

CELENT

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# **HDFC Bank: Multichannel Integration**

**A Case Study**

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## Executive Summary

HDFC Bank has been one of the leading private banks operating in India since 1995. By the end of 2008, over 75% of HDFC customers used electronic channels to transact, and the technology had certain limitations in terms of its effectiveness of communication. A large number of customers using electronic channels prompted the bank to adopt better and newer technology. This was aimed not only at giving a new look and feel to the way customers communicated but also at helping in cross-selling and offering customized campaigns.

While HDFC was working with several vendors for both software and hardware services, NCR had a long-term relationship with the bank and had rolled out several services in the past. Previous business experience helped HDFC's decision to align with NCR.

The implementation began in March 2008 in a phased manner and was completed by October 2009. The transformation resulted in several benefits to the bank in terms of its offerings:

- Effective cross-channel and interactive communication to end customers.
- Marketing campaign and cross-selling of financial products recorded a response rate of 70% and conversion rate of 20%.
- HDFC launched its "MyFavourite" service, wherein customers experienced 40% faster transactions at the ATM by personalising their transactions according to their own preferences.
- On average, 30,000–33,000 customers per month registered for MyFavourite transactions.
- By enhancing and encouraging electronic channels, the bank saved nearly \$50,000 each month in material and mailing charges as compared to paper mailers.
- The multivendor and cross-channel capability of the software helped reduce cost and improve operational efficiency. It has also increased conversion rates, reducing cost per acquisition.

However, the implementation had several challenges during channel integration, which was considered a learning phase for both teams.

## Introduction

HDFC Bank Limited commenced its operations in January 1995 and was the first bank to receive approval from Reserve Bank of India (RBI) to set up in the private sector post-liberalization. In February 2000, HDFC Bank merged with Times Bank Limited (a private sector bank promoted by Bennett, Coleman & Co./Times Group).

In May 2008, HDFC bank was amalgamated with Centurion Bank of Punjab. The amalgamation added significant value to HDFC Bank in terms of increased branch network, geographic reach, customer base, and a bigger pool of skilled manpower.

The bank has a network of 1,725 branches and 4,232 ATMs in 779 cities spread across India. It offers telephone banking in 500 locations. By March 2010, HDFC bank had a customer base of 12.5 million, up from 7.2 million in the year 2008. The investments made in multichannel integration have supported the customer growth rate.

By the end of 2008, over 45% of HDFC customers initiated transactions through the ATM on an average of more than 300 transactions per ATM per day. More than 75% of the bank's customers transact using direct channels such as ATM, net banking, phone banking, and mobile banking. On a monthly basis, more customers visit its ATMs than its branches.

The bank saw an opportunity to leverage its direct banking channels to attract and retain customers. This raised some concerns at the same time:

- Is channel integration possible in the current setup, in which all the ATM transactions are handled by BASE 24?<sup>1</sup>
- How will this “extra” contact with the customer work without adversely impacting customer transactions?

While the financial services world was revolving around customer services, HDFC was motivated to offer best-in-breed services to its customers. The multiple channels beyond the branch (ATMs, Internet,

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1. BASE24 is a product of ACI Worldwide Inc. It is an EFT processing and switching system that provides ATM support and management including transaction routing and authorization, Electronic Data Interchange, settlement, reporting, network control, and stored value card functionality.

phone, and even mobile devices) have become the primary customer touch points. Therefore the focus was to make these touch points more customer-friendly and convenient and thus offer a truly any time, anywhere banking experience.

Considering this context, HDFC Bank was looking for an innovative idea that would:

- Minimize the time customers spend on one or more of these channels.
- Help the bank communicate and connect with the customer in an optimal way.

## Implementation Background

Prior to channel integration, HDFC Bank was using a solution developed in-house to facilitate cross-selling to targeted customers. The solution, however, catered to the basic functionality of communicating the message to the end user in plain text without providing the opportunity to interact with the customers. The solution also had drawbacks in terms of basic look and feel that hampered customer communication. The messaging was done on a stand-alone basis without any integration, and the service offerings were limited to net banking and ATMs.

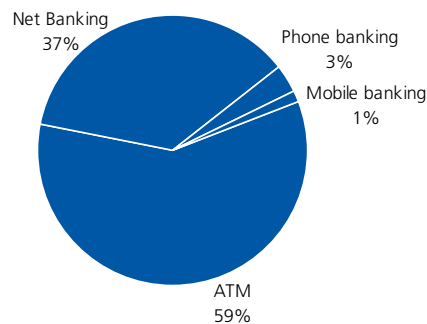
Since the bank was using a basic cross-sell methodology with a set of target customers and plain text nonpersonalized messages, it was not possible to offer the best product to each customer segment. Added to this was a linguistic barrier; the messages could only be in English. Because the technology was limited to Internet banking and ATMs, the campaigns would have to be individually scheduled for each channel. The absence of integration between these channels thus resulted in duplication of communication, affecting the efficiency and causing discomfort to customers at times.

The majority of HDFC Bank customers used net banking or ATMs for financial transactions. Lack of effective personalized communication could have hindered the growing customer base.

By end of 2008, the bank had approximately 7.2 million customers, 5.4 million of who used electronic channels to conduct transactions. Figure 1 shows electronic channel usage by HDFC customers.

**Figure 1: Pre-Implementation Electronic Channel Usage by HDFC Bank Customers**

**Electronic Channel Usage By HDFC Customers  
(March 2008: 29.3 Million Transactions)**



Source: HDFC Bank, Celent

Note: ATM transactions include only HDFC customers using HDFC bank ATMs and exclude nonbank customers' use of HDFC bank ATMs and vice versa.

In 2008, prior to channel integration, 59% of the total electronic channel usage was via ATMs, followed by 37% via net banking. With over 75% of the total customer base using electronic channels for conducting transactions, It was time for HDFC to bring in a new solution that integrated existing channels and enhanced communication.

## Objectives Behind Channel Integration

Apart from genuine need for channel integration, Reserve Bank of India's new policy on "Free ATM access" added impetus to HDFC's new implementation. This policy gave HDFC cardholders more access to other bank ATMs, which clearly meant erosion of profit because HDFC was liable to pay interchange fees to other banks. Thus, in order for HDFC to retain customers and attract new customers, channel integration became the need of the hour. This not only saved money but also built a revenue stream to earn interbank interchange fees. HDFC intended to achieve the following goals:

- **Transforming ATMs into business units.** The bank had a vision of transforming its ATMs from a cost center to a profit center. The bank wanted to leverage its 4,232 ATMs to educate customers and cross-sell / up-sell various products.

- **Marketing messages across all ATM models.** HDFC Bank has about five different models of ATMs from NCR and Diebold. A campaign that was only available on selected ATMs proved to be inefficient. The aim was to ensure that cardholders received the marketing messages, regardless of the ATM make/model they used.
- **Quicker transactions.** With some ATMs clocking as many as 800 transactions per day, lengthy queues became a point of concern that impacted customer service. Ease and efficiency of transactions were essential to attract nonbank customers.
- **Personalized ATM transactions.** The objective was to facilitate customers in personalizing ATM transactions by enabling them to save their preferences.
- **Targeted marketing communication across channels.** HDFC Bank wanted to offer customers a consistent banking experience across all its channels: call center, ATM, website, email, and mobile. The bank had an existing customer relationship management (CRM) system; however, it needed a cross-channel delivery mechanism that could push targeted messages across multiple channels. It also needed a unified means of gathering customer feedback from all these channels and using the intelligence to create relevant marketing campaigns.

With these objectives in mind, HDFC decided to upgrade its channel integration technology.

## Channel Integration and Solution Implementation Process

HDFC Bank, like most of the new-generation private sector banks, considered technology a key element to growth. The product cross-sell technology that the bank was using had an inherent volume limitation and would not have been able to scale with the bank's rapid growth. Although there was no pressure from the competition, the bank proactively decided to go for more efficient technology. Apart from this, integration of product cross-sell with all the electronic channels would help the bank utilize resources in an efficient manner without intruding on customer privacy.

Apart from the objectives mentioned earlier, time to market, ease of implementation, and customer receptivity were some of the key elements that prompted channel integration. The development started in March 2008, and the implementation commenced in June 2008.

The bank initially decided to integrate all direct channels with NCR in a single phase and time span between April 2008 and October 2008. However, as the implementation began, the merger of HDFC Bank with Centurion Bank of Punjab took place; hence, certain project priorities had to be changed, and a decision was made to drive the project in a phased manner.

HDFC Bank's ATM base also comprised Diebold ATMs (1062 IX, D450IX, and D450 Opteva). In order to implement the MyFavourite functionality as well as targeted messaging on these ATMs, the ATM Application was migrated to NCR's APTRA Advance NDC (AANDC), and the communication protocol was migrated from Diebold Direct Connect (DDC) to NCR Direct Connect (NDC). This was also one of the reasons HDFC decided to run the entire implementation in a phased manner. Table 1 on page 10 gives the timeline and implementation by channel.

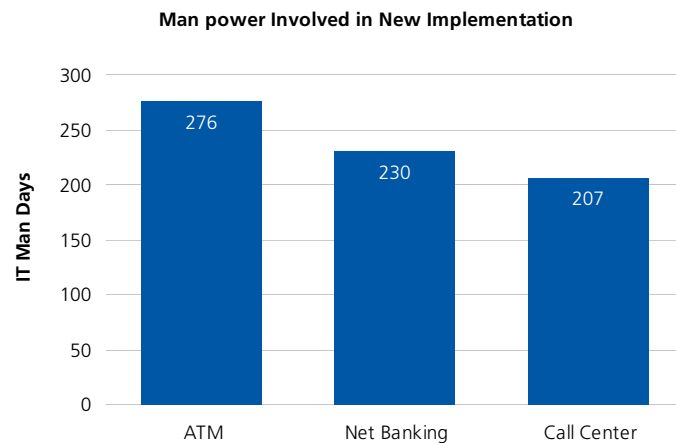
**Table 1: Channel Integration Timeline**

	<b>Implementation Structure per the Deal</b>	<b>Actual Implementation</b>	<b>Remarks</b>
Phase 1	Implementation of APTRA eMarketing application at data center for ATM channel	Commenced on 7 July 2008 and completed by 12 Aug. 2008.	<p>Time span covers Infrastructure procurement and setup.</p> <ul style="list-style-type: none"> <li>■ CP application implementation</li> <li>■ Base24 changes to handle CP Targeted Message and favorite transactions on ATM user acceptance testing</li> <li>■ CP application setup production movement for ATM channel</li> </ul>
Phase 2	CP rollout on NCR ATMs across India	Commenced on 12 Aug. 2008 and completed by 14 March 2009.	CP installation on over 1,850 NCR ATMs across India.
Phase 3	Diebold different models of ATM testing on MVS platform with XFS	Commenced on 19 March 2009 and completed by 14 September 2009.	CP implementation on Diebold ATMs which involved different models (1062IX, D450 Optiva, and D450 IX) of Diebold ATM terminal control software migrated to NCR NDC terminal control software with XFS CEN 3.0, hence involving more time on testing.
Phase 4	CP rollout on Diebold ATMs across India.	Commenced on 7 October 2009 and completed on 23 December 2009.	Over 557 Diebold ATMs of different models migrated with MVS, XFS CEN 3.0, and CP installation across India.
Phase 5	Implementation of CP Application at data center for net banking channel	Commenced on 7 July 2008 and completed by 4 November 2008.	<p>Phase 1 &amp; Phase 5 were executed in parallel. Time span covers Infrastructure procurement and setup</p> <ul style="list-style-type: none"> <li>■ CP Application implementation,</li> <li>■ Net Banking Flex@ application integration with CP application for displaying targeted messages on net banking page after customer login</li> <li>■ User acceptance testing</li> <li>■ CP Application setup production movement for net banking channel.</li> </ul>
Phase 6	Implementation of CP Application at Data Center for Phone banking channel	Commenced on 10 April 2009 and completed on 7th July 2009	<p>Phase 3 and Phase 6 were executed in parallel. Time span covers Infra procurement and setup</p> <ul style="list-style-type: none"> <li>■ CP Application implementation</li> <li>■ PhoneBanking RAP CTI application integration with CP application for displaying targeted messages on customer detail page to call center agent during customer interaction.</li> <li>■ User acceptance testing</li> <li>■ CP application setup production movement for phone banking channel.</li> </ul>

Source: HDFC Bank, Celent

Significant manpower, time, and effort are part of any new implementation. HDFC channel integration took more than 700 IT person days exclusively for implementing the solution at the centralized data center across all three channels; on-site integration of ATMs took much longer than 276 IT person days. Figure 2 gives an idea of the time involved in each integration.

**Figure 2: IT Person Days Involved in Each Integration, by Channel**



Source: HDFC Bank, Celent

## Implementation Challenges

The real challenge was to integrate two different systems (Diebold and NCR) to work in tandem. Apart from this, the following were some of the challenges faced by HDFC Bank:

- All ATM transactions are routed through the bank's Base24 switch for authorisation and authentication. This was also applicable to the MyFavourite transaction. To make this happen, three new programmes were configured in the existing download config file of BASE24.
- NCR's AANDC ATM application was deployed on Diebold ATMs. This required extensive integration and testing efforts. During ATM testing, certain challenges were identified on Diebold ATMs, due to migration of DDC protocol to NDC protocol, and these were resolved during the implementation. Diebold's D450 Opteva & D450 IX models were getting migrated to AANDC for the first time, and it was a new experience for both NCR and Diebold teams in India.
- Favourite transaction is offered for withdrawals, wherein the customer can register after making a withdrawal and modify the MyFavourite Transaction as per his/her convenience. This

required the Device Handler on Base24 to be suitably modified to allow withdrawals to be registered as a favourite transaction. At the completion state, this was done seamlessly.

There were, however, certain technology-related lessons that both teams learned during the implementation phase. These challenges were unique to the Indian environment (i.e., the same bank using multiple service providers for the same services; ATM deployment in this case was done by Diebold and NCR), which were not faced by NCR during earlier implementations in other regions.

## NCR: Technology Partner for Channel Integration

NCR (National Cash Register) Corporation, founded in 1884, is a global technology company in automated teller machines, self-checkouts, and other self-service. NCR's software, hardware, consulting, and support services help organizations in retail, financial, entertainment, travel, healthcare, and other industries interact with consumers across multiple channels.

NCR has a global employee base of 22,400 and more than 2,000 employees in India spread across the manufacturing facility, R&D center, sales and marketing, field support, and ATM management center. Currently NCR India has the largest manufacturing facility, with a capacity of 17,000 ATMs per year. NCR's support infrastructure has 239 service locations in India covering 3,665 cities, towns, and villages. NCR's ATM management centre supports 12,000 ATMs (1,500 overseas and 10,500 domestic).

The bank wanted to implement a solution with the following results in mind:

- Create a personalized ATM experience by allowing the cardholder to create a favourite transaction regardless of the make and model of ATM.
- Reduce time for transactions that result in ATM queues and longer wait times.
- Cross-sell / up-sell to own customers across channels in a consistent manner, which means generating qualified leads on any channel.
- Target other banks' customers in a meaningful manner and collect adequate information to enable followup.
- Communicate in a synchronized fashion through messages sent to the Internet banking session to a targeted user.
  - Follow up via email in a targeted fashion with specific and generic messages to customers and prospects.
  - Integrate smoothly with existing CRM systems so that existing investments and processes can be leveraged.

- Provide real time reporting for the bank’s marketer to utilize the toolset to instantaneously view the performance of any messaging strategy to any customer at the targeted channels.
- Enable the marketer to allow for real time creation and modification of communication strategies to on-us or off-us customers.

HDFC has been closely working with NCR over the years on various hardware/software supporting systems. Though there were other technology service providers that offered similar services, the bank relied on NCR’s technology and its ongoing support.

## Business Model

NCR has a flexible deployment approach with three types of offerings:

- Outright Licensing: One-time purchase of license and implementation, hosted and managed by the customer.
- Software as a Service (SaaS): Solution hosted and managed in NCR's data centre in Beltsville, Maryland, US.
- Hybrid: Solution is hosted on bank premises.

In the SaaS and hybrid options, the pricing is on an annuity basis and is usage based. This means that the bank’s expense increases with its growth in customer use. With these two options, customers can start small and grow fast without incurring unplanned capital costs.

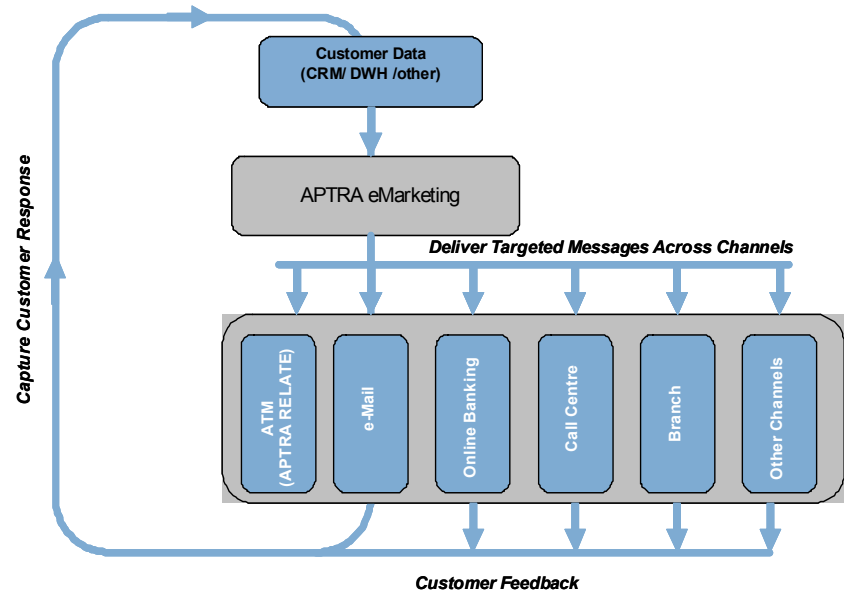
In the case of HDFC, both parties agreed upon hybrid delivery and pricing. The central server is hosted in the bank’s data centre and supported by a combination of on-site and remote resources. The bank and NCR signed a multiyear contract that is priced on the basis of the number of customers targeted across various channels. Annual charges include support fees and solution updates/upgrades.

## NCR Solutions Deployed

**APTRA eMarketing:** a server based system which provides cross-channel marketing capabilities. This solution allows for message or campaign orchestration across various channels, including the ATM, eMail, Internet, mobile device, call centre, and branch. It can be integrated with CRM systems such as Teradata CRM, Chordiant, Unica, Siebel, and Microsoft Dynamics.

APTRA e-Marketing enables the bank to segment customers and prospects by common characteristics such as demographics, financial history, or activity. Multiple campaigns can be designed, executed, and managed from a single console. The system has extensive reporting capabilities to analyse campaign performance.

**Figure 3: APTRA eMarketing Schematic**



Source: NCR, Celent

**APTRA Relate:** NCR’s APTRA Relate client works on the ATM channel to enable transaction personalization and targeted marketing. It communicates with the APTRA eMarketing server to deliver customer communication during the ATM transaction. It also has an interface for customers to provide feedback.

**APTRA Advance NDC (AANDC):** NCR’s AANDC is a Windows XP-based Multivendor ATM Application. It is message-compatible with NDC for host communication and hence protects the bank’s existing investment in NDC device drivers and host systems. AANDC MV supports all of the bank conventional functionalities like cash withdrawal, cash/cheque deposit, balance enquiry, mini-statement, statement printing, etc. The application supports web-based transactions through its dual server architecture. AANDC is PCI PA-DSS & EMV compliant and is further secured by APTRA Security policies.

**APTRA XFS:** This is NCR’s self-service platform software for Windows-based ATMs. It contains all the drivers, tools, and programming interfaces for the development and support of ATM applications. The APTRA XFS layer is compliant with GEN XFS standards.

## Key Outcomes

Implementation of the NCR APTRA eMarketing solution by HDFC Bank to enhance communication with its customers and prospects on multiple channels was accomplished by October 2009.

The implementation targeted offering multilingual messages and campaigns launched on ATMs and with an objective to reach rural/semiurban markets with effective communication. Campaigns have been specifically launched for customers in specific geographical segments in languages such as Hindi, Gujarati, Marathi, Tamil, Telugu, and Kannada. Earlier, the system was limited to English.

The bank observed higher conversion rates when the campaigns were in the regional languages. For instance, there was a 100% increase in conversion rate for telemarketing activity to drive Insta Alert registration. In the first phase, when the communication was in English, the conversion rate was 11%. Subsequently, for customers who did not respond to the English message, the bank conducted another round of communication in their regional language and evidenced an increased conversion of 12%, bringing the conversion from the campaign to 23%.

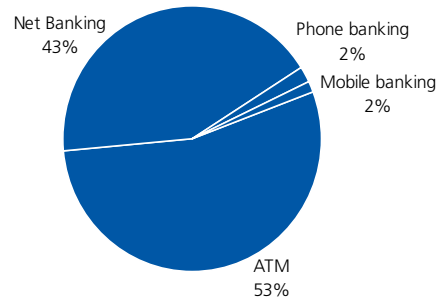
The bank particularly believes that offering campaigns in regional languages yielded better results in the targeted segments in terms of conversion rates and lead generation.

The customer base has grown from 7.2 million in 2008 to 12.5 million in 2010, a growth rate of 32%. The growth, however, is not attributable to channel integration alone. HDFC has increased the number of bank branches in the last two years, and that has helped increase the number of customers. Electronic channel usage by bank customers has,

however, not changed significantly across the channels. Nevertheless, the customer banking experience has certainly changed across all channels. Figure 3 shows the channel usage after the integration.

**Figure 4: Post-Implementation Electronic Channel Usage by HDFC Customers**

**Electronic Channel Usage By HDFC Customers  
(March 2010: 52.7 Million)**



Source: HDFC Bank, Celent

Note: ATM transactions include only HDFC customers using HDFC bank ATMs and exclude nonbank customers using HDFC Bank ATMs and vice versa.

HDFC and NCR have more or less accomplished all the objectives they set. The impact of such integration can be better measured in the medium term to long term as more customers start using these channels, which in turn should result in growing response rates and conversion rates from targeted campaigns.

- HDFC Bank's campaigns using NCR APTRA eMarketing indicated the targeted marketing and cross-selling of financial products recorded a response rate of 70% and conversion rate of 20% from August 2008 to October 2009.

**Table 2: Number of Campaigns by Each Channel**

Channel	Number of Campaigns	Conversion Rate	Targeted New Revenue Generation
ATMs	258	~15%. Varies for each type of product offered depending on the utility and need of the customer.	100 million (US\$2.2 million) for FY 2010 –11
Website	524	Varies for each type of product depending on the utility and need of the customer.	150 million (US\$3.2 million) for FY 2010 –11
Call center	15	Varies for each type of product depending on the utility and need of the customer.	N/A

Source: HDFC Bank

- HDFC launched the **MyFavourite** service to customers, which enabled customers to personalize their ATM transactions with their language preferences, fast cash amount, favourite transaction, and receipt options. Customers thus experienced 40% faster transactions at the ATM. The number of clicks a customer has to make has dropped from nine to five.

**Table 3: Customer Registration for MyFavourite Service**

Registration Methods	April 08– March 09	April 09– March 10	Percentage Growth
Customers registered for MyFavourite transaction via ATMs	200,000– 300,000	1.3 million– 1.4 million	366%
Default registration of customers for ATM Favourite transaction basis analytical segmentation using internal systems	Nil	3.1 million	

Source: HDFC Bank

On average, 30,000–33,000 customers per month registered for MyFavourite transactions on ATMs. Based on bank data in APTRA eMarketing, around 20–22% of **unique customers**<sup>1</sup> have preferred to use MyFavourite transaction.

Some of the campaigns targeted unique customers via ATM, Internet, and call centers using APTRA eMarketing.

**Table 4: Number of Unique Customers Targeted Via Campaigns By Various Channels**

Channel	April 08– March 09	April 09– March 10	Percentage Growth
ATM	62,000– 65,000	6.7 million– 7.0 million	10669%
Website	1.6 million – 1.8 million	3.4 million– 3.6 million	50–52%
Call Center	N/A	3.8 million– 4.0 million	

Source: HDFC Bank, Celent

1. Total number of customers who were contacted in a given period of time for a campaign.

These campaigns generated leads. The conversion value of the leads generated using APTRA eMarketing is given in Table 5.

**Table 5: Value of Leads Converted**

Channel	April 09–March 10 (Value in Rupees)
ATM	16.5–19.0 million (US\$360,000–410,000)
Net / Website	40.0–42.5 million (US\$860,000–920,000)

Source: HDFC Bank, Celent

- In addition, important cost savings were realized through use of ATM and email channels for regular customer communications. Based on an estimated volume of 100,000 messages per month, the bank saves nearly \$50,000 (INR 2.25 million) each month in paper mailing charges and other materials. Of the total cost saving, mailing charges accounted for INR 1.6 million, and the remaining INR 0.65 million was saved on cost incurred on physical forms.
- The multivendor and cross-channel capability of the software helped reduce cost and improve operational efficiency. It has enabled efficient communication without duplication across channels, thus saving on cost of communication. NCR's APTRA eMarketing solution has made effective communication possible through use of rich text and graphics, interactive communication, and straight-through processing for closure of the offer for interested customers and intelligent communication across multiple channels. It has also helped increase conversion rates, reducing cost per acquisition.

## Conclusion

As a leading private bank, HDFC felt the need to transform its systems to integrate and enhance its services to end customers. While the entire implementation process had several challenges, the ultimate achievement in terms of offering effective and interactive communication, cross-selling, and customizing transactions cannot be denied.

- HDFC benefited from its channel integration initiative, which was undertaken at a time when the use of electronic channels was gaining popularity due to convenience and ease of use. Customers adapted easily to more effective and efficient modes of banking. HDFC promptly enhanced its integrated channel technology.
- The impact of such integration can be better measured in the medium term to long term as more customers start using these channels, resulting in growing response rates and conversion rates from targeted campaigns
- HDFC's MyFavourite Transaction is saving customers 40% of transaction time, thus meeting the needs of customers who cannot afford the time to stand in lengthy queues for simple transactions.
- Implementation resulted in multilingual campaigns targeted for customers in specific geographical segments, thereby increasing the campaign offerings in six different regional languages, which was earlier limited to English alone.
- This resulted in effective cross-selling of financial products, thus evidencing a response rate of 70% and conversion rate of 20% from August 2008 to October 2009.
- From April 2009 and March 2010 value of leads converted amounted to US\$1.3 million via ATM and Net banking channels.
- HDFC Bank has managed to save close to INR 1.6 million (US\$34,557) in mailing charges and INR 0.65 million (US\$15,443) in physical forms.
- Campaigns are effective tools to propagate the bank's products, but follow-up activities have a vital role to play in terms of customer acquisition.

## Leveraging Celent's Expertise

If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

### Support for Financial Institutions

Typical projects we support related to multichannel banking include:

**Vendor short listing and selection.** We perform discovery specific to you and your business to better understand your unique needs. We then create and administer a custom RFI to selected vendors to assist you in making rapid and accurate vendor choices.

**Business practice evaluations.** We spend time evaluating your business processes, particularly in evaluating vendors that best suit your business needs. Based on our knowledge of the market, we identify potential process or technology constraints and provide clear insights that will help you implement industry best practices.

**IT and business strategy creation.** We collect perspectives from your executive team, your front line business and IT staff, and your customers. We then analyze your current position, institutional capabilities, and technology against your goals. If necessary, we help you reformulate your technology and business plans to address short-term and long-term needs.

### Support for Vendors

We provide services that help you refine your product and service offerings. Examples include:

**Product and service strategy evaluation.** We help you assess your market position in terms of functionality, technology, and services. Our strategy workshops will help you target the right customers and map your offerings to their needs.

**Market messaging and collateral review.** Based on our extensive experience with your potential clients, we assess your marketing and sales materials—including your website and any collateral.

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