

# ‘All our attention is on organic growth’

As technology advances, the human connection becomes even more important, says **Shyam Srinivasan**, MD and CEO, Federal Bank. In conversation with **Venkata Peri**, Partner and Research and Insights Hub Leader at PwC India, Srinivasan throws light on the changing nature of banking.



Venkata Peri (left); Shyam Srinivasan (right)



## Excerpts from the interview

**Venkata Peri:** Hi, welcome to Immersive Outlook. We have with us Shyam Srinivasan, MD and CEO of Federal Bank, who will share his perspectives on banking and its future. You have had a very interesting journey in the banking world. Take us through the highlights of your journey – the highs and lows and the interesting detours.

### Shyam Srinivasan:

Thanks. You know, when I'm often asked this question, I try and see if there's any story to tell. I discovered that I became a banker because I was a bad engineer. Right after engineering, I started working with Lucas TVS as a graduate trainee, but I was quite sure that I didn't want to get stuck as an engineer or in that technical space. During my early days of graduate traineeship, I was keen to get into an IIM. The first time I appeared for the entrance exam, I found myself on the waiting list at 73. The admission procedure ended at 72. I told myself that I was almost there. I had to give it one more shot and that's how I made it to IIM-Calcutta. Even when I was at IIM-Calcutta, I wanted to get into banking.

One thing led to another, and I got into Wipro and worked there for over two years. Though I quite enjoyed my stint at Wipro, the

banking bug was always there in me. If you remember, in the late '80s and the beginning of the '90s, Citi was setting up its consumer unit in India and its headquarters was in Chennai. Many of my friends had already joined and somebody just gave me a call asking if I would like to be interviewed. I showed up there and was hired in under five minutes, not because I was good but because I played cricket all my life and I'm an obsessive cricket fan. I was a captain at IIM. The gentleman who interviewed me saw that I was a cricket captain and hired me. That's how I ended up being a banker. It's been one happy phase as a banker, and I've never looked back. In hindsight, I was always interested in learning about technology and that's probably helping me at the bank.


At Federal Bank, the mantra is 'digital at the fore, human at the core'. We're quite excited by the mantra and try to live up to it quite genuinely. The bank has been ahead of many other banks in adopting technology. In fact, ours is one of the few banks whose IT capabilities have been developed in-house.

I had earlier seen some of the foreign banks using technology to reach out as they had distribution weakness. Around the time I joined our bank, the board was quite inspired to make the bank a more prominent national player

from being a largely regional one. I think a combination of homegrown strength, my past experiences and the appetite for technology, the need to scale up and grow and be more prominent across the country and meet our growth aspirations, all sort of converged quite nicely.

As the years passed, we started framing our multi-year view – what we want to be, what we want to project to the market – but I didn't want to move away from who we are, which is human. And if you see the latest advertisement campaign, we are saying 'Rishta aapse hai, sirf app se nahi'. In a world that is getting hugely tech-driven, if you can bring out the human and the relationship aspect and find a way to merge them too, you have a story to tell.

I think 'digital at the fore, human at the core', 'perfect banking partner', 'relationship theme' are all beginning to connect, as opposed to separate.



**Venkata Peri:** Excellent. Speaking of that, when you make such a paradigm shift, it's not just about you, but you also have to carry along with you the cohort of stakeholders as well as employees. You have to almost empower the employees to use technology and make the right decisions. How do you ensure that the stakeholders, including all the employees, get upskilled constantly?

**Shyam Srinivasan:** Organisations can either be digital slaves or go totally against it. There is a spectrum. We tend to believe that technology is adopted easily by the younger workers, which is not necessarily true. The consensus, however, is that they have sort of grown up on a diet of technology, right? When our journey started, the average age of Federal Bank employees was 47. The average age is 33 today. As part of the bank's natural growth process, we've taken in over 8,000 to 9,000 employees who have joined at 20–21, straight out of their campuses. This cohort of people has grown up on technology, so it's not alien to them. We don't have to teach them technology, but get them to use technology, right? The IT capabilities that we started providing naturally led people to gravitate to technology, and the environment was also conducive. In more recent years, the FinTech world is sort of exploding. I would with reasonable pride tell you that if anybody is starting FinTech today in India, it is almost for sure



that the first bank that they would call on is Federal. We created an ecosystem where FinTech could plug in and get on with life. All FinTechs need a bank partnership because they can't lend or collect deposits on their own. They need a partner. Most of the products at Federal Bank are developed digital first. The younger workforce and those who are inclined to be technology friendly are the pioneers who get started with technology, and the rest don't want to be left out, so they catch on.

What is interesting is that as technology advances, the human connection gets even more important. Nothing can match the human connection.

**Venkata Peri:** Amazing. I mean the human connection is so critical, not only in banking but also across the spectrum of industries. I think technology is needed as an accelerator, a conduit to do some things better, faster and quicker. And probably it also gives you traceability, but it's not going to replace the human element of the equation.

**Shyam Srinivasan:** I use a line – the future of digital is human, not the other way round. Because AI is just humanising technology, right? Technology is capturing human experiences.

**Venkata Peri:** Yeah, very perfectly said. The bank has performed exceptionally well, firing on all cylinders. Growth, profitability, the key metrics around margins, capital adequacy – all of these are

**healthy. Obviously, there's always scope for improvement. And as you look into the future, there are two questions I want to ask. Given the macro headwinds that we are hitting on one side, there is a crisis that is a few days away. That's how CEOs are thinking about running their businesses. There is also a conundrum of managing capital. Where do you see the Federal Bank heading and where are the next set of growth vectors for the bank? Also, do you contemplate any possibilities or ideas around mergers and acquisitions of certain specific skills or capabilities?**

**Shyam Srinivasan:** I think I'll anchor my response on one statement, which is our vision statement – to be the most admired bank. And I say that with some pride and worry. I am worried because admiration is never bought, it's earned, and you can lose it anytime.

What we preach to everybody is that being admired can't be taken for granted. That keeps us happily dissatisfied. I'm happy but never satisfied and I want the institution to be happily dissatisfied, restlessly dissatisfied. Now if that is the sort of mantra which we are preaching, and hopefully practising all the time, nothing can be taken for granted. To my mind, a crisis is never weeks away, we are always facing one. You have to just accept it as the way of new life, right?

I say that we have done well, but our good is never good enough, right? We have to keep pushing ourselves endlessly and hopefully get better with each passing day.

There is no silver bullet. You have to work 1% better every day. In the journey of our bank, we've come to a reasonable place in terms of profitability and growth. But if you benchmark that against our own aspirations and the top 4–5 players, we are still behind in size or scale. We've told ourselves that we want to be among the top five private sector banks in the country. Our aspiration is not unachievable. We have to be purpose-driven and hopefully claim our rightful spot.

**Venkata Peri:** Any specific areas of growth that you are focused on?

**Shyam Srinivasan:** We continuously evaluate the make-or-buy kind of decisions. Often, we think, for a bank of our size, where we still have only 1% to 1.5% of the market share in most of our businesses, there is an enormous growth opportunity, right? Even if the rest of India is flat, there is 98% of the market that we have not begun to chase. The second is that you can grow organically and look for inorganic opportunities, too. In the case of inorganic opportunities, the issue that I find is that any integration, whether it's a small INR 2,000-crore portfolio integration or an INR 25,000-crore bank purchase, the effort is almost similar. We are quite thoughtful about the kind of integration that we want to do and for what reason. So, the bulk of our operational time is on organic strengthening, growing and execution, which I mentioned. We do make an effort occasionally, look at portfolios or companies and institutions that

are worth pursuing, but what is good is never available and what is available is never that good. So, we have to balance that out. To answer your question, all our attention is on organic. As for inorganic, there are some areas like microfinance, credit cards and commercial vehicles, and these are businesses that are new to us. We are growing quite well, and if some opportunities were to come, we would look at those, but let me add that we're not burning the midnight oil for that. A large part of the bank's time and the board's time is on organic momentum because we still have huge headroom to grow.

**Venkata Peri:** Given the advent of new technologies, are we looking at a fundamentally different banking architecture? A whole lot of things have to fall in place to make that architecture work, such as regulations, capital adequacy, security and privacy of data, and customer transactions. What kind of changes do you foresee in the short term and in the medium term in the fundamental banking business?

**Shyam Srinivasan:** Let me try and give you two to three insights. I think the debate around whether branches will exist or not has been there, at least in the last 10–15 years, and it is likely to be there for some more time. First, I am going to argue that the definition of a branch in our mind is physical infrastructure with a teller and a counter and an ATM. And there are some

10 people walking in and out, right? By definition, even a phone is a branch. And we've also launched fully equipped mobile buses in Madurai and Lucknow, which are serving as branches. Regulations are now coming up with a definition of what can be considered a branch. Anything that is available for 'X' hours a day for four days a week in a particular location can be considered as a branch. So, I think regulatory changes and environment changes are determining what may be construed as a branch. To fulfil the requirements of a very digitally advanced and economically advanced population, you could have a completely self-serviced model. We don't need a branch. To fulfil the need of people who are economically very well-off but digitally unaware, you may still need branch engagement. Then there are people completely underserved, digitally unaware and economically unfortunate – they need facilities for growth.

I would think branches, in some form, will exist. It's already beginning to morph. The nature of the branch is becoming lighter, more sales- and service-oriented and less process-oriented. That's because technology is enabling processes to be straight through, but you still need someone to sell and someone to serve. Branches won't disappear for five to ten years.

**Venkata Peri:** Any perspective on e-Rupee and how that will evolve, especially in a country like India, and the kind of regulatory push and pull required to manage that

transition?

**Shyam Srinivasan:** As I see it, the current central bank digital currency (CBDC) that is being worked on is only a substitute for paper currency, right? If you see it in that context, I think it's a great initiative from the point of view of avoiding fraud, transportation cost, inventory storage, logistics of movement of money, and counting cash. And that saves annual printing and stationery expenses of INR 4,000–6,000 crore. That's the first benefit. Like any other movement, shifting from physical currency to a digital currency is a multi-year activity. The use cases may emerge as technology and regulations emerge. I think this is a fairly long-haul activity. Initially, as I see it, e-Rupee is set to be a measure of productivity enhancement and operational loss reduction.

I'll give you a live example. Banks like ours, and I'm sure bigger banks too, sit on excess currency. As you know, the banks collect currency from customers. The cash that is placed in the bank's vault is our money. Once I shift the money into the regulator's currency chest, the RBI takes care of that currency. Excess cash held by the bank is loss-making for it.

**Venkata Peri:** The next question is about the future of currency. The evolution of e-Rupee and cashless transactions are already upon us. Tell us if you think this is a good thing for Indian banks, and whether the regulators can manage such a transition effectively, keeping in view the

security and privacy aspects.

**Shyam Srinivasan:** If you are referring to the CBDC, at this point in time, my view is that it's an experiment that has started. The exchequer spends INR 4,000 crore to INR 6,000 crore to print, preserve, transport, hold and inventorise currency, and build in safety and security features.

I think with more and more of that becoming digital, there's a cost reduction opportunity. Banks carry the excess cash and there's a cost of doing so. As we get more digital and the need for physical notes disappears, and therefore the attendant benefits can be availed, and that's an upside waiting. Now this is a three-to-five-year journey or maybe even longer. In that journey, regulations are likely to evolve, so are the use cases. I do believe that with the passage of time, CBDC will get another kind of life. But I would say, at the early stage, it is a digital form of currency addressing issues of fraud, safety, security, inventory and logistics management. And we are also working with the RBI on CBDC as a pilot bank, trying to get this going very soon.

**Venkata Peri:** Finally, I would like to ask a very personal question. What drives you?

**Shyam Srinivasan:** I don't want to sound bombastic but in 1983, I watched this movie Flashdance which had the song 'Take your passion and make it happen'. That has stuck with me. The kick of building something special is very, very inviting. I have

got many, many reasons to feel dejected and feel bad, but there are so many more overpowering and exciting reasons to stay the course.

**Venkata Peri:** Amazing. Thank you so much. I have gathered so much while speaking to you today. I am definitely inspired and walking away more learned from this conversation. Thank you.

**Shyam Srinivasan:** Thank you.

