

16th Annual Convocation – 8th April 2011

Convocation address by Mr. K.V. Kamath, Chairman, ICICI Bank

Introduction

Members of the Governing Council, members of the faculty, students, ladies & gentlemen:

It is a great pleasure and honour to be here today at the convocation of the SDM Institute of Management Development. This is because of two reasons. First, it is always a joy to be among young people setting out on their careers, full of enthusiasm and hope, young people who are the future of this country and are going to shape it for the next few decades. Second, it is heartening to see the work being done in the field of professional education by institutions like SDM. Expanding capacity for all sorts of higher education and skill building is the need of the hour in India, to equip our young people with the knowledge they need to capitalise on the vast opportunities before us. Your institution is thus playing a role in fulfilling a critical national need.

As I was preparing to speak here today, I thought I should know a little more about the SDM Institute than I did earlier. So I went through your website and among other things read your Vision and Mission Statement. Your Vision Statement says: *“SDMIMD will be internationally known as a unique management institution that has pioneered a philosophy of management education and governance that is Indian in ethos and character and global in relevance”*. Your Mission Statement says: *“SDMIMD will create inspirational business leaders and entrepreneurs who will relentlessly pursue individual and organisational excellence with creative tenacity, intellectual maturity and social responsibility. SDMIMD will advance management thinking and practices that draw upon the best in Indian wisdom, are successful in dealing with change and the contemporary marketplace, and effective and inclusive in wealth creation for the individual and the society”*.

I must compliment the architects of this institution on the comprehensiveness of this Vision and Mission Statement. It is rare to find such a well-articulated and holistic statement of purpose that encompasses the world and India, and includes a strong element of governance and social responsibility in the area of management studies. The statement fitted perfectly with my thoughts on the issues I wanted to speak about, and provided a framework for the remarks I will address to you today – as we talk about the world, about India and about ethics and governance.

The world has changed – and is changing

2011 marks something of an anniversary for me personally - it is 40 years since I completed my management studies and entered the professional world. These years have probably seen the most rapid change in history. These changes have had, and continue to have, a profound impact on the balance of economic power just as the industrial revolution shifted the balance of economic power to the west.

The most powerful driver of change has been technology. Let us take a quick look at how rapidly technology has evolved in these last few decades.

- The 1970s saw the birth of modern computing with the arrival of the world's first general microprocessor, the C programming language and video games.
- The 1980s was the decade of the personal computer. The IBM PC, launched in 1981, became the dominant computer for professional users.
- The 1990s was the revolutionary decade for digital technology. Only a few million people used online services in 1990, and the World Wide Web had only just been invented. Cell phones of the early 1990s were very large, lacked features, and were used by only a small section of the population in even the wealthiest nations. By 2001, more than 50% of people in some Western countries had Internet access, and more than 25% had cell phone access.

- The 2000s saw the rapidity of changes increasing with a huge jump in computing power and broadband internet usage globally, bringing internet and e-commerce to the mainstream. Software applications which previously ran on mainframes could easily run on personal computers.
- Today, mobile phones seem to be doing to personal computers what they did to mainframes. Indeed, we are all carrying mainframes of my college days in our pockets today! It is evident that wireless internet and connected devices will become the preferred mode of internet access bringing mobility to business and commerce. This is fundamentally going to change the business landscape.

The other major driver of change, in a way linked to the first, is globalization. Economic strength is no longer determined by geography. That has been replaced by knowledge and connectivity. Global reallocation of capital and resources has changed the nature of business. The dramatic growth of the emerging markets, starting with the tiger economies, followed by China and now by India, as well as the return of stability and then growth in Latin America, is reshaping the global economic landscape. In the decade of the 1990s, the contribution of emerging and developing economies to global growth in GDP was around 19% (on a point-to-point basis). Their contribution in the years from 2000-2008 jumped to 43%. This indicates that a process of global rebalancing has been well underway for some time.

The global financial crisis of 2008, with its roots in the west, has accelerated this process. In 2010, the contribution of emerging and developing economies to growth in global GDP on a nominal basis was approximately 68%, the highest during the decade, while the contribution of advanced economies was at 32%. This recent crisis arose from an asset price bubble and over-leveraging in the US, which could normally have been contained in the US economy, but spread rapidly across the globe because of the interconnected nature of economies and financial markets. Inability to estimate the quantum of risk and to isolate where the risk resided, resulted in a loss of confidence in the

financial sector across many markets. These issues are now sought to be dealt with through regulatory changes, in terms of capital, leverage, liquidity and incentives for risk-taking, that are intended to make the global financial sector revert to its original role of serving the needs of the real economy, intermediating savings into productive end-uses. While the proximate cause of the crisis was US sub-prime mortgage debt, in its wake it exposed several frailties in the global economy, including fiscal and trade imbalances for several economies and their high reliance on cheap and plentiful flows of foreign capital, to support economies dependent on one or more of consumption demand, real estate and financial services. It is forcing many countries to rethink their “business models” and find a more balanced growth path.

Going forward, emerging markets will become larger and larger drivers of growth, driven by strong domestic savings and investment and supported by favourable demographics. Of course, periodic challenges of overheating, inflation and volatility in capital flows, together with event risks caused by political unrest or natural disasters, will have to be addressed as and when they occur. Overall I believe that the increasing prosperity of large masses of people in the developing world will be perhaps the most transformational development of the coming decades.

India has changed – and is changing

The decade gone by has brought change to India at an unprecedented pace. Among the many transformational developments of these years, I would pick three that were truly momentous in their impact.

First, we crossed per capita GDP of USD 500 and USD 1,000 in the same decade. This had tremendous implications for savings growth, consumption demand and the ability to finance investment in the country. Suddenly so many possibilities emerged, not only for growth in traditional business segments but also for building a whole new set of businesses, to meet the needs associated with this upward migration of large sections of our people.

Second, India quickly adopted and leveraged developments in information and communications technology, in some cases leapfrogging intermediate stages of development. This enabled the quick scale up of new paradigms of distribution and service delivery in a range of areas. Earlier, I mentioned the changes in technology globally in the past few decades. Now, let us look at the time it took for some of these technological changes to reach India. Colour television which arrived in the United States in 1953 reached India over 25 years later. Cable television which arrived in the United States in a big way in the mid-1970s reached India only in the early 1990s. The first IBM PCs were introduced in 1981 and started arriving in India only in the 1990s. However, while the internet started to make inroads in the western world in 1990, it started to take hold in India by 1995. Mobile phones reached India a few years after the west, and in just about a decade we have over 750 million mobile subscribers and over 550 million active mobile phone users. What we see is that the gap between introduction of a technology and its arrival in India has been reducing and today almost all digital services are available simultaneously in India. Today, a startup flipkart.com has replicated amazon.com in India in three years.

Third, the Indian corporate sector emerged from a period of restructuring and repositioning with healthy finances and globally competitive quality and cost metrics. This enabled it not only to leverage on growing domestic demand, but also to expand outside India, acquiring backward and forward linkages, making Indian brands known globally and acquiring marquee global brands. A key feature has been the tremendous surge of entrepreneurship in India following liberalization. Of the 50 most valuable companies by market capitalization in India, more than 50% did not exist or were not in the reckoning 15 years back.

The financial sector was quick to respond to these developments and meet the emerging financial services needs of Indian businesses and households. The rise in household incomes created a robust and sustained growth opportunity for

intermediation of savings through a range of products, and for financing household asset creation. The financial sector responded to this opportunity by expanding distribution, leveraging technology for improved service delivery and increasing access to affordable retail credit. It partnered Indian industry in its global foray, while developing capabilities to meet its needs in a range of areas from treasury solutions to technology-enabled transaction banking.

The Indian economy has remained resilient through the crisis due to strong domestic fundamentals. Domestic consumption and investment trends provided the required support to overall growth, cushioning the economy from any adverse impact. The vulnerability of the Indian economy was relatively lower, as dependence on exports and foreign flows were significantly less compared several other emerging economies. Having passed through this critical test, the economy is now poised to grow at higher rates as global growth recovers.

A key factor responsible for India's sustained growth and quick recovery from the impact of the crisis is the regulatory approach towards managing growth with stability. Many of the regulatory changes currently being discussed globally, in areas ranging from composition of capital to executive compensation, have been in place in India for several years. Indian regulators have continuously sought to balance growth-supportive policies with the primacy of systemic stability, targeting asset prices and checking lending in specific segments through policy measures deemed unconventional at the time.

Just as the India of 2010 is very different from the India of 2001, so will the India of 2020 be very different from the India of today. At current growth rates, we will treble per capita GDP in the next ten years. Rising affluence will propel demand for goods and services, providing a strong domestic impetus to growth. Continuing developments and innovation in technology will change the way people engage with businesses, whether

in financial services or otherwise. The smaller towns and villages of the country will become a part of the economic mainstream with access to information and services delivered digitally. For example, combining the ubiquity of mobile telephony with the work being done by the Unique Identification Authority, suddenly makes it possible for banks to reach even the most remote customers; and with banks comes the ability to save and spend, further spurring growth. The internet brought the bank to your doorstep in 1990s; mobile phones and the associated payment mechanisms will allow you to carry your bank with you.

The numbers being forecast for India are extraordinary. By 2030, the top three cities in India are expected to reach the size of countries such as Malaysia today in terms of economic output. The next six cities in 2030 are expected to become 2-4 times the size of Mumbai today. The next five cities in 2030 are expected to be equal to the size of Mumbai currently. At the same time, semi-urban and rural areas have also been experiencing rapid growth. We have also seen that the deposit base of bank branches in semi-urban areas today is at the level of those in urban areas two years ago. When I look back and correlate these trends to the 1990s, I see an even larger opportunity for us to progress as a nation. When our per capita GDP moved from US\$ 500 to US\$ 1,000 it unleashed the growth in urban areas. As we move towards a per capita GDP of over US\$ 3,000 in the next few years, it will unleash more inclusive growth in smaller towns and villages. This creates countless opportunities for building businesses that create value in the economy.

Of course, this will not happen without some hard work in a key area: that of building our physical and social infrastructure. Investment in physical infrastructure is critical to meet the needs of this growing economy and improve our productivity as a nation. Investment in social infrastructure – healthcare and education & training – is key to realizing the benefits of our demographic dividend and spreading the benefits of growth.

Ethics and governance

Ethics is a small word that creates some complexity. The simplest definition of ethics is having appropriate standards of right and wrong. But this is not adequate. How do you define right and wrong? Is anything that is not in violation of law, automatically right? Life is not so simple, especially in a business context. Let me take the example of the recent financial crisis, which many see as the result of an ethical deficit. Probably there was very little in terms of statutory violation involved in the crisis. But it did involve a great deal of inappropriate behaviour on the part of business organizations, who allowed excesses to build up to a point where they became unsustainable; and in some cases, it seems, did so knowing that their behaviour could have serious outcomes. It was legal to lend large sums of money through relatively complex products to people who certainly would not have the capability to repay these loans. It was also legal to create performance incentives for individuals that resulted in highly risky short-term behaviour with no account of possible long-term consequences. But it was unethical to mis-sell products to customers who did not fully understand the risks they were taking; and it was unethical to disproportionately reward behaviour that did not reflect long-term value creation, while exposing lenders, depositors and shareholders to substantial risks.

How does one address these issues? For business organizations the answer lies in a term called “corporate governance”. In an increasingly complex business environment, companies need to take into account the conflicting needs of different sets of stakeholders. This is not limited only to shareholders, lenders or depositors, but extends to customers, employees, vendors and regulators, who are vitally interested in the health of the company’s operations. There is a need to ensure the existence of a framework that provides assurance to stakeholders that the company is indeed taking a balanced and holistic view.

Frequently, companies view corporate governance as a set of regulations to be followed in letter but not necessarily in spirit, a numerical proportion of independent directors or a set of board committees. Executive managers think of it as a requirement restricting their freedom while regulators think of it as a method to control the way a company functions. Corporate governance is none of these. The essence of corporate governance is creating a framework that drives sustainable value creation. Best practices in corporate governance ensure value creation for a number of players. They provide comfort to all the sets of stakeholders and reduce the burden on scarce external regulatory and supervisory resources, through enhanced self-regulation and monitoring within the company. This leads to reduced systemic risk and positively impacts the overall health of the economy.

In India we have the ancient concept of “dharma”. This is often translated as “religion”. But actually “dharma” is a set of values that guide the actions of an individual or a group. In ancient Indian society, it was laid down what was the “dharma” for a king, a soldier, a merchant, a priest. In a modern context, a business organization has its “dharma”, a regulatory organization has its “dharma”, and a government has its “dharma”. It is by each playing its due role and acting as a check and balance on excess by another, that we achieve balanced, sustainable and inclusive growth.

Conclusion

Finally, let me say that I can't think of a time that was better than the present for one to step out from the academic world and into the working world. In a sense you all were born at the right point in time. It is said that India is a country of a billion entrepreneurs. We must harness the entrepreneurial spirit of our people to build organizations which spread the growth and make it more inclusive. We have all the resources and capability to achieve this. What we need now are leaders who can think differently, act without fear, shape organizations and create opportunities where none existed earlier. Great

leadership and great success emanate from dreaming, learning and executing – and then dreaming and learning again! You are some of the most talented young people of today. You are the products of a new millennium. You will think and act differently from the generation before you. It is under your leadership that India will achieve her rightful place in the world. I congratulate all of you and wish you all the best for a very bright future.

Thank you.