



The Poster Child

AI, Open Stack & blockchain will make banking* a poster child of resurgent India.
Banks, Regulator and Government need to seize the moment.

* Banks, Fintechs & NBFCs

Real benefit of the much-celebrated UPI is explosion in machine readable transaction data in bank statements of small business

Global acclaim for UPI

“ In bleak times for banks, India’s digital-payments system wins praise
Digital Loans could be next

The Economist

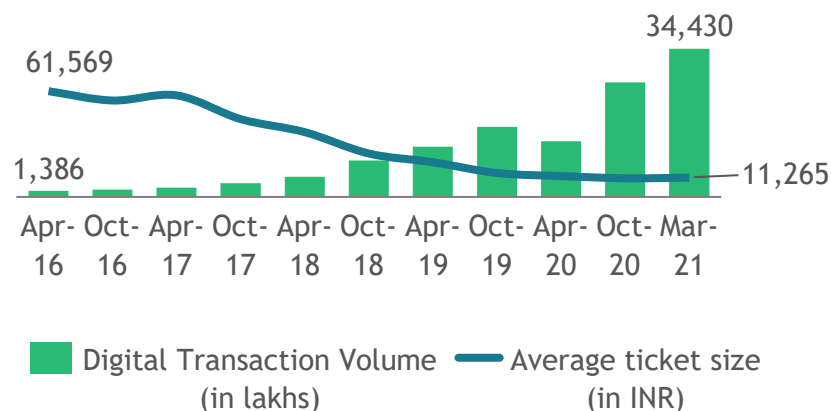
“ Google recommends India’s UPI-like platform to US Federal Reserve for digital payment

HOTECH
MAKE LIFE SIMPLE

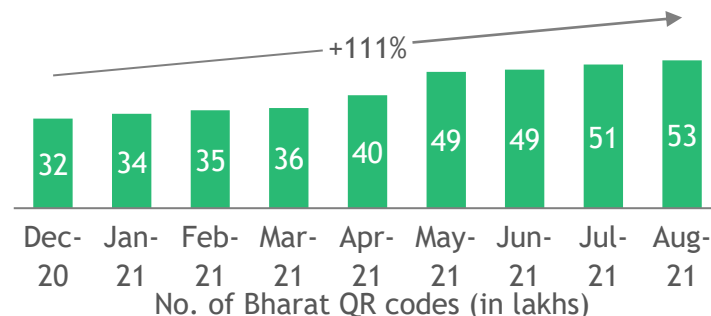
“ ‘India is a great example’: Gates on UPI, country’s digital finance model

Business Standard

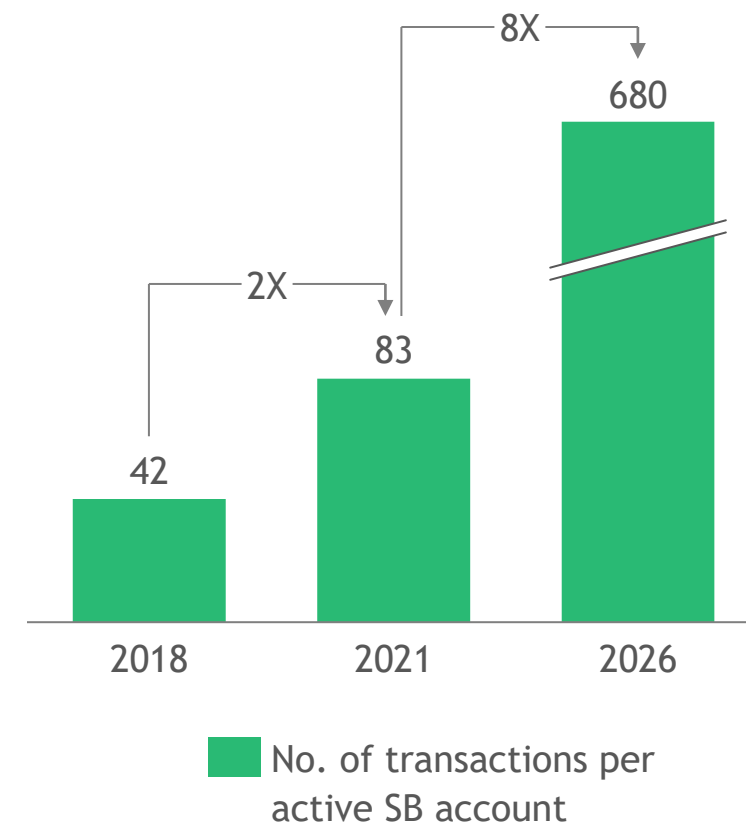
Explosion in digital transaction with reduction in ticket size



QR code adoption by small merchants

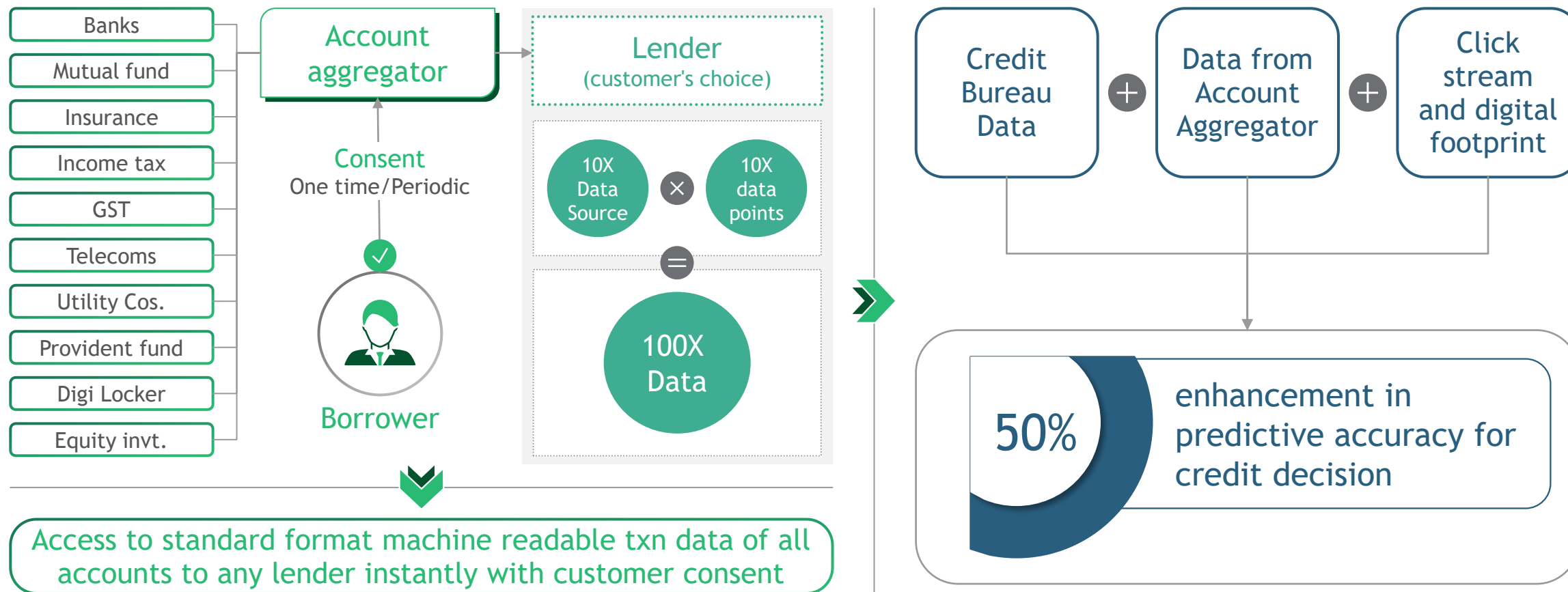


Bank statements will become “thick files” for credit assessment



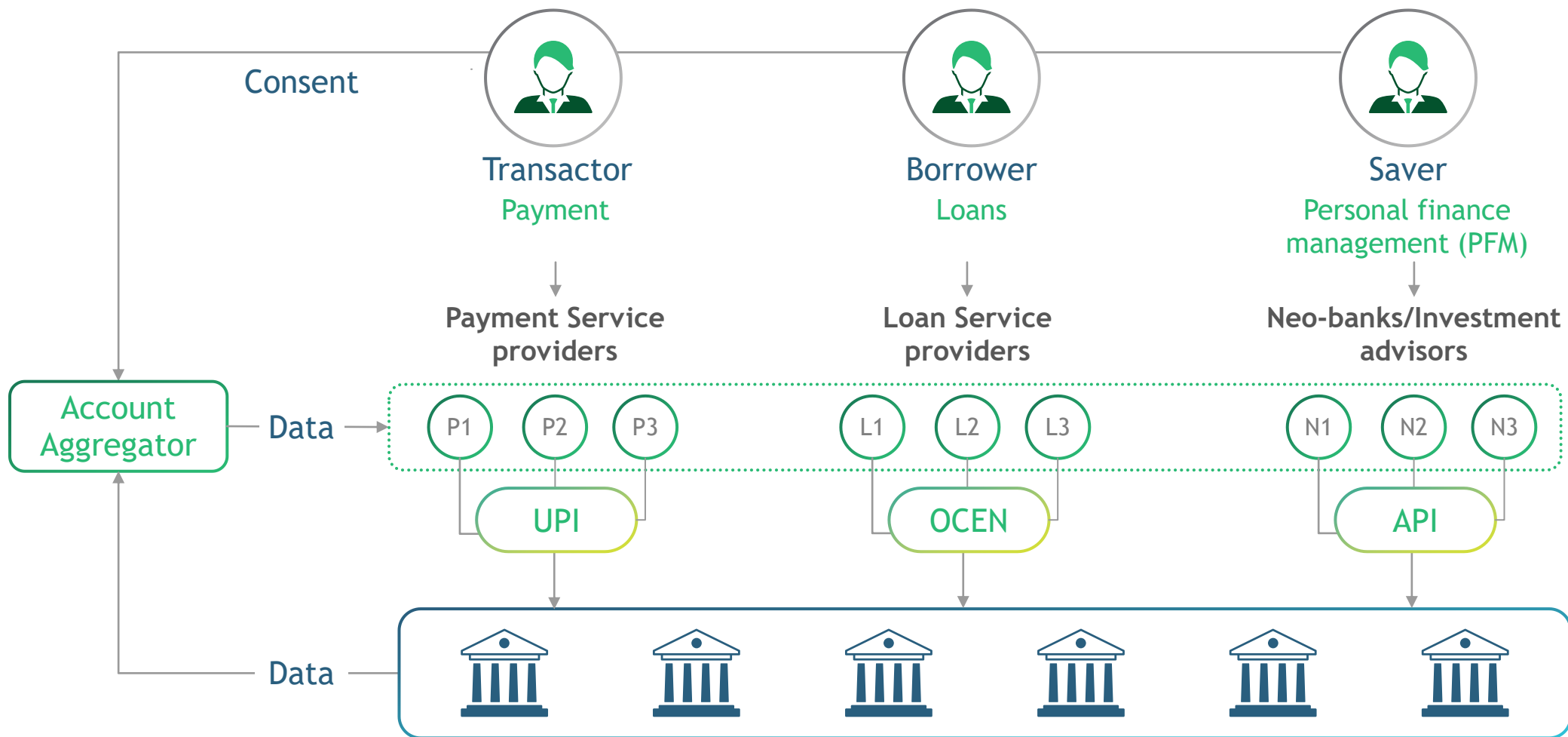
1. Digital transactions include NEFT, IMPS and UPI
2. Assumption: 80% of active SB account will use UPI by 2026 compared to 10-15% in 2021; 50% of active SB account will use Mobile banking by 2026 compared to 10-12% in 2021; number of transaction per UPI and mobile banking enable account has increased in line with past trends
Source: NPCI Statistics, RBI Payment Indicator, FIBAC Trends and Benchmark Report 2021, Press Search, BCG Analysis

Machine readable data available per customer for every lender for lending, monitoring, and collection will grow 100X in 5 years



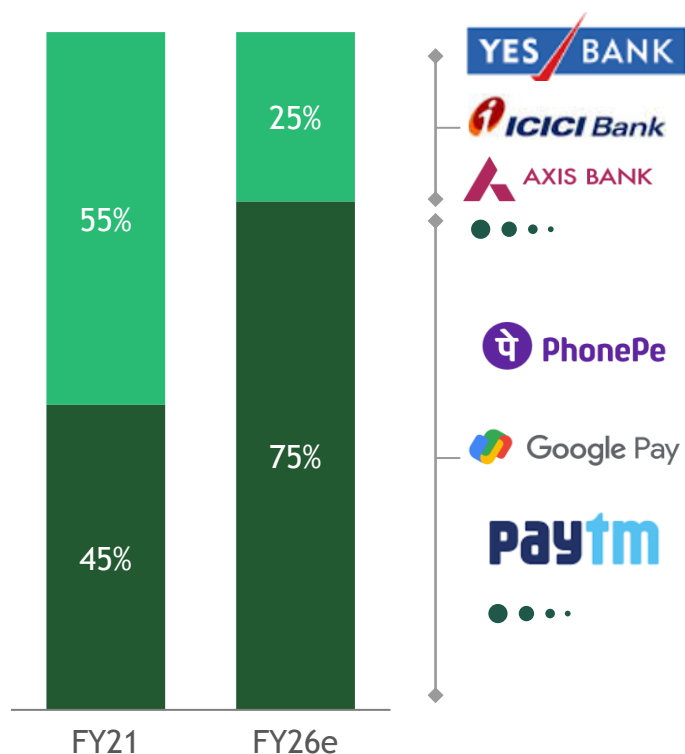
Open stack will extend from payments to lending and daily banking

Across products, 3rd party digital intermediaries can anchor bank's client interface

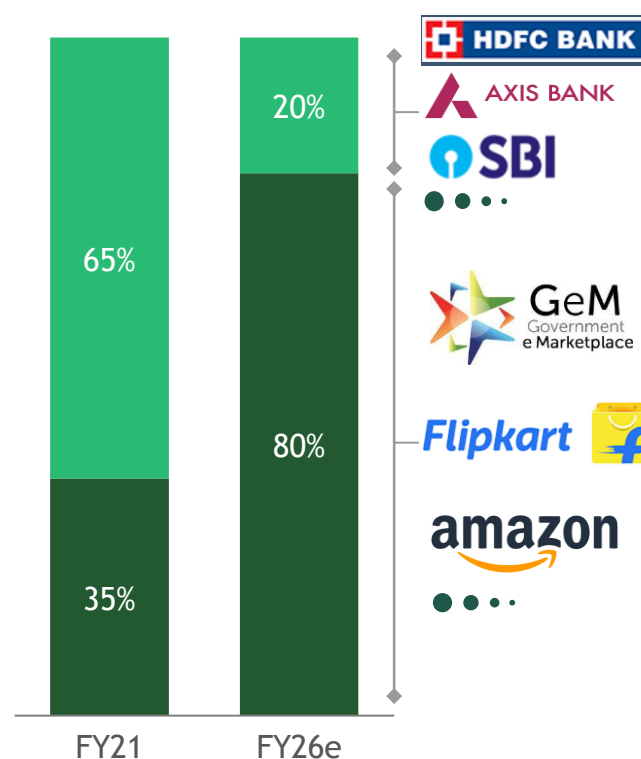


The Embedded Future: Banks' digital services will be originated on 3rd party digital platforms

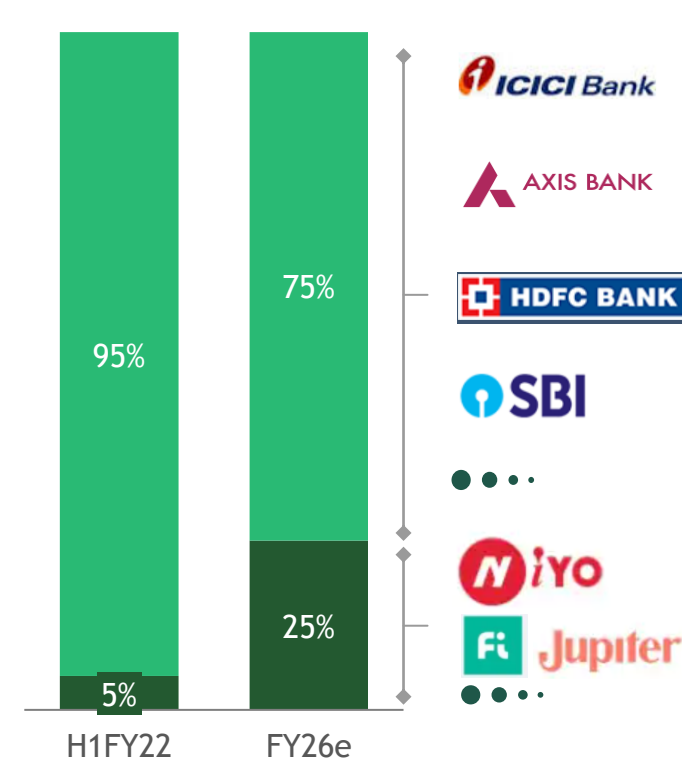
Retail Digital Payments¹ (Volume %)



Unsecured Digital Lending² (Volume %)



Savings Account Opened Digitally (Volume %)



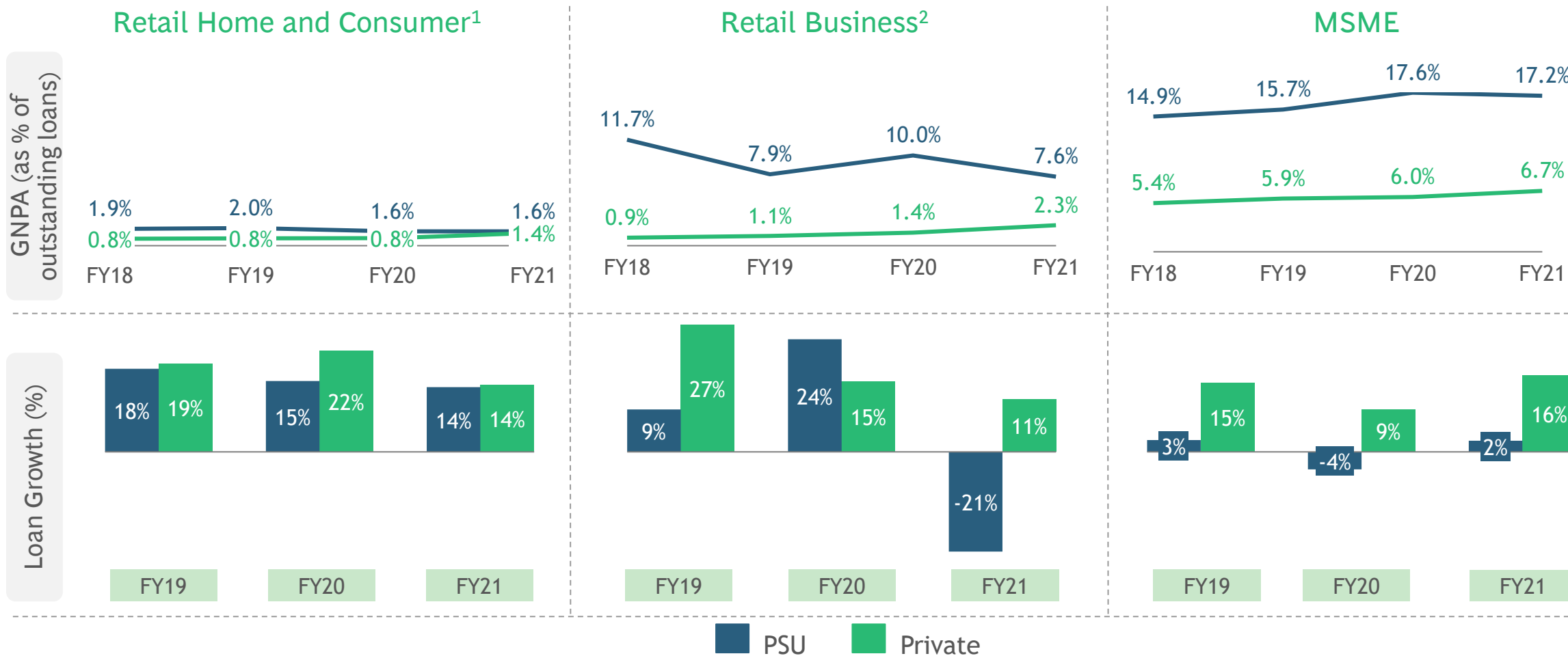
■ % on banks' digital platform ■ % On 3rd Party Digital Platform

1. Retail digital payment includes UPI and Mobile Banking Transactions

2. Unsecured Digital Lending includes Personal Loans and 'Buy Now and Pay Later' Loans originated through digital channels

Source: FIBAC Trends and Benchmarks 2021, RBI, BCG Analysis

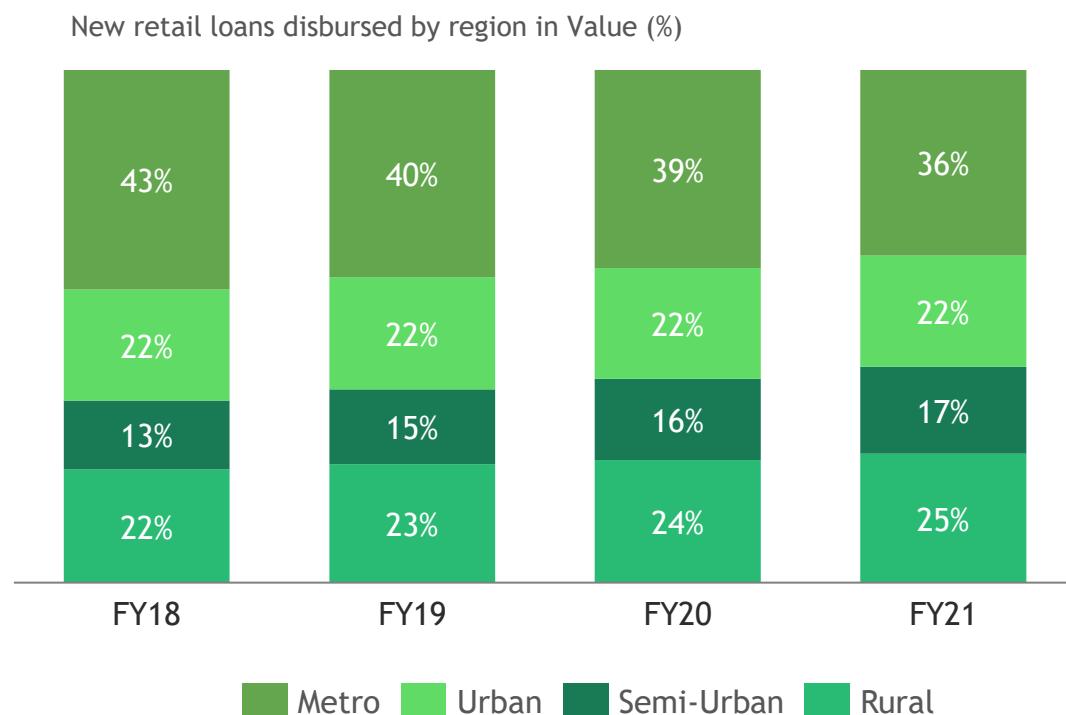
Small business credit disrupted due to high bad debts; PSB partnership with NBFC for origination and risk management critical



1. Retail Consumer includes Auto Loans, Personal Loans, Consumer Loans, Credit Cards, Gold Loans, Education Loans, Loan against deposits and loans against shares/securities 2. Retail Business includes Business Loans, Loan against Property, Commercial Vehicle and Construction Equipment Loans, Fleet card, Leasing, Loan to Professionals, Mudra loans and Overdrafts
Source: FIBAC Trends and Benchmarks 2021; BCG Analysis

Increasing latent demand for finance beyond urban areas; banks will embed finance in networks with distribution reach

Disbursement in non agri retail lending in non-urban centers rising steadily



Range of rural platforms can be leveraged for "embedded finance" penetration in semi-urban India



Post network
(1200 mn+ customers)



Ration Shops
(200 Mn+ households)



Payment Apps
(150 Mn+ customers)



Village Milk Collection Centers
(90 Mn+ dairy farmers)

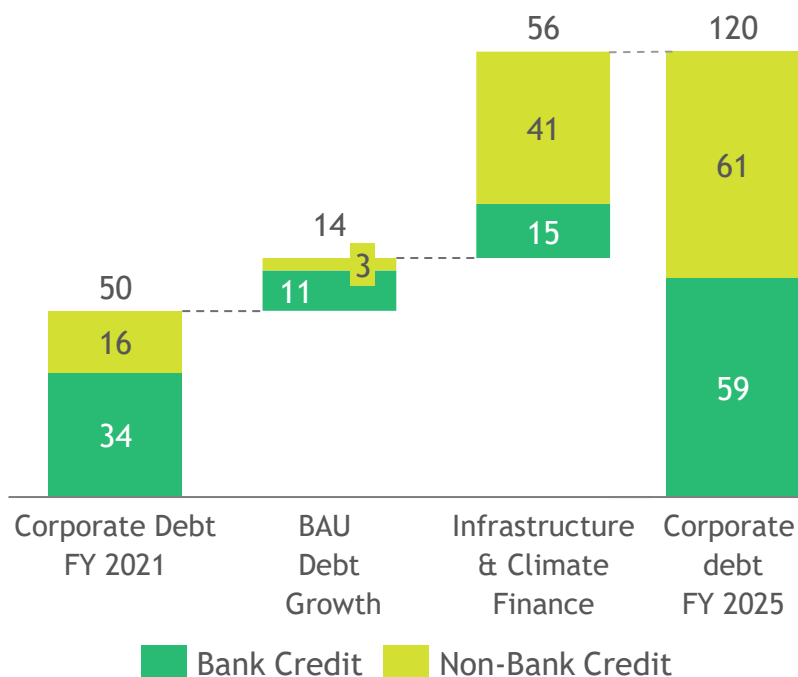
(XX) Reach of respective aggregation points

1. Retail Loan includes Auto Loans, Personal Loans, Home Loans, Consumer Loans, Business Loans, Loan Against Property, Gold Loan, Credit Cards,, Commercial Vehicle and Construction Equipment Loans
2. Source: FIBAC Trends and Benchmarks; BCG analysis

Corporate Bank 2.0: Banks need to pivot to sector specific, digital ecosystem solutions for industry with embedded finance

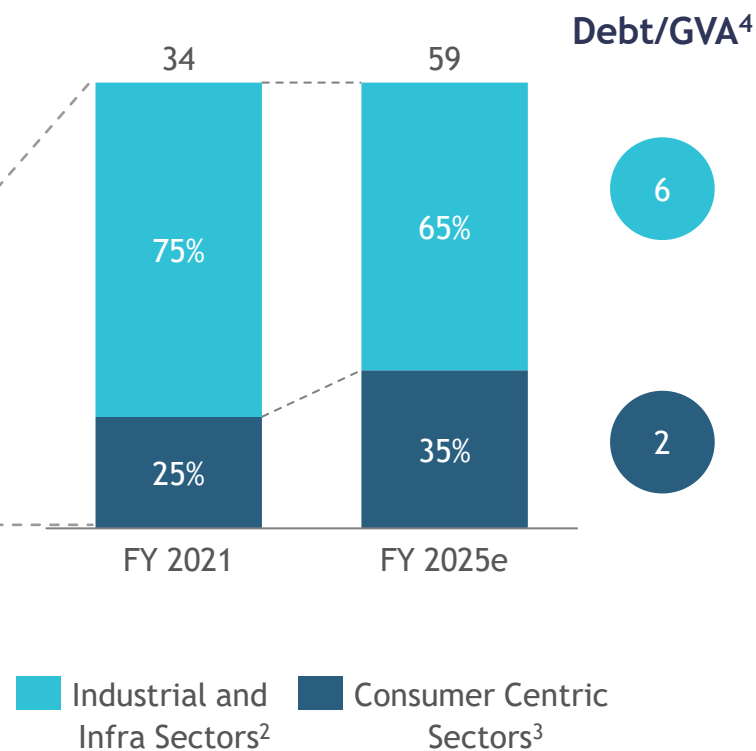
Banks will have smaller share of the massive investment in climate sensitive infra growth

Total corporate debt (INR Trillions)



Nature of demand served by the new corporate bank will be different

Bank credit to Corporates (INR Trillions)



Banks would need to rethink their strategy to focus on sector solutions

- Embedded finance solutions in corporate supply chain ecosystems
- Industry specialized mid office teams in "squad" models
- Creation of Industry ecosystem solutions that solve pain points in industry value chain
- Sector specialized credit process and risk models

1. National infrastructure pipeline

2. Industrial and Infra Sectors includes; Utilities, Real Estate, Materials, Industrials and Energy

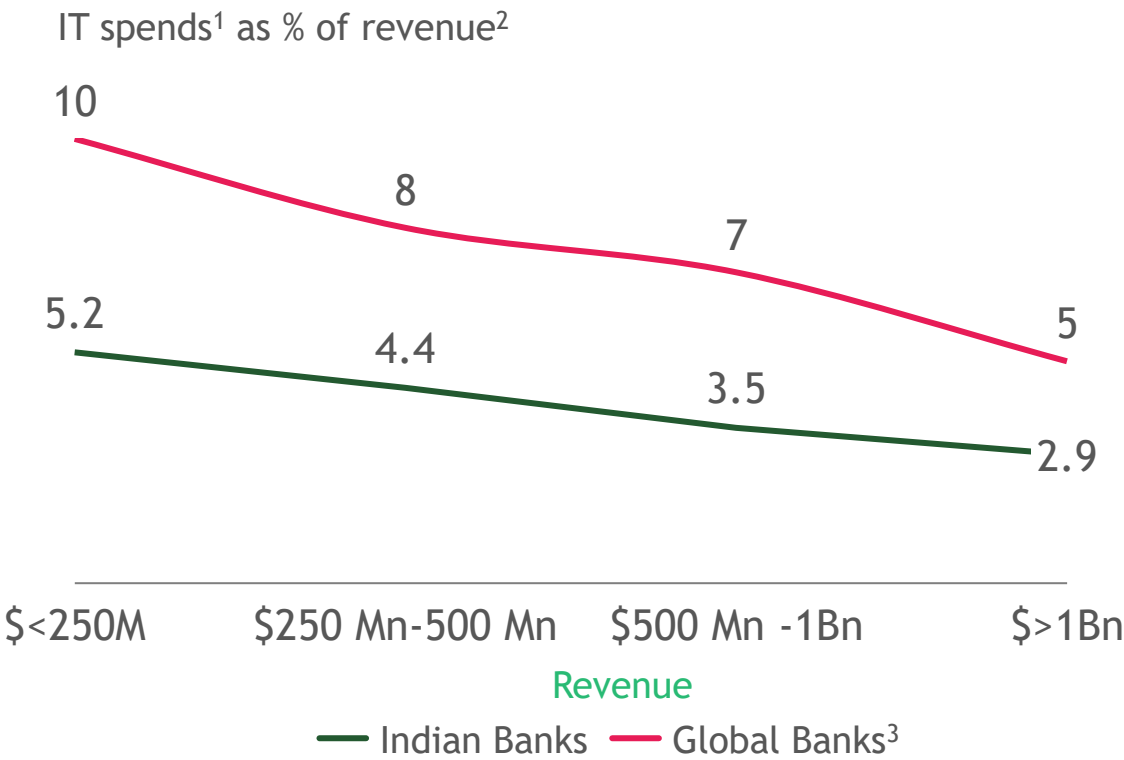
3. Consumer centric sectors includes; Consumer staples, consumer discretionary, communication services, information technology & Health care

4. GVA = Gross Value Added; MoSPI data for GVA by industry and Debt in Debt/GVA indicates amount of bank credit taken by sector to generate GVA

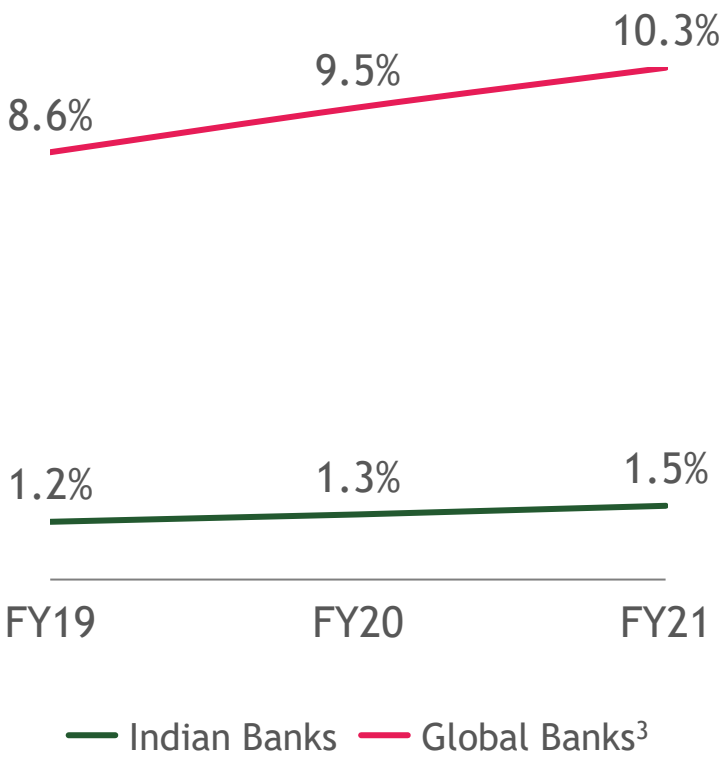
Source: Capital IQ, RBI Sectoral deployment of the bank credit; Priority sector lending and lending to NBFC is not accounted for in the data, BCG Analysis

Banks would need to up their tech capabilities

Total IT spends for Banks basis revenue size

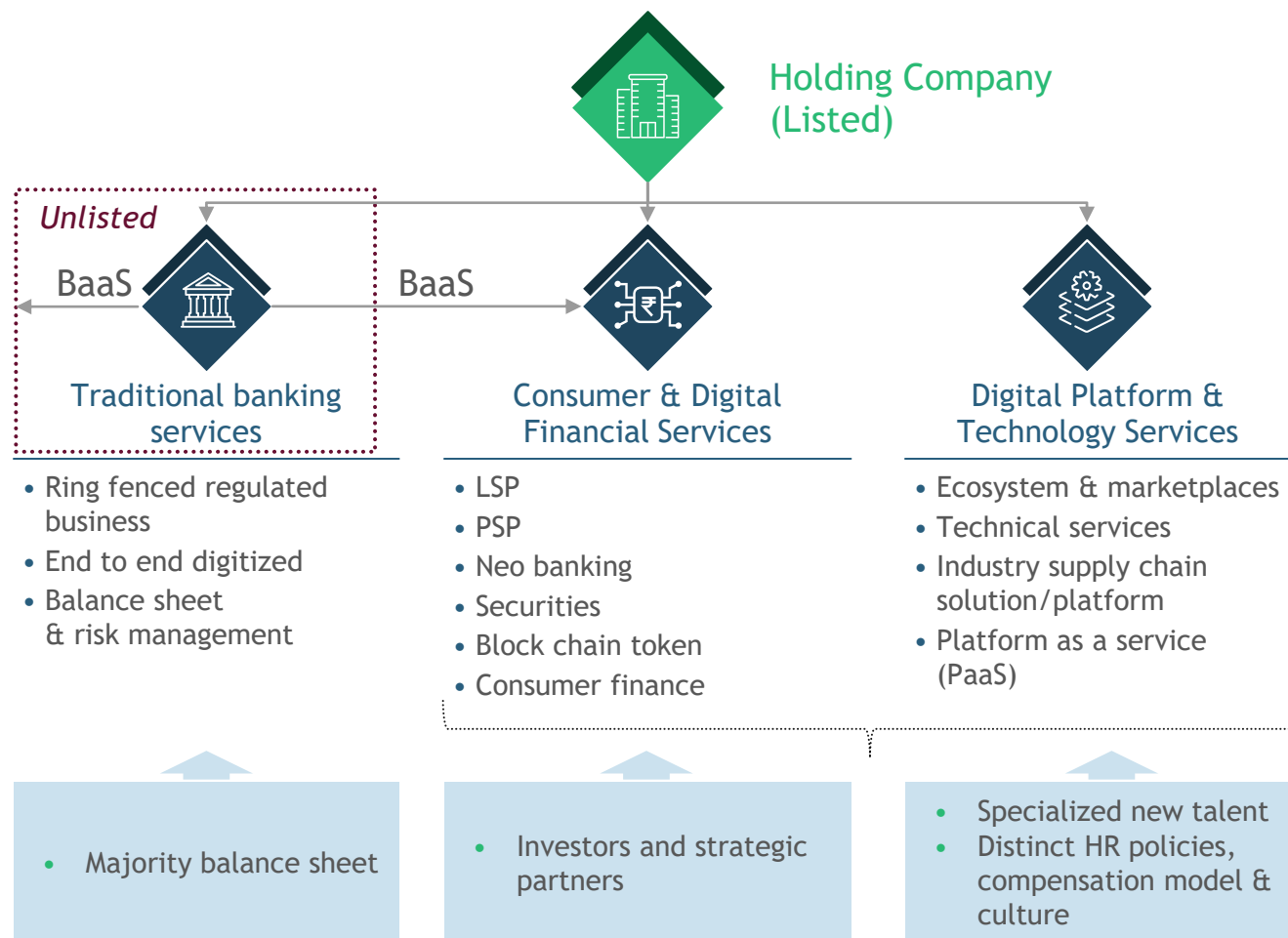


Tech staff as % of total FTE



1. IT Costs include Capital Expenses as well as Operating Expenses adjusted for depreciation and amortization; 2. Revenue is computed as Net Interest Income + Other Income; 3. Global benchmark includes banks and other FI 4. Cyber spends include total spends by bank to get protection from cybercrimes such as phishing, stalking, spamming, spoofing, hacking, ransomware attacks, and other physical and digital frauds that compel individual banks to secure their network and servers
Note: Analysis has been made based on 28 Banks
Source: FIBAC Trends and Benchmarks 2021, RBI, Capitaline, Annual Report, Gartner, BCG analysis

Embrace holding structure that unbundles fintech premium embedded in valuation and creates vehicles to attract talent



Example: SCB

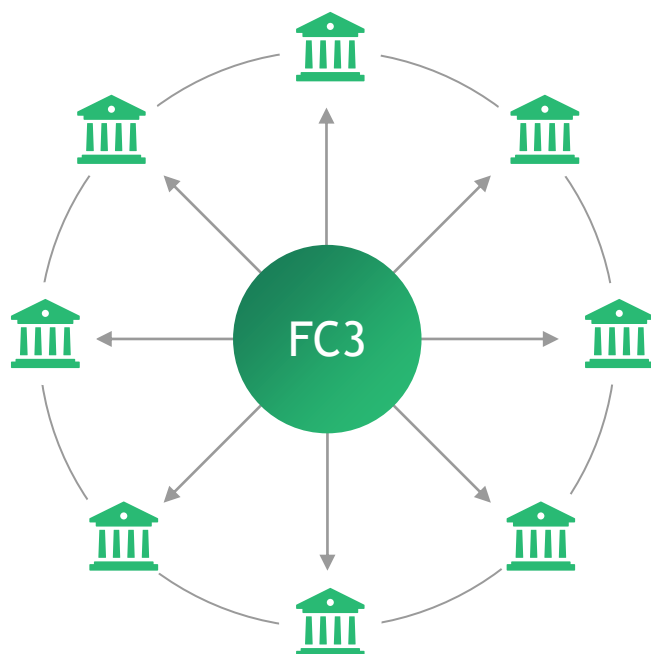
Siam Commercial Bank (Thailand) unlocked 30% value on announcement of new holding structure



Israel banking industry set up a shared unit "FC3" to rally their collective might against cyber threat



FC3¹ Israel - A collaborative defense mechanism for the banking industry



Banks share information on frauds, cyber threats and attacks with FC3



Collaboration with worldwide FIs and data analytics at FC3



Proactive threat identification and issuing alerts



Tech assistance to patch vulnerabilities

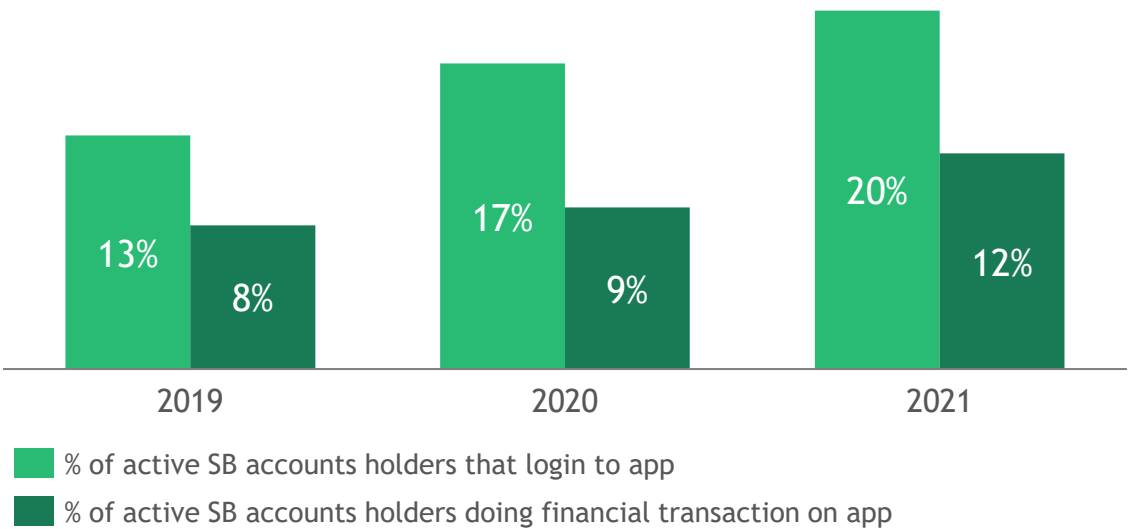


Operate response team & provide incident handling

1. Cyber and Finance Continuity Center - A sub-center of the National Cybersecurity Emergency Response Team in Israel
Source: BCG analysis

Need for higher digital financial literacy: Room to cover in digital adoption by mass market before we can rationalize branches @scale

Digital adoption rising but a lot of room to cover



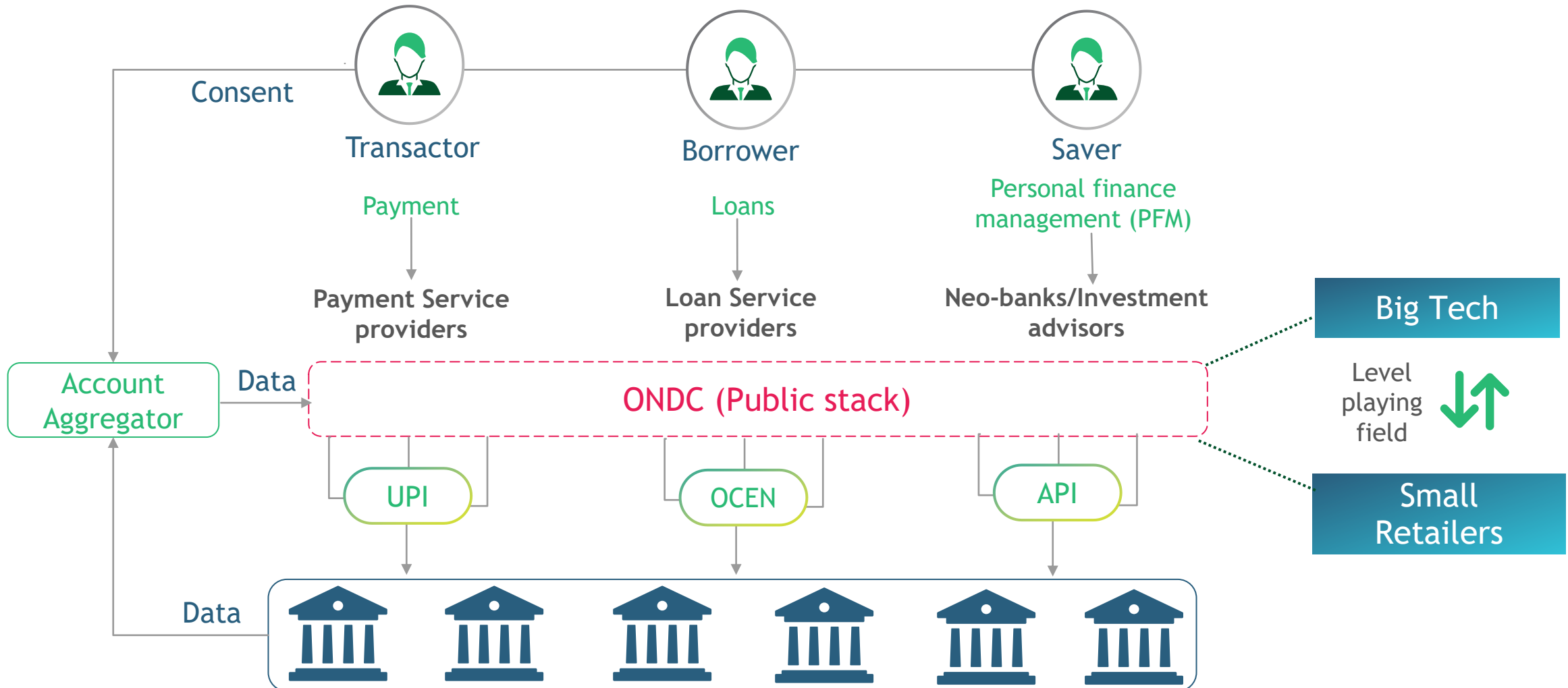
India is the only large economy with rising number of branches; China to stagnate soon at branch density approx. 50% of India

	Branch Density ³	5-year Growth
	30	-1%
	24	-6%
	22	-3%
	18	-2%
	15	3%
	15	-1%
	9	1%

1. Accounts active on Mobile Banking defined as accounts with at least 1 login to Mobile Banking in the last 6 months (as of 31 March) ÷ active number of savings account
2. Financially active on a channel defined as at least 1 user initiated financial transaction in last 6 months (as of 31 March) ÷ active number of savings account
3. Branch density is number of branches per 100000 adults
Note: Analysis has been made based on 27 Banks: 6 PSU-Large, 4 PSU-Medium 6 Private-New, 7 Private-Old Banks and 4 SFBs;
Source: FIBAC Trends and Benchmarks 2021; BCG analysis

If banking is open, why e-commerce be closed?

Banks should boldly co-promote Open Network for Digital Commerce (ONDC) public platform



Action agenda for government and regulator



FLDG & Co-lending

- Institutionalizing FLDG from 3rd party platforms with mandated capital requirements
- Reimagine co-lending as a digital market-place instead of 1-1 deal



Arbitrage between banks & LSP/PSP

- Prevent misuse of customer consent for unauthorized customer data capture
- Level playing field in customer incentive, e.g., Customer incentives by banks capped at INR 250



Digitization of secured lending

- Land and property records digitization
- Demat of bank FD to facilitate loan against any bank FD by any lender



Blockchain regulations

- Regulate blockchain on use case basis
- Facilitate block chain based NFT/wrapped asset token for rapid growth of fractional asset ownership by mass market