

# IDFC will be able to carve a niche for itself in banking space, says Rajiv Lall

Public sector banks have covered the rural areas in an 'ineffectual kind of way'

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Rajiv Lall says two recent developments will help IDFC target clients in two extremes — corporate India and the base of the pyramid — as it transitions to a bank.

On the base-of-the-pyramid business, the new Government's backing for Aadhaar, the unique identification number, will be critical. "What this means is that we can use the infrastructure that has already been built on the Aadhaar backbone to sift and acquire customers much more easily than before, with much less paperwork. That is a very important positive development for our plans for Bharat," says the Executive Chairman of IDFC.

The other development is RBI's recent circular specifying guidelines for issuing long-term bonds by banks for financing infrastructure projects and affordable housing, and exemption from regulatory requirements such as cash reserve ratio (CRR), statutory reserve ratio (SLR) and priority sector lending (PSL).

Infrastructure lending would have become unprofitable as IDFC would have had to account for these requirements once it became a bank. Now, the RBI circular eases

that burden. "We can continue to build on our strengths in the infrastructure space. The infrastructure lending business would become important for us to cross-subsidise the build out of the consumer bank and the Bharat bank," Lall said.

## What's cooking?

IDFC's strategy as a bank initially will be to build on its strength in the corporate market, get its share of urban India and simultaneously reach out to the base of the pyramid, according to Lall. "Then, over time we will fill the middle," he told *BusinessLine* here recently.

IDFC was one of the two companies that got the RBI's nod to set up a bank; the other being the West Bengal-based Bandhan Financial Services Pvt Ltd. Both have time till October 2015 to obtain all approvals and fulfil various regulatory requirements to set up the bank. Lall, who will head the bank, said IDFC might be in a position to roll out the bank a couple of months earlier than October 2015. "We will probably do a soft launch... It is so important to ensure that every system is working right," he said.

It is working on two parallel tracks for launching the bank.



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**RAJIV LALL**  
Executive Chairman, IDFC

One is to make sure that all regulatory compliance issues are sorted out and the other is the operational issues, right from defining the strategies of various parts of the bank in a more granular fashion, to hiring people.

## What's in a name?

What will be the bank called? "It will just be called IDFC Bank. No need to be very adventurous and spend a lot of money on consultants who will do a deep psychological study on what the name should sound like, so that it resonates with every Indian, and so on. We are okay with a relatively simple IDFC Bank," Lall said. Lall is confident that

IDFC will be able to carve a niche for itself, despite the presence of a few well-established private sector banks. His optimism stems from the fact that the financial system keeps growing at 15-20 per cent annually and in a country with a population of 1.2 billion people, there are a large number of people, who he feels, are getting frustrated that they are not getting the financial services they deserve.

"You will find that some banks will cater to SMEs (small and medium enterprises) more, other banks will cater to large corporates more, some will cater to the base of the pyramid, some will be more rural."

One of the conditions laid down by RBI for the licence is that at least 25 per cent of the branches have to be in unbanked rural areas with a population up to 9,999 people. Will that be an issue? Not at all, says Lall. "We will definitely do more than that," he says. "We are doing it because we know that it is going to be profitable business for us," he adds.

He feels that if at all the public sector banks have covered the rural areas, they have done so in an "ineffectual kind of way." IDFC will come up with all kinds of lending products for the rural population. After all, the poor need credit, the MSMEs need credit and they don't have access to it, adds Lall.

Will not the transformation into a bank, take away the very purpose — to exclusively finance infrastructure — for IDFC being set up? Will not its infrastructure lending take a hit? "I don't think it will suffer. In relative terms, it will be less," he says, adding, "as the great John Maynard Keynes used to say, when the facts change, I reserve the right to change my mind."

Just because IDFC was set up to finance infrastructure, it doesn't necessarily mean that it will be true for eternity, according to him. "What the reality of the experience has taught us is that a mono-line financial services business in a country as complex as ours and subject to so much regulatory risk, is a dangerous thing to build from a risk management perspective.

"In financial services, diversification is critical to long-term stability and sustainability, and, therefore, the logic for a bank is incontrovertible," he says.

But aren't there others who continue to focus only on infrastructure? Lall counters this by saying that those players never had the ambition to be listed and they have become small, niche players. Niche players can remain small. If your ambition is no longer to be a niche player, and to become larger and more significant, then diversification becomes key, he adds.