

Institute for  
High Performance

# YES BANK: Serving low-income communities with a variety of innovative offerings

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Case Study

A large, close-up photograph of a hand holding a large, orange chevron arrow pointing to the right. The hand is positioned in the foreground, and the arrow is held between the thumb and index finger. In the background, the Taj Mahal is visible, illuminated by the warm light of a sunset or sunrise, with its reflection on the water. The overall scene is bathed in a golden-orange glow.

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**Banks across India have been ramping up their efforts to serve low-income communities. Yet most banks have found it difficult to launch and manage the right mix of new products these communities need. YES BANK is changing this. By striking the right partnerships and recruiting top-flight talent, the bank has launched and is scaling multiple offerings for high-growth niches within low-income communities.**

### Impact of the inclusive business initiative

In an effort to promote development in low-income populations, India's government issued a mandate that requires domestic commercial banks to allocate 40 percent of their lending to priority sectors. While some banks grumbled about it, YES BANK created a portfolio of offerings for low-income populations that transformed it into one of the most innovative financial institutions in India.

Consider just two offerings that are already having a significant impact. The first is a program that provides loans (and more) to honeybee farmers.

YES BANK recognized that small honey farmers did not have access to the working capital they needed to improve their productivity and sales volume. They usually required cash to meet their expenses, which led them to take advances against their honey stock or personal assets. Cash advances from local money lenders had stiff terms and high interest rates.

YES BANK identified a possible solution to this dilemma. It teamed up with Kashmir Apiaries Exports (KAE), a large honey processor and one of the largest exporters of honey from India.

As a solution, YES BANK and Kashmir Apiaries Exports devised a credit provision system based on warehouse receipts. To obtain needed credit, farmers deposited their honey at warehouses owned by YES BANK's partner, National Collateral Management Services. The partner then assessed the quality and quantity of the deposit and issued storage receipts to the farmers, who retained ownership of the honey.

The warehouse owner then assumed the risk for the storage of the honey, and YES BANK offered farmers loans of up to US\$500 at reasonable interest rates against their collateral. KAE committed to buying back the honey at an arranged price in the event that buyers could not be found for the stored product.

This initiative served more than 1,600 honey suppliers in North India between 2007 and 2011, providing them with some US\$2.9 million in 2011 alone. In addition:

- Borrowing at much lower interest rates, honey farmers saved, on average, US\$254-\$489 per year from 2007 to 2011 on expenses.
- Farmers also earned seven to nine cents more per kilogram for their honey in this arrangement, translating to about US\$490-590 more income per farmer per annum.
- Moreover, KAE retained many more repeat sellers: from 30-35 percent before the initiative to 75 percent after its implementation.

YES BANK seized a second opportunity to serve low-income communities by helping migrant workers.

The idea for YES BANK's "multi-channel remittance offering," YES Money, owes its genesis to a personal experience of its Chief Financial Inclusion Officer (CFIO). While walking to the office, the CFIO witnessed long queues in front of a state-run bank branch. On speaking to some of them, he found that they were migrant laborers who had lined up to remit their monies back to their homes in villages. On doing further research, YES BANK teams found that by queuing in such a manner these migrants were effectively losing a single day's wage. This led the bank to design a secure and convenient product for these workers.

The migrant remitter deposits money with the appointed Business Correspondent (BC) agent (generally located near local railway stations in small cities). Importantly, the BC is available even during late evenings, beyond the working hours of the banks. Remittance transactions are initiated by BC agents on their terminals which connect with YES BANK's National Electronic Fund Transfer (NEFT) system and deposit the remittance in destination accounts within 24 hours.



By the end of March 2012, YES BANK had served more than 140,000 migrant workers, who had conducted nearly half a million transactions amounting to US\$51 million. Transactions through YES Money, on average, cost less than one percent of the transaction value, compared with five percent or higher for other options. This has saved migrant laborers more than a million dollars. And the program has solved the problem noticed by the CFIO: the workers no longer lose a day's wages standing in line. The bank estimates the initiative has saved nearly 2 million man-hours.

## Barriers to scale

### **Inadequate physical branch network:**

As it scanned the landscape for opportunities to serve low-income communities, YES BANK realized that it did not have enough physical branches to do what it wanted to do, particularly in rural areas. To implement its strategy at the scale required to make a difference, the bank had to rely on partners such as KAE and local retail outlets as BC agents.

## Strategies for success

### **Building experienced and credible teams:**

To staff its inclusive business initiatives, YES BANK's top management hires executives with very high levels of credibility and experience in the market—a time-intensive effort. As a result, management trusts the ability of teams to think through the entire life cycle of inclusion initiatives, and more readily lend their support to proposals.

### **Collaborating with the right partners:**

YES BANK invests heavily in partner relationships and works closely with partners to achieve scale. For example, YES BANK targeted KAE because the company had expertise in procuring honey from a large number of honey farmers and was one of the largest exporters of honey from India. KAE therefore became the vehicle for YES BANK to achieve scale for its unique financial product.

The bank ensures that its partnerships are mutually beneficial, investing in the development of partners' (in this case BC agents) capabilities to help all parties achieve scale. For instance, in the case of remittance offerings, a number of low-business grocery stores and other designated BCs selling the bank's remittance offering have eventually become active retailers of other YES BANK products.

### **Creating an operating structure to coordinate team members:**

YES BANK's inclusive business initiatives consist of both relationship and product managers. While the relationship manager is the first in line with customers, product managers put in 70 percent of their time creating new products and 30 percent of their time working with relationship managers to sell the product. By doing so, they get feedback directly from potential customers about how their products can be improved.

### **Developing unconventional metrics to measure project performance:**

Teams at YES BANK have been constructing unconventional metrics to decipher the success of their initiatives. One of the key metrics they utilize is opportunity cost. The central banking institution of India requires all domestic commercial banks to allocate a certain percentage of their lending to the priority sectors (agriculture, small scale industries etc.). A certain percentage of amount corresponding to the shortfall in lending to this sector are required to be deposited with public sector banks listed by the central banking institution.

For YES BANK, the cost of not undertaking financial inclusion initiatives becomes the opportunity cost. This is because not undertaking an inclusion initiative would compel YES BANK to park priority sector funds with the banks prescribed by the central banking institution, making it forgo income it can earn by lending the same amount of funds on its own.

### **Embedding inclusiveness in the criteria for employee advancement:**

By creating leadership positions such as Chief Financial Inclusion Officer and Head of Responsible Banking, YES BANK's top leadership demonstrate to employees how overseeing and participating in the successful execution of inclusive business initiatives can help employees grow within the organization.

**"Since inception, innovation has been the cornerstone of sustainable growth at YES BANK, and has been imbibed in its DNA. Understanding the need for innovation in YES BANK's offerings has indeed created a differentiated value proposition for our stakeholders and enhanced efficiency for the bank. Our Sustainable Banking and Financial Inclusion platforms are key elements of YES BANK's strategy to create unique differentiation and offerings in the market place."**

**—Dr. Rana Kapoor, Founder, Managing Director and CEO**

## Company information

Founded in 2003, YES BANK is the fourth largest private Indian Bank. The bank has built unique products in areas such as food and agribusiness, infrastructure, microfinance and sustainability. YES BANK has demonstrated stable financial performance and steady growth. Its balance sheet size is currently around Rs. 830 billion (US\$ 15.66 billion), with total deposits of around Rs. 523 billion (US\$ 9.87 billion).

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