

**34<sup>th</sup> ABA Conference**  
**'Indian Banking: Emerging Landscape'**  
**Talking Points for DMD (IB): Prepared by ERD**

**SLIDE 1**

India is one of the most multi-lingual places in the entire world. According to 2011 census of India, there were more than 1,600 languages being spoken across the length and breadth of the country. Majority of these languages can be identified as dialects. India has 22 officially recognized languages, in addition to different dialects.

India is also a land of many festivals, the festival of Colors- Holi, festival of lights-Diwali, Durga Puja, etc. The four major religions in India are Hinduism, Sikhism, Jainism and Buddhism. It also has the second highest population of Muslims in the world, next only to Indonesia. The Taj Mahal one of the wonders in India is not only a symbol of the country but also a symbol of Muslim Heritage. Apart from that there are other heritage sites spread across the geography. There are 36 (28 cultural, 7 natural and 1 mixed) World Heritage Sites in India that are recognised by the United Nations Educational, Scientific and Cultural Organization (UNESCO) as of August 2017, with Kaziranga national Park in Assam, Humayun's Tomb, Red Fort and Qutub Minar in Delhi, Ajanta, Ellora and Elephant Caves in Mumbai, Great Living Chola Temples including the famous Brihadeeswarar Temple in Tamil Nadu and Hill Forts of Rajasthan among others.

There are close to 111 various dance forms in the country.

That being said, India is known for its unity in diversity and has progressed much with the benefits of technological developments reaching the grassroots.

**SLIDE 2**

(1) Despite global slowdown, India has continued to be one of the fastest growing economy in the world with GDP growth of 7.1% in 2016-17. To support the growth, Government has taken a number of structural reforms like demonetisation, implementation of GST and Real Estate Regulatory Agency (RERA) etc., which would have a number benefits to the economy like formalisation of economy in the long run.

While, the income disparity of income and wealth the country is facing as 75% of country's total wealth is held by 10% of population. The Rising inequality may lead to slow the poverty reduction, undermine the sustainability of economic growth, and drive inequalities in health, education and life chances. To counter it, progressive taxation and increasing spending on public services such as education, health and social protection, is also important to reduce income inequality in India.

(2) Mobile phone penetration in India has been increasing and is at 92%. Three important factors which determine the adoption of digital tools are trust, usability and social collaboration. It is expected that in coming years the figure will go up.

(3) Even though 60% of India's gross saving is from household sector but Indian households have increasingly favoured physical savings over financial assets. Nearly 60% of aggregate annual household savings flow into physical assets. Studies show that inflation hedging motives appear to play an important role which drives household saving specifically towards investments in gold and real estate over financial assets.

(4) Currently 65% of the total population in India is below 35 years. This proves both opportunity and challenges at the same time. The U.S. Census Bureau predicts that India will surpass China as the world's largest country by 2025, with a large proportion of those in the working age category. Over the next two decades the continuing demographic dividend in India could add about two percentage points per annum to India's per capita GDP growth. Extreme actions are needed to take care of future basic minimum living standards including food, water and energy. India's population in 2050 is projected to be 1.69 billion people.

There is a strategic urgency to put in place policies which take advantage of the demographic dividend for most countries. The urgency to put in place appropriate policies is magnified by the reality that what follows the "demographic dividend" is a time when the dependency ratio begins to increase again. Inevitably the population bubble that made its way through the most productive working years creating the "demographic dividend" grows old and retires. With a disproportionate number of old people relying upon a smaller generation following behind them the "demographic dividend" becomes a liability. With each generation having fewer children population growth slows, stops, or even goes into reverse. This is currently seen most dramatically in Japan with younger generations essentially abandoning many parts of the country. Other regions, notably Europe and North America, will face similar situations in the near future with East Asia to follow after that.

India is expected to reap demographic dividend till 2040 (World Bank 2012). The benefits of demographic dividend come from the fact that as the share of working-age population rises; they get work, earn incomes and save part of that income. As a result, savings as a proportion of GDP rises. If the skill challenge is not met within the next decade, there is a risk that India may be unable to sustain growth in non-agricultural output and non-availability of skilled manpower may result in machines replacing labour on a large scale.

(5) Market valuation of Indian startups has grown significantly over the past four years, as per a recent study, "Entrepreneurial India," by the IBM Institute for Business Value. However, another study by Oxford Economics found that 90% of Indian startups fail within the first five years. And the most common reason for failure is lack of innovation — 77% of venture capitalists surveyed believe that Indian startups lack new technologies or unique business models. Other reasons cited for failure include lack of skilled workforce and funding, inadequate formal mentoring and poor business ethics. So, the success of start-ups in India depends on the adoption in the real economy.

(6) The big structural reforms has pushed the Country 30 places ahead to 100 rank in terms of ease of doing business ranking this year. The World Bank has attributed the change in India ranking to the sustained business reforms undertaken by the government over three years. GST, law on bankruptcy and insolvency, easy available of credit, Land acquisition are the factors which attributed this improvement. Government is aiming to get into first 50 rank in ease of doing business in next two years. But to achieve this States have to play a major role.

**SLIDE 3:** The banking industry has been the backbone of Indian economy. The bank credit size was around 77% of the total credit market in 2011. With the development of the market, the other sources like corporate bond market is gaining momentum. Now, the share of bank credit is 51% of the total credit market in India ( total size \$131 bn)

## **SLIDES 4 to 8**

### *Drivers*

**Increasing Digitalization:** Credit + debit transaction at PoS terminals got great impetus post demonetization as banks installed around 1.3 million PoS terminals during Nov'16-Sep'17 period. Mobile Banking transactions volume increased from 73 million in Oct'16 to 113 million in Sep'17.

**Urban Middle Class:** The middle class—which was the promise for many companies since the mid-1990s—has been growing but has never been the largest segment. But by 2025, the 'affluent' consumer segment will become the largest, accounting for about 40% of all Indian consumption, up from about 26% in 2015). This 'affluent' segment resembles the global middle-class consumer, and would herald the rise of the middle class in its most literal sense for the first time.

**Increasing Urbanization:** Population residing in urban areas in India increased from 11.4% (1901 census) to 31.16% (2011 census). About 40% of India's population will live in urban areas by 2025, accounting for more than 60% of the total consumption. As per World Bank, India, along with China, Indonesia, Nigeria, and the United States, will lead the world's urban population surge by 2050.

**Rise in the nuclear family set-up:** Today, nearly 70% of Indian households have a nuclear construct, representing a 13% increase over the past two decades. While this has many social implications, from a pure consumption point of view, it presents a unique opportunity—for the same income level, nuclear families spend 20-30% higher per person than joint families.

**Growing Global Linkages:** India's trade (exports + imports) value increased from merely \$25 billion in 1980 to \$650 billion in 2016.

**Big Infrastructure Push:** Government has announced the target of Rs 25 trillion (\$376 billion) investment in infrastructure over a period of three years, which will include Rs 8 trillion (\$120 billion) for developing 27 industrial clusters and an additional Rs 5 trillion (\$75 billion) for road, railway and port connectivity projects.

## SLIDE 5

**Payment Stack:** The stack is a new technology paradigm that is scalable to handle massive data inflows, and is poised to enable entrepreneurs, citizens and governments to interact with each other transparently. It is an open system to electronically verify businesses, people and services. It gives the data to the concerned individual and lets him decide who he can share the data with. The smartphone will be the delivery platform for services such as digital payments, identification and digital lockers.

## SLIDE 9

Infrastructure sector is the backbone of any economy and road sector is a critical infrastructure **for economic development of a country. It influences the pace, structure and pattern of development.**

- New investments announced by the government more than doubled to \$140 bn (Rs 9140 bn) in FY17 from around \$70 bn (Rs 4500 bn) during FY13 and FY14. Major new investments were announced in the sectors such as Roads, Railway, Power, Irrigation etc.
- A total of 10,410 new projects involving an aggregate projex of \$180 bn (Rs 11813 bn) were announced in FY17.

## **Road Sector –**

- In last year alone Road sector has declared investment of \$30 bn (Rs 1913 bn). As compared to \$25 bn (Rs1645 bn) in FY16.
- Govt. recently approved \$107 billion (Rs 7 trillion) road construction plan, including Bharatmala Pariyojana with an \$82 billion (Rs 5.35 trillion) outlay for 34,800 kms with NHAI likely to spend \$24 billion (Rs 1.57 trillion) for 48,877 km of roads.

## **Port -**

- Indian Ports saw the highest capacity addition in FY17 at 101 mtpa taking total capacity at Indian ports to 1066 mt as on March 17.
- Expected capacity addition at all major to grow by 5-6% CAGR in the next five years between fiscals 2017 and 2022, adding 275-325 MT of capacity.
- Initiation of an aggressive port infrastructure programme named as 'Sagarmala' with an objective of rapid up-gradation of port connectivity and modernization to ensure efficient and cost effective evacuation of cargos. Under Sagarmala project, 415 projects have been identified with investment of \$125 bn (Rs 8000 bn).

## **Renewable Energy –**

- Ambitious target capacity of 175 GW RE. Of this solar energy generation capacity is at 100 GW (60 GW ground based and 40 GW roof top) and wind energy is at 60 GW by 2022.
- India has an estimated renewable energy potential of about 900 GW from commercially exploitable sources.

## **Railways**

- Indian Railways (IR) targeting \$130 billion (Rs 8.56 trillion) investments over the next 5 years, IR is set for a structural change. While High Speed Trains, Metros, Dedicated Freight Corridors (DFC) and Redevelopment of stations etc.
- Mumbai-Ahmedabad High Speed Rail (MAHSR) project (popularly known as Bullet Train) is one of the big infra project with cost of \$17 bn (Rs1100 bn).

## **SLIDE 10**

1. The financial inclusion policy recognises that digital mode using the 4G LTE technology is the most cost effective in terms of increasing the coverage of financial services. However this does not preclude that other modes of delivery are not useful.
2. In India the financial inclusion will be bank led. Hence telecom/technology companies cannot undertake financial services business. Thus for orderly development of Fintechs collaboration is the only option.
3. Bank will have to assess the requirement of the customers which is changing rapidly. This will require investing in analytic tools that make use of big data. The banks will have to invest in cyber security to instil confidence to migrate to digital mode of banking. Banks may have to collaborate to address privacy issues that may crop up as digital banking becomes more widespread.

4. HR capability need to upgrade given the challenges of the digital revolution. Employees need to be educated about the rudimentary digital technology its nuances, its dangers and possible ways to misuse. Digital banking requires a different type of customer servicing which can only come if banks own staff is educated. Banks will also have to think about bringing talent laterally. This is particularly difficult in case of PSB.
5. There are two set of regulations. The first one is RBI mandated. RBI monetary policy statements give ample hints and are fairly predictable. But outside RBI there are a number of cases before the Constitutional Bench of the Supreme Court which may have a bearing on banks future business. Privacy being termed as Fundamental Right has wide ramifications. Bank need to ensure that their process are well structured so that reasonable restrictions as mandated in law are ensured.

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