

INDIAN ECONOMY AND THE FINANCIAL SECTOR

by

K. V. Kamath

(Managing Director & CEO, ICICI Bank)

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THE A. D. SHROFF MEMORIAL TRUST

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ARDESHIR DARABSHAW SHROFF (1899-1965)

A.D. Shroff was one of those rare gifted individuals who leave an indelible mark on their environment and an impress on the hearts and minds of those who come across them. When the history of India's industrial development, particularly industrial finance, is written, his name will figure prominently. But that was not the only area wherein he excelled. His contribution to economic thinking and public education in economic affairs was equally significant. Shroff was a champion of free enterprise and a great leader of business and industry and an economist whose predictions have proved right over the years.

After graduating from the University of Bombay and the London School of Economics, Shroff started as an apprentice at the Chase Bank, London. On return to India he joined the firm of stock brokers in Bombay, Batliwalla & Karani. In 1940 he joined the Board of Tatas and became their Financial Advisor.

In 1944 Shroff, along with seven other leading industrialists like J.R.D. Tata, G.D. Birla, Kasturbhai Lalbhai and Krishnaraj Thackersey authored what has come to be known as the 'Bombay Plan', setting out the fifteen year perspective plan, and with "the greatest possible role for the private enterprise and reducing controls to the very minimum so that private enterprise may operate under conditions of market economy."

Shroff was one of the two non-official delegates to the Bretton Woods Conference in 1944, which led to the formation of the World Bank and IMF. He ardently put forth the case for the status of India's sterling balances. Lord Keynes, a leading protagonist of the Conference, who initially described Shroff as a "highly articulate maverick – a snake in the grass trying to catch us (Britain) out and filled with suppressed malice", later

on expressed appreciation of his moderate, friendly and realistic statement of India's problem.

Shroff was Chairman and Director of numerous companies. He was Chairman of Bank of India and of the New India Assurance Company for several years. He was greatly exercised by the growing socialist ideology of the Indian Government in the early 1950s culminating in the nationalization of the Imperial Bank of India, airlines and life insurance. To educate public opinion of the serious implications of these measures, and to project the great contribution private enterprise could make to speedy development of the economy, he promoted the Forum of Free Enterprise in 1956.

Having been connected with national planning earlier, Shroff believed in planning but not to the extent that it stifled individual initiative and enterprise. He was against Soviet style of comprehensive centralized planning as adopted in India which encompassed all aspects of life. Events have proved Shroff right. The liberalization of the economy in July 1991 was a vindication of Shroff's vision and economic philosophy.

Shroff passed away on 27th October 1965. At a meeting convened by the Sheriff of Bombay to condole Shroff's death, J.R.D. Tata suggested that a Trust be established to perpetuate Shroff's memory. Therefore the A.D. Shroff Memorial Trust was set up in 1967 with Nani A. Palkhivala as the Founder-Chairman. The other Founder-Trustees were: B.M. Ghia, Jaykrishna Harivallabhdas, Sir Cowasji Jehangir Bart, Tulsidas Kilachand, J.H. Tarapore and K.M.D. Thackersey.

During Shroff's birth centenary in 1999-2000 the Government released a commemorative stamp. His biography entitled 'A.D. Shroff – Titan of Finance and Free Enterprise' by Sucheta Dalal was also published.

INTRODUCTION

When the A. D. Shroff Memorial Trust was set up, one of the key objectives was to arrange annual public lectures in his memory on the topical subjects in the field of banking, insurance and industrial finance, by rotation, to be delivered by eminent persons.

The lecture in 2008 was delivered by Mr. K. V. Kamath, Managing Director & CEO, ICICI Bank Limited, on “Indian Economy and the Financial Sector”. Over the last decade Mr. Kamath has transformed the ICICI Bank and steered it to a position of prominence through his dynamic and innovative leadership. Thanks to him the Bank has made its significant footprints in other countries also.

The contents of the lecture, reproduced in this booklet, are highly thought-provoking and educative. After highlighting several distinguishing features of India’s recent growth story, Mr. Kamath mentions that India is now lighting three engines of development, namely, “services, manufacturing and a new engine which had so far not been seen as something very positive – the whole rural momentum”.

He then goes on to relate these developments and their inter-relationship with the developments in the financial sector, and observes with a sense of reassurance that “So I would think that the Indian financial system is fast coming of age. It is very quickly learning to deal with technology. Even more importantly, the Indian consumer is one step ahead of the financial services community. I think that it is extremely good news that the consumer is able to adapt to new products, technologies and delivery channels that the financial system is providing”. These and many other facets of the transformation of financial sector make this presentation a very erudite and lucid reading.

Reflecting on the on-going global financial crisis, Mr. Kamath in his epilogue also asserts that “I am confident that we have the capacity to weather the current global financial crisis and emerge from it a stronger and more confident economy”.

The Trust has, indeed, a great pleasure in releasing the booklet for the benefit of various sections of the society, including various governmental organizations, banks, educational institutions, professionals, academicians, students, press and others.

We are beholden to the Corporation Bank for the support extended to the Trust in arranging this lecture and also in publishing this booklet.

M. R. Shroff
Chairman & Managing Trustee
The A. D. Shroff Memorial Trust

THE A. D. SHROFF MEMORIAL TRUST

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INDIAN ECONOMY AND THE FINANCIAL SECTOR

K. V. Kamath*

(Managing Director & CEO, ICICI Bank)

Let me at the outset thank the Trust for inviting me here today to deliver the AD Shroff Annual Public Lecture. Truly he was the founder - the founding spirit - and the conceptualiser of what was then the Industrial Credit and Investment Corporation of India, later on ICICI and today's ICICI Bank. I think it was his vision – a man said to be far ahead of his times. I did not have the privilege of interacting with him but it was his vision that saw in the early 1950s the need to fund industries, the need to look at India not just as it was post independence but as a vibrant India, an industrialized India, which would take its place in the next 50 years, 100 years and so on. I am sure if he could look back today at what has happened in the developmental context in India - to industry with GDP growing at an unprecedented pace, the institutions that he helped create, whether it was ICICI Bank, whether it was several insurance companies with which he was associated, whether it was Bank of India which he headed for some time, or the countless companies under Investment Corporation of India, a Tata vehicle that he set up, he could indeed say that what he dreamt of in the early 1950s has become a reality in the later years.

* The text is based on the Annual Public Lecture delivered under the auspices of the A.D. Shroff Memorial Trust on 26th August 2008 in Mumbai. The lecture was sponsored by Corporation Bank.

He also, as has been pointed out, post the mid-1960s became disillusioned with certain aspects of policy, particularly governmental policy in the context of nationalization of industries. If indeed Indian industry can today hold its head high and say that the private sector is leading the way for development and growth of this country, I think it is institutions like the Forum for Free Enterprise that so strongly advocated the private sector and free enterprise that really created the foundation for the India of today. I think it is but fitting that we look back at what is happening today in the country in the context of what was done by the founding fathers, be it the founding father of an ICICI Bank i.e. ICICI the forerunner, or the various insurance and unit trust companies those days, or the blueprint of creating an industrialized India. When we look back, it is their vision which has helped us be where we are today.

Today India is in a very comfortable position. Whenever I am asked to address a convocation, whenever I see young people around, I start by saying that there was never a better time to have been born in India. I truly mean it. I think there was never a better time to have been born an Indian and there will never be a better time in the future. The reason is very simple. I think what we are achieving today and will achieve in the next 10 years is not going to be repeated. I think what we have achieved, what we are in the process of achieving, and what we will achieve in the next 10 years is going to be a one off event. We will achieve other things, but the transformation from a country which is the face of a developing country to a country which has arrived, happens only once. I think this generation of youngsters will be the people who will celebrate this and take this forward. I think we can only facilitate the process and create a platform for them to celebrate the success and the transformation of India. It is this

transformation of India that I would like to talk on in the next few minutes and share my thoughts and ideas on this with you.

India has made remarkable progress during the last 60 years and is viewed today as a land of opportunity. What we are seeing today in India, we have seen in other countries. For example if you go back 50 - 55 years to Japan in the mid 1950s - Japan grew at double digits for almost 20 years. Thereafter it was the turn of the Tiger economies - South Korea, Taiwan, Singapore and Malaysia which grew at double digits for almost 20 years. The reason I am stressing on 20 years and double digits is because of the fact that I believe that high rates of growth are sustainable for a very long period of time. I think these proxies tell us that the period of time is probably between 15 to 20 years. But it is not just these three examples. You then had South East Asia as the 3rd example and you have China still growing at high rates and growing at that rate for the last 15 to 20 years as the fourth example. Four examples, across Asia in the last 50 years clearly indicate that high growth rates can be sustained for a very long period of time. This sort of growth transforms a nation.

What the cause of such growth is, is something we have to ponder on and I don't see much debate or writing or thought on this particular aspect. I hold a view that when you set in motion this sort of change, a double digit growth, that growth feeds on itself and becomes self perpetuating for a given period of time. Again the proxies that we have seen indicate that the period of time that I am talking about is probably in the region of 15-20 years. We might like to address what happens thereafter. Thereafter the competitiveness of these countries comes under pressure and you have newer challengers coming up who then challenge for the space that these countries have occupied. Then they take on the mantle of growth and carry on this mantle as they go along.

I would believe that in our context, after experiencing what used to be called the Hindu rate of growth right through the 1970s and 1980s and then growth at 6- 6 ½ %, we are now at a stage where we are talking of 8 – 9 % growth over the last few years. I would think all of this leads up to something. And that something is that we are also getting on to that virtual cycle of growth where double digit growth is feasible. Once that clicks in we have this virtual cycle going for 15 to 20 years. My belief is that we are onto this virtual cycle and we should be growing along this virtual cycle for the next 15 to 20 years.

If you look at our transformation there are certain differences between us and what has happened in the examples that I cited. In all these examples, except may be Singapore to some extent, the growth driver was manufacturing. In our context the growth driver has not necessarily been manufacturing. If we go back to the 1990s, we see an Indian industry which had a lot of challenges. We see an Indian Industry which was facing new found competition amongst itself and competition which was imported. This was consequent to the liberalization process which we unleashed in the early 1990s. That was probably the first step in terms of opening up our economy to this potential double digit growth which I believe will sustain us through for quite some period of time. But it took about 10 years for us to actually get growth kicking. In those 10 years we had to go through a catharsis and Indian industry had to re-invent itself. I am talking of the period from 1994-1995 right through to 2001-2002 when Indian industry suffered. Indian industry suffered because we were not the right scale, we did not have the right quality and we did not produce at the right cost. Unless this was corrected we could not become global competitors. That Indian industry achieved by the year 2002-2003 and that is when we saw an investment pipeline building up in manufacturing

India. That pipeline still endures and I will talk about that in a moment.

While this was happening, something that had not happened in many countries happened in India. And that was the rise of the services sector. The rise of the services sector initially epitomized the rise of the knowledge industry - the IT industry, the BPO industry and so on - that created a momentum for the whole lot of other industries. You then had financial services, telecom, retailing, media, entertainment, travel, tourism etc. All these started driving the momentum of change in the country from the year 2000 or so. Very quickly, much to our surprise and much to the disbelief of various thought leaders, this part of the economy actually overtook the manufacturing sector. Today it is put at between 55 – 60 % of the economy and acknowledged to grow at double digits. So we have 60% of the economy growing at double digits and that happened by and large because of the revolution that took place in the knowledge front, the technology front, the coming together of technology and knowledge and the ability to drive a variety of businesses using this advantage. Initially there was skepticism and it was called hollow growth and growth without jobs. But I think nobody says that anymore. Nobody can say that of a sector of the economy which is 55 to 60% in weight of the overall economy. It has to contribute in terms of jobs and in terms of the overall development process. So what happens as I see it is that we had the advantage of two drivers taking us forward. One is the services sector - 55 to 60% growing at 10% and creating demand. It created demand for space and demand for people. People in turn had aspirations and money in their hands - they wanted to own a home and things to put into that home, transportation equipment and so on. All that became a part of that virtual cycle that I talked about. On the other hand you had the newly

competitive Indian manufacturing sector which started investing on the back of this new found confidence. They literally cleaned up their balance sheets. They got the debt equity ratio right, they got the factory situation right, they got efficiencies to levels that were never seen before, they got production costs to lower levels, they got the quality right, and so on. So basically it is this twin effect of the manufacturing sector which created vibrancy and the knowledge and services sector which really drove the Indian economy to a position where we have 8 – 10% growth. And today, we can debate whether the 8-10% growth is here to stay, whether it is a flash in the pan or whether it is going to fall off a cliff. In the next few minutes I would like to think through what I see as happening in the context of sustainability of this growth and whether this growth is something that will endure like in the other examples that I quoted.

Today we have an investment pipeline which is estimated at over 700 billion dollars. The interesting part is that this pipeline cuts across a variety of sectors - it covers almost every sector of industry. And roughly half of this pipeline is in infrastructure. But there is still more that should be done if we are to support an economy growing at 10%. Let us look at this pipeline in another context. We know that we are an economy with a trillion dollars to our name today. We know we are talking of a savings rate of 35% and today it is acknowledged that the investment rate is probably 37 to 38%. A simple rule of thumb where you use an incremental capital of ratio of 4 on an investment rate of let us say 36% - you arrive at a 9% growth rate. So I think there is no magic when we talk of a sustainable growth rate of 9%. In the past, just 4-5 years back, when the savings rate was 24%, indeed there was a challenge. Indeed a question could be raised, 'If our savings rate is 24% then how are we going to grow at anything over 6%?'

I think that question is not asked anymore. And mind you this investment we are talking about is in the real sector, in manufacturing, infrastructure, and so on. What we are really not talking of is what would be the impact of the 60% services economy - what that part of the economy is going to do.

We can see that these two drivers alone, the services sector and the manufacturing sector along with this robust pipeline are able to sustain growth at a rate of 10% plus. Any challenges that we see are things that will happen in the history of every nation. Again if you look at the four examples that I have given, they also went through their ups and downs but growth never really stalled to levels which were very low and then had to be given time to catch up. Growth remained robust - there could be temporary blips of maybe 1 or 2% - and then they grew again. It is the same effect that we will have in India where even in the current context the inflation at 12 ½% we are talking of growth at 8%. I think it is something that very few nations would achieve. I think this is something that we will need to understand a little more. But to me it is very clear that growth is not slackening and continues to happen. The answer lies in the fact that the savings rate continues to be high and the investment rate continues to be high. And the very act of growing at 10% creates a momentum, which then carries you forward. That is probably what happened in Japan or in the Tiger economies or in South East Asia. The very act of growth generated opportunities which then drove growth along making it a self propelling engine - almost a perpetual engine (where I would put a caveat of perpetuity being probably 20 years). That is what we see happening in our context today.

Certain other things that I see as pre-requisites to sustain this growth would need to happen. I think our biggest challenge at this point of time is probably the infrastructure sector. Growth in other

areas will happen but infrastructure growth has to happen to sustain this 10% growth. So it is no longer the savings rate - it is infrastructure investment and execution which will be the challenges to our growth. We have faced these challenges earlier and it is not as if we will be facing these challenges for the first time. Ten years back if I were to have stood here and said that in 10 years time we would have 300 million cell phone users, who would have believed me? I don't think anybody would have believed me. I would not have believed it myself. So infrastructure can be rolled out at dramatic pace and I think for that we need to look at probably my last proxy - China. The pace at which infrastructure has been rolled out there is a sign that infrastructure can be rolled out at a fast pace. In our context, I want to pick two or three examples to indicate this. The first was the highways project taken on around the year 2000. Within the first three or four years 70% of the estimated road network was actually rolled out. So it is possible to build quality roads in a very short period of time if we apply our minds. That is lesson number one to me. Lesson number two is the telecom example that we are seeing. I think that again shows that we can roll out world class infrastructure at great speed and then hold our heads high. There are several examples that we can quote where we have achieved similar success. One more example I would give is the ports sector where I remember 10 years back we would keep hearing that the Mumbai port took 21 days to turn around a ship. Nobody hears about that complaint anymore because more ports have come up and their efficiency is such that they can turn around a ship in a day. So clearly where we applied our mind, we have kept pace with the rest of the world. But we would need to do it in several areas simultaneously. While it is a challenge, I do not think it is an insurmountable challenge. The very act of investment in these areas creates a growth momentum and driver in terms of employment generation,

putting money into the hands of people, and then their going out and seeking goods creating further demand. So clearly I think we have set in motion this sort of a change and at this point of time infrastructure is the one area where could do a bit more. Having said that, I believe things are happening. I gave a few examples of what we see has happened, and I am sure that in the next 3 to 5 years we will see this happening even more.

Just to stay on the subject of infrastructure a little more. The next big push I would see would be in the power sector and in urban rejuvenation. We will have to rebuild our cities. We've all heard the phrase 'we have to create a Shanghai in India' but I think the Chinese have raised the bar now – we'll have to say that we'll have to create a Beijing in India. Suddenly in the span of 3 years, Beijing has become a world class city. It has probably become the best city in the world in terms of transportation network, the roads themselves, sidewalks, greenery - you can take any parameter and they have built a world class city. I think that is the kind of challenge we will have to face, not with just a Mumbai, but with several cities in this country. Investment in this transformation itself will become a growth driver as we go along. A question that is always asked is whether this 10% growth is financeable. I want to address this issue also, because otherwise we will leave this as an open question. 700 billion dollars is the investment that I talked about happening in terms of infrastructure and projects are today 60% financed internally by companies. That is a far cry from 10 to 12 years back when 80% of the cost of the project had to be funded through debt. The corporate cash accruals today are such that over a three period - 500 billion dollars for the 700 billion will be met through internal generation of corporate India. In today's context, meeting the balance 200 billion or so through a combination of equity and/or debt from domestic or global sources will not

really be a challenge. So I think the engine of growth could be internally financed to a very large extent with some support from the equity markets and some support from the debt markets.

At this point of time indeed, we have the challenge of controlling inflationary pressures. I won't talk about this as to me this is a short term situation. I am sure that steps are being taken on the fiscal front or the monetary front to address this challenge that is before us.

One area which we will need to work on if we are to sustain this growth momentum is people. We are in a paradoxical situation here. We are a nation of billion people, adding 10 to 15 million people into the job market every year. Yet we are saying that we have a challenge of people. The challenge of people is really not a challenge of having the number right. I think it is a question of having the skills right. So we have a skills challenge facing us today and that skills challenge works its way across every single area of business. Starting from people who build things to people who are in the construction business and people in housekeeping or security - I think these jobs which historically we thought as unskilled jobs are today a part of skilled jobs. There is a therefore a need for 'skilling' people. I think this is the need of the hour. This need has been recognized by the Government and that is extremely good news. There is a national skills corporation that the Government is setting up to actually act as a focal agency to push the growth of skills. I am sure like minded people will come together and I can already see it happening. First there is a need to codify the skills, second to build a curriculum for training and thereafter finding the institutions where you could roll out these skill training programmes. In this the key player would be the village school. You will have to start the 'skilling' process from the village schools or from the municipal schools in urban areas and go on to other schools where

other skills are taught, so that we have end to end skills. What we would hitherto call unskilled jobs are now getting skilled – and we need to build those kind of skills in people as also the high end skills. A few years back when you say we had a skill shortage, we only talked about IT as a profession. This is no longer the case. You have a skill shortage in security guards, in a driver who will drive a car or operate construction equipment and so on and so forth, going right on to that IT job. In every area there is a skill shortage, and this is something we will have to address.

I have talked about two parts of the economy - one the services sector and the other the manufacturing sector. So far I have not talked about the agriculture sector. And that brings me to rural India. I look at rural India as an engine of opportunity because that is where 600 million people live and 600 thousand villages. There we are talking of per capita incomes which are half of that seen in urban India. And as our countrymen in the rural milieu start seeing the fruits of the progress that the country is achieving and start feeling the momentum of change in terms of higher per capita income, we will see another revolution. Going back to the years 2000- 2008 what is the significant change that happened? From a per capita income level of about 500 dollars we are heading towards 1000 dollars per capita. But rural India is probably heading from 250 dollars to 500 dollars per capita. In the next 5 to 8 years we will see a rural India going from a 500 dollars to 1000 dollars per capita. As that happens - and I am not saying if that happens - we will see a new momentum in terms of driving this economy forward because aspirations of rural India will be the same as aspirations of urban India that we saw between the period 2000 to 2008. In the last 7 – 8 years what we have seen happening in urban India, I expect to then happen in rural India. And that will happen with 600 million people and we can only

imagine the sort of energy that will be unleashed when you will have 600 million people wanting to partake of growth and become a part of that growth process itself.

So basically we are lighting 3 engines of growth - services, manufacturing and a new engine which had so far not been seen as something very positive – the whole rural momentum. Part of that rural momentum will come from agriculture and the rest of it will come from everything else that has happened in urban India. I would think that this is part of a holistic development cycle that we will celebrate in the coming years.

I am told that these lectures have always been on industry and financial services. I want to touch upon the financial services sector and do justice to these two parts of this annual lecture. A question that this will brook is ‘if you are growing at 10% is the financial system capable of supporting this growth?’ I think 7 or 8 years back, I would have had my doubts. Today I don’t have doubts. And if I had any doubts, I only need to see at what has happened in China and the way the Chinese banking system, which we had all written off 7 to 8 years back, has come back to be the driver of momentum in that country. Just to put that in context, three Chinese banks are among the top 10 banks in the world today. And if that has happened in China, I have no doubt that in the next 10 to 15 years we will have two to three Indian banks in the top 10 banks in the world. Likewise with our insurance companies. Why? Why is this happening? It has happened in China because of the size and sheer scale the economy has warranted the financial system achieve a size commensurate with the overall growth momentum. I can’t but see that happening in India. In India there has been deep opening of the financial services sector whether through insurance reforms or taking banking to the masses. Whether it is introduction of technology or whether it is in terms of

introduction of new products -everything has happened at a pace we have never seen before. I would think the last 8 years have truly transformed the way financial products are dealt with in India. I'll just give an example from ICICI so that this stays with us. I remember distinctly in 2001 that 95% of our transactions happened in a branch. As of now less than 15% of the transactions happen in a branch. We are open 8 to 8 but still only 15% of transactions happen in a branch. The internet accounts for 25% of the transactions, then you have the ATMs, the call centers. Just imagine the power then when banks take your banking transaction through cell phones. It has already happened but I am talking of scaling it up. This is another revolution happening because of the 300 million cell phones which are set to go to maybe 400 million in a year's time. You can then imagine the revolution that will happen in terms of access to banking services. Let me also pick an example from insurance. Just 5-6 years back, in general insurance, the key months were March and April. You had a peak in March and April and thereafter premium income dropped. This is no longer the case. You have a new peak that is developing the very next month. Where is that peak coming from? It is coming from products that insurance companies are today selling to common people. In the past insurance basically catered to corporate needs and with March and April as renewal months you had high premiums. Thereafter it was basically auto and other insurance products that gave you average business. But introduction of new products has meant that premium levels have new highs every month. So I would think that the Indian financial system is fast coming of age. It is very quickly learning to deal with technology. Even more importantly, the Indian consumer is one step ahead of the financial services community. I think that it is extremely good news that the consumer is able to adapt to new products, technologies and delivery channels that the financial system is providing.

It is in this context that taking banking to the villages becomes critical. If doubling of per capita income in rural has to happen in the next 5 – 7 years, we will have to take financial services to rural India. We need reach out to mass India and here again I am optimistic because of the fact that technology is going several steps ahead of the financial services. Three years back who could have thought that the cell phone could become the default device for really reaching out to the masses? Today it is very much possible that the cell phone becomes the default device to reach out to rural India. If we are talking touching 600 million people in rural India, we already have the momentum in terms of a technology revolution. The cell phone will enable us to reach out to that mass. If that happens, it will keep pace with the aspirations of people in rural India and at the same time provide the growth momentum that we need.

What I have tried to bring out in the last few minutes is that the growth drivers of our economy are diverse and robust. At one end there are broad ranges of services. These are actual businesses and not just employment in Government or employment in bureaucracy which 10 – 15 years back was taken as a default for services sector. There is also a clear momentum in the infrastructure and manufacturing sectors and I see rural India as the next horizon of opportunity. These provide us a platform to transform India and create wide spread prosperity in the country. It is our responsibility now to make this a reality. In this context I want to quote what C.K. Prahlad articulated on the 60th year of our independence as what he would like to see as India at 75. At that point of time he said that we could celebrate 60 but we also needed to look forward at what we could be at 75. And I am going to share his thoughts. According to C.K. Prahlad, India has the potential for global leadership based on its young and dynamic workforce. Again demographics will be at play - the 10- 15 million

youngsters coming into the market being the differentiators in terms of what we could do in the next 15 years. We can envision generating 10% of world trade, being home to 30 of the fortune 100 companies and nurturing a renaissance of creativity that could produce 10 Nobel Prize winners. Achieving this potential requires that Indians work towards creating economic strength, technological vitality and moral leadership. The key aspects of this effort would be addressing income inequality, understanding the impact of changing lifestyles and urbanization, catalyzing emergence of universal aspirations, achieving technological advances that will change price-performance relationships, ensuring that the ecological impact of development is sustainable, and finally, strengthening governance and the rule of law. I think these are all things that India today is working on. And if we work on this set of key aspects for ensuring change, I think what he has envisaged will indeed happen. I think it is time for all of us to think big and think differently to achieve this vision.

If we do all this, it will be a fitting tribute to what Mr. A.D. Shroff thought of when he started the Bombay Plan and when he in a way became an iconoclast breaking all set modes in those days. He aspired for free enterprise, the private sector and believed in the will of the people and the change that was on us. Many people have said that he was a man ahead of his times. Indeed I believe he was far ahead of his times and probably if he was with us today he would have seen much more than what we have seen or what I have tried to articulate. He would have planned not for India at 75 but probably for India at 100 or India at 150. And that is something that we all need to look at. In the medium term, I think we are onto a growth cycle which is virtuous, which is self sustaining, and perpetual. That could truly transform this nation. I think we have a task before us and I am sure we will all be up to this task.

EPILOGUE

A.D. Shroff Memorial Lecture

Since I shared these views, the global economy and financial system have faced adverse conditions at an unprecedented scale. The recent developments in the global market and their impact on India have raised concerns on the sustainability of the India growth story itself. However, I would like to point out here, that we continue to be in a position of relative advantage to the rest of world. Although there has been some slowdown in economic activity, we continue to remain one of the fastest growing nations in the world, with projections of 7.5% - 8.0% growth.

Let me dwell briefly on the manner in which the global crisis has impacted India. Up to mid-2008, the rapid rise in commodity prices globally, particularly crude oil, stoked inflationary pressures in the economy, which led to tighter monetary policies and a consequent negative impact on the growth momentum. With the deepening of the global crisis, and the resultant global deleveraging, the liquidity in the international credit markets dried up. External commercial borrowings and working capital credit had come to be an important funding source for Indian corporates. Concerns have also been expressed over the ability of Indian borrowers to meet their foreign currency debt obligations given the lack of refinancing availability. The effects of the global crisis were also transmitted through the trade and capital market channels, and we began to see a slowdown in exports and substantial portfolio investment outflows. This in turn has led to pressure on domestic liquidity, balance of payments and the exchange rate.

Yet in all of this, what remained unshaken were the basic fundamentals driving our growth momentum. As I had mentioned in my speech earlier, our growth continues to be driven by a balance of consumption and investment, industry and services. Our savings

and investment rates continue to remain healthy and growth supportive. Our favourable demographic profile and large and growing consuming class continues to provide opportunity. These trends will continue to power the economy even during this phase of global slowdown and help it to weather the global storm. On the macro front, a declining inflation rate and reduction in interest rates would help revive domestic consumption and demand. The policy response of the government and RBI should also act as confidence measures for the economy and accelerate the return to earlier rates of growth. However, in the context of the current slowdown, it becomes even more imperative that we invest substantially in areas that I had pointed out earlier – infrastructure, education, urbanization and the rural economy. At this juncture it is critical to ensure that we tap into these engines and sustain our growth momentum.

It is of course important to remain watchful as events in the global markets unfold. A prolonged global recession that at present is not ruled out can indeed pose a further challenge. We are not insulated from these events, but timely policy interventions and focused leveraging of our strengths at the micro and macro-level would mitigate their impact. I am confident that we have the capacity to weather the current global financial crisis and emerge from it a stronger and more confident economy. I firmly believe that once normalcy starts returning to global markets and the rebuilding of investor confidence happens, we will be among the first nations to realize its benefits and return to the high growth trajectory that we have seen in recent times. As such I reiterate my statement earlier that India today is in a self-propelling and sustainable growth cycle that is poised to transform our nation radically. There is no doubt that the current crisis needs to be monitored closely and its potential risks need to be mitigated. Yet I am confident of our long-term growth prospects and look forward to the coming years with hope and optimism.

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