FIBAC 2025
CHARTING NEW FRONTIERS

AUGUST 2025

EXECUTIVE SUMMARY – I/III

India is at a critical inflection point in its development trajectory. Over the next twenty years, it has a unique window to leverage its scale and momentum to build lasting global leadership. Realizing its ambitious 'Viksit Bharat Mission' will hinge on the **evolution of a robust, innovative, and resilient banking and financial sector,** capable of supporting India's aspirations for sustainable, inclusive growth.

The growth of India's banking assets has been in tandem with its nominal GDP growth over the last 15 years, with the ratio of banking assets to nominal GDP hovering around 0.9x. The drive to Viksit Bharat requires a multiplier of 1.5x.

Many emerging and developed economies have seen banking asset growth outpace nominal GDP growth. **For India, banking assets need to grow 3.0-3.5 percentage points faster than its nominal GDP.** This is not happening today and is a clear risk to India's Viksit Bharat ambition.

Currently several megatrends are reshaping the world economic order. Economies and their banking sector operate in a **complex, multipolar world** with volatile trade flows, shifting supply chains and geopolitical risks. **The combined disruption of AI/ GenAI and shifting consumer expectations** is unfolding at a scale never seen in the last few decades.

The Indian banking industry is poised to reach for leadership – it is profitable, well capitalized and highly valued. It will need to **seize this opportunity by charting new frontiers —**
a) Unlocking growth b) Driving productivity
c) Digital maturity and d) Embedding resilience

01 UNLOCKING GROWTH

The shape of bank advances has changed significantly over the last 15 years. **Corporate credit has grown significantly slower than overall advances. Corporate funding has moved away from banks, towards capital markets and alternate funding avenues (e.g., Private credit).** Within bank funding, the **mix is shifting towards short term working capital compared to long term capex.** Banks need to play a more active role in funding the new capex for Viksit Bharat to become a reality.

Retail lending has an NTC (New-to-Credit) challenge. India has a large, informal workforce with low credit penetration. However, share of NTC continues to decline. **At the current rate it will take over a decade to cover them under formal financing.**

Financial inclusion efforts on MSME lending shows promise. Formalization efforts (e.g., Udyam, GST), proliferation of digital payments (UPI, QR codes) and enhanced coverage through guarantee schemes have **driven high share of NTC lending among MSMEs.**

A key insight from historical delinquency performance is that the **NTC segment performs similar to ETC (Existing-to-Credit) segment,** indicating room to expand responsibly. However, across product segments and lender types, there is a large performance gap between top and bottom quartile lenders — indicating difference in maturity of underwriting capabilities. **Lenders need to embrace the full power of data (including alternate data) and AI capabilities to manage and measure new, emerging risks (e.g., fraud, climate).**

EXECUTIVE SUMMARY – II/III

02 DRIVING PRODUCTIVITY

The Indian banking industry's opex ratios have risen over the past 15 years – a trend that is opposite to the rest of the world. Cost to income ratios continue to increase, with operating income growth trailing operating expenses growth.

Despite a decade of digitization, **real productivity gains have been limited, with only about 1% annual improvement over the past 15 years (adjusted for inflation and capacity growth).**

AI/ GenAI promises transformational capabilities. With mature deployment**, 35-40% of current low value activities can be automated.** To capture this potential, banks must move beyond pilots. This means having a clear AI/ GenAI strategy, investing in modular architecture, setting up governance frameworks for ethical AI, and reskilling staff. **AI/ GenAI programs have to be business led, enabled by engineering teams.** Banks need to judiciously navigate several complex trade-offs to realize the full benefits from new technologies.

03 DIGITAL MATURITY

India's Digital Public Infrastructure (DPI) has been a game changer. It has achieved multiple objectives such as inclusion, access, efficiency and customer experience. Adoption and change management have been frictionless.

Payment ubiquity and ease have created customer delight. **Non-bank (especially UPI) apps are perceived to be more user friendly and intuitive.** However, customers still prefer to use their banks for loans and investments. **The challenge with banks is that their digital journeys involve a lot of friction and adoption issues.** They must enable seamless journeys and drive personalization. **AI/ GenAI can help achieve this goal with conversational and agentic journeys.**

DPI 2.0 aims to achieve more complex use cases — consent management and lending. It will need to be designed in a manner that will enable as frictionless transactions as with DPI 1.0.

ULI has the potential to create a UPI-like explosion in lending. Regulators, Government and Financial Services sector, all will need to work together to build access and digital registries to enable this (e.g., digital land records).

EXECUTIVE SUMMARY – III/III

04 EMBEDDING RESILIENCE

Banks need to move beyond credit risk and manage emerging macro risks, e.g., climate, cyber and geo-political risks.
This entails building capabilities to measure, monitor and mitigate these risks in a rapidly changing environment.

Shared industry utilities such as NPCI, credit bureaus; have done well to raise the standards of all participants in the financial sector. DPI has created standard protocols that have benefitted all participants bypassing the need to build capabilities individually. **The Banking sector will benefit from creating new utilities for emerging risks like climate finance and transaction monitoring (AML, fraud, etc.).**

CONCLUSION

India's banking sector though well-positioned, must accelerate transformation to meet its Viksit Bharat ambitions. Its success will be shaped by transformative progress across four key domains –

a) Unlocking growth
b) Driving productivity
c) Digital maturity
d) Embedding resilience

Simultaneously, there is a need to expand into untapped credit segments, unlock productivity with AI/ GenAI, deliver world class digital experiences, and embed a deep risk culture Only then can banks become the driving force behind India's economic rise.

The next two decades will be a period of both significant opportunities, and new challenges. With the right strategy and execution, banking can propel India's journey toward a truly Viksit Bharat.

Disruptive trends shaping the world economic order

Rising multipolarity, trade disruption

1-3%

of global GDP at risk due to tariff uncertainty, changing trade flows, conventional wars

AI/ GenAI: 10x GDP lift over industrial revolution

USD 7Tn

potential lift in GDP over the next decade; reshaping jobs and industries

Managing risks in a rapidly shifting environment

10x

growth in annual global cost of natural disasters[1] since 2000

Gen Z: Largest & dominant working population

1Bn

or more Gen Z adults set to enter the global workforce by 2030

1. Includes losses captured in international databases, other social and environmental losses
Note: Some of the Images on this page are generated by AI
Source: WTO; Global Peace Index 2025; Global Assessment Report on Disaster Risk Reduction 2025; World Economic Forum; BCG analysis

Vibrant and thriving financial sector core to GDP growth ambitions

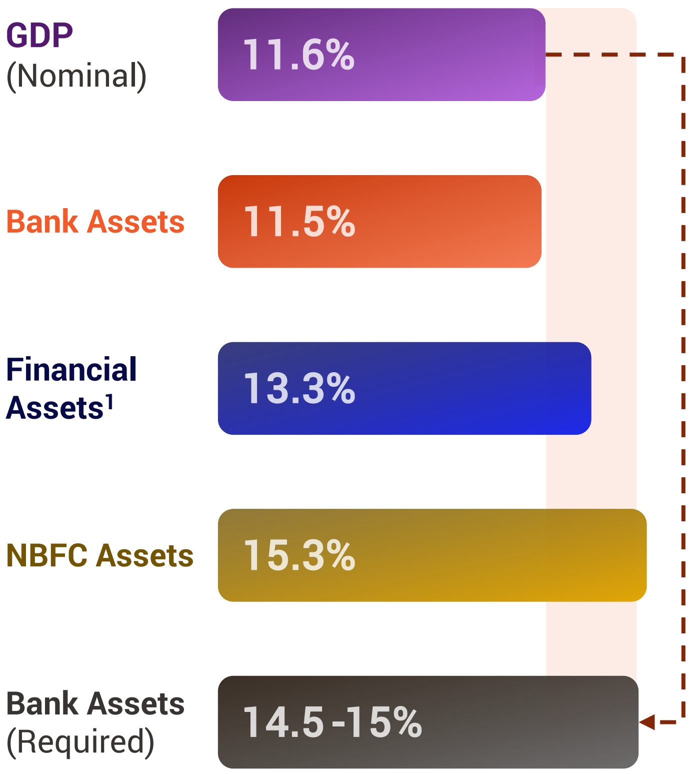
Figures in USD Tn	USA		China		Germany		Brazil		India		
	2008	2024	2008	2024	2008	2024	2008	2024	2008	2024	**2047 (P)**
Financial Assets[1]	70	144	12.4	77	15.2	22	1.5	6	1.8	6.9	120
Financial assets to GDP	4.7x	4.9x	2.7x	4.1x	4.0x	4.7x	0.9x	2.7x	1.5x	1.9x	4x
GDP (Nominal)	14.8	29	4.7	19	3.8	4.7	1.7	2.2	1.2	3.9	30
Bank assets to GDP	1.1x	1.1x	1.7x	2.5x	2.9x	2.5x	0.4x	1.0x	0.9x	0.9x	1.5x
Bank Assets	16.8	33	7.9	46	10.9	11.8	0.7	2.2	1.0	3.4	45

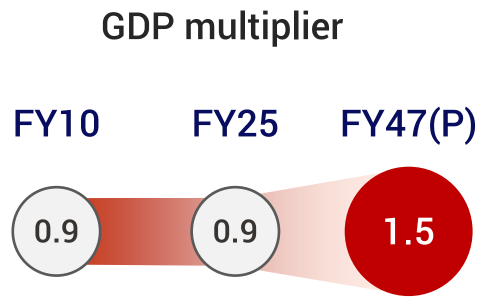
1. Financial assets consist of assets for the following entities: Banks, Central Banks, Financial auxiliaries, Insurance corporations, OFIs, Pension funds & Public financial institutions
Note: All values are reported on CY basis except for India's GDP, financial assets and banking assets which are on a FY basis
Source: Financial Stability Board; BCG analysis

Banking growth gap at 3.0-3.5 p.p.; significant expansion is crucial for Viksit Bharat ambition

Growth trend of GDP (Nominal), Bank, NBFC and Financial Assets

FY10-25 (CAGR)





3.0-3.5 p.p.
Banking growth gap
for achieving target GDP multiplier of 1.5x

Indian banking's credit growth has been in 'maintenance mode' supporting existing GDP levels. For India to achieve its Viksit Bharat ambition, a deep and rapidly growing financial sector is critical.

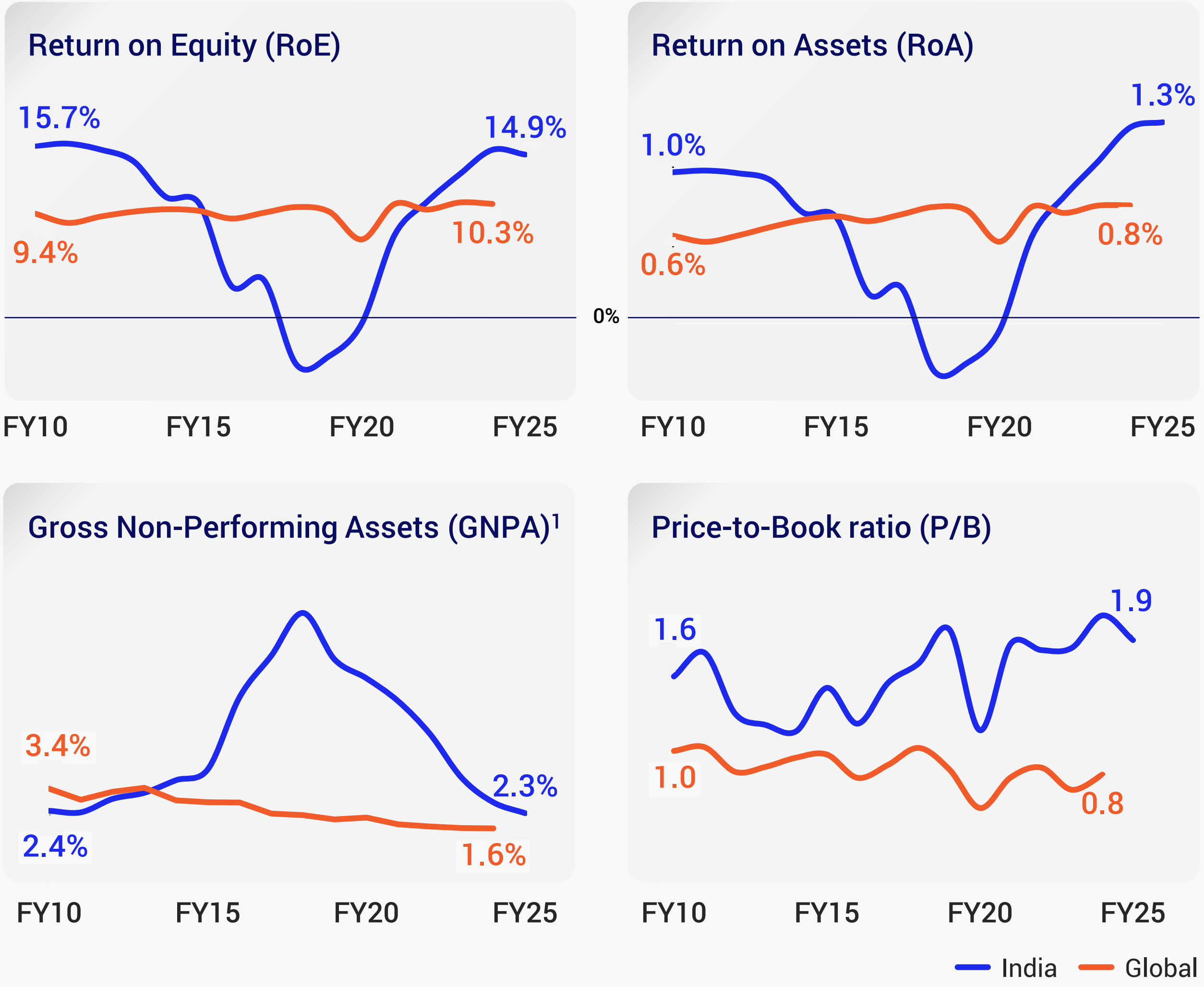
India's banking assets have grown slower than its nominal GDP for several years; while overall financial & NBFC assets have outpaced GDP. Several other economies operate at much higher growth multiples.

India faces a significant 'Banking growth gap' of 3.0-3.5 p.p. — the difference between the current GDP growth & required growth rate of banking assets.

Bridging this gap will require unleashing the animal spirits, driving significant productivity unlock and building on our unique and enviable digital public infrastructure.

1. Financial assets consist of assets from the following entities: Banks, Central Banks, Financial auxiliaries, Insurance corporations, OFIs, Pension funds & Public financial institutions
Source: RBI; Industry Reports; BCG analysis

Indian banking industry has demonstrated a strong turnaround; valued far highly than global peers



1. Gross non-performing assets as % of gross advances
Note: Global values upto FY24.
Source: RBI; Capitaline; S&P CIQ

Indian Banking Sector has been more resilient and nimble-footed; learning from the domestic and global mishaps of the past decades. By any measure, Indian Banking has been performing better than its global peers. **The potential of sustained, profitable growth over several decades underlines its high valuations.**

This serves as an ideal launchpad for the Viksit Bharat mission. **The banking industry needs to chart new frontiers.** We need to reimagine the bank of the future.

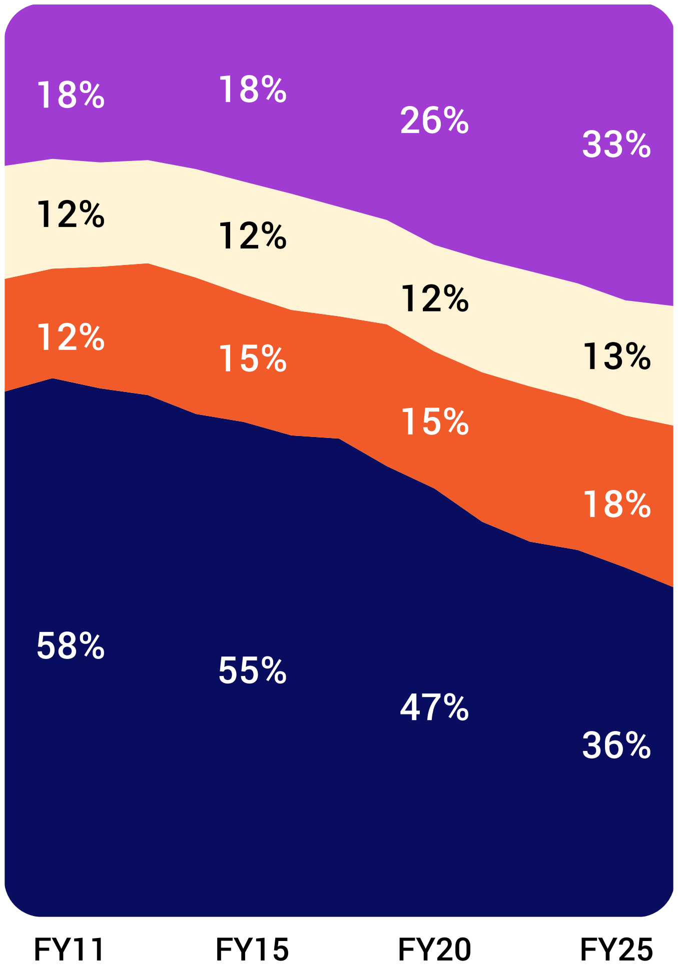
Indian banking needs to chart new frontiers

1 Expanding credit growth: NTC[1], MSME and Corporate	The bank lending mix has changed dramatically over 15 years. NTC retail lending is at an all-time low – at this rate, universal credit penetration will take more than a decade. Inclusion efforts on MSME lending shows promise. Corporate credit is moving away from banks; as alternate funding provides more end-use flexibility.
2 Unlock productivity: Reimagine operating model & cost structure	At an industry level, costs have outpaced income growth. Real productivity gains over 15 years have been a meagre 1% p.a.. AI and GenAI presents a unique opportunity for banks to break sticky cost structures and reimagine their operating model. Banks are starting to adopt AI/ GenAI but the progress is limited, as their complexity is not well appreciated.
3 Digital bank of the future: Meeting consumer expectations	Despite the progress on digital public infrastructure and digitization efforts, consumer experience with digital purchases is sub-optimal. Bank's digital channels need significant upgrade to match customer expectations – on journeys, personalization and PFM[2]. AI/ GenAI capabilities can present an 'app-less, conversational banking' experience if done well.
4 Embedding Resilience: Across Operations, Technology & Risk	Banking industry needs to build Resilience across Operations, Technology & Risk functions. IT costs have seen massive jump but are under-indexed compared to global peers. Shared utilities & digital public Infrastructure have seen good success. It's time to create new utilities for emerging risks (e.g., climate, transaction, monitoring). Risk culture needs to be shaped.

1. New-to-Credit **2.** Personal finance management

Shape of bank advances has changed dramatically over the last 15 years

Shape of bank advances (FY11-25)



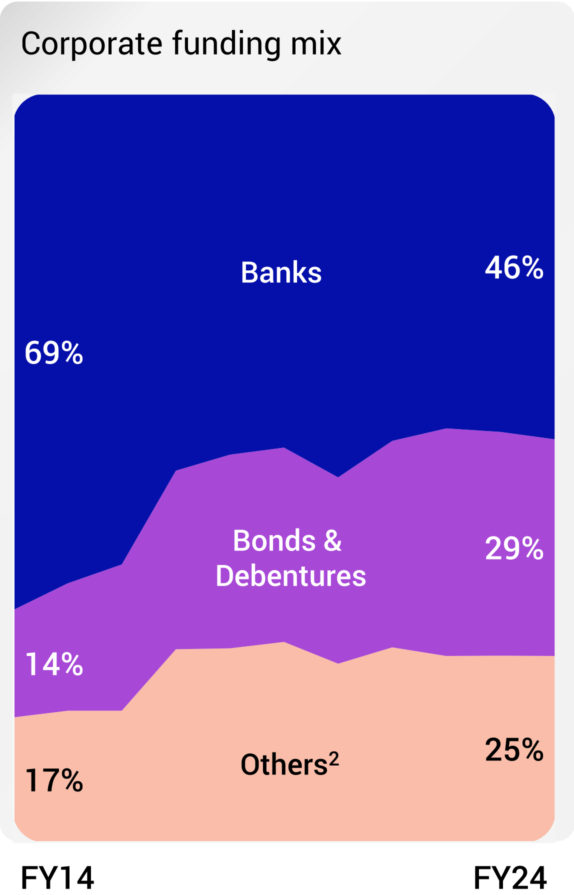
	CAGR FY11-25	CAGR FY20-25	CAGR FY24-25	Characteristics
Retail	17%	17%	12%	• Rising formalization of borrowing • Success of retail credit bureaus • National scale digital public infrastructure
Agri	12%	14%	10%	• Moderate growth; in line with agri GDP • Push given high cost of PSL[1] non-adherence • Success of MFI[2] model for credit access
MSME	14%	15%	15%	• Massive MSME formalization (e.g., Udyam) • Significant off-take of credit guarantees • Increased penetration of commercial bureaus
Corporate	8%	6%	3%	• Deleveraging of 'twin' balance sheets • Alternate funding: capital mkt., private credit, etc. • Muted capex growth
Overall	12%	12%	11%	

1. Priority Sector Lending **2.** Microfinancing lending institutions
Source: RBI; BCG analysis

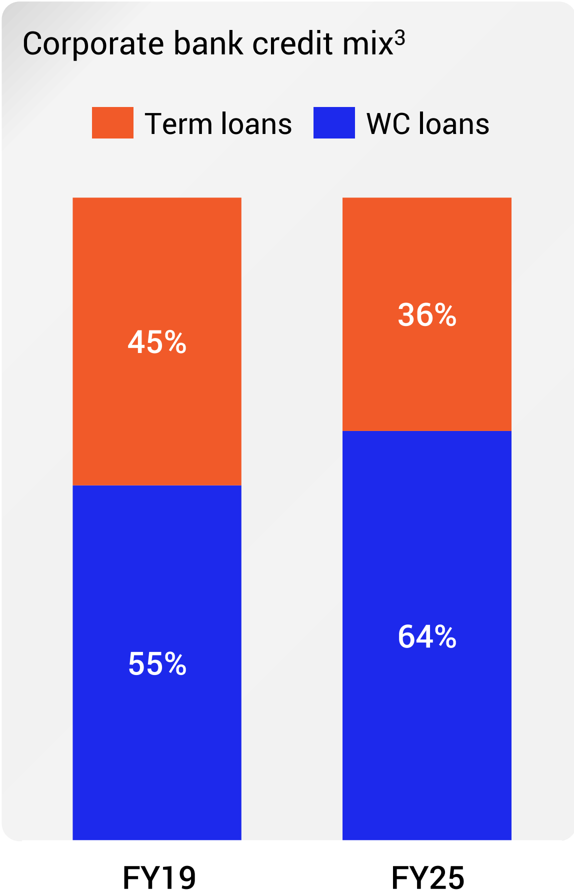
Credit insights Partner: TransUnion CIBIL

Corporate funding has shifted away from banks

Reduced reliance of corporates[1] on bank financing



Share of term loans in bank credit has gone down



Dependence of Corporate India on banking advances has consistently declined over the past decade. AQR[4] crisis has decoupled and deleveraged the twin balance sheets.

Corporate balance sheets have become more resilient — lower leverage, stronger cash reserves and higher equity injection through capital markets. Capacity utilization at the same time has remained below 80% to merit expansion/ addition.

Bank funding has been shifting towards short term capital for existing projects while alternate funding (Private credit, ECB[5], etc.) or structures (AIFs[6], REITs[7], etc.) offer long term capital.

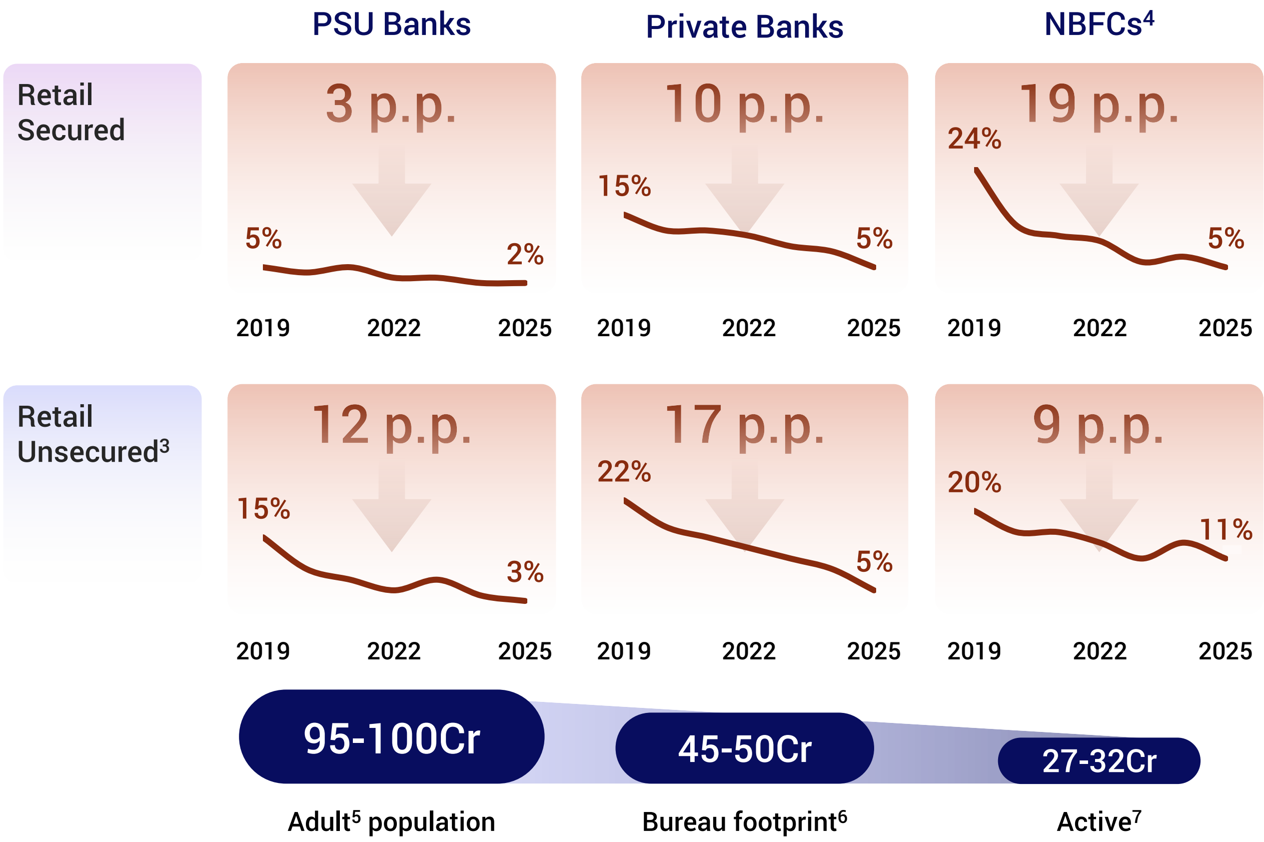
Banks will need to play a dominant role to fund new capex required across emerging, sunrise sectors as well as to fund future infrastructure development.

1. Includes data from 6,955 public listed companies **2.** Includes term loans from non-bank sources and all long-term funding instruments not identified separately **3.** Only borrowers with a balance >₹ 100Cr are included. NFB and NCD exposures are excluded from the debt mix **4.** Asset quality review **5.** External commercial borrowings **6.** Alternative investment fund **7.** Real estate investment trust
Source: RBI; TransUnion CIBIL; Industry reports; BCG analysis

Credit insights Partner: TransUnion CIBIL

Share of New-to-Credit (NTC) continues to decline in retail lending

NTC[1] share trends[2] across retail secured and unsecured products by lender type (by no. of loans)



1. NTC is defined as first bureau presence of the borrower **2.** Based on count of NTC loans vis-à-vis total (secured or unsecured) loans disbursed each FY **3.** Includes personal loans, credit cards, consumer durables loans and two-wheeler loans **4.** Includes HFCs
5. Population of age 20 and above **6.** Borrowers ever present in retail bureau as of March 2025
7. Captured in retail bureau as of March 2025
Note: Trend shown is from FY19 through FY25
Source: TransUnion CIBIL; World Bank; BCG analysis

India has a large, informal workforce; **formal credit penetration is still low.** As India becomes developed, per capita incomes will rise and push a large number of this workforce to formal banking for the first time.

However, NTC lending is showing signs of de-growth. **FY25 added only 1.6Cr NTC borrowers; second lowest in recent years.** NTC shares in retail originations have declined across lender types since 2019. **By FY25, NTC added up to only 5% of new originations.**

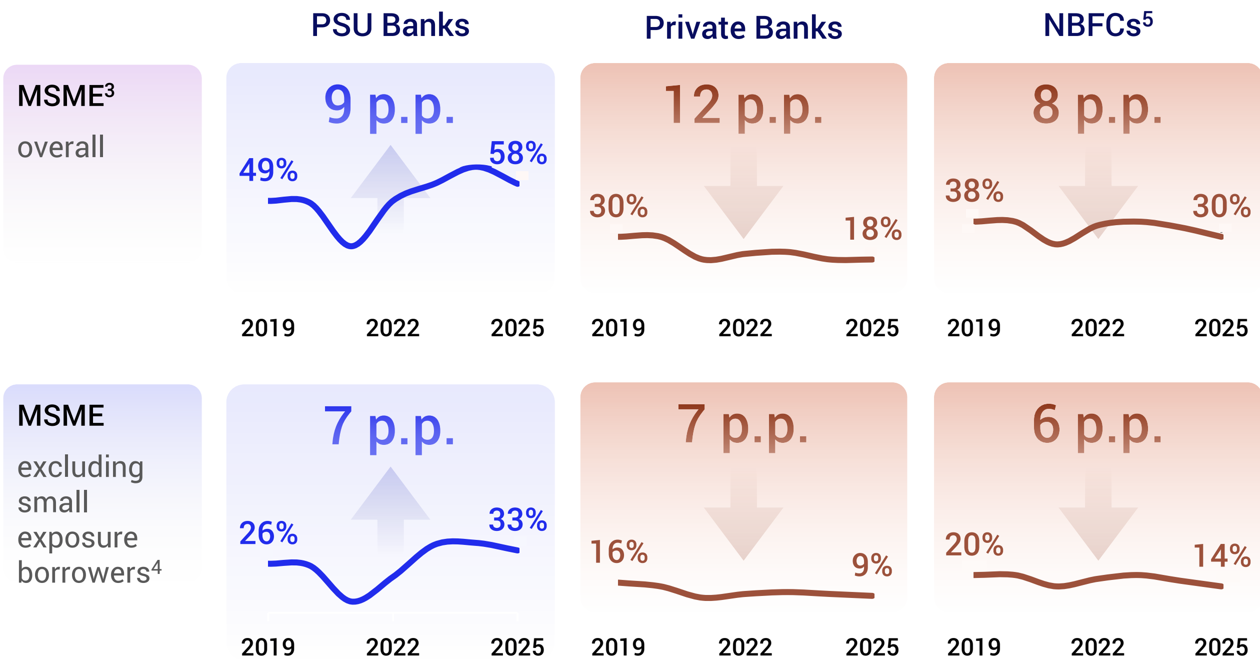
Retail unsecured lending shows steeper decline in banks. PSU and Private banks reduced NTC share by 12-17 p.p. reflecting increased conservatism and lower risk appetite.

The current year may reflect risk aversion by lenders. However, the economy will require a large share of small-ticket, NTC lending to proliferate. **At the current rate, it will take over a decade to cover them under formal financing.**

Credit insights Partner: TransUnion CIBIL

New-to-Credit (NTC) for MSME however continues to grow in recent times

MSME NTC[1] share trends[2] by lender type (by no. of loans)



1. NTC is defined as first bureau presence of the borrower **2.** Based on count of NTC loans vis-à-vis total MSME loans disbursed each FY **3.** MSME definition: Considered working capital and term loan facilities; renewals were excluded. Borrowers with a maximum 12-month outstanding balance of more than ₹ 100Cr were excluded from this exercise **4.** Borrowers with a maximum 12-month outstanding balance of less than ₹ 10L were excluded from this exercise **5.** Includes HFC **6.** MSME (Udyam) registrations including Udyam Assist Platform (UAP) as of August 2025 **7.** Borrowers active in the last 5 years in retail bureau as of March 2025
8. Captured in retail bureau as of March 2025
Note: Trend shown is from FY19 through FY25
Source: Udyam Registration; TransUnion CIBIL; BCG analysis

MSMEs will be the critical workhorse to power India's 2047 Mission. They are expected to contribute **50% of GDP** by 2030, employ **~150Mn people** and account for **60% of India's exports.**

Access to formal financing remains a challenge even though reforms have increased the **richness of the MSME data** footprint (e.g., Udyam, QR codes, UPI payments, GST, etc.). **Guarantee schemes** (CGTMSE, CGFMU, etc.) have facilitated a large number of MSMEs to move towards formal financing.

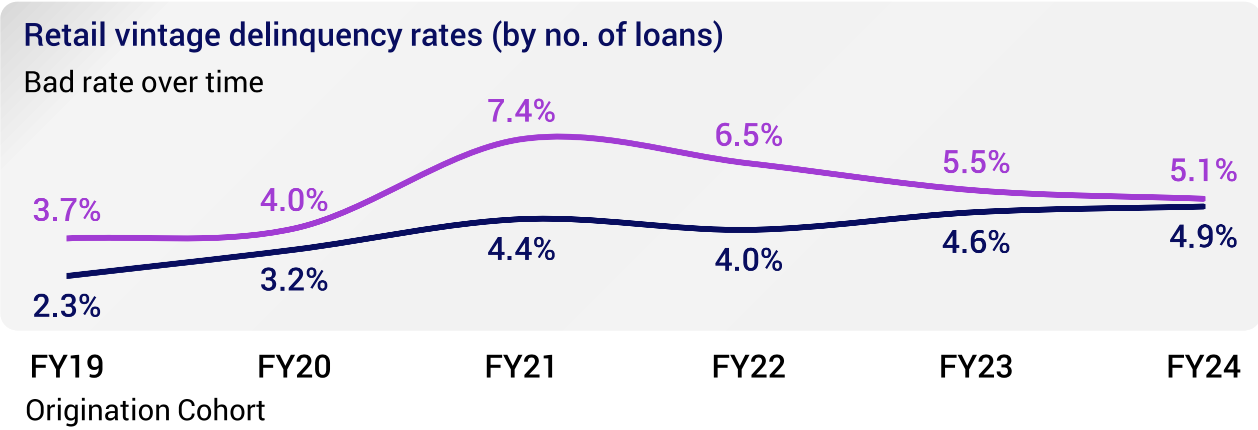
PSU Banks are leading the way in NTC additions (driven by policy mandates and strategic inclusion push), while private Banks and NBFCs adopt a more cautious stance towards NTC MSME borrowers.

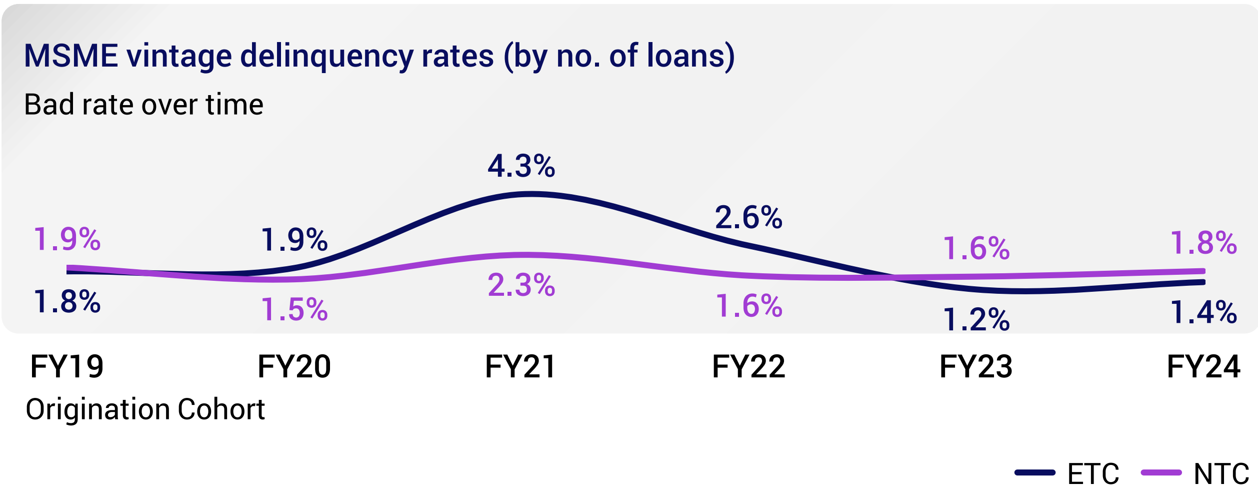
Lenders have an opportunity.
If done well, MSME can be a very **profitable segment.**

Credit insights Partner: TransUnion CIBIL

NTC segment not structurally riskier than ETC customers

Bad rates for NTC vs. ETC[1] customers across Retail overall and MSME[2] segments





Historically, NTC default rates are marginally higher than ETC with the exception of the period around COVID, where NTC delinquency rates surged more than ETC.

NTC underwriting performance has shown significant improvement, with NTC delinquency rates either declining or stabilizing in recent periods, especially in contrast to ETC.

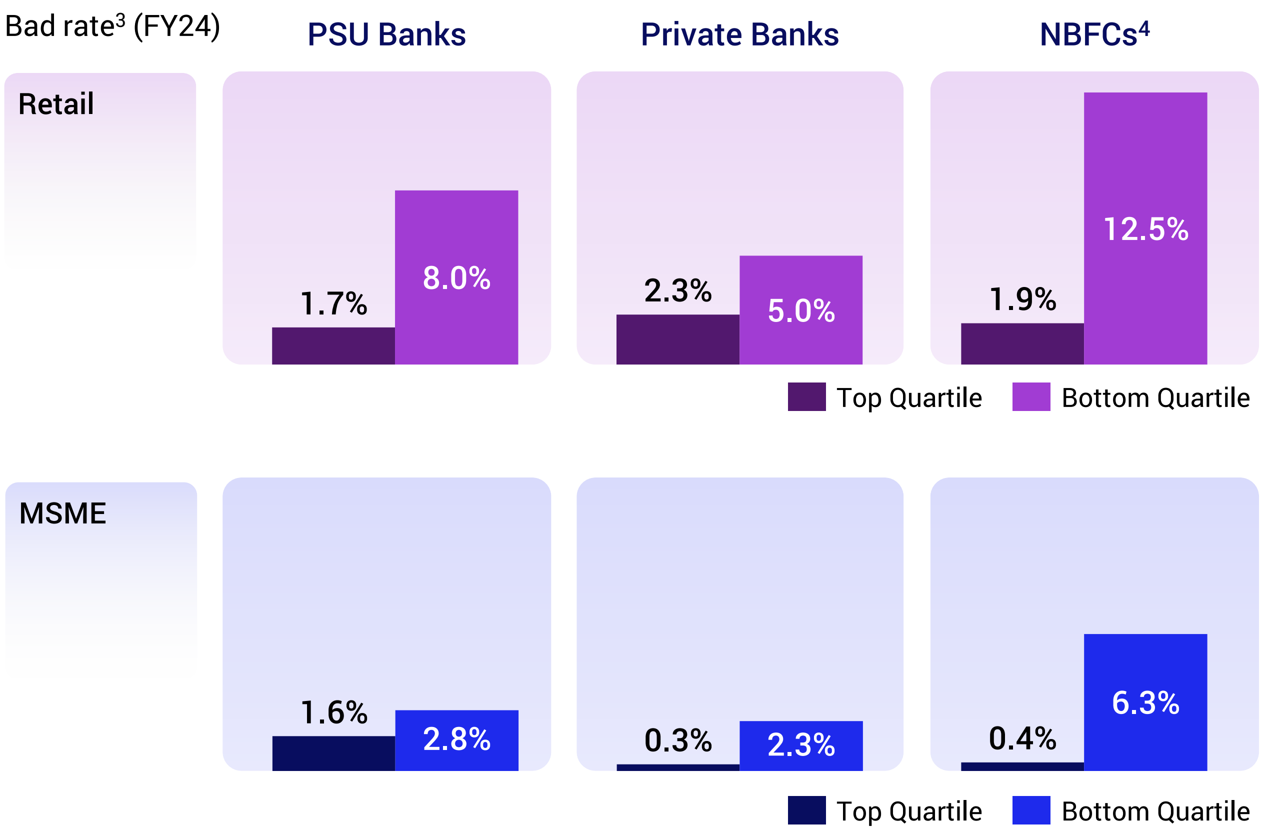
Lenders need to relook at their NTC lending strategy. ETC delinquency rate in retail has been rising sequentially. A judicious mix of NTC and ETC in new loan originations with robust underwriting may be required.

1. Existing-to-Credit **2.** MSME definition includes working capital and term loan facilities; renewals were excluded. Borrowers with a maximum 12-month outstanding balance of more than ₹ 100Cr and less than ₹ 10L were excluded from this exercise.
Source: TransUnion CIBIL; BCG analysis

Credit insights Partner: TransUnion CIBIL

Underwriting rigor in NTC portfolios varies widely across lender types

Delinquency divergence in NTC portfolios for Retail overall and MSME[1] segments by lender[2] type (by no. of loans)



1. MSME definition includes working capital and term loan facilities; renewals were excluded. Borrowers with a maximum 12-month outstanding balance of more than ₹ 100Cr and less than ₹ 10L were excluded from this exercise **2.** Top quartile and bottom quartile lenders are taken basis bad rate; average of 4 years viz. FY21-24 is used to determine lenders falling in these categories **3.** Ever 90+ DPD within 12 months on volume **4.** Includes HFCs
Source: TransUnion CIBIL; BCG analysis

NTC lending continues to be challenging. It requires a lot more effort and advanced underwriting capabilities. The stark difference in NPA levels among lenders is attributable to these capabilities.

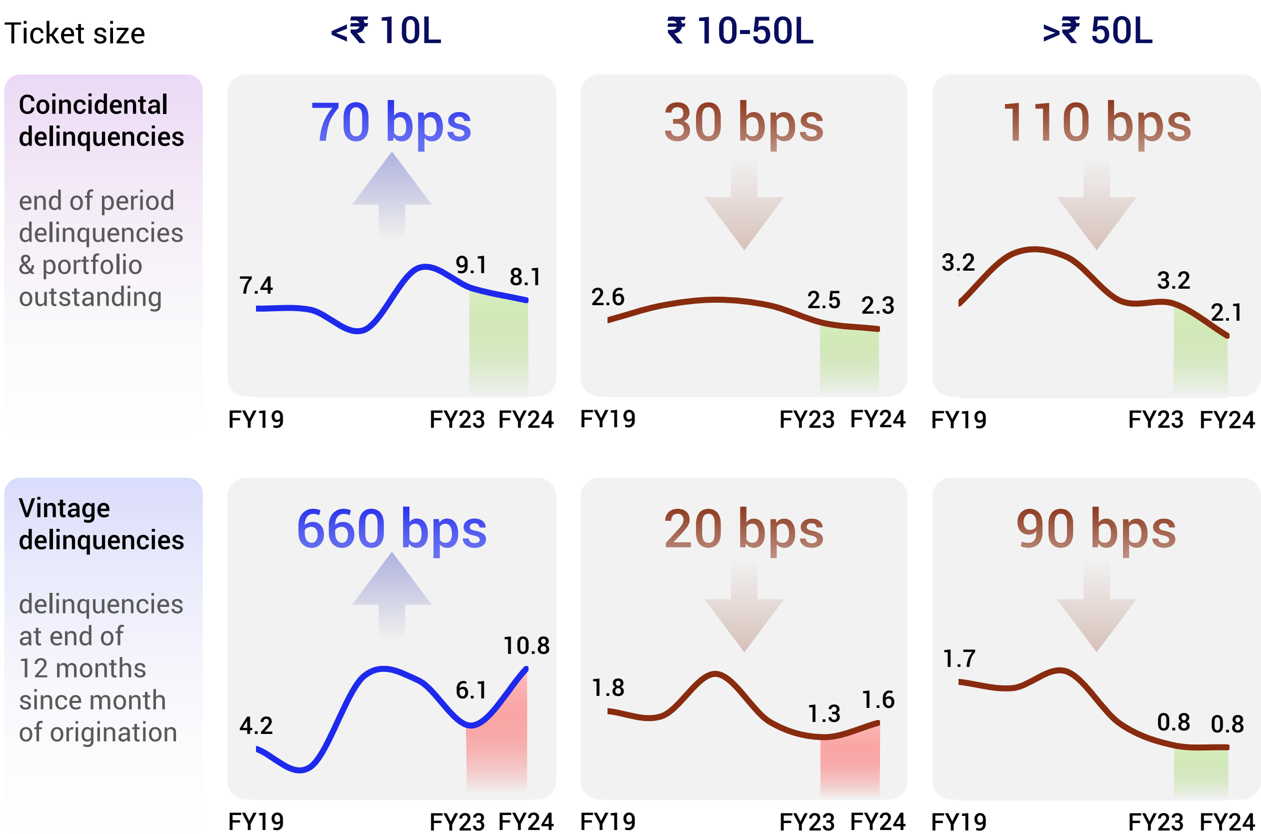
Consistent NTC performance among top lenders reflect disciplined and mature underwriting practices. **Lenders that have got this right are performing significantly better than their private or public sector peers.**

NBFCs show a wide performance spread between top and bottom quartiles, in both Retail and MSME segments. This may indicate inconsistent credit filters and higher sensitivity to underwriting rigor.

PSU Banks in the bottom quartile show much higher delinquency in retail lending. There is a need to revisit credit filters and underwriting standards.

Headline metrics mask emerging stress in small value MSME loans

Coincidental delinquency rates[1] for MSME[2] are improving but they overstate portfolio health by masking early stress in recent vintages[3] (by no. of loans)



1. 90+DPD rate tracked at portfolio level from FY 2019 to FY 2024 **2.** MSME definition includes working capital and term loan facilities; renewals were excluded. Borrowers with a maximum 12-month outstanding balance of more than ₹ 100Cr and less than ₹ 10L were excluded from this exercise. Trades with missing ticket-size information in bureau could not be considered for this exercise **3.** Ever 90+ DPD in 12 months considered to track vintage performance
Note: Trend shown is from FY19 through FY25
Source: TransUnion CIBIL; BCG analysis

Vintage delinquency for MSME loans less than ₹ 50L in FY24 has jumped from the past two years, in contrast to the steady decline in coincidental rates observed at an overall level since COVID.

The <₹ 10L segment shows a sharp spike in FY24 vintage delinquency (10%), **while coincidental rates continue to decline, indicating significant stress building up in recent originations.**

The ₹ 10-50L segment sees a mild uptick in FY24 vintage delinquency, **reversing a multi-year improvement trend,** even as coincidental rates continue to fall, **a sign of early stress emergence.**

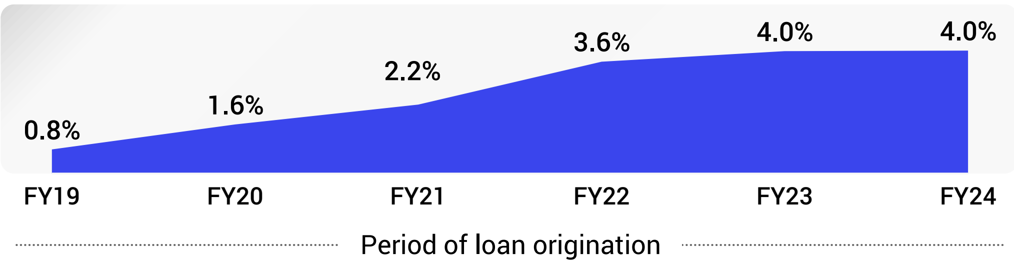
The >₹ 50L segment shows a plateau in FY24 vintage performance, halting the decline seen in prior years, while **coincidental delinquency has improved, pointing to latent risk in fresh disbursals.**

Spikes in early delinquencies indicate fraud shifting towards ETC segment

All values are % of loans with 90+ DPD at 6 MOB not normalized at 12 MOB[1] to total loans

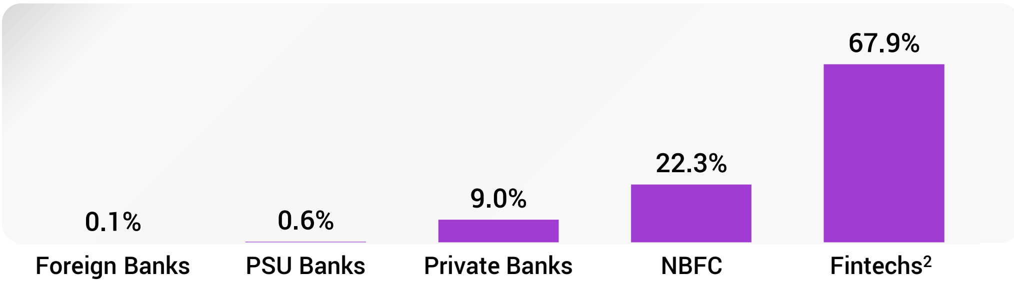
Early delinquency volumes over time

Proxy for fraud



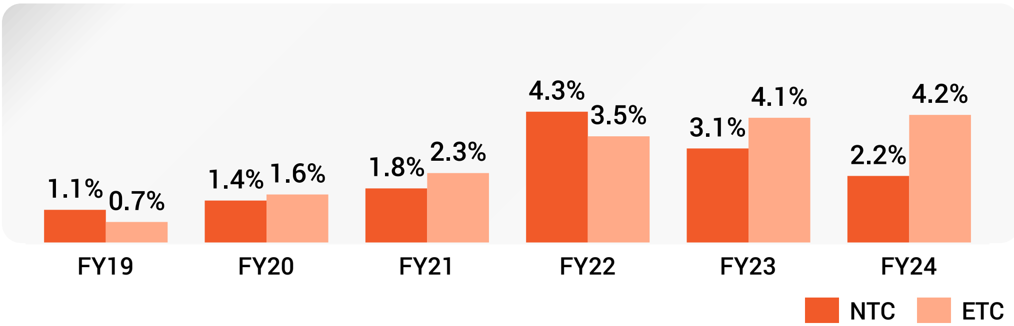
Early delinquency volumes by lender

Proxy for fraud



Early delinquency volumes over time by ETC and NTC

Proxy for fraud



1. Early Delinquency: 90+ DPD in 6 months is taken to determine applications with potential fraudulent behavior
2. Non-bank digital lenders offering diverse financial solutions e.g., Navi, Capital Float
Note: Analysis done for Personal loans, Credit card, Consumer durable & Two-wheeler loans
Source: TransUnion CIBIL; BCG analysis

The fraud risk management practices lag behind for an era of digital fraud. The AI driven excellence that is seen in credit risk assessment is often missing in fraud risk assessment.

Fraud rates at credit application stage have surged over the last 5 years and **plateaued at all time high levels.**

Fraud rates in ETC segment have risen steadily over time, reaching 4.2% in FY24 and are now consistently above NTC fraud.

The shift from NTC to ETC fraud may be driven by increased ID theft of existing customers, coordinated crime syndicates targeting established accounts, and the use of mule accounts to launder fraudulent proceeds.

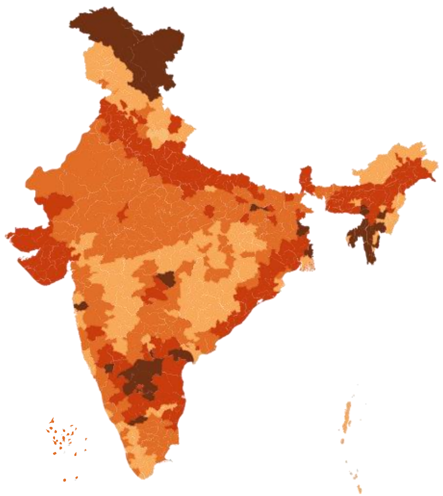
Credit insights Partner: TransUnion CIBIL

Alternate data insights Partner: Satsure & GeoIQ

Lenders need to develop capabilities to measure and monitor climate risks

45% of consumer loan book in Climate Vulnerable Area (CVA[1])

Climate vulnerability map (FY25)



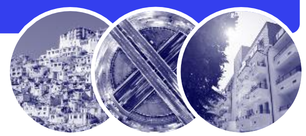
CVA[1] Zone

Low | Moderate | High | Very High

6% in Climate & Economic Vulnerable Area (CEVA)

Economic vulnerability[2] grade

Low EVA



Affluent areas with good infrastructure, roads & public facilities

Poor income areas, lack of proper roads and infrastructure

High EVA

Portfolio showing higher default rates[3]

Incremental default rate for CEV — Area

+19%	Tractor
+10%	Agri Loan
+15%	Kisan CC
+20%	Home Loan
+9%	Personal Loan[4]
+39%	Auto

Alternate data can play a significant role in monitoring macro risks in the portfolio. Our analysis shows that overlaying satellite and geo-spatial analytics on the Bank's portfolio can show meaningful hotspots that drive disproportionately higher delinquencies.

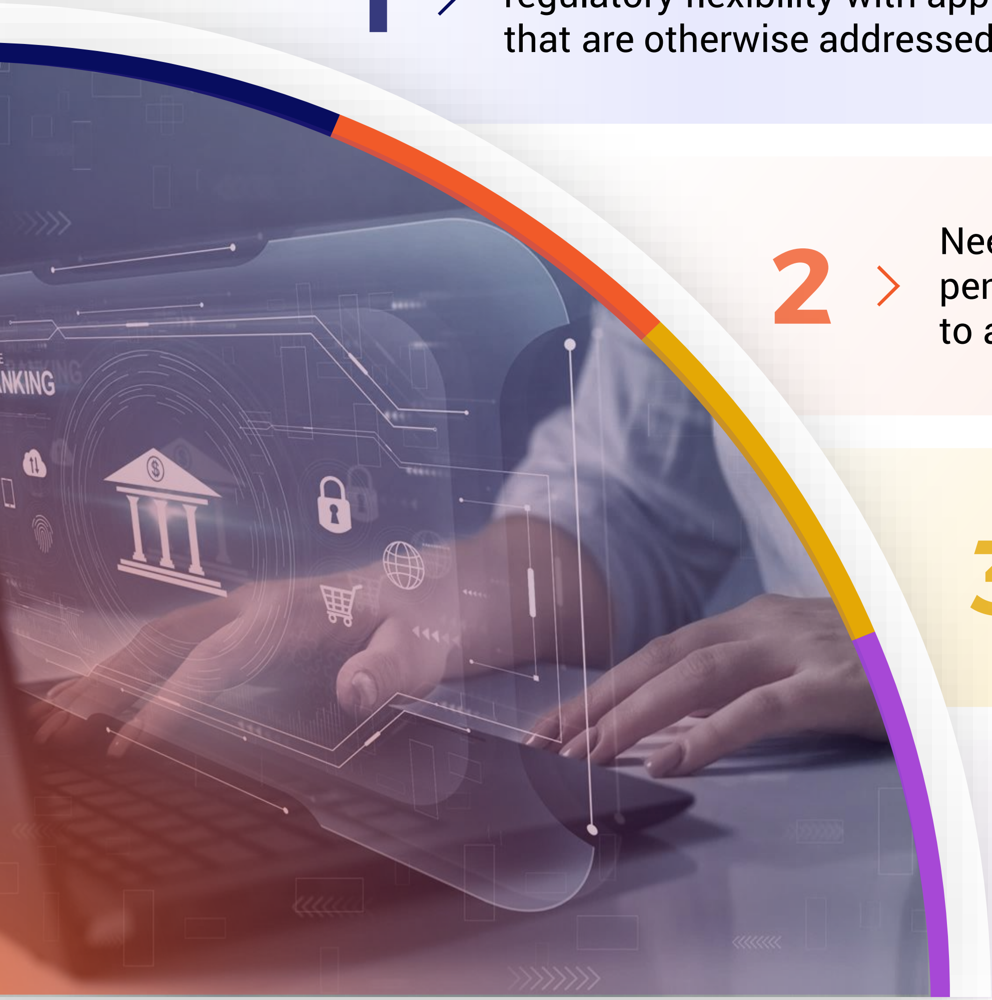
30-48% of Industry exposure[5] is in Climate Vulnerable Areas of the country while **10-40% exposure is in areas that are Economically Vulnerable.**

Lenders need to build capabilities to **measure these risks and effectively manage this** (through pricing levers, capital buffers, etc.).

1. High climate vulnerability: High risk of flood damage (DFSI >18), zone of high wind damage (Vb>=50 m/s), high recent draught instances, high volatility in seasonal rainfall & temperature and groundwater levels **2.** High economic vulnerability: Low affluence, low infrastructure & road connectivity, low education & healthcare profile and high socioeconomic inequality **3.** 30+ DPD (capped at 720 DPD) of the area compared to overall India book average **4.** Only EVA for PL **5.** Exposure across different retail loans products – Home loans, Auto loans, Personal loans, Two-wheeler loans, Tractor loans, Agri loans, KCC

Source: NITI Aayog Natural Disaster map; SatSure climate data; GeoIQ socio-economic indices; TransUnion CIBIL; BCG analysis

Implications for banking industry to unleash growth



1 > Revival of **corporate credit is critical to create a virtuous economic cycle by evaluating** regulatory flexibility with appropriate guardrails for banks to participate in opportunities that are otherwise addressed through private credit, offshore lending or PE/ VC funds.

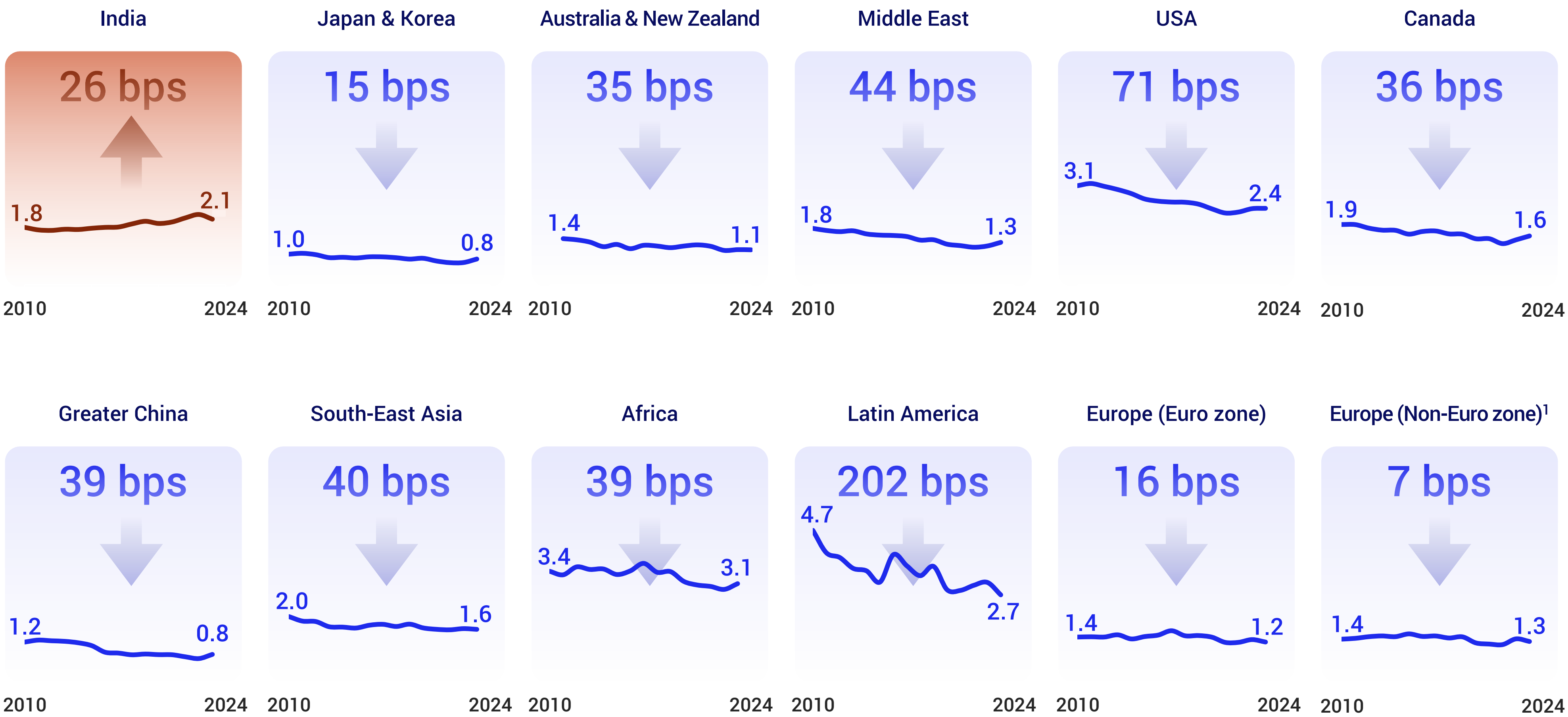
2 > Need **massive expansion of NTC lending** to rapidly increase credit penetration – at the current rate, we will take another 10-15 years to achieve universal credit access.

3 > Lenders need to **enhance capabilities to expand credit in a sustainable manner by** embracing the full power of data (including alternate data) and advanced predictive modelling techniques.

4 > As digital lending increases, **lenders need to evolve capabilities beyond credit risk** – build competencies to identify patterns for fraud detection, measure and monitor macro risks (e.g., climate).

Opex ratios rising for Indian banking; a trend opposite to rest of the world

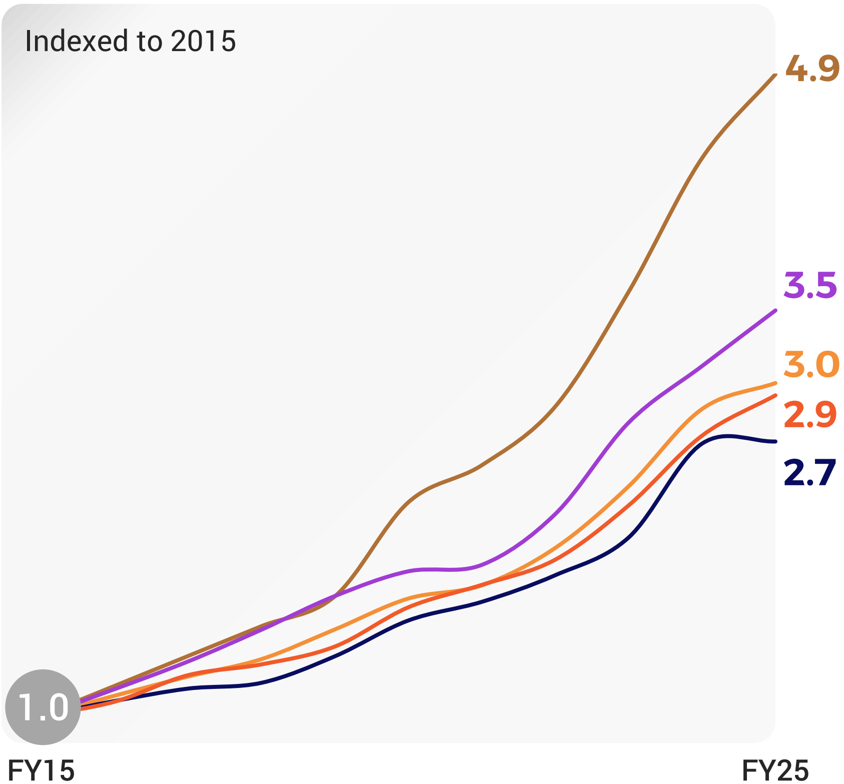
Opex/ Average assets (%)



1. Includes Bulgaria, Czech Republic, Denmark, Georgia, Greenland, Hungary, Iceland, Liechtenstein, Monaco, Norway, Poland, Romania, Sweden and Switzerland
Note: 1,122 publicly listed banks considered for analysis; Cost-to-asset calculated as weighted average ratio of opex to average assets of banks within geography; For India data from FY11 to FY25
Source: CapIQ; BCG — Future of Finance (2025); BCG Value Science Centre; BCG analysis

Banks need to structurally reimagine their operating model and cost structures

Operating income vs. Operating expense



	CAGR FY15-25
IT Costs[1]	17.4%
Non-employee Opex[2]	13.2%
Operating Expense	11.7%
Operating Income	11.4%
Employee Opex[3]	10.3%

47.2% Cost-to-income ratio 48.5%

1. Based on responses of 16 major banks from FIBAC 2025 Banking Survey and its previous editions
2. Non-employee opex includes IT costs 3. Employee opex includes pension, arrears, etc.

Source: RBI; FIBAC Banking Productivity Survey; BCG analysis

India's Digital Public Infrastructure (DPI) has been a game changer – driving massive digitization of banking services and payments. **However, a decade of innovation, maturity and efficiency has not brought productivity gains to banks.**

Cost-to-income ratio continues to increase, driven by sticky employee costs and massive increase in technology and digital spends. Non-employee costs continue to outpace income growth.

Regulatory expectations are becoming increasingly complex (e.g., operational resilience, data privacy), while **new frontiers such as GenAI are rapidly emerging.** Banks need to structurally re-imagine their operating model to unlock productivity.

Capacity increase is driving majority of growth; actual productivity gains only 1% over 15 years

CAGR (FY11-25)		PSU Banks	Private Banks
Operating income	11.8%	8.9%	17.2%
GDP deflator	5.1%		
Inflation adjusted operating income	6.8%	3.9%	12.2%
Capacity growth (# of employees)	3.7%	(0.1%)	11.1%
Operating income per employee	3.0%	3.9%	1.0%
Employee cost increase	1.8%	3.8%	(0.2%)
Real productivity gains	**1.2%**	**0.2%**	**1.3%**

Note: 33 Scheduled Commercial Banks (PSU and Private Banks) in India considered for analysis; Numbers have been rounded off to the nearest decimal
Source: RBI; BCG analysis

Operating income for the industry has grown at 11.8% over the last 15 years. Look under the hood and the picture is not as rosy.

Adjusting for inflation, 60% of the growth has been driven by capacity addition (employee headcount). Adjusting for real wage increase, productivity growth stands at 1.2% only. PSU and private banks have charted diverse paths.

PSU banks haven't added any capacity while employee costs have doubled. Middle management is bulkier; clerical staff is shrinking; creating serious ramifications for future growth.

Private banks have not experienced real wage increase but added significant capacity. Productivity gains have been hard to realize on the P&L.

AI/ GenAI can deliver transformative potential to boost productivity

Shift in current staff roles possible with full potential deployment of AI: 35% to 50%[1]

Illustrative

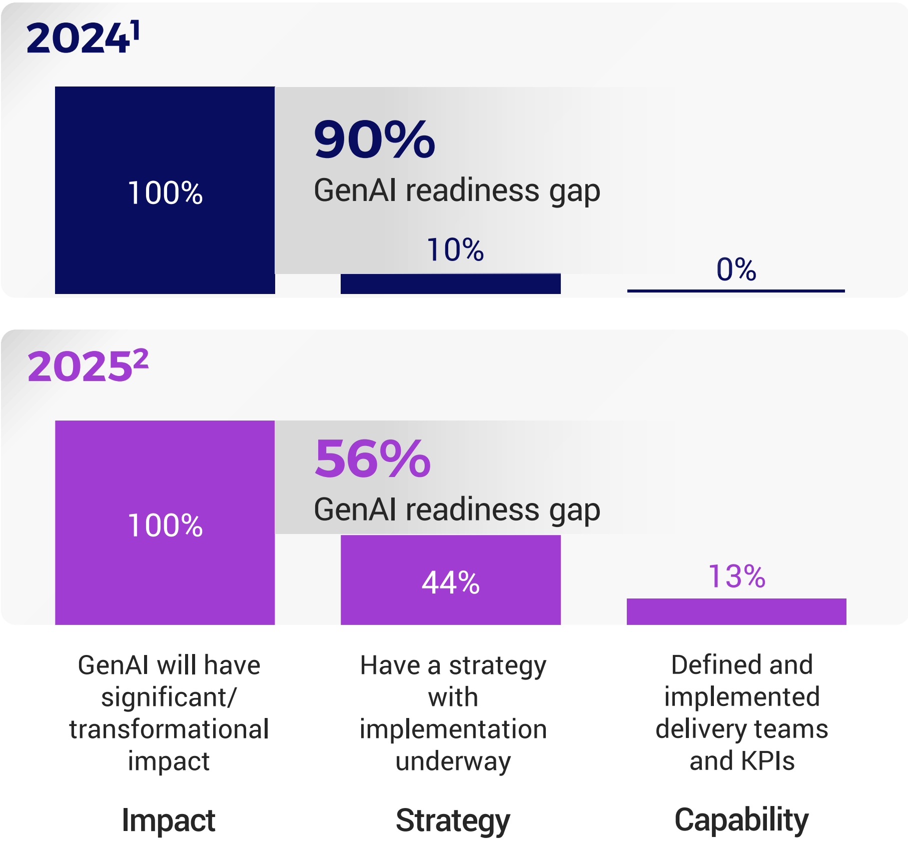
Front office roles	15–30%	RM co-pilots for higher efficiency and broader coverage per RM; direct-to-customer conversational AI applications to address customers not serviced earlier.
Corporate roles	40–60%	Automated processing of routine activities (e.g., AskHR for queries or policies); human involvement for complex problem solving.
Middle-office roles	60–80%	Democratization of AI; all staff provided with advanced AI tools and data access.
Control roles	30–50%	AI-enhanced risk assessments and compliance; human involvement for oversight.
Operations roles	50–70%	Move towards a zero Ops approach, front-to-back digitization of processes; straight-through processing pushed to the maximum extent.
Technology roles	20–40%	End-to-end automation across the entire development life cycle.

1. Assuming all levers of digitization beyond pure AI/ GenAI (e.g., process reengineering, data integration) are in place
Source: BCG project experience and analysis

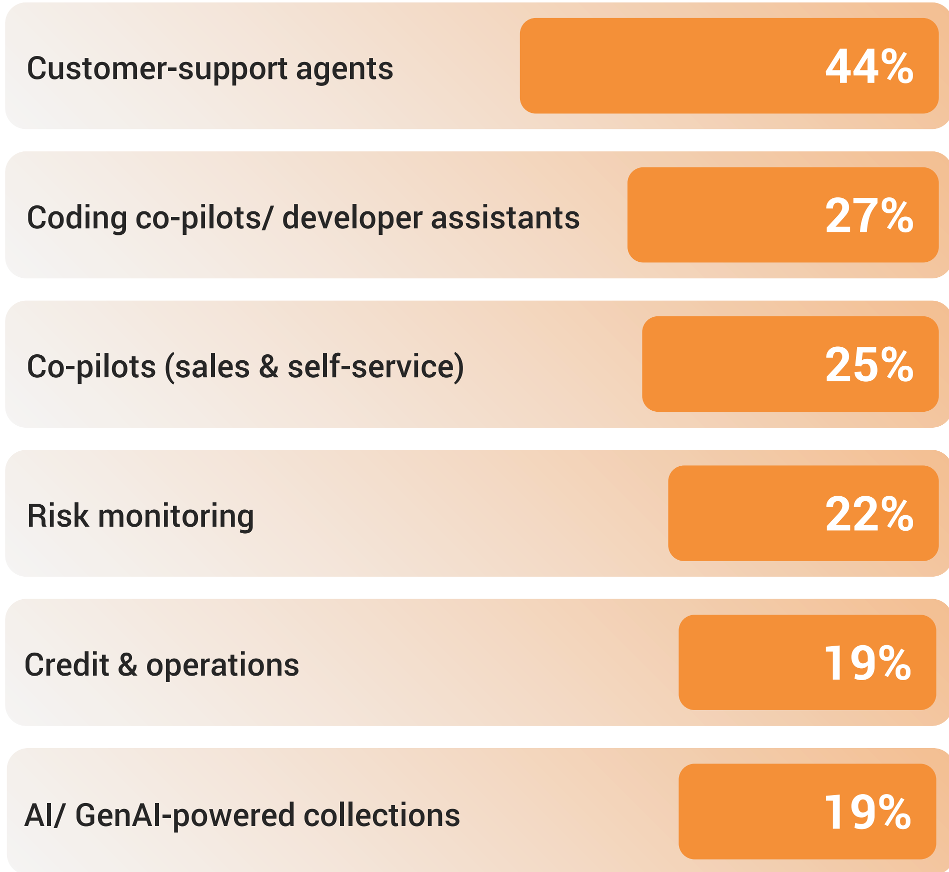
Gradual adoption of GenAI; sustained impact will require scale-up of pilots

GenAI Readiness Gap
Significant improvement in last 12 months

% of respondents



AI/ GenAI adoption across use cases for Indian banks[3]
Customer-support agents lead adoption use cases



1. Based on responses from BCG GenAI in FI Benchmarking Survey **2.** Based on responses of 16 major banks from the FIBAC 2025 Banking Survey
3. Self reported by banks participating in the FIBAC survey
Source: FIBAC Banking Productivity Survey; BCG GenAI in FI Benchmarking Survey; BCG analysis

Technology, Talent and Governance framework holding back GenAI deployment

Top challenges faced by banks in deploying AI/ GenAI solutions[1]

% of banks which ranked the **barrier** among their top 3

Data and infrastructure readiness	69%
Regulatory and governance	56%
ROI uncertainty	50%
Talent and skills gap	38%

Top ecosystem enablers for accelerating AI adoption as per banks[1]

% of banks which ranked the **enabler** among their top 3

Clear AI regulations	69%
Talent training support	63%
Data sharing frameworks	63%
Technology and infrastructure	50%

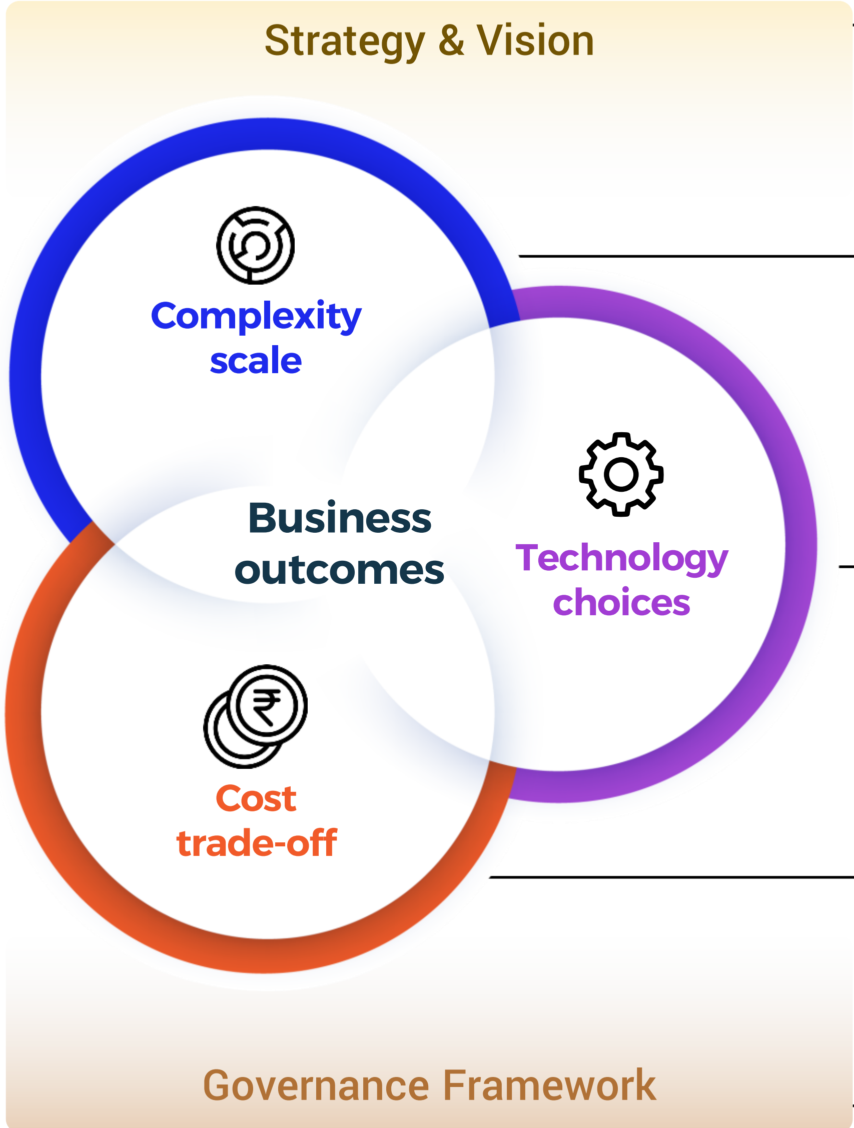
GenAI needs to move beyond POCs – Banks need a comprehensive AI/ GenAI strategy to realize benefits at scale. **AI/ GenAI capabilities need to be thought through as business reimagination or redesign programs –** one that requires process and policy changes, integrations within user journeys and on-ground change management; to realise tangible impact.

Banks surveyed in our analysis struggle with realizing impact from GenAI build. **Amongst several challenges, tech readiness and availability of high-quality talent are ranked consistently among the top 3.**

Successful AI/ GenAI programs in banks will also require a strong governance framework that supports observability, model monitoring, and ethical AI considerations.

1. Based on the frequency of each barrier/ enabler being ranked 1st, 2nd or 3rd by survey respondents
Note: Analysis based on responses from 16 banks
Source: FIBAC Banking Productivity Survey; BCG analysis

Strategic choices required across multiple levels as banks embark on GenAI journey



- Has to be Business-led, enabled by Engineering (Tech, Digital & Data).
- Ruthless prioritization required – few big, bold bets vs '100 blooming flowers' strategy.

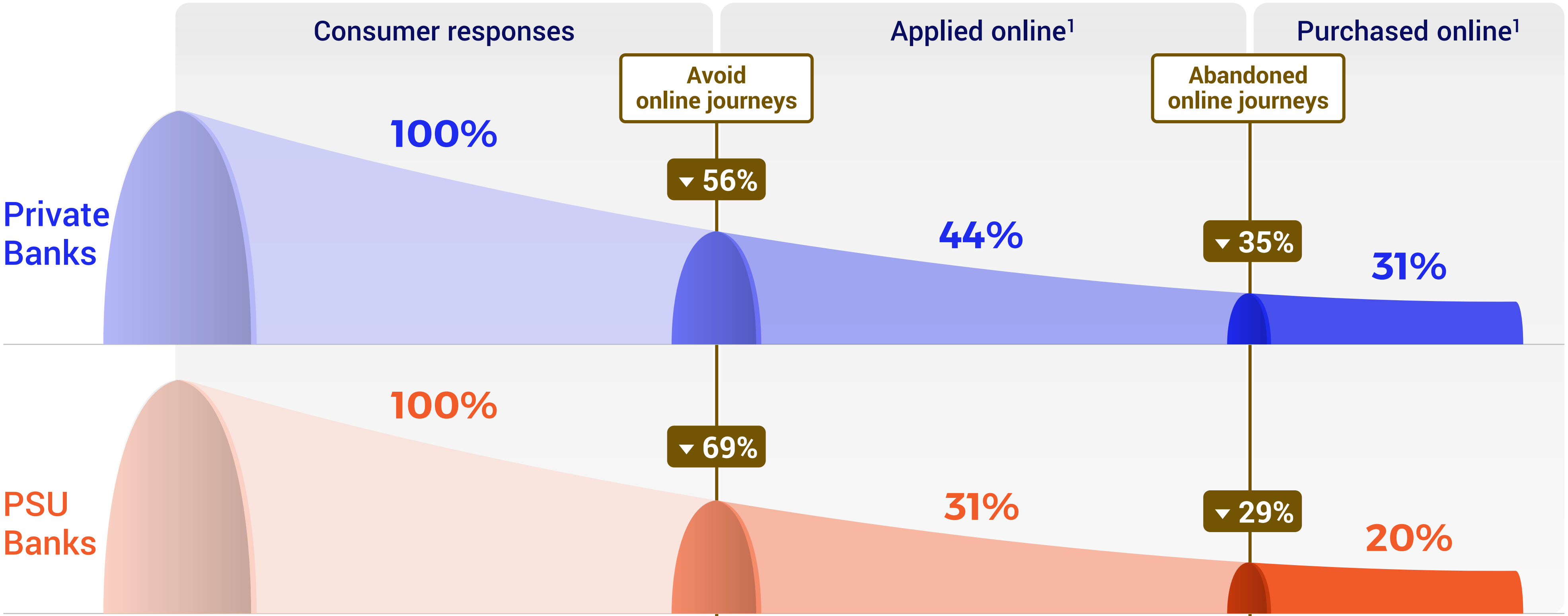
- Evaluate trade-off between accuracy and # of bots deployed in end-to-end process – minimize error compounding.
- Design orchestration architecture carefully to leverage specialized agents effectively (e.g., separate agents for retrieval, reasoning, and verification rather than one generalist handling all).

- Adopt modular, best-of-breed strategy for each component (vs. full stack solution providers).
- Build flexibility in choices, to scale as technology evolves (do not lock-in with less established solutions on core components).

- Optimize accuracy vs. latency vs. resource usage for sustainable ROI (e.g., multi LLM strategy where reasoning is not critical).
- Start with "buy" strategy – evaluate in-house "build" with value realization and criticality achievement.

- Govern AI with AI: Cross-checking agents can validate each other's outputs, catching mistakes that a single agent might miss.
- Rigorous observability: All critical data cuts in automated dashboards (errors logs, user access etc.).

Adoption of digital sales remains limited, journeys need to become simpler



Top 3 barriers to online journeys[2]

Lack of trust	Lack of knowledge	Complex processes
56%	22%	11%

Top 3 pain points in digital purchase journeys[3]

Lengthy process	Unclear instructions	Not user friendly
52%	21%	18%

1. Question — Which financial products (Unsecured & Secured) did you apply for/ purchase online (app, website)?
2. Question — What are the major reasons for not applying or purchasing a financial product online?
3. Question — If you abandoned the purchase, what were the key pain points in the online application/purchase that you observed?
Note: Analysis based on FIBAC 2025 Consumer Survey with 5,000+ respondents
Source: FIBAC Consumer Survey, BCG analysis

Customers willing to try online journeys; need better experience from banks

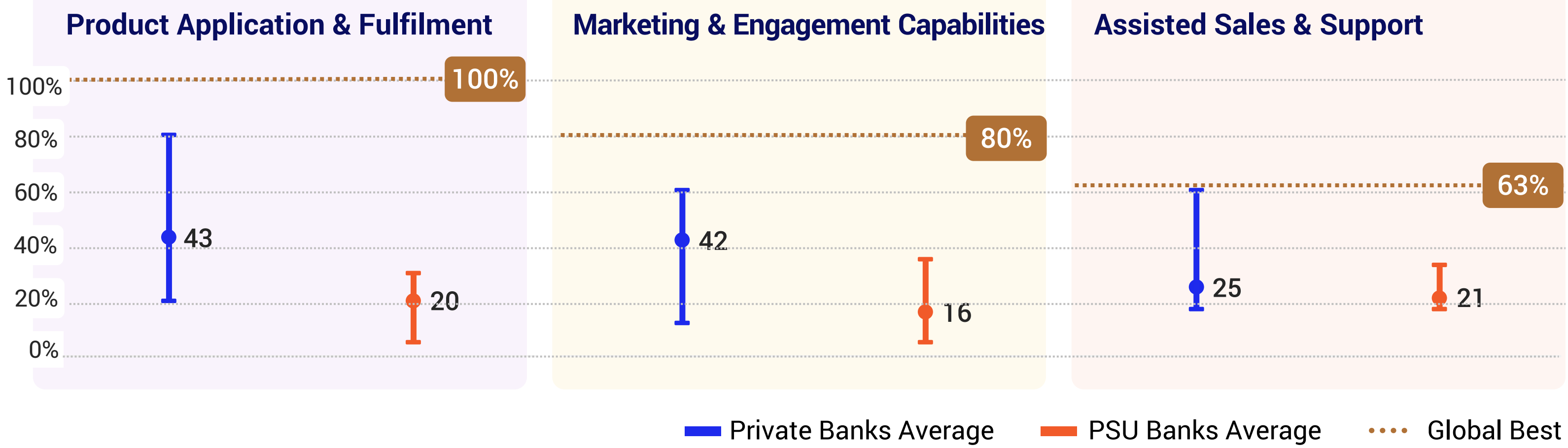
Willingness to buy online again[1]

YES
60%

NO
40%

Mobile banking app maturity score for Indian banks – BCG's proprietary benchmarking scores

BCG's proprietary Digital 360 mobile app diagnostic is a comprehensive framework, benchmarked across 350 banks in 50+ markets globally. It evaluates mobile banking apps across 11 key dimensions, generating a "Mobile Score" that reflects the quality of the customer experience provided by each bank.



Bank apps must reimagine the sales journey by integrating best-in-class features

- Straight-through processing journeys
- Pre-filled form fields
- Simplify and accelerate the application process

- Data analytics and marketing technologies
- Enable segment-of-one personalization
- "Next Best Action" recommendations across sales and service

- Drop-off recovery by re-engaging users
- Remote fulfillment options without branch visits
- Real-time, multi-channel support integrated into the customer journey

1. Question — Would you be willing to purchase the product online again?
Note: Analysis based on FIBAC 2025 Consumer Survey with 5,000+ respondents; Image on this page is generated by AI
Source: BCG Digital 360º Diagnostic, >355 mobile banking applications in >50 markets assessed (as of August 2024); not all markets shown

90% customers highlight personalization gap with their banking experience

Perception of Personalization[1,2]

YES

10%

NO

90%

Mobile banking app maturity score for Indian banks – BCG's proprietary benchmarking scores

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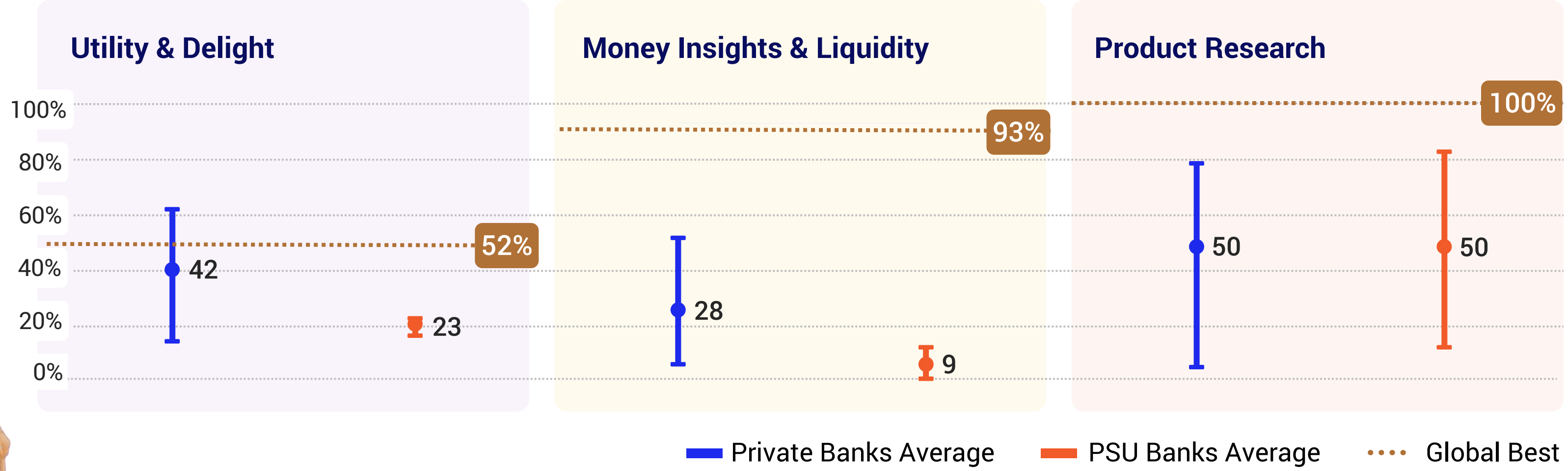


Hyper-personalized service is key to meeting evolving customer expectations by delivering best-in-class digital experiences

- In-house UI/ UX team
- Consistent design language across touchpoints
- Capability to run A/B and multivariate testing

- 360° view of finances across and beyond bank
- Auto-categorized transactions for easy tracking
- Actionable spending insights and budgeting tools

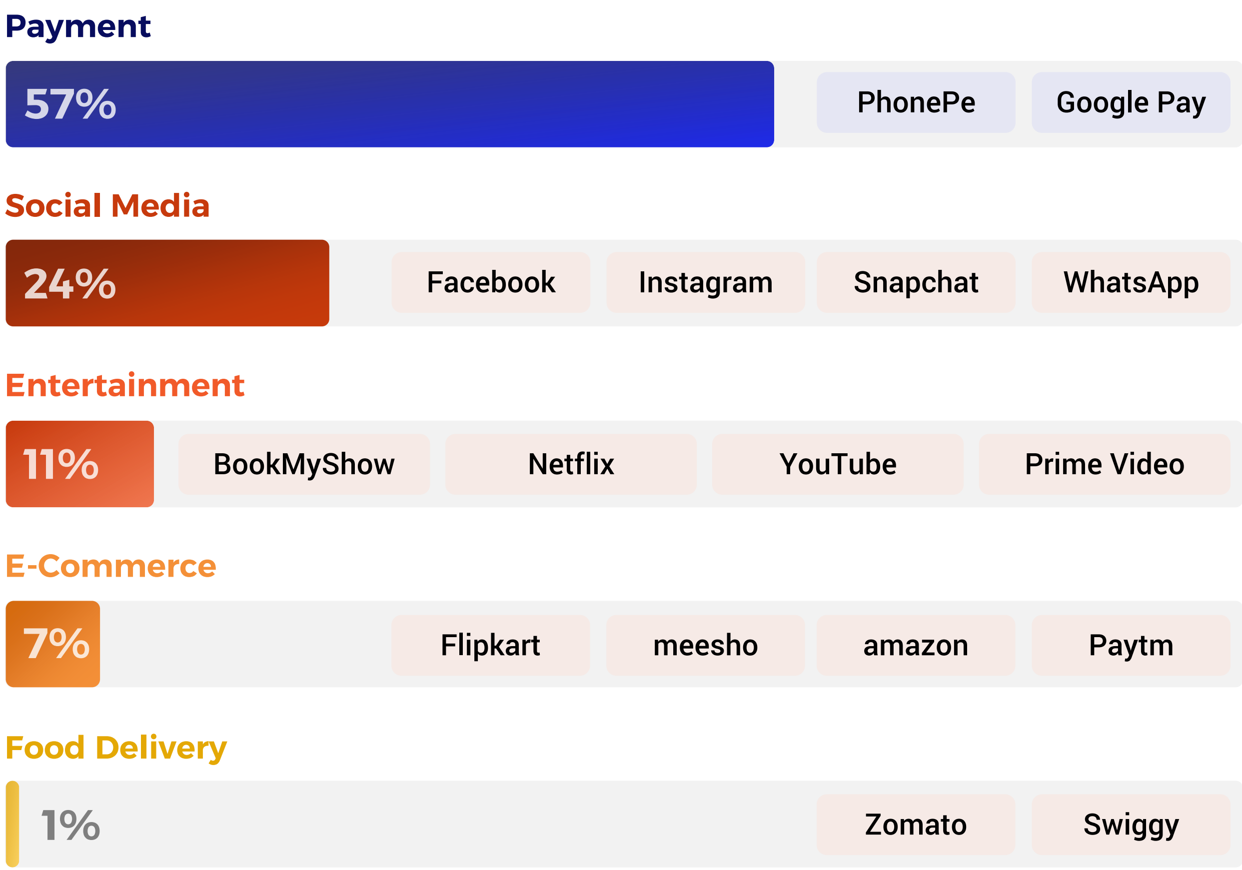
- Advanced, user-friendly product comparison tools
- Rich in-app videos to explain features and benefits
- Contextual tooltips to guide users and enhance decision-making

1. Question — Do you feel your bank understands your financial behavior and needs through the app? **2.** Question — How often do you receive recommendations in your bank's app that are relevant to you?
Note: Analysis based on FIBAC 2025 Consumer Survey with 5,000+ respondents; Image on this page is generated by AI
Source: FIBAC Consumer Survey, BCG Digital 360° Diagnostic, >355 mobile banking applications in >50 markets assessed (as of August 2024); not all markets shown; BCG Digital Sales & Engagement diagnostic, as of July 2024

Despite ease of usage, 3 out of 5 customers will not buy products on non-bank apps

Which mobile app do you consider as most user friendly?

Consumer preference for app categories by perceived user-friendliness[1]



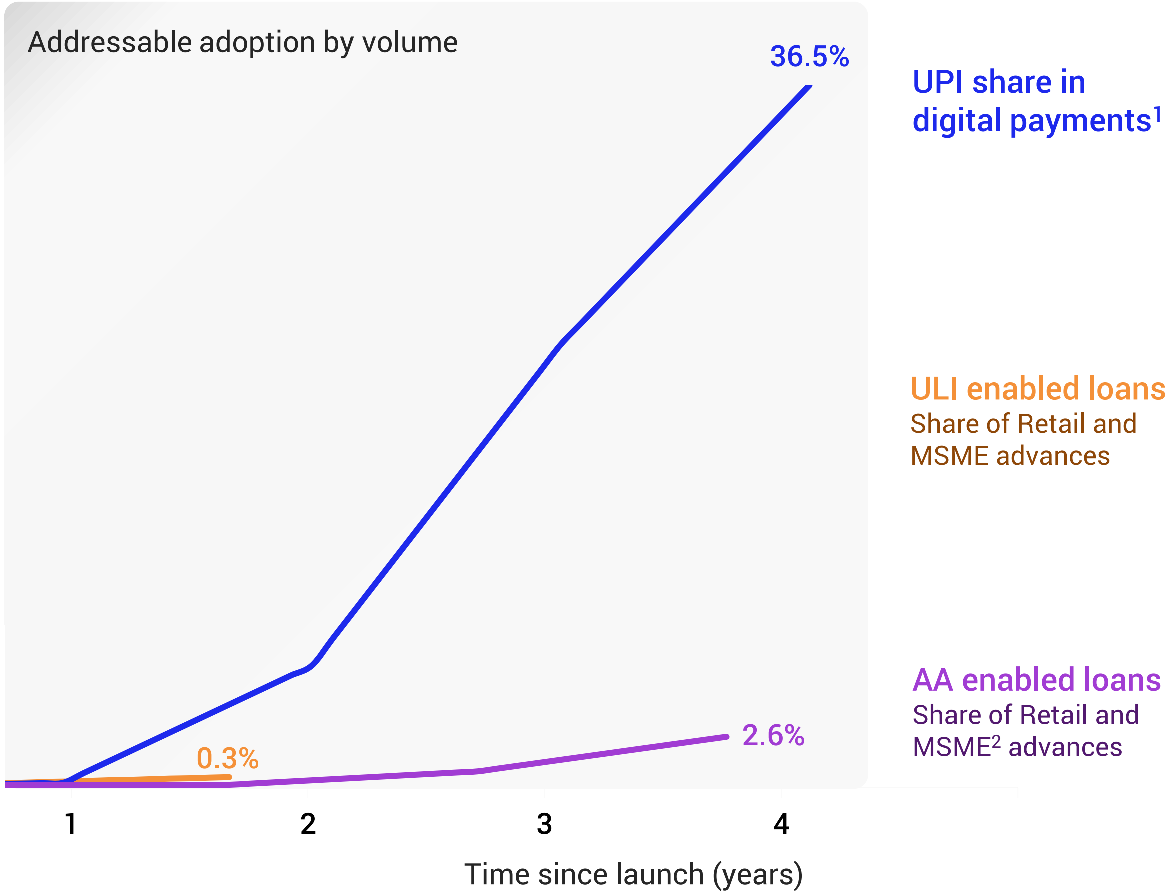
58%

Customers don't trust payment apps for core banking or financial products – except savings accounts[2].

1. Question — Which mobile app do you consider as most user friendly? 2. Question — If your selected UPI app provides you with following financial products, Savings account, Loans, Credit card, Investment products, and Insurance, will you purchase it?
Note: Analysis based on FIBAC 2025 Consumer Survey responses from 5,000 respondents
Source: FIBAC Consumer Survey; BCG analysis

Velocity of adoption differs as complex use cases get rolled out under DPI

Scale and velocity of adoption under different DPI rails



1. UPI, IMPS, NEFT, NACH, APBS, RTGS debit card, credit card and prepaid instruments included in payment transactions
2. MSME definition, considered working capital and term loan facilities; renewals were excluded. Borrowers with a maximum 12-month outstanding balance of more than ₹ 100Cr were excluded from this exercise
Note: UPI launched in August 2016, AA launched in September 2021, ULI pilot launched in August 2023 as Public Tech Platform for Frictionless Credit
Source: TransUnion CIBIL, Sahamati reports, RBI, BCG analysis

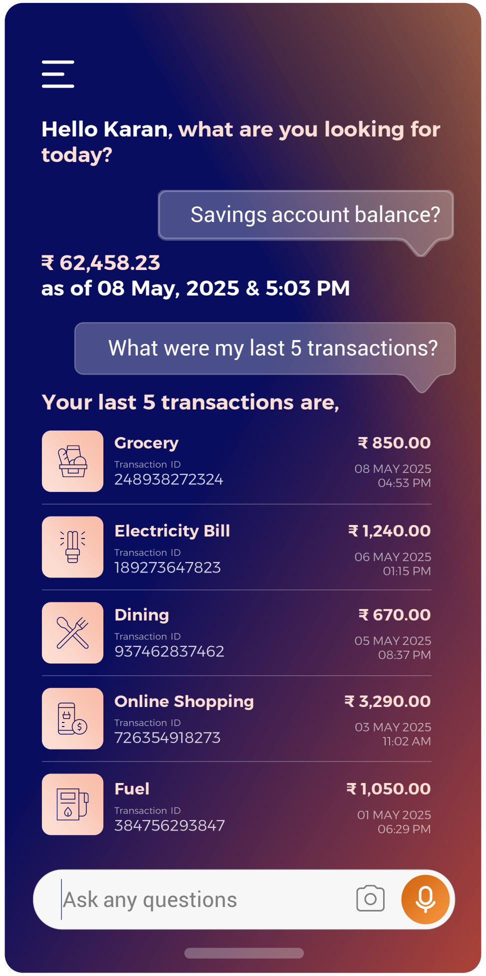
India stack has been a game changer. This unique framework has laid the foundation for a strong and resilient infrastructure, which has significantly **accelerated the pace of digitization within the banking sector.** Aadhar and UPI has seen exponential growth in driving digital payment, eKYC and inclusion.

The **next set of layers – consent and lending – are far more complex** and require several enabling mechanisms in the ecosystem.

AA framework will benefit by bringing more FIPs (beyond banking and financial services) under the ambit in a seamless manner. ULI shows early green shoots and has the potential to further digitize and democratize the lending ecosystem. This can enable frictionless journeys and unlock the next wave of credit inclusion.

GenAI enabled conversational bank of the future

Conversational enquiry and servicing



Personalized offers and 'app less' journeys

Bank app of the future moves beyond menus, placing the consumer at the center. This marks a fundamental shift from transactional design to intuitive, human-like digital experiences.

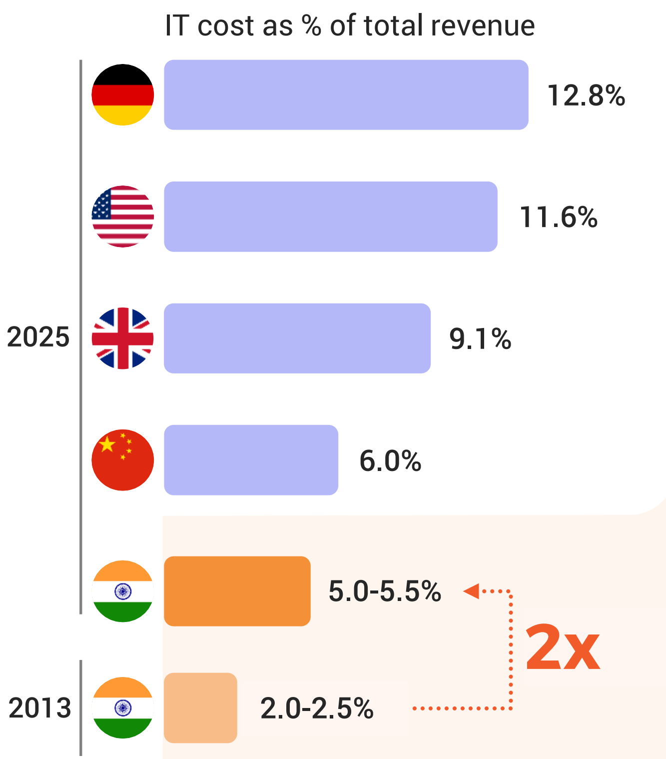
The bank will offer always-on, personalized support, guiding users from product discovery to meaningful financial insights and deliver tailored offers and advice by understanding unstructured inputs like voice, text, and images, all in the customer's preferred language.

Indian consumers are ready for AI-enabled banking, 66%[1] say they would trust such solutions for services like expense tracking, product recommendations, and chat-based support.

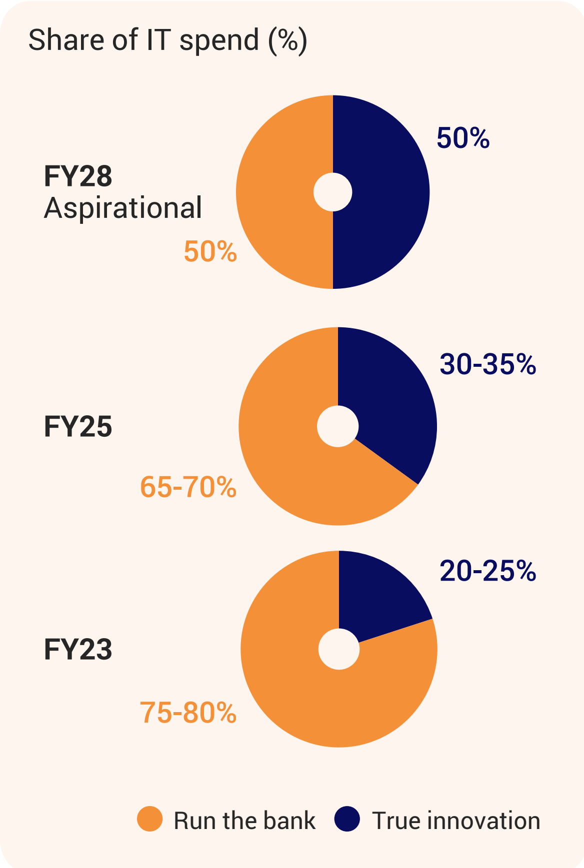
1. Question — If features like chat support, expense tracking and more were AI-enabled, would you trust it?
Note: Analysis based on FIBAC 2025 Consumer Survey responses from 5,000 respondents
Source: FIBAC Consumer Survey, BCG analysis

Despite massive increase in tech spends, Indian banks trail global peers

Global comparison on IT spends



Run the bank vs. Innovation spends



Technology is at the core of banks' operating models. Financial institutions have the largest tech spend across industries.

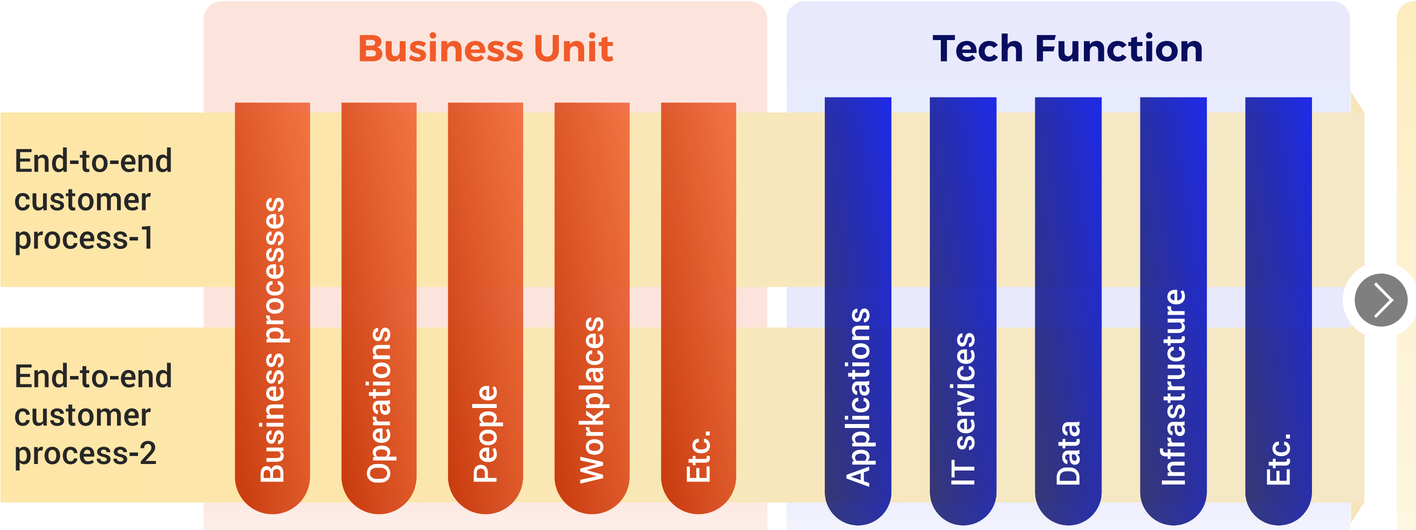
In India, this spend is under-indexed. **Over the last decade we have ramped up IT investments from 2-2.5% of revenue to 5%+** but are still significantly below global peers.

Another encouraging trend is the shift of IT investments toward 'true innovation' programs. This needs to continue as banks look to build efficiency in their operations.

Note: IT costs for all countries from Gartner; IT capex is used to ascertain share of IT spend on true innovation
Source: S&P Capital IQ; Gartner; FIBAC Banking Productivity Survey; Tech in Banking 2025; BCG analysis

Embedding operational resilience will drive tech spending even higher

Earlier focus



Business Continuity Planning

- Aligned to 'vertical' executive accountabilities (BU or function).
- Component-level focus.
- Focused on improving recoverability from outages.

Tech Resilience

- Driven by CIO and tech function.
- Coverage of full tech and infrastructure landscape.
- Focus on uptime, responsiveness, throughput and recovery time of critical systems.

Now

Operational Resilience

- Builds on business continuity and Tech Resilience.
- Is end-to-end from customer point of view.
- Covers all different business and tech resources, with a particular focus on interdependencies.
- Focuses on minimizing harm to customers by prioritizing uptime for most critical customer functions and being able to service through disruption.

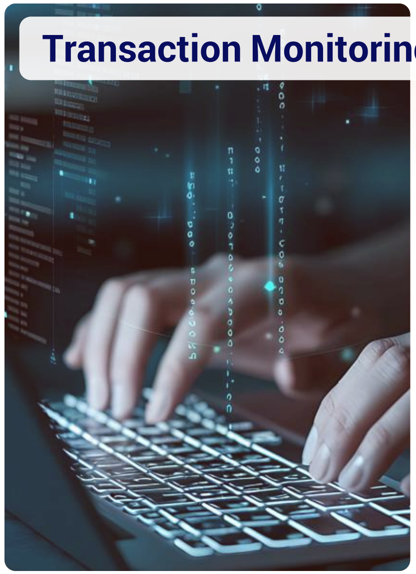
Build shared industry utilities to manage emerging risks

Industry utilities/ digital infrastructure have been very successful

Credit Bureaus	TransUnion CIBIL	Equifax	
	CRIF	Experian	
Payment/ DPI	NPCI		
	AEPS	UPI	FASTag
Financing platforms	psbloansin59minutes.com	M1	
	RXIL	Invoicemart	
Central Registries	CDSL	NSDL	

Climate Utility

- Standardize India-specific climate risk and transition taxonomy.
- Track and maintain high-quality, granular emissions footprint data.
- Establish sector-specific benchmarks for emissions and transition pathways.
- Make standardized data accessible to companies and financial institutions (e.g., banks) for informed decision-making.

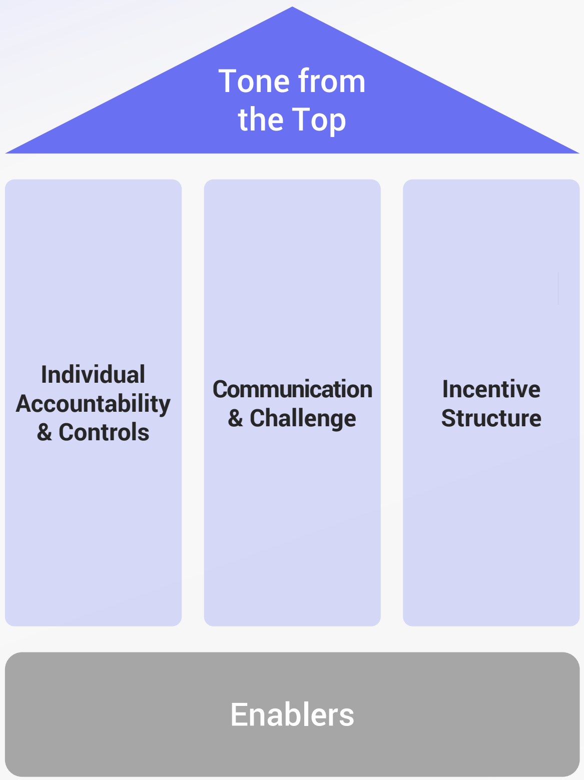


Transaction Monitoring Utility (AML, Fraud, Cybersecurity)

- Establish a centralized, real-time cyber coordination network for banks to enable data capture and sharing.
- Enable incident handling support, threat identification, and vulnerability patching with dedicated response teams.
- Set up an industry-wide central fraud registry to flag suspicious transactions/ users.
- Leverage advanced analytics for transaction pattern recognition and fraud detection.

Outstanding risk cultures do not happen by chance; it requires well thought-out planning, communication from the top and on-ground execution

Building blocks of Risk Culture Architecture



Re-enforcing desired risk behaviour

Risk culture is developed by innumerable on-ground norms, behavioral engineering and top-down display of those behaviours.

Some practices from some of the best risk culture initiatives globally —

Start with Risk: Every main meeting starts with a risk update

'Speak up' culture: Employees across the hierarchy should feel empowered to voice concerns

Mixed teams: Every product and planning team includes an active risk representative

Risk Dilemma stories: Regularly share tangible stories about difficult risk decisions their employees had to make with all employees

Assessing the de facto risk culture

Awareness & Understanding of risks

- Are employees **aware of the type of risks their actions expose the bank to?**
- Do employees **understand** the **risk level** the bank wants to take?

Taking & Monitoring of risks

- Do employees have the skill and empowerment to **balance risk & reward** of their actions?
- Do employees **monitor risk levels** associated with their actions?

Accountability & Bias for Action to risks

- Do employees **act** when observed actions **deviate** from the bank's risk appetite?
- Do risk feedback and observations of front-end employees reach senior management in **time and unfiltered?**

9-point agenda to strengthen the banking sector

Agenda for Banks	Agenda for Government	Agenda for Regulators
01 Reimagine underwriting using alternate data to serve New-to-Credit	04 Fast track implementation of DPI 2.0 (e.g., more FIPs under AA framework beyond banking, ULI)	07 Greater flexibility to banks in providing corporate credit for diverse end-use with adequate guardrails
02 Reimagine operating model using AI and Digital to address sticky cost structures	05 Bring standardization of KYC norms across financial products (Banks, NBFCs, Capital markets, Insurance)	08 Promote world class utilities like NPCI, Credit Bureau, etc. - for Climate, Cyber and Fraud risks
03 Develop capabilities to manage emerging risks (e.g., fraud, macro risks like climate)	06 Promote land record digitization to create digital mortgages - to prepare the ground for disruption in secured credit	09 Leverage power of AI to enhance effectiveness and cost of compliance

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A non-government, not-for-profit organization, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

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Indian Banks' Association (IBA) the only advisory body for banks in India, was set up in 1946 as an association to discuss vital issues of Banks. The onward journey of IBA has been progressive and enriched by the development of India's banking sector since independence.

Having bestowed with the status of the "torch bearer" for the banking industry, IBA has initiated several path breaking policies during the last 78 years which have eventually transformed the banking sector. Over a period of time IBA has evolved as the "Voice of the Indian Banking Industry".

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