EXPLOITATION OF INFORMATION TECHNOLOGY BY NEW GENERATION PRIVATE SECTOR BANKS

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Abstract: When the country's regulator opened up the banking sector for private players, a slew of investors queued up to seek banking licence. The staid regulator, namely the Reserve Bank of India (RBI) selected a few of them, typically impeccably and fastidiously. Among the cherry-picked were ICICI Bank, HDFC Bank and Axis Bank. All the three arrived on the scene almost at the same time and hit the ground running straightway. Each knew the other two would be breathing down its neck and hence it was going to be a dog-eat-dog race for them. They realised that they should differentiate their products and services from their rivals to remain relevant and afloat. The only way out for them was to innovate for success by delivering information and communication technologies (ICT)-driven products and services to their customers. The core banking solution (CBS) came in handy for the banks to hit the ground running and retain and grow their customer base. Typically, only one could win the race. In this case, it was HDFC Bank that emerged the winner, going by the researcher's analysis of the data extracted from the annual reports of the banks concerned andthe web site of the RBI. The researcher concluded, upon analysis of the banks' secondary data, that Axis Bank needed to pull up its socks in the employee cost space. However, it had done better than the rest in the reserves or retained earnings space. In the post ICT adoption phase, the banks had done well as a whole but this commonality notwithstanding, one could still outperform the rest through superior exploitation of ICT-driven innovations in the banking products basket and banking services basket.

Key words: CBS; cherry-picked; dog-eat-dig race; fastidious; ICT; innovate; licence; staid.

1.1 Theoretical background of the topic

New generation private (commercial) banks arrived in the country in the early 1990s and true to expectations, hit the ground running. The almost simultaneous advent of three such banks, namely, Axis Bank, HDFC Bank and ICICI bank, among others, explains why they preferred to hit the ground running -- the early bird catches the worm. Sooner these players realised that it was only a pre-match warm-up. The actual battle lay ahead . To stay ahead of the rest in the race, they had only one weapon on hand, namely, information communication technologies-driven (ICT-driven) services and products. The weapon would help them differentiate themselves in the products and services space and thus widen their customer base.

1.2 Statement of the problem

With all the three players hitting the ground running and hoping that they can stay ahead of the rest by exploiting ICT, one is not sure how successful each has been in the endeavour; nor is it clear how well each has performed comparatively; nor does one know whether the overall performance of the individual players has to be examined for the purpose; or for that matter, only the relevant performance indicators have to be examined. Axis Bank arrived in 1994 and embraced IT in the year 2000. HDFC Bank arrived in 1995 and embraced IT in the year 1999. ICICI Bank arrived in 1994 and embraced IT in the year 1998. For the purpose of this research, the researcher has deemed the year of introduction of core banking solution (CBS) as the year in which the banks embraced IT.

1.3 Review of literature

1. To honour the requirements of the modern market and serve tech-savvy customers, financial services institutions have to go for a paradigm shift, states the researcher (Madhavi, 2017). A growth strategy based on state-of-the-art technology and business agility should be at the core of the said shift. But the industry has to overcome a few major hurdles for the purpose. The on-boarding exercise is still involved, relatively. This is because at the back end, banks have to perform multiple activities. A single unified customer view is conspicuous by its absence. This is because banks store data in different siloed systems. Most of the customer-facing activities are still paper-driven. A robust and agile platform that can synchronise multiple systems and ensure consistent user experience across different touch points and improve business agility is amiss.

2. Banks have been trying to make the transition and push towards cashless and mobile banking as smooth and as seamless as possible for their customers and for themselves (Delshad, 2016). The odds have been against them though. Lack of banking infrastructure, low level of smartphone penetration and the typical weakness for cash on the part of the Indian customers are surely among the said odds . The State Bank of India avers that it will be more aggressive in its digital journey. A senior executive of the bank has a word of caution for those who automatically assume that the public sector behemoth is not adequately digital. She affirms that her bank is more digital than the rest. Referring to her bank's mobile wallet Buddy, she says that her bank is witnessing 5x more registrations on a daily basis. Buddy already has 5.5 million downloads to show against its name.

3. HDFC Bank is convinced that it is now reaping the benefits generated by the digital transformation it has been driving over the years (Delshad, 2016). Recalling the tagline "Go digital: Bank Aapki Muthi Mein" that it coined and popularised a couple of years ago, a senior officer of the bank said that the bank had simplified the products at the back end by then. Digital

transactions rose from 44 percent in 2012-13 to 71 percent in 2015-16, consequently. Describing this as a booster shot, the officer said that the bank's payment app PayZapp had been witnessing between 19,000 and 24,000 downloads every day since demonetisation. There had been a 2x rise in the demand for POS terminals from merchants and that includes self-employed individuals like doctors and lawyers.

4. ICICI Bank announced on Sep 8, 2016 that it had deployed 'Software Robotics' in over 200 business processes across various functions of the bank (ICICI Bank, 2016). The bank is the first in the country to deploy 'Software Robotics'. The latter emulates human actions to automate and perform repetitive, high volume and time-consuming business tasks cutting across multiple applications. The software robots have reduced the response time to customers by up to 60 percent and raised accuracy level to 100 percent. It has thus raised the bank's productivity and efficiency. It has also helped the bank's employees to focus more on value-added and customer-related functions. The software robots now execute over 10 lakh banking transactions every working day. Retail banking operations, agri-business, trade and forex, treasury and human resources management are among the 200 business process functions. The bank has implemented the 'Software Robotics' platform mostly in-house, exploiting the recent advancements in artificial intelligence like facial and voice recognition, natural language processing, machine learning and bots among others.The software robots are ringing in superior operational efficiency, higher accuracy and a massive reduction in processing customer requests. With its retail banking growing at over 25 percent annually, the bank is better positioned to handle larger volumes with the same resources.

5. ICICI Bank's software robots will capture and interpret information from systems, recognize patterns and run business processes across multiple applications to execute activities including data entry and validation, automated formatting, multi-format message creation, text mining, workflow acceleration, reconciliations and currency exchange rate processing (ICICI Bank, 2016). Fully automated and round-the-clock 'Touch Banking' branches, tab banking, banking on Facebook and Twitter, contactless debit and credit cards, 'Pockets', a digital bank on mobile phone and 'iMobile SmartKeys', a payment service using a smartphone keyboard are amongst the technology-driven innovative services introduced by the bank. As of June 30, 2016, ICICI Bank serviced its large customer base through a multi-channel delivery network of 4,451 branches, 14,073 ATMs, call centres, internet banking (www.icicibank.com), mobile banking, banking on Facebook & Twitter and 'Pockets'.

6. To remain competitive, banks need to set aside a larger budget for online initiatives. The online initiatives they can launch are digital ads, content marketing and search engine optimization (Jon, 2016). The investment will fetch new customers and enhance brand recognition. Banks need to put in place a long-term strategy of building relationships with customers and integrating their bank in the online space. With the help of the Search Engine Optimization (SEO) tool, banks can ensure that their they figureon the first page of Google search results when someone searches for banks in the city the banks operatein. Ground reality reveals that at least half of the traffic comes through organic search, with people just clicking on links through Google or another major search engine. Content marketing helps given that when customers search online, they are looking for content that answers their queries and provides them with value. By regularly churning out articles on topics that customers appreciate, banks will be able to generate more traffic from search engines and thus encourage people to engage with its website. The content could convey information to, say, homebuyers or announce a rise in interest rates. With the digital advertising tool, banks can advertise online. This tool makes it easier to target specific demographics and personalize the message the banks want to convey. For the banks, the data collected from such campaigns comes in handy to optimize advertisements and thus get a lot more bang for their buck. Banks can also use the email newsletter to keep the people engaged with their brand. Banks should include relevant but interesting articles in the newsletters. Email is invariably read by the recipients since most of them check their inbox at least once a day. Email newsletters help build brand loyalty and upsell products. Last but not least, banks should ensure that their websites are user-friendly and mobile friendly. Most millennials conduct a web search before making a 'buy' decision. Given that mobile searches surpass desktop searches these days, banks should ensure that the information the customers seek can be easily found on the mobile site with minimal effort. Simply put, banks need to grow beyond traditional forms of advertising, like TV or newspaper advertisements.

1.4 Research gap

The reviewed literature makes an interesting read. As one researcher rightly observes, to meet the requirements of the tech-savvy customers, banks have to go out of the way for IT-driven innovation. Banks have indeed been trying to make the transition and push towards cashless and mobile banking as smooth and as seamless as possible for their customers and for themselves. Some banks have already started reaping the benefits engendered by digital transformation. The new generation private banks, in particular, Axis Bank, HDFC Bank and ICICI bank arrived almost at the same time and embraced ICT too almost simultaneously . However, none knows which of the three banks has benefited most from this transformation. The reviewed literature is almost silent about it. It is this gap the present study proposes to bridge.

1.5 Scope of the present study

The study confines itself to Axis Bank, HDFC Bank and ICICI bank

1.6 Objectives of the study

The objectives of the study are to:

1 Ascertain the trend in employee cost in the respondent banks, upon embracing IT
2 Ascertain the growth of net profit in the respondent banks, upon embracing IT
3 Assess the growth in reserves of the respondent banks, upon embracing IT

1.7 Research design

1.7.1 Research methodology

The study is descriptive in nature and has used the 'fact-finding' survey method

1.7.2 Sources of data

The study is based only on secondary data. Secondary data has been collected from the audited annual reports of the respondent banks and from the web site of RBI.

1.7.3 Data processing and analysis plan

Data has been processed and the financial performance of the banks gauged, by applying the metrics relevant to the banking industry

1.8Trend in employee cost, net profit and reserves of the respondent banks

In the following paragraphs, the trend in employee cost, net profit and reserves of the three respondent banks is captured. As said in an earlier paragraph, Axis Bank arrived in 1994 and embraced IT in the year 2000. HDFC Bank arrived in 1995 and embraced IT in the year 1999. ICICI Bank arrived in 1994 and embraced ICT in the year 1998. Hence the performance indicators reckoned for the research relate to the period 2000-2017.

1.8.1Trend in employee cost of the respondent banks for the period 2000-2017

Upon embracing ICT, banks should be in a position to right-size their workforce given the productivity of the ICT infrastructure they have installed in their bank. Additionally, banks do not have to replenish their workforce as much as they used to, in the past. Hence the following Table and Figure capture the trend in employee cost of the respondent banks in the post-ICT adoption phase.

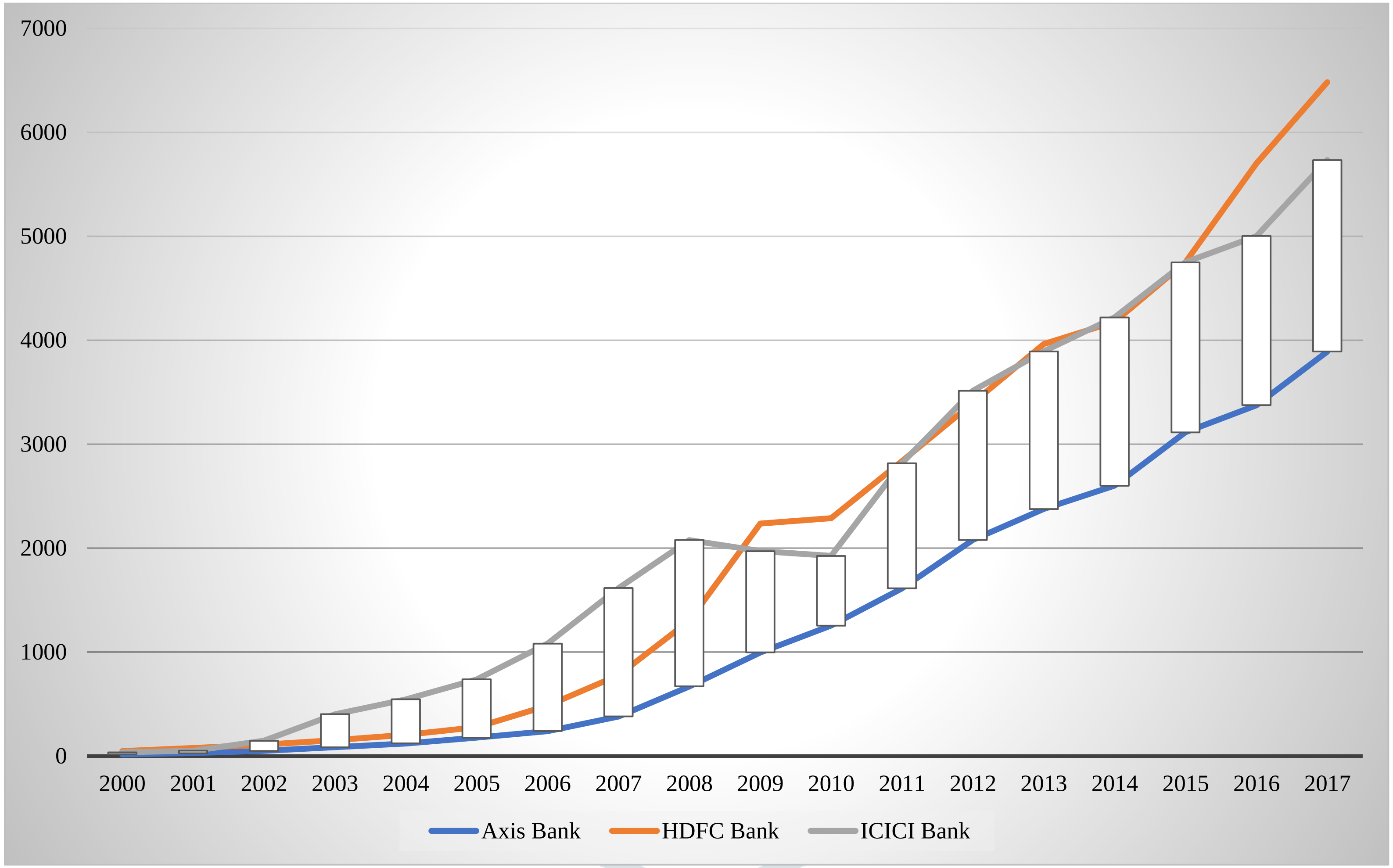
Table-1
Trend in employee cost of the respondent banks (in INR Crs)

Year	Axis Bank	HDFC Bank	ICICI Bank
2000	15.43	48.53	36.37
2001	28.52	78.00	51.71
2002	49.57	109.24	147.18
2003	85.23	151.95	403.02
2004	121.25	204.09	546.06
2005	176.85	276.67	737.41
2006	240.20	486.82	1,082.29
2007	381.35	776.86	1,616.75
2008	670.25	1,301.35	2,078.90
2009	997.66	2,238.20	1,971.70
2010	1,255.82	2,289.18	1,925.79
2011	1,613.90	2,836.04	2,816.94
2012	2,080.17	3,399.91	3,515.28
2013	2,376.98	3,965.38	3,893.29
2014	2,601.35	4,178.98	4,220.11
2015	3,114.97	4,750.96	4,749.88
2016	3,376.01	5,702.20	5,002.35
2017	3,891.86	6,483.66	5,733.71
CAGR (%)	38.45	33.37	34.67

(Source of secondary data: Annual Reports of the banks)

Figure-1

Trend in employee cost of the respondent banks (in INR Crs)



(Source of secondary data: Annual Reports of the banks)

It is clear from the foregoing Table and Figure that HDFC Bank as well as ICICI Bank clocked more or less the same compounded annual growth rate (CAGR) around the 34 percent range. However, in the case of Axis Bank, the employee cost grew at a CAGR of 38.45 percent.

Hence, relative to HDFC Bank and ICICI Bank, Axis Bank performed rather poorly in the employee cost space.

1.8.2Net profit growth of the respondent banks for the period 2000-2017

Upon embracing ICT, banks should be in a position to raise their business in volume terms and value terms too. After all, the ICT infrastructure must have provided the springboard for a spurt in the net profit growth of the banks. Additionally, the marginal cost incurred by the IT-driven banks to achieve business spurt must be minimal. Hence the following Table and Figure capture the trend in net profit of the respondent banks in the post-IT adoption phase.

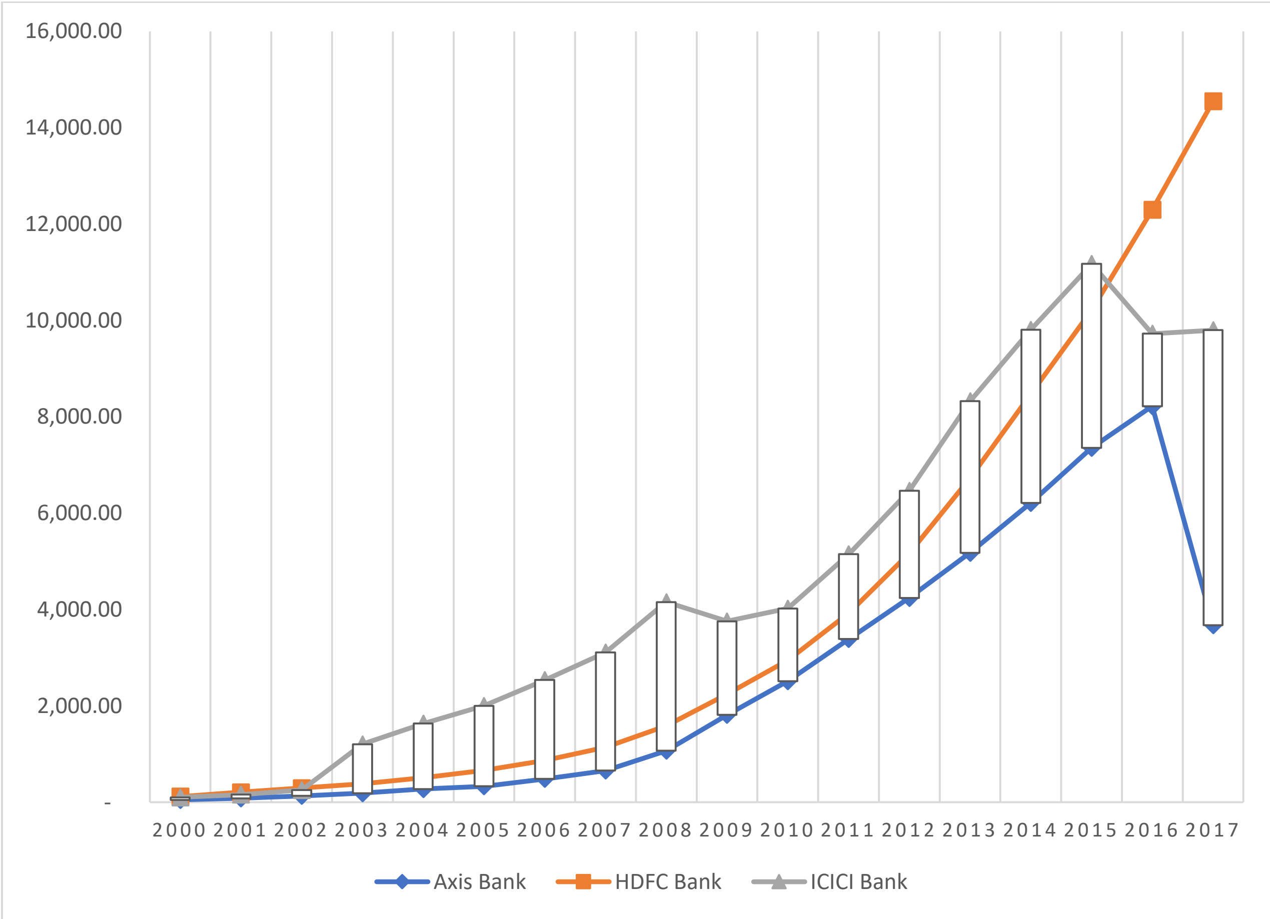
Table-2
Net profit growth of the respondent banks for the period 2000-2017 (in INR Crs)

Year	Axis Bank	HDFC Bank	ICICI Bank
2000	50.93	120.04	105.30
2001	86.12	210.12	161.10
2002	134.14	297.04	258.30
2003	192.18	387.60	1,206.18
2004	278.31	509.50	1,637.09
2005	334.58	665.56	2,005.20
2006	485.08	870.78	2,540.07
2007	659.03	1,141.45	3,110.22
2008	1,071.03	1,590.18	4,157.73
2009	1,815.36	2,244.95	3,758.13
2010	2,514.53	2,948.69	4,024.98
2011	3,388.49	3,926.39	5,151.38
2012	4,242.21	5,167.07	6,465.26
2013	5,179.43	6,726.28	8,325.47
2014	6,217.67	8,478.40	9,810.48
2015	7,357.82	10,215.92	11,175.35
2016	8,223.66	12,296.23	9,726.29
2017	3,679.28	14,549.66	9,801.08
CAGR (%)	28.63	32.61	30.56

(Source of secondary data: Annual Reports of the banks)

Figure-2

Net profit growth of the respondent banks for the period 2000-2017 (in INR Crs)



(Source of secondary data: Annual Reports of the banks)

The Table and Figure make it clear that HDFC Bank registered the highest rate of net profit growth at 32.61 percent followed by ICICI Bank which clocked 30.56 percent. Axis Bank recorded the least net profit growth rate at 28.63 percent.

HDFC Bank registered the highest rate of net profit growth at 32.61 percent in the post IT adoption phase.

1.8.3Growth in reserves of the respondent banks for the period 2000-2017

Upon embracing IT, banks were able to achieve a net profit spurt and consequently, a spurt in reserves or retained earnings too. After all, reserves or retained earnings raise the net worth of the bank. Hence the following Table and Figure capture the trend in the growth of the reserves or the retained earnings of the respondent banks in the post-IT adoption phase.

Table-3

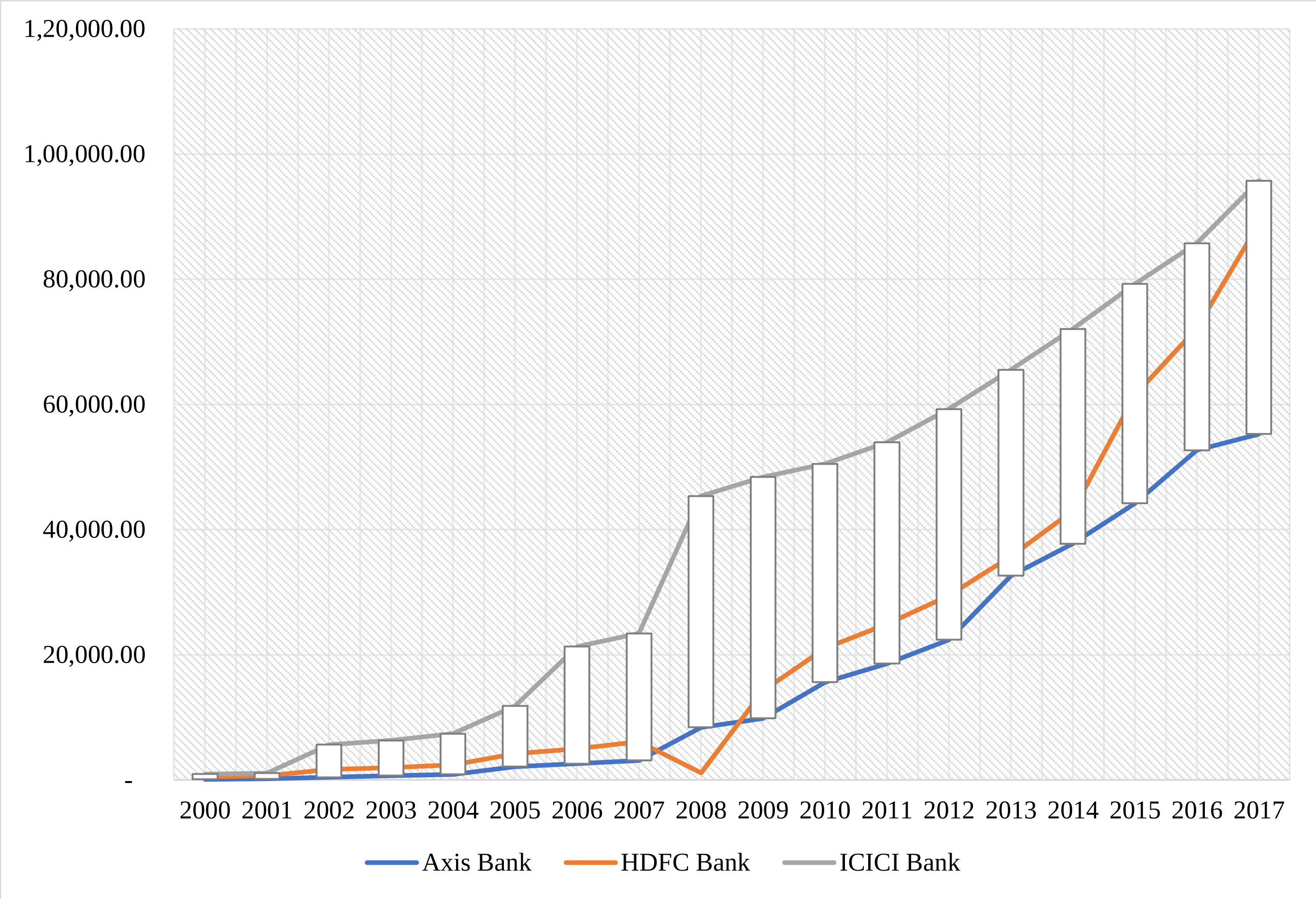
Growth in reserves of the respondent banks for the period 2000-2017

Year	Axis Bank	HDFC Bank	ICICI Bank
2000	107.64	508.24	952.69
2001	169.55	669.49	1,092.26
2002	422.95	1,669.96	5,635.54
2003	687.92	1,969.69	6,320.66
2004	906.47	2,408.54	7,394.16
2005	2,134.39	4,210.40	11,813.20
2006	2,593.50	4,986.39	21,316.16
2007	3,111.60	6,113.76	23,413.92
2008	8,410.79	1,142.80	45,357.53
2009	9,854.58	14,220.95	48,419.73
2010	15,639.28	21,061.85	50,503.48
2011	18,588.28	24,911.13	53,938.83
2012	22,395.34	29,455.04	59,250.09
2013	32,639.91	35,738.26	65,547.84
2014	37,750.65	42,998.82	72,051.71
2015	44,202.41	61,508.13	79,262.26
2016	52,688.34	72,172.13	85,748.24
2017	55,283.53	88,949.84	95,737.57
CAGR (%)	44.36	35.50	31.15

(Source of secondary data: Annual Reports of the banks)

Figure-3

Growth in reserves of the respondent banks for the period 2000-2017



(Source of secondary data: Annual Reports of the banks)

The Table and Figure make it clear that HDFC Bank and ICICI Bank are breathing down each other's neck in their reserves or retained earnings space in value terms. However, in terms of rate of growth of reserves or retained earnings, HDFC Bank is ahead at 35.50 percent against ICICI Bank's 31.15 percent. Strangely, Axis Bank is ahead of both these banks in the rate of growth in the reserves space or retained earnings space by notching up an impressive 44.36 percent. However, in value terms , ICICI Bank was ahead of the rest of the banks in the reserves or retained earnings space by clocking INR 95,737.57 crores closely followed by HDFC Bank which clocked INR 88,949.84 crores. Axis Bank lagged the two, notching up INR 55,283.53 crores.

Axis Bank is ahead of both these banks in the rate of growth in the reserves space or retained earnings space by notching up an impressive 44.36 percent although in value terms its reserves or retained earnings stood at the lowest of the three at INR 55,283.53 crores.

1.9 Summary of the findings

The following Table reflects a summarized version of the findings arrived at by analyzing the secondary data.

Table-4

Summarized version of the findings relating to the period 2000-2017

Metrics	Axis Bank	HDFC Bank	ICICI Bank
Employee cost CAGR(%)	38.45	33.37	34.67
Net profit CAGR(%)	28.63	32.61	30.56
CAGR of reserves(%)	44.36	35.50	31.15

1. Employee cost rose to the highest level in the case Axis Bank by breaching the 38 percent mark during the period under review. It was the least in the case of HDFC Bank – the CAGR was 33.37 percent.

2. In the case of ICICI Bank, the employee cost rose at a CAGR of 34.67, which was at least one percent ahead of that of HDFC Bank.

3. In the net profit CAGR space, each bank bettered the other by around two percentage points, in a manner of speaking. The net profit CAGR of ICICI Bank was ahead of the net profit CAGR of Axis Bank by approximately two percent. The net profit CAGR of HDFC Bank was ahead of the net profit CAGR of ICICI Bank by approximately two percent.

4. In the reserves CAGR space, Axis Bank easily outperformed the other two banks, by clocking a whopping 44.36 percent – almost nine percent ahead of HDFC Bank and easily 13 percent ahead of ICICI Bank.

1.10 Recommendations

1. Axis Bank should pull its socks up in the employee cost space.

2. HDFC Bank has performed better than its two remaining peers in all the three spaces, namely, employee cost CAGR, net profit CAGR and reserves CAGR.

3. When viewed in the backdrop of HDFC Bank's performance, one can easily infer that the rise in net profit of ICICI Bank has not been commensurate with the rise in its employee cost. With an employee cost CAGR of 33.37 percent, HDFC Bank was able to achieve a net profit CAGR of 32.61. In the case of ICICI Bank, the employee cost CAGR was higher at 34.67 and the net profit CAGR of 30.56 percent was markedly below that of HDFC Bank. It is time the ICICI Bank took serious note of this anomalous outcome and found out where it went wrong.

4. The reserves CAGR of 44.36 percent registered by Axis Bank is welcome but one is not sure whether this resulted from a serendipitous development or from a planned and anticipated move. If it was the latter, it is time the bank persisted with this plan / strategy since the plan / strategy has paid off.

1.11 References

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