FIBAC 2013

Mumbai, 12th August, 2013: The annual FICCI & IBA Banking Conference (FIBAC 2013) is being organized in Mumbai on 13th - 14th August on the theme "Productivity excellence in Indian banking". The Boston Consulting Group (BCG), the knowledge partner for FIBAC 2013, has prepared a report titled ***"Consistency, Quality and Resilience: The Next Frontier for Productivity Excellence".*** This report has been prepared with extensive research including surveys, conducted jointly with FICCI and IBA, of over 500 corporate customers and analysis of data obtained from 38 of the largest banks in the country.

Salient points of the FIBAC 2013 report:

- **A big thumbs up for Indian banks from their corporate clients**
  - At 21%, the advocacy score is among the best seen globally
  - High appreciation for quality or relationship management, branch distribution and flexibility

- **Industry feedback to banks: Improve operations and IT; Innovation is biggest weakness**
  - Improvement needed in operations quality viz. turnaround time, exception handling, innovation, customization. Innovation rated as the biggest weakness of Indian banks.
  - At 2% of revenue, IT expenditure of Indian banks is among lowest in the world
  - For every 1 customer facing person, Indian banks have 1.2 non customer facing persons. This should be less than half of this level (i.e. for every customer facing person, less than 0.5 non customer facing person).

- **Lenders do not get lion's share of wallet; transaction bank does**
  - The primary banks for corporate is the one who provides the main current account
  - Public sector is primary lender; it is not a primary transaction bank

- **Public sector has disproportionate exposure to traditional capital intensive industries**

- **Gold based lending by banks could help double the agriculture credit in India profitably**
  - Rs 4.2 trillion of additional credit possible in direct agri lending using gold as collateral

- **Banks paying heavy price for ignoring information analytics and IT based credit management**
  - Banks sit on massive data regarding customer transactions in core banking systems. This can be leveraged for early warning systems
  - In India, surrogate information has to be also used
  - Banks need to build in-house capability in credit scoring and early warning systems – not rely on externally purchased models
  - Information bureau has played a role in steady reduction in retail lending NPA. More aggressive adoption of credit bureau needed in MSME, agriculture and retail banking.

- **Restructuring of corporate debt (CDR mechanism) needs a major revamp**
  - Banks need capability to do deeper strategic due diligence of problem accounts to locate tough management actions needed for turn around
  - Need oversight mechanism to ensure management follows through on tough decisions in operational turn around

- **Despite introduction of digital channels, Indian bank branches are 10% more cluttered in 2013 compared to 2011**
  - Number of cash transactions per day per branch has gone up for all type of banks

- Banks need a fresh look at branch formats with more self–service and new technology based formats
- Digital adoption needs greater push as banks move into semi urban and rural areas

- **Electronic Point of Sale (POS) transactions a major weakness of Indian banking**
  - Share of POS transactions in total digital transactions remained flat between 2011 and 2013
  - Public sector has virtually abdicated its role in extension of card acceptance in merchant establishments. Penetration of POS acceptance very low in India
  - Banks need to take advantage of new technology and services from National Payment Corporation of India (NPCI) like RuPay and IMPS

- **Small businesses not adopting digital enough**
  - For Current Accounts holders, number of digital transactions were only 21% of total transactions as against industry average of 62%
  - In private sector banks, the number of cash and cheque transactions per Current Account increased between 20011 and 2013

- **Private Sector hit a plateau in digital adoption; PSU banks did 4 times better between FY '11 and FY '13**
  - 15% improvement in digital adoption in private sector banks as against 60% for public sector banks between 2011 and 2013
  - Digital adoption defined as ratio of digital transactions to non digital transactions (cash and cheque)
  - Digital adoption ratio in Private banks up to 2.3 in 2013 from 2 in 2011; PSU banks up to 1.6 in 2013 from 1 in 2011
  - Private sector banks need fresh thinking to move the needle in digital

- **The report expects Business Correspondent (BC) per branch to reach 10 by 2020 from 0.9 today**
  - Public Sector has a strong lead in BC channel
  - The "New" New banks, coming in with better technology, expected to take the lead in rapidly expanding their BC network

- **Public Sector bank reform needs urgent attention**
  - New bank licensees would put enormous competitive pressure and accelerate erosion of market share and profitability. We have a 3 year window.
  - Current massive hiring pattern would create complex challenges in next decade especially compounded if growth rate slows
  - Talent shortage is a critical issue. Banks need lateral induction of talent.
  - Outsourcing should be evaluated for noncore functions

Mr K R Kamath, Chairman, Indian Banks' Association (IBA) and Chairman and Managing Director, Punjab National Bank (PNB)speaking on the occasion of curtain raiser for the event said that "These are interesting times for Indian banking industry. We have significant challenges and lots of exciting opportunities. Indian banking industry will come out stronger through this phase of its evolution". **Mrs V R Iyer, Chairperson of FICCI's Banking and Financial Institutions Committee and Chairperson and Managing Director of Bank of India** said on the occasion that "Indian corporate clients have given a strong positive endorsement to Indian banks and have highlighted issues on operations and technology that we need to look at carefully". In a first of its kind, FICCI had facilitated the survey of over 500 of its members to get a structured feedback on Indian banks and identify areas of improvement. Speaking on the occasion, **Saurabh Tripathi,**

Partner & Director, BCG, mentioned that "Contrary to widespread negative sentiments, our research found many reasons to cheer the achievements of banking industry". Indian banking industry has improved digital adoption, reduced reliance on wholesale debt, decreased its leverage, and maintained cost income ratio at about 45% which is among the best in the world.

About the organizers:

Federation of Indian Chambers of Commerce and Industry (FICCI), established in 1927, is India's largest and oldest apex chamber with an indirect membership of over 2,50,000 companies, from various regional chambers of commerce, from the corporate sector, both private and public, including SMEs and MNCs. FICCI works closely with Central and State governments and regulatory bodies for policy change and is the voice of India's business and industry. For more information please visit www.ficci.com.

Indian Banks' Association (IBA) is the premier service organization of the banking industry in India. Its members comprise of almost all the Public, Private, Urban co-operative and Foreign banks having offices in India, developmental financial institutions, federations, merchant banks, housing finance corporations, asset reconstruction companies and other financial institutions.

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization.
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