EDELWEISS – INVESTOR DAY 2018

Himanshu Kaji: Good evening. You know, once a management consultant said that “A journey of excellence begins for an organisation when it stops sacrificing quality for speed.” And in the time and era where we are resonating between a short-term pessimism and doubts and a long-term growth story, I think a good quality organisation is something that will see one through across the volatility of the cycles.

At Edelweiss, we have 4 pillars of quality organisation and they are culture, leadership, technology, and risk and governance. I think we have been able to have a very good blend of lateral recruits in a home grown leadership, basically on the strength of the promise of our culture, which talks about both empowerment as well as shared ownership. As you know that almost 50% of the company is owned by employees and management, we have been able to provide one of the broadest base of ease of pooling in the financial services industry and what we have been able to do is invest in each of these leaders through training, through mentoring, and giving them opportunities to participate through projects.

As of now, our leadership pool is around 6% of our total 11,000 strong employee base, we are around 700 strong leaders. I can say this with conformity that our 29 Quarters of consistent growth has come on the strength of this leadership pool and the 11,000 strong workforce that we have and we are able to, you know, we are confident that we will be able to deliver our promise of governance, scale and profitability through the strength of these leaders.

I think on the risk management, our philosophy has been very simple. When we wrote our Guiding Principles in 1996, one of the Guiding Principles was we will respect risk, you know, you are in a financial services business, you cannot avoid risk, you are in the business of taking risk. Sorry the screen has gone off, it's working, yeah. And in the business that we are in, we can only manage risk well. We believe that the risk and governance are like goalkeepers, it allows businesses to play on front foot because they know that somebody is guarding the goal post. Risk is as the heart of any financial services organisation but sometimes you find it very difficult to communicate it to the larger audience, especially the large workforce that you have. So actually, what we have done is we have summarized our risk philosophy and strategy into only 2 simple questions and those are these - is it worth it and can we afford it? And you ask anybody in Edelweiss about risk philosophy, this is the answer you will get. Practically, every decision that we take, we just ask these 2 simple questions and unless we get an answer to both of these as yes, we just don't proceed. On the Risk Framework, you know typically the word risk is associated in financial services companies with a financial risk, but we recognised long back that risk is much more multidimensional in that and therefore we came out with our own proprietary ERM Framework, which comprises of these 10 risks and these are the business risk, the credit risk, the market risk, the liquidity risk, the people risk, the physical infrastructure risk, and so on and so forth; they are all on the board for you to see. These risks form part of our Enterprise Risk Management Framework and through this framework what we do is we identify, we measure, we monitor and we manage all of these risks.

In a football field, you know, there are goalkeepers but also there are defenders who are spread all over the field and they are your first line of defence. We have actually a 4-line of defence as far as our risk and governance is concerned. The 1st line of defence is of course the business risk and governance teams which are housed in the business. The 2nd line of defence is we have a similar team at the corporate level, which basically prescribes the risk philosophy, the culture, and also ensures that the policy and processes are uniform across the organisation. The 3rd layer is our Enterprise Risk Council, this comprises of our Chief Risk Officer, Chief Financial Officer, Chief Compliance and Governance Officer; Rujan, Rashesh and me. And this is the council which actually takes structural decisions on risk and it is our custodian and sponsor of some of the large risk projects that we continue to run in the organisation. The last and the 4th pillar, of course, is the internal audit and controller team, we have a very strong internal audit and control team. We use external internal auditors but we have a strong team within and the combination of that is what ensures that you know the risk is managed well. We have approximately 300 + (plus) professionals in the risk and governance field throughout the organisation.

I just want to spend couple of minutes here on credit risk because I think liquidity risk, Rashesh has covered earlier, but on the credit risk on the corporate side, it goes through 4 levels of you know assessment and all these 4 levels are at various levels where business and enterprise are involved but even outside members are involved. And the origination to sanction ratio on corporate side is approximately 30-35%. On the retail side, large part of our underwriting is now through automated scorecards. We also have a risk team but which is delineated from the sales team even in the branch structure and there is a parallel organisation that it reports to, there also, the login to sanction ratio is about approximately 35%. You know, sometimes in retail businesses, you are conflicted between do you want to have operating cost or do you want to have credit cost and our choice has always been to prefer operating cost to credit cost because by tweaking some risk parameters on a scorecard, you can do lot more underwriting, you can do lot more booking but that ultimately can result into credit cost. What we would rather do is if you become a leader in a particular local market segment, you will rather spread, create, open more branches, take the OPEX upfront but protect your credit risk.

On the liquidity side, we have an ALCO, which looks at the credit… liquidity risk. We run the stress test continuously and you know the stress test model is such that it allows us to manage any liquidity situation in a stress scenario for anywhere between 120-180 days and that is something that we constantly pursue, and this is something even in good times, we are very focused on.

We also have something called Unknown Risk Club or a Productive Paranoia Club, where some of the senior most 25 people meet every Quarter, and we just think about blue sky, thinking on what are the emerging risks, and we come out with a list of 8-10 items every time. Some of them never occur and to that extent, it could be a waste of effort because we create projects around these risks to measure, monitor and manage them; but some of them when they come about, we are generally in the state of preparedness. So, you know, in March and June, both Quarters we had identified liquidity risk as a very important element and actually between March to September, this time around, we have strengthened our long-term borrowing further just to ensure that you know we are well placed if there was a crisis, it so happened that there was a slight turmoil in the market.

The last pillar of our quality organisation is technology. I think financial services is in the mode of creative destruction and those who use technology smartly and in a relevant way are the ones who will win. In past, we used to use technology as an enabler, but the last 2-3 years, we have started asking this question - can we use technology as a differentiator. Our earliest investments for example were in operations and risk management which allowed us to scale and bring down our per unit cost of delivery. In capital market, there’s a classic example, you know last 15 years, you have seen that the commissions have fallen consistently and there have been volatile times, not a single year is not gone that we have not made profits in this business, that is because of the intense focus that we had on managing cost smartly by using smart technology.

Today, our investments actually have gone beyond automation. We invests lot of money on Artificial Intelligence, on analytics, on robotics, on chatbots, on NLP, and so on and so forth, and we use it across the spectrum, right from marketing to customer onboarding, to customer service, to risk management, to underwriting, and so on and so forth. Couple of examples, you know, our market access platform for our institutional equities customers, which actually does 2% of the market turnover every day or our Mobile Trader Platform, which is the highest rated mobile app in the country; these are some of the examples of use of smart technology for customer experience. Two years back, we commenced a project with IBM, to invest and commit around Rs. 100-150 crore to do the process and productivity improvement through use of technology in 2 of our largest retail businesses, both Life Insurance and Global Wealth Management. We have today you know, using the big data and analytics, mapped and consolidated 1 million customers’ data across all our businesses, which actually allows us to do cross-sell, targeted marketing, risk management at a consolidated level, and customer reporting.

This is a important slide, these are our spends in last you know 4 years. We have spent… approximately, we started with a Rs. 150 crore + (plus) spend. This year, we expected around Rs. 425-450 crores, this is 6-7% of our Net Revenue; this has grown at a CAGR of 30%, it is likely to continue to grow at CAGR of 25% at least going forward, and last part of this investment is on the back of these following 4 objectives.