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Indian Banks' Association

PRODUCTIVITY IN INDIAN BANKING: 2016

DIGITAL AND BEYOND

NEW HORIZONS IN INDIAN BANKING

August 2016

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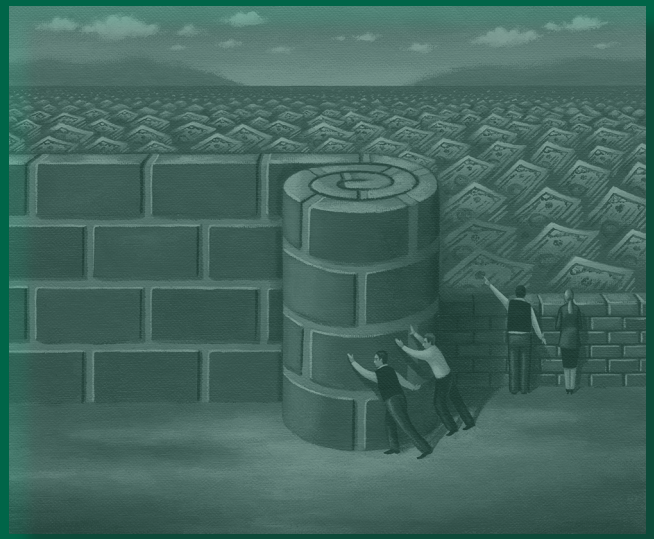

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AUGUST 2016 | THE BOSTON CONSULTING GROUP

“The customer's perception is your reality”

– Kate Zabriskie

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EXECUTIVE SUMMARY

These are interesting times we live in. With the advent of fin-tech companies, e-commerce, big data, and cloud, digital is truly revolutionizing every part of our lives at an unprecedented scale and speed. It is worthwhile to take a step back and contemplate where the Indian banking industry stands in this melee. How have banks performed in the past few years, especially when it comes to leveraging digital to catapult the world's fastest growing economy into a new era? These are some of the fascinating questions this report seeks to answer, with the help of extensive surveys that BCG has conducted in recent times.

This year's survey revealed that corporates are well aware about banks' digital offerings and are willing to adopt them, but it needs persistence from their relationship managers. A 3X increase in corporate banking activities on mobile devices over the next 5 years is projected by some 475 respondents. In terms of corporate banking business, we observed that banks with high advocacy had 15 percent more share of wallet than those with low advocacy. Foreign and nationalized banks have lost share of primary banking relationships to new private banks. Also, primary banks have further increased their share of wallet by 10 percent, implying corporates are consolidating towards a two-bank model. Corporates have expressed dissatisfaction on the deteriorating quality of relationship managers and opined that banks should think more proactively about relevant cross sell offers. Finally, we saw better alignment on pricing leads to nearly 13 percent more share of wallet for banks.

We observed that MSMEs and shopkeepers still use cash and cheque for majority of their transactions, despite almost all of them having access to internet. There is a strong business case for engaging them on different channels (in addition to branches) as we see that current account balances of MSMEs can increase by as much as 10X if activation of alternate channels is higher. However, awareness remains a key concern. Fifty percent of MSMEs don't recall RMs explaining their bank's digital offering to them. Almost all customers using digital platforms are satisfied with the experience.

The retail segment has its own set of opportunities and challenges. Only 23 percent of the people with Internet access do digital banking. Getting customers on-board digital platforms must be prioritized; banks should be open to incentivizing potential customers and seek to on-board them at the time of account opening itself. Mobile wallets have already eclipsed mobile banking transactions. Banks need to innovate quickly to mitigate these new-age threats. Making payments easier by intelligent authenticity verification for recurring transactions and leveraging technology to develop wealth management solutions for the mass market are some of the solutions discussed in the report. On another note, large public sector banks seem to be setting the pace for financial inclusion. They clearly outperform new private banks here, with almost twice the number of business correspondent outlets per bank. The proportion of zero balance Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts has significantly reduced with the impact of direct benefits transfer coming through.

Digital transactions have increased by 70 percent over last year while branch transactions have decreased. Moreover, installation of self service machines has also increased by 70 percent. However, despite the much talked about digital wave, banks are still ramping up branch presence aggressively in anticipation of a bionic future. New private banks have actually increased their branch presence by 20 percent over the last year.

This report is being published at a time when there is widespread optimism about our economy. As banks continue to support the country's economic growth, Indian banking is poised to be the fastest growing revenue pool and in 10 years be among the top 3 in the world. However, some concerns remain about the health of Indian banks. As a key stakeholder in taking the India story forward, banks must mitigate potential threats, identify new opportunities, and above all ensure that they listen to what their customers are telling them.


CORPORATE
VOICE

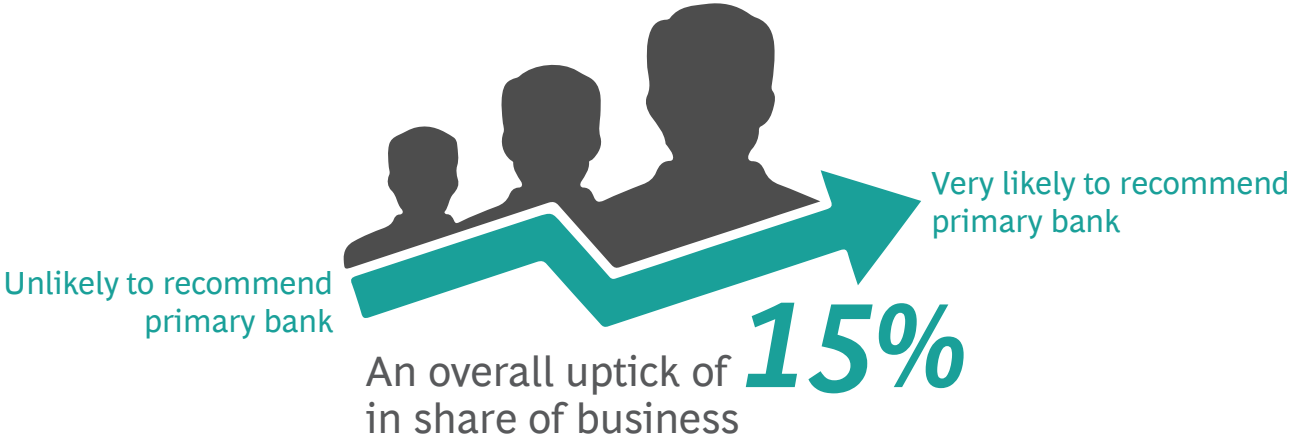
High customer advocacy leads to higher share of wallet

Customer advocacy

27%
Public sector banks

25%
New private banks

21%
Foreign banks



Based on our survey of 475 corporate entities, we found out that advocacy of banks has increased from 21 percent in 2013 to 25 percent in 2016. Public sector banks enjoy higher advocacy with large and mid-sized companies, while smaller companies favor new private banks. In general, we noticed that lending and credit enabled transaction banking products had a far higher advocacy with large companies than with smaller ones. Finally, we saw that companies who were very likely to recommend their primary bank did 15 percent more business with it than those that were unlikely to recommend their bank to other companies. Hence, it clearly pays to be high on your customer's advocacy when it comes to corporate banking.

Note: Question Asked - How likely are you to recommend your primary bank to other companies?

Corporates buying more products

2013

2016

8% *more products on an average*

Retail & FMCG
Most products

7 *products*

Hospitality
Least products

4 *products*

The average product usage by companies has gone up by a small amount over the past three years. This increase is primarily due to higher purchase of non-credit enabled transaction banking products like cash management, forex and custodial services. When we looked across sectors, we saw that sectors like retail & FMCG, metals & mining, power, energy and & infrastructure used the maximum products averaging nearly seven; while hospitality, professional and financial services used considerably fewer products at an average of four.

Corporates consolidating towards a two-bank model

Share of business

	Primary bank		Secondary bank		Tertiary bank
2013	60	:	25	:	15
2016	70 ↑	:	25	:	5 ↓

Primary banks have increased their share of business in the past three years. Noticeably, the share of business of tertiary banks has declined considerably. Therefore, companies are moving towards a two-bank model. This shift is noticeable at the product level as well, where we saw that primary banks have increased their share of wallet on almost all products barring working capital and supply chain finance. It is worthwhile to note here that **your current account continues to determine your primary banking partner**; we observed that nearly 90 percent of corporates who take this product take it from their primary bank.

Perception of banking industry among corporates

Top 3 strengths	Top 3 weaknesses
Amount of capital	Exception handling
Product expertise	Service charges
Price	Technology

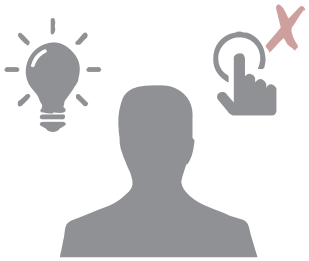
Large corporates are ***more satisfied*** than small corporates

Product expertise, price and amount of capital are seen as the biggest strengths of the Indian banking sector; exception handling, service charges and technology are seen as its primary weaknesses. Noticeably, one of the strengths in 2013 now appears to be a weakness; the quality of relationship managers has declined in recent times. It is also evident that the satisfaction level of small companies is invariably below that of their large counterparts across all attributes. The small corporate segment does not get enough quality service. The gap in satisfaction levels of large and small companies is much larger in price, customization and quality of RM; it is smaller in technology, brand image, and product expertise.

Note: Question Asked - Which are the attributes on which the banking industry is performing well and which attributes need improvement?

Digital: Key challenge is to convert awareness to usage

17	:	35	:	7	:	42
Not aware		*Aware but not using*		*Using but not satisfied*		*Using and satisfied*

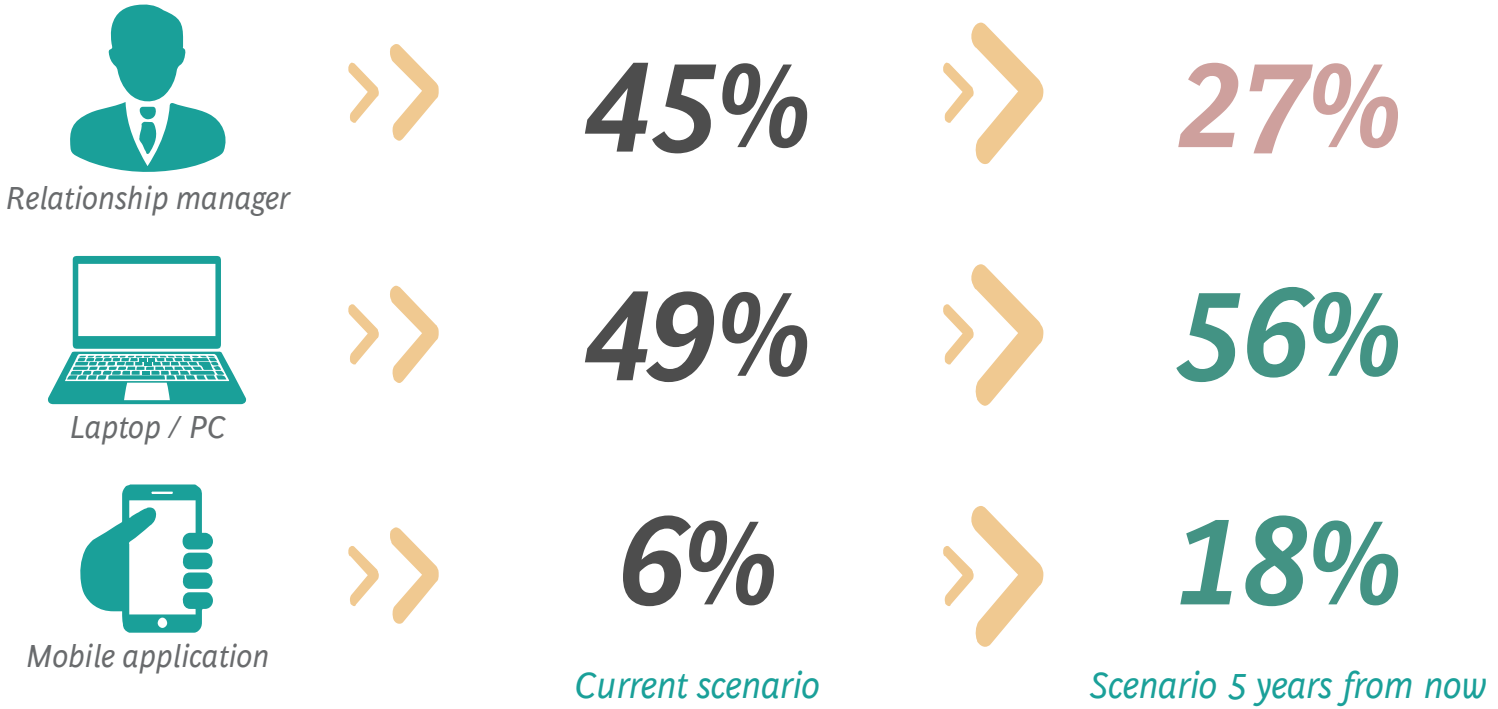


We assessed where companies were on the digital spectrum in terms of awareness, usage and satisfaction for a list of activities. They seem to be fairly well informed. Only 17 percent are not aware of their bank's digital offerings. However, 35 percent of companies are aware but are not using digital, a fact which is further corroborated by their satisfaction with the RM on the digital frontier. While most relationship managers seem inform their corporate clients about digital, very few actually push them to adopt it, resulting in high awareness but low usage. It is important to note that once digital is adopted, satisfaction levels are very high with it. Only 7 percent of companies said they were using digital but were not satisfied with it, while 42 percent said they were using it and were satisfied. Deep diving into where digital has made an impact, companies seem to be on-board the digital bandwagon for transaction related activities, with an average of 65 percent 'using and satisfied' with these activities. The trend seems to shift more towards 'aware but not using' for financing, trade and forex related activities.

Note: Question Asked - Please indicate your awareness, usage and satisfaction for digital channels for the listed activities

Digital: Shift to 'mobile' imminent

Split of daily corporate banking activities across channels



Today, 45 percent of all corporate banking related activities are routed through the relationship manager, 49 percent through the laptop/PC while 6 percent happen through the mobile phone. Five years from now, use of the laptop and mobile will increase to 56 percent and 18 percent respectively, and the RM' s share will fall to 27 percent. Banks will need to adapt their modus operandi to this perceived shift to 'mobile'. It is important to note that the aforementioned shift is more pronounced for smaller companies than for large ones, who have stronger preference for the laptop. In terms of mobile adoptation, sectors like professional services, retail & FMCG, and pharma & healthcare are tipped to be the early adopters while sectors like metals, mining & capital goods, agriculture & agri-processing and logistics will take longer to adapt to mobile.

Note: Question Asked - For interaction on day-to-day activities, what is the split for you between laptop, mobile and relationship manager? What split do you project 5 years from now?

40% corporates willing to pay for value added services

7 *out of* **10** *corporates find these solutions valuable*

4 *out of* **10** *corporates willing to pay for these tools*

Sectors most willing to pay

Logistics

Peer group forum

Retail & FMCG

Benchmarking

Telecom & IT

Financial analytics

We tried to ascertain companies' interest in additional value added services like tools to support business (online back-up services, expense management tools); peer-group communities; benchmarking tools; and financial analytics solutions. Nearly 70 percent of companies said they would find such tools useful, and 40 percent said they would be willing to pay for them. Business support and financial analytics tools were the most popular, with more than 50 percent of companies willing to pay for them. Different sectors have their own preferences: Tools to simplify daily operations are most popular with the manufacturing sector; financial services sector is keen on business support tools; the logistics sector on creating a peer group forum; retail & FMCG on benchmarking tools; while telecom & IT want more of financial analytics tools.

Note: Question Asked - If your primary bank was to offer these additional services, which of these would be valuable to your firm? Which of these would you be willing to pay a nominal fee for?

Satisfaction with prices leads to higher share of wallet

6 *out of* **10** *will not switch primary bank for pricing advantage*

3 *out of* **10** *corporate treasurers do not track pricing closely*

An overall increase of **13%** *in share of business for customers very satisfied with pricing vs. those who are dissatisfied*

Nearly 60 percent of our 475 respondents would not change their primary bank even if a competitor were to offer a pricing advantage, clearly indicating that the corporate banking experience hinges on many factors other than pricing. However, we did notice that companies who were very satisfied with the pricing offered by their primary bank did an extra 13 percent business with them compared to those who were dissatisfied. Also, the industry seems to be keen on having regular price reviews on pre-decided factors; our survey showed that 55 percent of companies did not favor ambiguity in discussion intervals or parameters for discussion.

MSME PULSE

High dependence on cash and cheque

MSME transaction		Shopkeeper transaction
~70%	Cash and cheque	~90%
~30%	Online	~10%

Small businesses in India are predominantly transacting through cash and cheque payments. Approximately 70 percent of MSME transactions and 90 percent of shopkeeper transactions are through cash and cheque. 80 to 90 percent of their cash deposits in branches are less than INR 50,000. This segment is the most prolific user of branch channels. 47 percent of MSMEs and 64 percent of shopkeepers visit the branch at least once a week. The cashier and branch manager are the primary point of contact for 50-80 percent of small businesses. For this segment, proximity to the branch is still the key reason for selecting their primary bank. Many would argue that this is completely unacceptable in a digital world.

Access to the internet not translating to online banking

~96% *MSMEs have access to business email*

~57% *MSMEs have business website*

~9% *MSMEs collect orders online*

~5% *MSMEs collect business payments online*

Customers in this segment are significantly more Internet savvy than a typical savings account customer. 96 percent of MSMEs use business mail and 57 percent of them have a business website; 68 percent of shopkeepers use business mail and 32 percent maintain a business website. In comparison, the Internet and mobile banking penetration for collecting orders and business payments is very low at 9 percent and 5 percent respectively for MSMEs.

Key challenge is awareness, must on-board customers

25%
MSMEs

RMs explained the bank's digital offerings and urged them to use it

Number of digital channels adopted

50%
MSMEs

Customers don't remember the RM explaining the bank's digital offerings

Low penetration of online banking arises due to the lack of processes to on-board customers effectively on-to online channels. For 31 percent MSMEs and 55 percent shopkeepers, the point of contact has never explained the bank's digital offerings. A further 17 percent MSMEs do not recall whether their point of contact explained digital to them; this number is 15 percent for shop-keepers. In 25 percent of the cases, the point of contact explained and repeatedly urged the customer, and in such cases, customers started using up to four channels.

We observed a direct correlation between customers who are properly informed and on-boarded to those adopting online channels. Given this, banks need to invest more in setting up the right processes to educate their customers about digital.

Once on-boarded, traction and satisfaction is high

After on-boarding

Retail customers

30%

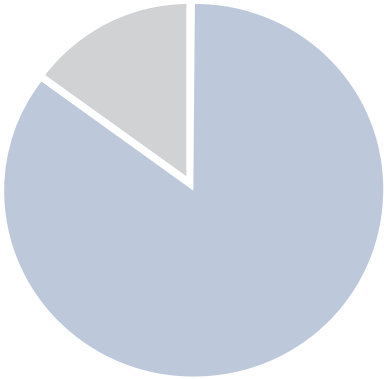
Shopkeepers / MSMEs

70%

Use digital banking

>90%

of customers satisfied with digital channel usage



Once these customers are on-boarded onto Internet banking, the traction to actual transactions is very high: 80 percent for public sector banks and 67 percent for private banks—much higher than retail at 30 percent. On average, 90 percent of customers who adopted digital are satisfied with it. This is uniform across all types of banks. This means that customers using digital platforms are usually satisfied with their online experience.

Banks need to deploy methods to accelerate the on-boarding of this segment onto Internet banking portals.

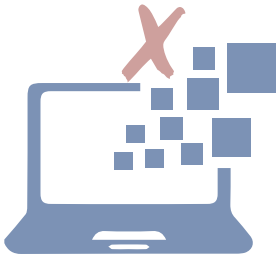
Customers do not indicate desire to switch for digital

MSME

~90%

Shopkeeper

>50%



Said they will not switch for better digital products alone

Out of the 500 respondents, more than 90 percent MSMEs and 50 percent shopkeepers said they would not switch their primary bank for better digital products alone. This means having a better digital service doesn't necessarily result in stronger ability to get a company to change its existing primary bank. Banks should therefore use digital channels primarily to increase the revenue from existing customers instead of utilizing it for the purpose of customer acquisition.

Digital use leads to increase in share of wallet

	Current account balance	Products
0 Digital channels	1 lakh	1 product
≥5 Digital channels	10 lakhs	8 products

Activation of digital channels in this segment can be very rewarding. We noticed a disproportionate increase in cross-sell of products and Current Account (CA) balances in the primary bank, as the number of channels used increases. We tracked the usage of nine digital channel—online banking, ATMs, cheque deposit machines, call centers, mobiles, cash deposit machines, point-of-sale machines, passbook printers and self-service kiosks. Customers not using any of these channels had, on an average, one product with the bank. However, as the number of these channels went up to five or more, we saw this segment using up to eight products from the bank. These products were a mix of many personal products like savings accounts, credit cards, wealth management, and share trading; and business products like current accounts, working capital finance, term loans, etc. Current account balances of MSMEs increased from about one lakh when no digital channels were activated to about ten lakh when five or more digital channels were activated.


RETAIL VIBES

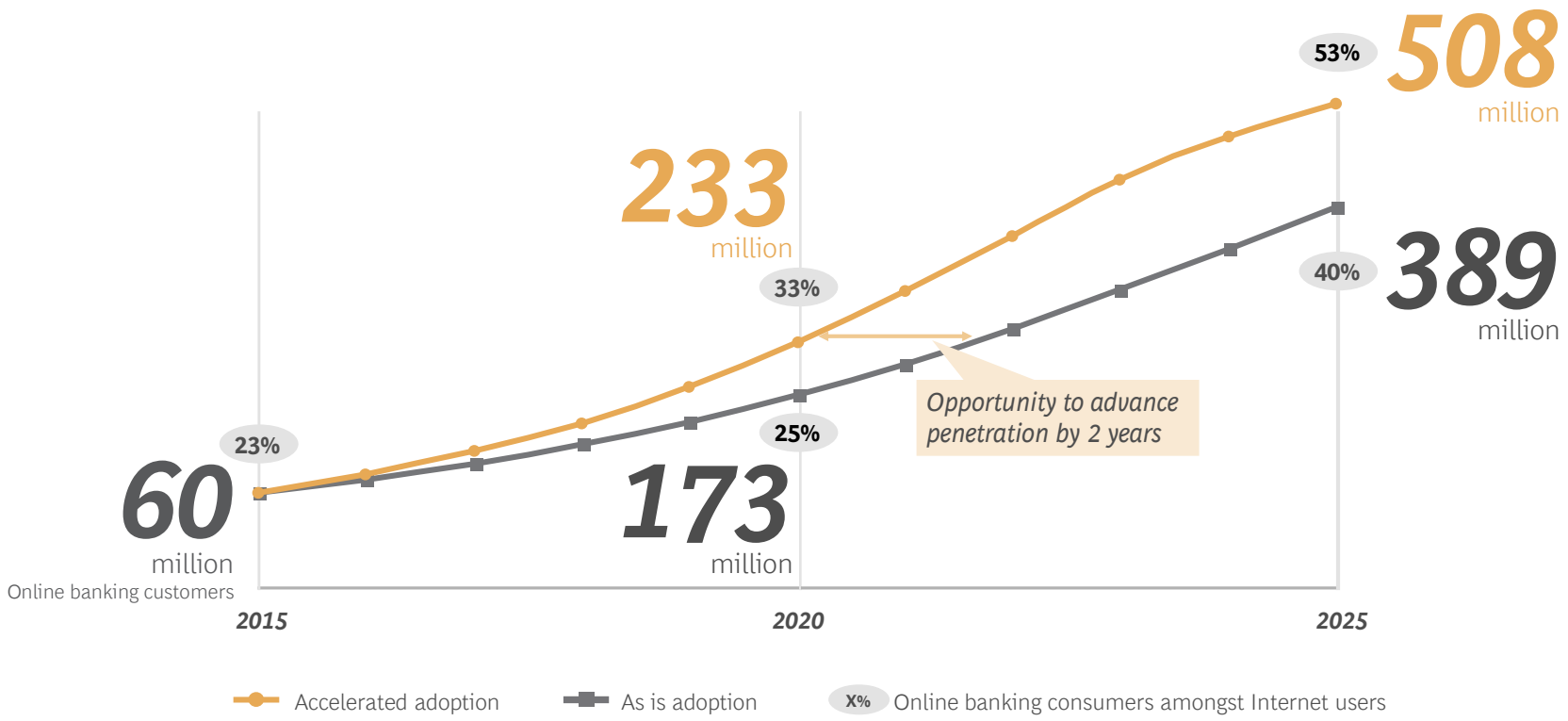
Significant scope to improve online banking penetration

	INDIA	SPAIN	UK	USA	NL
Primarily branch banking	89%	41%	20%	14%	15%
Branch and online	10%	45%	62%	68%	12%
Primarily online banking	01%	14%	18%	18%	73%
Internet penetration in 2015	19%	75%	90%	87%	97%

India has about 470 million banking customers and about 60 million of them, amounting to 13 percent, do online banking. Of these, about 10 percent prefer the hybrid model of regular online and offline (branches) banking. About 1 percent primarily use online channels for all their banking needs. Eighty nine percent prefer to bank completely offline (about 2 percent of them use Internet banking but very minimally). In comparison, online banking is the primary channel of interaction for ~20 percent of customers in economies like the UK and the USA.

There is significant room for improvement. Increase in online channels will require substantial work from banks. They have to spend considerable time in revamping their sales mechanism towards on-boarding customers onto digital channels right at the time of opening of accounts, and alleviate any safety concerns the customers might have.

Opportunity to accelerate the adoption curve by 2 years



Sixty million online banking customers in India (in 2015) will grow to about 173 million by 2020, at 23 percent per annum. This is the natural projected growth trajectory. However, if lessons from online shopping are applied to better engage customers in online banking, we can accelerate this growth from 23 percent to 31 percent over the next five years and reach over 233 million online banking customers by 2020. This will effectively bring forward the adoption curve of online banking by two years. The current penetration of digital banking amongst Internet users is about 23 percent. At the current rate of adoption, this will reach only 25 percent by 2020. However, with concerted action from the banking industry, this number could be as high as 33 percent by 2020.

Imperative to address lack of mobile banking adoption

21%

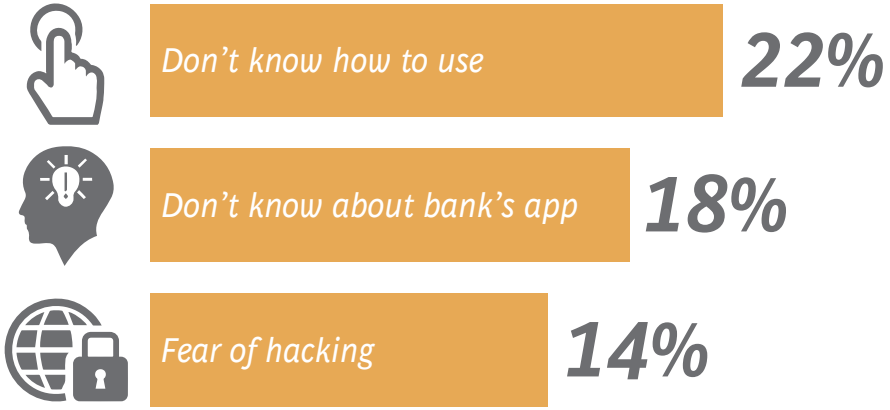
*Use a **mobile wallet** from a **non-bank***
instead of using mobile banking from their own bank

Among the 13 percent of customers who do digital banking, 96 percent own a smart phone and 93 percent also do online shopping, as one would expect. However, only 32 percent do online banking on their mobile phones as against 35 percent who use a digital wallet from a non-bank to do transactions. Twenty one percent of these customers use a mobile wallet from a non-bank but do not use mobile banking from their own bank. This is a serious concern—as it implies that while customers may find it convenient to shop and transact (through wallets) on mobiles, adoption for mobile banking is still extremely low.

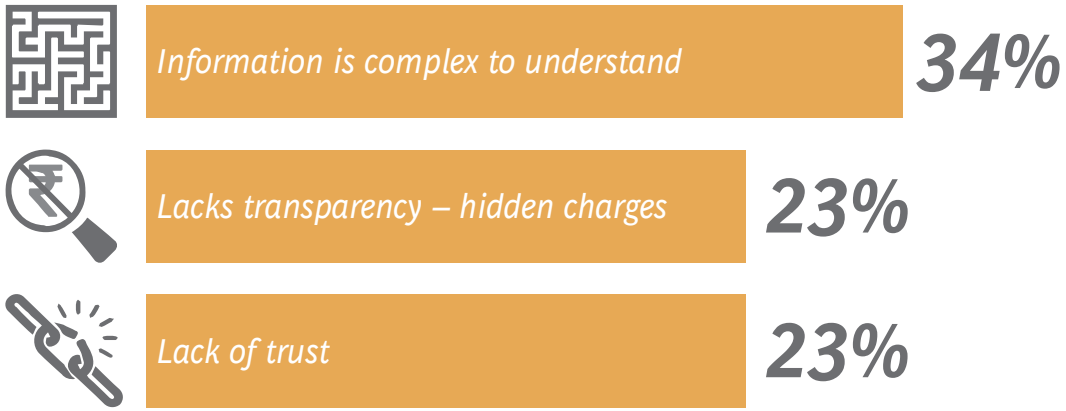
So while improving overall online banking penetration is a priority, banks also need to address the gap in adoption of mobile banking in comparison to some of the other developed markets. They can take a cue from wallets on improving customer experience and thereby drive adoption.

Sharper focus needed to get customers on-board digital

Reason for not using ***Mobile banking apps***



Reason for not using ***Online banking***



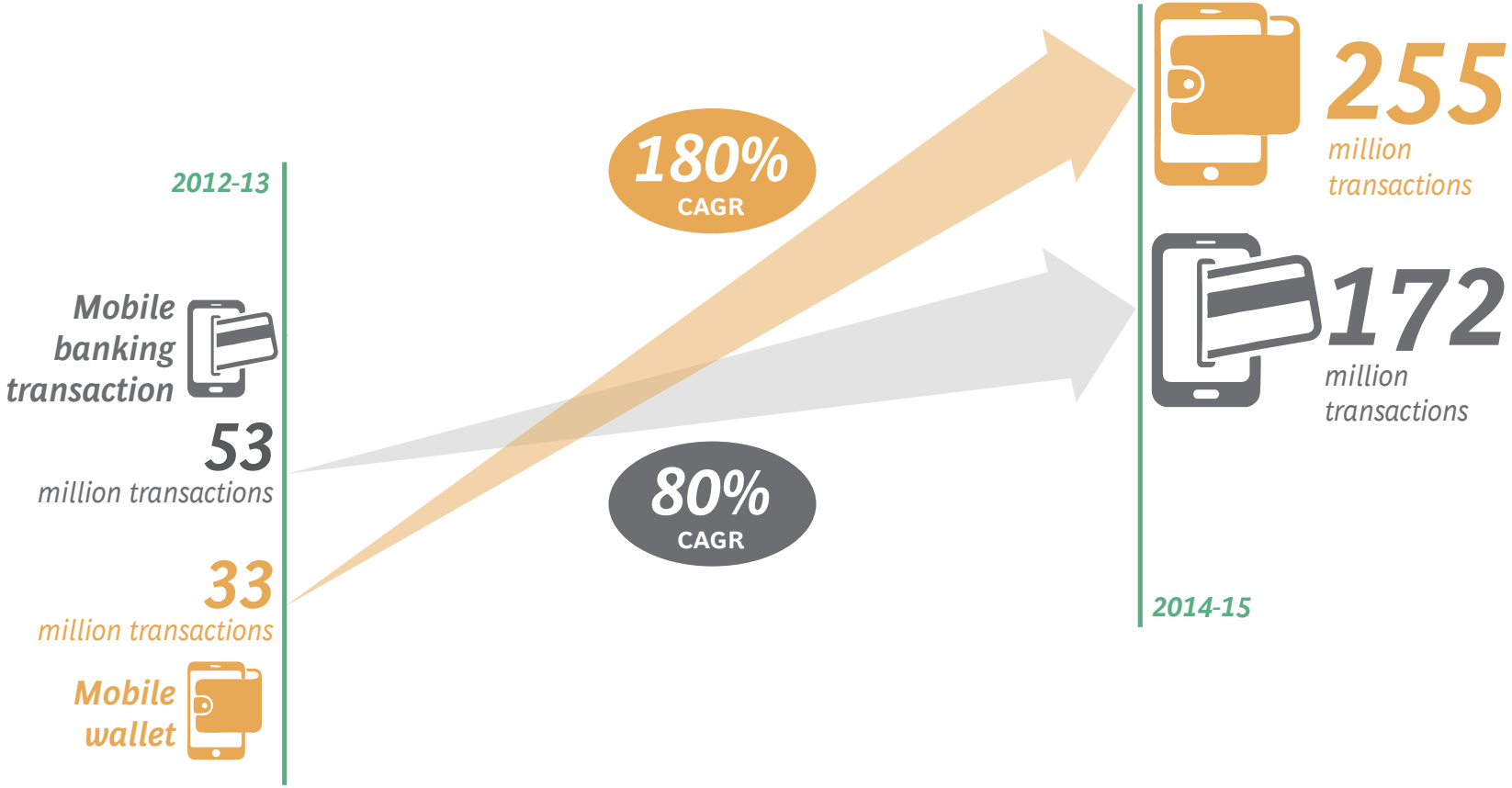
Note: Question Asked - Please tick the top three reasons which best describe your unwillingness to use mobile/online banking.

The low adoption of mobile or online banking highlights the basic gaps in overall proposition currently offered by banks. Customer research done on 3000 respondents concludes that the topmost reasons for not considering mobile or Internet banking are not misconceptions about safety, unreliable Internet connectivity, or fear of making a mistake; they are simply inertia, lack of awareness, and unwillingness to commit time to understand and adopt a new tool. Banks can individually and collectively make great strides in this area with more carefully designed initiatives towards customer education and awareness.

Learn from online shopping: Online shopping firms realize the value of inducing trial through very powerful incentives and offers. The one-time expenditure on getting a customer on-boarded is miniscule compared to the lifetime value brought by a digital customer.

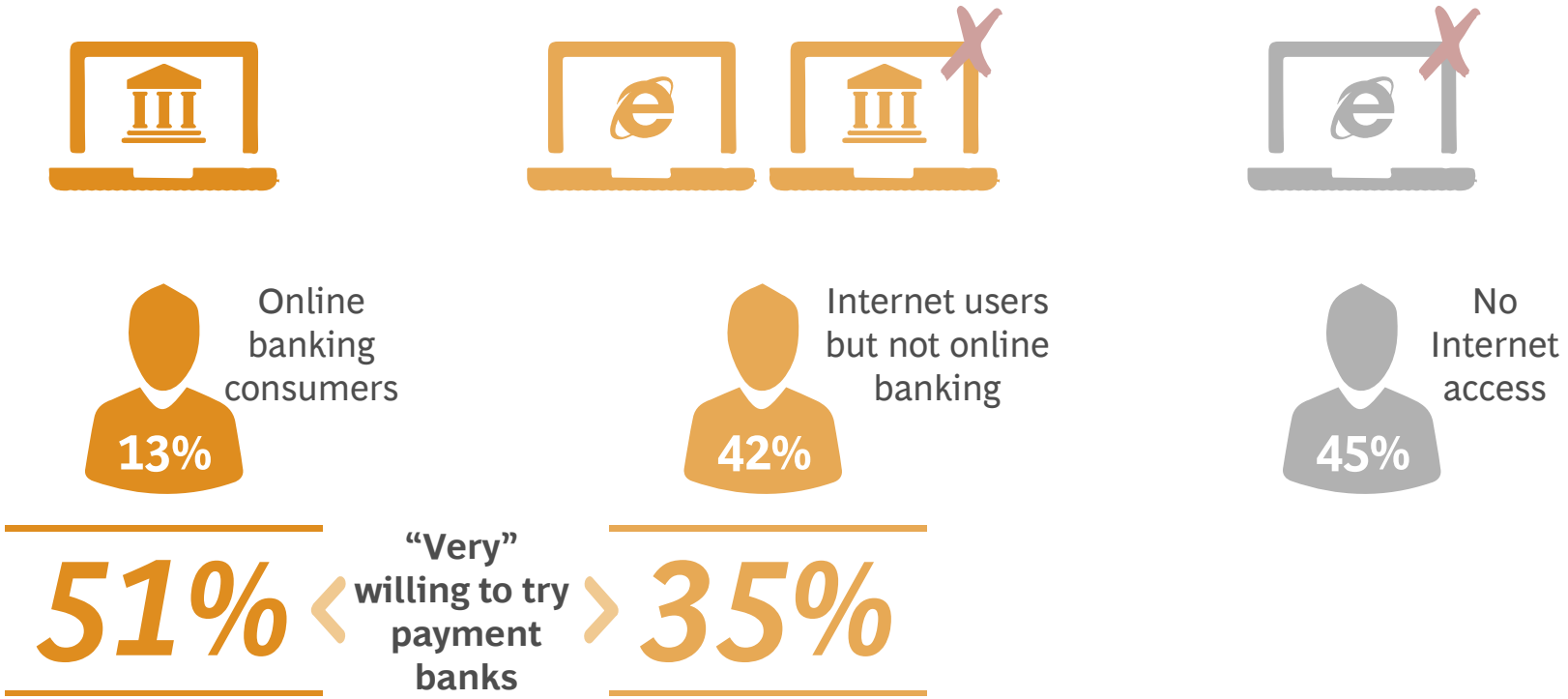
Change the sales process: Most customers find that they do not have the time to understand the new ways of banking. Customers are most engaged when opening the account. They have to be on-boarded onto digital channels with their value added features like bill payments at that stage. The sales channel of banks is typically not equipped to educate customers. This has to change.

Wallets are already posing a substantial threat



The adoption of mobile wallets for recharge and e-commerce transactions is evidence of the power of technology to create propositions that can disrupt customer behavior. The total number of transactions on digital wallets (promoted by non-banks) already surpassed the total number of mobile banking transactions in 2013-14. These transactions are growing at the stupendous rate of 180 percent per annum, against 80 percent for mobile banking transactions. This is clear evidence of the substantial disruption in Indian banking. With the advent of payment banks and some of them being run by wallet companies, it will be challenging for banks to guard their customer pool against the 'attackers'.

Customers are willing to adopt payment banks



Fifty percent of digital banking customers surveyed by BCG said that they are very willing to consider new banks, created out of the existing wallets, which will serve them mostly online. This percentage is quite consistent across all customer segments that have used a wallet. Overall, 35 percent of customers who have Internet access but do not use digital banking from their banks expressed keen willingness to consider wallets transformed into banks. Thus, banks run the risk of losing their most digital-savvy customers, who are actually their most profitable customers, to the upcoming new entrants.

Note: Question Asked - How willing are you to try new payment banks being offered by non-bank entities?

Banks need to innovate (and quickly)

Customers willing to try new propositions, for example,

Pay friends in single click

Use mobile phone to pay at shops

Split bills among friends

58%

Payment related offering

Shows where I stand vs. "people like me"

Project balance and sends alerts when running out

Relevant offers in shops near house

58%

Saving and expenditure

Advice on savings

Inform about auctioned property

Advise on options with higher return on investment

54%

Investment related offering

Note: Question Asked - Which digital feature would be of your interest in the near future?

In order to protect their market position, banks must innovate quickly. Customers are willing to engage with banks in three categories—payments, savings, and investments. They are all natural extensions to the traditional role of banks, and all are technologically feasible.

Payments: Customers want banks to make payments convenient. Often repeated payments may not need the same level of authentication. Payments to friends and family can be made faster and more convenient.

'People like you': Customers are getting used to successful Internet companies like Facebook, Google, etc. that offer suggestions based on 'people like you' behavior. This should be a natural extension for banks which have huge data on their customers.

Wealth management for the mass market : This is a natural value addition to the role of a bank beyond its traditional functions of savings and transactions. Banks can leverage technology to create wealth management for the mass market with personalized advice and ideas to reduce expenditure and improve return on investments.

PERSPECTIVES FROM BANKS

FIBAC 2016 BENCHMARKING

FY16 – Year of tepid growth

Advances and deposits growth *(in %)* for FY16

	Advances					Deposits			
	Retail	*Agriculture*	*MSME*	*Corporate*	***Total advances***	*SA*	*CA*	*Retail TDs*	***Total deposits***
PSU Banks	14%	12%	3%	-1%	4%	12%	2%	8%	5%
Private Banks	23%	12%	24%	17%	20%	21%	16%	13%	18%
Industry	17%	10%	6%	2%	7%	14%	7%	9%	7%

Overall, advances and deposits for the industry grew by 7 percent. Private banks were able to grow their loan books by 20 percent, aided by tailwinds in the form of retail and MSME advances. On the other hand, PSU banks were able to grow their loan books by only 4 percent, and chose to remain cautious on the back of increasing NPAs. Private banks also witnessed higher growth in deposits (18 percent), while PSUs were able to grow deposits by 5 percent.

New private banks growing across all segments

Advances growth *(in %)* across categories *(FY15 and FY16)*

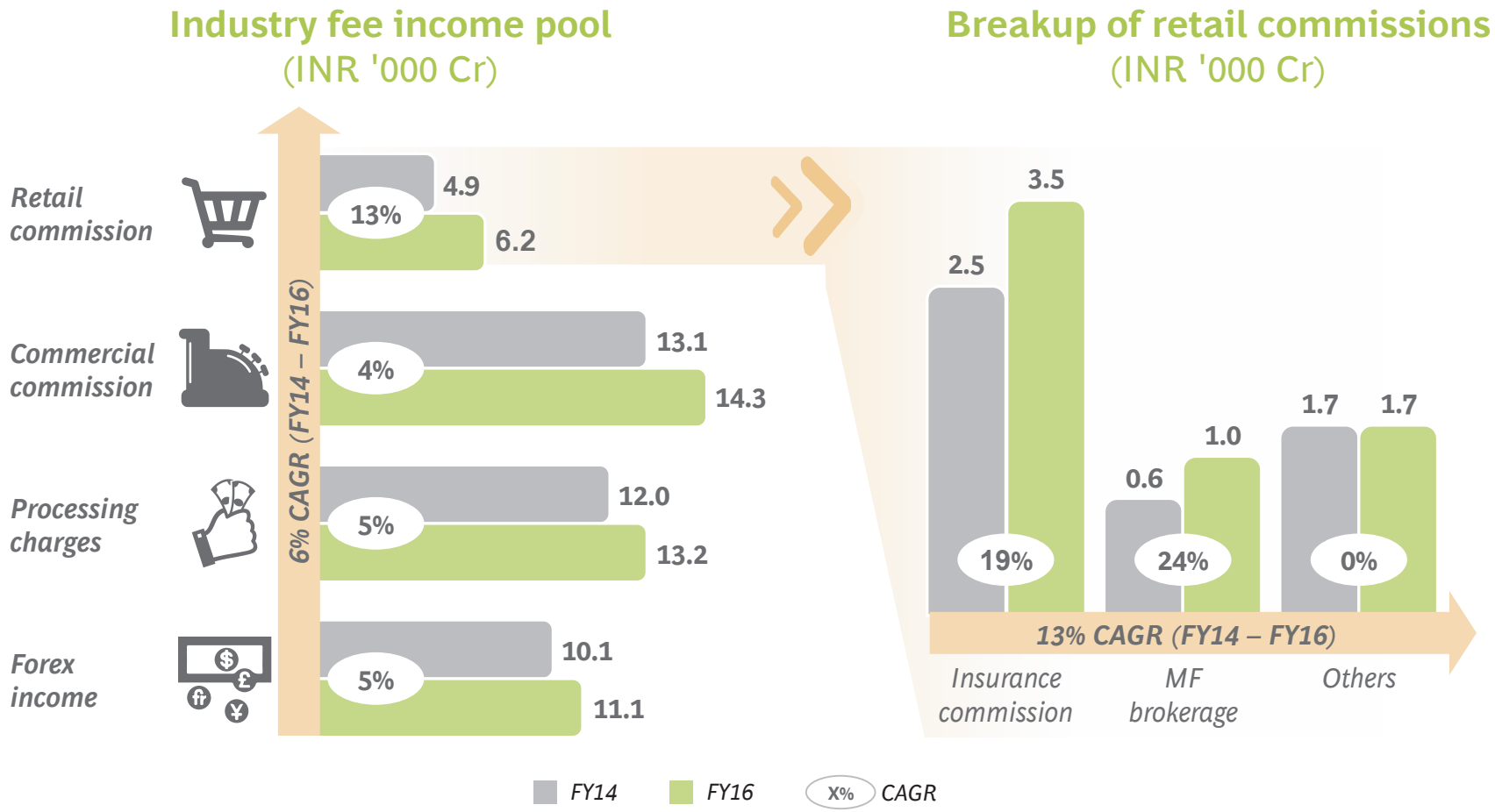
	Retail		Agriculture		MSME		Corporate	
	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16
PSU banks	9%	14%	11%	12%	13%	3%	3%	-1%
Private banks	20%	23%	18%	10%	21%	24%	14%	17%
Industry	12%	17%	12%	12%	14%	6%	5%	2%

X% < 10 X% 10 - 20 X% > 20

Lower gross NPAs in the retail sector prompted banks to increase their retail lending books. PSUs and private banks grew their retail loan books in FY16 by 14 percent and 23 percent respectively. Private banks increased their MSME loan book in FY16 by 24 percent.

While private banks took on additional corporate exposure in times of heightened corporate NPAs, PSU banks reduced their overall exposure to this segment. NPAs are dictating how banks grow their loan books, and this will continue to be important indicator of the overall credit growth.

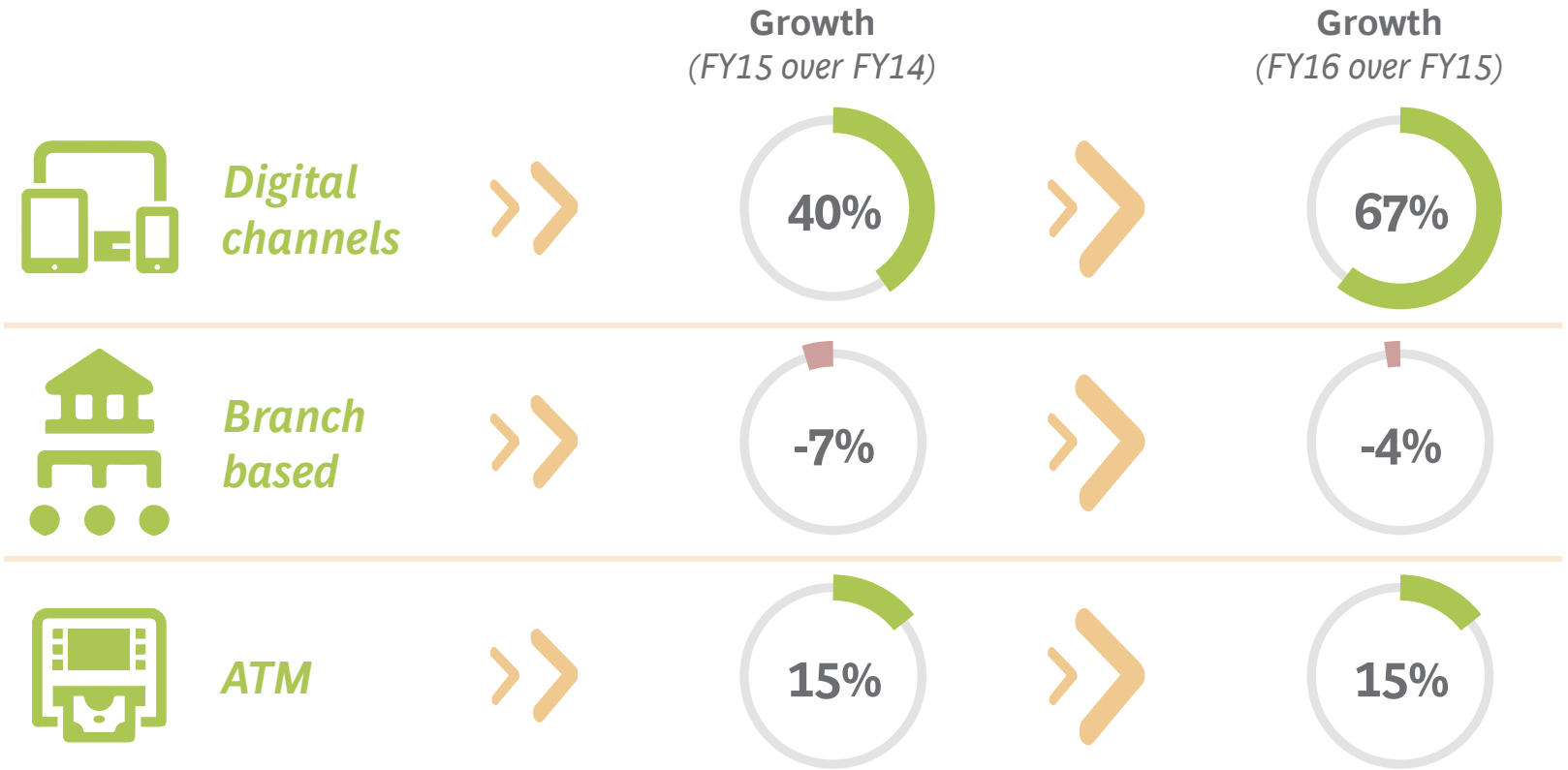
Retail commissions driving growth in fee income



The fee income pool for the industry has seen a steady growth of 6 percent over FY14-16. This growth has largely been driven by growth in retail commissions (13 percent CAGR) which were in turn fuelled by growth in insurance commissions and mutual fund brokerage which grew at 19 percent CAGR and 24 percent CAGR respectively during the same period.

Digital wave approaching, cash ceding ground

Growth in transactions for the Indian banking industry *(FY15 and FY16)*

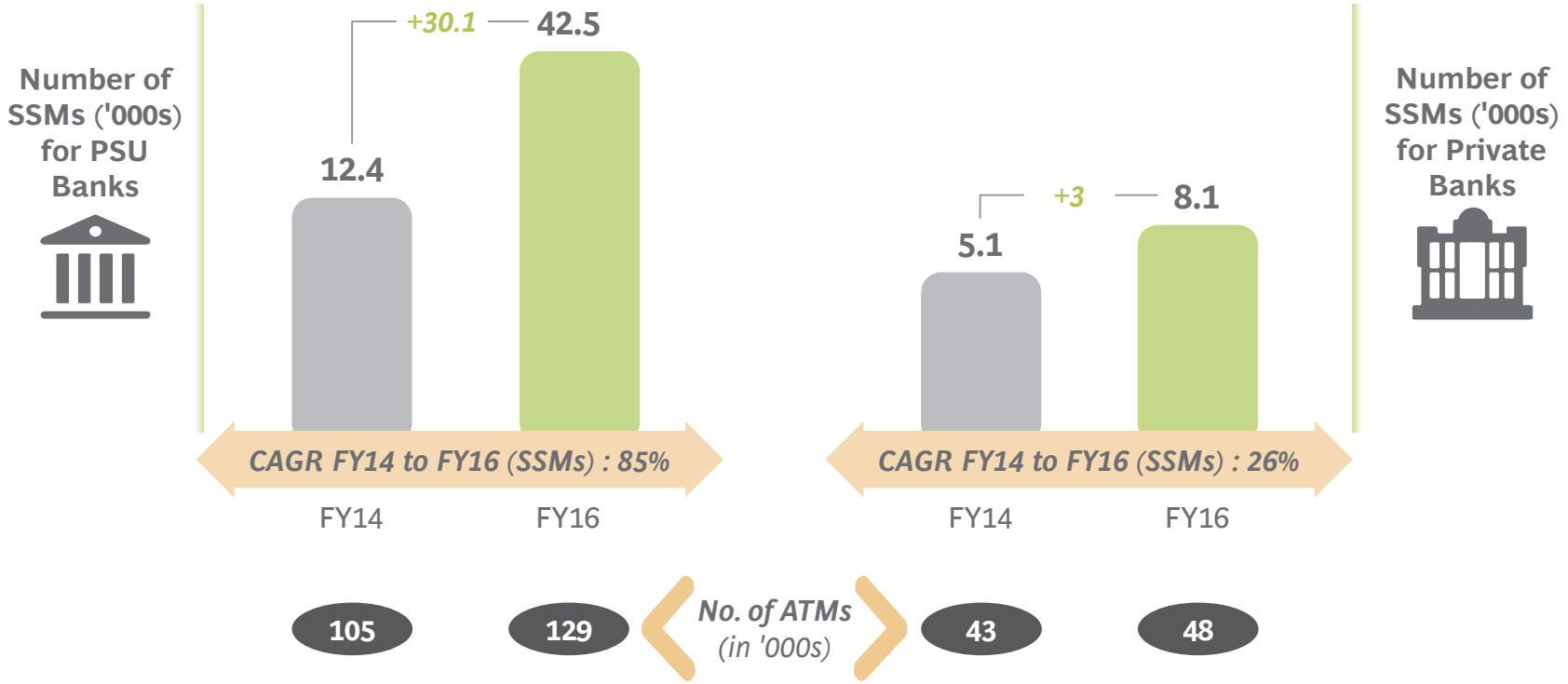


The Indian banking industry processes over 17 billion transactions annually, and this number is growing at a healthy rate. The transactions on digital channels, comprising mobile, Internet, POS, and ECS, grew by 40 percent in FY15 and by 67 percent in FY16.

This shows that customers have significant latent appetite for digital channels and banks need to continue to invest in these channels. A new generation of customers equipped with smartphones and Internet connections have begun to redefine the way banking is done in India. The needs of the modern customer are unique. She wants to transact instantly and through a reliable channel.

Self-Service Machines (SSMs) enter the limelight

Number of Self-Service Machines *(FY14 and FY16)*



Banks have increased their investment in Self-Service Machines (SSMs) such as cheque deposit machines, cash deposit machines, self-service passbook printers and self-service Internet kiosks. Between FY14 and FY16, the number of self service machines almost trebled. In the last two years, PSU banks have added more than 10 times the number of self service machines as compared to private sector banks.

This investment is a massive show of confidence in the utility of SSMs by the sector and by the customers. The shift towards SSMs has been quick and pronounced, and we expect this trend to continue in the coming years.

Private banks still investing in branches

Branch growth *(%)* for banks *(FY15 and FY16)*

	PSU Large		PSU Medium		Pvt New		Pvt Old	
	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16
Metro	4%	2%	5%	4%	13%	21%	4%	3%
Urban	6%	2%	6%	4%	10%	17%	3%	4%
Semi-urban	6%	2%	8%	5%	10%	16%	4%	2%
Rural	7%	2%	9%	5%	12%	12%	16%	6%

X% < 10 X% 10 - 20 X% > 20

At an aggregate level, branch expansion in FY16 has been slower than in FY15. However, private new banks have added more branches in FY16 than in FY15, especially in metro, urban and semi-urban areas.

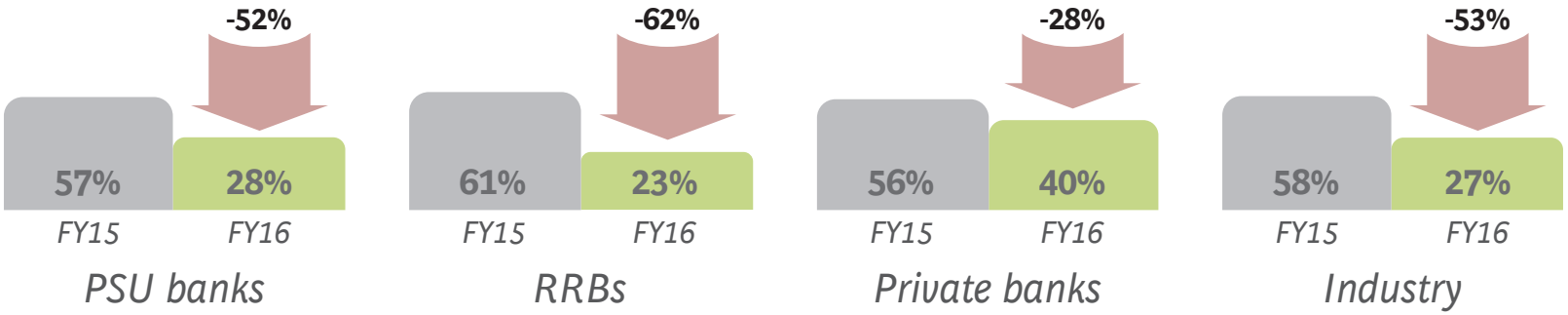
The role of branches in the overall channel architecture is clearly undergoing a change. As banks plan the future of their branch footprint, simply shrinking or slowing down branch growth will be too simplistic. Rather, banks need to consider three issues regarding their branch footprint: (i) micro market specific format, (ii) geo-analytics based footprint optimization and (iii) industrialization of sales at the branch level using technology. One should not assume that physical presence or physical proximity will be less relevant in the channel strategy for banks in India. The foreseeable future is unlikely to be purely digital—it is likely to be bionic!

Large PSU banks setting the pace for financial inclusion

Number of transactions per BC outlet per annum in FY16 (in '000s)

	PSU Large	PSU Medium	Pvt New	Pvt Old	Industry
	2.9	1.4	1.9	1.7	2.4
Average number of BC Outlets per bank	16.5K	2.6K	7.8K	0.3K	5.3K

% of Zero Balance PMJDY Accounts



Business correspondents (BC) have played an ever-increasing role in financial inclusion and in providing the last mile reach. PSU banks continue to leverage this channel significantly better than private banks. Large PSU banks have almost twice the number of BC outlets per bank as compared to private new banks. The number of transactions per BC for large PSU banks is also almost 50 percent higher than for private new banks. The proportion of zero balance Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts has significantly reduced with the impact of Direct Benefits Transfer (DBT) coming through. To some extent, the higher number of BC outlets has managed to compensate for the step-down in branch growth in the rural area.

Systems being scaled up—but are we there yet?

Spend on technology as percentage of total revenue *(FY15 and FY16)*

	IT Manpower		Self-Service Machines		IT Assets	
	FY15	FY16	FY15	FY16	FY15	FY16
PSU banks	0.1%	0.1%	0.6%	0.6%	0.7%	0.9%
Private banks	0.1%	0.1%	0.9%	0.8%	2.0%	2.1%
Industry	0.1%	0.1%	0.6%	0.6%	1.0%	1.2%

In recent times, banks increased their focus on building robust IT platforms and shoring up their self service machines. One interesting theme has been the steady and continued focus on self service machines. Spends on IT assets continue to form a formidable chunk of the total IT spend, with an increasing emphasis on installing robust systems and technologies. Private banks have clearly been the leaders in terms of spending on IT, and we believe they will reap rich dividends from this strategy.

Corporate NPAs on the rise; PSU banks bear the brunt

Heat Map indicating change in gross NPA *(%)*

				Retail		
	Agriculture	*Corporate*	*MSME*	*Home*	*Pvt Vehicle*	*Other*
PSU *(Large)*	5.92 / 6.05	5.14 / 13.05	8.45 / 9.35	0.94 / 1.02	1.45 / 1.86	2.05 / 2.88
PSU *(Medium)*	5.56 / 6.93	6.21 / 13.48	7.76 / 10.46	1.65 / 1.70	2.79 / 3.07	3.21 / 4.04
Private *(New)*	1.28 / 1.64	1.04 / 0.86	1.72 / 1.39	0.43 / 0.19	0.65 / 0.67	0.58 / 0.73
Private *(Old)*	2.81 / 1.44	4.68 / 6.89	3.70 / 4.53	1.58 / 1.62	1.42 / 1.26	1.27 / 1.55

X / Y — *X = gross NPA (%) in FY15*; *Y = gross NPA (%) in FY16*

Change in gross NPA (%) in basis points

- *0 to 100*
- *> 100*
- *-1 to -100*
- *< -100*

Non-performing assets (NPAs) have been the most widely discussed theme this year. While agriculture, corporate and MSME sectors witnessed significant increase in gross NPAs in FY16 (over FY15), retail advances fared better across all bank categories. Overall, medium-sized PSU banks were the hardest hit and they reported the highest increase in gross NPAs in FY16 (over FY15).

Banks should continue to have a razor-sharp focus on asset quality. This approach along with the expected improvement in the overall economic environment and the introduction of data analytics in lending is expected to help curb the growing GNPAs.

Note: 1. Corporate advances include mid corporate and large corporate advances. 2. MSME includes data for MSMEs, construction equipment and commercial vehicles. 3. Private vehicles include two wheelers and four wheelers. 4. Other retail loans include personal / clean / unsecured loans, student / education loans, credit cards, loan against deposits and security and non–agri jewel loans.

GLOSSARY

CORPORATE VOICE

Primary bank: It is defined as the bank having maximum share of a corporate's banking business; Secondary bank is defined as the bank having second highest share of business.

Classification of corporates by size (Revenue in FY 2015-16):
Large: Revenue of more than INR 1,000 crores
Mid: Revenue between INR 250–1,000 crores
Small: Revenue of less than INR 250 crores.

Classification of corporate banking products: Lending products include term loans; Transaction banking (credit enabled) include working capital finance, trade finance and supply chain finance; Transaction banking (non–credit enabled) includes cash management, current account, payroll account, forex products and custodial services; Capital market and advisory products include capital market products, insurance and investment managements).

Advocacy: This is measured on a 4 point scale by the difference in percentage of promoters (Very likely to recommend primary bank to other companies) and percentage of detractors (Unlikely or Very Unlikely to recommend primary bank)

MSME PULSE

Digital channels: Total of 9 digital channels have been considered above including Internet banking, mobile banking, call center, POS, ATM, cheque deposit machine, cash deposit machine, self service kiosks and passbook printers.

Banking products: Total of 14 products, including personal savings account, current account, credit cards, online banking, online payments, term loans, insurance, mobile banking, working capital finance, point-of-sale terminal, wealth management, online share trading, trade finance, supply chain finance.

RETAIL VIBES

Online Banking: This is defined as use of online banking platform for both financial and non-financial transactions through PC, laptop, tablet or mobile devices.

Primary Branch Banking: Those using online channels about once a year or less.

Branch and Online: Customers using both digital and non-digital channels with similar levels of frequency.

Primarily Online Banking: Those using branch less than once a year and using online channels every 2-3 months or more.

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Retail Advances: Includes advances given for home loans, personal loans, education loans, auto loans, credit card loans, loans against deposits & shares, non-agriculture jewel loans and other retail loans.

Micro, Small & Medium Enterprises (MSMEs) Advances: Includes advances given to entities defined as MSMEs by RBI.

Corporate Advances: Includes advances given for working capital and term loans, given for business purposes to corporates other than Micro, Small & Medium Enterprises.

Institutional Savings Account Deposits: These include savings account deposits opened in banks by entities other than individuals like trust funds, NGOs, proprietorship funds, etc.

Retail Commissions: These consist of fee income earned through mutual fund brokerage, insurance commissions and other miscellaneous retail commissions.

Commercial Commissions: These consist of fee income earned through commissions on inland and foreign letters of credit, guarantees and bills.

Digital Transactions: These include transactions done through mobile, ECS, POS and Internet banking.

Branch Based Transactions: These include transactions through NEFT (in branch), cheque and cash transactions.

Self Service Machines: Includes Cheque Deposit Machines, Cash Deposit Machines, Self Service Passbook Printers and Self Service Internet Kiosks.

Business Correspondents: Includes individuals, NGOs, MFIs, Cooperative Societies, Post Offices and Companies (excluding Non Banking Financial Companies) which have been appointed by the banks.

PMJDY Accounts: Refers to accounts launched under the Pradhan Mantri Jan Dhan Yojana, which is a financial inclusion scheme launched in 2014.

IT Expense: Expense on IT includes investment in hardware and software related to IT / technology, ATMs, operating expenses but excludes depreciation.

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A report by The Boston Consulting Group in association with Google, July 2016

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Will Industry Stacks Be the New Blueprint for Banking?
A perspective by The Boston Consulting Group, June 2016

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A report by The Boston Consulting Group in association with The Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Bank's Association (IBA), August 2015

Digital Banking: Opportunity for Extraordinary Gains in Reach, Service, and Productivity in the Next 5 Years
A report by The Boston Consulting Group in association with FICCI and IBA, September 2014

Consistency, Quality and Resilience: The next frontier for productivity excellence
A report by The Boston Consulting Group in association with FICCI and IBA, August 2013

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TVS Prasad
Canara Bank

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Punjab National Bank

Nirmal Kumar
State Bank of India

Vipan Singh
Union Bank of India

Medium PSU Banks

S. L. N. Prasad
Allahabad Bank

ACV Subrahmanyam
Andhra Bank

Atul Joshi
Bank of Maharashtra

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