



## Riding India's Digital Super-cycle

India's spirited pursuit of public digital platforms is pushing banks towards much bolder digital transformation. Handsome rewards for those who embrace it; rapid decline for those who won't.

Saurabh Tripathi (BCG)

FIBAC, Nov 22, Mumbai



# National scale public digital goods are a defining element of India's pursuit of rapid economic and social progress



**National Agri stack**

- Land records, advisory, marketplace
- 1.5<sup>1</sup> X+ income for 50M+ farmers



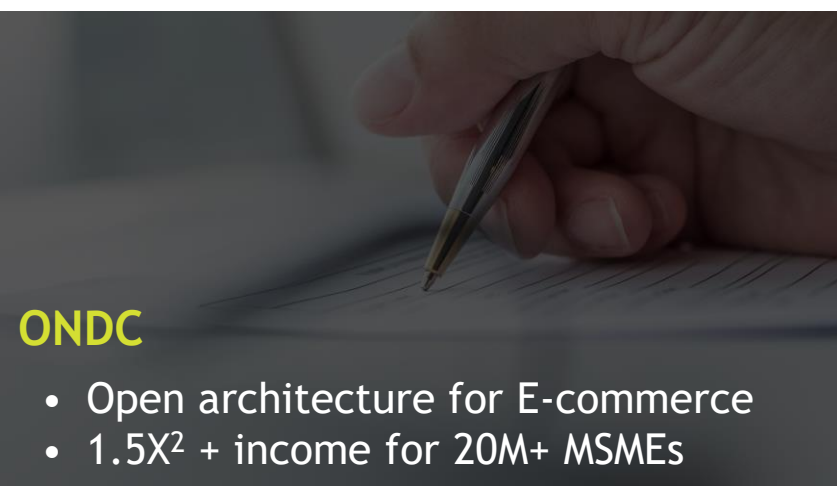
**Logistics - Gati Shakti**

- Increased infra efficiency
- 5-15% savings in logistics cost



**National Health stack**

- Rapid payout to healthcare industry
- 30% increase in health insurance cover



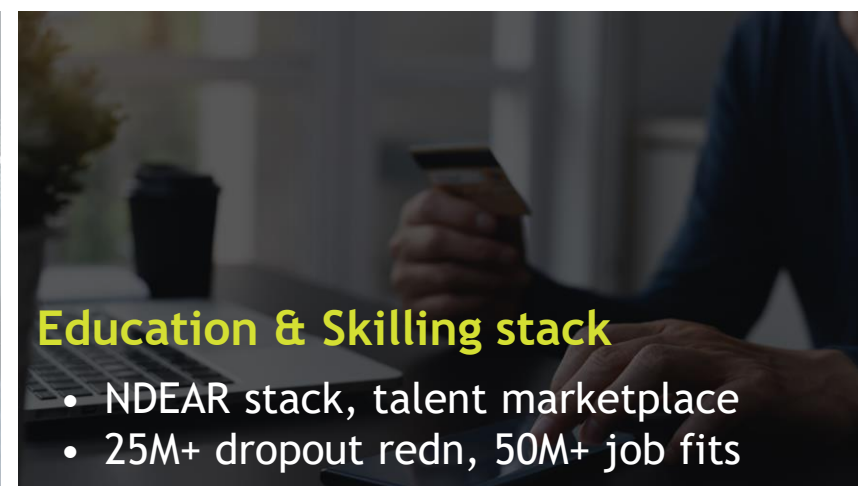
**ONDC**

- Open architecture for E-commerce
- 1.5X<sup>2</sup> + income for 20M+ MSMEs



**GeM**

- B2G digital procurement marketplace
- 56% sourcing from SMEs, Digi lending

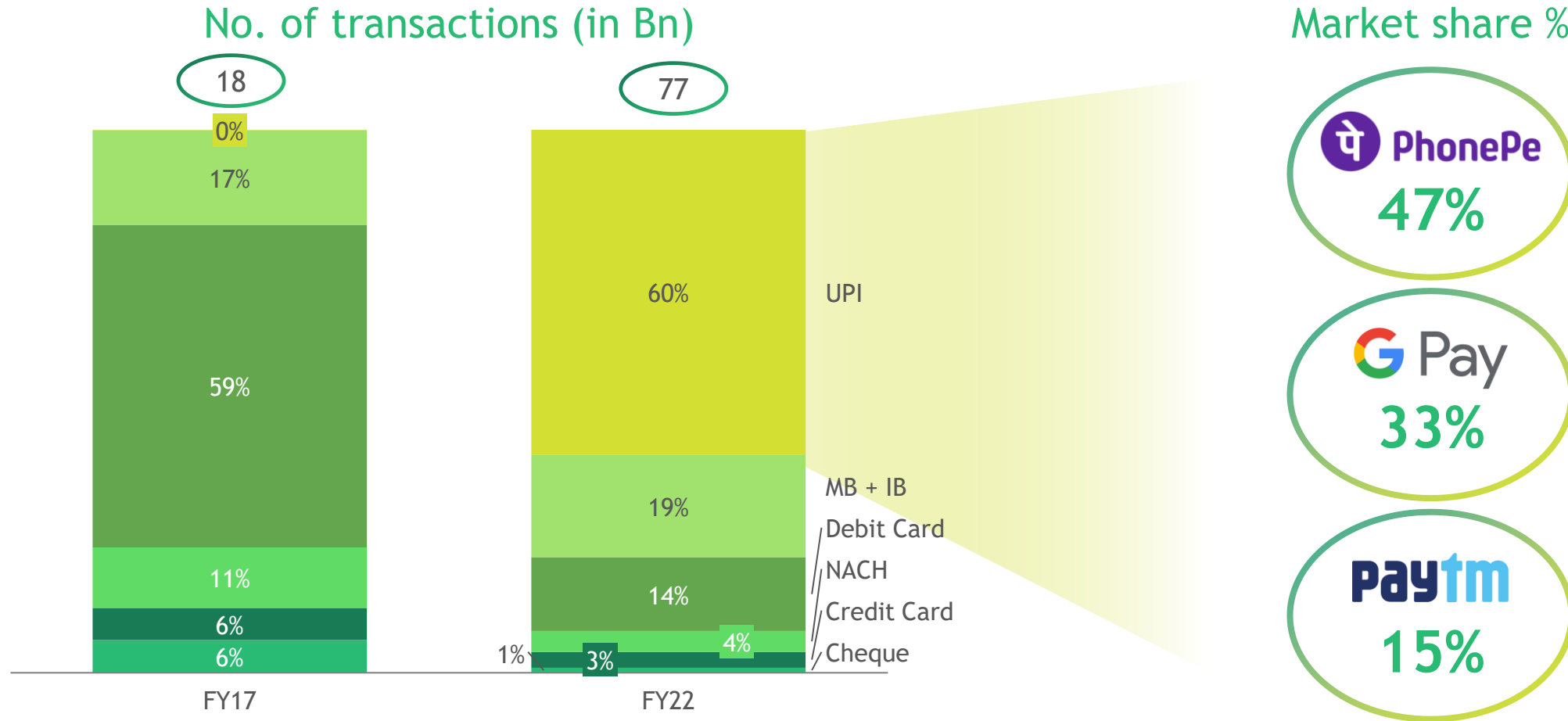


**Education & Skilling stack**

- NDEAR stack, talent marketplace
- 25M+ dropout redn, 50M+ job fits

1. Include benefits relating to price improvement, productivity improvement and credit cost savings 2. Includes benefits related to credit cost savings, price improvement & sales  
Source: The potential of open digital ecosystems - BCG, Omidyar Report, Digital India, GeM dataset, BCG analysis

# Customer rapidly gravitated to Bigtech for UPI



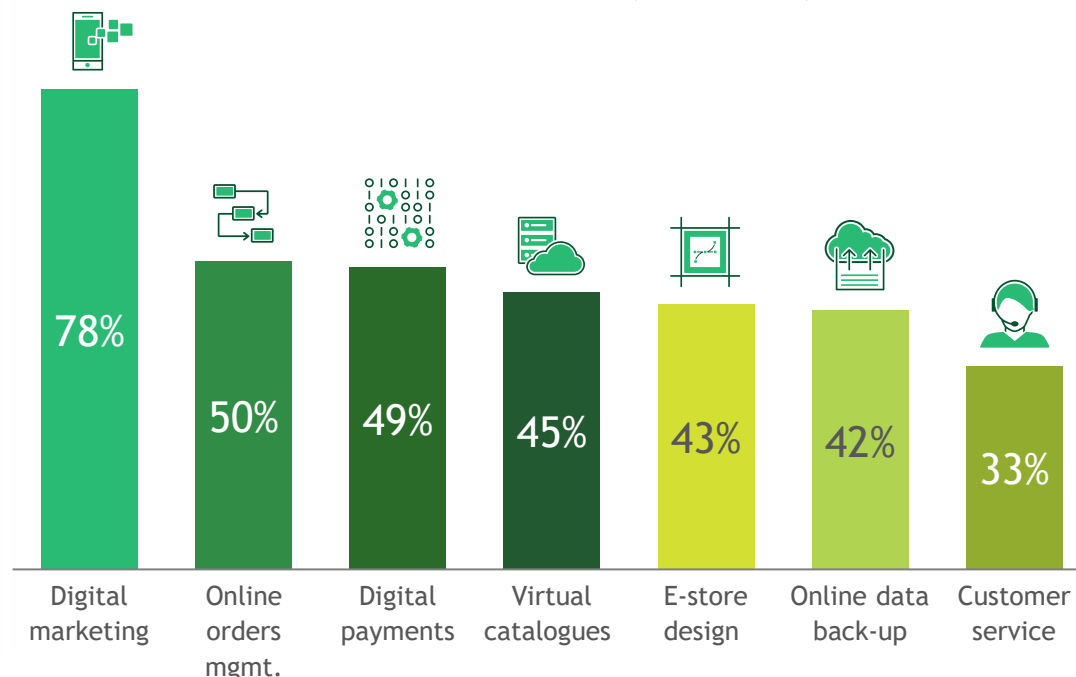
Notes: 1. Financial Transactions do not include cash transactions at branches; 3. Internet transactions include RTGS, ECS, NEFT and IMPS financial transactions - ATM and Mobile transactions included are financial transactions only; 4. CAGR is calculated from FY20 to FY22 5. Total may not sum to 100 because of differences due to rounding off 6. Ticket Size calculated basis Value/Volume; Branches include Administrative Offices; NM: Not Meaningful  
 Source: RBI data, National Payments Corporation of India (NPCI) statistics, BCG analysis

# Indian SMEs looking for digital sales will gravitate towards platforms with integrated preposition

60%+

SMEs expect that their online sales will further increase in the future

SMEs struggle with various aspects of online sales (% SMEs)

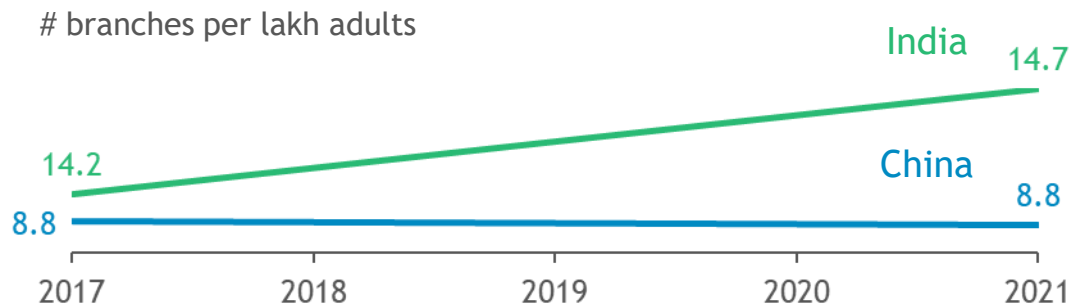


~50%

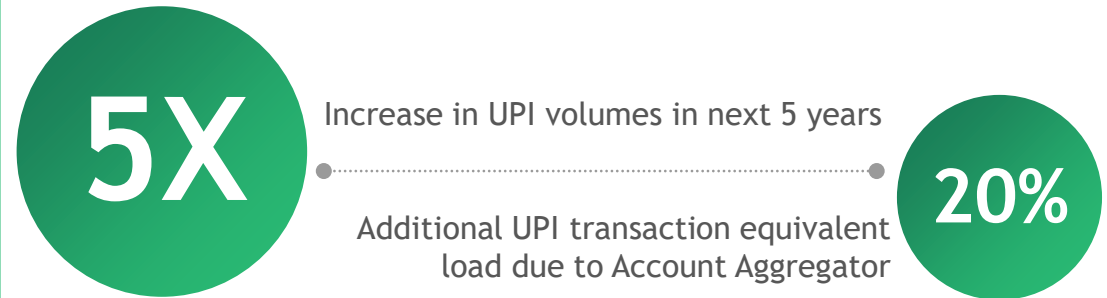
SMEs are open to banks to help them navigate their challenges for a fee

# Indian banks start with daunting challenges

5000+ branches opened in India in last 3 years;  
current ratio significantly higher than China



Transaction load to explode

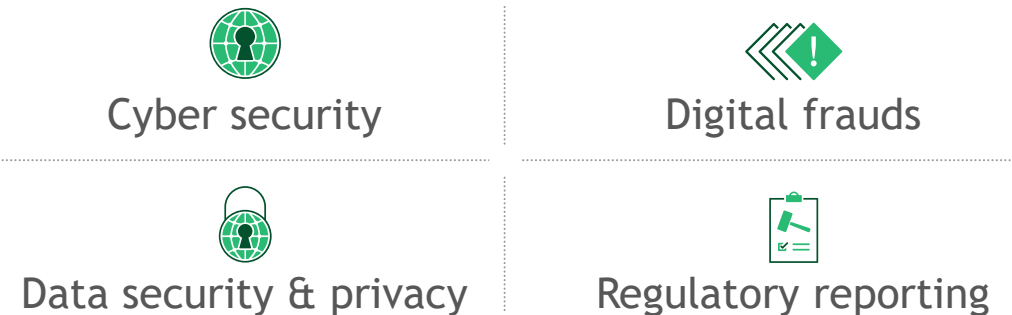


Customers not satisfied with current bank journeys

<15%

Customers and MSMEs satisfied with existing journey and demands expected to increase rapidly

Risk & Compliance Cost to Increase

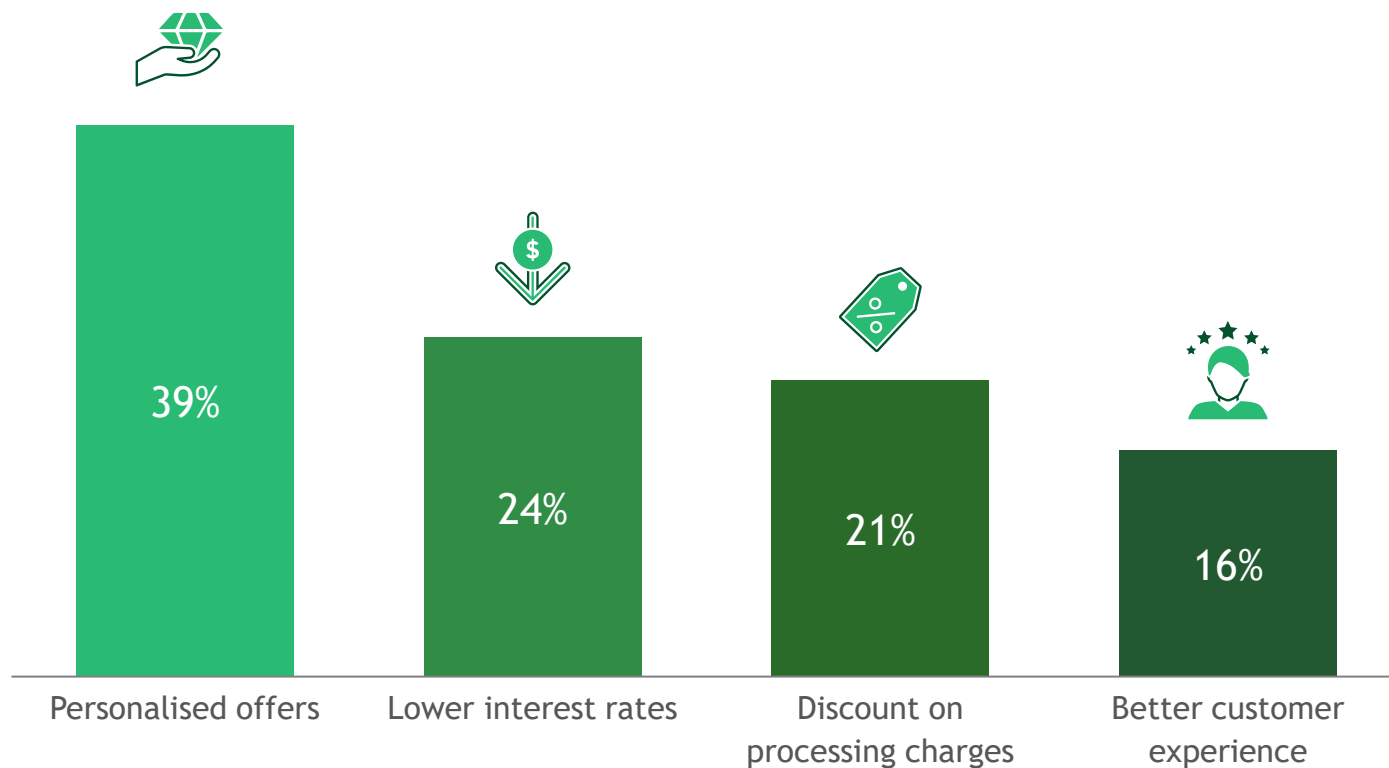


# Under Account Aggregator framework, SME are expecting tech enabled value added services from banks in return for sharing data

~40%

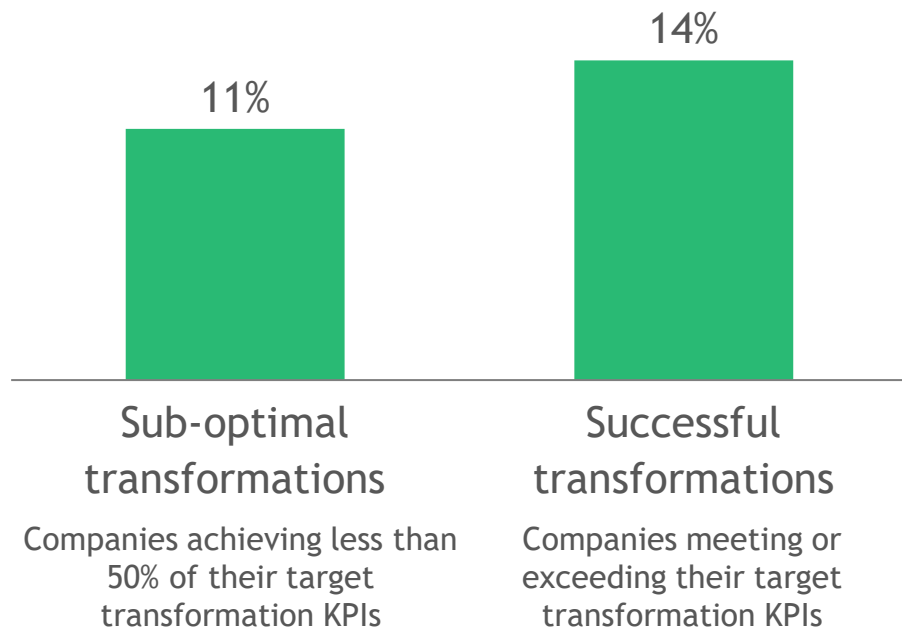
SMEs are willing to share data

MSMEs expectation if they agree to provide data(% MSMEs)



# Successful digital transformations require bolder financial investment and deeper organizational interventions

## % of revenue spent on digital transformations

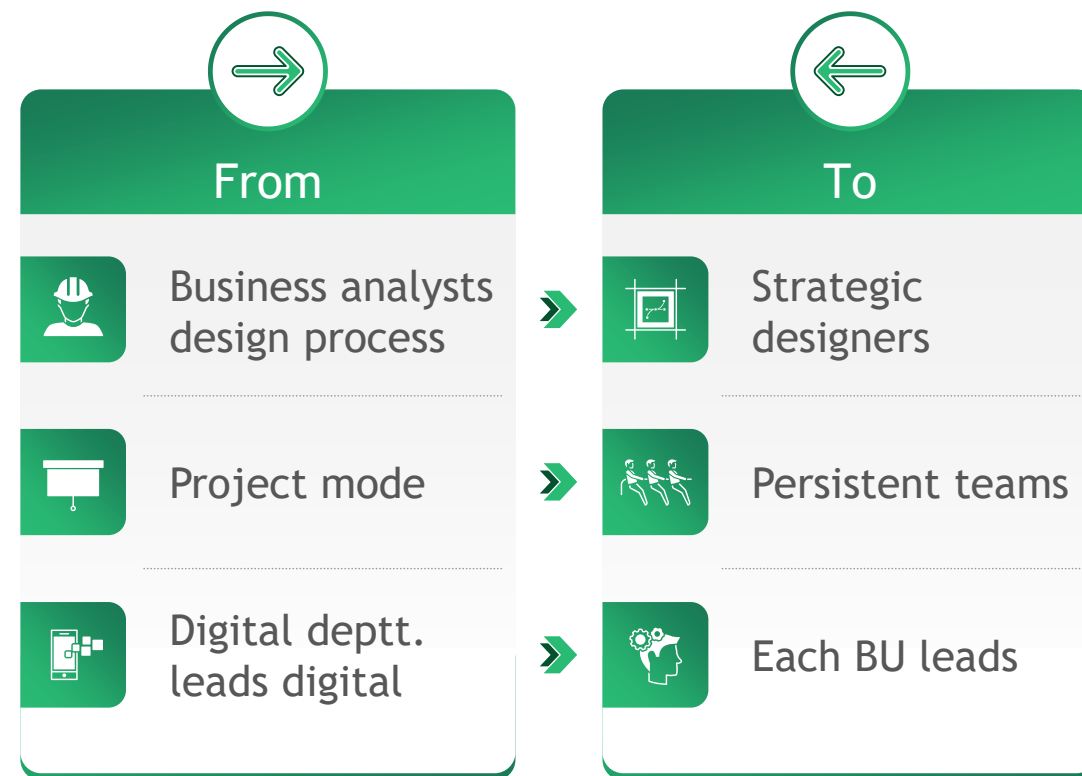


EBIT uplift

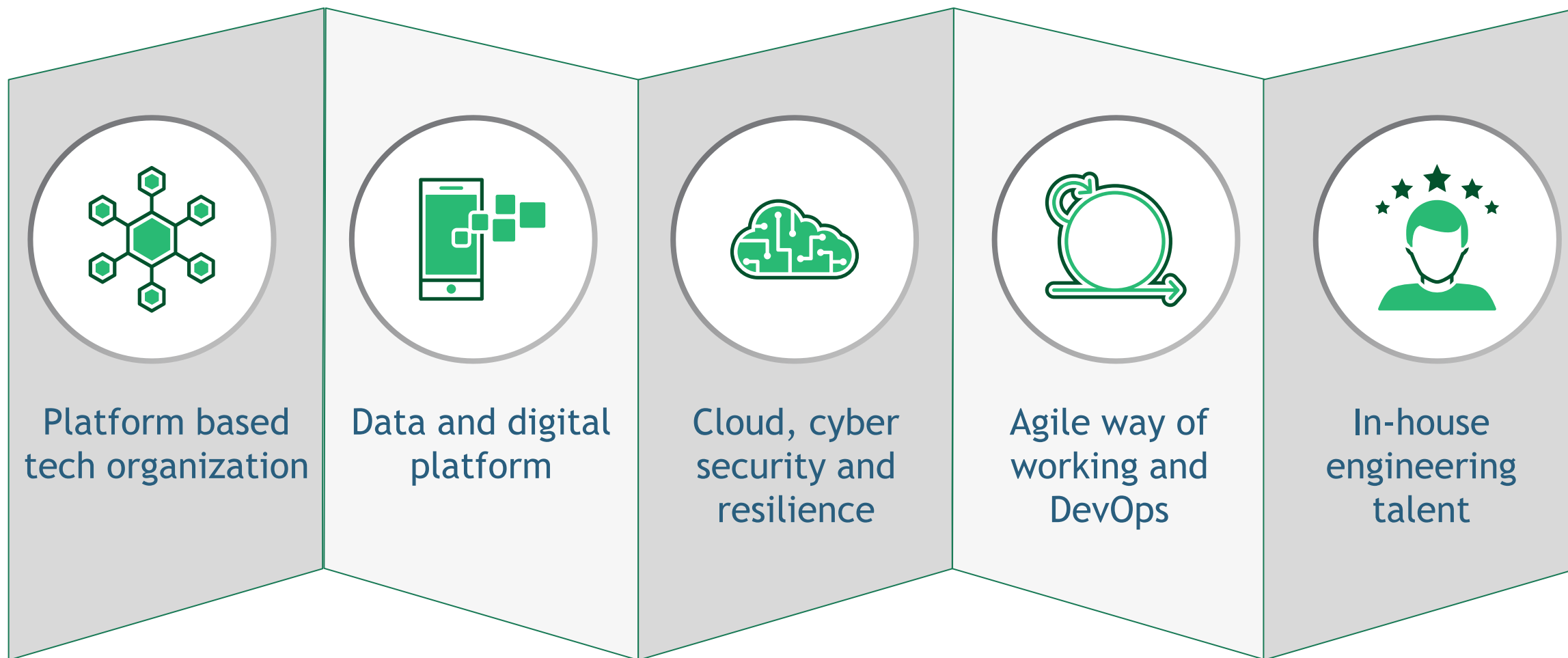
10%

21%

## Deeper organizational interventions

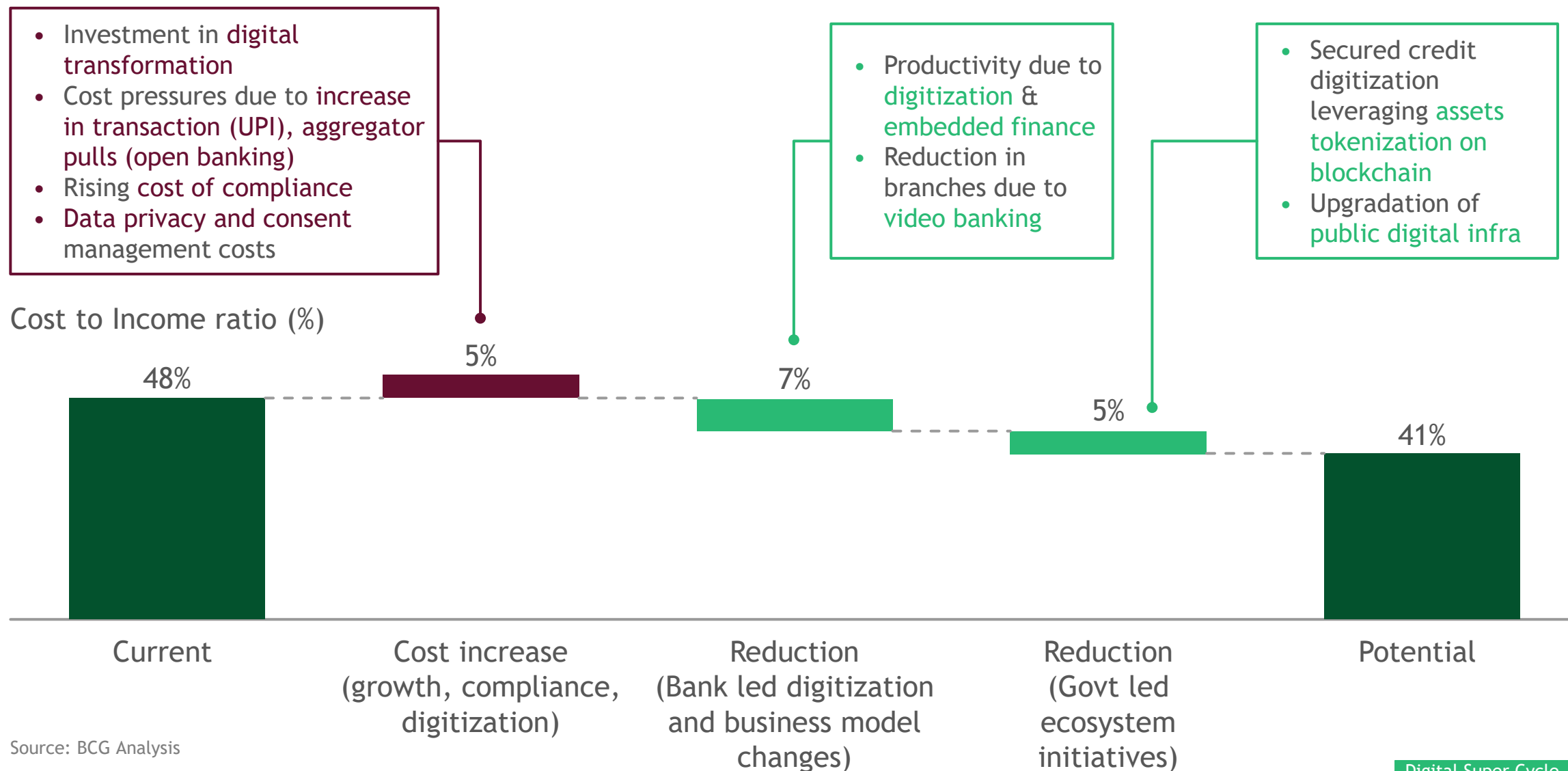


# Banks need cloud first tech architecture with in-house engineering and new agile ways of working



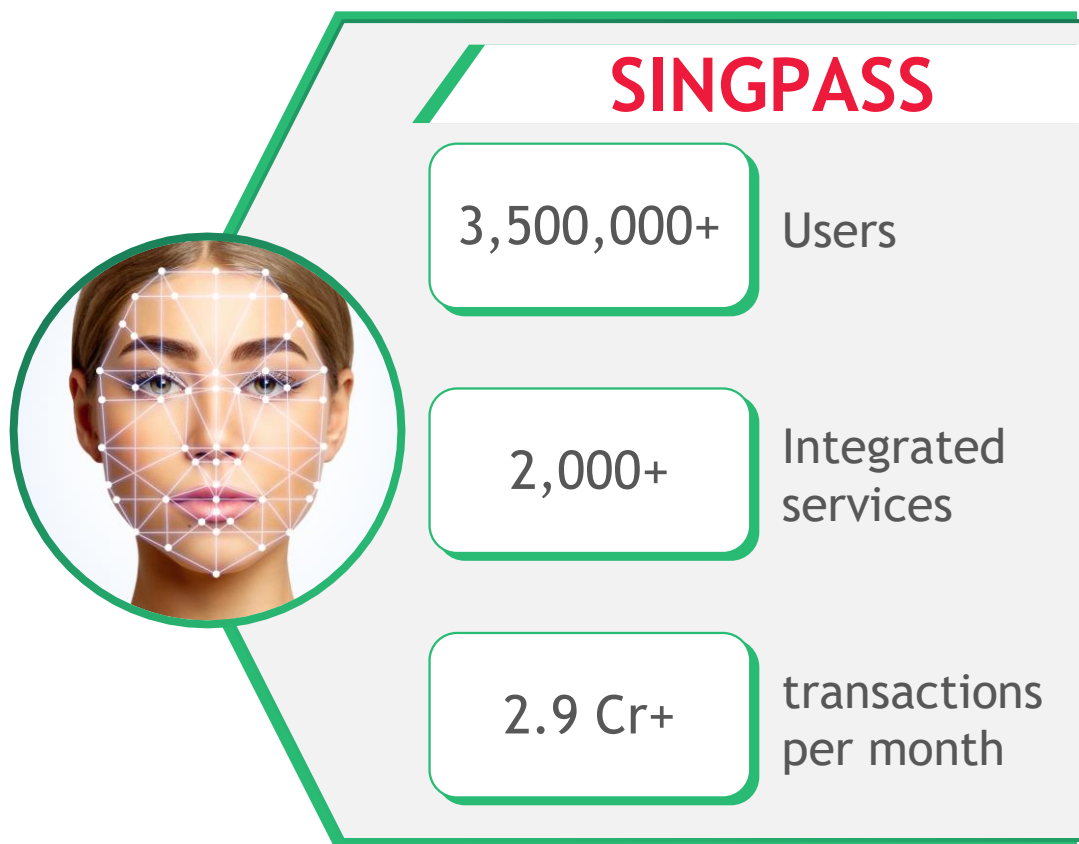


# With bolder digital transformations, banks can keep pace with evolving digital ecosystem, and achieve productivity excellence



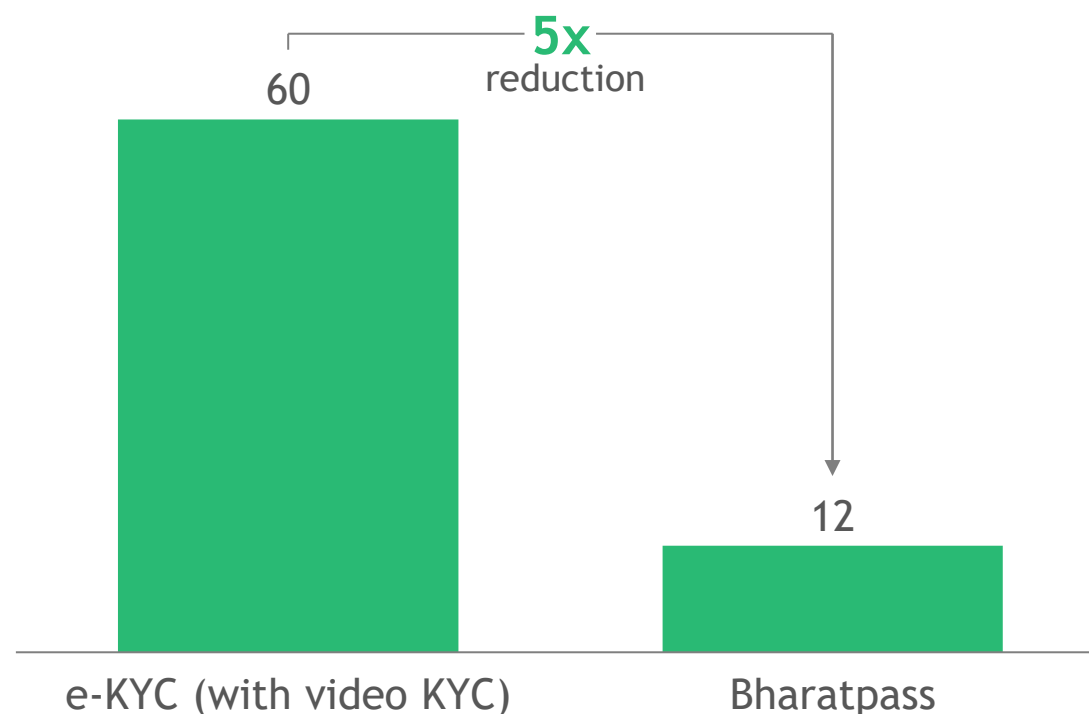
# Aadhar has to be upgraded to allow facial recognition based identity verification along lines of Singpass in Singapore

Facial recognition based digital identity system (e.g., Singapore)



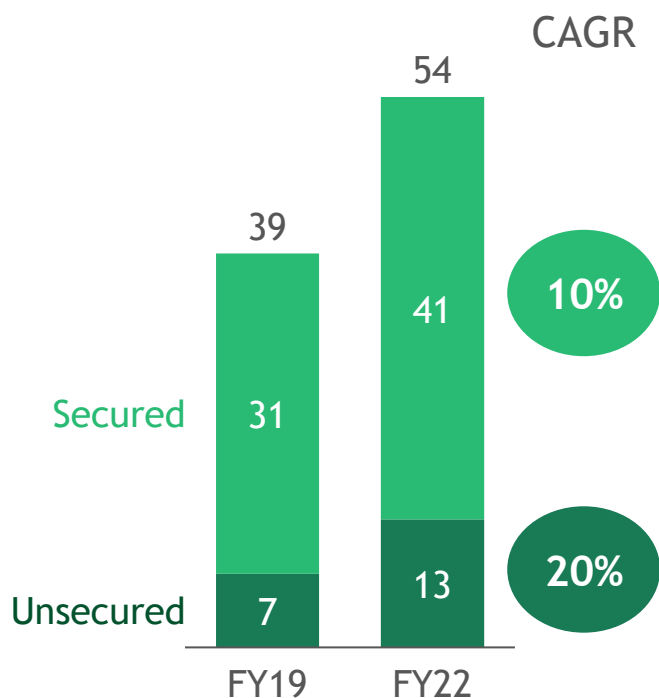
Public infrastructure like "Bharatpass" can dramatically reduce KYC cost

Effective all in KYC cost per customer (in Rs)

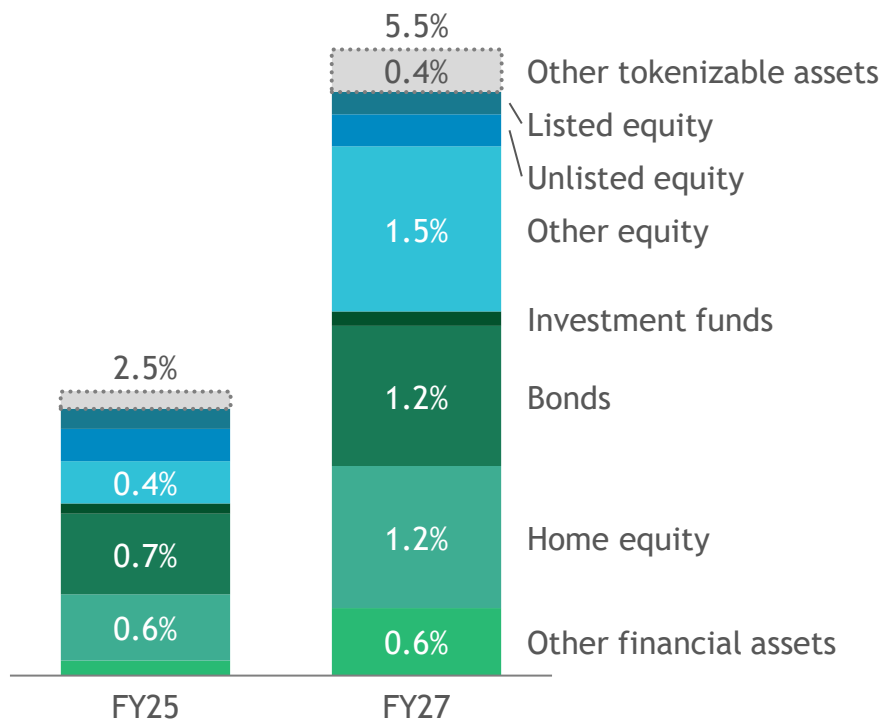


# India should embrace tokenization of real assets on blockchain to digitize secured lending in the same way as unsecured is today

Secured lending growing at half the pace of unsecured lending



Digital tokens of real assets to reach 5% of global GDP by 2027



Digital tokens to transform secured lending



Growth in secured credit portfolio



Reduction in COA

Note: Secured credit includes Auto, Gold, Commercial Vehicles, Commercial Equipment's, Property, Housing and Two-Wheeler; Unsecured credit includes Business, Consumer Credit Cards, MFI and Personal Loans  
 Source: CIBIL, FIBAC Trends and Benchmarks 2022; Relevance of on-chain asset tokenization in Crypto-Winter - BCG report; BCG Analysis

# Banks should be supported by tax incentives for investments in innovation like other industries

India provides various benefits to few industries (including R&D)



Pharma








Cold Chain



IFSC

Globally research and development allowances are industry agnostic and allow to banks also

Non-Exhaustive

Tax Credits	 <p>Upto 20% of expense allowed as tax credit</p>
	 <p>13% of expense allowed as tax credit</p>
	 <p>5% to 30% of expense allowed as tax credit<sup>1</sup></p>
Lower Rates	 <p>64% lower tax rate on income from IP<sup>2</sup></p>
Higher Dedn	 <p>2.5x deduction of R&amp;D spends</p>

1. 30% below EUR 100 Mn and 5% portion exceeding EUR 100Mn 2. from 25.8% to 9%  
Source BCG Analysis





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