

GLOBAL MAJORS SENSE OPPORTUNITIES

A growing number of international banks and financial services players are seeking to establish a presence in India, or expand their existing operations. A report by **R Nagesh**.



INTERNATIONAL banks and financial services majors continue to seek a presence in India, a market that is increasingly being seen as robust, with a huge potential for growth, but at the same time well-regulated and monitored.

The ability of the Indian banking and financial services sectors to withstand a series of crises of global dimensions in recent years – including the Asian financial crisis of the 1990s and last year's international financial meltdown – has reinforced the belief that the country is a safe place for international banking majors to do business in.

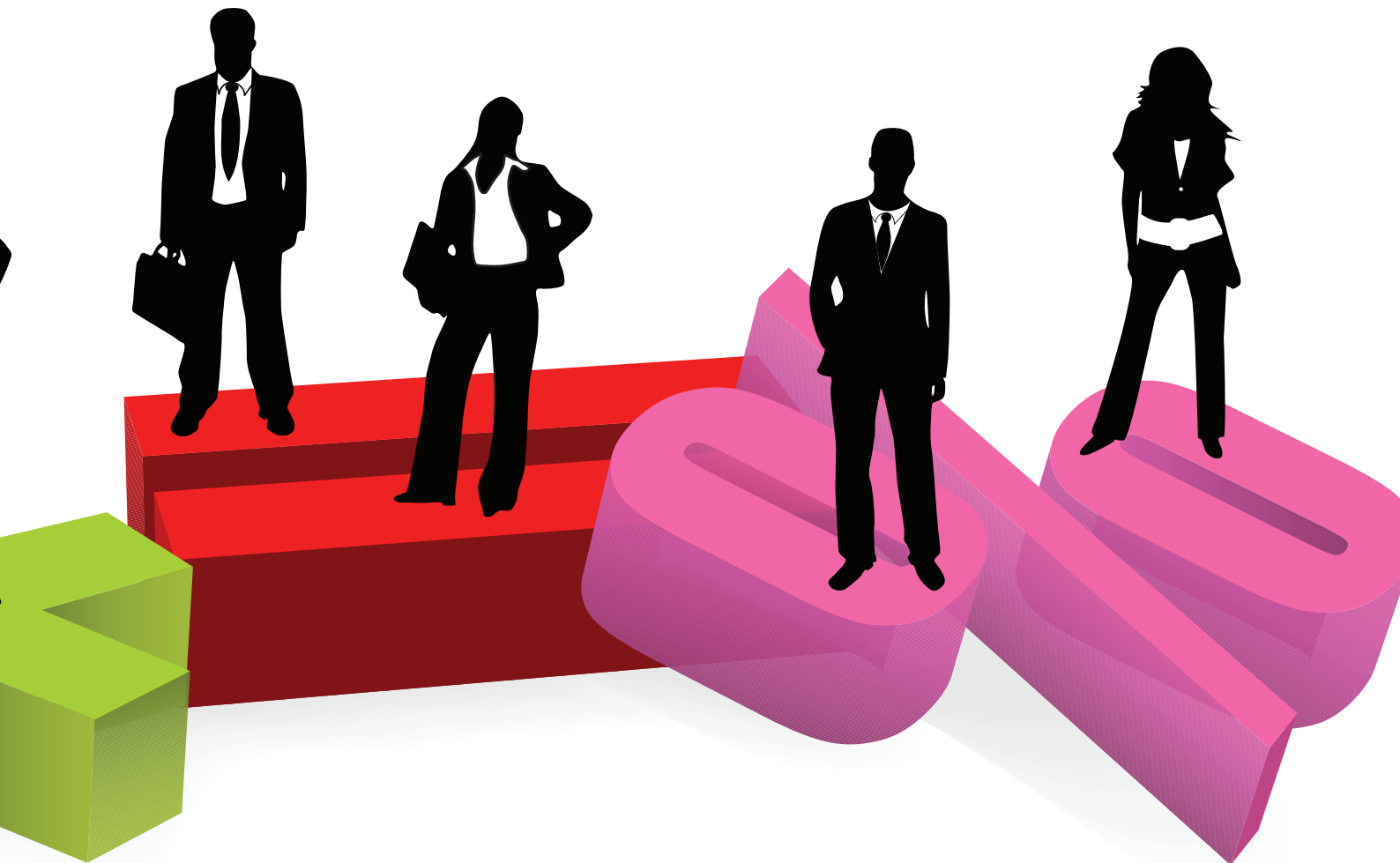
In addition to this, factors such as stable banking and financial services policies and practices, a huge untapped market for financial services, a rapidly globalising domestic industry – with several multi-billion-dollar international acquisitions signed in recent years – and the fact that India is one of the few major economies that continues to grow

at a brisk pace have drawn many leading foreign banks and financial firms to India.

According to the Reserve Bank of India (RBI) – the country's central bank – there were 32 international banks with nearly 300 branches operating in the country towards the end of June 2009. More than 40 foreign banks also had representative offices in the country in June 2009.

With India being a member of the World Trade Organisation (WTO), it has been meeting its obligations by allowing a minimum of a dozen new branches of foreign banks (the minimum required under the WTO obligations) to be opened every year. Almost 100 new branches have been opened by international banks over the last seven years.

The RBI has also been issuing new licences or granting in-principle approvals to international banks seeking to set up a presence in the country. The central bank issued licences to three new foreign banks in 2009 to operate branches in India; they



'FOR FINANCIAL SERVICES COMPANIES, INDIA PRESENTS A HUGE OPPORTUNITY TO TAP'

An interview with **Neeraj Swaroop**, regional ceo, India and South Asia, Standard Chartered Bank:

Several international financial sector players including banks are eager to set up a base in India, or expand their existing operations. What do you think are the reasons for the global interest in the Indian financial services sector?

Very few global corporations today can afford not to have India as a top priority market. The sheer size of the population, favourable demographics compared to the West, rising domestic demand, bouncing back of industrial growth, the continued momentum in the services sector, the huge investment in infrastructure required – India is now truly transforming itself to leverage the potential of its size.

Clearly, our time is now. Compare that with the slow growth, the impact of the recent financial crisis and ageing population in the western economies – India is the market to be in.

For financial services companies, India presents a huge opportunity to tap. If you were to look at the penetration of credit cards or mortgages or any other retail product and compare it with the West or some of the more advanced Asian economies, India still looks under-banked from a retail banking perspective.

Again, the pace at which Indian companies are expanding overseas – the Tatas acquiring Corus and Jaguar-LandRover, and Bharti buying Zain – also provides opportunities in the wholesale banking play.

International companies are now waking up to this opportunity called India. But for us, India has always been a top priority market. We saw this opportunity much ahead of the others. In 2000 when other banks were exiting India, we bought Grindlays and became the largest international bank in the country. Because of our focus we have grown our Indian



Neeraj Swaroop

business four-fold in the last four years.

What are your expansion plans?

Standard Chartered has been in India for 152 years. India has always been a top priority market for us. We are one of the few full-service international banks in India – that is, we offer every consumer or wholesale banking product that we offer our clients globally in India. In fact, because of our focus on this market, many of our products are actually piloted in India.

Our continued investment in people, products and capabilities has seen a sharp growth over the last four years. We will continue with this investment in the coming years. Private banking, which we launched in 2007, has grown rapidly and we continue to invest in relationship managers and product capability.

We have launched our Global Indian

product targeting NRIs in key cities across the world. We are expanding our ATM network by 100 in just Mumbai and Delhi alone. Our client base in the small and medium enterprises (SME) business has grown five-fold in the last three years and has ambitious plans to expand.

In wholesale banking, we are becoming a preferred bank in mergers and acquisitions (M&A) advisory and debt capital markets – we have participated in landmark transactions and have a robust pipeline of deals. We are continuing to grow the project finance business.

2010 is a year when we will turn our focus to equity capital markets to help our clients with equity-linked products like initial public offers (IPOs) and equity placements.

We have also acquired the American Express Bank business in India and UTI Capital Markets, now known as Standard Chartered Capital Markets. We will continue to look at inorganic opportunities within the current regulatory framework. We have infused US\$ 1.3 billion of capital into the Indian business in the last two years. In short, we will look at every opportunity in India to grow.

Are you planning to increase your headcount in India?

We are one of the few banks which have continued to hire despite the global financial crisis. To support our growth in India, we will hire around 2,500 more by end of 2010. In 2009, we recruited about 2,300.

Do you see growing consolidation in the Indian banking sector? Is Standard Chartered on the lookout for acquisitions in India?

The way I see it, despite India having a large number of banks, the country is still

heavily under-banked and the availability of banking services must be enhanced and evenly distributed with rural centres also adequately covered. Moreover, only a handful of the banks are internationally competitive and are capable of meeting the full banking needs of India's rapidly globalising corporate and retail customers.

Consolidation will help by creating a layer of large and sound banks that can compete on a global scale. Such banks would be well placed to support India's globalisation on the one hand, while as a larger player would enjoy the benefits of a wider network by expanding globally. It will provide Indian banks access to better resources, stronger distribution strength, well diversified and rounded product suite, and economies of scale. Larger, stronger players would also be better placed to address challenges such as financial inclusion.

Of course the creation and managing of large organisations will have its complexities, which must be managed carefully to leverage the benefits of consolidation.

Standard Chartered will continue to look for opportunities in India, but we are limited by regulation. We have acquired American Express Bank and UTI Securities, and Grindlays earlier, and these have been very successful acquisitions.

What further changes do you foresee in the banking sector in India?

India has adopted a gradual approach towards reforms marked by progressive de-regulation of industry and financial markets, and development of financial architecture to support free enterprise. This process has dramatically changed the business environment.

Greater foreign participation has brought in international best practices. Increased competition from global and private players has revitalised the public sector. The use of technology has enhanced efficiency and improved customer service. While several gaps remain, such as the development of a vibrant corporate debt market, the benefits of reforms have transformed the economy into a potential

global powerhouse.

The reforms have been complemented with moves to develop a sound institutional framework, which has helped the economy withstand shocks such as the Asian crisis of 1999, and the sub-prime crisis of 2007-2009.

International banks such as Standard Chartered are constrained by their footprint, but are leveraging their strengths to support financial inclusion. For instance, over the past year, Standard Chartered leveraged its debt capital market capabilities to help several Indian microfinance institutions raise about US\$ 45 million from the capital market.

We believe that future reforms in the financial sector will focus on consolidation to create globally competitive players that support the country's globalisation; better reach of financial services to under-banked areas including development of products that meet the unique requirements of rural customers; and a larger role for foreign banks, which despite a limited footprint, have a significant presence in the market and can play a more impactful role in India.

include FirstRand Bank of South Africa, Commonwealth Bank of Australia and Malaysia's CIMB Bank Berhad.

Earlier, in 2008, the RBI and the Monetary Authority of Singapore (MAS) signed agreements that enabled DBS Bank of Singapore to open eight additional branches in India (taking the total to 10), and the United Overseas Bank Ltd, Singapore, to launch its maiden branch in Mumbai.

DBS has unveiled a new strategic roadmap for India, with its focus on corporate clients, high networth individuals (HNIs) and the emerging affluent segments.

"We are at the beginning of what has been heralded as Asia's decade," says Piyush Gupta, ceo, DBS. "With a growing network in India, as well as other major emerging markets in Asia, DBS is well-positioned to ride the region's growth. DBS is the first and largest Singapore bank in India, and has enjoyed tremendous growth over the past five years.

With the rising middle class and with growing intra-Asia trade flows, we are excited about the opportunities.

Piyush Gupta,
ceo, DBS

With the rising middle class and with growing intra-Asia trade flows, we are excited about the opportunities ahead."

The bank, which plans to open two more branches – in Kolhapur in

Maharashtra and Cuddalore in Tamil Nadu – has seen its headcount in India grow by seven times over the last five years to 400.

The RBI continues to issue licences/in-principle approvals to other foreign banks. Australia and New Zealand Banking Group (ANZ) and Credit Suisse Group AG are the latest to have obtained the RBI's in-principle approval for starting branches in the country.

"This is an important step for ANZ as part of a long-term commitment to progressively rebuild our presence in India," says Alex Thursby, ceo, Asia-Pacific, Europe and America, ANZ. "There is a significant and growing economic relationship between Australia and India."

According to Thursby, India has become a global centre of excellence in technology and operations, and ANZ's Bangalore campus, which was established in 1989, now employs almost 4,500 people supporting its business in



FOREIGN BANKS IN INDIA

Abu Dhabi Commercial Bank Ltd
 American Express Bank Ltd
 Bank of America, NA
 Bank of Bahrain & Kuwait BSC
 Mashreq Bank PSC
 Bank of Nova Scotia
 Bank of Tokyo Mitsubishi UFJ Ltd
 Citibank N.A
 Deutsche Bank
 Hongkong & Shanghai Banking Corporation Ltd
 Royal Bank of Scotland
 Societe Generale
 Sonali Bank
 BNP Paribas
 Barclays Bank p.l.c
 DBS Bank Ltd
 Bank Internasional Indonesia
 Arab Bangladesh Bank Ltd
 Standard Chartered Bank
 State Bank of Mauritius Ltd
 Bank of Ceylon
 Cho Hung Bank
 Chinatrust Commercial Bank Ltd
 Krung Thai Bank plc
 Antwerp Diamond Bank N.V
 J P Morgan Chase Bank
 Mizuho Corporate Bank Ltd
 Oman International Bank SAOG
 Calyon Bank
 CIMB Bank Berhad (Malaysia)
 Commonwealth Bank of Australia
 FirstRand Bank Ltd

Source: Reserve Bank of India

Australia, New Zealand and Asia.

About 10 years ago, ANZ – which was then known as ANZ Grindlays Bank – sold off its assets in India to Standard Chartered Bank. The group now wants to re-establish a presence in India, which has become a strategic priority for it, as part of its objective to become a super regional bank focussed on Australia, New Zealand and the Asia-Pacific region.

The foreign bank licence will allow ANZ to provide a wide range of retail and wholesale banking services in India. It aims to set up its first branch in Mumbai

over the next 12 months. The group currently offers non-banking financial advisory services in India through ANZ Capital Pvt Ltd.

Credit Suisse also has a similar background in India. The international finance major received in-principle approval from the RBI in March 2010 to establish a bank branch in Mumbai, enabling it to substantially expand the range of services it offers in the Indian market.

Once established, the Mumbai branch will be able to accept deposits and use

its balance sheet to provide financing to clients, complementing the capabilities of Credit Suisse's non-bank financial company in India. The license will also permit the bank to deal in Indian Government securities, other domestic fixed income products and foreign exchange.

"This is a key pillar of our Asia-Pacific strategy of developing our onshore presence in major markets throughout the region," notes Kai Nargolwala, ceo, Credit Suisse Asia Pacific. "We believe that having a local banking presence will enable us to build stronger relationships



Deutsche Bank, Mumbai

with our clients and meet more of their needs. Credit Suisse views India as a key strategic growth market for the bank globally.”

According to Mihir Doshi, ceo, Credit Suisse India, the bank will be able to provide a much broader range of solutions to its domestic and international clients, facilitating the flow of capital and investment into India. The bank is active in wealth management, investment banking and asset management in India, serving high net worth, corporate and institutional clients.

It is a leader in Indian equity brokerage and research through Credit Suisse Securities (India) Pvt Ltd, which has a broker dealer licence in the Bombay Stock Exchange and National Stock Exchange. Credit Suisse also holds a merchant banking licence for investment banking activities and a portfolio management licence for its wealth management business from the Securities and Exchange Board of India (SEBI), the capital market regulator.

Credit Suisse’s investment banking team has doubled in size since 2007;

India is a key pillar of our Asia-Pacific strategy of developing our onshore presence in major markets throughout the region.

Kai Nargolwala,
ceo, Credit Suisse Asia Pacific

the bank has more than 40 employees in wealth management and has been aggressively hiring relationship managers.

It also has two centres of excellence in Pune and Mumbai employing almost 3,600 people, providing IT, operations, financial accounting and human resources

services to its businesses globally. It also has staff providing legal and compliance tasks, risk management, investment analysis, data gathering and analytics modelling to its global private banking, investment banking and asset management divisions.

Credit Suisse acquired a non-banking finance company (NBFC) in 2008 and made a US\$ 203 million capital infusion to it in January 2009, enabling it to support key clients with its balance sheet in local currency. It has also been active in private equity in India, investing around US\$ 240 million through different funds.

Additionally it has won and executed many significant equity capital market mandates in India in the last 18 months, including the US\$ 750 million combined Global Depository Receipt (GDR) and Convertible Bonds issue by Tata Motors; the US\$ 108 million GDR issue by Suzlon Energy; the US\$ 575 million Qualified Institutional Placement (QIP) offering for Unitech; and the US\$ 150 million QIP for Lanco Infratech.

Another international financial major that is keen to leverage its existing



strengths in India by opening a commercial bank is Goldman Sachs. The US-based financial giant operates an investment banking unit, has a licence for an asset management business and is keen to start a bank, says Brooks Entwistle, ceo and managing director, Goldman Sachs India. It has applied to the RBI, seeking a commercial bank licence.

Another US-based financial powerhouse, Citibank, also has ambitious expansion plans for India. "We see the commercial banking space as a tremendous opportunity for Citi in Asia and in India and we are committed to growing our presence in this space where today, we have over 200,000 clients across Asia Pacific," points out Gaurang Hattangdi, head, commercial banking, Asia-Pacific. "The new integrated commercial bank provides us with a superior ability to serve customers ranging from small and mid-sized companies, their owners and employees and the entire breadth of the firm's market-leading corporate and wealth management products via a unified operating platform."

Citi India recently launched an integrated commercial bank to serve

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head, commercial banking,
Asia-Pacific, Citibank

the business and professional, small and medium enterprises (SME) and mid-market enterprise (MME) segments, besides introducing several new consumer products.

German banking major, Deutsche Bank AG, is also expanding its presence in India. The bank launched retail operations

in Ludhiana in Punjab and Moradabad in Uttar Pradesh in April 2010, taking its network in India to 15.

"Ludhiana is one the premier cities of Punjab and we are delighted to offer our world class financial and advisory services in this vibrant market," explains Gunit Chadha, managing director and ceo, Deutsche Bank, India. "We will offer appropriate solutions to meet the increasingly sophisticated financial needs of the discerning corporate and individual clients based in Ludhiana."

Relatively new entrants, including Deutsche Bank and DBS Bank of Singapore, are increasingly focussing on tier-2 and tier-3 cities in the country. Deutsche Bank, for instance, has branches in cities such as Aurangabad, Kolhapur, Pune, Moradabad, Vellore, Salem, besides the metros (Mumbai, New Delhi, Bengaluru, Kolkata and Chennai) and in the satellite cities of Gurgaon and Noida.

International players are sensing the tremendous opportunities that are available in India and are exploring smaller cities and towns where demand for financial services products – ranging from plain vanilla to esoteric ones – is growing. 🌱