

AXIS BANK

TAKING THE NEW AGE BANKING TO BHARAT

Overview:

Mahatma Gandhi once said that India resides in her villages. This has never proved to be more relevant for Indian marketers than in today's times. With the market scenario in urban cities and metros being saturated with multiple products and services, it has become imperative for brands to start exploring uncharted territories like the rural market. While the Indian rural market promises a substantial business potential due to its sheer magnanimity, it comes with its own set of challenges. The need of the hour is to make brands and businesses relevant to this market and yet emerge as profitable. Through this case, we look forward to explore & understand how new age banks like Axis Bank can connect with this "Bharat".

About Axis Bank:

Established in 1994, Axis Bank today is the third largest private sector bank in India. Axis Bank offers the entire spectrum of financial services to customer segments covering Large and Mid-Corporates, MSME, Agriculture and Retail Businesses. The Bank has a large footprint of 1947 domestic branches (including extension counters) and 11,245 ATMs spread across the country. The Bank also has overseas offices in Singapore, Hong Kong, Shanghai, Colombo, Dubai and Abu Dhabi.

With a balance sheet size of Rs.3,40,561 crores, Axis Bank has achieved consistent growth and stable asset quality with a 5 year CAGR (2009-13) of 26% in Total Assets, 24% in Total Deposits, 27% in Total Advances and 37% in Net Profit.

With respect to the rural markets, the bank currently has its presence across 23 states. However, a major portion of this is concentrated in five states viz Punjab, Haryana, Tamil Nadu, Andhra Pradesh & Gujarat, which have 66% of rural and 78% of unbanked rural branches. The bank had 271 branches in the rural and unbanked markets.

Market scenario Rural India (Data Source: Industry reports):

Indian rural markets present opportunities that companies seeking to become high performance businesses cannot afford to ignore.

Some quick facts & Understanding the changing Ethos of Rural India

- a) Rural India has seen 19.2% increase in monthly per capita expenditure in rural markets during 2009 to 2012, surpassing urban consumption growth
- b) Rural Income now less dependent on farm income, which now constitutes to less than 50 % of total rural income. Income remittance from migrant rural population & increase in non-farm activities boosting non-farm income
- c) Improved access to finance & institutional credit has brought greater cash inflows to rural household
- d) Policy measures such as waiver of agriculture loans & NREGS have helped to reduce rural un-employment

e) Most of the categories (FMCG, Durables, Auto, and Telecom) are seeing higher growth coming from rural markets and these are translating into lifestyle changes in these rural homes and farms -

- On the path of progress - Villages have seen the growth of infrastructure & modern amenities
- Most households have TV - DTH & Mobile phones
- Developed new age farming knowledge
- Modern machinery, fertilizers & pesticides
- Presence of banks beyond Gramin & availability of ATM machines
- Rural to urban migration bringing city values closer
- Positive aspect of this 'urbanization' is the focus on education; however, quality education continues to be a challenge

Current Banking landscape of Rural India:

The financial needs in this market currently are fulfilled primarily by Microfinance organisations, Cooperative and Gramin Banks, smaller saving arrangements like chit funds, and money borrowed from local moneylenders usually at a very high rate of interest.

The biggest amongst these would be the Gramin Banks where maintaining an account is almost a necessity for this segment primarily on account of the following factors;

- An account is necessary for loans
- Also necessary for the Kissan Credit Card
- Loan Interest rates are low - 4% for the first year and 6% after that. Other incentives like the waiving of EMIs if paid before time etc.
- Required to avail any government subsidy or scheme
- Some of the purchasers of crops insist on making payments here

The role of private banks is largely perceived as one which help enable liquidity, affluent rural consumers tend to keep account beyond Gramin banks for:

- Money from the other source of income (other than agriculture) is normally kept here or some money is taken from the Gramin Bank and kept here as savings
- This account provides the money for the day-to-day expenses since it is easier to withdraw money here
- Also other savings like FDs and RDs are done here

Regulatory Framework:

Reserve Bank of India in an attempt to strengthen the penetration of the financial services category in the rural market has mandated all banks to open 25% of their upcoming branches in rural and unbanked areas. A rural area as per the regulation is defined by RBI as one with a population of less than 10,000 people.

Key Insights about the segment:

Two segments of customers which exists in rural India - Rural Affluent & Non-Affluent

Looking at the key themes for Rural affluent consumers:

1. Believes dual Income is a necessity (Mainly because of the fact that farming is an unreliable occupation - crops may fail because of heavy / low monsoon etc., hence also relies on Non-farming related activities)
2. Happy to live in village
3. Feel the need to constantly upgrade
4. Dream to provide best education to his children, which he could not get
5. Money structure of the Joint family prevails
6. Some kind of financial planning happens

Rural Non-Affluent consumers

1. Does not actively look at self-Improvement, hence farming is his mainstay
2. Perception about Banks are bit ambiguous. While on a positive note he does know that banks can aide savings, give him loans etc., he is not sure about their trustworthiness. This fear is even stronger when it comes to private sector banks. He looks for indicators, which he believes, are the trust building factors like actual branches and ATMs, which signify that the bank has invested a sufficient amount of money in the market.
3. For a section of these consumers money sent by rural migrants seems the only source of income for family members back home
4. Feels that city life is better

Current Initiatives Undertaken by the Brand:

Over the past few years, Axis Bank has taken some initiatives to penetrate the rural market. These initiatives not only include introduction of products and services suited to the segment like Krishi Savings & Current Accounts, Kisan Power loans, etc. but also marketing and communication programs aimed at educating the segment as well as create awareness about the bank and its products. Some of them have been listed down as follows;

1. Rural Van campaigns which communicate the benefits of banking and responsible finance through a story telling technique in the relevant regional format across the states of Rajasthan, Punjab, Gujarat, Tamil Nadu, Madhya Pradesh, Andhra Pradesh and West Bengal.
2. In order to fulfill the remittance need of consumer, Axis Bank has partnered with Airtel Money & Idea MyCash to provide banking saving account on the mobile handset.

Challenges/Constraints:

While on one hand the market opens up a plethora of opportunities for brands, it comes with its own set of challenges, which brands need to answer. Some of them, which would have a direct impact on Axis Bank both from a brand as well as from a business point of view, are as follows:

1. Higher cost of servicing: Given the low-ticket size of an individual account that is maintained, the cost of servicing of such accounts is phenomenally higher which

make the segment unprofitable. A higher number of such accounts negatively affects the overall health of the liabilities side of the business.

2. NPA: On the other hand, the assets side of the banks business is also affected by a higher level of Non-Performing Assets. Given that a major chunk of the income in this major is agriculture and livestock dependent, the incidence of unpaid loans and NPAs is much higher. This is also coupled with the fact that the bank is not able to completely secure these loan offerings given the lack of proper and available documentation on the part of the customers.
3. High Cost of distribution: The rural market is a fragmented market with its consumers spread over a large geographical region. The challenge thus is how the bank reaches out to this consumer base. An increase in the number of branches or ATMs comes along with added costs, returns on which may not be justified by the size of the population it is catering to and the business it is able to garner.
4. Media dark: Communication in these markets also cannot follow the traditional path given that most of these areas would be affected by media darkness with only a few channels available for the brand to reach out to its consumers. The challenge thus is how the brand suitably modifies its communication and media choices to reach out to this consumer base.
5. Products & Services: The traditional product offerings of the bank are based on the product profitability of the consumer segment and thus allow a window for offering value added features to make it more exciting for the consumer to subscribe. Given the challenges mentioned in pt.1 & 2 above, how does the bank come up with suitable, relevant and exciting product offerings to engage with the segment?
6. Awareness & Trust: While the bank commands a respectable imagery in the urban and semi urban markets, its lack of presence in the rural market makes it an unknown name. This comes along with its own set of challenges wherein trust and relevance for the bank is low.

Objectives:

Axis bank wishes to establish itself as the bank of choice for the Rural India, which caters to the needs of rural consumers. What should be the product mix, distribution strategy, business strategy & communication strategy for the bank to operate profitably in this market?