




Indian Banking in next 5 years: Supporting credit for a \$ 5Tn Economy while navigating a complex disruption

Saurabh Tripathi, MD and Senior Partner

3 Key messages



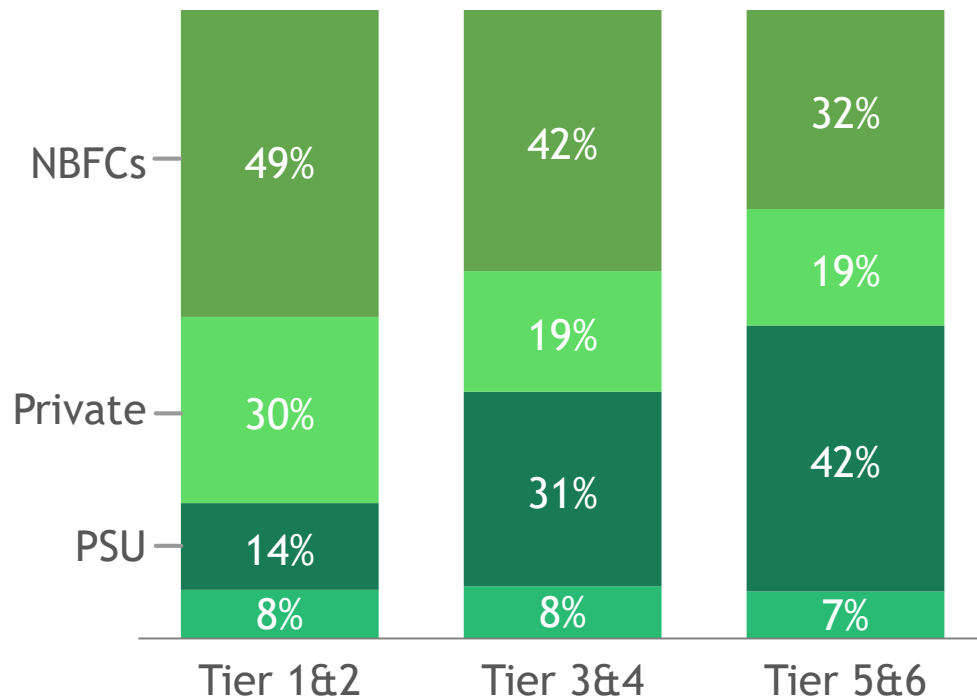
• Rising importance of non banks in bank ecosystem

• Demands on banks for sustainable growth in credit and implied transformation of landscape

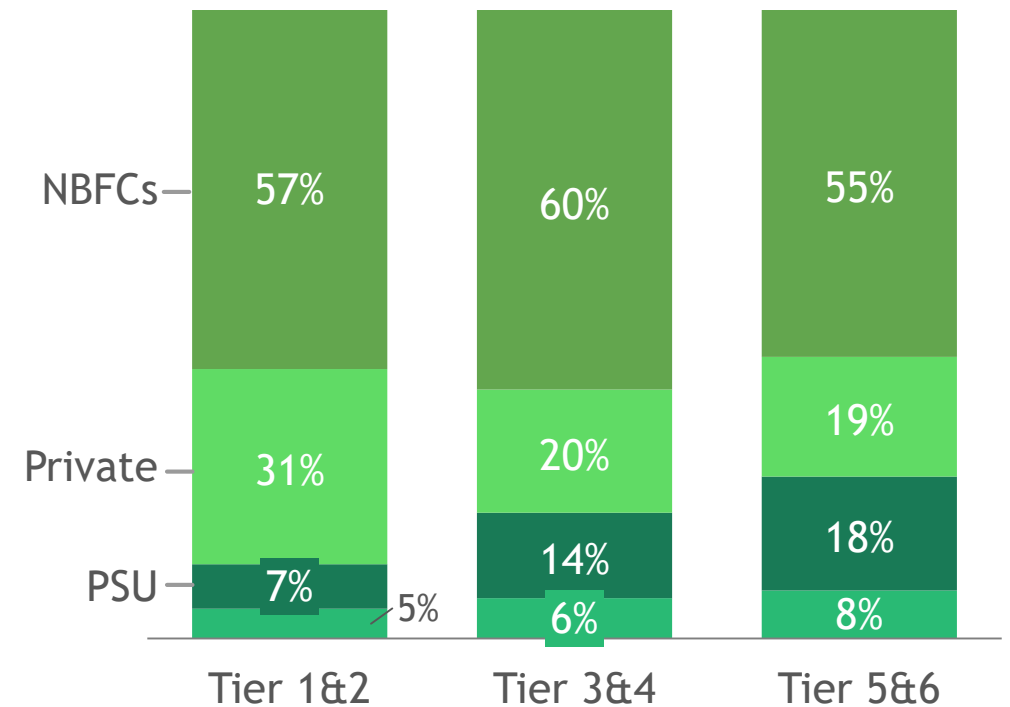
• Implications for policy and regulations

NBFC already have dominant reach in retail and small business credit and are core to market development

Total no. of new loans (FY19)



Total no. of loans to NTC¹ (FY19)

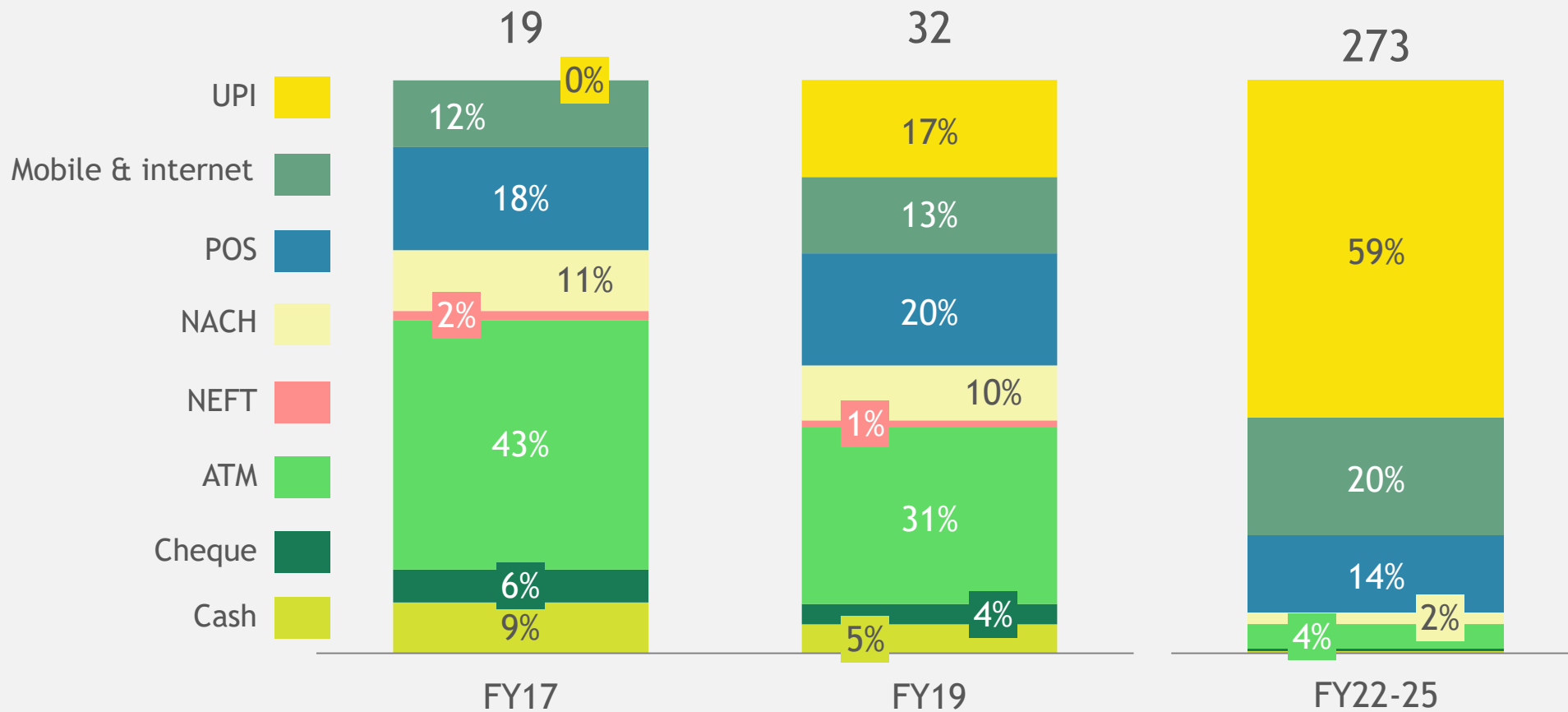


Note: 1. Data for number of new loans sanctioned in FY19 2. NTC means New to Credit 3. NBFCs includes HFCs 4. Products included are Auto Loans, Personal Loans, Housing Loans, Consumer Loans, Business loans, Loan Against Property, Gold Loan, Credit cards, Agri-Priority, Commercial Vehicle and Construction Equipment Loans 5. Others include Co-operative Banks, MNCs and Regional Rural Banks

Source: TransUnion CIBIL; BCG Analysis

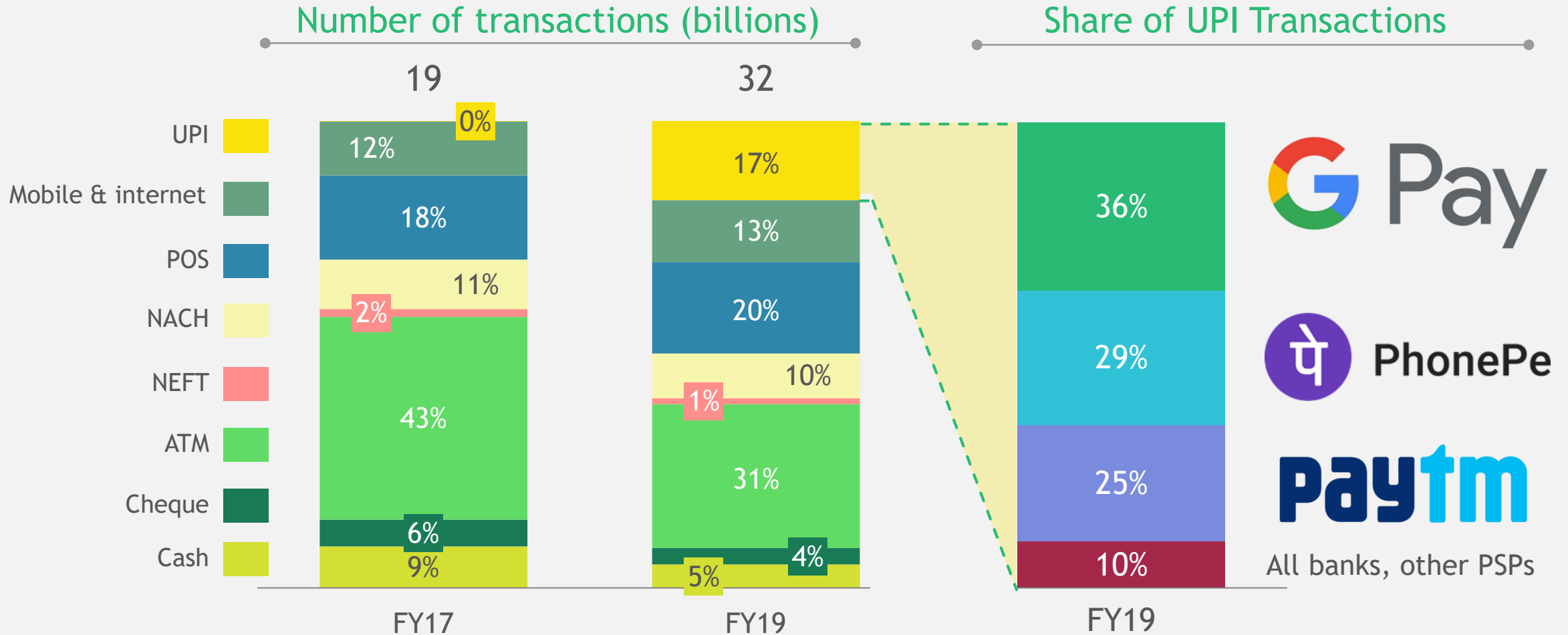
India poster child for disruption

Number of transactions (billions)



1. Internet transactions include RTGS, ECS, NEFT and IMPS financial transactions 2. ATM/CDM includes withdrawals transactions at ATM and deposit transactions at CDMs. ATM and Mobile transactions included are financial transactions only
 Source: RBI data, BCG Analysis

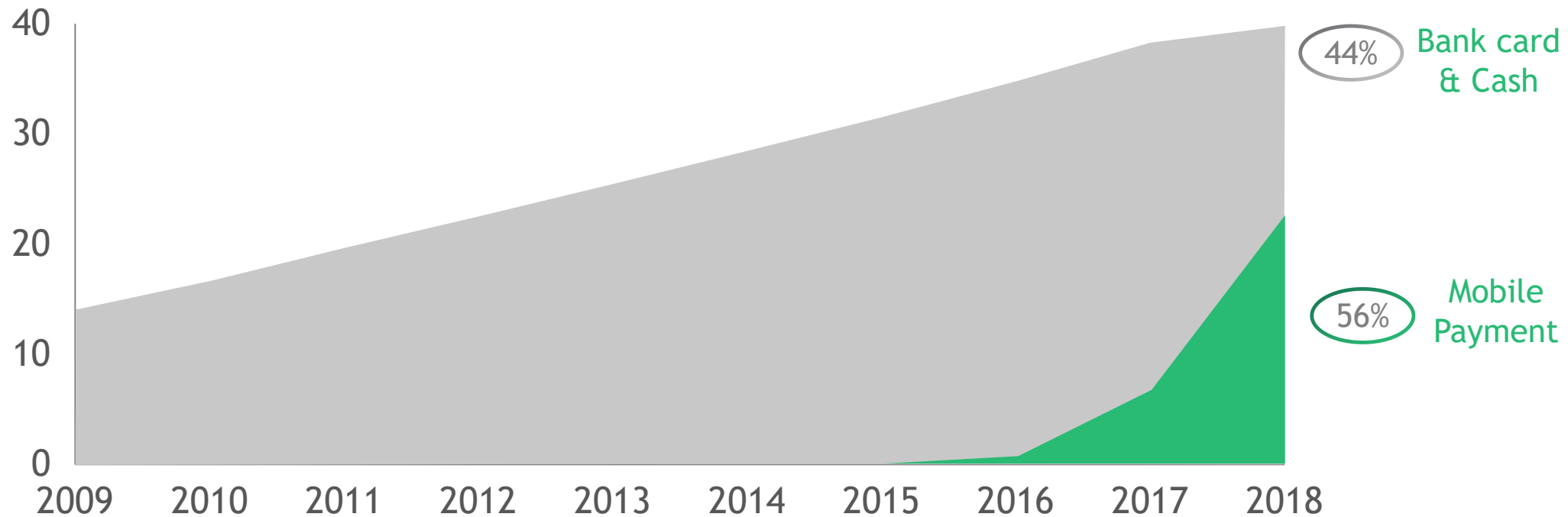
India poster child for disruption



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China has already witnessed this rapid transformation

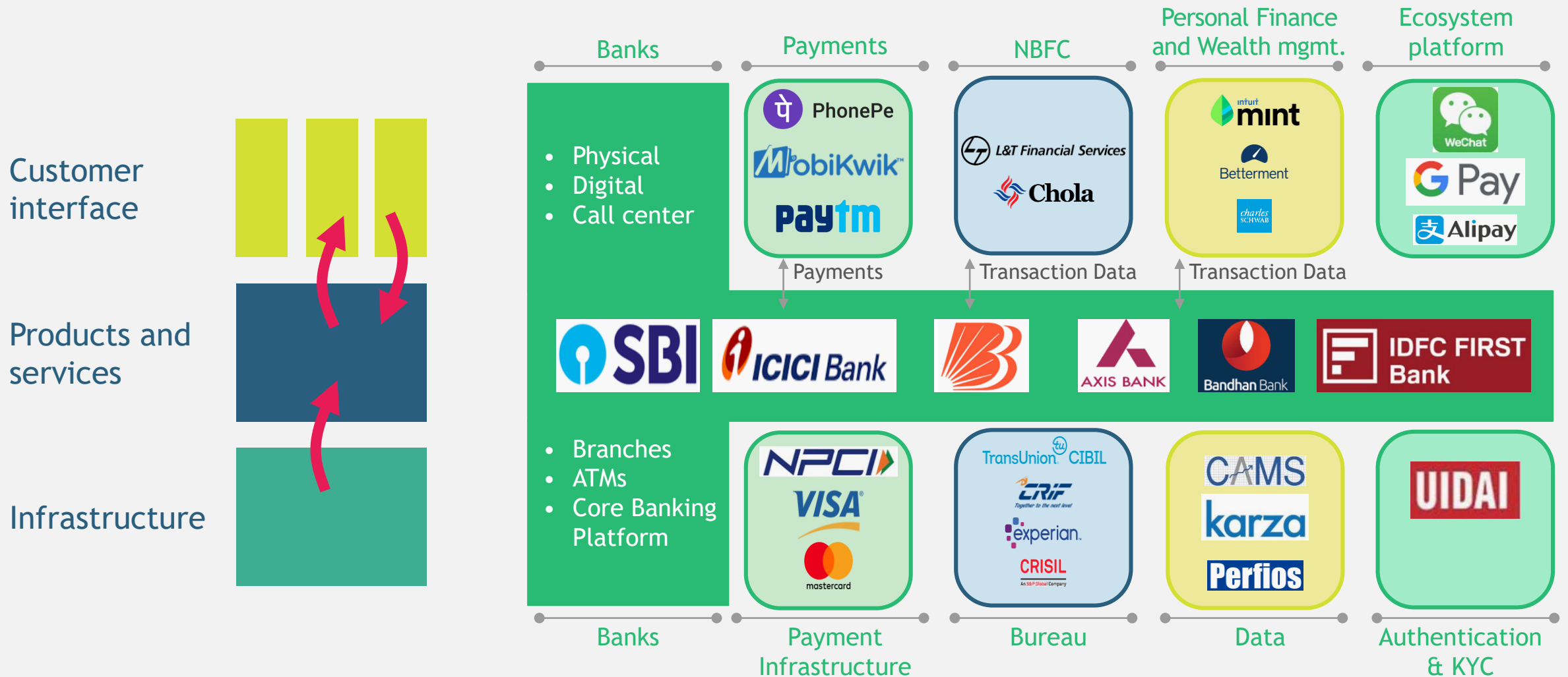
Offline consumption (Tn, RMB)



Non banks share FY18

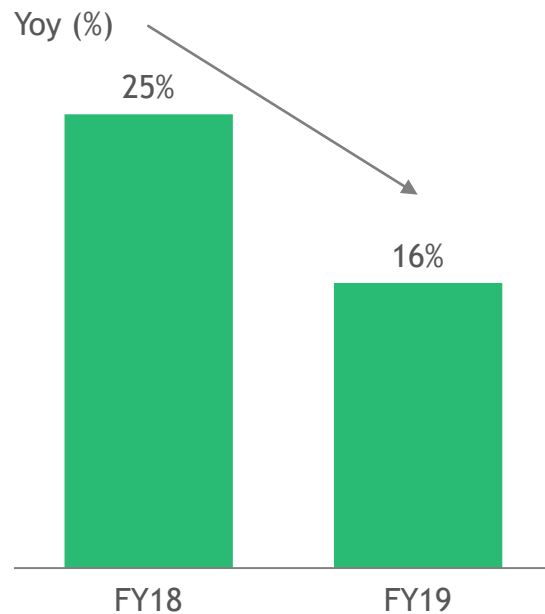
90%

Consent based data sharing - major ecosystem of non banks to emerge around banks



Retail Loans: Capabilities of Industry evident; Quality strengthened as growth slowed

Advances growth slowed ...



... but quality of book improved

GNPA (%)	FY18	FY19	Inc/Dec
NBFCs	2.3%	2.5%	↔
Private Banks	2.7%	2.5%	↓
PSU Banks	4.0%	3.0%	↓
Industry	3.2%	2.8%	↓

Industry tightened standards



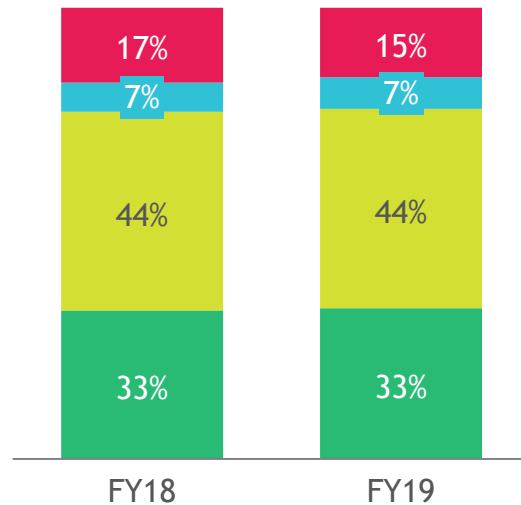
Credit scores
 -1 Below 650 650-750 750+

Note: 1. NBFCs includes HFCs 2. Industry includes NBFCs, HFCs, Private banks, Public sector banks, Co-operative Banks, MNCs and Regional Rural Banks
 3. Retail Consumer loans include Auto Loans, Credit card, Gold Loan, Personal Loans, Housing Loans and Consumer Durable Loans
 Source: TransUnion CIBIL; BCG analysis

Inability to manage quality hinders supply of credit in SME

Industry could not tighten standards

Bureau score of new loans



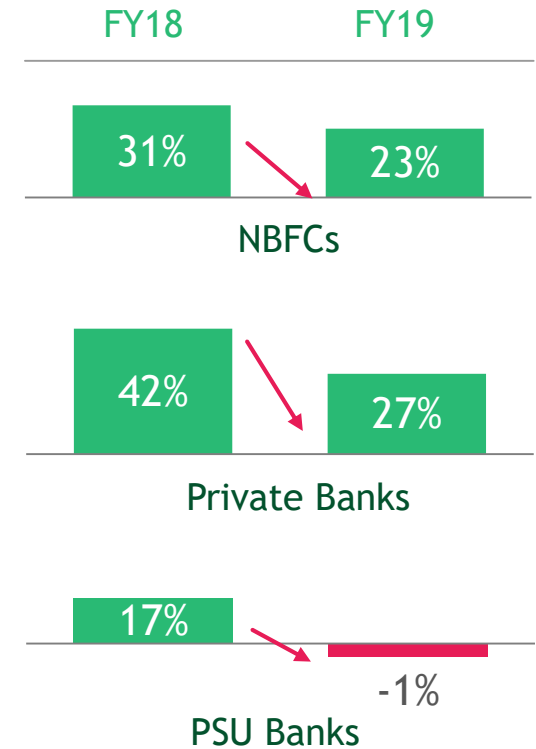
Credit scores

■ -1
 ■ Below 650
 ■ 650-750
 ■ 750+

Visible build up of stress-NPA (%)

	FY18	FY19	Inc/Dec
NBFCs	5.1%	7.3%	↑
Private New	2.5%	2.2%	↔
Private Old	5.4%	7.9%	↑
PSU Large	19.6%	19.1%	●
PSU Medium	20.4%	24.5%	↑
Industry	11.3%	11.3%	●

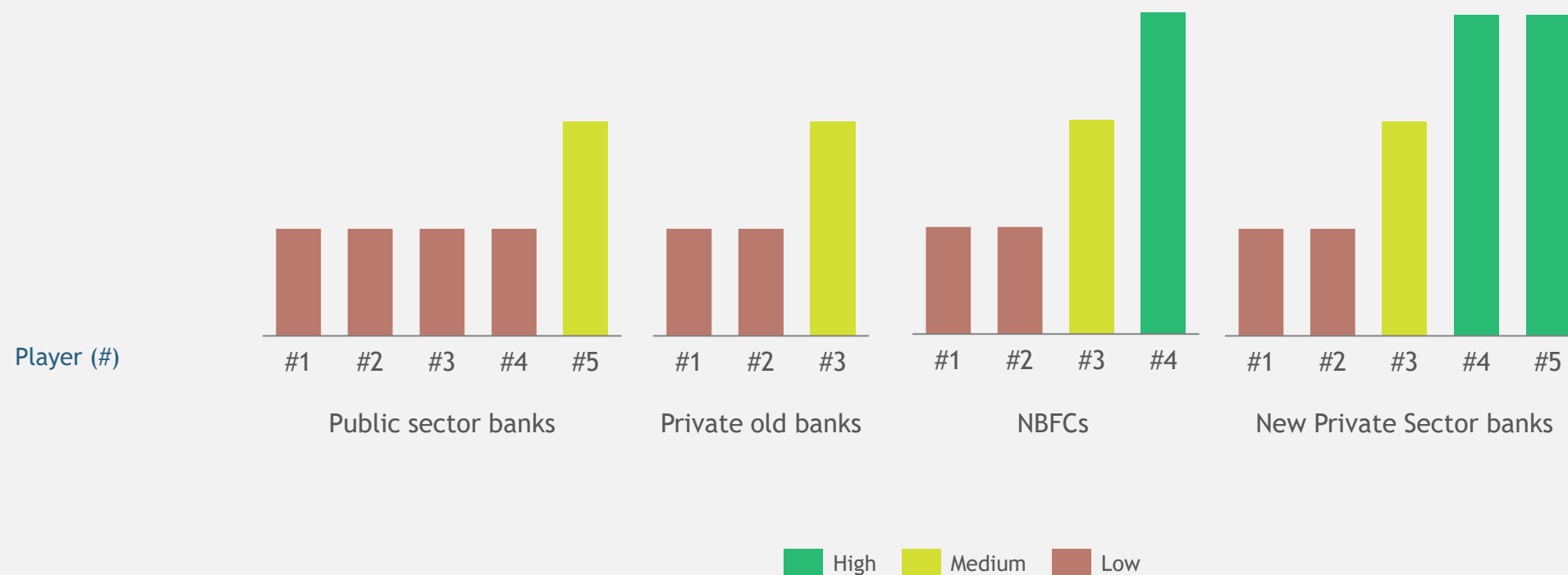
Significant variation in growth dip-Advances growth-YoY (%)



Note: 1. NBFCs includes HFCs 2. Industry includes NBFCs, HFCs, Private banks, Public sector banks, Co-operative Banks, MNCs and Regional Rural Banks
 3. Products included are Retail Business loans, Retail- Loan Against Property, Retail - Commercial Vehicle & Construction Equipment Loans and SME business includes loans < INR 50 crores
 Source: TransUnion CIBIL; BCG analysis

Major investment needed to upgrade SME credit process in the industry towards best use of data and digitization

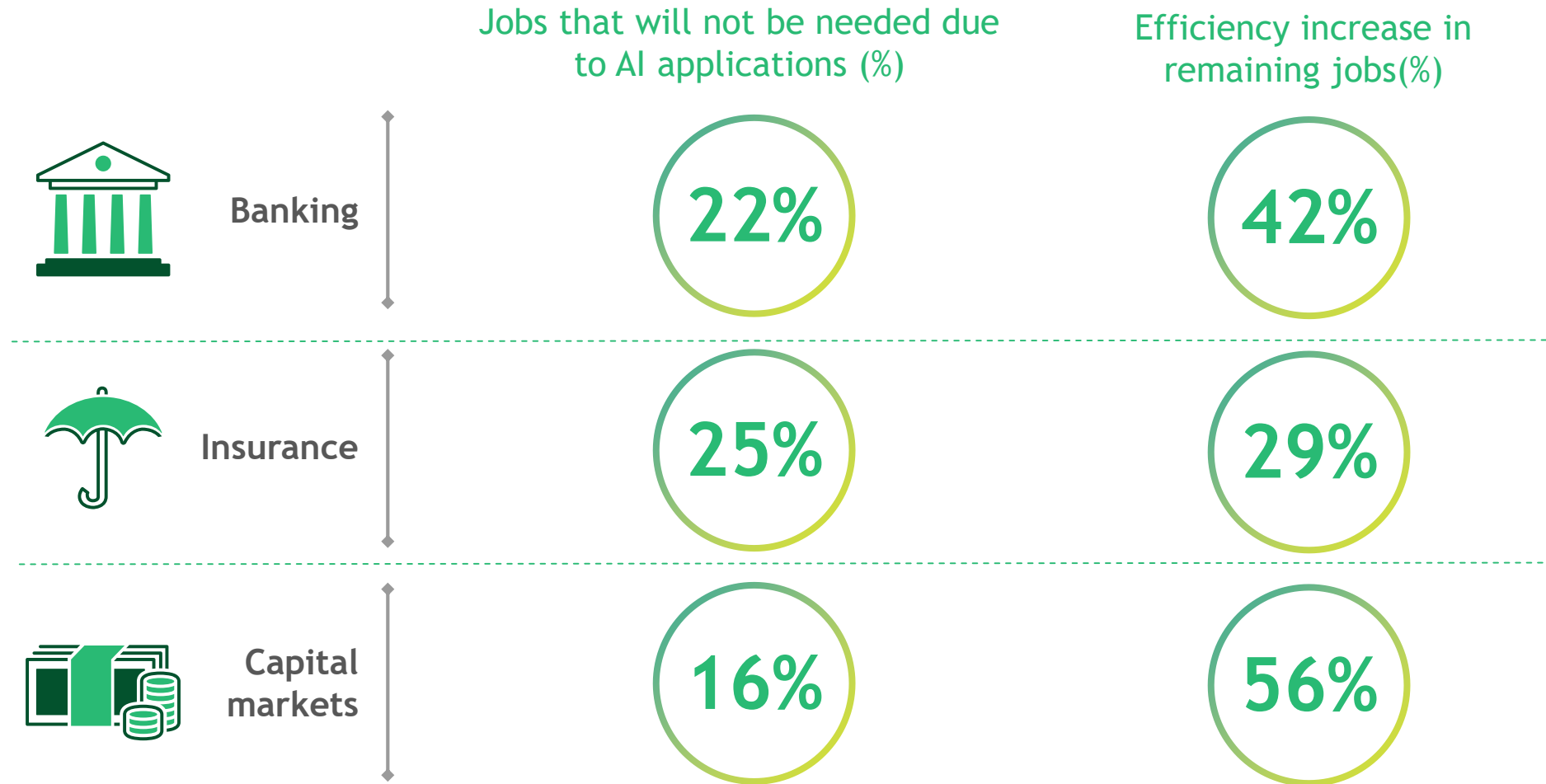
Level of MSME lending digital maturity in surveyed Banks/NBFC



1. Remaining 42% of NTC borrowers are serviced by other lending organizations like RRBs (13%), cooperatives (8%), foreign banks (5%) and others (16%) 2. % of MSME lending book as on Dec 2018 3. 7% of MSME loan book resides with all other lenders (including fintechs)

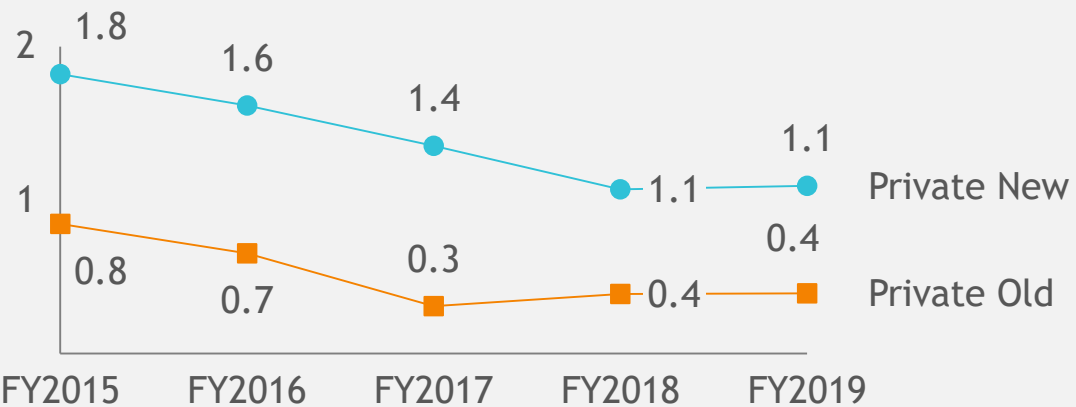
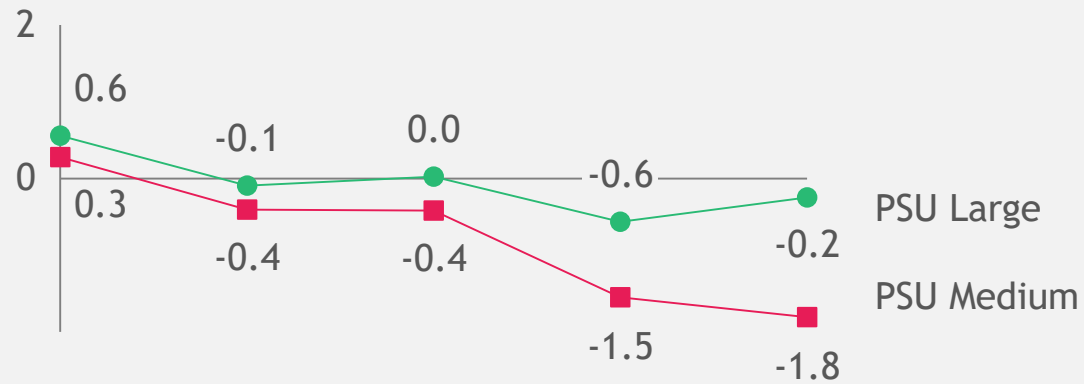
Source: BCG-Omidyar network Report: "Credit disrupted: Digital MSME Lending in India", Transunion CIBIL MSME Pulse Apr 2019, Survey conducted on 21 FIs to assess MSME lending digitization

Next gen tech will give humungous edge to adopters



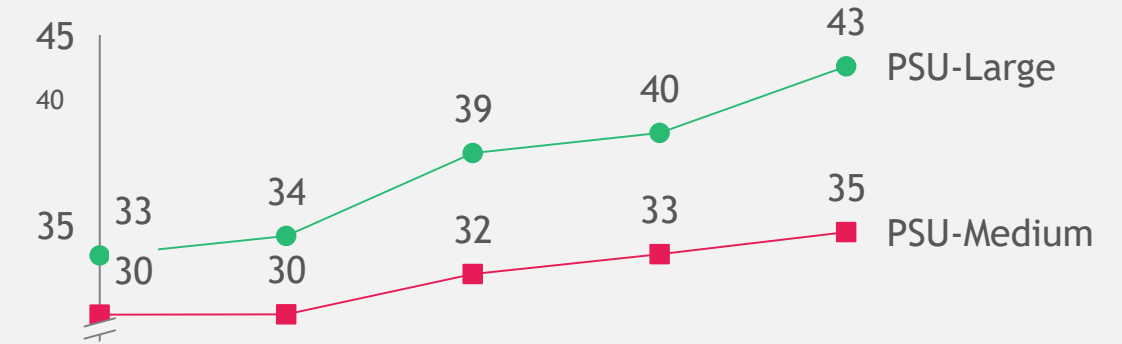
Gaps in performance are widening

ROA (%)

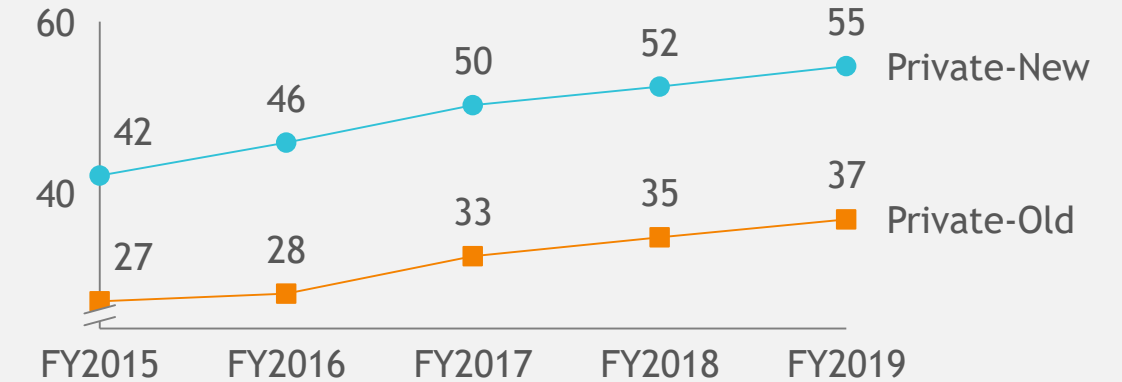


Revenue/employees

Rs. Lacs

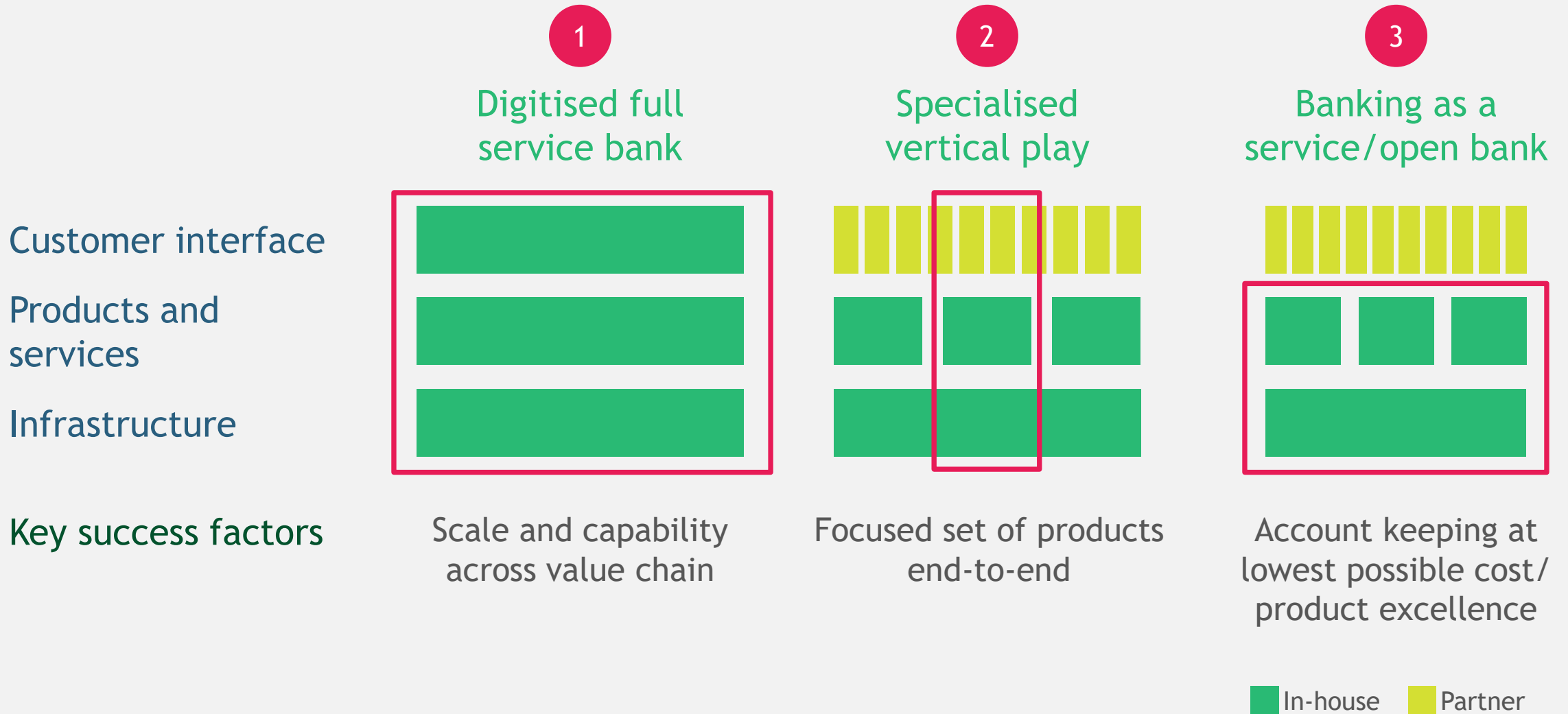


Rs. Lacs



Source: RBI data; Annual reports; Investor Presentations; BCG analysis

Encourage banks to adopt differentiated models

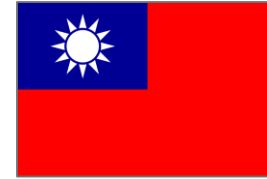


Review bank licensing policy to attract new capital



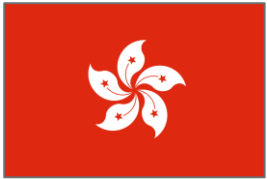
China

3 new internet banks licenses



Taiwan

2 new digital bank license proposed



Hong Kong

8 new virtual bank license to JV/Tech Companies



Australia

Authorized deposit license for challenger/new bank



Korea

2 new virtual bank licenses



Singapore

- 2 new digital full bank
- 3 new digital bank wholesale

Implications for policy and regulations



Expedite consolidation



Encourage digital transformation



Profitability of banking and non banking sector to attract fresh capital



Encourage differentiated business models



Support growth of vibrant (and stable) non banks ecosystem

Strengthen NBFC business model



Higher transparency in market disclosures – portfolio quality, funding sources



Differentiate prudential liquidity norms in line with maturity profile of assets



Facilitate flow of long term credit from insurance and pension funds with introduction of innovation in debt market instruments like covered bonds



Create a refinance and liquidity support institution for NBFCs engaged in SME finance



Bank lending to NBFC customized to NBFC requirements



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