While that may be the way to go in an era when individual consumers have become more dependable than billionaire corporates with stretched balance sheets and poor equity positions, every burnt lender is going the same way.

But that means compromise on size. The days of heady assets growth may well be behind it.

"How to manage profitability when the corporate portfolio is not growing will be a question," says Ashish Gupta of Credit Suisse, an investment bank.

Under Chanda Kochhar, who quit last year amid a probe into her corporate governance practices, the bank's assets grew 1.5 times to ₹8.74 lakh crore in September 2018, from ₹3.79 lakh crore in March 2009, the year when she was elevated to succeed KV Kamath as the CEO.

ANIRBAN BORA

The Financials

Business performance

FY	Net Profit (₹ cr)	NIM (%)	PCR (%)	CASA (%)	Gross NPA (%)	Net NPA (%)
Sept 2009	1040.00	2.50	51.7	28.7	4.69	2.36
Sept 2010	1236.27	2.60	69.0	41.7	5.03	1.62
Sept 2018	908.88	3.33	69.4	50.8	8.54	3.65

Financial numbers

Figures in ₹ cr	Sept 2009	Sept 2010	Sept 2018
Revenue from Operations	16,126.97	14,297.03	35,205.15
Retail Banking	4,497.08	3,943.78	14,439.21
Wholesale Banking	5,041.26	4,625.18	8,017.58
Treasury	6,403.42	5,597.34	12,485.6
Other Banking	185.21	130.73	262.76

Portfolio composition over the years

% of total advances	Mar 31, 2015	Mar 31, 2016	Mar 31, 2017	Mar 31, 2018	Sep 30, 2018
Retail	42.40%	46.60%	51.80%	56.60%	57.30%
Domestic corporate	28.80%	27.50%	27.30%	25.80%	25.40%
SME	4.40%	4.30%	4.80%	5.00%	4.60%
International	24.30%	21.60%	16.10%	12.60%	12.70%
Total advances (in ₹ b)	3,875	4,353	4,642	5,124	5,445

ON SIMILAR LINES

The most important thing we are focused on is the culture of our management team to never put our shareholders or society in the kind of jeopardy like during 2008 crisis

JAMES GORMAN, CEO, MORGAN STANLEY, TOLD ET LAST YEAR

NO MORE ADVENTURES

Enterprises evolve to survive and thrive, else they perish. The Global Financial Crisis showed how giant financial services firms such as Citigroup, Morgan Stanley and JPMorgan reoriented themselves to grow.

In the local market, ICICI Bank is a standing example of how reinvention helped it survive the onslaught of market economy in the 90s, when its peers of yesteryears such as IFCI and IDBI Bank struggle to stay afloat.

Under the universal bank model spearheaded by Kamath, it grew substantially in retail while still doing project funding. When the dependence on wholesale funding got the bank into trouble, his successor Kochhar fixed it by growing retail deposits aided by executive director Rajiv Sabharwal.

When even the state-run banks are struggling for low-cost deposits, ICICI Bank has nearly half of its deposits in the low-cost current and savings accounts. Just like Kamath's record ₹25,000-crore equity helped it tide over the stress, the retail buffer built by Kochhar could well be the springboard for the next take off.

"When you have good CASA, why would you get adventurous," says Anup Bagchi, executive director, ICICI Bank. "I don't have to be adventurous."

With the buffer of low-cost funds, it is looking to expand the retail footprint enabled by cost-effective technology and into small and medium enterprises, which have now become bankable because of the Goods and Services Tax.

Retail, which comprises 57.3% of its overall loans, is expected to grow further in the next few years. SME which is at 4.6%, will also see a fresh boost with the its centres sanctioning loans nearly doubling to 70.

"Risk-adjusted profitability will go up," says Gupta of Credit Suisse. "Some of the mistakes of last time will not be repeated."

Algorithms would get bigger than humans at ICICI retail, as it pushes the 'insta' of everything. It will eliminate paper and human intervention to the last level.

"The direction on everything is insta," says Bagchi. "Cost of acquisition is zero. No one questions decisions. Conserve branch staff for advisory," he says, adding that despite turning to technology, it would net hire 3,500 staff this fiscal.

FREEDOM WITH CAUTION

Despite the well-meaning directional changes, projects could falter if things on the ground do not change. It could hold true for ICICI Bank as well. So, how is the execution planned. Decongest.

Cutting the clutter in the process is the priority for Bakhshi.

"There is a lot of delegation that's going on at the front end," says Batra. "As an insider, if a job took two days, now it happens in less than half a day. Processes that have accumulated over the years are getting weeded out."

Earlier, the key functions of cost control and manpower allocations were determined at the head office, but that has since been given to local offices and branches with specific targets. This would enable more freedom to managers at mid-level and generate more involvement and responsibility.

"Bakhshi has been working towards easing internal processes and removing bottlenecks to enable faster turnaround time for customers," said Rohan Mandora of Equirus, a stock broking firm.

A shift to prudence always leads to lower growth rate and investor anxiety, but ultimately leads to sustained growth as seen with the likes of Morgan Stanley under James Gorman since the credit crisis.

"The most important thing we are focused on is the culture of our management team to never put our shareholders or society in the kind of jeopardy like in 2008," Gorman told ET in an interview last year. "Our management team is very stable. We are determined to behave prudently, not to make reckless decisions and put our employees, shareholders or clients in any financial danger."

Bakhshi has started on a similar note. If he pulls it off, he may well turn out to be India's Gorman.

FLIP SIDE

RAVNEET GILL | CEO, DEUTSCHE BANK, INDIA

Favourite Destination

Every time we are able to get away over a weekend, we go to a forest reserve which is totally de-stressing. The only time when I am really in the 'now', is when I am in a forest. There is a sense of anticipation that you will suddenly see something

Often Visited Reserve

My favourite place is Tadoba

First Tiger Spotting

I saw a tiger for the first time in Kanha. I think I was about two-and-a-half-years old riding an elephant when we chanced upon a tiger. It is green in memory because I let my sandals drop

Career Choice

The idea always was to get into the civil services like my father. I studied with that perspective in mind, but in the mid-80s banking just took off and a lot of my friends went into banking and suddenly it became a career option for me as well

The Banker to Look Up to

Many have mentored me at different stages. The influential ones were Ajay Bimbhet, former MD & CEO, Royal Sundaram Alliance Insurance; SN Kapur and Ravi Singh; Anshu Jain and Jürgen Fitschen, who were co-CEOs of Deutsche Bank. Of course, the stalwarts – Hemendra Kothari and Deepak Parekh

Idol to Follow

My Father. I have never seen a person who was more inspiring, sheltering or forgiving. He believed in looking ahead and getting on with life rather than dwelling on the past despite being deeply impacted by the Partition. He personified simple living, high thinking

Advice to Youngsters

Balance. I think what ultimately gets you into trouble is when the balance goes. Whether it is work-life balance or short- and long-term balance or personal or professional balance

If You Start All Over...

Honest to God, if I really had to start all over again, I would not change a thing. I have seen a lot of changes in banking, not necessarily always for the better. Things have got tougher sometimes institutionally and sometimes personally. At times, things could have gone better, but all I feel is a sense of gratitude

Hobbies

Passionate about cricket. I also know many Indian cricketers. Art is also something I enjoy. Deutsche Bank has one of the world's largest collection of contemporary art and so if you work at the bank for as long as I have, you cannot help but get exposed to some really good art

Favourite Cricketer

Many over a period of time. Kapil Dev was a favourite. Tendulkar, of course. Also Virender Sehwag, Rahul Dravid, Shikhar Dhawan and Virat Kohli

Childhood Memories with Raghuram Rajan

We were next door neighbours for many years. We used to play tennis ball cricket every evening. One day he got me out and went on a celebratory run! This was at Moti Bagh in Delhi

Fintech Revolution's Still Not Here a Year Into 'Open Banking' in Europe

When European lawmakers ushered in the era of "open banking" for consumers one year ago, both lenders and financial technology startups expected a sea change. For the first time, banks would be required to share account data with competitors as long as customers gave their permission.

Politicians in the UK, where four banks control 75% of deposits, were particularly keen on the law's goal of encouraging new entrants.

But since the European Union implemented the rules, dubbed Payment Services Directive 2, Jan. 13 last year, banking in the UK looks pretty much the same. HSBC Holdings, Barclays, Royal Bank of Scotland Group and Lloyds Banking Group show few signs of losing significant market share on current accounts, business loans, and mortgages to the upstarts. Only four new banking licenses were issued in 2018, compared with 12 in 2017, according to the Financial Conduct Authority.

"The UK still hasn't seen the hockey stick of growth in disruptive new players everybody was predicting," said Anne Boden, the founder and chief executive officer of Starling Bank, a London-based digital bank with 400,000 account holders.

"Everybody was expecting PSD2 to happen and all these companies would be fighting with each other to provide services to customers."

Mastercard and Visa, as well as the longstanding lenders, continue to control the payment infrastructure. Indeed, these institutions are starting to go on the offensive by snapping up fintech firms. On Dec. 27, Visa's international subsidiary agreed to buy London-based cross-border payments firm Earthport for 198 million pounds ($252 million).

Even so, research released today shows that bankers at Barclays, RBS, and other lenders are anxious that in time the new payments law will shake up the industry. In a survey of 50 executives in Britain, a majority said the legislation will spur technology giants such as Amazon.com and Google to unveil their own retail banking services within the next five years.

More than 82% of those polled say their organisations are falling behind mobile banking players such as Monzo Bank, Starling Bank, and Revolut. The research was commissioned by Pepper, a mobile bank owned by Tel-Aviv-based Bank Leumi Le-Israel.

In September, European regulators are scheduled to complete new technical standards that will set out precisely how banks must link their technology platforms to outsiders. The hope is this process will truly cement open banking into place, said Starling's Boden.

"What big banks have been asked to do is very difficult — they don't necessarily have a commercial reason to do this, they're being forced to by a regulatory big stick," said Boden.

"But I do believe PSD2 and open banking will revolutionise the relationship between consumers and lenders. It just won't happen quickly," he added.

– Bloomberg

India's Monetary Policy Framework Needs to Adjust to Emerging Realities

Guest Column

SHAILENDRA JHINGAN

MD, I-sec PD

Forecasting macro-economic variables and prices in a volatile global environment has truly become a humbling experience for the investment community. Macro risks are becoming more idiosyncratic in nature and, thereby, hard to predict.

We as a community are prone to think of economic cycles as cycles that last for an extended period of time. But "macro trends" these days are akin to "fashion trends", and have a very short life span.

The biggest conundrum for forecasters has been the behaviour of CPI inflation. It is not just the RBI, but even the wider investor community has consistently overestimated inflation. For instance, CPI inflation for Q3FY19 is tracking 1.6% below RBI's April 2018 forecast of 4.3%

The undershooting of forecasts has been driven by benign food prices and even a generous increase in the minimum support prices has not really been able to influence traded food prices. As a result, even as the Monetary Policy Committee (MPC) did not hike the policy rates in October when the market was expecting one, the new stance of calibrated tightening seems to be out of sync with the new reality of sharply lower inflation.

RBI does not provide separate forecasts for core inflation (excluding food and fuel prices). But, it is reasonable to presume that those forecasts have been more accurate, as they respond to the underlying demand conditions and are less volatile. However, the mandate given to the RBI is to manage headline inflation in the 2-6% band, and not core inflation. If core inflation has not proved to be an accurate predictor of headline inflation, then RBI cannot consistently ignore sharp disinflation in food prices and consequently lower inflation.

Real policy rates, ex post, have typically turned out significantly higher compared to RBI's guidance of a suitable range of 1.25–1.75%. Based on actual inflation prints over last two years, real policy rates have averaged 2.5%. Despite this fact that monetary policy proved tighter than envisaged, RBI still forecasts inflation in July-September 2019 at more than 4%, which is the midpoint of its inflation target band. What if these forecasts are again overestimating inflation? The real policy rates would then continue to remain higher than warranted even as inflation is at or below target and growth outlook faces headwinds from global developments.

During the transition to inflation-targeting regime, the unsaid agreement between the government and the RBI would have been that government would manage food inflation at reasonable levels. The government seems to have delivered their part of the bargain. So, is it time for RBI to deliver by cutting interest rates?

Here is where things get a bit complicated. Firstly, RBI targets to achieve 4% inflation on a durable basis and it might still lack the conviction that upside risks have receded completely. Secondly, RBI's surveys of inflation expectations continue to show that even when food and fuel prices decline, forward looking expectations are slow to react.

Inflation expectations are adaptive in nature. But if inflation expectations stay at double digits even as CPI inflation has averaged 3.6% in FY18 and FY19 (E), then the efficacy of taking monetary policy decisions based on these surveys needs to be questioned. Thirdly, food prices are to a great extent dependent on the political economy and the perceptible rise in rural distress due to lower prices might make MPC question the sustainability of negative food price inflation. It is plausible that food prices do not go up despite government's direct attempts, but inflation shows up through fiscal channels. But how long would the wait continue, and how would such a conservative approach be justified in case government sticks to the budgeted fiscal targets?

In my view, there are few key implications of this analysis for the monetary policy framework. Firstly, in an increasingly unpredictable world, there should be no explicit stance of monetary policy. The RBI should always maintain a neutral stance and calibrate policy rates based on incoming data. Therefore, the first step should be to move to a neutral stance in the February policy and guide the market based on actual data outcomes rather than just the forecasts of forward looking inflation. The forecast errors have kept monetary policy tighter than warranted and it is important to explicitly recognise that. Secondly, there is no value in giving any guidance based on real rates if they are not going to be consistent with the realised outcomes. MPC can either guide the market based on the primacy of meeting the 4% inflation objective on a durable basis or on keeping policy rates consistent with preferred real rates range. Simultaneously achieving both these objectives might not be consistent. But if real rates do matter for MPC, then the logical course of action for them can only be to reduce policy rates by 25-50 bps.