

Banking on Bharat

Banks must look at rural and semi-urban markets to expand their network. They will find a veritable treasure trove



ADITYA PURI

RURAL HOUSEHOLDS CONSTITUTE 55-60 per cent of India's population. The key to India's prosperity thus lies in increasing the affluence of this so-called Bharat. Fast moving consumer goods (FMCG) companies have long recognised the potential of this market and the penetration rates of some of their products like hair oil, shampoos and beverages, just to take a few examples, is close to saturation. Yet, the financial sector in this vast rural economy is still dominated by the unorganised segment. Rural bank lending has historically been driven by regulation through the mandated priority sector lending commitments rather than by a genuine search for business. It's still a very underpenetrated market.

Rural markets are highly dispersed and fragmented across villages and semi-urban pockets. The lack of infrastructure, such as roads and electricity, has been a problem. The need to create small-ticket offerings to cater to this market has meant that traditional business models have proved unviable. However, this has been changing rapidly and some banks have taken the lead in adjusting their strategy to exploit this untapped goldmine. Technology, particularly the growing wave of digitisation and the mobile phone revolution, has lent a helping hand as has been the government's push to energise these markets. Thus, from a banker's perspective, Bharat is on a roll — rural financial markets are in the process of taking a quantum leap in the new century.

Based on the tremendous market potential, it's vital that banks look at these deeper semi-urban and rural geographies to expand their branch network. For a first mover, this would create a long-term advantage for the incumbent, even with subsequent entry by others. A good rural strategy is to provide a complete range of appropriate products for rural customers and replace the moneylender who has traditionally charged crippling rates for the rural poor, perpetuating a vicious cycle of debt.

The key to success in these markets is to develop appropriate products for this segment of customers, instead of offering the same products that work in urban markets. Appropriate products and fair lending rates would automatically eliminate the moneylender, as we have seen in our experience. But to achieve this, the entire paradigm of product design, sales and collection would have to be turned on its head.

A couple of examples of appropriate products would help underscore the point. For wheat farmers, the time taken between delivering the produce to the agent at the time of grain procurement and his final payment through a cheque or draft typically took 15 to 20 days. With digitisation, this process can be crunched to just 48 hours. The key steps in this dramatic shortening of turnaround time would include the issuance of a smart card to procurement agents, installation of an electronic data machine (EDM) at the mandi backed by the e-payment system RuPay, quick generation of MIS and reports and, finally, e-approvals by the procurement agency.

Comparable solutions can enable quick payment to other segments like milk producers, by leveraging the technology of Point

of Sale (PoS) terminals for small operations and full-scale ATMs for larger dairy societies. The process enables the instantaneous capture of milk quantity and quality data, converting them into an accounting entry that credits the farmer's account, and a micro-ATM or cash dispenser is made available for farmers to draw money from.

Similar initiatives can be undertaken for other sectors, such as sugar and fruits and vegetables, with the bank participating at every stage of the supply chain. Banks can offer cash-flow-based working capital and loans to farmers like cattle loans and unsecured personal loans. Back-end systems can capture the entire cash flow and income profile of farmers, to ensure there's no compromise on credit standards. From our experience, for small and medium farmers who were given credit, there was a fivefold increase in savings balances. Thus, an entire culture of savings and banking took root.

However, rural banking is not just about providing customised innovations. There's a large market for an entire suite of products — car loans, two-wheeler loans, tractor loans, light commercial vehicle loans, small working capital loans to traders, personal loans, gold loans, commodity finance, along with the more conventional agricultural credit. There's also a strong demand for savings products, ranging from basic savings accounts to recurring deposits and life and general insurance products. Of course, ticket sizes are smaller, but break-even thresholds for branches are similar to urban branches as costs are lower.

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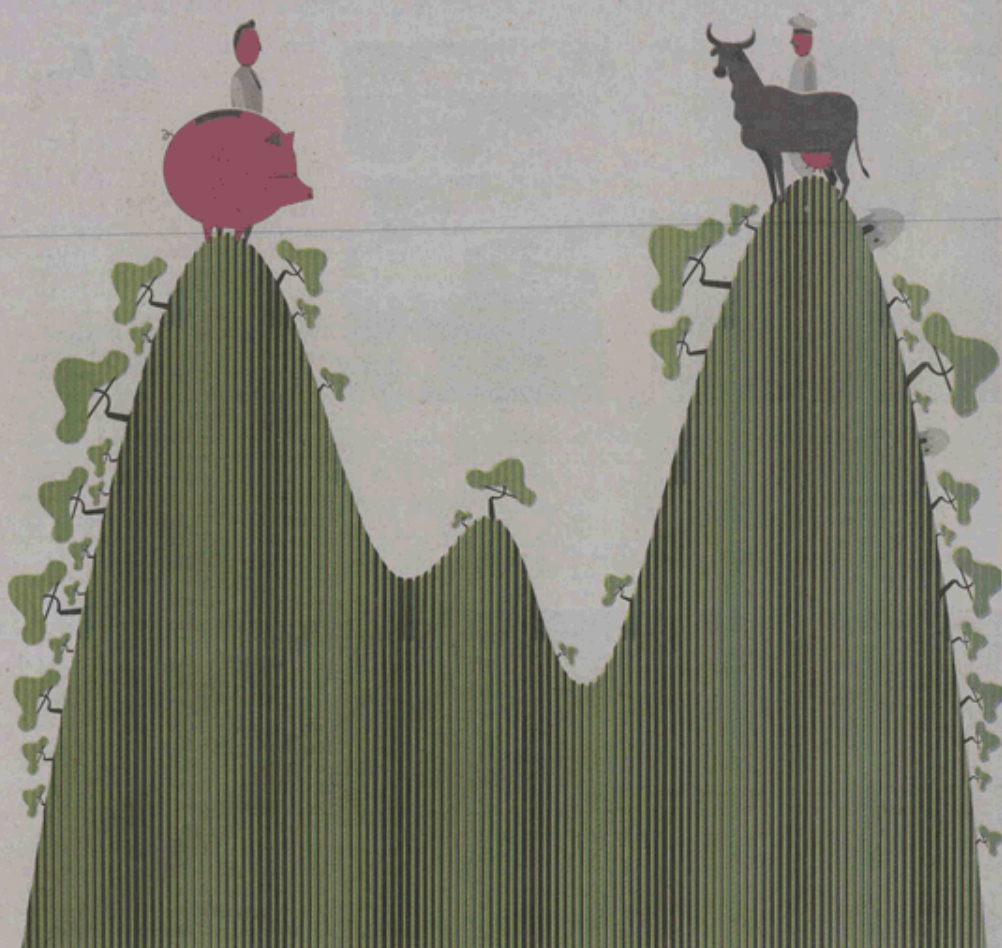
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a rural population that is mobile-enabled to a large extent, digital applications (wallets, mobile-to-mobile payments) are adding to transaction traffic by leaps and bounds. This segment is growing at twice the rate of urban India, ensuring a growth for banks in these geographies higher than market growth for the next decade.

This is not to deny that challenges remain in growing the rural markets. Financial literacy is low and incomes and livelihoods are volatile. Any credit disbursal at the grassroots level must have a holistic approach. Along with timely credit, it's critical to conduct financial literacy and credit counselling programmes, offer skills training to enhance income generation, form self-help groups and fund these groups for income-generating activities. This enables the delivery of viable credit to the rural poor in a sustainable manner and at the same time inculcates saving and banking habits.

Extending finance to the rural markets has traditionally been viewed as a social obligation enforced through diktat rather than the lure of profits. Yet, as we have discovered at HDFC Bank by successfully implementing all of these strategies, there's a veritable treasure trove in these markets. All you need is the right mix of technology, business model and outreach through targeted programmes to tap these opportunities. Bharat is rapidly catching up with India, which is a political, economic and social necessity. The fabric of society is changing, consequent to the convergence of media, telecom and computing, leaving us with no option.

The writer is managing director, HDFC bank



C R Sasikumar