
The 'Strategic Differentiators' of State Bank of India

Ashwini Mehra

What is it that makes the State Bank of India the largest bank in the country? What was the objective behind the setting of this banking institution that paved the way for national development and changed the role of a bank from being a mere repository of the community's savings and a lender to creditworthy parties to purposeful banking, sub-serving the growing and diversified financial needs of planned economic development? The article highlights the role played by the State Bank of India in taking the country's banking and financial industry forward

Origin of SBI

The origin of the State Bank of India (SBI) goes back to the first decade of the 19th century with the establishment of the Bank of Calcutta, in Calcutta on June 2, 1806. Three years later, the bank received its charter and was re-designed as the Bank of Bengal (January 2, 1809). A unique institution, it was the first joint-stock bank of British India, sponsored by the Government of Bengal. The Bank of Bombay (April 15, 1840) and the Bank of Madras (July 1, 1843) followed the Bank of Bengal. These three banks remained at the apex of modern banking in India till their amalgamation as the Imperial Bank of India on January 27, 1921. The business of the bank was initially confined to discounting of bills of exchange or other negotiable private securities, keeping cash accounts and receiving deposits, and issuing and circulating cash notes. Loans were restricted to Rs 1 lakh and the period of accommodation confined to three months only. The security for such loans was public securities, commonly called Company's Paper, bullion, treasure, plate, jewels, or goods 'not of a perishable nature' and no interest could be charged beyond a rate of 12%.

Loans against goods like opium, indigo, salt woollens, cotton, cotton piece goods, mule twist and silk goods were also granted but such finance by way of cash credits gained momentum only from the third decade of the 19th century. All

Shri Ashwini Mehra is Deputy Managing Director and Corporate Development Officer, State Bank of India.

commodities, including tea, sugar and jute, which began to be financed later, were either pledged or hypothecated to the bank. Demand promissory notes were signed by the borrower in favour of the guarantor, which were in turn endorsed to the bank. Lending against shares of the banks or on the mortgage of houses, land or other real property was, however, forbidden.

In 1951, when the First Five Year Plan was launched, the development of rural India was given the highest priority. The commercial banks of the country, including the Imperial Bank of India, had till then confined their operations to the urban sector and were not equipped to respond to the emergent needs of economic regeneration of the rural areas. In order, therefore, to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank by taking over the Imperial Bank of India, and integrating with it the former state-owned or state-associate banks. An act was accordingly passed in Parliament in May 1955 and the State Bank of India was constituted on July 1, 1955. More than a quarter of the resources of the Indian banking system thus passed under the direct control of the state. Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959, enabling the SBI to take over eight former state-associated banks as its subsidiaries (later named associates).

The State Bank of India was thus born with a new sense of social purpose aided by the 480 offices comprising branches, sub-offices and three local head offices inherited from the Imperial Bank. The concept of banking as mere repositories of the community's savings and lenders to creditworthy parties was soon to give way to the concept of purposeful banking, sub-serving the growing and diversified financial needs of planned economic development. The State Bank of India was destined to act as the pacesetter in this respect and lead the Indian banking system into the exciting field of national development. In 2015-16, SBI is the largest bank in India with a business size of Rs 31.90 lakh crores having 30.12 crore active customers. The profitable performance can be well understood from the earnings and expenditure given in Annexure 1. The vision, mission, and values that guide SBI today are:

Vision

- My SBI.
- My Customer First.
- My SBI: First in Customer Satisfaction.

Mission

- We will be prompt, polite and proactive with our customers.
- We will speak the language of young India.

- ❑ We will create products and services that help our customers achieve their goals.
- ❑ We will go beyond the call of duty to make our customers feel valued.
- ❑ We will be of service even in the remotest part of our country.
- ❑ We will offer excellence in services to those abroad as much as we do to those in India.
- ❑ We will imbibe state-of-the-art technology to drive excellence.

Values

- ❑ We will always be honest, transparent and ethical.
- ❑ We will respect our customers and fellow associates.
- ❑ We will be knowledge-driven.
- ❑ We will learn and we will share our learning.
- ❑ We will never take the easy way out.
- ❑ We will do everything we can to contribute to the community we work in.
- ❑ We will nurture pride in India.

SBI is a very highly rated bank as shown in the exhibit given in Annexure 2.

Strategic Differentiators of SBI

Several strategic differentiators have helped in ensuring the success of SBI. Some of the major ones are discussed in the following sections.

1. The SBI Brand - Contemporary Positioning at all Times

SBI used the tagline 'The banker to every Indian' to create a dominant position in the Indian banking industry. This has helped the bank withstand the onslaught of private and foreign banks in the Indian banking industry with relative ease. Keeping up with modern trends, SBI has now re-positioned its brand as: 'A "Smart" Bank for the New Generation'. To do justice to this positioning, hundreds of SBI branches are converting to the 'sbiINTOUCH' branches that leverage digital technology and make good use of the digital platforms. These outlets are equipped with state-of-the-art gadgets and machines, which allow customers to transact in a self-serving mode and with both onsite and remote expert assistance. In fact, SBI is currently the market leader for mobile banking services in India with 1.77 crore users and a market share of 35.97% in terms of value of transactions. The SBI brand lives up to the promise it makes to customers by putting customers first.

2. Customer Comes First

SBI is able to target the youth of today through modern, technology-enabled initiatives. State Bank Buddy is the mobile wallet designed for the tech-savvy

generation, the youth of the country. With this buddy app, the user can do a number of online transactions like mobile recharge, pay utility bills, online shopping and ticketing, etc. Within seven months of its launch, Buddy user registration has crossed 26.60 lakh. The wallet has seen more than 48 lakh transactions to the tune of Rs 230.71 crore. SBI has also launched the mobile app 'State Bank Samadhaan' on Google Play Store. This is a self-service app enabling SBI customers to avail of a range of services and obtain commonly sought information, without visiting the branch.

The app will provide information about deposits, advances, internet banking, mobile banking, EMI calculation, SBI branches, ATM locations, SBI holidays and give direct access to various mobile apps *viz.*, SBI Freedom, SBI Anywhere, SBI Buddy, SBI Quick, etc. A unique feature of the app is that it will enable any SBI customer to get on-demand his statement of account and interest certificate on housing loan and education loan securely on his or her registered email address 24x7. Another mobile app, 'State Bank No Queue' has been launched; this enables customers to self-generate e-tokens for availing select banking services at select branches. This reduces the waiting time of customers and reduces crowds as the token is generated before the customer reaches the branch.

SBI has also launched mobile banking applications for SME and corporate customers *viz.* "State Bank Anywhere Saral' and 'State Bank Anywhere Corporate'. These applications allow customers to do all their banking transactions such as account enquiry, mini statement, utility bills payment, EPF payment, creation of fixed deposits, and a lot more. The corporate customers get additional features which allow them to initiate payment to suppliers, authorize e-cheques and enquiry of account transactions. On the SME business front, Project Shikhar was rolled out to gain 'first mover' advantage in the e-commerce space. Under this project, the bank is working on various initiatives to pioneer ecosystem lending through partnerships with new business models.

A pioneering innovative product called 'e-Smart SME' for financing merchants selling through e-commerce platforms has been designed. In order to ensure proper focus on SME customers, SBI launched 'Project Vijay' in the financial year 2015 to revamp the delivery model for SME lending in order to drive growth and improve customer engagement. Over 1,000 relationship managers are deployed for serving SME customers. SBI also started leveraging big data and analytics-based lead generation for customer acquisition and improving internal processes and documentation needs to reduce customer turnaround time by about 50%.

SBI believes in developing bonds with all segments of customers. The bank has also been forming Farmers' Clubs at village level for fostering continued relationship with the farming community. Today, the number of such clubs has reached 10,719. The key initiatives taken in adopted villages include the construction of community vermicompost units under the clean village concept, the construction of hygienic

toilets, installation of solar lighting in the villages, and conducting awareness programmes through melas and exhibitions.

3. Specialized Products

In order to target new customer segments in an effective manner, SBI develops specialized products to cater to the needs of these new segments. A pioneering innovative product 'e-Smart SME' for financing merchants selling through e-commerce platforms has been designed. Tie-ups with leading e-commerce companies like Snapdeal and Flipkart have been established this year. This innovative product moves away from the traditional balance-sheet-based lending to a cash flow-based lending programme. It uses an in-house developed proprietary credit model based on platform and surrogate data to assess eligibility. The entire process has been automated – 'at the click of a button' – from online application, uploading of documents, processing and sanction, all in less than a minute – first time ever in the history of banks in India. The seller no longer needs to submit traditional financial statements like balance-sheet, profit and loss account or income tax returns to avail this financing facility.

In a similar vein, SBI has taken cognizance of the taxi aggregators that have been revolutionising the way Indians commute. It has tied up with these aggregators to help individual drivers buy a car and become mini-entrepreneurs. SBI has tied up with both Ola and Uber India to extend vehicle loans to drivers and operators associated with these platforms. A digital credit tool has been developed in-house by SBI to automate the process and enable instant sanction. A comprehensive product suite has been designed to cater to the franchising model that is fast growing in India's retail consumer segment. Franchise finance along with electronic dealer finance will provide a comprehensive, competitive solution for large industry majors. The product suite now offers financing solutions for the franchisee's initial capex investment, working capital and transaction related needs.

These loans will be risk-mitigated through franchisor affiliation, comfort and repayment facilitation. Continuous sharing of data by franchisor will enable economic assessment of business model and identification of early warning signals for stressed franchisees. Five tie-ups have been launched during the year – Philips, Medplus Pharmacy, Anytime Fitness, Lakme Salon and Raymond. SBI has also developed several new products to target farmers better. The Premium Kisan Gold Card (asset-backed agriculture loan) is aimed at financing emerging agri-business entrepreneurs engaged in high-tech farming and allied activities; the scheme was rolled out with competitive interest rates. Also, the Tatkal Tractor Loan, a mortgage-free tractor loan providing 100% of the cost of the tractor with no processing charges and with a turnaround time of 48 hours, has been launched. If women are the co-borrowers, then they can avail lower interest rate with the Stree Shakti Tractor Loan.

4. Managing Risk in a Proactive Manner

SBI believes in spreading its risk by offering advances to a wide variety of customers rather than focusing on a few segments. This is evident from the mix of the advances as shown in Annexure 3. In order to focus on capital conservation and maximisation of return on capital, SBI has introduced risk-based budgeting (RBB). SBI has implemented the risk-adjusted return on capital (RAROC) framework both at customer and portfolio level. For resolution/recoveries of NPAs, SBI has introduced certain innovative methods which have given the first mover advantage to the bank in areas like early warning system, arranging mega e-auction of large number of properties on a pan-India basis, initiation of criminal actions, identification of unencumbered properties of the borrowers/guarantors and arranging for attachment of properties before the court.

The wholesale banking business was focused on proactive monitoring of the portfolio given the challenging economic environment, while continuing to grow its commercial and transaction banking business. SBI has continuously been working on promoting technology initiatives for operational convenience as also to minimise operational risk. Such initiatives include mobile versions of corporate internet banking i.e. State Bank Anywhere – Corporate, which allows corporate users to initiate and authorise transactions through their mobile. In addition, e-trade and various payment solutions are now available. SBI also stabilised the LLMS (Loan Lifecycle Management System) platform, a web-based portal for assessing credit risk in loan proposals including internal credit rating exercise.

SBI has taken several steps to manage NPAs. These include early diagnosis of the problems and analysis of the reasons for irregularity with appropriate strategies for time-bound action to prevent slippage as NPA. Industry-wise exposure limits have been set to diversify profile and minimise risk. The loan portfolio is monitored on an ongoing basis. Finally, account tracking centres have been set up to prevent accounts slipping into the NPA category. Risk culture is being embedded through training of staff at all levels through e-learning lessons. An Independent Risk Advisory is being established to ensure independent reviews of high-value credit proposals. Group risk is being measured through contagion risk, concentration risk, strategic risk and reputation risk indices.

A web-based internal verification audit has been introduced, replacing the manual circle audit. There is an offsite transaction monitoring system (OTMS) to monitor exceptions observed in transactions. A web-based loan review mechanism to review the sanction process of loans above Rs 5 crore and early sanction review (ESR) of loan proposals with exposure of above Rs 50 lakh and up to and including Rs 5 crore has been introduced. A web-based modular structure which is flexible, scalable and expandable with enhanced level of automation and more granular risk assessment is being introduced for risk-focused internal audit from 2016-17.

5. Engaging Employees to Bolster SBI's Performance

SBI has introduced flexi-timing/flexi-hour scheme in a limited scale where the employee is free to select own work hours within limits laid by the management, on the grounds of looking after family and health. Additionally, SBI has implemented a new system of performance appraisal (Career Development System-CDS) of employees in an objective and transparent manner. The entire system is IT-driven and all the employees of the bank have been assigned KRAs and almost 90% of the positions have been made budgetary or measurable.

SBI has taken several initiatives that are women-friendly. For example, chummary accommodation has been provided to female officers up to the grade of Scale V for those who are posted in rural/semi-urban/urban areas. This is designed to facilitate their completion of mandatory assignments in a hassle-free environment. Employees can be engaged by involving them in the fulfilment of SBI's organisational goals. In order to get early warnings on operational risk issues, it has announced the Alertness Award Scheme with recognition and rewards including cash ranging from Rs 5,000 to Rs 2,00,000 for alertness of staff members in prevention/detection/foiling of frauds and near miss events which have operational risk with potential to cause serious damage.

Similarly, the Griha Tara Campaign was launched to encourage each and every member of the staff to market at least one home loan proposal. More than 75,000 staff members have mobilised over 1.5 lakh home loans proposals, amounting to over Rs 32,500 crore, during the year. SBI has also taken steps to increase inclusiveness among its employees. In 2015-16, an Inclusion Centre for Differently Abled Employees was created. The objective of this centre is to enable financial inclusion, training, empowerment and upgradation of skills of people with different abilities in a systematic way. SBI has about 1,000 employees belonging to visually impaired/hearing impaired category. The initiatives of SBI has been recognised through the Helen Keller Award 2015 presented by the National Centre for Provision of Employment to Persons with Disabilities (NCPEDP) for the category 'Role Model Company/NGO/Institution' for its commitment towards promoting equal employments for people with disabilities.

Operational Excellence

Several novel initiatives of SBI have ensured operational excellence. These include:

- (a) *Branch Mentoring*: To ensure continued focus on improving and delivering improved customer service on a consistent basis, SBI has initiated mentoring of branches and this is more than the traditional understanding of mentoring. In this initiative, top executives of any SBI bank, deputy general managers and above have been assigned four branches each. During the mentoring

process, the mentor notionally steps away from his administrative role and looks at these branches from a developmental perspective. The mentor also interacts with the customers of the branch and enables the branch team to evolve solutions. Currently there are 724 active mentors covering 2,869 branches.

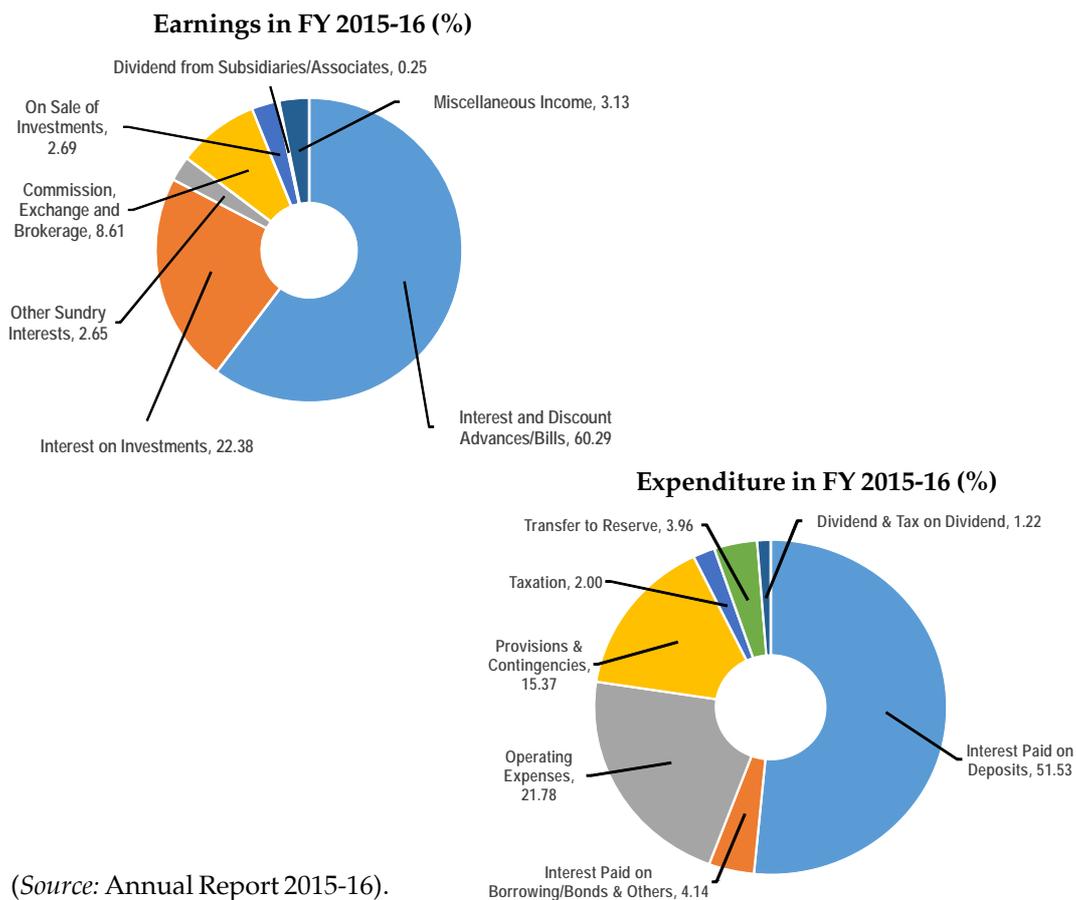
- (b) *Quick Processing*: In order to ensure speedy loan approvals, tab apps are being used for giving in-principle sanction of housing loan and automobile loan. Housing and automobile loan sales team members visit the customer's place and capture the KYC details, particulars of income, deductions and details of proposed property on their tabs.
- (c) *IT Excellence*: A core banking solution (CBS) environment is based on an architecture that supports one billion accounts, over 250 million transactions per day and delivers a throughput of over 17,000 transactions per second. Biometric authentication as a second-factor authentication has been implemented in branches for all CBS users. The process for systematic and proactive risk identification, assessment, measurement, monitoring and mitigation of various risks in the IT vertical has been initiated.
- (d) *Loan Review – Early Warnings*: Early sanction review (ESR) has been introduced in the audit system since September 2014 to review sanctions of more than Rs 50 lakh up to Rs 5 crore. The objectives of ESR are to capture the critical risks in the proposals sanctioned at an early stage and apprise the controllers of such risks for mitigation thereof at the earliest. It also helps improve the quality of the pre-sanction process/sanctions in respect of exposures falling in this category.
- (e) *Concurrent Audit*: A concurrent audit system (CAS) is essentially a control process, integral to the establishment of sound internal accounting functions, effective controls and overseeing of operations on a continuous basis. The CAS is reviewed on an ongoing basis in accordance with the RBI directives so as to cover your bank's advances and other risk exposures as prescribed by the regulatory authority. The Inspection and Management Audit (I&MA) Department prescribes the processes, guidelines and formats for the conduct of concurrent audit at branches and BPR entities. The concurrent audit system has been revamped, along with the introduction of a web-based solution, with external auditors appointed as concurrent auditors (external chartered accountant firms).
- (f) *Off-Site Transaction Monitoring System (OTMS)*: A web-based solution has been introduced to capture deviations and take corrective actions. Exception data is being generated by data warehouse (DW) based on certain business rules.
- (g) *Audit of Outsourced Vendors*: SBI has outsourced 56 groups of activities to approximately 6,014 vendors. I&MA has a policy approved by the audit

committee of the board and audit has been completed in 37 entities covering 12 activities. A full-fledged outsourced audit department headed by a general manager is being set up to oversee the audit of outsourced activities at SBI.

Awards for SBI

Over the years, SBI has been bestowed with several distinguished awards that are a testimony to its stellar performance. Recently, SBI won the AsiaMoney FX Poll of Polls Award for being the best overall performer in FX services over the last 10 years. In 2013, it won the India’s Most Ethical Companies Award 2013 presented by the World CSR Congress. Again in 2013-14, it won the Innovation in Customer Data Management (DWP) Award. Apart from the above, SBI has also won the Most Admired Infrastructure Financier Award by KPMG and the Top Public Sector Bank under SME Financing Award by Dun and Bradstreet. Surely, these awards provide ample evidence of the strategic differentiators possessed by SBI.

Annexure 1



Annexure 2

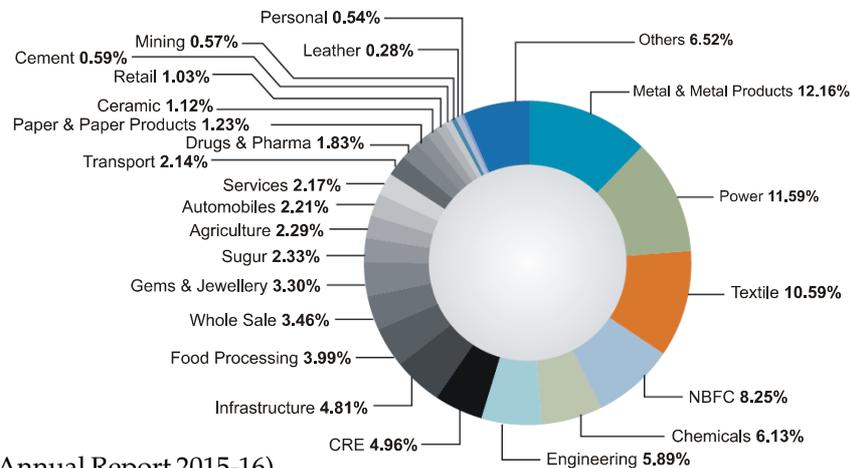
RATINGS as on 31st March, 2016

	RATING	RATING AGENCY
BANK RATING	Positive/Baa3/P-3/ba1 BBB-/Stable/A-3 BBB-/F3/Stable	Moody's S & P Fitch
INSTRUMENT		
INNOVATIVE PERPETUAL DEBT INSTRUMENTS	'AAA/Stable' "CAREAAA"	CRISIL CARE
UPPER TIER II SUBORDINATED DEBT	'AAA/Stable' "CAREAAA"	CRISIL CARE
LOWER TIER II SUBORDINATED DEBT	'AAA/Stable' "CAREAAA" '(ICRA)AAA'	CRISIL CARE ICRA
BASEL III TIER 2	'AAA/Stable' "CAREAAA" '(ICRA)AAA(hyb)'	CRISIL CARE ICRA

CARE: Credit Analysis & Research Limited
 ICRA: ICRA Limited
 CRISIL: CRISIL Limited
 S&P: Standard & Poor

Annexure 3

Industry Wise Advances as on 31.03.2016



(Source: Annual Report 2015-16).

Editor's Note: Shri Ashwini Mehra was invited as a guest speaker in the recently concluded Dual Country Programme on Leadership in Banking and Finance at NIBM. The participants were much enriched by the inputs on the USPs he shared about SBI. Subsequently, on our request, he agreed to share his insights on SBI through this article. We offer our sincere gratitude to Shri Mehra for his kind gesture.