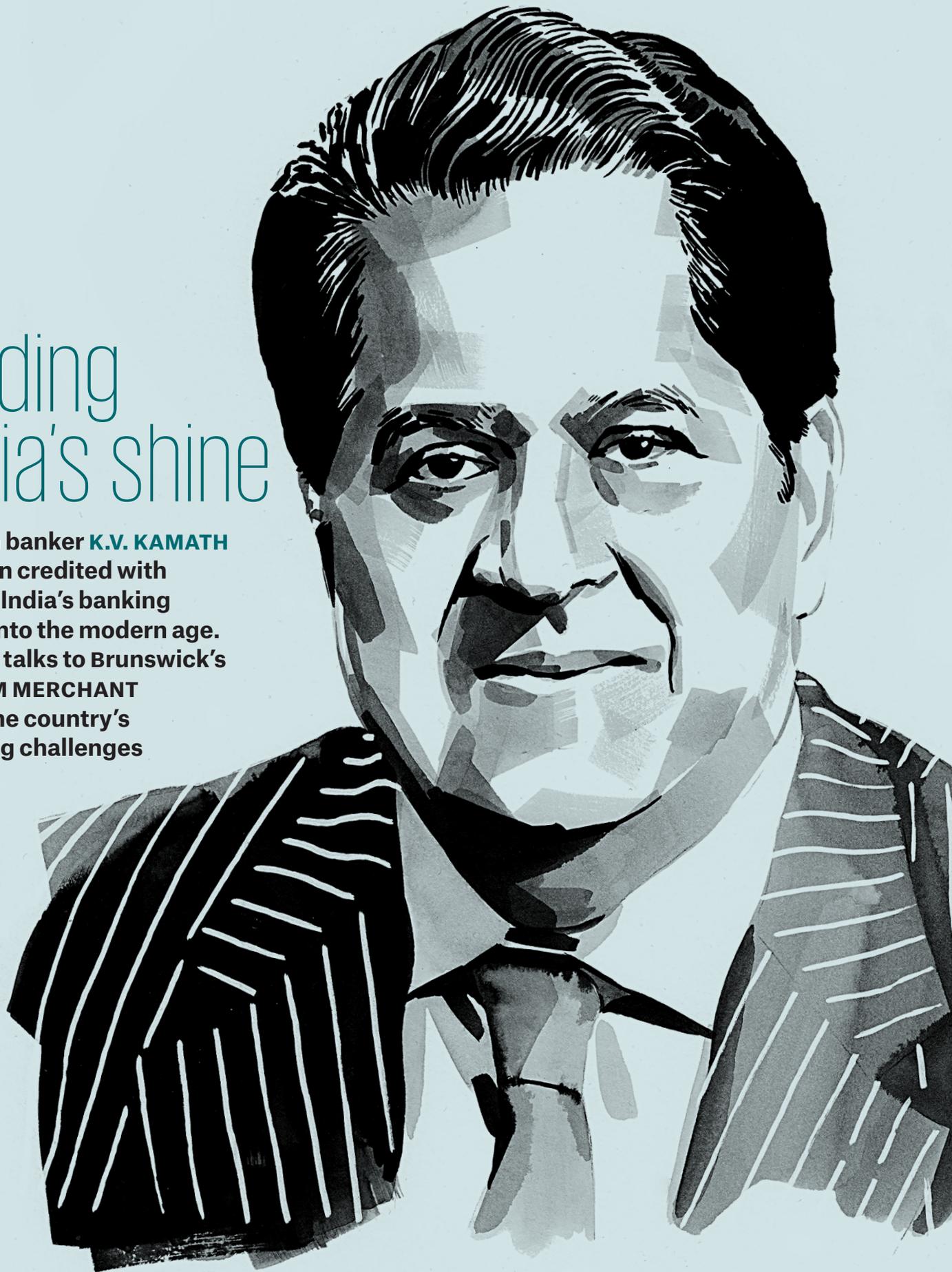


Finding India's shine

Veteran banker **K.V. KAMATH** has been credited with leading India's banking sector into the modern age. Here he talks to Brunswick's **KHOZEM MERCHANT** about the country's enduring challenges



Q

uirky clashes abound in India, where the new bumps into the old each day. Kundapur Vaman Kamath recalls the unprecedented launch a decade ago of 1,000 cash

dispensers by ICICI, India's largest private sector bank, where he was CEO at the time. It was pay day and the shiny new machines drew lines of blue-collar workers in Mumbai's textile mill-land. Most were puzzled by the technology in the wall; and when some ran out of cash, many reckoned the bank itself was out of cash. Word spread fast through the community and then to brokers and investors. The rumors of a run on ICICI Bank even spun on to the next day's newspaper headlines.

"We were not equipped to handle the communications challenge," says Kamath, a candid admission from a banker credited with leading India's banking sector out of its statist era and into the modern age. Nor was ICICI, where he is now Chairman, any better equipped five years later when it was again hit by rumors, this time about exposure to the sinking Lehman Brothers in the US. Kamath says it was "no more than a rounding error on our balance sheet," but ICICI was in a spin, and for a few days local financial commentators got excited about India's leading bank being caught up in Wall Street's meltdown.

"These were reputational crises and our challenge was that we did not know what would happen next. Bizarre as it may seem

K.V. KAMATH

Kundapur Vaman Kamath is one of India's most experienced bankers, having served as a senior executive of ICICI, India's largest private sector bank, for more than three decades, including a spell as CEO and latterly as Chairman. He is also Lead Independent Director of Infosys, one of India's leading technology services companies, and on the board of oil services company Schlumberger. He is Chairman of the Society and Board of Governors of the Indian Institute of Management in Indore, Madhya Pradesh.

now, we were relaxed, our comfort coming from knowing that our balance sheet was strong after a large capital-raising exercise a year before the Lehman collapse. But our discomfort was in not knowing what to do. This was a new dynamic. So we learned by trial and error."

ICICI Bank was a child of the Industrial Credit and Investment Corporation of India, which itself was jointly set up by the government and the World Bank in the mid-1950s to fund infrastructure projects. The original umbrella development institution and the commercial bank – which came into being in the first wave of banking reform in 1994 and went on to list on the New York Stock Exchange six years later – eventually merged in 2002. This created the first genuinely home-grown full service universal bank – a key strategic objective for Kamath.

Kamath joined ICICI in the early 1970s as a management trainee after an education at prestigious Indian engineering and management institutes far from his native Mangalore, a port city in India's western state of Karnataka. Banking lore has it that as a young project financier, he took a call on a raw but dynamic entrepreneur from Gujarat. The bond between banker and borrower deepened over the next three decades as the entrepreneur's business grew into a petrochemicals powerhouse. When the entrepreneur died, in 2002, his widow asked Kamath to secretly manage a division of assets between her two sons, who had become estranged. The elder son, Mukesh Ambani, is today among India's (and the world's) richest individuals, presiding over the divided Reliance Industries, the country's largest private-sector company.

If such gilded tales have given Kamath a certain mystique in the banking world, his eight-year stint at the Asian Development Bank, starting in 1988, equipped him with the practical tools to run a modern financial services group.

He returned to ICICI in 1996 as CEO, ready to introduce modern banking products, processes, and organizational models. He understood the strategic importance of communications and, crucially, technology. It was, in fact, Kamath's use of technology to both deliver products and as the catalyst to run the bank more efficiently, that created a buzz around ICICI as it broke free from India's banking pack. Kamath is quick to point out that this was done at Indian prices. "At a time when global banks were introducing technology wholesale, we had something exciting to communicate, and we were implementing it at a tenth of the global banks' costs," he says.

The reform of the financial services sector was among the bolder faces of "India Shining" – the political slogan that came to symbolize the heady (and unsustainable) mid-2000s, when India's GDP growth was cantering along at 8 percent a year, with new tech-based banks, such as ICICI, feeding the consumerism unleashed by economic reforms.

For sure, the opportunity for banks during this period was immense, as multiple product lines were launched into a ripe and fast-growing market. Kamath's approach to business development has been described as "South Korean," after the industrial conglomerates – known as *chaebols* – that focused on rapid build-up of market share at high capital cost.

When Kamath sat down for his interview with the *Review*, the bouncy optimism of earlier years had given way to a more measured tone on issues that he now addresses with the perspective of an elder statesman.

He stepped down as CEO at ICICI in 2009. In a shrewd move, he then took on the Chairman's role at Infosys, India's leading technology services company, →

from 2009 to 2013 (where his role has been redesignated as Lead Independent Director following a reshuffle). Infosys needed a heavyweight to fill the void left by the retirement of its two past Chairmen, both, like Kamath, gifted communicators. Kamath has emerged as a respected voice on corporate governance with his berth at two of India's most compliant and best-run companies an appropriate platform for quiet advocacy.

India's corporate sector has historically been dominated by family-owned conglomerates. In the more mature economies of the West, family-owned structures typically evolve to become publicly listed companies, and that is beginning to happen in India.

Having run the country's biggest bank, Kamath has had a particularly good vantage point from which to view India's business plutocracy. He thinks the evolution in India will take longer, partly because of the country's complex family inheritance laws.

"Many family companies are now joint-stock, listed entities but control is firmly in the family. They have changed dramatically over the past decade but there's a long way to go," he says.

In the wake of the 2008 banking crisis and the subsequent debate on Western-style capitalism, there has even been talk of an "Indian model" that sees control and ownership as a form of trusteeship, to be handed down to the next generation of professional managers within the family. Does Kamath think this approach, typified by the Tata group, offers a viable alternative?

"I don't think so," he says firmly. Two factors may force the pace of change: first, family-owners' appetite for growth may mean they will have to sell down stakes in order to raise capital. Second, the next generation simply may not be up to or interested in doing the job.

"The issue is really over control," Kamath says. Change will come "only

"I would state that most family-owned and controlled companies are still a good 10 years away from a culture of giving up stakes"



when they realize they don't need such large stakes for control. I would state that most family-owned and controlled companies are still a good 10 years away from a culture of giving up stakes."

A regular speaker across India, Kamath tells the new generation of CEOs to think globally, be aware of what is going on, and not to get stuck in a "rent-seeking" mindset.

Kamath's greatest current concern is about the impediments to India's development: regulatory, civil and judicial activism stalks executive leadership; bureaucracy is scared to sanction projects, freezing the investment cycle; a currency is discounted amid talk of capital controls; GDP growth has shrunk and political leadership paralyzed. His hope for the business community is that the logjam will be broken after elections to be held by May 2014, offering the very real prospect of new government with new ideas.

The priority, Kamath argues, should be to focus on economic fundamentals. "We must concentrate on the real problem and that is a virtual standstill on infrastructure. If we get that right,

then it's OK." India's Finance Minister, Palaniappan Chidambaram, has been getting similar advice from other business leaders, some of whom have recently committed to large-scale investment in the country, no doubt persuaded that India's emerging middle class – already hundreds of millions strong – will continue to grow.

In November 2013, PepsiCo chairman and CEO Indra Nooyi announced the company would invest \$5.5 billion by 2020, saying it was "a vote of confidence in India's future." Vodafone made a similar statement, unveiling a \$1.7 billion investment for India that same month, despite having had a long-standing dispute over tax on a share sale the company made in 2009.

Even with these and other significant investments, Kamath says India must work even harder to make the business environment friendlier. That means, above all, predictability about policy and the regulatory environment.

The politics that underlie India's debate about how to reform and develop must be concerned mostly with bringing more and more people out of poverty, Kamath acknowledges. "Inclusive growth must be delivered, but if people think it will be done by redistributing wealth then they are wrong. It can only be done in a sustainable way by the incremental creation of wealth."

A quintessential banker's approach, perhaps, and one that might put Kamath at odds with a government that favors handouts on food and guarantees employment (inflating the public debt burden along the way) in its search for inclusive growth. But Kamath's journey from banker to elder statesman has been mostly about looking for new and better ways of doing things. ♦

KHOZEM MERCHANT was formerly President of Pearson India, and previously *Financial Times* correspondent in Mumbai. Now a Brunswick Partner, he leads the firm's India practice.