

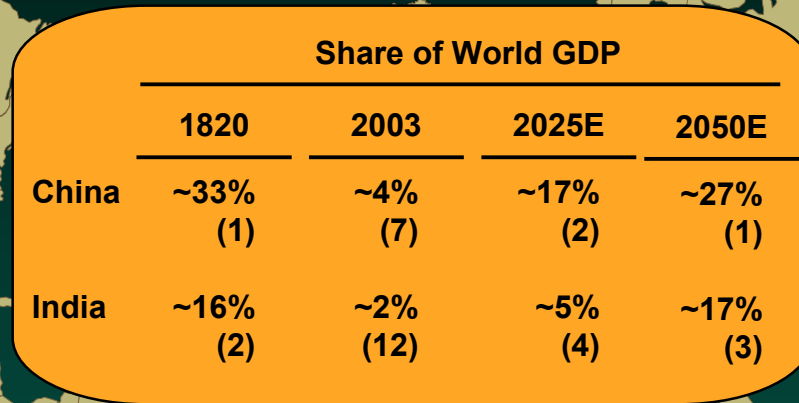
**“In Search Of New Cheese”
Towards Newer Profit Avenues**

Bangalore , 1 September 2005

Alpesh Shah

The Boston Consulting Group

WHY ARE WE TALKING OF NEW CHEESE?... Back To the Future



A world map with a callout box highlighting China and India. The callout box contains a table titled 'Share of World GDP' with columns for 1820, 2003, 2025E, and 2050E. China and India are highlighted in red on the map. Lines connect the population labels '1.0 Bn people' and '1.12 Bn people' to their respective countries on the map.

Share of World GDP				
	1820	2003	2025E	2050E
China	~33% (1)	~4% (7)	~17% (2)	~27% (1)
India	~16% (2)	~2% (12)	~5% (4)	~17% (3)

1.0 Bn
people

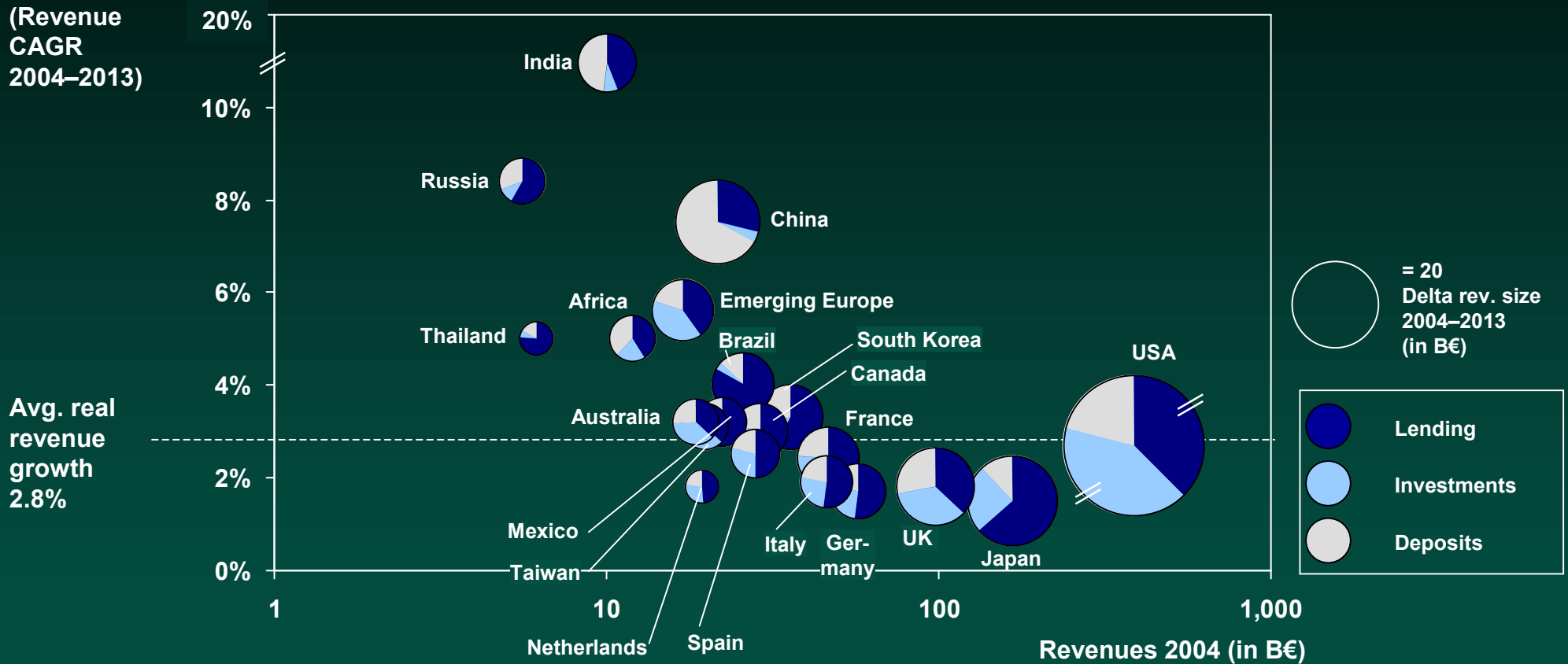
1.12 Bn people

Note: Figures in bracket indicate GDP world ranking

Source: Angus Maddison's OECD Book "The World Economy – A Millennial Perspective", IMF, Goldman Sachs projections

... WHEN INDIA IS THE FASTEST GROWING MARKET

Absolute revenue growth by country



Note: Top 20 countries/regions by revenue growth 2004-2013
 Source: BCG analysis

INDIA BANKING: PROFITS SQUEEZED FROM ALL SIDES

Increasing competition

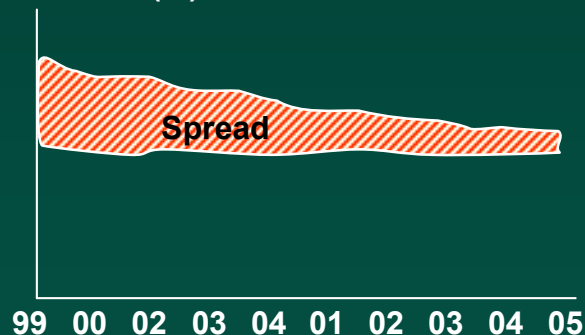
New players



Increasing aggression

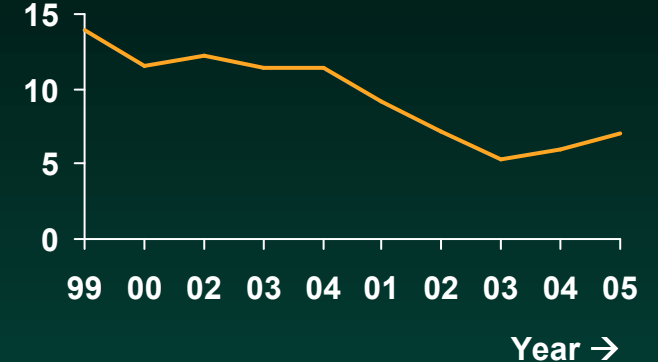
Shrinking margins

NII spread on home loans (%)



Drying up of treasury gain

10 year G-Sec % yield



Demanding customers

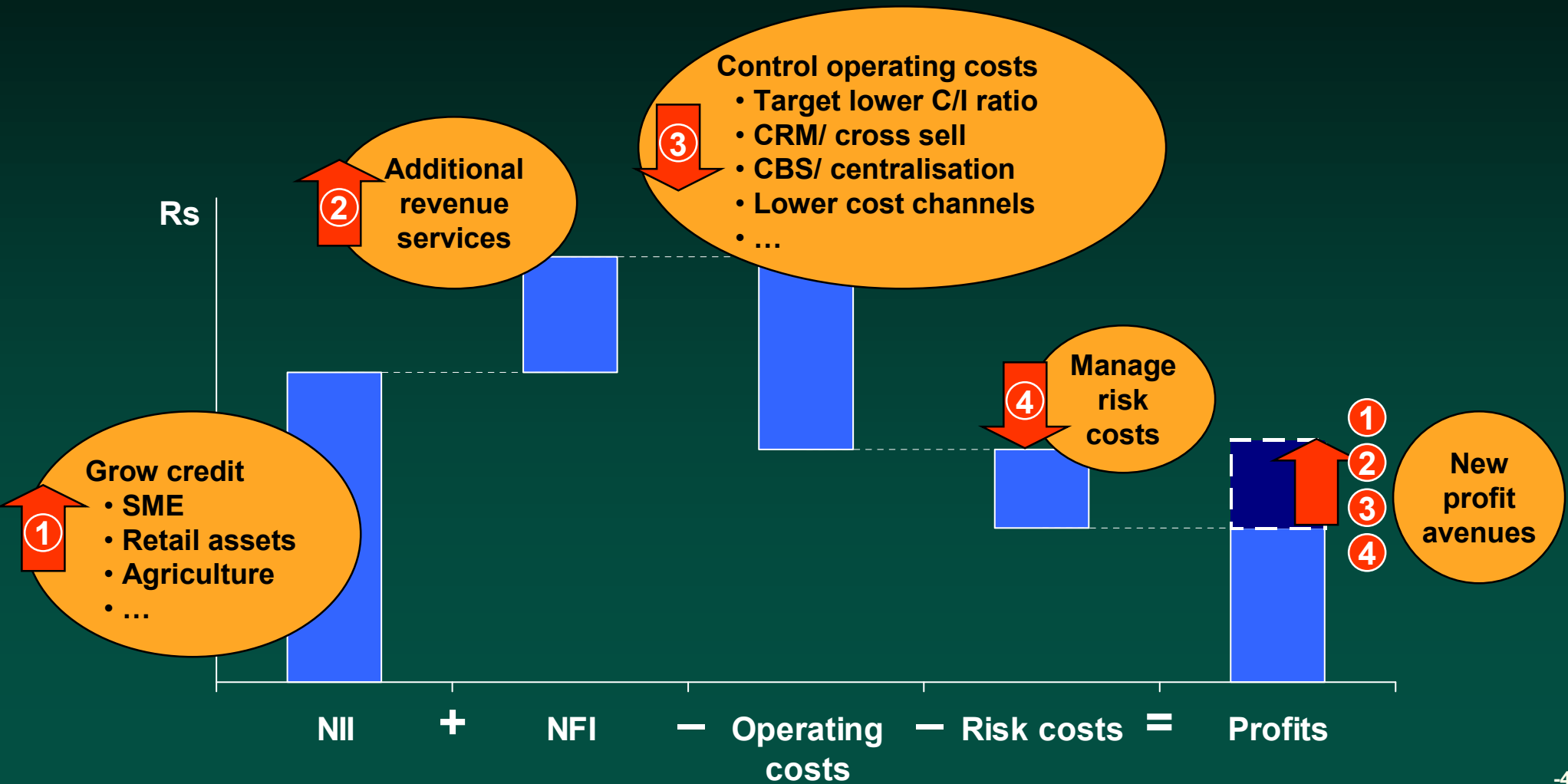


Bank profits squeezed

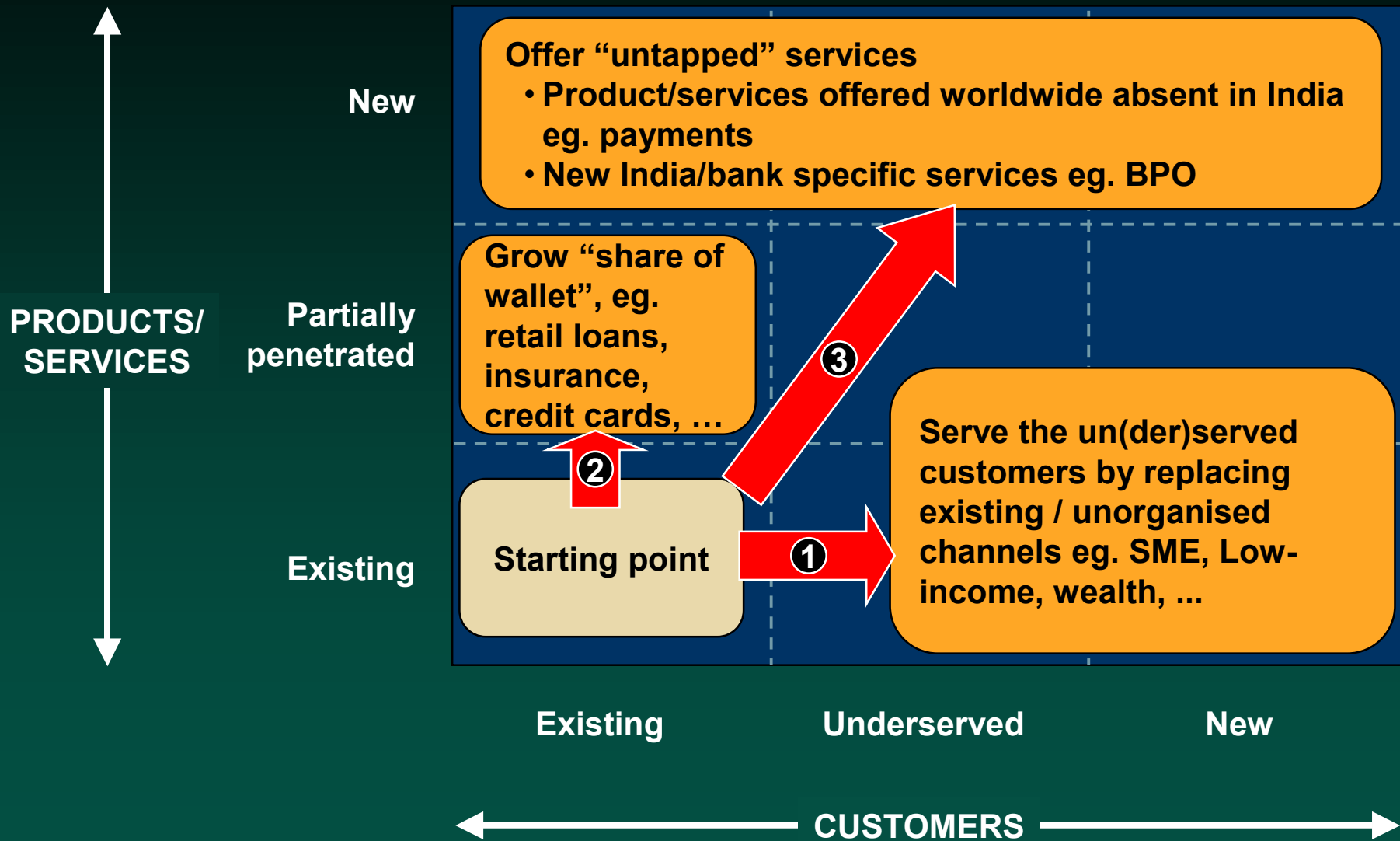
In this context, banks need to explore new profit avenues

CHEESE IS EVERYWHERE

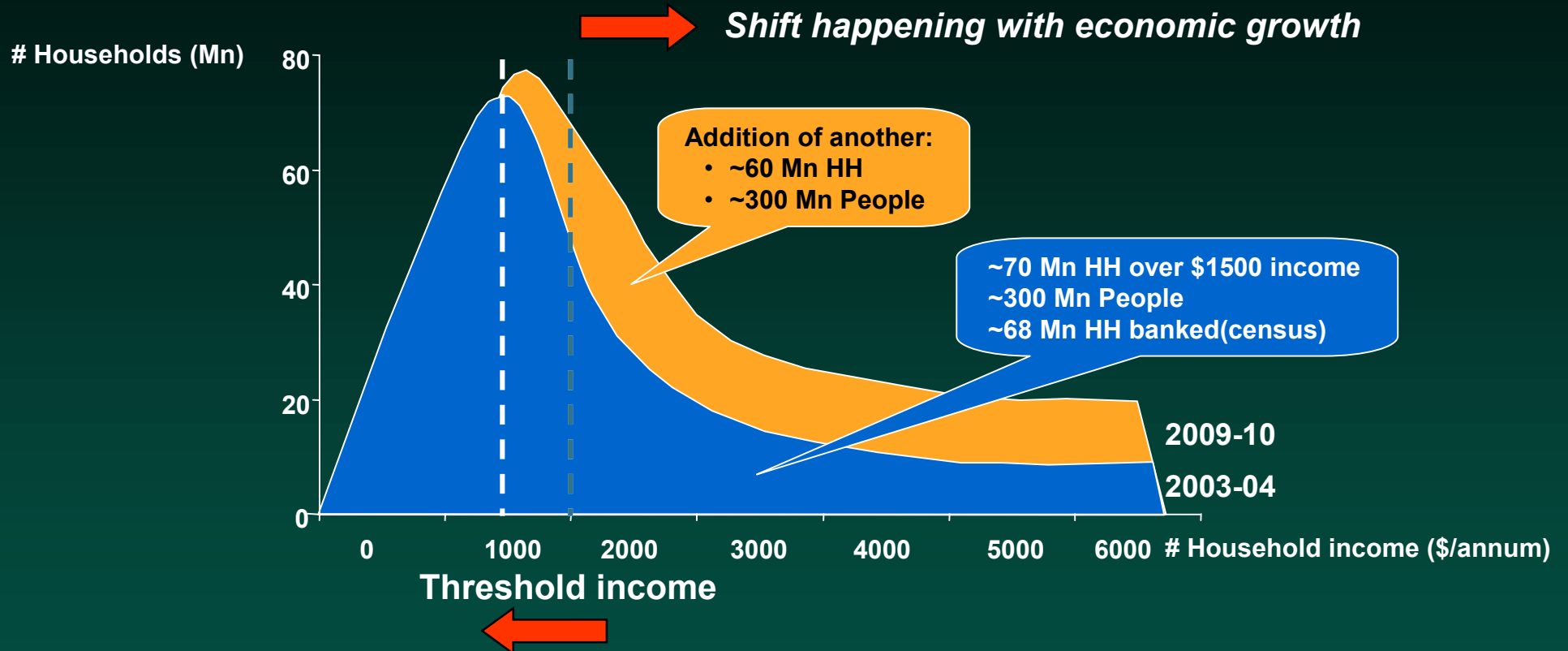
Bank Profits



THREE BROAD OPPORTUNITIES ON REVENUE SIDE



LOW INCOME/MASS CUSTOMER BANKING PRESENTS ENORMOUS POTENTIAL

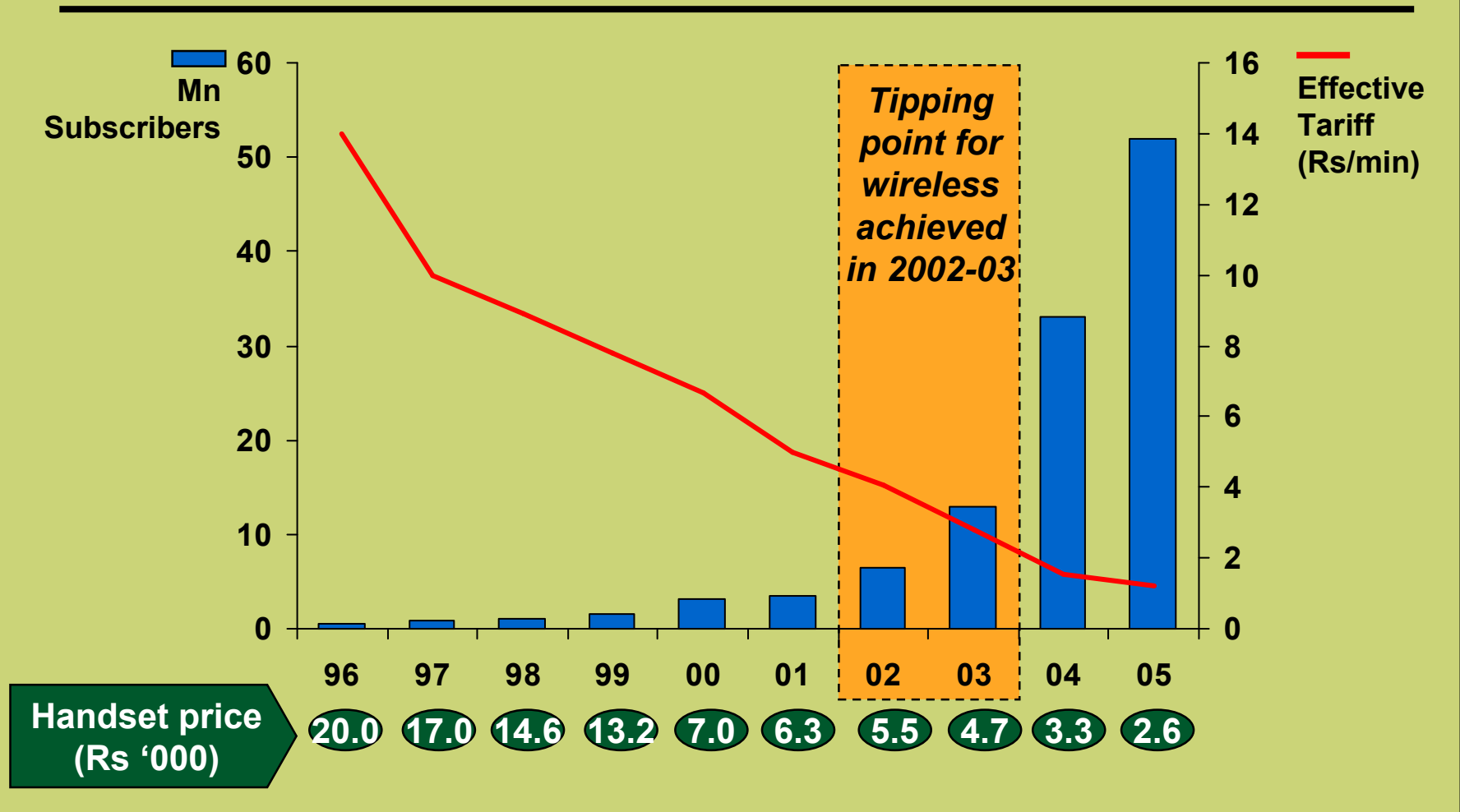


How can banks shift the threshold?

- *Low cost distribution channels / new innovative products*
- *MFIs/SHGs are a step in the right direction*

IS THERE A LESSON IN THE WIRELESS STORY?

India wireless subscribers vs Tariffs (1996-2005)



“IN-SMALL-STORE” BANKING USED IN BRAZIL FOR LOW-INCOME OR UNBANKED CLIENTS



For the customer

- Access to service previously inaccessible
- More people come into the formal system – leading to a reduction in corruption



For the Bank

- Costs become totally variable (and very low)
- Capillarity is increased, esp. in poor or rural areas
 - leverages merchants' extensive reach
- Narrow product offering
 - mostly bill payments
 - also withdrawals & deposits, simple loans
- Appealing, friendly channel
 - branches can be intimidating to non-banked or low-income
- Low-income clients and non-clients moved away from traditional branches – liberating sales time



For the Merchant

- Increased store traffic
- New revenue stream from financial services
- “Marginal logic”

IN-SMALL-STORE BANKING VERY DIFFERENT FROM MORE TRADITIONAL BANK-RETAILER PLAYS

Focused on small shops, low-end

Geographically dispersed

Mostly enrolled “in bulk” through shop- owners associations or other means

Small retailer is primarily a transaction channel for low-income

- Retailers are not partners in the business
- Incentives include transaction fees and increased store traffic

Marginal use of retailer’s own operation

- Not manned by bank

IN-SMALL-STORE BANK BRANCH EXAMPLE (I)



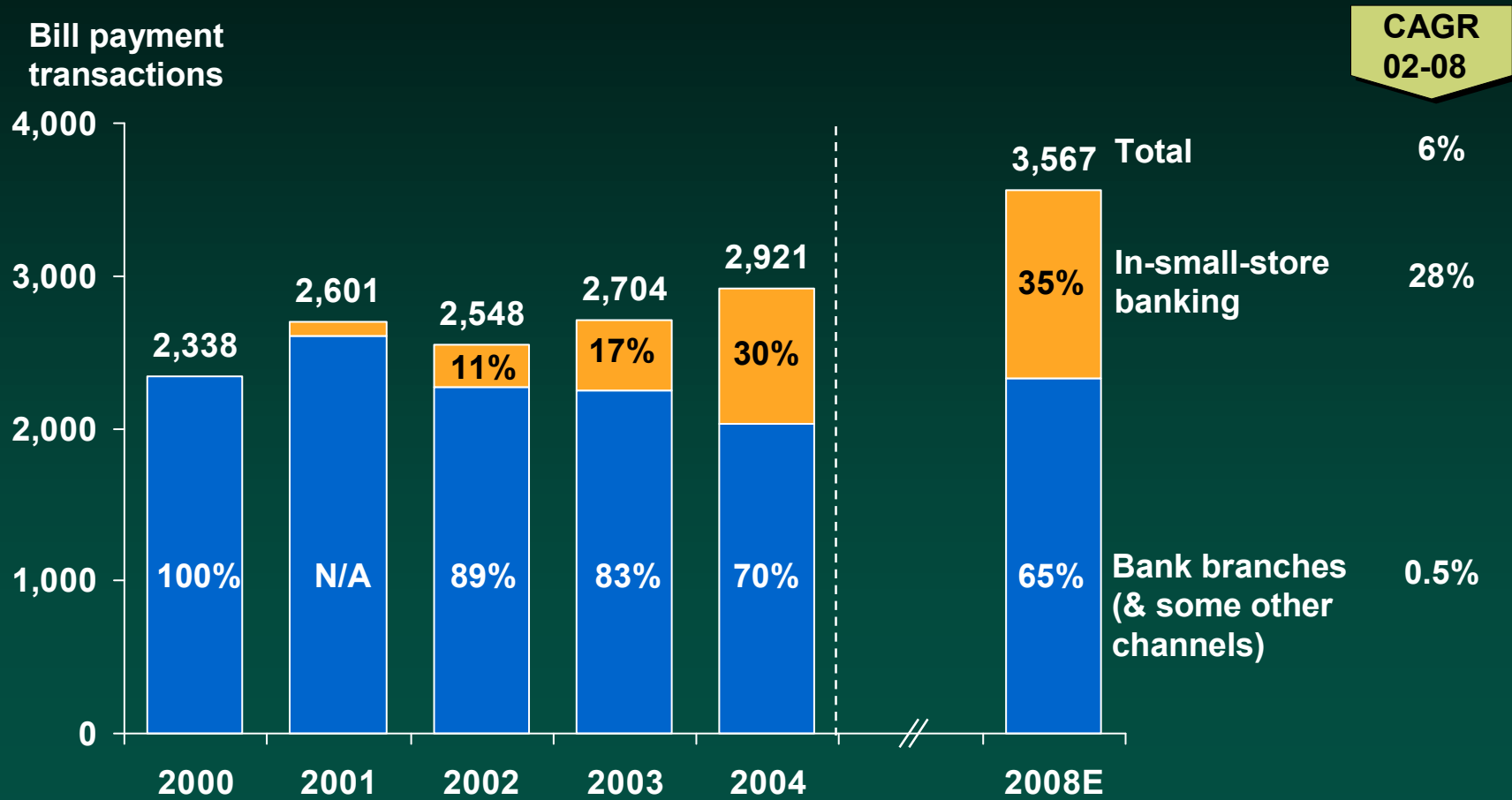
IN-SMALL-STORE BANK BRANCH EXAMPLE (II)



IN-SMALL-STORE BANKING IS VERY SUCCESSFUL

Bill Payments 30% Share in 4 Years

Bill payment transactions by channel (2000-2004)



ALL BIG BANKS HAVE AGGRESSIVELY EMBRACED IN-SMALL-STORE BANK BRANCHES SINCE 2001

Network profile



CEF

- 12.400 stores (5.561 cities)
- 2,2M new clients
- 90M transactions/month
- Started on Dez/2001 focusing on lottery shops, supermarkets, pharmacies, bakeries, public notaries



Banco Postal

- 5.400 stores (4.626 cities)
- 2,3M new clients
- 20M transactions/month
- Started with a partnership with the Post Office in Mar/2002



Banco Popular do Brasil

- 5.500 stores
- Supermarkets, pharmacies and bakeries



Lemon Bank

- 3.750 stores
- Bakeries, supermarkets, pharmacies

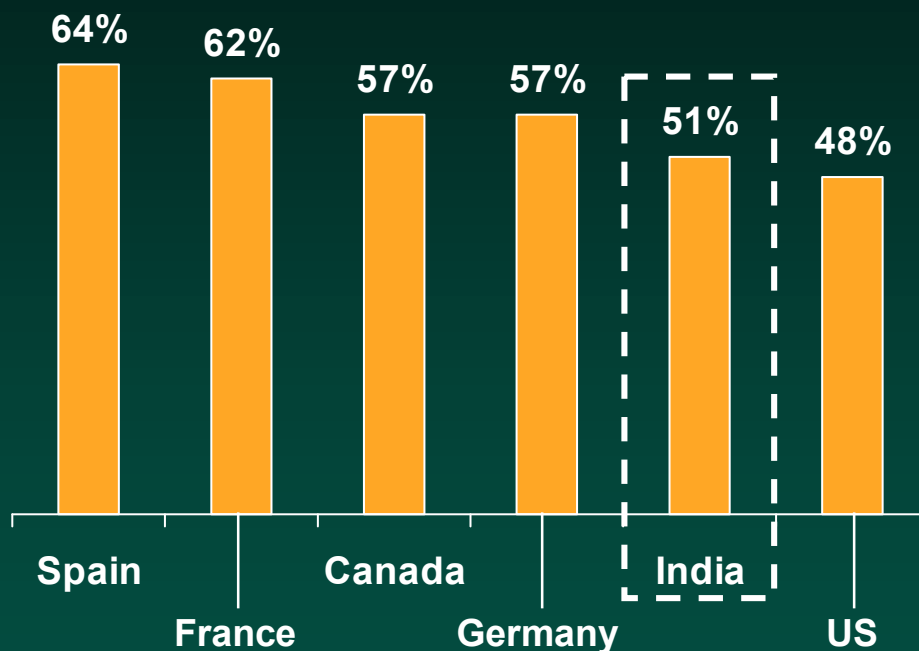


ABN Real

- 398 stores
- Supermarkets, department stores, convenience stores, parking lots

SME IS AN ATTRACTIVE OPPORTUNITY

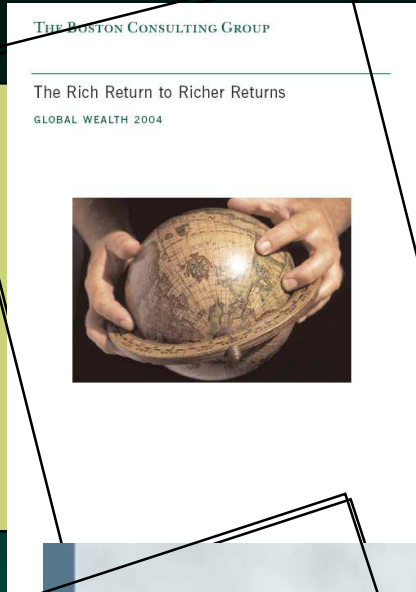
SME accounts for ~50% of the economy



... And are typically underserved

- Large corporates are attractive because senior management knows and interacts with their management
- Retail is attractive because of the appeal of advertising
- The SME segment falls somewhere in-between and gets neglected
- In the case of banking, the unorganised sector serves a large part of the SME segment – moneylenders, family friends, ...

WEALTH MANAGEMENT PRESENTS OPPORTUNITY GREATER THAN \$1 BN



- India among the top six wealth markets in Asia
- Over 500,000 HH with >\$100,000 AUM
- Total AUM at ~\$350 bn, up from \$290 bn, a year ago



- Among the highest growth markets, second only to Hong Kong
- Over 60,000 estimated high-net-worth individuals with investible assets > \$1mn

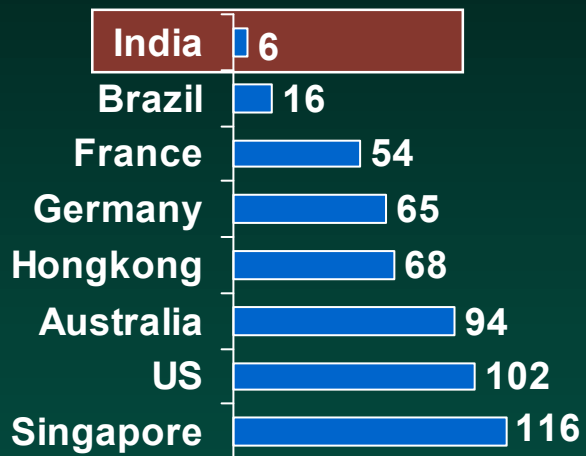
Potential revenues of \$1 bn

GROWING “SHARE OF WALLET”: A LARGE OPPORTUNITY

Example: Retail Loans, Credit Cards and Insurance

Retail loans

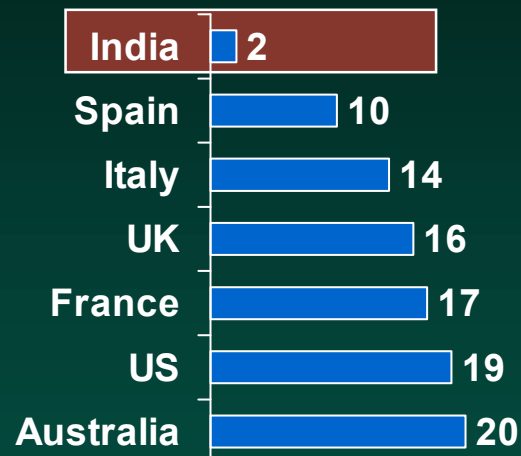
House hold credit as a % of personal disposable income⁽¹⁾



Total retail assets expected to grow from Rs 1.9 lac cr today to Rs 7 lac cr in 5 yrs (4x growth)

Credit cards

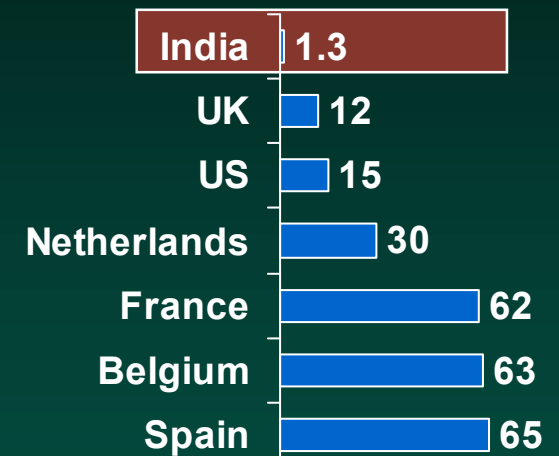
Credit card spend as a % of personal disposable income⁽¹⁾



Potential card spend to grow from ~Rs 45,000 cr today to ~Rs 170,000 Cr in 5 years (4x growth)

Insurance distribution

Bancassurance channel contribution (%) - Life



Potential commission income of over Rs 10,000 cr by 2010

(1) Income available for spending/saving after adjusting for taxes

MANY NASCENT SERVICES THAT CAN PROVIDE SUBSTANTIAL PROFITS FOR BANKS

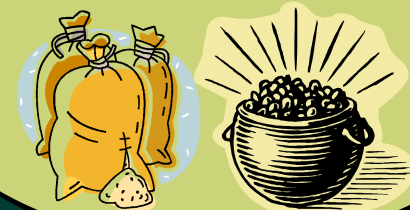
Payments



Derivatives



Commodities



Real estate



Securitisation



Venture capital



PAYMENTS – LOTS OF POTENTIAL CHEESE



Mr. Gupta, Mumbai
Family of 4,
well settled,
...



Cable



Driver salary



School fees



Newspapers bill

BSES energy

Milk

Rent to Landlord

Groceries

Buys shares/PF

Medicines

Cheques (8)

**Cash (4-5
withdrawals/
month)**

Bank revenues = 0

**Bank cost = Rs 360
(Rs 30 x 12 trans)**

CAN BANKS PARTICIPATE IN “BPO”?



Young, 26 years of age
Ambitious, working for rapid progress
High energy
Second year on job
Likely high churn 30%-50%

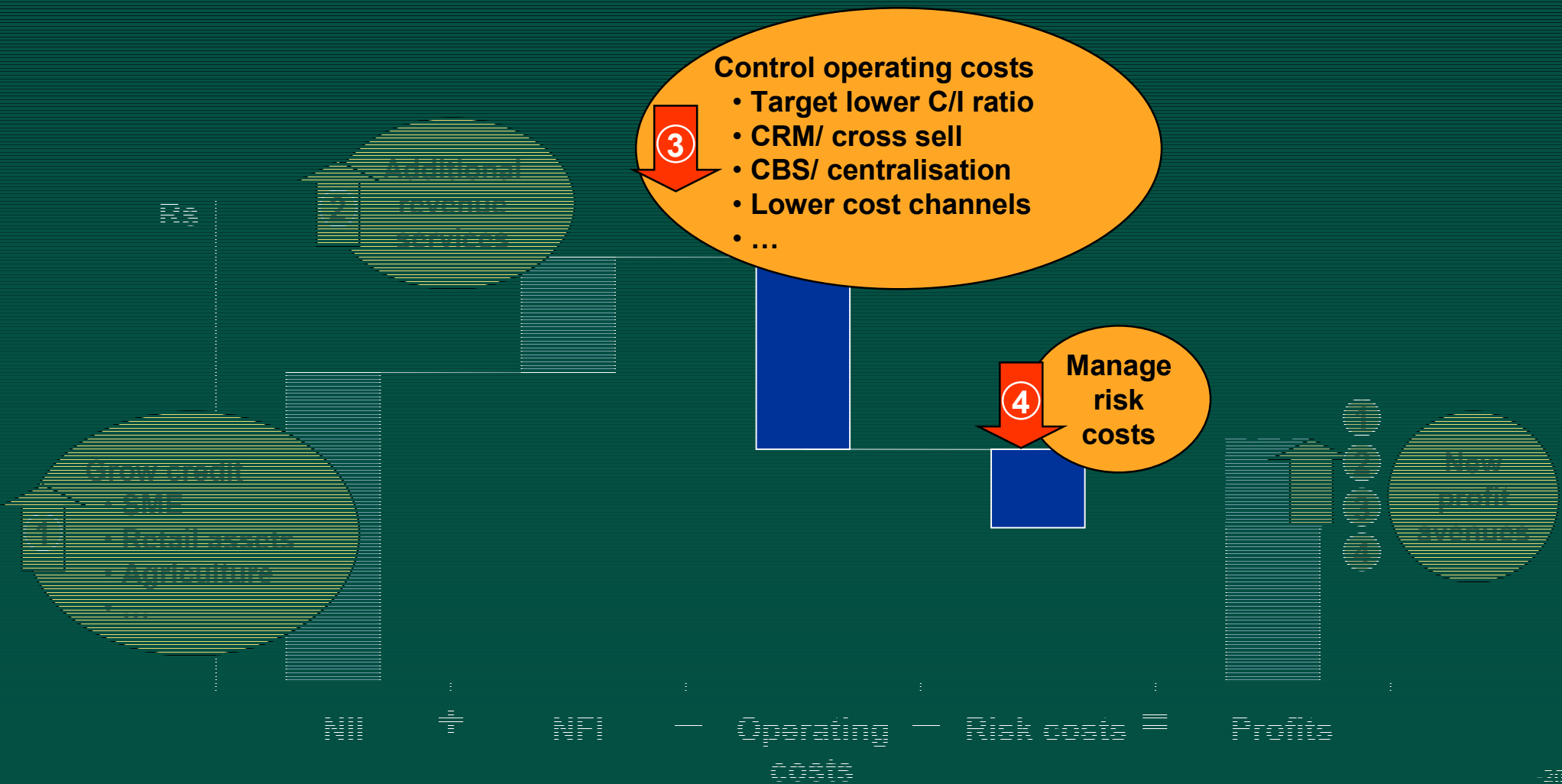


Mature 48 years old
Measured in expectations
Relaxed
26 years in banking
Likely low churn 10-15%

Can banks leverage their strengths to participate in BPO space – outsource “banking” activities

EVERY BANKING ACTIVITY IMPACTS NEW PROFIT AVENUES

Bank Profits



MANY CHALLENGES IN INDIA...

Customer



Value focussed



Information

Low ticket size
transaction



Organisatio

n



Mindset



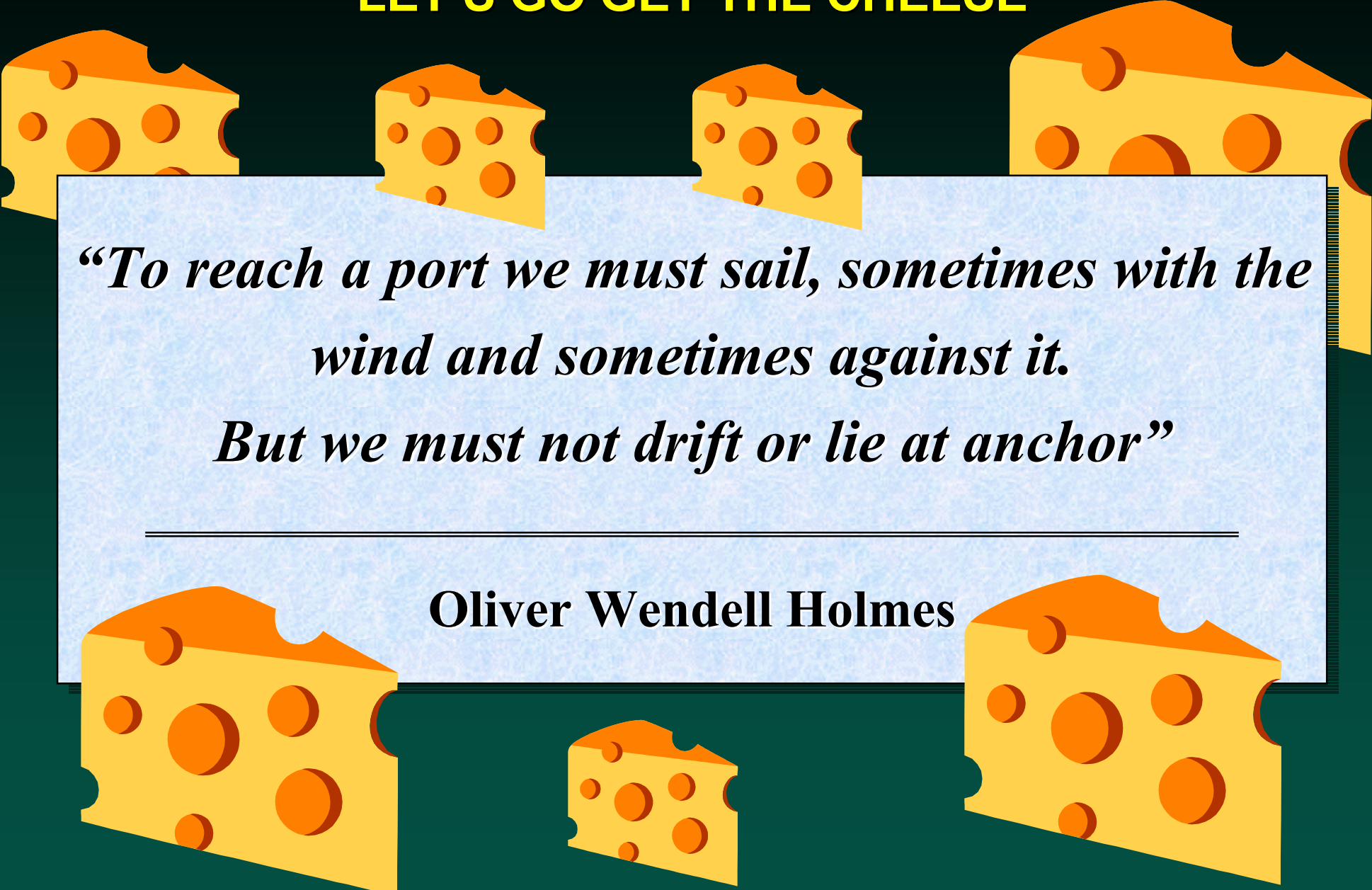
Capabilities

Systemic
constraints

... BUT LOTS OF CHEESE FOR THOSE WHO OVERCOME THESE CHALLENGES



LET'S GO GET THE CHEESE



*“To reach a port we must sail, sometimes with the
wind and sometimes against it.
But we must not drift or lie at anchor”*

Oliver Wendell Holmes

***** END OF DECK *****

NEW PRODUCT: PAYROLL-GUARANTEED LOANS HAVE GROWN TO 30% OF PERSONAL LOANS IN ~1,5 YEARS

Credits Collateralized by Payroll...

Repayments automatically withdrawn from payroll or pension benefit (have first claim) – principal guaranteed if severance payment occurs

- Much lower credit risk (very limited credit bureaus)
- Less bureaucratic operation

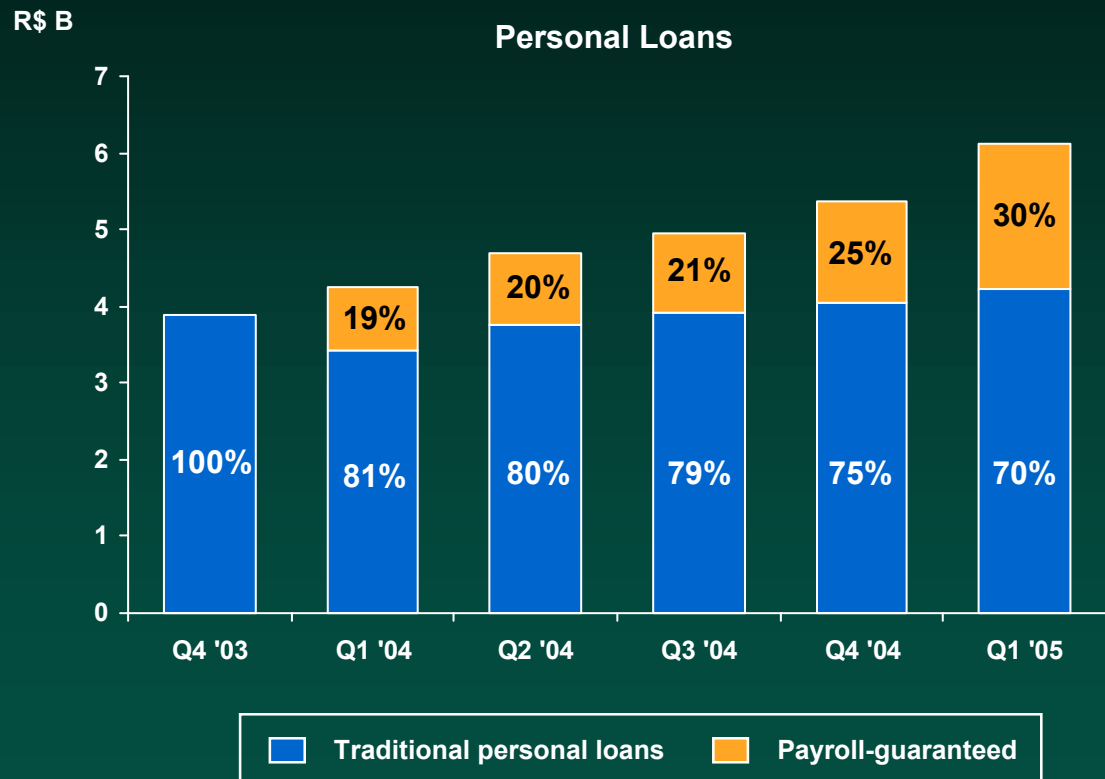
Client acquisition, typically “in bulk”

- Negotiated with employer (payroll-linked)...
- ...Or remotely via call-center (pension-linked)
- Much simpler and cheaper to acquire low-income clients

Major banks in Brazil predict this business could grow 10x in 5 years

- Introduced in Dec/2003

...Reached 30% of Total Personal Loans in 1,5 Years



Payroll-Guaranteed Loans Tapped a Vast Unmet Demand from Low-Income Clients