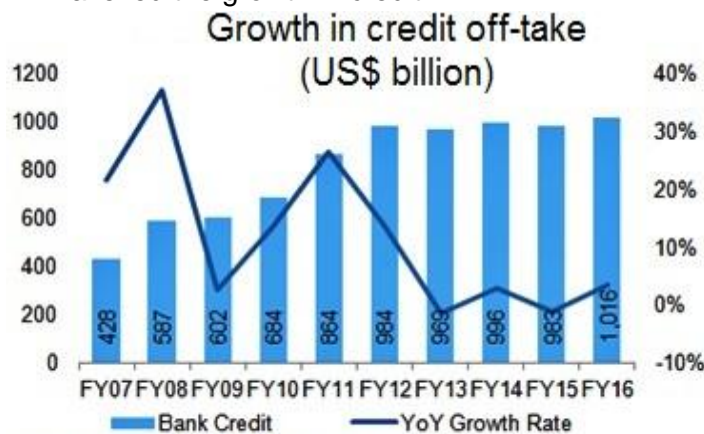


Banking Sector in India

Healthy Growth of Banking Sector - Credit

- Credit off-take has been surging ahead over the past decade, aided by strong economic growth, rising disposable incomes, increasing consumerism and easier access to credit.
- In March FY16, total credit extended surged to US\$ 1,016 billion.
- Demand has grown for both corporate and retail loans; particularly the services, real estate, consumer durables and agriculture allied sectors have led the growth in credit.



Source: Reserve Bank of India (RBI), TechSci Research

Notes: YoY – Year on Year

India and China are potentially large markets, so we want to grow in what we call the sweet spots of the market, such as staffing with added value.

Jacques van den Broek
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Introduction

As per the Reserve Bank of India (RBI), India’s banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. The central bank granted in-principle approval to 11 payments banks and 10 small finance banks in FY 2015-16. RBI’s new measures may go a long way in helping the restructuring of the domestic banking industry.

Market Size

The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign

banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control nearly 80 percent of the market, thereby leaving comparatively much smaller shares for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones. Standard & Poor’s estimates that credit growth in India’s banking sector would improve to 11-13 per cent in FY17 from less than 10 per cent in the second half of CY14.

Investments/developments

Key investments and developments in India’s banking industry include:

- RBL Bank Limited, an Indian private sector bank, has raised Rs 330 crore (US\$ 49.6 million) from a UK-based development finance institution CDC Group Plc, which will help RBL to strengthen the capital base to meet future requirements.
- The State Bank of India (SBI) signed an agreement with The World Bank for a Rs 4,200 crore (US\$ 625 million) credit facility, aimed at financing grid connected rooftop solar photovoltaic (GRPv) projects in India.
- JP Morgan Chase, the largest bank in United States by assets, plans to expand its operations in India by opening three new branches in Delhi, Bangalore and Chennai in addition to its existing branch in Mumbai.
- Canada Pension Plan Investment Board (CPPIB), an investment management company, has bought a large stake in Kotak Mahindra Bank Ltd from Japan-based Sumitomo Mitsui Banking Corporation.
- India’s first small finance bank called the Capital Small Finance Bank has started its operations by launching 10 branch offices in Punjab, and aims to increase the number of branches to 29 in the current FY 2016-17.
- FreeCharge, the wallet company owned by online retailer Snapdeal, has partnered with Yes Bank and MasterCard to launch FreeCharge Go, a virtual card that allows users to pay for goods and services at online shops and offline retailers.
- Exim Bank of India and the Government of Andhra Pradesh has signed a Memorandum of Understanding (MoU) to promote exports in the state.

- Kotak Mahindra Bank Limited has bought 19.9 per cent stake in Airtel M Commerce Services Limited (AMSL) for Rs 98.38 crore (US\$ 14.43 million) to set up a payments bank. AMSL provides semi-closed prepaid instrument and offers services under the 'Airtel Money' brand name.
- Ujjivan Financial Services Ltd, a microfinance services company, has raised Rs 312.4 crore (US\$ 45.84 million) in a private placement from 33 domestic investors including mutual funds, insurance firms, family offices and High Net Worth Individuals (HNIs).
- India's largest public sector bank, State Bank of India (SBI), has opened its first branch dedicated to serving start-up companies, in Bengaluru.
- Global rating agency Moody's has upgraded its outlook for the Indian banking system to stable from negative based on its assessment of five drivers including improvement in operating environment and stable asset risk and capital scenario.
- Lok Capital, a private equity investor backed by US-based non-profit organisation Rockefeller Foundation, plans to invest up to US\$ 15 million in two proposed small finance banks in India over the next one year.
- The Reserve Bank of India (RBI) has granted in-principle licences to 10 applicants to open small finance banks, which will help expanding access to financial services in rural and semi-urban areas.
- IDFC Bank has become the latest new bank to start operations with 23 branches, including 15 branches in rural areas of Madhya Pradesh.
- The RBI has given in-principle approval to 11 applicants to establish payment banks. These banks can accept deposits and remittances, but are not allowed to extend any loans.
- The Bank of Tokyo-Mitsubishi (BTMU), a Japanese financial services group, aims to double its branch count in India to 10 over the next three years and also target a 10 per cent credit growth during FY16.
- The RBI has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and said white label ATMs can now tie up with any commercial bank for cash supply.
- The RBI has allowed Indian alternative investment funds (AIFs), to invest abroad, in

order to increase the investment opportunities for these funds.

- Bandhan Financial Services raised Rs 1,600 crore (US\$ 234.8 million) from two international institutional investors to help convert its microfinance business into a full service bank. Bandhan, one of the two entities to get a banking licence along with IDFC, launched its banking operations in August 2015.

Government Initiatives

The government and the regulator have undertaken several measures to strengthen the Indian banking sector.

- In July 2016, the government allocated Rs 22,915 crore (US\$ 3.41 billion) as capital infusion in 13 public sector banks, which is expected to improve their liquidity and lending operations, and shore up economic growth in the country.
- The Reserve Bank of India (RBI) has released the Vision 2018 document, aimed at encouraging greater use of electronic payments by all sections of society by bringing down paper-based transactions, increasing the usage of digital channels, and boosting the customer base for mobile banking.
- The Reserve Bank of India (RBI) has issued guidelines for priority sector lending certificates (PSLCs), according to which banks can issue four different kinds of PSLCs—those for the shortfall in agriculture lending, lending to small and marginal farmers, lending to micro enterprises and for overall lending targets – to meet their priority sector lending targets.
- The Reserve Bank of India (RBI) has allowed additional reserves to be part of tier-1 or core capital of banks, such as revaluation reserves linked to property holdings, foreign currency translation reserves and deferred tax assets, which is expected to shore up the capital of state-run banks and privately owned banks by up to Rs 35,000 crore (US\$ 5.14 billion) and Rs 5,000 crore (US\$ 734 million) respectively.
- Scheduled commercial banks can grant non-fund based facilities including partial credit enhancement (PEC), to those customers, who do not avail any fund based facility from any bank in India.

- To reduce the burden of loan repayment on farmers, a provision of Rs 15,000 crore (US\$ 2.2 billion) has been made in the Union Budget 2016-17 towards interest subvention.
- Under Pradhan Mantri Jan Dhan Yojna (PMJDY), 250.5 million accounts have been opened and 192.2 million RuPay debit cards have been issued as of October 12, 2016. These new accounts have mustered deposits worth almost Rs 44,480 crore (US\$ 6.67 billion).
- The Government of India is looking to set up a special fund, as a part of National Investment and Infrastructure Fund (NIIF), to deal with stressed assets of banks. The special fund will potentially take over assets which are viable but don't have additional fresh equity from promoters coming in to complete the project.
- The Reserve Bank of India (RBI) plans to soon come out with guidelines, such as common risk-based know-your-customer (KYC) norms, to reinforce protection for consumers, especially since a large number of Indians have now been financially included post the government's massive drive to open a bank account for each household.
- To provide relief to the state electricity distribution companies, Government of India has proposed to their lenders that 75 per cent of their loans be converted to state government bonds in two phases by March 2017. This will help several banks, especially public sector banks, to offload credit to state electricity distribution companies from their loan book, thereby improving their asset quality.
- Government of India aims to extend insurance, pension and credit facilities to those excluded from these benefits under the PradhanMantri Jan DhanYojana (PMJDY).
- To facilitate an easy access to finance by Micro and Small Enterprises (MSEs), the Government/RBI has launched Credit Guarantee Fund Scheme to provide guarantee cover for collateral free credit facilities extended to MSEs upto Rs 1 Crore (US\$ 0.15 million). Moreover, Micro Units Development & Refinance Agency (MUDRA) Ltd. was also established to refinance all Micro-finance Institutions (MFIs), which are in the business of lending to micro / small business entities engaged in manufacturing, trading and services activities up to Rs 10 lakh (US\$ 0.015 million).

Road Ahead

The Indian economy is on the brink of a major transformation, with several policy initiatives set to be implemented shortly. Positive business sentiments, improved consumer confidence and more controlled inflation are likely to prop-up the country's the economic growth. Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India's banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs.

Also, the advancements in technology have brought the mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and also upgrading their technology infrastructure, in order to enhance the customer's overall experience as well as give banks a competitive edge.

Many banks, including HDFC, ICICI and AXIS are exploring the option to launch contact-less credit and debit cards in the market shortly. The cards, which use near field communication (NFC) mechanism, will allow customers to transact without having to insert or swipe.

Exchange Rate Used: INR 1 = US\$ 0.0149 as on September 28, 2016

References: *Media Reports, Press releases, Reserve Bank of India, Press Information Bureau, www.pmjdy.gov.in, Union Budget 2016-17*