



# 34<sup>th</sup> ABA ANNUAL CONFERENCE INDIAN BANKING: EMERGING LANDSCAPE

16 NOVEMBER 2017

A large background image of the Taj Mahal in Agra, India, is shown. The image is partially obscured by a large, semi-transparent teal triangle that points towards the bottom left. The name 'Tejpal Sengupta' is written in white text on the teal triangle.

Tejpal Sengupta

Knowledge Partner:



# India is a country full of cultures, color, and contrast...a story better told through pictures



# The contrast is even more discernible as one looks at the macro picture

One of the fastest growing large economy –  
**7.1%** GDP growth in 2016



yet increasing disparity of income and wealth –  
**~75%** wealth held by **10%** population

**~92%** mobile penetration



Around **60%** of the population with access to formal banking

Strong savings culture with household savings at **~60%** of gross savings



however, only **40%** of that allocated to financial assets

Huge demographic dividend – **~65%** of the population below 35 years



which **could turn to be the biggest challenge**, if sufficient jobs are not created

Rapid technology innovation; **~US\$19bn** invested in tech start-ups in the last 2 years



yet **adoption** in the real-economy **remains slow**

Big reforms push in **Demonetization, GST, RERA** to improve business environment



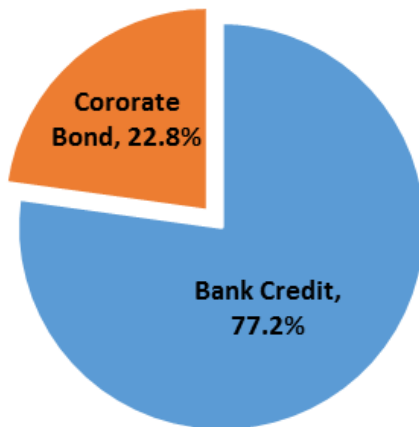
yet India moved up from **130 to 100** in ease of doing business in past one year

Source: Industry reports, RBI, TRAI

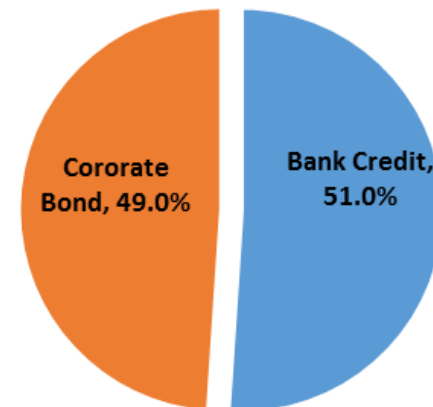
The banking industry has been the backbone of Indian economy

Other sources of financing are gaining momentum

Credit Market: Banks vs Corporate Bond (Sep-12)



Credit Market: Banks vs Corporate Bond (Sep-17)



Source: RBI, SBI Research

# Even with the recent asset quality issues, the long term prospects of the banking sector have never been better

## Driver(s)

## Opportunities



**Increasing digitalization**

- Last mile delivery of banking solutions
- Ability to bring unorganized sector within the fold of formal banking on the back of better data



**Emergence of a globally mobile, affluent and aspirational urban middle class**

- Wealth management solutions
- Global asset management opportunity



**Increasing urbanization and societal shift towards nuclear family units**

- Financial planning solutions
- Insurance and pension products



**Growing global linkages**

- Serving the growing trade corridors
- Expanding international reach through serving our clients in regions they operate in



**Big infrastructure push**

- Knock-on economic development
- Financing the infrastructure projects and the associated value chain itself



# Increasing digitalization of the economy is creating opportunities for banks to take affordable banking solutions right up to the masses

## Drivers

## Opportunities

### INCREASING DIGITALIZATION IN RURAL INDIA

3 in every 4 rural adults now own a mobile phone

### UNIQUE DIGITAL IDENTIFY IN AADHAAR

150mn e-KYC verified accounts in past three years

### ONE OF THE BEST PAYMENT STACK IN THE WORLD

Near-zero transaction costs

### BANK-ACCOUNT LINKED PDS AND SUBSIDY PAYMENTS

78% households ration cards linked to Aadhaar

- Provide last mile banking solution via digital delivery, and partnering with Fintechs
- Realize true financial inclusion in reaching those who live at the fringes of society
- Bring SMEs to the formal financing world via alternative data, holistic financial solutions etc.

Source: Industry reports, TRAI, News Reports

# Emergence of a globally mobile, affluent and aspirational urban middle class will create more and more opportunities in wealth management

## Drivers

## Opportunities

**HIGHER DISPOSABLE INCOME**

~11% CAGR growth since 2014

**INCREASING AFFLUENT<sup>1</sup> HOUSEHOLD UNITS**

Number of affluent household to double in the next 10 years

**MORE GLOBALLY MOBILE POPULATION**

Number of Indians travelling abroad has gone up 2.5 times in the last 10 years

- Wealth management solution
- Global asset management opportunity

1. Affluent household income > INR 10 lakhs at 2015 prices  
Source: Tradingeconomics, News Reports

# Increasing urbanization and nuclearization of traditionally-joint family units will create a need for formal financial planning aided by banks

## Drivers

## Opportunities

### INCREASING URBANIZATION TREND



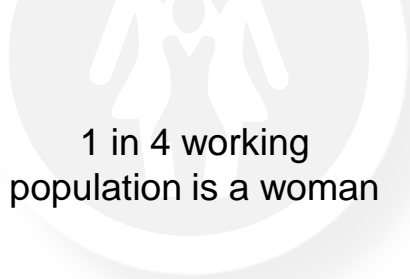
One-third population now reside in urban sector, expected to increase to 50% by 2050

### INCREASING NUCLEARIZATION OF TRADITIONALLY-JOINT FAMILY UNITS



7 in 10 household units are nuclear now, expected to increase to 80% by 2025

### MORE WOMEN IN THE LABOR FORCE



1 in 4 working population is a woman

- Financial planning solutions e.g. savings products, retirement solutions etc.
- Affordable insurance and pension products for the newly formed financially-independent family units



# Increasing urbanization and nuclearization of traditionally-joint family units will create a need for formal financial planning aided by banks

## Drivers

### INCREASING URBANIZATION TREND

| India's rate of Urbanization |      |      |      |         |
|------------------------------|------|------|------|---------|
| Year                         | 2001 | 2011 | 2014 | 2050(P) |
| Urban Population             | 286  | 337  | 410  | 814     |
| % In total Population        | 28%  | 31%  | 32%  | 50%     |

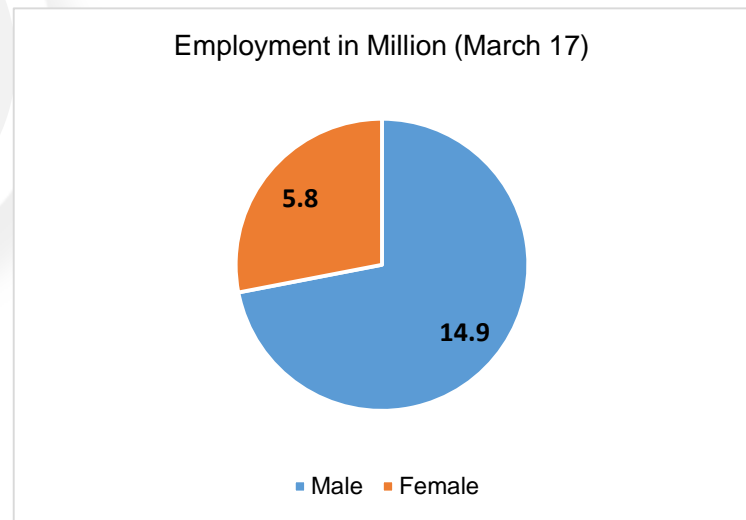
Source: Census 2011, World Urbanization Prospects 2014

### INCREASING NUCLEARIZATION OF TRADITIONALLY-JOINT FAMILY UNITS

| Households by number of married couples in the household(% share) |      |
|---|------|
| No married couple   | 11.6 |
| 1 married couple  | 70.2 |
| 2 married couples   | 14.1 |
| 3 married couples   | 3.2  |
| 4 married couples   | 0.7  |
| 5 married couples & above   | 0.2  |

Source: Census 2011

### MORE WOMEN IN THE LABOR FORCE



Source: Labour Bureau

# Maturing and increasingly global corporate sector creating opportunities for banks to serve the growing trade corridors and expand internationally

## Driver

### INCREASING CONTRIBUTION OF INDIA IN GLOBAL GDP

7% share in 2017, expected to increase to 9% in 2022

### RISING OUTWARD FOREIGN DIRECT INVESTMENT

US\$1.3bn in August 2017

## Opportunities

- Financing the trade corridors of India with Asia and other developed markets
- Expanding international reach through serving our clients in regions they operate in

~US\$1.5tn infrastructure investments are planned over the next 10 years, creating an opportunity to finance and facilitate the capital for these projects

**Driver**

**Opportunities**

**~USD 1.5tn PLANNED INFRASTRUCTURE INVESTMENT<sup>1</sup> OVER THE NEXT 10 YEARS**



- Knock-on economic development
- Financing the infrastructure projects and the associated value chain itself

1. Total estimated investment of US\$1.1tn has been announced till 25 October 2017  
Source: Public Disclosures, News Reports

There are a number of questions the banking sector will collectively need to find answers to, to be able to act on these opportunities



- 1 How best to leverage existing infrastructure for the last mile connectivity e.g. partnering with Telecoms, Fintechs, other FS product distributors?
- 2 Whether to compete or collaborate with Fintechs?
- 3 What will be digital and operational capabilities needed to serve our customers well?
- 4 What proactive steps can we take to deliver the workforce of the future, and to ensure that organizations realize the full opportunities of digital revolution?
- 5 How would the regulations pan out and what would be the implications on bank strategies?