

UKIBC Case Study

ICICI Bank

Market Entry

India's ICICI Bank UK PLC started its international business in 2002. Since entering England and Wales in 2003, the bank has experienced great success. Here, Anubrata Biswas, the bank's UK Retail Banking Manager talks about the reasoning behind the expansion.

"In 2002 we were at a fairly unique cusp, simply because almost all of our revenues were from India itself, which was obviously an economic story which we didn't see any downsides to. But there was a clear need to diversify revenue streams. There were opportunities in India to do this, for example the rural story which is there even today. But there was also a need to diversify beyond the country, as we were inherently carrying the country risk. So in 2002 we asked ourselves, if we have to diversify, where can we go and what other business can we focus on? I think our most important strategy at that time was to focus on competencies, and not full banking services in any and every country. From that arose several important business streams. We focused on one of our key competitive advantages, which was our linkage to India, and our understanding of the Indian consumer. That in itself gave rise to one particular business stream, which is the 20m Indians across the world, and the opportunity to provide financial services to those Indians.

The second was that we realised India was growing extremely fast. In 2002 the GDP growth rate hit something like 7.5%. Corporate India now had a far cleaner balance sheet to ten years previously. Debt as a proportion of total assets was far lower, efficiency measures were far better and in some ways better than many of our global counterparts. Just as we felt the need to diversify revenue streams, there was a clear need for Indian corporates to also go overseas, and diversify revenue streams, and exploit their full competencies, which they had developed in the Indian market.

The third area competency we decided we had which is still being proven is that in India the cost of our operations was far, far lower than developed markets across the world. As a simple metric, the costs of our operations and technologies were really a tenth of that of developed markets. But obviously that was a necessity as a pose to something which we consciously built, simply because the size of transactions are 1/10th that of the developed world. So in order to build a profitable business in India, your cost of operations need to be substantially lower than that of developed markets. That obviously has further implications because for example in rural India the transaction sizes are 1/10th that of urban India. So in order to have a profitable business in rural India, certain best practices

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emerge, and scale advantages which you can reproduce in developed markets. So this third strand of exploiting the competitive advantage of technology and operations was something which we believed would result in extremely profitable sustainable business in developed markets.

As a starting point we mapped the key pockets of Indian population across the globe. There are really four points of Indian population - the USA, UK, Middle East and Far East. We obviously believed that it was opportune to establish ourselves in these areas. Then it was a matter of how much control we had over the local regulatory framework, to understand what the mode of entry should be. In the UK, we felt much more comfortable opening a subsidiary. And given that the UK was obviously a natural hub for all Indian corporates, wanting to expand overseas, the UK became a first pillar, a first port of entry to the developed world. Across all developed markets, we have only two subsidiaries, one in the UK, and the other in Canada, as the regulatory frameworks are conducive towards having a subsidiary.

ICICI's factors for targeting markets abroad were primarily the number of Indians, (the remittance business), and secondly the companies which were setting up. Next we looked at being able to exploit the progress we have made in terms of costs of operations. For example our savings account. Our savings account is a purely online savings account. Today 95% of people who open a savings account with us are mainstream UK consumers, of which we now have over 125,000. In that sense we are much more a British bank than an Indian bank, in terms of consumer size. The advantage we have is that our technologies and operations are built upon our competitive strengths back in India. For example our operations are completely offshored in our Indian operations base. Our technology is really built around our codeworking systems which have been developed in India. So the cost advantage which we have is simply transferred back into better value for the consumer.

That value is through interest rate. We believe that is a source of considerable competitive advantage. We are able to hold better interest rates for a longer period of time, compared to, if you look for a relative perspective, the Bank of England base rate. And consumers have really appreciated that value. Today that business is around \$4bn, which is a significant driver of ICICI's balance sheet in the UK. Today the entire retail liability base is 50% of the bank's balance sheet, which for a bank which is around four years old, would be extremely unique across global banks which have just set up."

Whilst the bank benefits from demonstrated success in the consumer market, ICICI have played an influential role in many of the influx of cross border investment from India to the UK. Of all the transactions originating from India in terms of outbound overseas transactions, last year the bank participated in roughly 60 to 65% of them, whether leading on the transaction or in a syndication. ICICI's success has come by focusing on competencies and offering value to segmented target markets.

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Relationships play a significant role. Mr Biswas explains, "There is no avoiding the fact that long established relationships – at a personal as well as professional level – play an important part, but ICICI's success in part comes from its ability to modify the organisation. The entire approach is very different to an investment banking traditional approach. It's much more a corporate banking approach. Today the Corporate Banking group is not called that – it is called the Corporate and Investment Banking Group".

So how have these strategic changes influenced their work in the UK? It's all a matter of geography and personal service. "Of the 20m Indians around the globe" Mr Biswas states, "there are 1.3m Indians in the UK. Out of these, there are high concentrations in certain areas. To that extent we have built a complete business model around the offering of physical infrastructure face-to-face services. Today we have ten branches across the UK. Including Birmingham, Leicester, Manchester, Leeds, Coventry, East Ham, Southall, Wembley, and Knightsbridge".

"The entire business model of the branches is orientated towards generating fees from transaction-led services, for example sending money to India. When sending money to India, again we have strong competitive advantages against any other player. The remittances market is roughly \$3.5 to \$4 Billion, and we have around 30 to 35% market share in that."

In this particular stream, for retail banks setting up in the UK, it typically takes 4 -5 years to break even. But retail banking as a business for ICICI has broken even in 2.5 years. That's unique, globally.