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Finance in Digital Era

Navigating the Knowns and Unknowns

06 NOVEMBER 2017

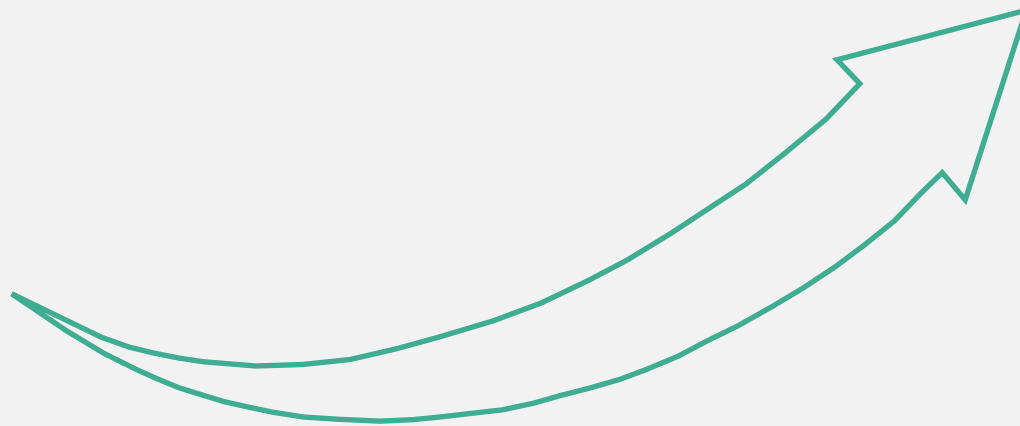


Indian Banks' Association

World Bank ranking - Ease of doing business



130

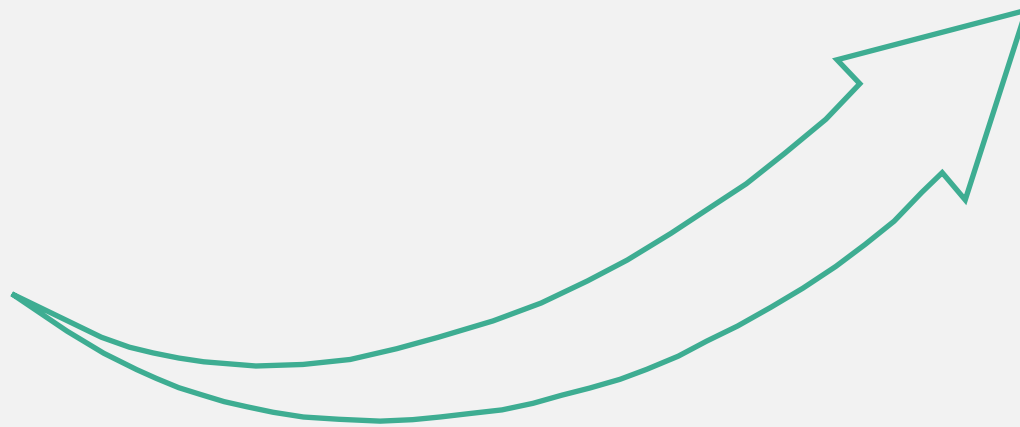


100

World Bank ranking - Getting credit

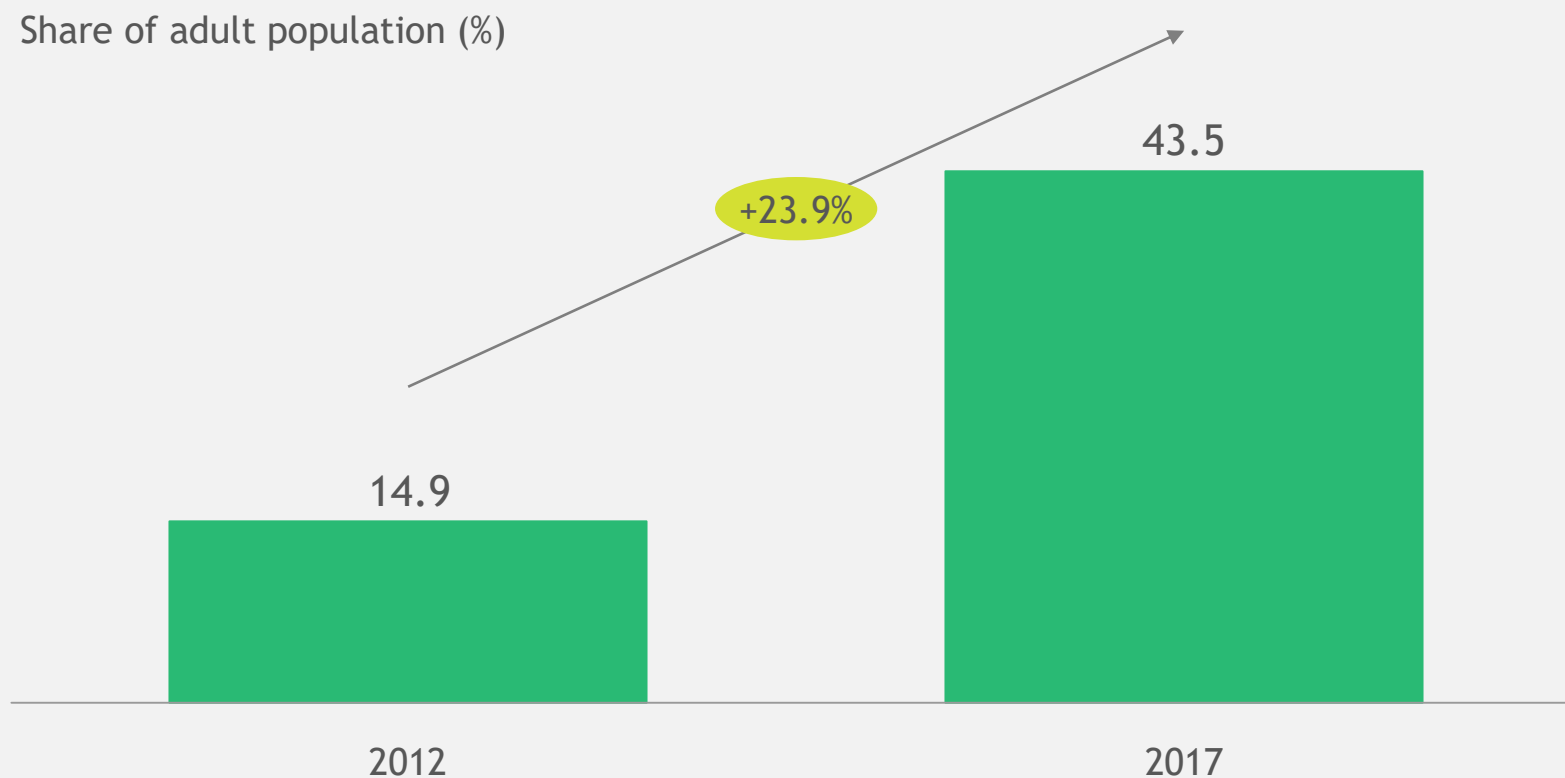


44



29

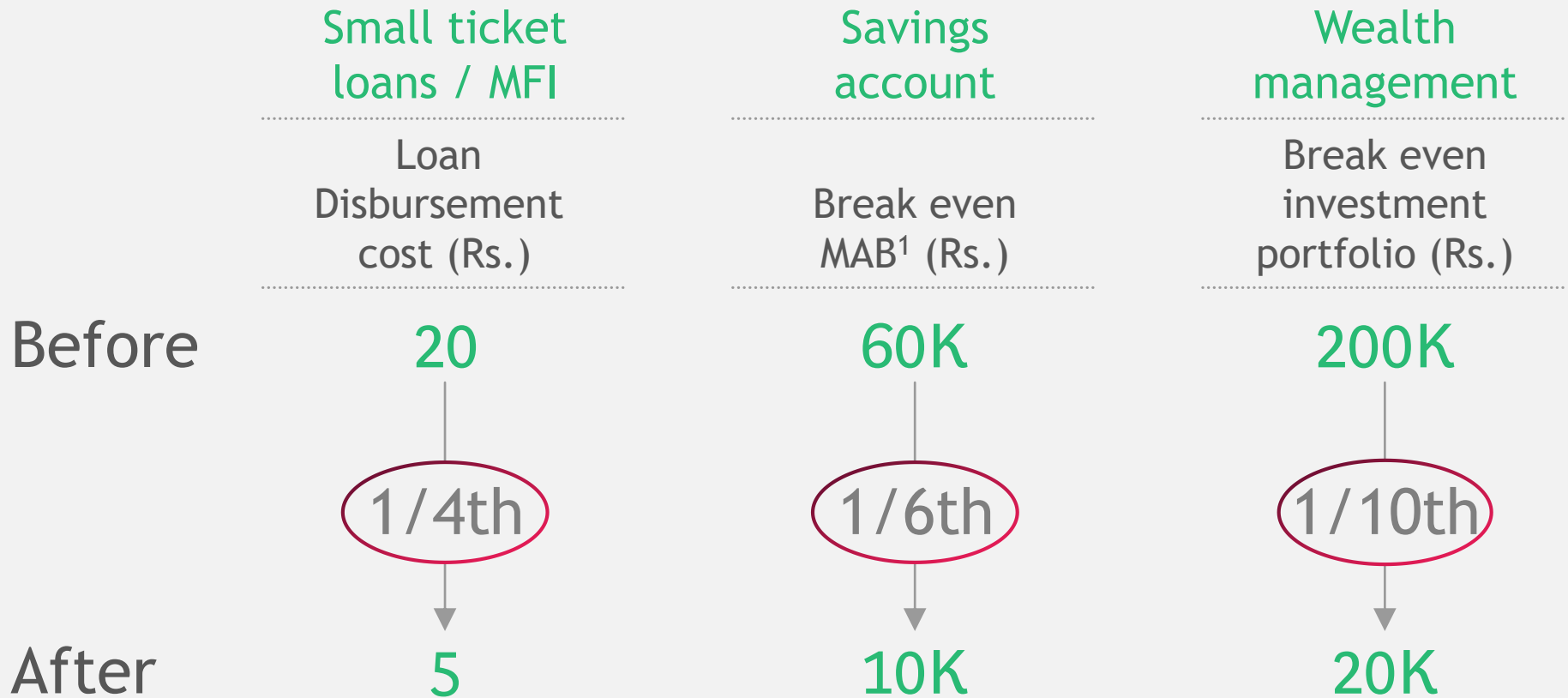
Rapid growth in bureau coverage¹



1. Credit bureau coverage as per World Bank Report 2018 means the number of individuals and firms listed in a credit bureau's database as of Jan 2017, with information on their borrowing history within the past five years, plus the number of individuals and firms that have had no borrowing history in the past 5 years but for which a lender requested a credit report from the bureau in the past year.

Source: World Bank Doing Business Reports.

Small is beautiful - India Stack is lowering costs to serve dramatically



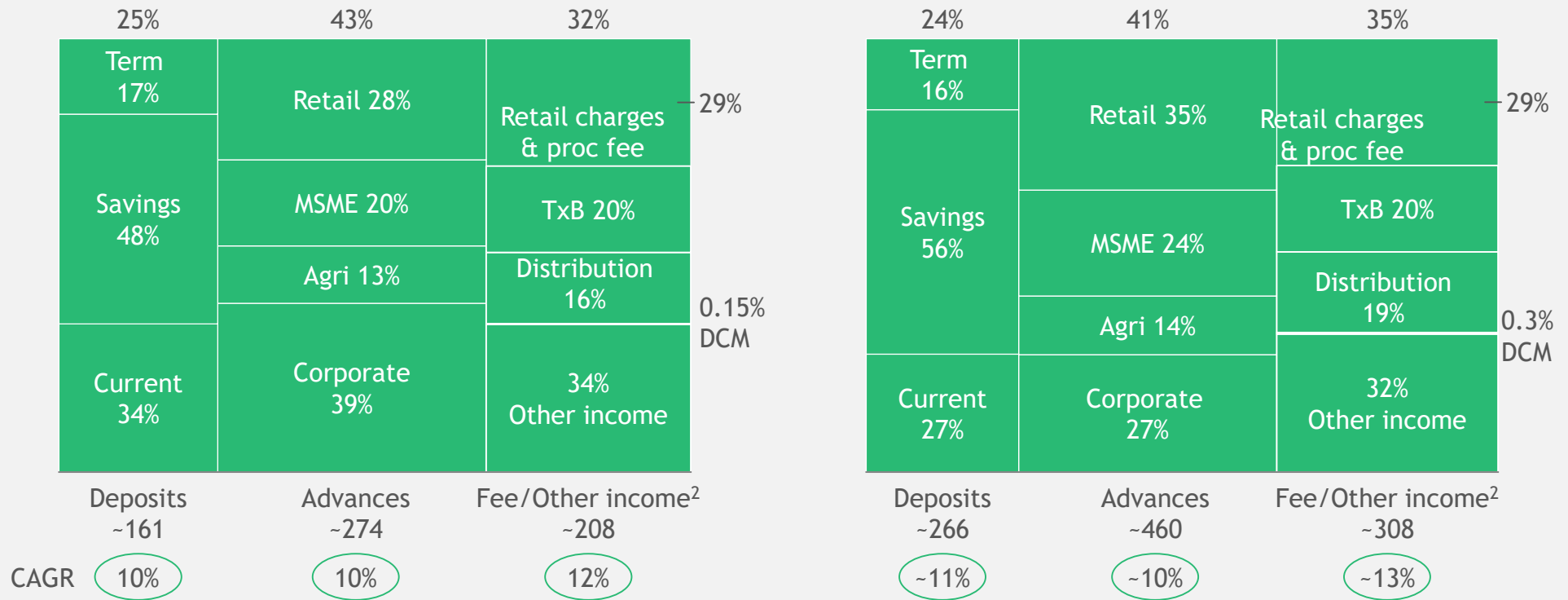
Notes: 1. Monthly Average Balance
Source: BCG analysis.

The revenue pool is at an inflection point - will touch Rs. 11 lac Cr by 2022

All figures in Rs. '000s Cr

FY17 (A) ~650

FY22 (P) ~1,100



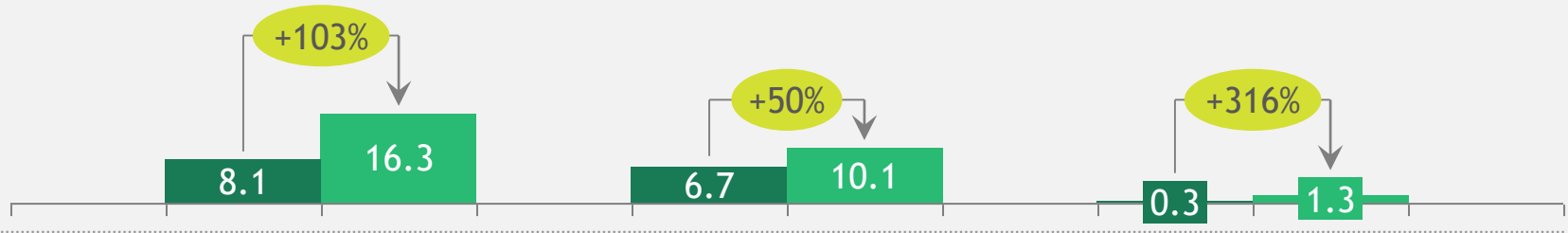
1. Revenue refers to NII for deposits and advances. Above revenues include all SCBs & NBFCs but exclude RRBs 2. Fee & other income includes retail charges, processing fees, transaction banking revenues, distribution commission, treasury income, profit on sale of assets, recovery of earlier written off assets, investment banking revenue, DCM fee and other income. (A) = Actual; (P) = Projected

Sources: RBI; FIBAC productivity survey; Annual reports; Industry discussions; BCG analysis.

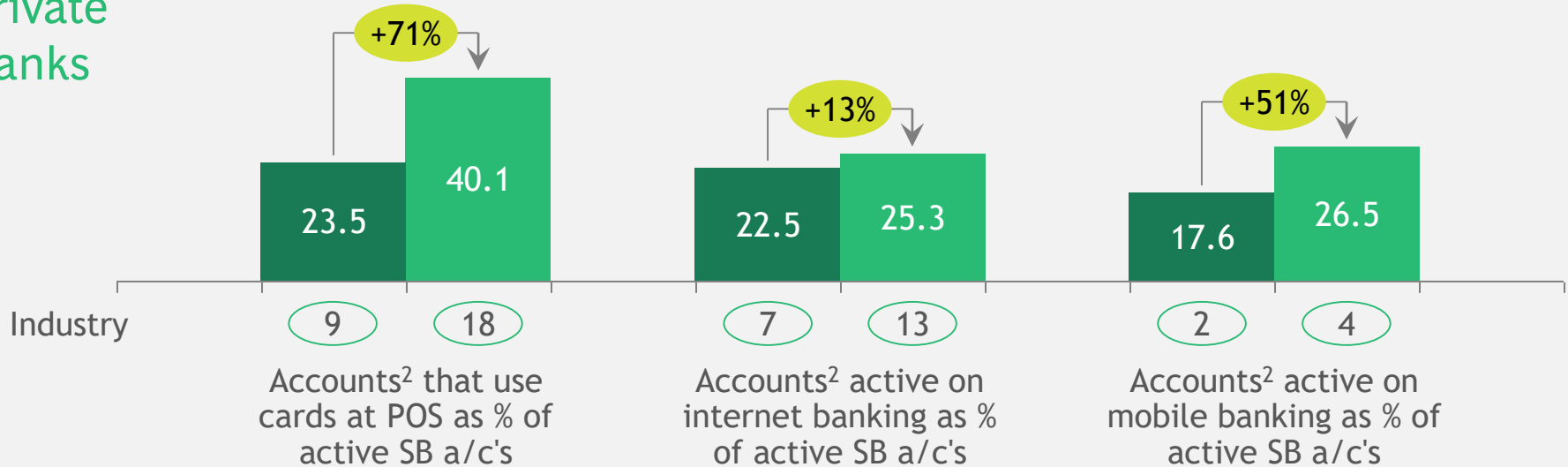
Step jump in digital activation in FY 17

PSU Banks

FY16 FY17



Private Banks



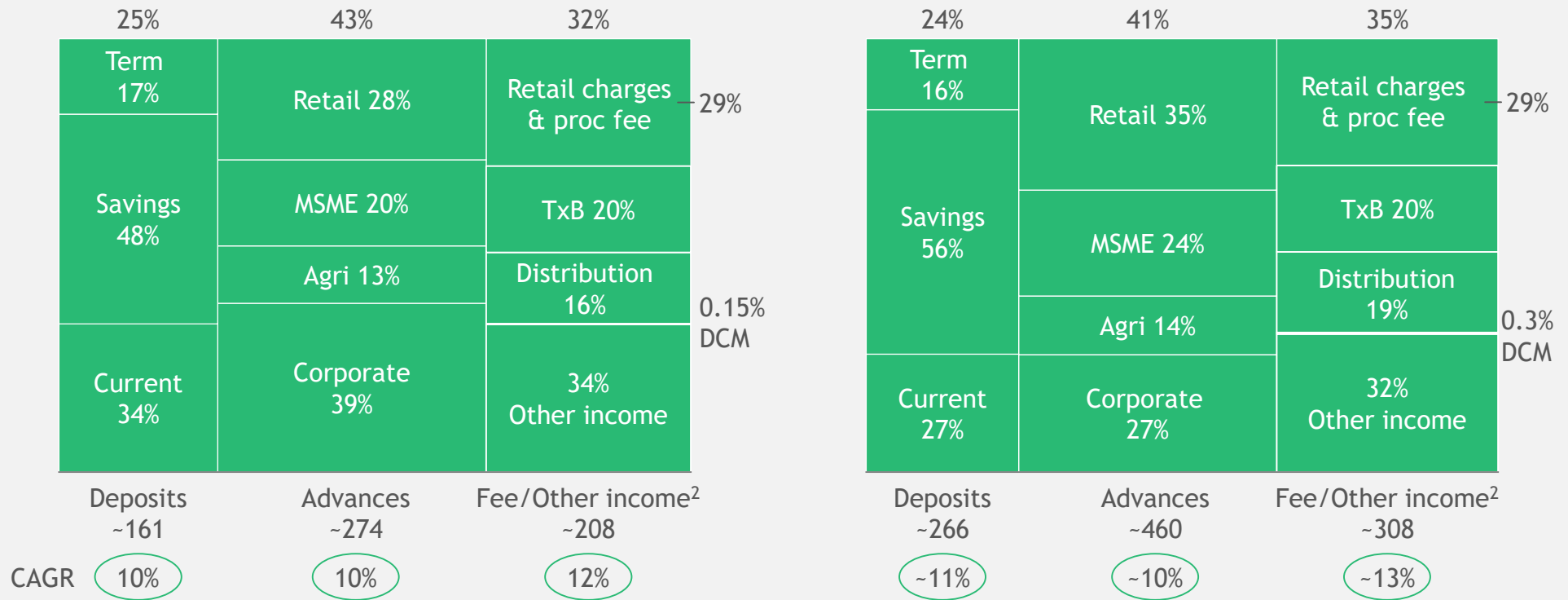
1. Active acct. is defined as an acct. with at least 1 user initiated transaction in last 6 months 2. Financially active acct is defined as an acct. with at least 1 user initiated transaction in last 6 months 3. Data of 1 PSU (Large), 1 PSU (Medium), 1 Pvt (New) and 1 Pvt (Old) banks excluded from the analysis. Sources: FIBAC Productivity Survey 2017; BCG analysis.

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All figures in Rs. '000s Cr

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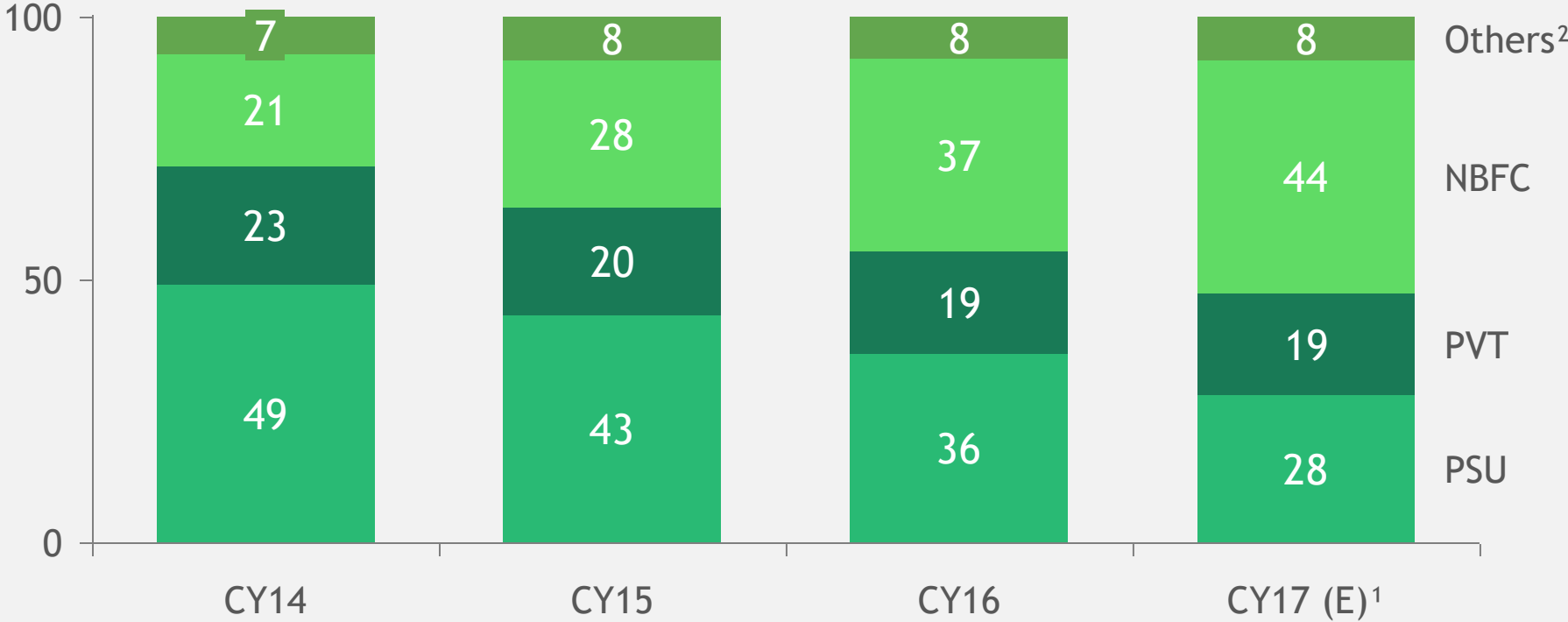
FY22 (P) ~1,100



1. Revenue refers to NII for deposits and advances. Above revenues include all SCBs & NBFCs but exclude RRBs 2. Fee & other income includes retail charges, processing fees, transaction banking revenues, distribution commission, treasury income, profit on sale of assets, recovery of earlier written off assets, investment banking revenue, DCM fee and other income. (A) = Actual; (P) = Projected
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NBFCs have had unprecedented growth

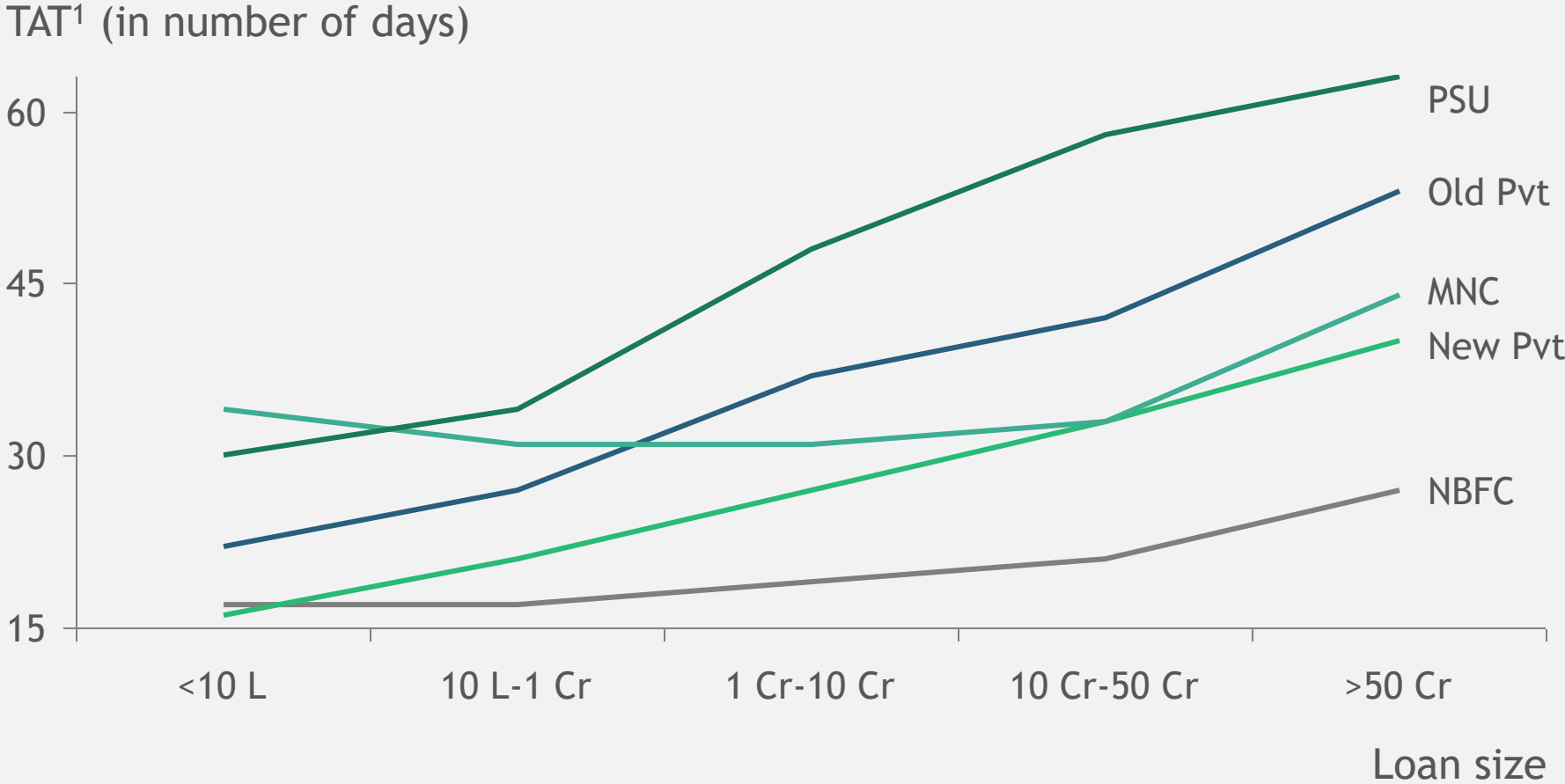
Retail & agri loans taken (%)



1. 2017 calendar year figures estimated based on Q1 and Q2 data 2. Others include regional rural banks, co-operative banks, state finance corporations etc.

Sources: TransUnion CIBIL data and analysis; BCG analysis.

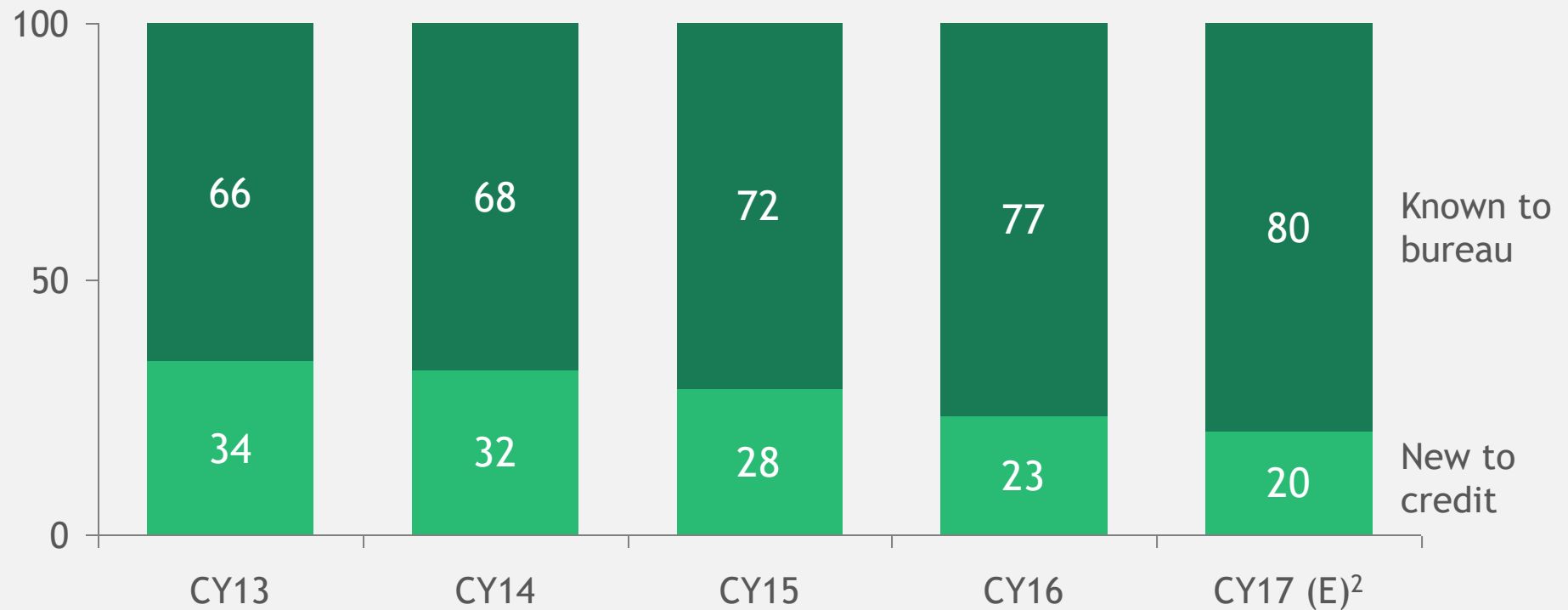
Competition is heating up on response time



Notes: 1. TAT - Turnaround time, Turnaround measured as the number of days between account open and last instance of credit enquiry by the same bank
Source: TransUnion CIBIL data and analysis, BCG analysis.

Share of New to Credit (NTC) customers in retail and agriculture has been steadily coming down

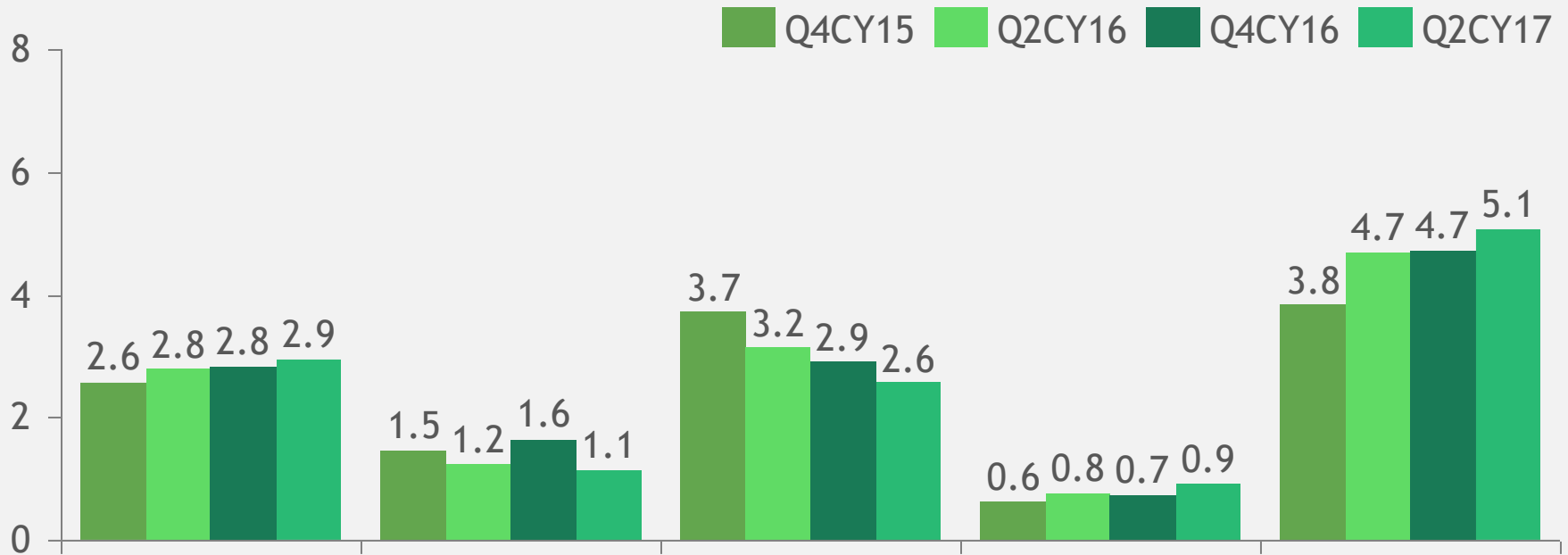
New accounts opened (%)



1. NTC defined as a borrower with no pre-existing bureau history 2. 2017 calendar year figures estimated based on Q1 and Q2 data.
Sources: TransUnion CIBIL data and analysis, BCG analysis.

Delinquencies are showing early signs of uptrend

Delinquency rates (%)



Amount
disbursed
CAGR (CY16
over CY14)

17%

19%

31%

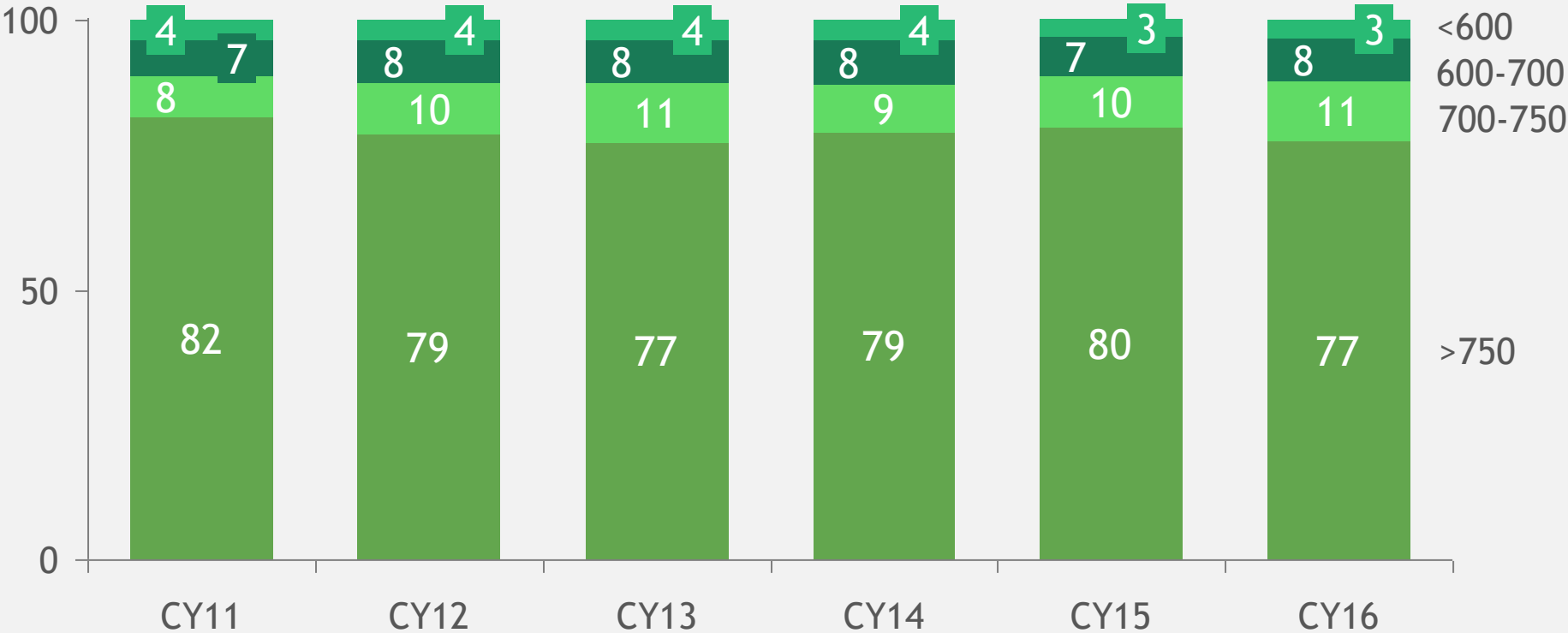
23%

9%

Notes: Delinquencies calculated basis accounts in 90-179 DPD.
Sources: TransUnion CIBIL data and analysis; BCG analysis.

Retail lending has been "super prime" - Differentiated pricing help ensure more inclusion of sub prime?

CIBIL scores of retail customers acquired (%)



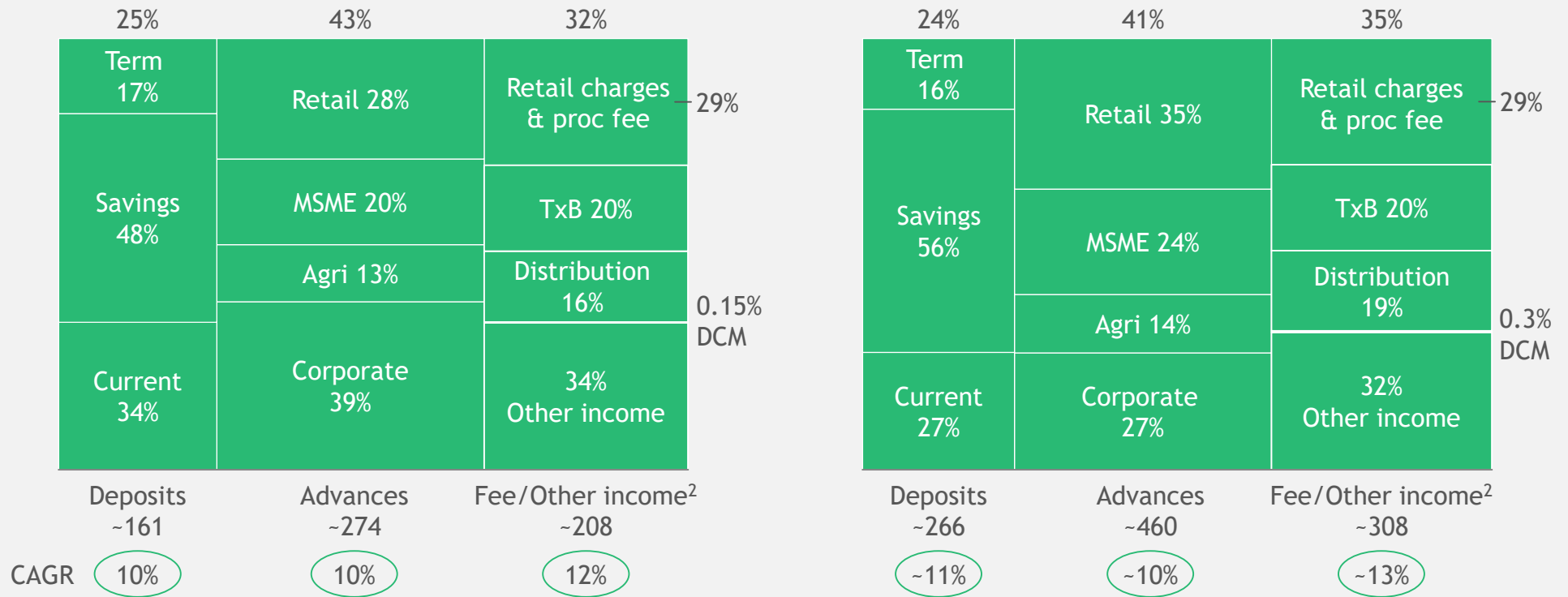
Note: Based on ranges of CIBIL TransUnion V1 Score of customers acquired in first quarter of each year.
Sources: TransUnion CIBIL data and analysis; BCG analysis.

The revenue pool is at an inflection point - will touch Rs. 11 lac Cr by 2022

All figures in Rs. '000s Cr

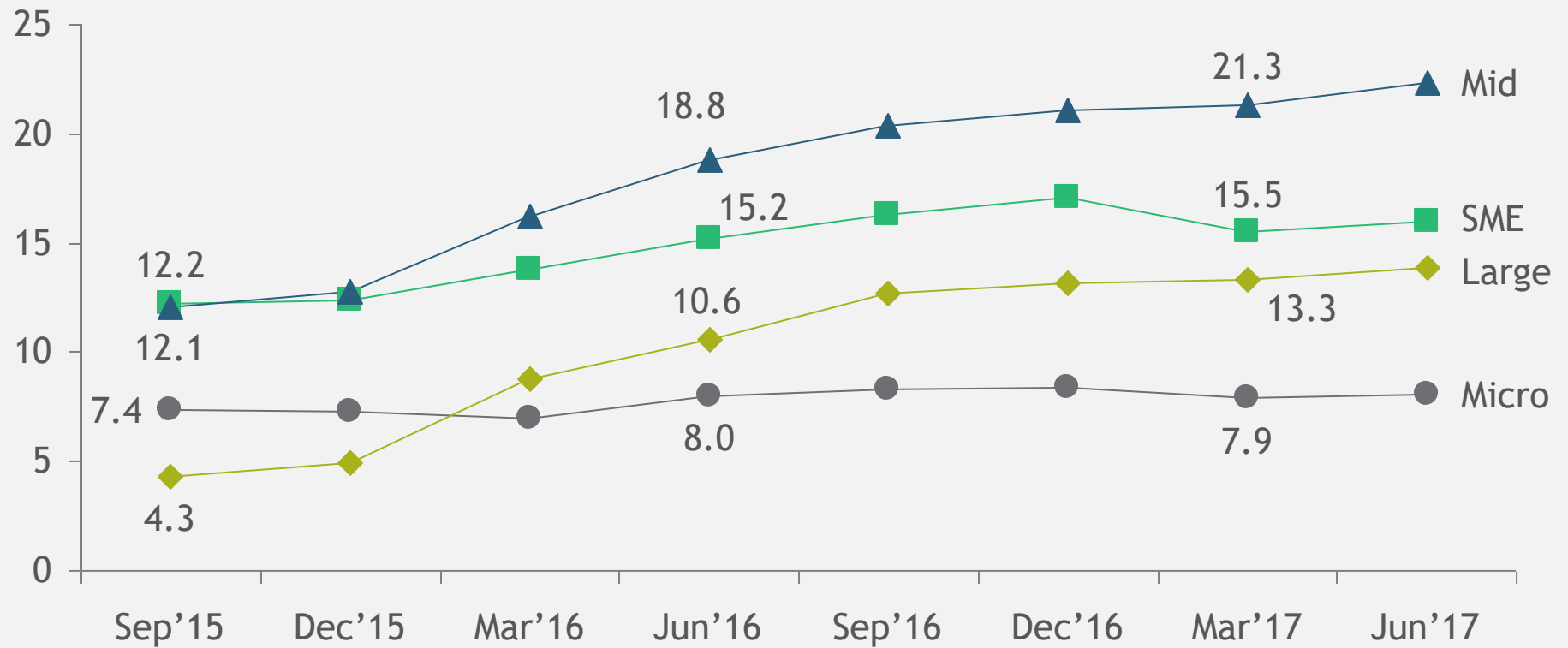
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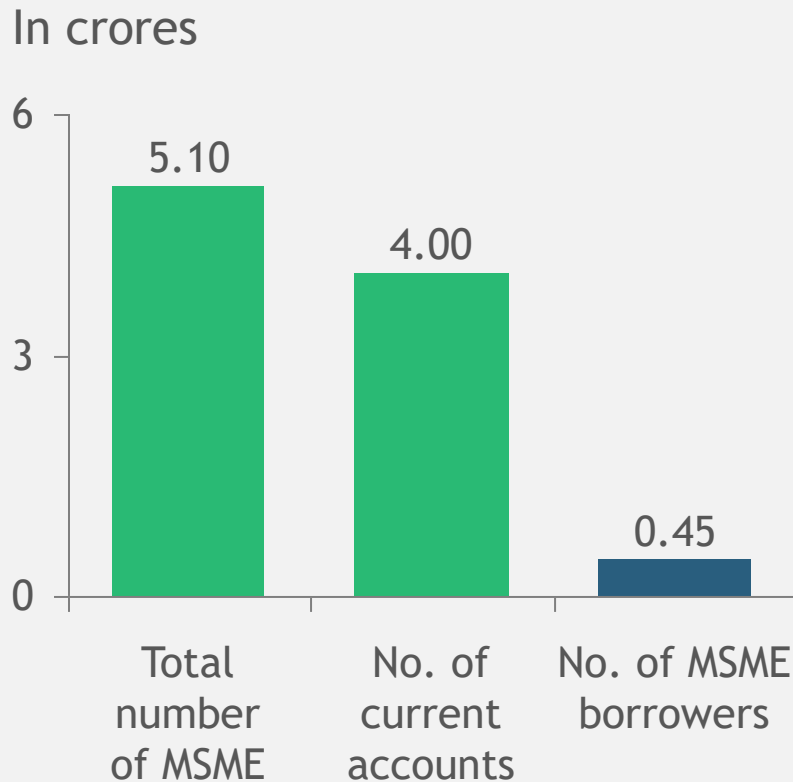
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Sources: RBI; FIBAC productivity survey; Annual reports; Industry discussions; BCG analysis.

Delinquency rates have gone up significantly; smaller end of SME portfolio has held well



1. Loans with 90+ DPD (days past due) or asset classification as sub-standard/ doubtful/ loss (technically equivalent to gross NPA).
Sources: TransUnion CIBIL data and analysis; BCG analysis.

Significant promise in "formalization" of MSME credit



GST

- Digitization of Value Chains

Digital payment at POS

- Electronic transactions data on sales

Credit analytics on surrogate data

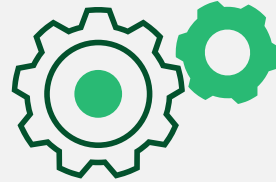
- Account transactions and payments data
- Utility bill payment information

Note: 1. 2014-15; Number of MSME borrowers based on TransUnion CIBIL commercial bureau data for entities with <25 crore cumulative exposure. Source: TransUnion CIBIL data and analysis; BCG analysis; MSME Annual Report 2016-17; number of current accounts from FIBAC Productivity Survey 2016.

Strategic Imperative for banks



Treat data as strategic asset



The new corporate bank model



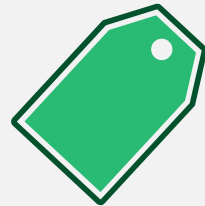
New credit model for commercial lending



Digitize end-to-end processes and deploy AI/ML



Collections capabilities and infrastructure



Scientific pricing

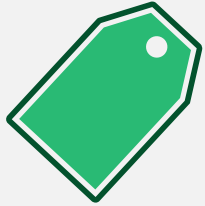


Mass market investment advisory

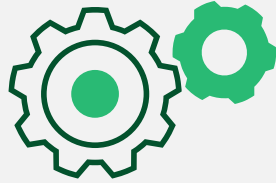


Partnerships are critical

Data is a major lever



Differentiated pricing



Operating cost optimization



Lower credit and collections costs



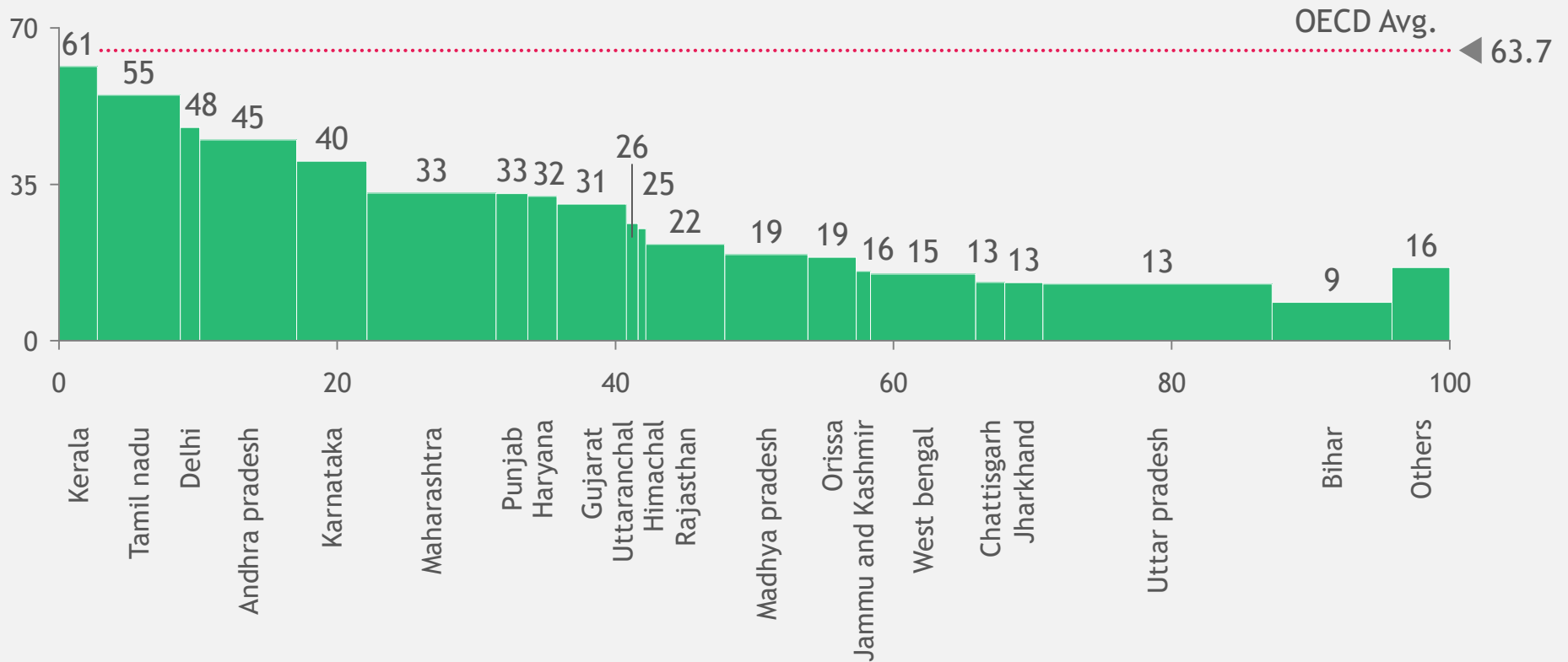
Higher product per customer

0.4%

ROA improvement
(Rs 3 lac cr
over 5 yrs)

Regional disparity is huge

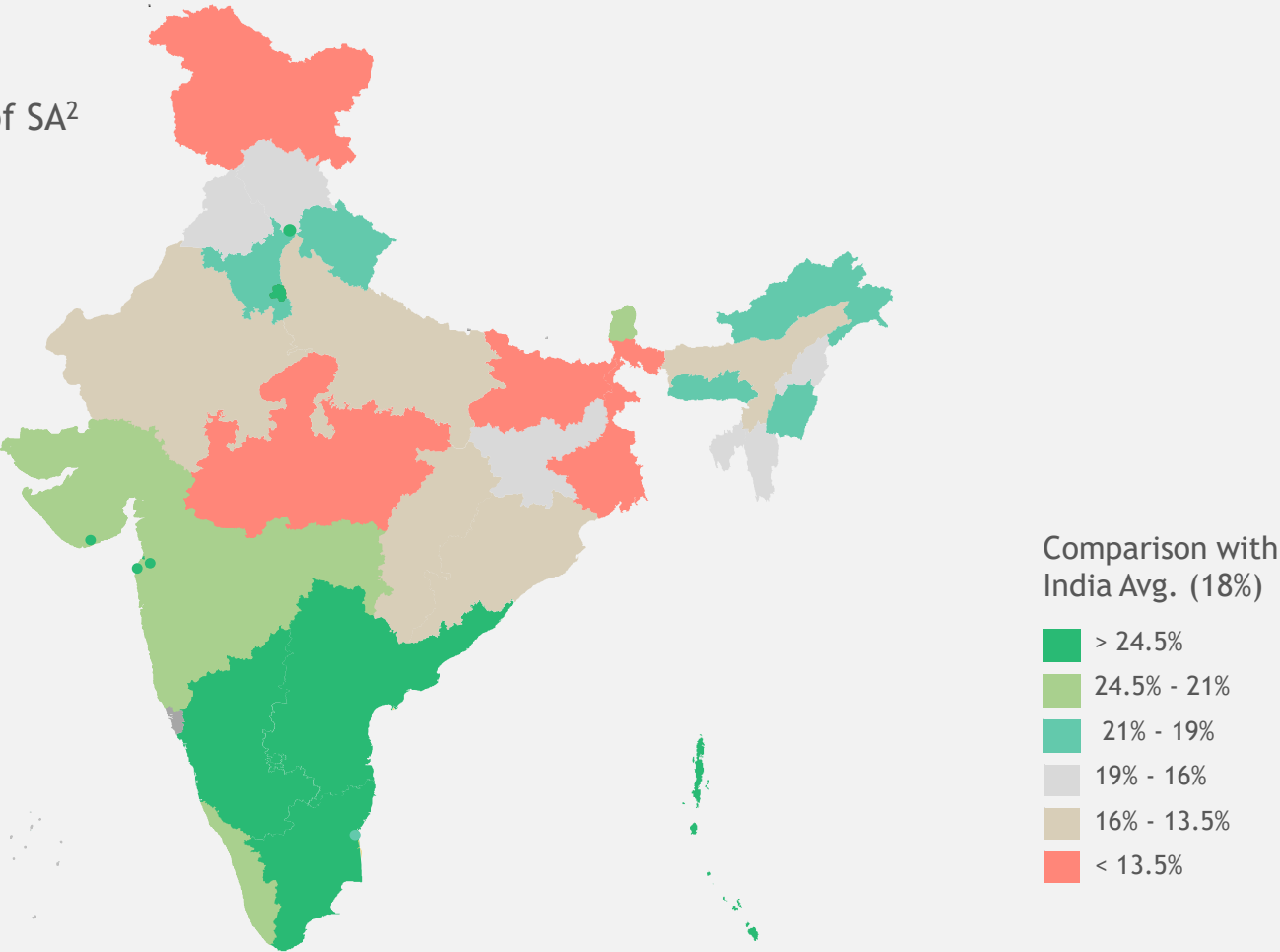
Borrowers¹ as a % of adult population² (%)



1. Borrowers mean unique borrowers in TransUnion CIBIL Bureau (live + closed) 2. Adult Population for 2016-17 estimated basis census data for 2011
Sources: TransUnion CIBIL data and analysis; MOSPI; NITI Aayog; India Human Development Report by Planning Commission; BCG analysis.

Regional disparity is huge

Debit cards at POS as % of SA²



Notes: 1. No. of SB accounts that have active transactions at POS as on March 31, 2017 (At least 1 customer initiated financial transaction in last 6 months) 2. SA-Savings Accounts, Data of 3 PSU (Medium) Banks excluded.
Sources: FIBAC 2017; BCG analysis.

Imperative for policy makers



Regional disparity in economic development.



Utility payments, surrogate data availability



Augment bureaus with bond market data



Expedite consent architecture to democratize data access



Strengthen accounting standards and quality



Data privacy and Digital literacy

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An underwater scene featuring a diver in the center, swimming towards the right. The background is a deep blue ocean with rocky terrain at the bottom. A large, semi-transparent green rectangular overlay covers the left and center portions of the image, serving as a background for the text.

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