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# ICICI Bank: Tapping The Rural Market

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## ABSTRACT

In the year 2017, finance ministry of Haryana (one of the states in India) on the directives of RBI, instructed the banks to start additional rural offices in Haryana. Among the private banks ICICI bank was one of the banks who meet this target, even major nationalized banks like PNB, BoB, CBI, Corporation Bank, IDBI and OBC could not meet their target. A senior manager working with a national bank and handling the senior position expressed that starting a branch in rural area incurs an additional cost of INR 150 thousand every month which would require at least 8,000 accounts with them to meet this expense and to find such amount of business (accounts) in a small population of around 5,000 was a really a difficult job. However, ICICI bank, despite being a private bank, was able to meet its target. So, how was ICICI bank able to convert the rural market which was considered as an unprofitable segment into a business opportunity? What were the challenges in delivering and sustaining the banking services in rural areas? How could lending money to the low-income group segment be financially viable for banks? The primary focus of the case is on how ICICI bank converted the rural market into a business opportunity as well as on the decisions that the bank must now take to accomplish the target of financial inclusion.

**Key words:** Service innovation, Indian banking system, Rural market.

## 1. INTRODUCTION

In India, there are 43 RRBs banks, 1484 urban cooperative banks, and 96,000 rural cooperative banks, as well as cooperative credit institutions and 12 public sector banks, 22 private sector banks, 44 foreign banks. Increasing rate of income of rural people will lead to increasing demand of banking services in villages resulting in the expansion of

banking sector. Further the use of mobile payments (digital payments revolution) will generate the major changes in the credit distribution system in India (Statista, 2020). Among the India's leading private banks ICICI Bank also holds the leading position with consolidated total assets of INR 13.77 trillion on March 31, 2020. It had a network of more than 21000 branches and ATMs across India (ICICI report, 2020).

## **2. MAJOR PLAYERS IN INDIAN BANKING INDUSTRY**

India had a well - built banking and financial sector and it was one of the most significant industries in India's economy. A lot of key reforms had taken place after independence, particularly in the year 1991. Many new practices had come up including the entire digitization of transactions. Banks had played a key role in this process of evolution of financial sector. The major players in Indian banking sector on the basis of their size were as follows (Ashwin, 2020).

### **State Bank of India (SBI)**

SBI, the largest Indian bank, was a public sector bank headquartered at Mumbai, Maharashtra, India. During year 2019-20, its net profit was INR 144.88 billion, and total assets were INR 39513.94 billion (SBI, 2020).

### **HDFC Bank**

HDFC bank was established in 1994 and had headquarters at Mumbai, India (Ashwin, 2020). During year 2019-20, its net profit was INR 262.57 billion and total assets were INR 15305.11 billion (HDFC, 2020).

### **ICICI Bank**

ICICI bank, a private sector bank, was instituted in 1994 and had headquarters at Mumbai, Maharashtra, India. It had total assets of INR 10983.65 billion and profit after tax of INR 79.31 billion for the year ended on 2019-20 (ICICI, 2020).

### **Punjab National Bank (PNB)**

PNB, a public sector bank, established on May 19, 1894, had headquarters at New Delhi. During year 2019-20 its net profit was INR 3.36 billion and total assets were INR 8306.66 billion (PNB, 2020).

### **Axis Bank**

Axis bank, a private bank, was established in 1993 (as UTI Bank) and had headquarters at Ahmedabad, Gujarat, India. During year 2019-20, its net profit was INR 16.27 billion and total assets were INR 9151.65 billion (Axis, 2020).

The other major players in Indian banking sector included Canara Bank, Bank of Baroda, Union Bank of India, IDBI Bank and Bank of India.

## **3. CHALLENGES FOR INDIAN BANKING INDUSTRY**

Indian banking sector was anticipated to develop rapidly reinforced by technology demanding processes and customer friendly models with emphasis on ease of transaction and cost effectiveness. The areas which required the consideration of banks looking for opportunities to achieve sustainable growth were as follows -

1. “The Next Billion” section of customers could appear as the largest in terms of numbers and this section was expected to draw attention to their requirement of low-cost banking services and new working models, bringing forward a huge market of small customers.
2. Branches and ATMs were required to grow by two times and five times respectively to supply the massive addition to bankable population. There was a need of execution of low-cost branch arrangements with smaller sized branches.
3. To decrease customer acquisition costs and better risk management, the banks were supposed to implement CRM and data warehousing in a foremost manner. It became necessary for banks to recognize and implement new technologies like, cloud computing and spend intensively in analytics based on big data.
4. Since the internet was available on a “24 by 7” basis, the banks required to significantly spend on suitable equipment and machinery and make sure that their service offerings were accessible round the clock with least downtime. The mobile penetration in the country gave an opportunity to be tapped (RBI, 2020).

#### **4. INDIAN RURAL MARKET**

In accordance with Reserve Bank of India, based on population, a center is classified as rural if its population is less than 10,000 while a center is defined as semi-urban if its population is between 10,000 and 100,000.

##### **Risks Faced by the Rural People**

The rural people in India faced systematic risks like fluctuations in weather causing crop failure, natural calamities, price fluctuations and other risks due to unexpected blows that briefly interrupt the capacity to produce income like, health events, death. People reduce risks by diversifying sources of income, building assets like land, house and gold (Bagchi, 2018).

##### **Constraints faced by Formal Financial Service Providers in Rural Market**

The financial services providers faced following constraints while responding to the demands of rural market. Most important challenge was in risk management because of lack of information about rural people.

The operational constraints included high cost of intermediation, small value transactions and requirement of intensive supervision. The transactions were cash intensive and cost of were high due to use of cash and staff costs.

Moreover, the difficulties with loan contract enforcement due to low collateral and unclear legal jurisdiction enhanced the risk for banks.

The private banks also faced competition from national banks' lower interest rates.<sup>19</sup>In the past, public-sector banks have faced a huge burden in running rural branches profitably because of higher cost per transaction in comparison to non – rural branches. However, efficient use of technology and low-cost banking channels could have helped them in bringing their rural branches into profit (Bagchi, 2018).

Therefore, to successfully provide banking services to rural people, banks need to pursue patterns that have the greatest possibility for expansion (Bagchi, 2018).

In contrast to these challenges, rural market provided different level of opportunities also. First, there was a rural opportunity to lend which can be done through sustainable operations. Then there was an opportunity in bridging economic needs. In second level, rural people would become savers and there will be need of financial instruments, be it deposits or any other instruments. A third rural push would be required when the villager had saved enough to become a consumer and fulfill their aspirations (Mint, 2007).

## **5. BANKING IN RURAL INDIA**

Banking in India had been more dedicated towards the higher income groups. To reduce this asymmetric access to banking, RBI, has introduced numerous programs to promote rural banking. The first was a project that needed banks to begin one rural branch for every three urban branches started. The RBI additionally operates a fully-owned subsidiary, the National Bank for Agriculture and Rural Development (NABARD), that provides loans to farmers, promotes banking in rural areas, and manages the funding of welfare programs.

To address the ineffective banking penetrations in rural India, RBI, through NABARD, initiated a project in 1991 for providing micro credit to the rural poor by connecting self - help groups (SHGs) with banks. The SHG (Self Help Group) - Bank Linkage Program persuaded state banks with rural branches to provide loans immediately to SHGs as opposed to leaving the responsibility of credit to MFIs (microfinance institutions) (Prahlad, 2005).

## **6. ICICI BANK AND RURAL MARKET**

The initiatives taken by RBI for banking penetration in rural market were considered by most financial institutions as developmental and, thus, non-profitable. Delivering credit to low - income farmers and starting costly rural branches was viewed as a loss-making proposition. ICICI bank viewed these reforms as an opportunity, but the question was

how to make it more sustainable, because previous models in rural market were not financially viable.

ICICI began retail banking in 1997 under a different and modifying regulatory regime therefore it was not concerned about legacy and could take the issue with innovative ideas. As ICICI initiated the banking operations toward the rural market, it entered the microfinance field because there was huge potential for credit in rural areas. Though the competitive situation was relatively crowded but the incumbents were striving to earn profits because they were used to work as sponsored and supported institutions. ICICI also took the role of social mobilization and financial intermediation through microfinance. Further, to increase its banking existence in rural areas the bank needed to grow its distribution points for which it partnered with established NGOs and MFIs in the field to avoid the costs associated with physical branch.

ICICI bank developed the following channels of distribution of banking services for rural market.

#### **Direct Access, Bank-Led Model**

ICICI bank purchased Bank of Madura which gave it the expertise of SHG as well as reach in the rural market in a relatively less time. An extra asset was the Bank of Madura's microfinance program which ICICI intended to develop aggressively (Prahlad, 2005).

#### **Scaling SHGs – Making Profitable**

When ICICI took over the Bank of Madura, the SHG plan was not economically viable. To make it profitable ICICI bank required expanding the number of SHGs without adding any cost. For this purpose, ICICI came up with a plain three-tier structure including a bank employee known as a project manager, the coordinator who was an SHG member and the promoters' whose main task was the creation of new groups (Prahlad, 2005).

The members who had shown leadership competence were instructed by the bank to become SSCs who formed new SHGs in neighboring villages. The development of group formation took five to six months. Within a group, a leader was selected along with two animators who shared the responsibilities of operating the group and maintaining the accounts. Proper documentation, particularly of the internal lending, facilitated the authorization process from the bank.

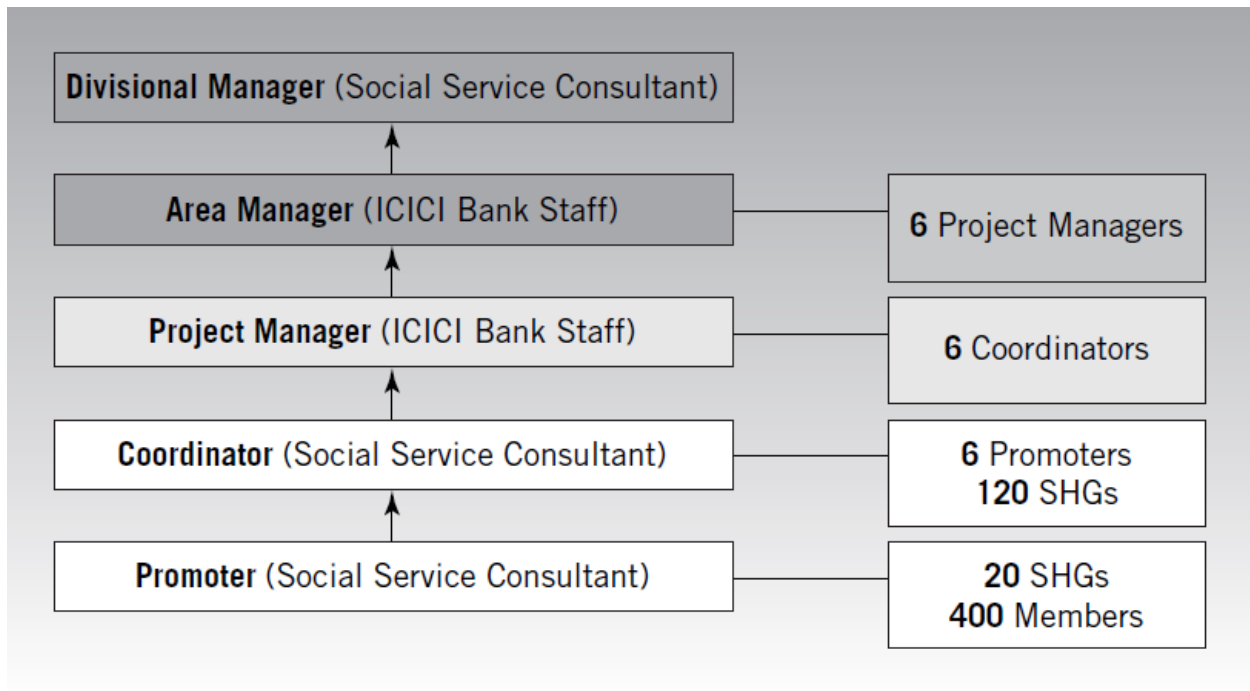


Figure 1: Pyramid structure of SHGs developed by ICICI bank, (Source: C K Prahlad, Fortune at Bottom of Pyramid, Pearson, 2005)

### Other Channels

In 2005, ICICI developed a strategy to fulfill the monetary requirements of rural customers by forming and delivering tailored services to different rural customer segments. It employed the model of Direct Sales Agents (DSAs), who worked as community sales associates for ICICI services such as insurance, vehicle loans, and mutual funds. This model avoided unprofitable branches in rural areas and reduced cost ineffectiveness that was due to small loan size for rural market. The bank additionally saw the concept as a desirable business prospect for rural businessman as it was a new profit-making venture and they might also benefit from their association with ICICI (Wadea and Lambert, 2008).

ICICI also opened 'Branch on wheels', a vehicle on which there exist a whole branch. It travelled every day to about four villages, at a specified time (Anand, 2014).

To penetrate into rural market ICICI bank merged with Bank of Madura, in 2001; merged with Sangli Bank in 1996 (The Hindu, 2006). In 2010, the merger of Bank of Rajasthan Ltd. with ICICI Bank Ltd. Took place (ICICI, 2019).

### Rural Marketing Strategies by ICICI Bank

The approaches implemented by ICICI bank can be summarized in following ways.

1. Achieve scale through strategic partnerships - ICICI bank developed the partnership with mutual fund institutions where, these institutions calculated the loan requirement of the client.<sup>18</sup>
2. Utilizing technology to reduce cost. It had partnership with different IT companies to develop communication solutions to MFIs which included front end support and back - end support.<sup>18</sup>
3. Comprehensive product suite - ICICI bank had developed the products that suit the needs of rural people like health insurance, weather insurance and livestock insurance.<sup>18</sup>
4. Action research - ICICI bank has conducted research in developing risk mitigants products for the poor and supported pilots to expand the boundaries of micro finance work. It has provided training support to fledging MFIs.<sup>18</sup>

## **7. SERVICE INNOVATIONS DONE BY ICICI BANK**

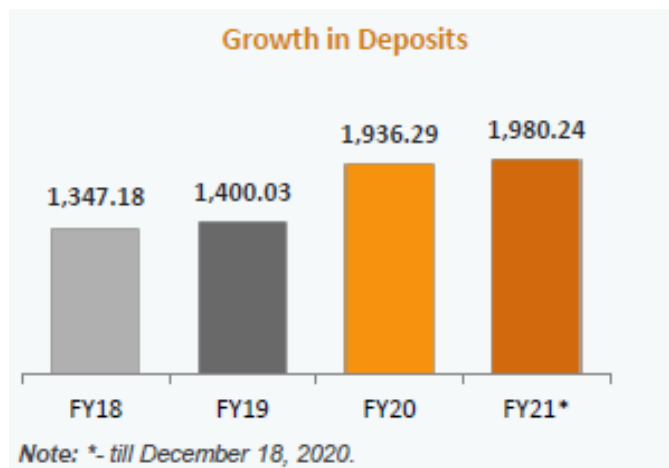
ICICI has developed following innovations in banking services particularly for rural market.

1. 'Mera iMobile' - In 2017, ICICI Bank introduced a mobile banking app, in eleven languages, for rural buyers that allowed them to enjoy banking related services and provided knowledge on agri-related services. The agri-related data included cropwise mandi prices of almost 230 crop types across 460 mandis and block-wise weather information for nearly 3700 blocks across and over 300 districts (ICICI, 2019).
2. In August 2015, ICICI Bank launched "ICICI Bank Saral-Rural Housing Loan" to provide home loans extending from Rs 5 lakh to Rs 15 lakh at base rate in rural areas.
3. In 2013, ICICI partnered with the State government for providing Aadhaar based payment system, so as to bring together pensioners under different schemes to one platform. To maintain transparency in distribution of pension, the bank deployed biometric testing to verify the pensioner against Aadhaar database (The Hindu, 2013).
4. In 2008, ICICI built the e-Commodity based Financing (eCBF), an advanced product which enabled funding against agricultural commodities to farmers and traders. It showed how Information Technology can reduce the cost of servicing loans shipments (CIO, 2008).
5. In February 2004, ICICI initiated a model in rural areas of Tamil Nadu to offer remittance services to rural customers through low-cost ATMs and rural kiosks.
6. ICICI introduced Tab banking for rural consumers, which allowed bank to reduce the time taken in opening an account or give a loan by capturing information and transmitting it immediately.

## 8. CONCLUSIONS

The banking sector in India is set to grow further because of government focusing on different reforms including digitization of banking services and financial inclusion through its schemes like PMJDY. ICICI has planned to penetrate rural market through different strategies including digitization, low - cost affordable technologies, direct banking model in form of SHGs and indirect banking through MFIs. One of the major challenges that ICICI bank is going to face is that other private banks like HDFC and Axis bank have boosted their number of branches in rural areas as these banks are also trying to take advantage of the large unbanked population. Moreover, will ICICI bank be able to set up and run effective sales and distribution channels for rural banking lending business and expand it up profitably? Will it be able to meet its objective of financial inclusion in India?

### **EXHIBIT 1 –GROWTH OF INDIAN BANKING SECTOR – DEPOSITS (US \$ billion)**



Source: Accessed on 29<sup>th</sup> Dec, 2020, <https://www.ibef.org/industry/banking-presentation>

### **EXHIBIT 2 – SELECTED FINANCIALS OF ICICI BANK**

	Deposits in billion INR (Indian National Rupee)	Total Assets in billion INR
FY13	2.93	5.34
FY14	3.32	5.95



FY15	3.62	6.46
FY16	4.21	7.21
FY17	4.90	7.72
FY 18	5.61	8.79
FY 19	6.53	9.64
FY 20	7.71	10.98

Source: “Annual Report and Accounts 2019-20”, accessed on October 28<sup>th</sup>, 2020, [https://www.icicibank.com/managed-assets/docs/investor/annual-reports/2020/Financial\\_Statements.pdf](https://www.icicibank.com/managed-assets/docs/investor/annual-reports/2020/Financial_Statements.pdf)

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