



Indian Banks' Association

Valedictory Panel

Living Up to the Promise of the Coming Decade

21st August 2018

BCG

THE BOSTON CONSULTING GROUP

Audience poll question: Which forces will shape next decade for Financial Services in India?

1 Urbanization

2 Growth of middle-(corporate)-India – MSME

3 Rising affordability

4 Ageing

5 Access to data and internet

6 Others

Megatrends impacting FS landscape in India

• Rapid urbanization

- 40% urban population by FY25, current 33%

• Growth of small businesses

- 6 crore+ MSMEs
- Formalization of MSMEs up by >66% overall¹ post GST

• Rising affluence

- Affluent & Elite² - 16% HHs by 2025, current 8%
- Aspirers² – 20% HHs by 2025: current 15%

• Ageing population & health consciousness

- ~350 mn people >50 years by 2030; dependency ratio of 13

• Ubiquity of data and India Stack

- Internet penetration from 25% to 55% of HHs by 2025
- ~650 mn mobile internet users by FY20, current ~390 mn

1. Source BCG Omidyar Network MSME survey analysis (N=1514): Data weighted to be representative of (Rs. 3L+ turnover) MSME universe w.r.t Turnover x Sector X Geo (U/R);

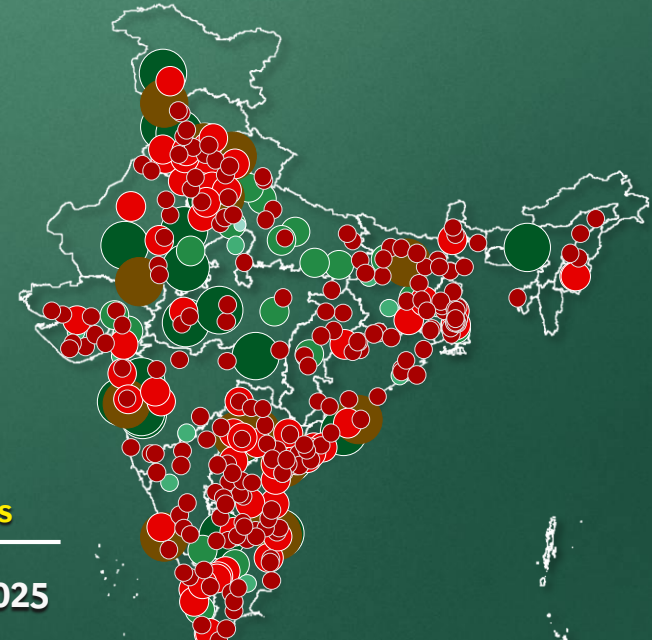
2. Elite defined as households with annual income of INR 20L+; Affluent with HH income of 10-20 Lakhs; Aspirers with HH income of 5-10L

Affluence to spread widely to tier 2,3,4 cities

India - 2016



India - 2025



	No. of cities	
	2016	2025
Share of affluent & elite households ¹ (%)		
> 40	0	48
21 – 40	64	270

Share of elite and affluent HHs¹ (%)

Metro and tier 1 cities

● > 40 ● 31 to 40 ● 21 to 30

Tier 2, 3, and 4 cities

● > 40 ● 31 to 40 ● 21 to 30

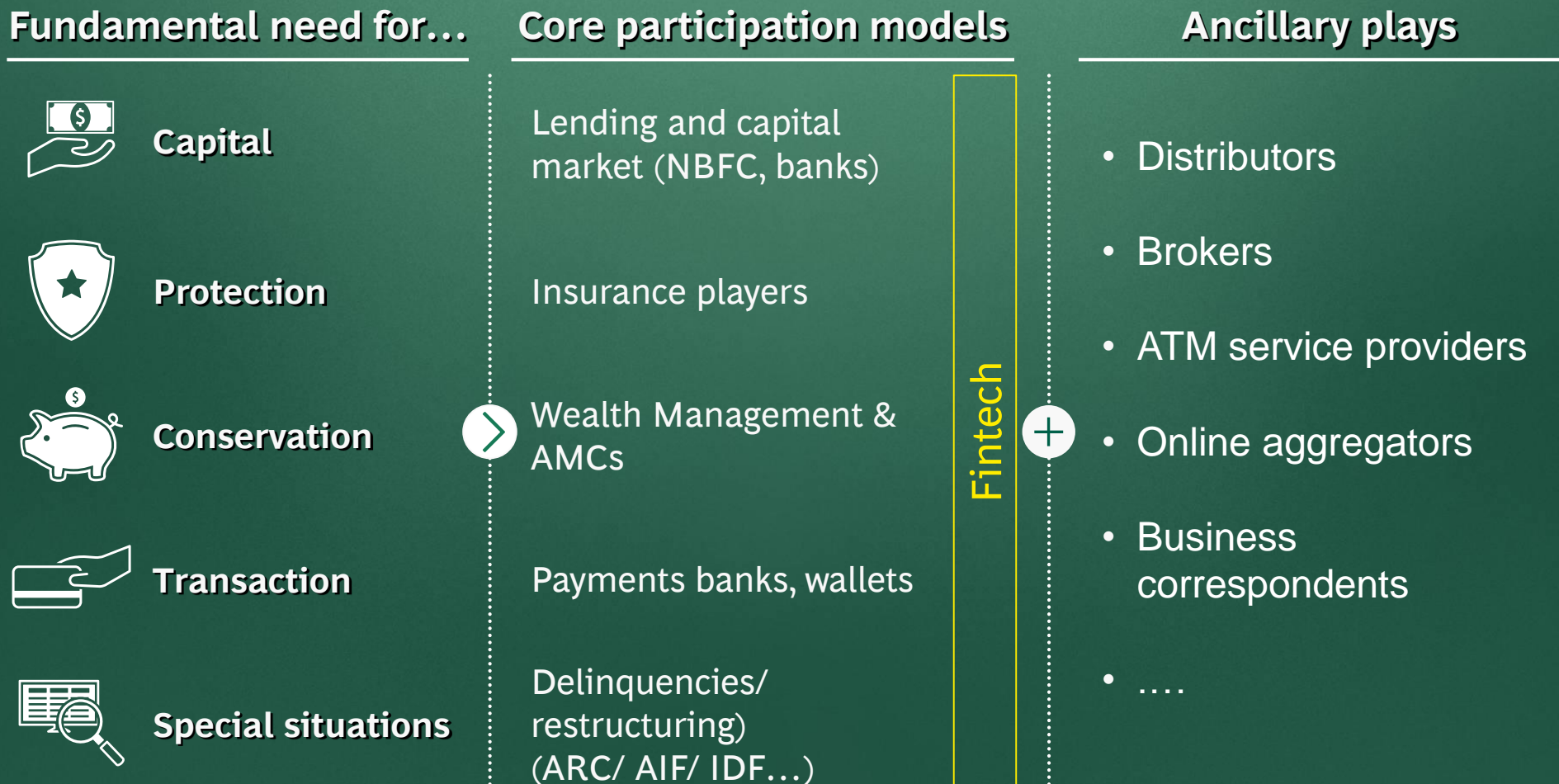
1. Customer segments defined on the basis of Annual Household Income (AHI) Affluent(INR 10-20 lacs), Elite(AHI>INR 20 lacs)
Source: CCI City Income Database 2016; BCG CCI analysis

Panel question

What according to you are the priorities for the Indian Financial Services sector over the coming decade?

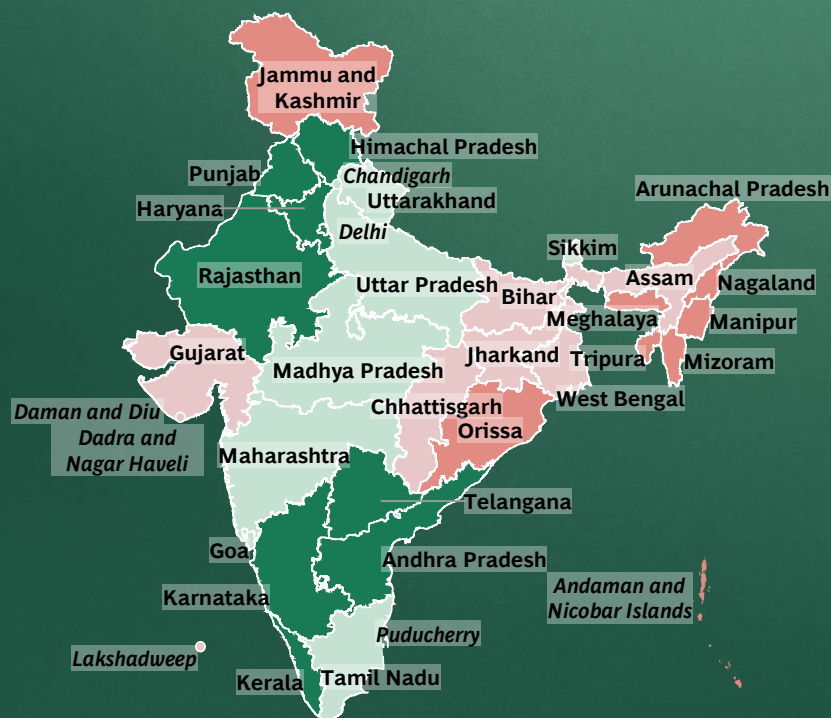
How do you see it evolving?

How will the financial needs be impacted?

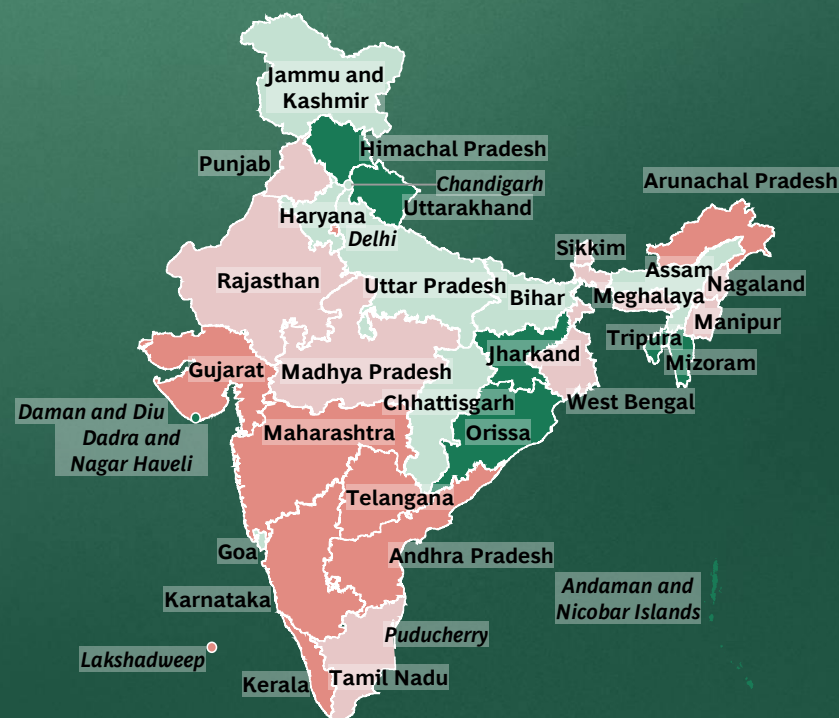


Panel question: How do we make credit access more widespread?

**Growth in MSME credit
(FY18 over FY17)**



**MSME credit as
% of total credit (FY18)**



Quartile 1: >10%

Quartile 3: -7% to 0%

Quartile 2: 0% to 10%

Quartile 4: <-7%

Quartile 1: >35%

Quartile 3: 24% to 28%

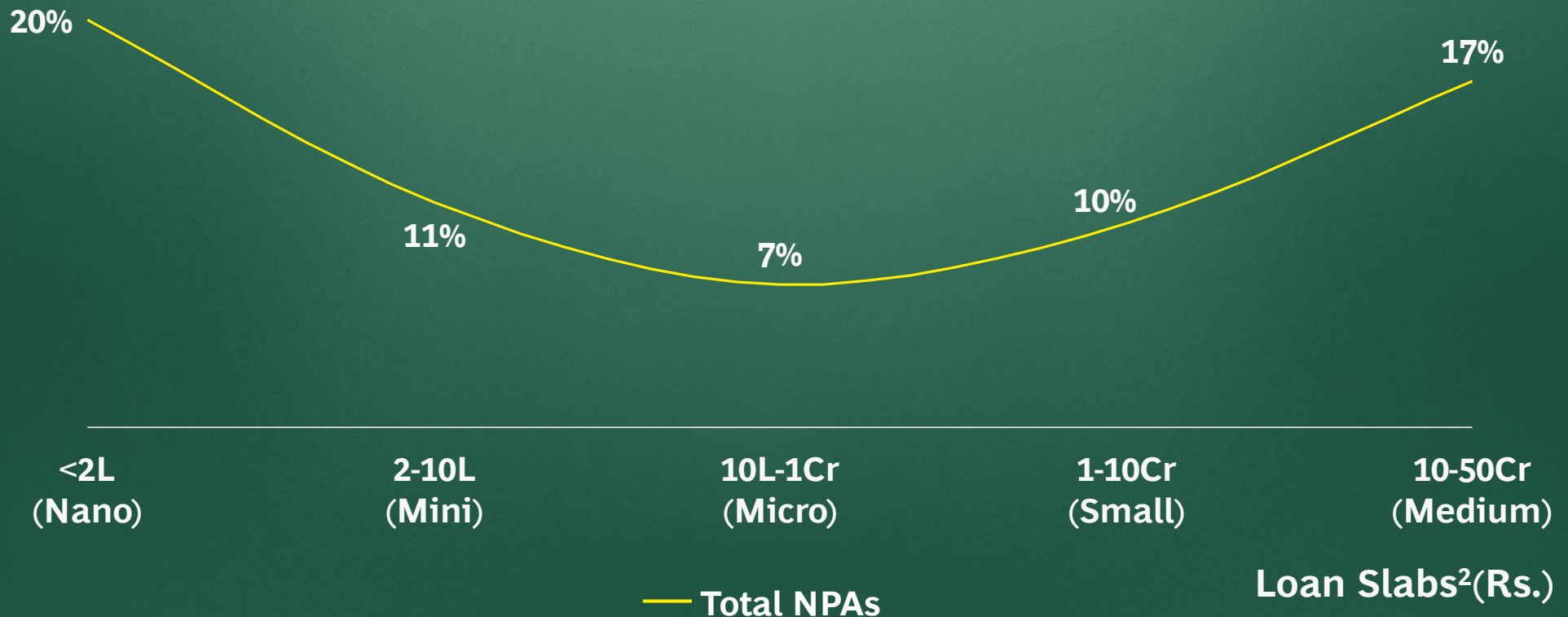
Quartile 2: 28% to 35%

Quartile 4: <24%

Note: Data of 15 public sector banks and 7 private sector banks included for the purpose of analysis
Source: FIBAC Productivity Survey 2018; BCG analysis

Panel question: what is going to be different in underwriting in the future? What have we learnt so far?

% gross NPAs¹ (by loan slab²)



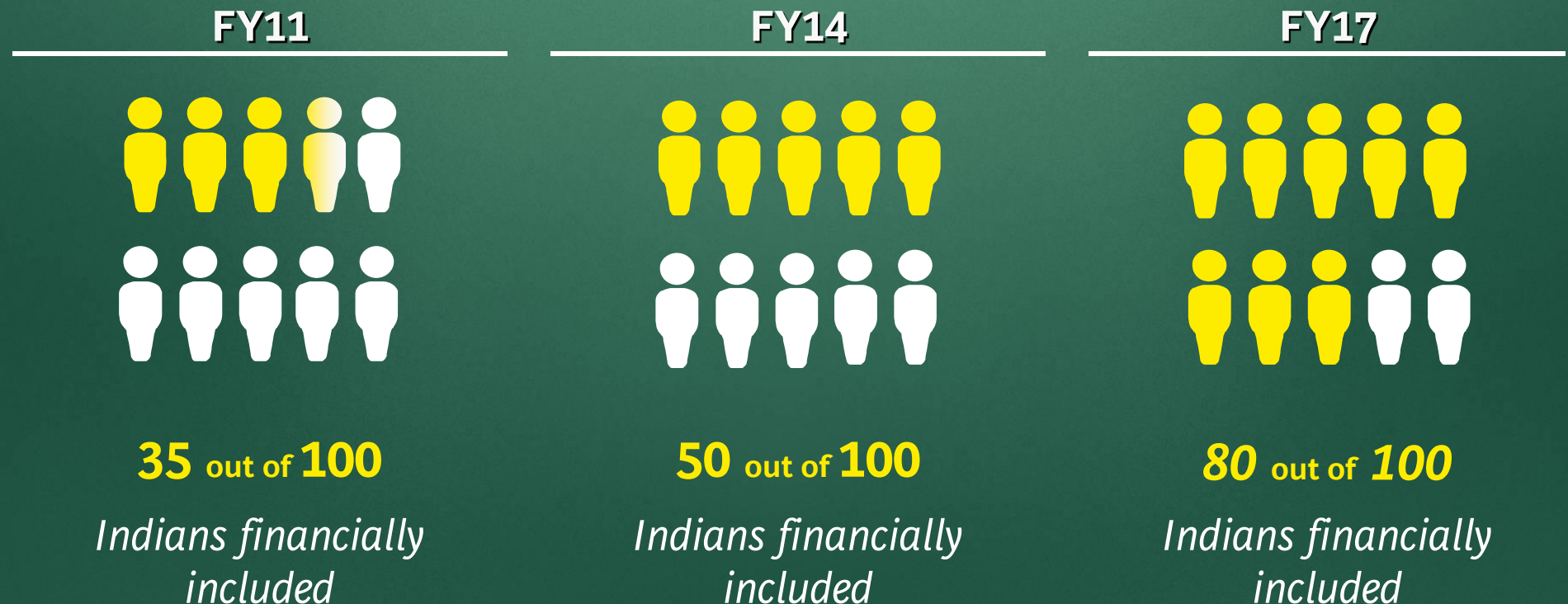
1. NPAs calculated basis accounts in 90+ days past due

2. Loan slabs for entity level borrowing defined at an enterprise level, basis the maximum credit exposure in past 8 quarters, loan slabs for proprietor level borrowing basis individual loan size

Source: TransUnion CIBIL data and analysis; BCG analysis

Panel question: Financial inclusion – almost done: is this enough? what next?

India finally on the cusp of achieving financial inclusion¹

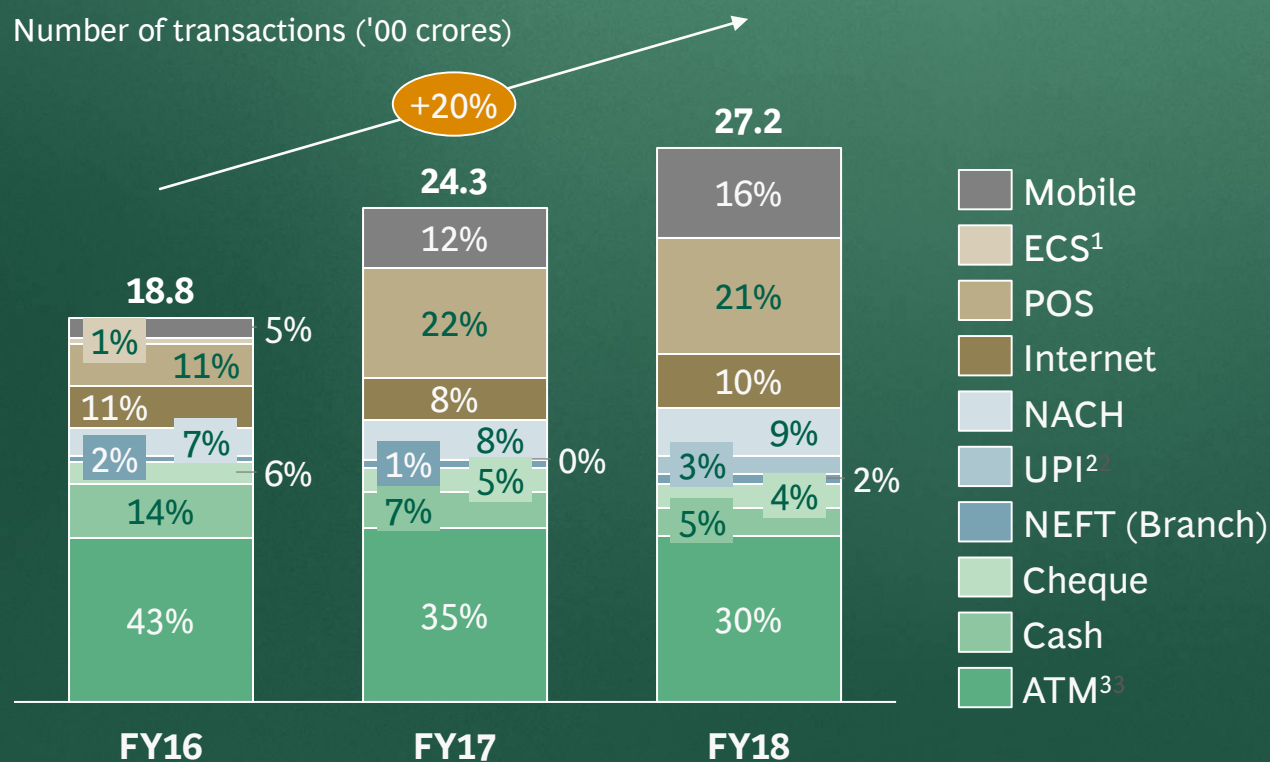


1. Population above 15 years which has a bank account is considered for the purpose of financial inclusion
Source: 2017 Global Findex World Bank report

Panel question: how should we think about the channel architecture and role of channels in going-to-market?

Total transactions in FY16, FY17 and FY18 (%)

Number of transactions ('00 crores)



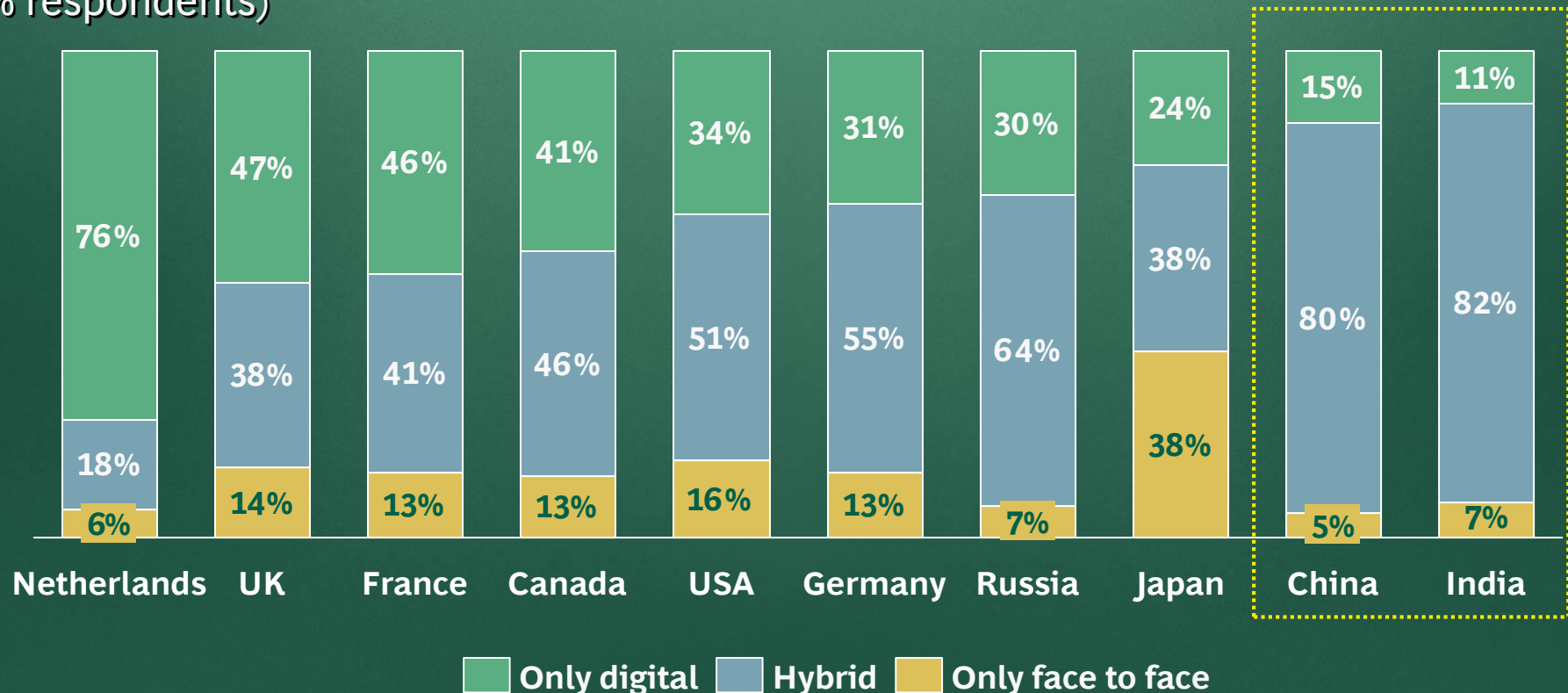
Growth in total transactions (%)

	FY16 over FY15	FY17 over FY16	FY18 over FY17
Digital channels	67%	94%	48%
Branch based ⁴	-4%	-19%	-11%
ATM ³	15%	6%	-5%

1. ECS transactions can be initiated offline or through online channels 2. UPI did not exist in FY16 3. ATM/CDM includes withdrawals transactions at ATM and deposit transactions at CDMs. ATM and Mobile transactions included are financial transactions only 4. Branch based channels include cash and cheque. Cash transactions refer to counter cash transactions within branch
 Notes: 1. Data of 5 PSU - Large banks, 8 PSU - Medium banks, 3 Private - New banks and 3 Private - Old banks included for the purpose of cash transactions and NEFT transactions at branch 2. FIBAC data is used for NEFT from branches, Counter cash and E-POS transactions
 Source: RBI data, FIBAC Productivity Survey 2016, 2017 and 2018; BCG analysis

Over 80% of the customers in India and China frequently use both digital & face-to-face channels for transactions

Segment composition across 10 participating countries (% respondents)



Note: 1. Based on responses received from survey of ~60,000 respondent globally 2. Digital customers are those who use digital channels for transactions at least once in 3 months and have visited a branch less than once or never for a transaction; Hybrid customers are those that use digital channels for transactions at least once in 3 months and also visit branch at least once in 3 months for doing a transaction, and face to face customers are those who visit branch for a transaction at least once in 3 months and have used digital channels less than once in a year for transactions
Source: Data for India as per REBEX Consumer Survey 2018; data for global based on REBEX Consumer Survey 2016 covering 16 countries