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FINANCIAL SERVICES

# Indian banks: performance benchmarking report

FY12 results

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## Basis of preparation

As of 30 March 2012, top 10 banks by market capitalization have been selected for the purpose of analysis in this report.

All the data and statistics in the publication are primarily based on the annual reports published by respective banks besides analyst presentation, press releases and earnings call transcripts, wherever relevant. All aggregate numbers for the banks in study are either the sum of numbers for individual banks or the average of numbers for all the banks, as appropriate. Some of the ratios — which either have inconsistent definitions or have not been disclosed by the banks — have been calculated using formulas across banks. KPMG International or any other KPMG member firm has no role in ranking these banks in any way and their mention here is not an endorsement of these banks.

The top 10 banks selected for the analysis in this publication, as based on the market capitalization as of 30 March 2012, are: State Bank of India (SBI), Punjab National Bank (PNB), Canara Bank, the Bank of India (BoI), Bank of Baroda (BoB), ICICI Bank, HDFC Bank, Axis Bank, Kotak Mahindra Bank (KMB) and IndusInd Bank (IIB).

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## 01

## Performance at a glance

	SBI		PNB		BoB		Canara Bank		BoI	
	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12
Net interest income (INR billion)	325	433	118	134	88	103	77	77	78	83
Other income (INR billion)	158	144	36	42	28	34	28	29	26	33
Profit before tax (INR billion)	150	185	66	70	57	60	50	41	35	36
Profit after tax (INR billion)	83	117	44	49	42	50	40	33	25	27
Total assets (INR billion)	12,237	13,355	3,783	4,582	3,584	4,473	3,359	3,742	3,512	3,845
Total business (INR million)	16,907	19,112	5,500	6,734	5,341	6,722	5,047	5,595	5,150	5,697
Advances (INR billion)	7,567	8,676	2,421	2,938	2,287	2,874	2,113	2,325	2,162	2,515
Deposits (INR billion)	9,339	10,436	3,129	3,796	3,054	3,849	2,934	3,271	2,989	3,182
Net interest margin	3.32	3.85	3.96	3.84	3.12	2.97	3.12	2.50	2.92	2.52
Cost to income ratio	47.60	45.23	41.27	39.75	39.87	37.55	42.05	44.02	48.49	42.47
Return on assets	0.71	0.88	1.34	1.19	1.33	1.24	1.42	0.95	0.82	0.72
Return on net worth	12.72	13.95	20.61	17.56	20.16	18.22	20.09	14.47	14.37	12.77
Capital adequacy ratio	11.98	13.86	12.42	12.63	14.52	14.67	15.38	13.76	12.17	11.95
Tier I	7.77	9.79	8.44	9.28	9.99	10.83	10.87	10.35	8.33	8.59
Current account savings account ratio <sup>1</sup>	49.82	46.64	38.45	36.20	34.36	33.18	29.21	25.19	29.18	34.25
Cost of funds	5.39	6.15	4.57	5.62	4.67	5.64	5.37	6.72	4.57	5.58
Gross non-performing assets	3.28	4.44	1.79	2.93	1.36	1.53	1.45	1.73	2.23	2.34
Net non-performing assets	1.63	1.82	0.85	1.52	0.35	0.54	1.10	1.46	0.91	1.47
Provision coverage ratio	64.95	68.10	73.21	62.73	85.00	80.05	72.99	67.59	72.18	64.18

<sup>1</sup> Current account saving account ratio for PNB bank has been calculated by formula (current account deposits + saving bank deposits)/total deposits

All the numbers are in percent unless otherwise stated.

Source: All the statistics are based on the annual reports, press releases, earning call transcripts and investor presentations published by respective banks

	ICICI Bank		HDFC Bank		Axis Bank		KMB		IIB	
	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12
Net interest income (INR billion)	90	107	105	123	66	80	21	25	14	17
Other income (INR billion)	66	75	43	52	46	54	8	10	7	10
Profit before tax (INR billion)	68	88	58	75	51	63	12	16	9	12
Profit after tax (INR billion)	52	65	39	52	34	42	8	11	6	8
Total assets (INR billion)	4,062	4,736	2,774	3,379	2,427	2,856	509	657	456	576
Total business (INR billion)	4,420	5,092	3,686	4,421	3,316	3,899	586	776	605	774
Advances (INR billion)	2,164	2,537	1,600	1,954	1,424	1,698	293	391	262	351
Deposits (INR billion)	2,256	2,555	2,086	2,467	1,892	2,201	293	385	344	424
Net interest margin	2.64	2.73	4.25	4.22	3.65	3.59	5.20	4.70	3.47	3.33
Cost to income ratio	41.95	42.91	47.90	48.40	42.69	44.70	54.00	52.60	48.25	49.45
Return on assets	1.35	1.50	1.58	1.77	1.68	1.68	1.80	1.80	1.46	1.57
Return on net worth	9.35	10.70	15.47	17.27	17.84	18.60	12.04	13.65	14.28	16.97
Capital adequacy ratio	19.54	18.52	16.20	16.50	12.65	13.66	19.92	17.52	15.89	13.85
Tier I	13.17	12.68	12.23	11.60	9.41	9.45	17.99	15.74	12.29	11.37
Current account savings account ratio	45.10	43.50	52.70	48.40	41.10	41.60	30.00	32.00	27.15	27.30
Cost of funds	5.35	6.33	4.64	-	4.98	6.28	5.10	-	5.35	-
Gross non-performing assets	4.47	3.62	1.05	1.00	1.11	1.06	1.20	1.20	1.01	0.98
Net non-performing assets	1.11	0.73	0.19	0.18	0.29	0.28	0.50	0.60	0.28	0.27
Provision coverage ratio	76.00	80.40	82.51	82.38	80.90	80.91	70.14	70.14	72.61	72.72

Source: All the statistics are based on the annual reports, press releases, earning call transcripts and investor presentations published by respective banks

Notes:

1. All numbers represent percentages unless otherwise stated.
2. Return on net worth (RoNW) is calculated as PAT/net worth where net worth = Capital + Reserves & Surplus.
3. All other ratios (other than RoNW) have been taken as reported by respective banks without verifying the consistency of the calculation to arrive at the ratios.
4. Cost of funds (CoF) for HDFC Bank, KMB and IIB for FY12 was not available through the respective banks' documents.

## 02

## Summary

The economic slowdown and global developments have affected the banking sectors' performance in India in FY12 resulting in moderate business growth. It has forced banks to consolidate their operations, re-adjust their focus and strive to strengthen their balance sheets. The banking sector faces seemingly conflicting requirements of strengthening capital ratios, enhancing liquidity and expanding their reach while increasing profitability. Further, the banking regulator Reserve Bank of India (RBI) continues to emphasize on strengthening supervision while promoting the sector's long-term growth and financial inclusion.

The banks under study experienced a moderate growth in their business underlined by a few risk factors. Performance of these banks on some of the key parameters is summarized as below:

- Total business increased by 16.23 percent to INR59 trillion
- Total income increased by 29.83 percent to INR3747 billion
- PBT increased by 16.46 percent to INR646 billion
- PAT increased by 21.45 percent to INR453 billion
- Total assets increased by 14.98 percent to INR42 trillion
- Total deposits increased by 15.01 percent to INR33 trillion
- Loans and advances increased by 17.79 percent to INR26 trillion

### Profitability

The Indian banks under study witnessed a mixed trend in their profitability in FY12. While the average pre-tax profit of the banks under study increased by 16.46 percent, the banks in the private sector significantly outperformed their public sector counterparts (28.38 percent v/s 9.85 percent). The interest income for the banks under study increased by 33.85 percent in FY12. These banks' interest expenses witnessed an increase of 42.92 percent due to the need to re-price deposits. Consequently, these banks' net interest income increased by 20.41 percent. The banks' mixed performance under an increasing interest rate scenario is underlined by their legacy positions and focus areas. The Net Interest Margin (NIM) for most of the banks under the study declined with the exception of two large banks — SBI and ICICI Bank — on account of higher cost of bulk deposits and a slowdown in the credit growth.

For Public Sector Bank (PSBs) under study, high provision requirements due to their staff expenses (including pension liabilities) dented their profitability. Private sector banks under study were able to maintain profitability in a tough operating environment as their commission, exchange and brokerage income increased by 12.84 percent vis-à-vis a growth of 7.21 percent for PSBs.

Economic slowdown coupled with the impact of the changed regulations on the distribution of other financial services products dented the banks' core fee income (commission, exchange and brokerage income), a major component of banks' non-interest income. Consequently, the growth rate of non-interest income was significantly lower (7.97 percent) in FY12 as compared with the growth rate of interest income (33.85 percent) in FY12.

### Balance sheet

The banks under study experienced a moderate expansion of 14.98 percent in their balance sheet in FY12. The growth slowed down from 22.05 percent achieved in FY11 primarily on account of a slowdown in the economy which forced some of the banks to go into a consolidation phase and prefer quality over growth. Banks tightened their risk assessment frameworks and followed a continuing approach to increase their asset base.

The banks under study witnessed growth of 15.01 percent in their total deposits in FY12 with a clear shift from current account saving account (CASA) deposits to term deposits, primarily driven by high interest rates offered by banks on term deposit in a high interest rate scenario. Deregulation of interest rate on savings accounts did not have much impact on the banking sector as following deregulation, only three private sector banks increased their interest rates. Banks have also been focusing on reducing their reliance on wholesale funding.

A gradual slowdown in the economic growth in FY11 and FY12 has also put the banks' asset quality under pressure. Stress in certain sectors in the economy has affected the asset quality. While PSBs asset quality deteriorated, private sector banks were able to marginally improve their asset quality. While gross non-performing assets (GNPAs) for PSBs increased by 53.86 percent in FY12, it declined by 3.93 percent for private sector banks.

All banks under study have reported a Tier-I capital ratio of more than eight percent. Though the banks met the regulatory capital requirements as of March 2012, capital requirements of banks is likely to increase to meet their business growth and regulatory requirements in a challenging operating environment.

In continuation of the moderate results for FY12, the Indian banks witnessed subdued results in Q1FY13 primarily driven by the uncertain macroeconomic environment, weak business sentiments and borrowers' inability to service their borrowings. The quarterly results highlight a number of divergent trends between the results of PSBs and private banks. While the private sector banks witnessed strong performance on asset quality and PCR, the challenge of worsening asset quality was more visible among PSBs.

While there was no major increase in new restructured loans for private sector banks, it has continued to remain high for PSBs during Q1FY13 due to the latter's exposure to State Electricity Boards (SEBs) and sectors such as aviation, textile and steel. The retail-focused banks continued to witness strong growth across the product segments while maintaining their asset quality. Stressed liquidity conditions coupled with the Indian Government's directive to PSBs to reduce bulk deposits resulted in the overall moderate deposit growth. Further, there was a moderate growth/sequential decline in PSBs' loans and advances due to seasonal factors and the pressure on liability side to cut bulk deposits.

Many of the banks witnessed a fall in their NIMs due to the lagging effect of upward re-pricing of deposit interest rates which affected their cost of funds. Further, fee income growth was muted across the board due to seasonal factors. Trading profit and recoveries from earlier written-off exposures helped banks to report better performance on non interest income.

Deteriorating asset quality, reduced loan growth and high operating expenses have led to moderation in operating profit of PSBs. A check on operating expenses has helped the private sector banks maintain operating profit despite a moderation in growth of total income.

Although the Indian banking sector has witnessed some slowdown during the last couple of years, the sector fares better than that of many other countries on benchmarks such as growth, profitability, capital adequacy and asset quality. The changed economic scenario would require banks to fine tune their strategies to suit a more dynamic and uncertain environment to achieve previous high growth levels. The sector is well-poised for growth on the back of significant demand, demographic dividends, high savings, growing disposable income, and improving physical and technology infrastructure. The next few years could witness the growth of the sector on the foundations laid over the past two decades.



## 03

## Financial performance

The performance of the banking sector is more closely linked to the economy than perhaps that of any other sector. The growth of the Indian economy is estimated to have slowed down significantly from 8.39 percent in FY11 to 6.88 percent in FY12. This slowdown could be attributed to a number of factors:

- Continuing problems in Europe and economic slowdown in the United States affecting foreign investments coming into India
- Policy paralysis in view of the government's inertia on various policy issues and reforms
- Fiscal indiscipline leading to fiscal deficit
- High inflation leading to high interest rate
- Rupee devaluation which further deteriorates the current account deficit

Besides these factors, rising inflation forced the RBI to tighten the monetary policy during the last two years, increasing the benchmark repo rate 13 times successively. While the high interest rates impacted the economic growth significantly, they had little impact on inflation. Persistent high inflation has led to a slowdown in credit growth and increase in cost of funds,

hence adversely affecting the profitability of banks. During FY12, deposits and advances of the banking system grew 17.40 percent and 19.30 percent, respectively, compared with 15.90 percent and 21.50 percent in FY11. High deposit growth rate led to increased cost of funds which coupled with slowdown in credit added pressure on the profitability.

A number of changes in the policy and regulatory domain also affected the performance of Indian banks. These included migration to the system tracking of non-performing assets (NPAs) of the entire loan book, increasing the provisioning percentages for NPAs and restructured loans and the mandate to expand in relatively less profitable under-banked and unbanked areas. Amid these regulatory mandates and difficult macroeconomic environment during the year, the Indian banks witnessed worsening asset quality, declining NIMs and low growth rate of bottom line. Banks have started focusing on lending to more profitable segments such as retail and small and medium enterprises (SMEs), improving risk management policies and effective monitoring of loan and collection to improve their performance.

## In this chapter

Profitability  
Costs  
Shareholder returns

### Profitability

The profitability of Indian banks remained under stress in FY12 amid an environment of economic slowdown, declining credit growth and increasing stressed assets. The PSBs, which account for almost three-fourths of the aggregate deposits and credit, registered a lower growth in profits as compared to their private counterparts, mainly due to asset quality related changes and increase in provisions towards impaired assets and staff expenses (including pension liabilities). Some of the key emerging trends in FY12 are as follows:

- In the tight liquidity and high interest rate environment, NIMs declined for most of the banks under study as increased interest expenses outweighed interest income. Further, some of the mid-size and small private sector banks also witnessed increased interest outgo due to higher

interest rates offered on savings accounts after the deregulation of savings rate in October 2011. The trend of declining margin was more evident across PSBs than their private sector counterparts.

- The banks witnessed an improvement in NIMs of their overseas operations because of higher pricing power in ongoing global liquidity crunch.
- Credit growth has seen some moderation from 21.50 percent in FY11 to 19.30 percent in FY12<sup>2</sup>. Some key trends observed are:
  - Credit off take by corporate sector has been particularly slow because of curtailed capital expenditure programs and economic slowdown.
  - Banks have been focusing on secured lending products (such as mortgage and auto loans) for retail customers to drive credit off take.
  - Policy uncertainty over the micro finance institutions and recent changes to banks' credit off take to non banking finance companies (NBFCs) has also impacted the credit to these sectors.
  - Further, the directed lending and pressure to meet targets under FI also increased the cost of lending and decreased returns on advances for banks.
- Broadly, private sector banks fared better than their public sector counterparts on fee income.
- The economic slowdown and stress in some sectors (such as aviation, power, and commercial real estate) led to deterioration in banks' asset quality which resulted in increased fresh slippages and hence, higher provisioning expenses for banks thereby impacting their profitability.

In FY12, total pre-tax profit of the Indian banks under study increased by 16.46 percent, whereas the post-tax profit increased by 21.45 percent reflecting a decline in relative taxes due to tax benefits. Whilst the profitability remained subdued, high interest rate environment throughout FY12 resulted in significant growth in banks' top line. The interest income for the banks under study has increased by 33.85 percent in FY12. These banks' interest expenses witnessed a higher increase of 42.92 percent due to the need to re-price deposits. However, the individual results were mixed depending upon an individual bank's legacy position and focus areas.

### NIM

In an increasing interest rate scenario in FY10 and FY11, historically, banks benefited largely from the lag in re-pricing of deposits (faster rise in lending rates compared to deposit rates) resulting in better NIMs. Interest rates had peaked towards the end of FY12 after almost two years of monetary tightening cycle. Consequently, the lag in deposits has come to an end which adversely affected banks' margins. Other factors contributing to contraction in NIMs included moderation in savings deposits growth (due to high interest rate differential), deregulation of savings deposits rate and higher cost of bulk deposits.

NIMs declined in FY12 for eight of the 10 banks under study with SBI and ICICI Bank being the only two exceptions. The decline in margin was more evident across PSBs as compared to private sector banks.

The NIM of SBI increased by 53 basis point (bps) to 3.85 percent in FY12. It was the result of an increase of 30 bps and 54 bps in its NIMs of overseas and domestic operations to 1.67 percent and 4.17 percent, respectively. Healthy CASA mix of 46.64 percent, shedding of high cost bulk deposits, increase in investment yield and upward re-pricing of loans (as teaser home loans, which the bank started giving in January 2009, gets re-priced at floating interest rate) have led to increase in margins of SBI during FY12. SBI's net interest income (NII) to total operating income ratio has also increased significantly from 67.27 percent in FY11 to 75.10 percent in FY12.

2. Reserve Bank of India, Weekly Statistical Supplement, 13 April 2012

## NIM (%)



Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

Although the NII to total operating income ratio for PNB was more or less stable at 76.14 percent, its NIM declined by 12 bps from 3.96 percent in FY11 to 3.84 percent in FY12. The reduction in the bank's NIM was mainly attributed to the increase in deposits cost from 4.57 percent in FY11 to 5.62 percent in FY12 due to a number of reasons such as — high pricing of bulk deposits, interest de-recognition/reversal on substantial fresh slippages (Non-performing loans or NPL recognition), a decline in the yield on advances (partly due to an increase in agriculture lending), and competitive pricing to attract and retain deposits.

The NIM of BoB declined by 15 bps to 2.97 percent, primarily due to a decline of 21 bps in its NIMs of domestic operations to 3.51 percent. However, an improvement of 18 bps in the bank's NIMs of overseas operations to 1.54 percent helped it control the margin contraction. The bank's cost of funds primarily increased due to lower CASA deposits and general increase in funding costs.

Canara Bank witnessed a decline in NIM by 62 bps to 2.50 percent in FY12 as increase in yield on advances was lower than the increase in cost of funds. High dependence on bulk deposits, lower share of high-yielding assets, declining CASA ratio from 29.21 percent in FY11 to 25.19 percent in FY12 and higher addition of NPAs resulted in declining NIM.

For ICICI Bank, NIM increased from 2.64 percent in FY11 to 2.73 percent in FY12 on account of shift in deposit mix, shedding of bulk deposits and lower securitization losses. The bank has largely exited unattractive business segments such as small-ticket personal loans in the domestic segment and most non-India related exposures in its international business. The bank's domestic and overseas NIMs increased by 6 bps and 35 bps to 3.04 percent and 1.23 percent, respectively. NIMs of its overseas operations improved primarily due to an increase in yield on overseas advances (due to new disbursements at higher interest rates) and repayment and prepayment of low yielding loans.

HDFC Bank was the collecting banker for some of the tax free bond issuances which resulted in higher current account floats and lower cost of funds, leading to expansion in NIM during the last quarter of FY12. However, the bank witnessed a marginal decline in its NIM from 4.25 percent in FY11 to 4.22 percent in FY12 due to increase in cost of deposits from 4.30 percent in FY11 to 5.72 percent in FY12.

For Axis Bank, cost of funds increased by 130 bps to 6.28 percent in FY12 led by an increase of 151 bps in its cost of deposits. The bank's NIM declined from 3.65 percent in FY11 to 3.59 percent in FY12.

Similarly, for IIB, the increased cost of funds led to a decline in its NIMs.

The dependence of BoI on large corporates and agriculture led to fall in its NIM from 2.92 percent in FY11 to 2.52 percent in FY12.

While offering higher interest on savings deposits (after RBI deregulated saving bank interest rate in October 2011) helped KMB increase its proportion of low-cost CASA deposits from 30.00 percent in FY11 to 32.00 percent in FY12, it also increased the bank's interest expenses during FY12. This coupled with the bank's strategy to shed off its high-yielding unsecured portfolio (as it focused on secured loans) and rising cost of funds resulted in a decline in the bank's NIM from 5.20 percent in FY11 to 4.70 percent in FY12.

### Non-interest income

Non-interest income as a proportion of total income for all banks under study has declined during FY12 leading to declining profitability. However, private sector banks continued to fare better on this aspect as compared with PSBs. Although, non-interest income in absolute basis has increased for all the banks under study except for SBI during FY12, its growth rate was significantly lower (7.97 percent) as compared with the growth rate of interest income (33.85 percent) for the banks under study.

SBI witnessed a decline of 9.31 percent in its non-interest income to INR144 billion, primarily due to a decline of 2.18 percent, 7.29 percent and 6.46 percent in its forex income, dividend income and miscellaneous income, respectively. Another factor for decline in non-interest income was the loss of INR9 billion on the sale of investments in FY12 as compared with a profit of INR9 billion in FY11. Despite fall in non-interest income, the bank continued its dominance with non-interest income to assets at 1.07 percent (the highest among PSBs).

All the banks under study witnessed a decline in their core fee income to total income ratio. The decline was more prominent for SBI and ICICI Bank. One of the key reasons for the decline was the decline in the sale of other financial services products (such as mutual funds and ULIP insurance products) on the back of low investor confidence and a decline in equity markets. This, along with the limits placed on distributors' commissions, resulted in a decrease in banks' income from such products.

### Profit after tax (PAT)

Canara Bank was the only bank under study that witnessed a decline in its bottom line. Canara Bank's operating profit, profit before tax and PAT declined by 2.43 percent, 18.77 percent and 18.46 percent, respectively, on the account of decline in its NII, subdued fee income and higher operating expenses.

SBI witnessed an increase of 41.65 percent in its PAT largely on account of the low-base effect of the previous year. The bank's NII increased by 33.10 percent and its operating profit increased by 24.62 percent. Lower base coupled with largely stable margins and cost control measures has led to 41.65 percent increase in its PAT.

The PAT of BoB increased by 18.04 percent to INR50 billion largely due to one-time tax write-backs of approximately INR3.2 billion. Further, an increase in operating expenses on account of provisions for pension liabilities adversely impacted the operating profit during 4QFY12.

For BoI, net profit increased by 7.59 percent to INR27 billion. This was driven by a decline in operating expenses by 2.52 percent, including a decline of 12.14 percent in employee expenses.

ICICI Bank witnessed a growth of 25.51 percent in PAT from INR52 billion in FY11 to INR65 billion in FY12. The increase in PAT was mainly due to a 19.04 percent increase in NII, 12.86 percent increase in non-interest income and 30.80 percent decrease in provisions and contingencies (excluding provisions for tax).

Although private sector banks like Axis Bank, HDFC Bank and KMB have witnessed decline in their NIMs, healthy asset quality with higher recoveries and upgrades led to lower provisioning expenses resulting in a healthy bottom line. PAT for these banks increased in the range of 24-40 percent.

## Cost

Amid the challenging macroeconomic environment and increased credit cost, banks continued to employ cost control measures, such as salary optimization, negotiating on rentals and using technology. Employee expenses for Indian banks have increased on account of one-off year-end revisions in actuarial provisioning for gratuity and pension. However, the growth in employee expenses has not been as high as it was during FY11 which were attributable to the implementation of pension charges for bank employees. On y-o-y basis, growth in employee expenses were lower for PSBs on account of high base in FY11 as they had one-off pension provision made for retired employees.

Out of 10 banks under study, only BoI has been able to reduce its employee cost and overall operating expenses whereas increase has been marginal for BoB, Canara Bank and PNB. Among the banks under study, ICICI Bank, HDFC Bank, Axis bank and IIB have continued to invest in infrastructure and strengthening their network which contributed to an increase in their operating expenses.

The staff expenses to operating expenses ratio has improved for eight out of 10 banks under study with the exception of ICICI Bank and Axis Bank. Comparing the operating expenses to assets ratio, SBI among PSBs and KMB among private sector banks continued to have the highest operating expenses. During FY12, operating expenses to assets ratio of four banks (SBI, ICICI Bank, Axis Bank and IIB) deteriorated over the previous year.

### Cost to income ratio (C-I ratio)

The banks under study witnessed mixed trends on their C-I ratios. While for five banks (Canara Bank, ICICI Bank, HDFC Bank, Axis Bank and IIB), it deteriorated over the previous year; for others, it improved marginally.

### C-I ratio (%)



Source: Relevant banks' press releases, investor presentations and annual reports

For SBI, controlled operating expenses and strong revenue growth led to an improvement of 237 bps in its C-I ratio to 45.23 percent in FY12. During FY12, operating expenses increased by 13.27 percent mainly due to opening of 645 branches. The staff expenses of the bank increased by 11.58 percent despite a reduction in its headcount. The operating income of SBI increased by 19.22 percent to INR546 billion. The bank's ratio of staff expenses to operating expenses has improved marginally from 66.10 percent in FY11 to 65.11 percent in FY12.

The C-I ratio of PNB improved by 152 bps to 39.75 percent in FY12, driven by high non-interest income and lower provisioning due to employee benefits. During FY12, the bank witnessed an increase of 10.03 percent in the bank's total operating expenses (increase of 5.88 percent and 19.76 percent in employee expenses and other operating expenses, respectively) and its operating income increased by 14.25 percent. This consequently resulted in an improved C-I ratio.

BoB's C-I ratio is the lowest among the 10 banks under study. For BoB, moderate growth in its NII and other income coupled with slow growth of operating expenses led to a reduction in its C-I ratio by 232 bps to 37.55 percent during FY12. The bank increased its total operating income by 18.33 percent. Despite an increase of 8.12 percent in employee base, the bank's staff expenses increased marginally by 2.36 percent. However, total operating expenses rose by 10.35 percent due to a higher increase in administrative expenses on account of aggressive branch expansion of BoB.

For Canara Bank, the C-I ratio deteriorated by 197 bps to 44.02 percent. During FY12, staff expenses remained relatively stable (increased by 0.62 percent) while overall operating expenses increased by 5.76 percent due to an increase in administrative expenses. Moderate growth in fee income helped the bank increase its total operating income marginally by 1.01 percent.

The C-I ratio of BoI has improved significantly from 48.49 percent in FY11 to 42.47 percent in FY12. A decline of 12.14 percent in employee expenses (due to high base in FY11) led to a decline of 2.52 percent in its total operating expenses. The non-interest income of BoI went up by 25.72 percent due to 120.34 percent increase in recovery from written-off accounts and 27.03 percent increase in profit from sale of investments.

ICICI's operating expenses were up 18.64 percent due to a 24.79 percent rise in employee expenses. Bonus provisioning, an annual increase in salaries and performance bonuses, along with an increase in the employee base primarily drove this increase in expenses. However, because of a strong increase in the bank's NII, the C-I ratio was contained at 42.91 percent in FY12 as compared to 41.95 percent in FY11.

HDFC Bank's aggressive branch expansion (number of branches increased from 1,986 in FY11 to 2,544 in FY12) has led to an increase in its operating expenses by 20.09 percent resulting in deteriorating C-I ratio from 47.90 percent to 48.40 percent. Also, HDFC Bank was collection banker and incurred significant processing fee expenses on issuance of tax-free bonds leading to higher operating expenses.

For Axis Bank, operating expenses were up 25.69 percent, due to 28.89 percent increase in staff expenses and rapid expansion in its branch and automated teller machine (ATM) network. The bank opened 232 branches and 3,654 ATMs during FY12. It resulted in the bank's C-I ratio deteriorating to 44.70 percent from 42.69 percent.

Although KMB's C-I ratio has improved from 54.00 percent in FY11 to 52.60 percent in FY12, it is still the highest among the banks under study. Despite its strong NIMs, the bank's higher operating expenses, which increased by 18.16 percent, put pressure on its C-I ratio. The bank's operating income increased by 21.26 percent during FY12.

IIB's C-I ratio deteriorated by 120 bps from 48.25 percent in FY11 to 49.45 percent in FY12 due to increase in its branch and ATM network. IIB's operating expenses and employee expenses increased by 33.17 percent and 26.87 percent, respectively, during FY12.

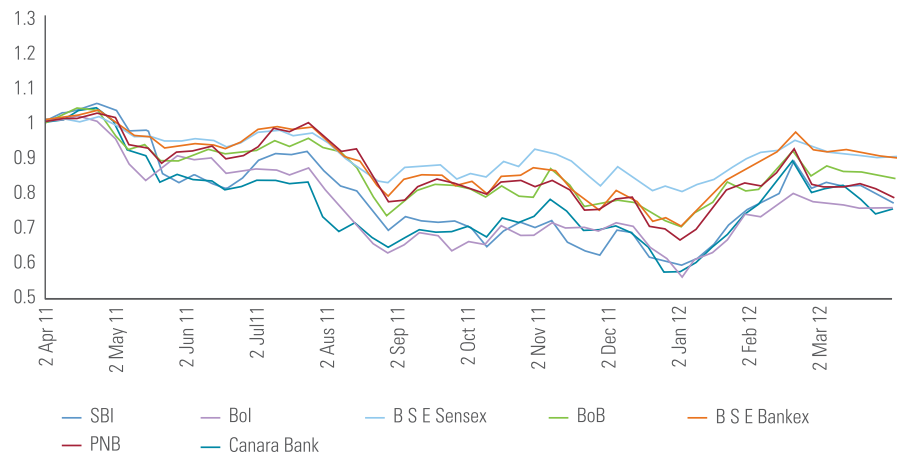
### Shareholders' returns

The past year was a challenging year for banking sector and stocks of Indian banks had muted performance throughout the year on account of worries from the Eurozone crisis, macroeconomic uncertainties, worsening asset quality, pressure on margins and tightening monetary policy.

### Share prices

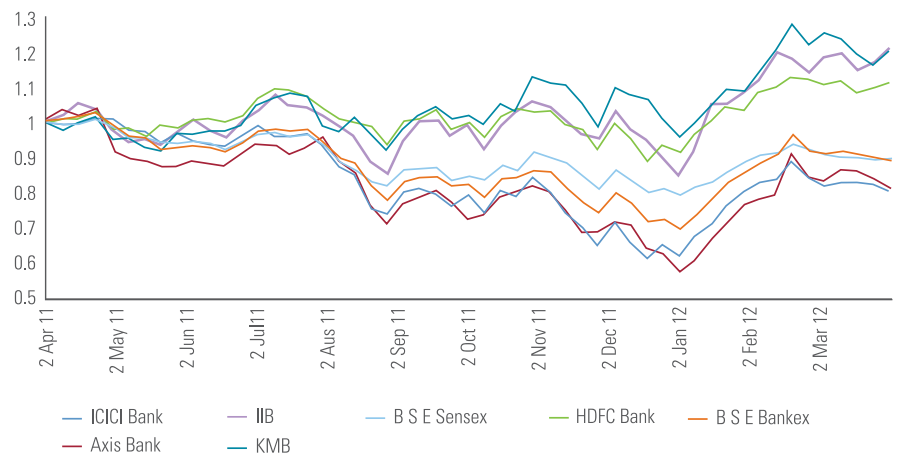
The graph below shows the movements in the share prices of the banks under study during FY12.

#### Relative share price movement – public sector banks



Source: Prowess database, accessed 18 June 2012

#### Relative share price movement – private sector banks



Source: Prowess database, accessed 18 June 2012

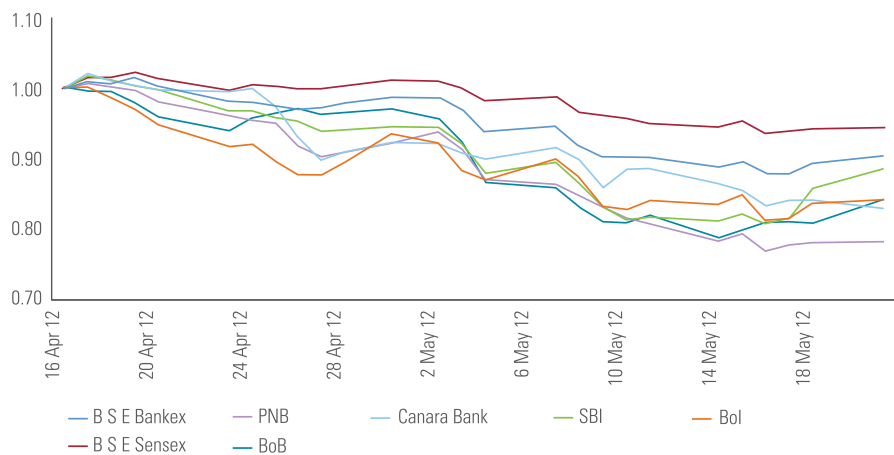
Most of the banks under study exhibited relatively negative returns during the year as reflected in their declining share prices. Besides the developments in the global and domestic economies, reduced credit off-take, high restructuring of loans and sharp rise in slippages were some of the factors responsible for declining share prices. The stock performance for capital-starved banks like SBI was even worse. Canara Bank, Bol, SBI and PNB experienced the worst relative decline (20-25 percent) in the year compared with 10.91 percent decline in the Bankex. Share Price of BoB declined by 16.12 percent.

The private sector banks' stock prices have generally shed less, particularly in case of large banks, such as Axis Bank and ICICI Bank which has been in the range of 18-20 percent. The shares of KMB, IIB and HDFC Bank gained 20.30 percent, 20.78 percent and 11.42 percent, respectively, of their respective values as at the beginning of FY12.

**Share price movement during results announcements**

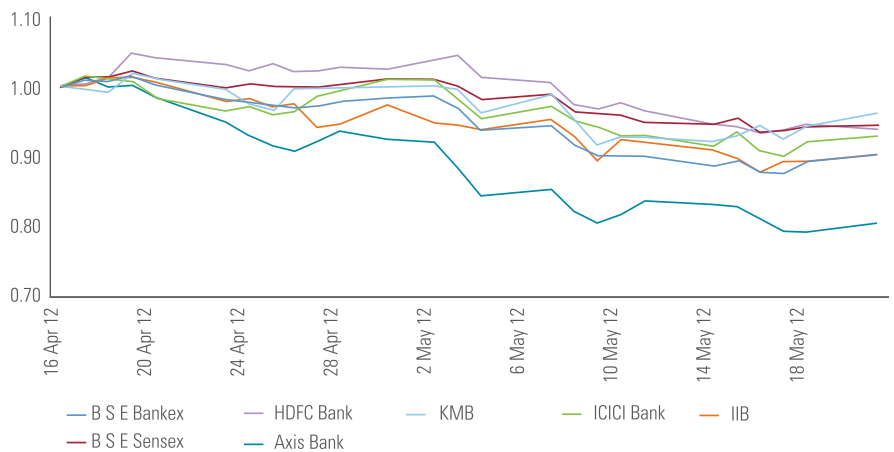
The graph below illustrates the percentage movement in share prices of the 10 banks during the period of announcing financial results in April and May 2012.

**Relative share price movement during the period of financial result announcement – public sector banks**



Source: Prowess database, accessed 18 June 2012

**Relative share price movement during the period of financial result announcement – private sector banks**



Source: Prowess database, accessed on 18 June 2012

In general, the banks' share prices did not exhibit any significant movement on the day of announcement of the respective bank's results. The global uncertainties and investor's losing confidence have led to fall in share price of all the banks under study. The share price of PNB, KMB, Bol and IIB declined on the next day of announcement depicting results are not up to investors' expectations. The movement in share prices has seen the occasional spike or decline in share price reflecting investors' reactions to market data and other factors occurring over the period.

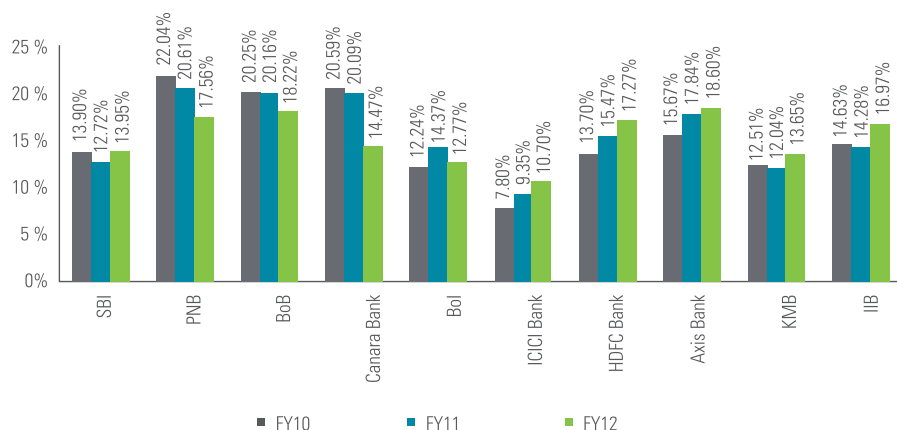
### Return on net worth (RoNW)<sup>3</sup>

Indian banks have seen a mixed trend in RoNW. While most of the banks refrained from raising large amount of fresh capital amid not-so-conducive market conditions (both domestic and overseas), their profitability growth also remained muted and hence, contributing little to the reserves. However, on the flip side, slower loan growth, higher operating cost (due to pension obligation and branch expansion), increasing credit cost (due to structural problems in some business segments) and deteriorating asset quality (due to economic slowdown) also affected the profitability of banks. Banks' limited ability to pass on further cost increases to customers amid stiff competition and slowdown in credit growth has also resulted in declining RoNW.

Among the banks under study, RoNW for PSBs declined with SBI being the only exception that witnessed its RoNW increase from 12.72 percent in FY11 to 13.95 percent in FY12 due to its low profitability in FY11. Other PSBs like Canara Bank, Bol, BoB and PNB reported a fall in their RoNW during FY12 as compared to FY11 owing to worsening asset quality, high provisioning for NPLs, high restructured advances and lesser margin. All the private sector banks under study have shown an increase in their RoNW because of stable margins and lower NPL provisioning.

Under Basel III guidelines, high capital requirements would further reduce the RoNW of Indian banks. Off late, banks have been cautious about their growth and are focusing more on maintaining their NIMs and quality of assets. The banks have again become aggressive in the retail loan markets like home, auto, education and personal loans where higher cost of fund can be passed on easily to the consumers. The chart below shows banks' change in RoNW.

RoNW(%)



Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

3. RoNW = PAT/net worth; net worth = Capital + Reserves & Surplus

### Dividends

Indian banks have announced dividend along with their FY12 results varying in the range of 12-350 percent. Seven of the banks under study have continued to increase their dividend payouts, reflecting an increase of 10–30 percent in the total dividend payment in FY12. PNB, Bol and Canara Bank announced same level of dividend as announced in FY11.

HDFC Bank declared a 30.00 percent increase in the dividend of INR4.30 per share against INR3.30 per share (adjusted for share split) in FY11.

SBI declared dividend of INR35 per share (350.00 percent) for FY12 as compared to INR30 per share (300.00 percent) in FY11.



## 04

## Financial position

Gradual economic liberalization and subsequent economic growth along with the competition in banking sector helped banks grow at a rapid pace. However, a slowdown in the economic growth after the global financial crisis has put the banks' asset quality under pressure. Further, the business growth and regulatory

requirements have emphasized on preserving capital requirements resulting in a challenging operating environment for banks. In this chapter, we discuss the financial position of the banks under study in three heads — asset quality, balance sheet growth and capital adequacy.

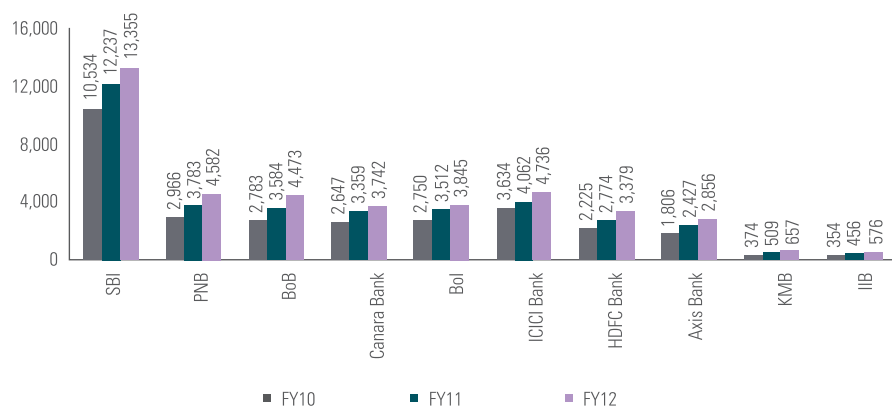
### In this chapter

Balance sheet  
Asset quality  
Capital adequacy

### Balance sheet

All banks have emphasized their concentration on maintaining or improving the balance sheet strength in terms of quality over growth. In order to strengthen their capital positions, banks have sought to reduce risk weighted assets (RWAs), increase focus on secured lending and improve loan to deposit ratio. This was visible in the balance sheet growth whereby the banks under study experienced an expansion of 14.98 percent in their balance sheet during FY12. This was lower than the growth of 22.05 percent noted in FY11. The balance sheet of the banks under study has been further analyzed below.

#### Total assets (INR billion)

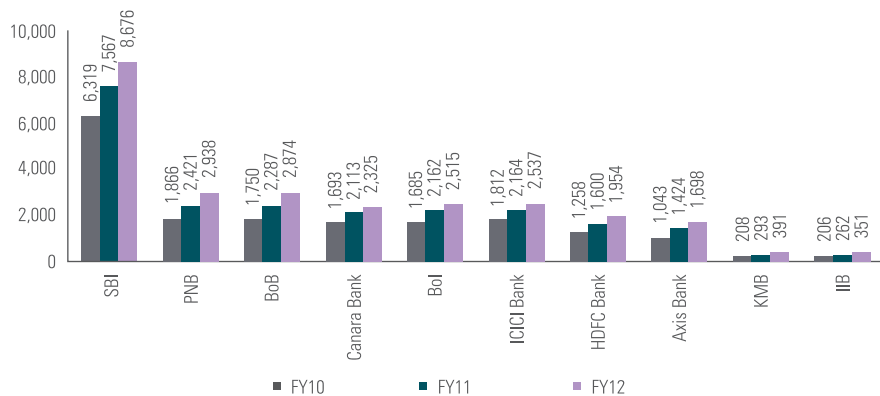


Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

### Loans and advances

Though all the sectors in the economy contributed to the decline in credit growth, the deceleration was more visible in agriculture, real estate, hotels and restaurants, professional services, telecommunication, power, cement, textiles, iron and steel and personal vehicle loans. Growth in the total advances of the banks under study moderated to 17.79 percent during FY12 from 24.95 percent in FY11.

Loans and advances (INR billion)



Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

The banking sector’s credit demand from the corporate sector was primarily driven by working capital requirements rather than the incremental capital expenditure and infrastructural investment. Several projects have become unviable due to increasing interest rates and commodity prices which reduced the demand for incremental loans. India’s corporates are awaiting better investment environment characterized by low interest rate, low commodity prices, removal of supply-side bottlenecks and government action on some of the pending reforms.

For SBI, gross loans and advances increased by 14.65 percent while deposits were up 11.75 percent. In line with overall loan growth, domestic loans grew 14.41 percent to INR7,579 billion. The growth in loan book was driven by agriculture (23.29 percent) and SME (16.29 percent) segments. The large corporate segment grew by 14.97 percent whereas retail loans grew by 10.85 percent. The bank’s loan book remained well diversified with no segment accounting for more than 20.00 percent of the total loan book.

For PNB, the overall loan growth was 21.34 percent in FY12 domestic advances grew by 18.68 percent while its overseas advances grew by 68.60 percent. The loan growth was led by retail (23.60 percent), agriculture (29.50 percent) and MSME (26.62 percent). Among industries, traction was witnessed in power, gems and jewellery, base metals, roads and iron and steel sectors.

For BoB, total advances grew by 25.67 percent driven by both a steady growth in domestic loan book (19.28 percent) and strong growth in overseas loan book (43.92 percent) despite challenging macroeconomic environment. The growth in domestic loan book was attributable to the growth in wholesale segment (25.10 percent), retail segment (9.97 percent) and SME segment (26.10 percent). Retail, agriculture, SME and corporate contributed 17.40 percent, 14.10 percent, 16.80 percent and 38.70 percent, respectively, to the bank’s loan book. The bank’s international advances now constitute 29.68 percent of its total advances compared with 25.92 percent in the last year.

Canara Bank, in line with its strategy to consolidate balance sheet and remain cautious in a challenging economic environment, has seen moderate growth with its loan book growing at 10.04 percent, largely aided by agriculture, infrastructure and industrials segments. Retail and SME segments witnessed a decline of 1.89 percent and 7.41 percent, respectively.

Bol’s credit grew moderately by 16.35 percent mainly driven by a 44.14 percent rise in its overseas loans, which now comprise 29.05 percent of total advances. Domestic advances grew by 7.84 percent mainly driven by growth in agriculture (14.82 percent) and retail segments (33.10 percent).

ICICI Bank has grown its balance sheet over the last two years. Its loan book grew by 17.27 percent, driven by a healthy growth in SME, agriculture and overseas loans, which increased by 12.77 percent, 23.94 percent and 25.97 percent, respectively. The share of overseas advances in the total loan book increased from 25.46 percent in FY11 to 27.35 percent in FY12. Its auto and commercial business loan portfolios grew by 14.40 percent and 20.00 percent, respectively. Mortgage disbursements (excluding developer financing) grew by 26.80 percent in FY12, though this growth was partly offset by repayments and prepayments out of the existing portfolio resulting in a portfolio growth of 7.50 percent.

The gross advances of HDFC Bank grew by 22.15 percent to INR1,954 billion, driven by an increase of 33.70 percent in retail advances and an increase of 10.50 percent in wholesale advances. The bank has witnessed an increase in the proportion of its medium term lending; however, working capital loans and short tenor term loans retained a large share of its wholesale advances.

The total advances of Axis Bank increased by 19.21 percent to INR1,698 billion. Out of this, corporate advances (comprising large, infrastructure and mid-corporate accounts) increased by 19.93 percent and SME loans increased by 11.16 percent. The agricultural lending (including micro finance) increased marginally by 0.11 percent whereas retail loans increased by 35.34 percent to INR 376 billion. The percentage share of retail loans to total advances has increased to 22.12 percent in FY12 from 19.50 percent last year, driven by growth in areas of residential mortgages and passenger car loans.

KMB witnessed loan growth of 33.24 percent with increased focus on collateralized lending and high-end quality corporate clients. The bank's commercial vehicle segment grew by 24.74 percent and mortgages grew by 21.18 percent during FY12.

For IIB, overall advances grew by 34.01 percent with its consumer finance division continuing to grow at a faster rate of 48.00 percent vis-à-vis growth in corporate loan book at 23.00 percent. As of March 2012, the consumer finance loan book constituted 49 percent of the loan book whereas corporate banking formed 51.00 percent of the loan book. Commercial vehicle loans (as a part of consumer finance) constituted 24.00 percent of overall advances.

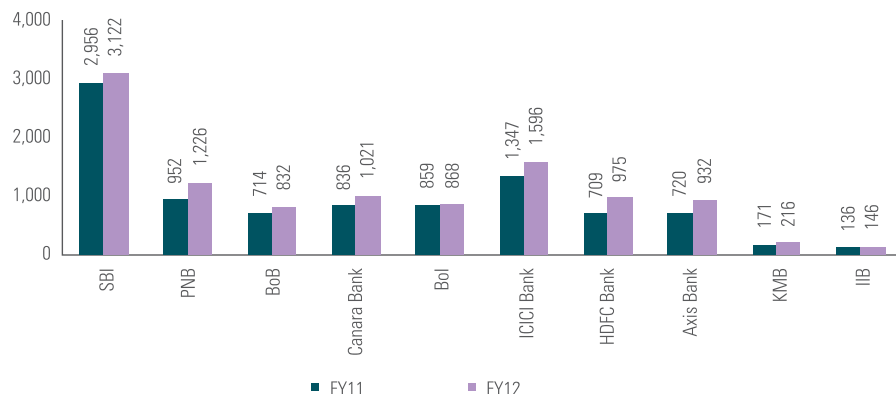
### Investments

As per RBI directive, Banks in India have to invest a minimum of 23.00 percent of their net demand and time liabilities (NDTL) in government securities. The proportion, known as statutory liquidity ratio (SLR), is one of the variables used by the regulator to adjust monetary conditions and support the Government's borrowings program. Considering that insurance companies or pension funds in India generally do not have appetite for long-term government securities, banks fill in this role to support the Government's borrowings.

For the banks under study, total investments increased by 16.31 percent in FY12, a little higher than the overall growth of 14.98 percent in these banks' total assets during the same period.

The ratio of investments to total balance sheet size changed moderately for SBI and ICICI Bank. PNB experienced a moderate increase in the ratio. BoB, Bol and KMB experienced a decline in their ratios. IIB which had a credit growth of 34.01 percent in FY12 witnessed a higher decline in the ratio. Canara Bank, HDFC Bank and Axis Bank experienced a larger increase in the ratio.

### Investments (INR billion)



Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

Investment/balance sheet (%)



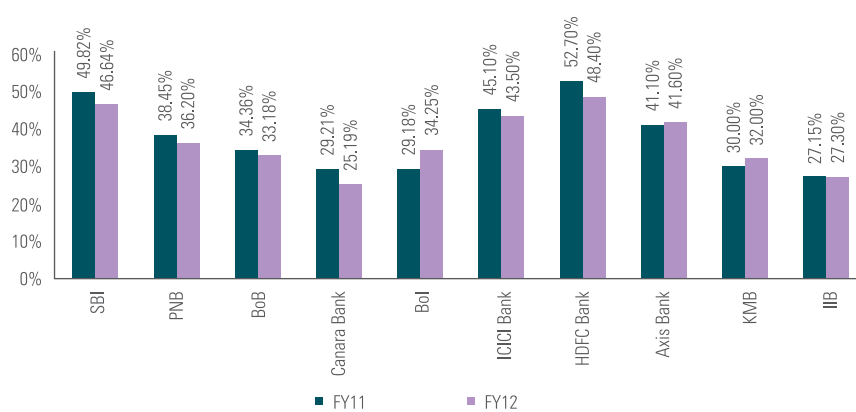
Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

Liquidity and funding

Banks in India maintain diverse sources of liquidity to maintain flexibility in extending credit for diverse needs. The deposits from retail and corporate depositors are important source of funding for incremental operations. A strong asset liability management system (ALM) with well-matched maturity patterns of asset and liabilities duration also helps banks in managing their liquidity.

The growth in total deposits of the banks under study moderated to 15.01 percent during FY12 from 22.03 percent in FY11. Further, the term deposits witnessed a higher growth of 19.05 percent as compared with 8.88 percent growth in CASA deposits for these banks. It indicates a shift from CASA deposits to term deposits resulting in a decline in CASA ratio for most of the banks, primarily driven by high interest rates offered by banks on term deposit in a high interest rate scenario. The graph below presents the CASA ratio for the 10 banks under study.

CASA ratio (%)



Source: Relevant banks' press releases, investor presentation and annual reports

Banks have also been focusing on reducing their reliance on wholesale funding. This has been particularly challenging in a high interest rate and deregulated savings rate scenario where competition for savings balances may be intensified.

The domestic saving deposits growth of SBI was modest at 11.75 percent which coupled with a decline of 8.21 percent in the bank's domestic current account deposits led to a subdued growth of 6.43 percent in the bank's domestic CASA deposits. The domestic CASA ratio of 46.64 percent in FY12 is still one of the highest among PSBs.

For PNB, the total deposits grew by 21.31 percent. In line with the industry, the bank witnessed a clear shift from CASA deposits (increased 11.47 percent) to term deposits (27.46 percent). It resulted in a sharp decline of 225 bps in the bank's CASA ratio to 36.20 percent.

Total deposits of BoB grew by 26.01 percent driven by 20.06 percent growth in its domestic deposits and 45.00 percent growth in international deposits. CASA, however, grew at a lower rate of 15.92 percent in FY12. Domestic CASA ratio marginally declined from 34.36 percent in FY11 to 33.18 percent in FY12.

For Canara Bank, deposits grew moderately by 11.46 percent while CASA ratio declined by 402 bps to 25.19 percent, primarily driven by a steep decline of 39.51 percent in current account deposits. Savings deposits grew by 10.53 percent. The bank had relatively high proportion of costlier bulk deposits and certificate of deposits (CDs) at INR1.4 trillion (43.00 percent of overall deposits).

BoI witnessed slower deposit growth of 6.47 percent as a conscious decision to reduce the reliance on bulk deposits. As a result, the bank's CASA ratio improved by 507 bps to 34.25 percent.

ICICI Bank recorded a moderate deposit growth of 13.25 percent. CASA ratio declined by 160 bps to 43.50 percent in FY12, led by moderate growth of 9.22 percent in CASA deposits as compared with a growth of 16.56 percent in term deposits. The bank witnessed a robust growth in its retail deposit customer acquisition and retail deposit base across both savings and term deposits. The savings account deposits grew by 13.72 percent in FY12.

The total deposits of HDFC Bank increased by 18.28 percent to INR2,467 billion. Savings account deposits grew by 16.63 percent while current account deposits contracted by 2.27 percent during FY12. The bank's CASA ratio declined by 430 bps to 48.40 percent during FY12.

Axis Bank witnessed an increase of 16.31 percent in its total deposits to INR2,201 billion, driven by growth of 26.00 percent in savings bank deposits and growth of 8.00 percent in current account deposits. As on March 2012, CASA deposits constituted 41.60 percent of total deposits as compared with 41.10 percent in FY11. With an objective to widen the retail deposit base, Axis Bank continued to focus on retail term deposits which grew by 43.00 percent as a result, the percentage share of retail term deposits to total term deposits has increased from 30.00 percent in FY11 to 37.00 percent in FY12. The share of aggregate retail deposits (comprising savings bank and retail term deposits) in total deposits has increased to 45.00 percent in FY12 from 39.00 percent in FY11.

For KMB, CASA ratio improved from 30.00 percent in FY11 to 32.00 percent in FY12. CASA deposit in absolute number terms grew by 41.08 percent over the same period with 51.16 percent growth in savings deposits during this period. Overall deposits grew by 31.70 percent and term deposit grew by 26.44 percent.

The overall deposits of IIB grew by 23.27 percent and CASA deposits increased by 23.92 percent. The bank has seen a robust growth of 53.45 percent in saving bank deposits led by saving interest rate deregulation. While growth in saving deposits was robust, current account deposits growth moderated to 9.52 percent leading to CASA growth of 23.29 percent. Overall, the CASA ratio of IIB improved by 15 bps to 27.30 percent.

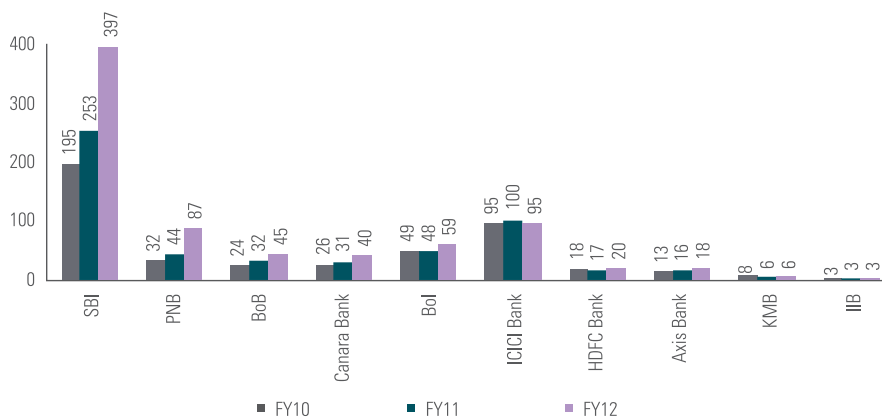
Funding and liquidity will continue to remain a key area across the sector, with banks continuing to try to reduce wholesale funding.

## Asset quality

During FY12, both the global and Indian economies were under stress resulting in an increase in the GNPA's, Net non-performing assets (NNPAs) and restructured assets. Asset quality of PSBs was more impacted largely due to relatively high exposure to telecom, power and agriculture sectors. On the contrary, relatively lower exposure towards these stressed sectors along with adequate provisioning led to improvement in asset quality of private sector banks.

### GNPA<sup>4</sup>

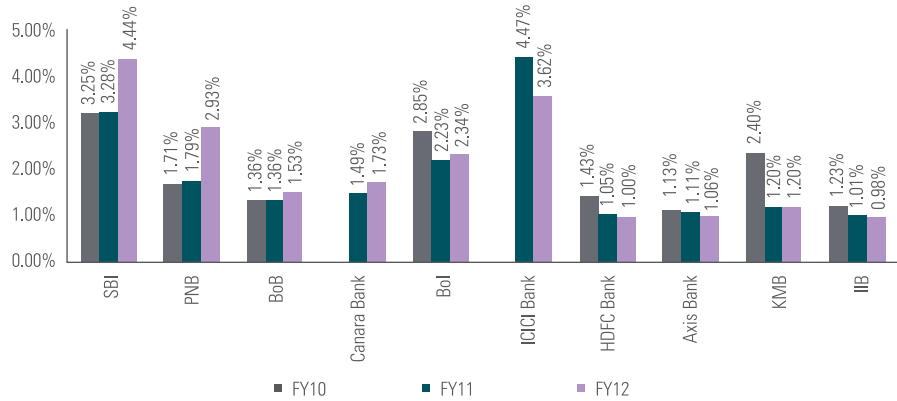
#### GNPA (INR Billion)



Source: Annual reports, press releases, earnings call transcripts and investor presentations published by respective banks

4. Outstanding restructured assets as percentage of loan book = outstanding restructured assets/total loan book

GNPA ratio (%)



Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

All PSBs under study have reported an increase in their GNPA's (both on absolute basis as well as percentage to gross advances) in FY12 compared to FY11. On the other hand, large private sector banks like ICICI Bank, HDFC Bank and Axis Bank have witnessed moderate improvement in their NPA levels.

For SBI, the percentage GNPA's to gross advances increased by 116 bps to 4.44 percent, amounting to INR397 billion. It was one of the highest in the industry. Slippages in mid size corporates, agriculture and SME segment continued to be the stressed assets for SBI despite a decline in its retail NPAs. SBI witnessed 63.87 percent increase in its restructured assets during FY12 resulting in its standard restructured loan book standing at INR427 billion i.e. 4.78 percent of loan book as of March 2012.

For PNB, high slippages, low write-offs and recoveries led to high GNPA's which increased by 99.11 percent — the highest in the industry — resulting in an increase of 114 bps in its GNPA's ratio to touch 2.93 percent. The outstanding restructured loan book stood at INR250 billion i.e. 8.51 percent of loan book, which is one of the highest among its peers. The increase in restructured loan was primarily from the corporate segment especially power, aviation and telecom sector which constituted 28.95 percent, 12.09 percent and 3.96 percent of the total outstanding restructured loan book, respectively.

BoB's GNPA ratio increased marginally and stood at 1.53 percent, one of the lowest NPA levels among its peers. Its outstanding restructured portfolio stood at INR151 billion i.e. 5.25 percent of its loan book.

The asset quality of Canara Bank deteriorated with GNPA's of 1.73 percent in FY12 as compared with 1.49 percent in FY11. The bank witnessed an increase in fresh slippages by 30.90 percent and increase in write-offs by 39.28 percent. The bank restructured INR45 billion of assets (1.94 percent of its loan book) in FY12 taking the total outstanding restructured book to INR79 billion (3.40 percent of loan book). Restructuring was mainly noted for its exposure to state electricity boards (SEBs).

Bol has reported marginal increase of 11 bps in its GNPA ratio whereas its NNPA ratio increased significantly by 56 bps, primarily on account of reduced provision coverage from 72.18 percent in FY11 to 64.18 percent in FY12.

Continuing on the path of consolidation, ICICI Bank managed to reduce its GNPA's by 5.57 percent to INR95 billion as at FY12. Its NNPA ratio also decreased from 4.47 percent to 3.62 percent during the same period.

HDFC Bank's GNPA ratio reduced by 5 bps to 1.00 percent in FY12. The bank made general provisions for standard assets which are as per regulatory prescription and dynamic counter cyclical provisions or floating provisions which are made as per the bank's board-approved policy.

During FY12, Axis Bank further improved its asset quality with GNPA ratio improving from 1.11 percent to 1.06 percent. However, the bank witnessed an increase in restructured loans from INR4 billion in FY11 to INR13 billion in FY12. The cumulative value of assets restructured as of FY12 stood at INR31 billion (1.58 percent of gross advances). Large and mid-corporate constituted 79.00 percent of overall restructured assets as of FY12.

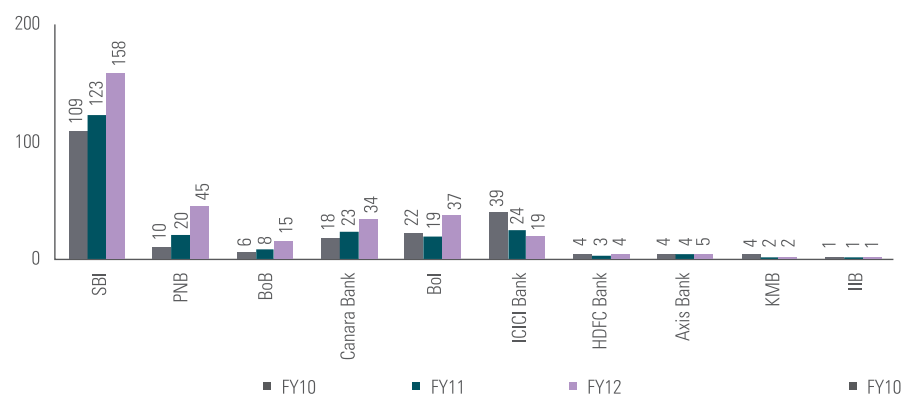
The only exception among the private sector banks is KMB, which registered a marginal though yet manageable increase in its NPAs. The asset quality of KMB has remained stable because of its increased focus on secured lending and absence of concentrated loans or exposure to sensitive sectors, such as power and telecom. For FY12, the bank's GNPA remained unchanged at 1.20 percent. Its net restructured assets have come down from INR667 million during FY11 (0.23 percent of bank's loan book) to INR302 million in FY12 (0.08 percent of bank's loan book).

During FY12, IIB's GNPA's have gone down to 0.98 percent compared to 1.01 percent, while NNPA's have gone down to 0.27 percent compared to 0.28 percent during the previous year. The bank's restructured advances stood at 0.26 percent of loan book, which is one of the lowest in the industry.

### NNPA

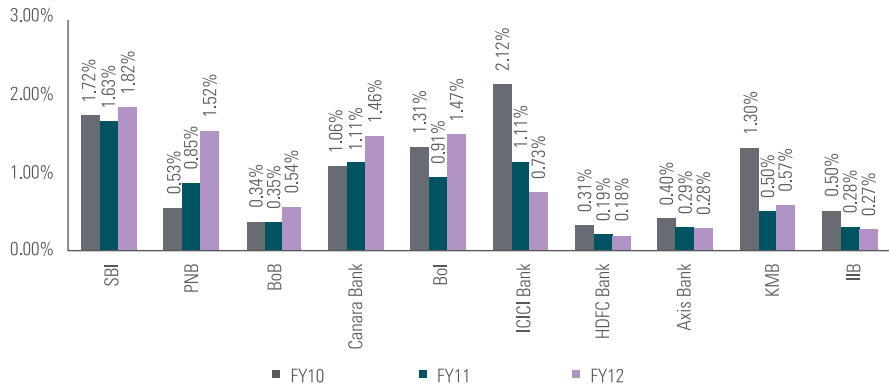
Along with the increasing GNPA's, all the PSBs under study have reported an increase in their NNPA's as well in FY12 as compared with FY11 while their private sector counterparts (with the exception of KMB) were either able to maintain or marginally improve upon their NNPA's. Public sector banks with the exception of SBI have experienced a significant decline in their provision coverage ratio (PCR) resulting in a sharp increase in their NNPA ratio. A combination of regulatory considerations and maintaining profitability drove the banks' decision on PCR.

### NNPA (INR billion)



Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

**NNPA ratio (%)**



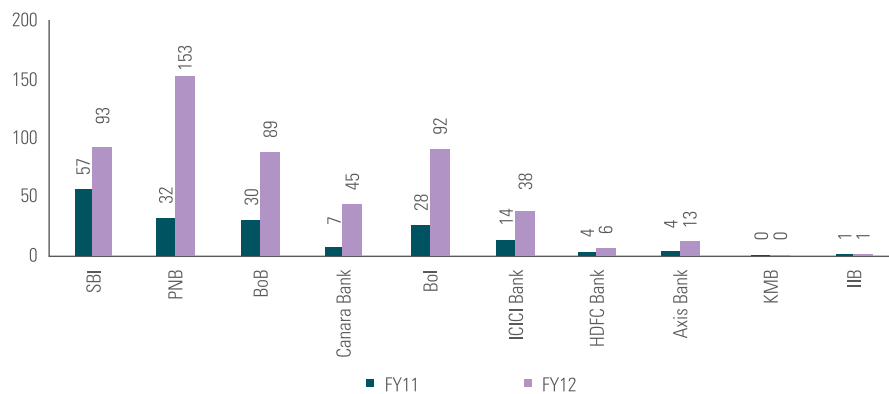
Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

**Restructured assets**

Indian banks have seen a significant rise in restructuring of loans during FY12 mainly due to stress in the sectors like aviation, textiles, telecom, shipping, power and steel. Restructured loans at the end of FY12 stood at 5 percent of total loan book of Indian banks as compared to 3.9 percent at the end of FY11.<sup>5</sup> The restructured standard advances of Indian banks increased by 58.48 percent y-o-y during FY12 as compared to 16.88 percent y-o-y growth in gross advances during FY12. The ratio of restructured standard advance assets to gross advances stood at 5.73 percent for public sector banks and 1.61 for private sector banks during FY12.<sup>6</sup>

All the banks under study witnessed increase in restructuring assets except KMB which saw a decline of 43.48 percent y-o-y in its restructured assets during FY12. The aggregate growth in total restructured assets of the banks under study was 201.95 percent during FY12. Among the banks under study, PNB has the highest amount of outstanding restructured assets (153 billion) whereas Canara Bank has witnessed the highest growth in its amount of outstanding restructured assets (524.41%) during FY12.

**Amount of restructured assets (INR billion)**



Source: Relevant banks' press releases, investor presentation and annual reports

5. RBI annual report 2011-12  
 6. Corporate Debt Restructuring-Issues and Way Forward, RBI, August 2012

## PCR

The RBI requires banks to maintain NPA coverage ratio of at least 70.00 percent of GNPA's. However, increasing NPAs have substantially brought down the NPA coverage ratios of the banks to levels below 70.00 percent.

### PCR (%)



Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

PCR of SBI, PNB, Canara Bank and Bol stood at less than the minimum regulatory requirement of 70.00 percent as of March 2012. PCR of these banks could further worsen if a part of the restructured assets also slip into the NPA category.

SBI has not written-back any excess provisions, leading to PCR (including technical write-off) improving significantly to 68.10 percent in FY12 from 64.95 percent in FY11. PNB's PCR declined sharply to 62.73 percent in FY12 from 73.21 percent in FY11. HDFC Bank's PCR ratio was 82.38 percent on account of its low exposure to stressed sectors.

BoB, ICICI Bank, HDFC Bank and Axis Bank have maintained their PCRs above 80.00 percent during FY12. PCR for KMB and IIB stood at 70.14 percent and 72.72 percent, respectively. One of the key factors in maintaining the PCR above the regulatory requirements was the non reversal of provisions recorded in earlier years which may now be more than the minimum required provisions as RBI guidelines do not permit write back of excess provisions already made.

## Capital adequacy

The capital infusion by Life Insurance Corporation of India (LIC) and the Government of India (GoI) in various PSBs in FY12 has provided comfort to many capital-starved banks. The capital infusion is further likely to help PSBs enhance their lending activity, provide buffer against deteriorating asset quality and meet the capital adequacy norms. Also, this current infusion is a positive step towards the transition schedule for Indian banks to meet Basel III guidelines by FY18.

### Tier-I capital ratios

All banks under study have Tier-I capital ratio of more than 8.00 percent. SBI's Tier-I ratio improved from 7.77 percent in FY11 to 9.79 percent in FY12 because of the capital infusion by the government in the last quarter of FY12. As of FY12, PNB's Capital adequacy ratio (CAR) was 12.63 percent with Tier-I ratio at 9.28 percent.

With capital infusion of INR16 billion by LIC, capital adequacy of BoB improved to 14.67 percent with Tier-I ratio of 10.83 percent. The CAR of Canara Bank stood at 13.76 percent, with the Tier-I ratio at 10.35 percent, as on March 2012.

LIC also infused INR10 billion during the last quarter of FY12 in Bol. After capital infusion, Bol's CAR stood at 11.95 percent, of which Tier-I ratio is 8.59 percent.

The CAR of ICICI Bank was 18.52 percent with Tier-I ratio of 12.68 percent as of FY12. During FY12, capital funds increased by INR71 billion as a result of accretion to retained earnings, the issuance of lower Tier-II debt capital of INR16 billion and reduction of INR21 billion in deduction from capital funds on account of securitization exposures.

HDFC Bank's CAR stood at 16.50 percent, well above the regulatory minimum of 9.00 percent, of which Tier-I ratio was 11.60 percent.

Axis Bank raised capital of INR34 billion by way of subordinate bonds (qualifying as Tier-II capital). This strengthened its CAR and has helped the bank continue its growth strategy. As of FY12, the bank was capitalized with an overall CAR of 13.66 percent and Tier-I CAR of 9.45 percent, as against 12.65 percent and 9.41 percent, respectively, last year.

In FY12, KMB reported CAR of 17.52 percent with Tier-I ratio being 15.74 percent. As of FY12, outstanding unsecured, redeemable non-convertible, subordinated debt bonds stood at INR6 billion and outstanding unsecured non-convertible redeemable debt capital instruments in upper Tier-II capital stood at INR4 billion.

For IIB, CAR stood at 13.85 percent with Tier-I capital at 11.37 percent, comfortable enough to support its planned growth objectives.

Tier-I ratio (%)



Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks



## 05

## Sector commentary

The banking sector in India has undergone significant changes during the past two decades. The chapter discusses three of these significant

changes during the last year along with the initiatives undertaken by each of the bank under study.

### In this chapter

Focus on retail banking  
Financial Inclusion remains a top priority  
Making the best use of technology

### Focus on retail banking

The banks have experienced slowdown in their credit off-take because of large companies delaying their expansion plans and putting their new investments on hold. Rising delinquencies in some sectors (such as aviation, power, exports and commercial real estate) and contracting yields on the corporate/wholesale loans have resulted in banks shifting their focus towards retail banking. Retail banking plays a very important role by helping banks maintain stable and low-cost deposit base. As the retail customer typically comes with four or five banking relationships, retail business is seen as more profitable and less risky. It also helps banks to broad-base their lending.

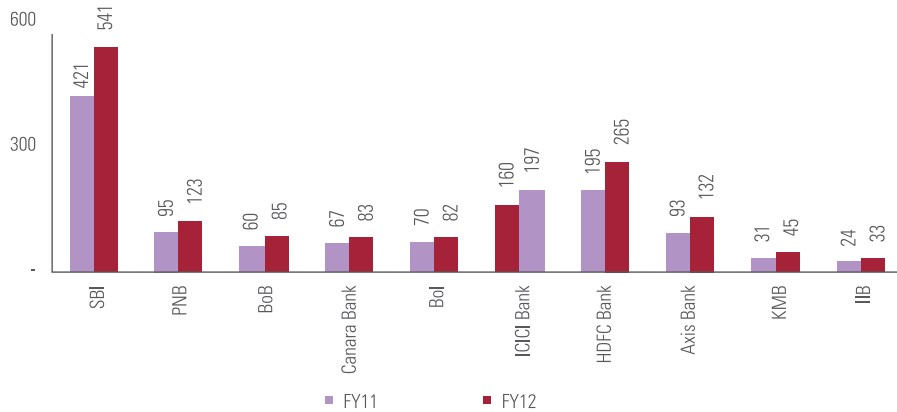
Customer satisfaction is a critical component of increased market share in retail banking. Banks that focus on high-quality service and offer a diverse and affordable product range are likely to become market leaders in the retail banking segment. Indian banks opened a large number of branches during FY12 to strengthen their retail deposit franchise and mobilize low-cost funds. The number of their domestic branches increased from 35,392 in FY11 to 38,932 in FY12, registering growth of 9.99 percent.

The last year's results of the banks under study show that the retail banking market continued to grow despite increasing interest rates and rising delinquencies. Some of the long-term growth drivers such as rising disposable income, favorable demographic profile, huge underpenetrated market and rapid development in information technology, make this business a long-term growth opportunity for banks.

Although, the banks have paid more emphasis on retail banking in the last couple of years, retail banking revenues of Indian banks have showed only a moderate growth. It is attributable to a lag of a few years between the investment made by banks and its impact on the top line.

Individual bank round up

Retail segment revenue (INR billion)



Source: Annual reports, press releases, earning call transcripts and investor presentations published by respective banks

SBI has been focusing on its retail business to counter competition. The bank plans to hire 9,500 employees in FY13 with an objective to expand its retail operations in the coming few years<sup>7</sup>. SBI is already market leader in the retail car loan financing and home loan businesses offering competitive interest rates. Its retail advances grew 10.85 percent to INR1,824 billion led by 20.94 percent growth in auto and 14.26 percent growth in home loans during FY12. It commanded more than 26.00 percent market share in home loan and 17.51 percent market share in auto loan financing during FY12. The bank has stopped taking bulk deposits and CDs and has started focusing on increasing its stable retail term deposits. The growth in retail term deposits was strong at 23.34 percent to INR 412 billion, thereby constituting 78.67 percent of total deposits.

For PNB, growth of retail business remained the thrust area segment. The bank witnessed 23.60 percent growth in its retail credit to reach INR 292 billion in FY12. The vehicle loans product registered a robust growth of 53.80 percent because of roll out of various new loan offers including relaxation in processing fee/documentation charges and rate of interest.

During FY12, BoB undertook some major initiatives, including the launch of new products and retail loan campaign, to augment its retail banking segment with an increased focus on home and car loans. However, retail loans saw a low growth rate because of the repayments of short-term loans during FY12. Retail loans constituted 17.40 percent of total loan book and retail deposits constituted 30.80 percent of total deposits of the bank as on March 2012. The outstanding loan portfolio of the bank stood at INR248 billion.

Canara Bank took several initiatives to expand its retail credit, including loan festivals, concession in processing fees and reduction in interest rates. Although, the bank has seen a decline of 1.90 percent in its retail advances during FY12, it has made plans to focus on its retail business specially retail deposits and advances during FY13. As of March 2012, the retail advances of the bank constituted 10.70 percent of its overall advances.

Bol has grown its retail credit portfolio substantially by 14.82 percent to INR191 billion in FY12. The bank has formulated new guidelines and expedited the new retail credit processing. To benefit its retail customers, the bank reduced its home loan rates by 75 bps after lowering its base rate by 25 bps in May 2012. The bank has also placed separate marketing teams at 21 retail business centers for mobilizing retail loans.

7. "SBI to hire 9,500 staff in FY13 key focus on retail business," The Economic Times, 12 June 2012, accessed from Factiva

ICICI Bank, which reduced its retail book during FY09 and FY10, has begun to expand its retail book again. Its corporate advances have come down to 23.00 percent of total advances from 26.40 percent at the end of FY11. Within the retail loan segment, ICICI Bank is shifting its focus from unsecured loans to secured loans. ICICI Bank has started focusing more on its service quality and customer convenience to increase its retail business.

The profit before tax of the retail banking segment of ICICI Bank was INR5 billion in FY12 (loss of INR5 billion in FY11), primarily driven by the following two factors:

- Provisions for loan losses in the unsecured retail portfolio decreased by 86.40 percent to INR2 billion in FY12. This was primarily due to a decline in unsecured retail. Credit losses in the retail asset portfolio continued to be low as a result of a substantial reduction in accretion to retail non-performing loans since FY11.
- The bank's NII increased 14.90 percent to INR38 billion due to a rise in average the CASA deposits of the retail banking segment. The non-interest income of the bank's retail operations also rose by 21.70 percent because of a high degree of foreign exchange, third-party referral fees and fees from the credit card portfolio.

HDFC Bank also saw a drop in corporate advances in FY12 as the bank consciously reduced exposure to advances that had lower yields and focused more on retail front. HDFC Bank's retail advances grew by 33.70 percent as compared to 10.50 percent growth in wholesale advances. The bank has also seen a growth of 27.60 percent in its retail deposits led by 45.40 percent growth in its retail term deposit.

For Axis Bank, retail loans grew by 35.34 percent to INR376 billion in FY12. The share of retail advances to total advances also grew from 19.49 percent in FY11 to 22.13 percent in FY12. The bank continued to focus on retail term deposits which grew by 43.07 percent to INR479 billion as on FY12. As a result, the percentage share of retail term deposits to total term deposits has increased to 37.19 percent in FY12 from 30.00 percent during FY11. The share of aggregate retail deposits in total deposits has increased to 45.20 percent FY12 from 39.20 percent from FY11.

The retail segment contributed 48.22 percent and 46.09 percent of revenues of KMB and IIB. IIB and KMB started offering 6.00 percent interest on savings deposits above INR100,000 and 5.50 percent interest on balances upto INR100,000 after interest rate deregulation. It resulted in more than 50.00 percent increase in these banks' saving bank deposits. For KMB, retail advances grew by 19.18 percent to INR211 billion and constituted 53.89 percent of overall advances. For IIB, during FY12, retail advances grew by 48.00 percent to INR172 billion resulting in their share in total advances also increasing from 44.50 percent in FY11 to 49.15 percent in FY12.

### Financial Inclusion remains a top priority

Facilitated by various regulatory initiatives, banks have started realizing the business opportunity at the bottom of the pyramid. The banks are leveraging technology to provide services through a number of delivery channels in unbanked areas. Amid policy pressure by regulator and huge underlying potential in unbanked areas, FI is clearly viewed as a priority.

The banks under study have covered all their allotted villages under their board-approved financial inclusion plan (FIP) for April 2010–March 2013. These banks have strengthened their presence in unbanked/under-banked areas via no-frills accounts, smart cards, business correspondents (BCs), ultra small branches (USBs), and self-help groups (SHGs). Understanding the need for financial awareness and literacy in such regions, these banks have established Financial Literacy and Credit Counselling Centres (FLCCs), as well as self-employment and training programs.

Few initiatives taken by banks under study in FI space are as follows:

- SBI has launched various cost-effective channels, such as SBITiny Card (biometrically enabled card), kiosk banking (internet enabled kiosk/computer with biometric validation) and cell phone messaging channel (secured transactions on low-cost mobile phone).
- SBI, PNB, Canara Bank and Axis Bank facilitated electronic benefit transfer (EBT) to the population covered under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), social security pension payments, etc.
- BoB introduced mobile banking vans, connected to its bank network via code division multiple access (CDMA) technology. Currently, five such vans covering 41 villages are operational. BoB also opened 21 new FLCCs known as "SARATHEE"; for the needy population to help them avail financial services from banking system, taking the total number of FLCCs to 39 as on March, 2012.
- PNB has financed 10,259 rickshaw pullers as of March 2012, as another effort to include poor people into financial system.
- Being among the leading players in implementation of FI initiatives, Bol has carved out FI as a new business unit. The bank has also opened five credit counselling centres named 'Abhay.'
- Canara Bank is managing 26 FLCCs and has installed 20 bio-metric ATMs for rural customers. The bank has opened 19 micro-finance branches contributing INR1.5 billion to total business. The bank also understands the importance of training and awareness and has set up 26 rural development and self employment training institutes.
- During FY12, ICICI Bank focused on improving its product and service offerings to meet the requirements of farmers, small processors and agri-corporates in the rural and semi urban areas. The bank has tied up with Vodafone Essar to offer FI services on the mobile platform. Along with ICICI Bank, ICICI Foundation which was established by ICICI Group, is also committed to promote inclusive growth.
- Axis Bank provides a range of other customized products to poor people like Chhota RD, Chhota FD, and Chhota SIP. The bank has tied up with Bharti Airtel to offer FI services on the mobile platform.
- HDFC Bank has integrated its FI initiatives across various product groups and businesses. The bank has included more than 5 million households into formal banking services. The bank has also conducted over 5,400 awareness programs during FY12. The bank has hosted various grameen mega loan mahotsva to promote credit off-take. The bank has entered into a tie up with Vodafone India to launch mobile banking.

Although banks have been progressing well on their regular initiatives (such as implementing FIPs, opening no-frills accounts, issuing smart cards and tying up with BCs), the real impact would only be seen once banks overcome some of the issues pertaining to these initiatives to make them more effective. For example, the quality of service from BCs still remains questionable. The activity in the opened no-frill accounts remains low with a large number of inoperative accounts. The standardization, compatibility and scalability is still an issue with the ATMs, kiosks and BCs used by different banks. All the stakeholders — banks, regulators, technology providers, correspondents — should collectively work towards finding solutions to these issues for a more meaningful FI to take place.

### Making the best use of technology

Technology has been a key enabler for banks to transform their business. The role of technology has changed from being a tool to gain operational efficiencies to being a strategic resource to design products, manage risk and ensure the last mile connectivity. Although banks leverage technology to improve operational efficiency and reduce cost, improving customer experience and delivery quality remains top on their list. With the customers getting tech savvy, banks also have focused on increasing use of technology to ensure customer satisfaction and move ahead of its competitors.

Technology has helped banks to use alternate channels like internet, mobile and ATMs. In addition to Core Banking solution (CBS), many banks under study are also using data warehouses to provide strategic information for better customer insight. Besides this, the technology has found extensive usage in customer relationship management, treasury management, human resource management, electronic transfers, enterprise risk management, business intelligence, improving internal effectiveness and managing IT risks. The banks have implemented/upgraded their systems to make their business more scalable, efficient and uninterrupted along with reduced processing time.

Few initiatives taken by the banks under study in technology space:

- To improve its service quality, SBI has deployed web-based portal where customers can register all kind of complaints. The bank has taken initiatives like dashboards for monitoring of slippages and account tracking centres to keep track on its asset quality. The bank has also implemented updated risk governance structure for integrated risk management which identifies and manages risk at the place of origination itself.
- BoB has taken initiatives like windows server/desktop virtualization and backup consolidation to ensure optimization of resources. The bank has centralized its back office operations including payroll, salary module, electronic tax deducted at source (e-TDS) module and leave module to improve its service delivery and efficiency. For future, the bank has planned initiatives like implementation of business analytics, employee performance management system, employee incentives and manpower planning, advanced phases of customer relationship management and data warehouse, biometric authentication for internal users, etc.
- PNB has done necessary upgradation to make its technology platform more stable, robust and improve quality of assets. During FY12, the bank has launched various IT-based new products and services like cash deposit machines and self service passbook printing station to meet the day to day requirement of customers. The bank has established a security operations centre to monitor and analyze threats arising from within the organization. The bank has placed rating/ scoring systems at central server network to perform risk analytics.
- Canara Bank has undertaken several technology initiatives like internet banking, mobile banking, online fund transfer, passbook printing self service kiosk and financial supply chain management facility for corporate customers (for working capital finance). During FY12, the bank has implemented enterprise-wide data warehouse loaded with business intelligence and analytics for making management decision support system.
- Branding itself as modern tech savvy banks, Bol has implemented many technology based customer centric facilities like online nomination facility, banking through mobile service, implementation of school fee module, self service kiosk, barcode enabled passbook printing, viewing of public provident fund (PPF) account online and online application for education loans. The bank is also leveraging technology in projects like solar power project, very small aperture terminal (V-sat) connectivity project, credit appraisal processing systems and human resource management system. The bank has used strong physical security control with bio-metric authentication and is equipped with updated building management system.
- ICICI Bank has leveraged technology to improve customer quality, convenience and reduce customer complaints to enrich customer experience. With the use of internet and mobile banking, the bank has reduced the need for the customers to visit branches. New initiatives like Click2Call and 'Your Bank Account' application on Facebook have demonstrated the bank's focus on technology. The bank is also making use of clean technologies to promote sustainable development and to reduce greenhouse gas emissions through energy efficiency.
- Various innovative technology initiatives have helped HDFC Bank to reduce its operating cost, minimize risk and improve customer service quality. HDFC Bank has automated credit underwriting process and has enhanced its cross-selling and up-selling capabilities through the implementation of data mining and analytical customer relationship management solutions. It has enabled the bank to have a 360 degree view of its customers. The bank has adopted six-sigma and lean methodologies to improve its service quality.

- Axis Bank continued to focus on cost-effective technological upgrades to provide improved and timely customer quality. The bank has made significant investments in making scalable and robust technology platform. The bank has launched the business process management system to improve operational efficiencies. Server virtualization and storage centralization have been put in place to ensure optimal utilization of resources.
- KMB implemented technology-driven cash management services to help its customers to simplify and optimize their cash flows and liquidity with efficient working capital cycles. The bank also continued its focus on information security with enhanced securities in net-banking, emails and data centres.
- IIB's innovations like 'cash-on-mobile', 'direct connect' and 'quick redeem service' have helped the bank in providing better customer satisfaction and increasing its customer base. Using technology in server virtualization, power saving devices and thin computing has helped bank save power consumption and electricity cost. The bank has taken green banking technological initiatives like document management system, e-learning, e-procurement and paperless fax. The bank has also taken several security control measures to enhance its security framework.

The Indian banking sector is experiencing a shift from the traditional branch customer channel to more technology-centric channels. Technology has played an important role in changing the way banks do business or how customers do banking. It has transformed from an enabler to a business driver. Banks need to strengthen their already-built technology platforms to achieve their business objectives. The near future holds an approach of enhanced focus on technology at an accelerating pace. As rightly summarized by Mr. Anand Sinha, Deputy Governor, RBI, "As we become global, banks would need to become technologically more sophisticated in diverse areas, whether it is moving towards adopting advanced approaches in Basle II or in upgrading their delivery channels for providing better customer service."



## 06

## Regulation

The last two decades have witnessed a sea change in the regulatory environment for banks in India. The banking regulator RBI has been conservative, prudent and ahead of curve during the last two decades. There have been a number of regulatory measures implemented during the last year. Regulatory policies were guided

by the economic slowdown and deteriorating economic outlook, increasing stress in banks' asset quality as well as long-term regulatory objectives such as FI, strengthening banks' risk framework and protecting customers' interests.

### In this chapter

Regulations: shaping sector growth

Exciting times ahead

### Regulations: shaping sector growth

The focus of regulations in any sector changes with the evolution of the sector. It starts with building institution and gradually shifts to building infrastructure to strengthening intermediaries to protecting investors' interests. While there is some overlap among these phases, the regulatory emphasis changes with the maturity of the sector. The banking sector in India is still in a developmental phase where the regulatory focus is shifting from institution and infrastructure building to strengthening intermediaries and protecting investors' interests. Considering reforms carried out in early 1990s to be the starting point of the sector, it signals a change from early stage to growth and early-maturity phase. The following paragraphs discuss some of key regulations which highlight change in regulatory focus.

### Protecting customer interest in a liberalized market

Deregulation of savings deposit rate and non resident of India (NRI) deposit rate was a landmark decision in FY12. Savings rate was the last of the regulated interest rates on the deposits for resident Indians and its deregulation completes the process of gradual liberalization of significant interest rates started in 1990s. Though it might not have impacted most of the banks immediately, it symbolizes the maturity of the Indian banks to function in a truly free market scenario. As an analogy, when the detariffication was implemented in general insurance sector in phased manner, the sector witnessed heavy competition as players reduced their insurance premiums drastically. The regulatory approach requiring banks to offer the same interest rate below INR100,000 deposits also imparted stability during the transition<sup>8</sup>.

Large banks with strong reach, especially in rural areas, have a high proportion of low-cost deposits and therefore remained largely insulated from the savings rate deregulation. However, it helped some of the mid-size private sector banks to increase their low-cost deposit base by raising their savings rate while there was no significant churn of deposits from large banks. In the long run, this is expected to help prepare banks in managing their asset liability mix and compete in other free foreign markets.

8. "Deregulation of Savings Bank Deposit Interest Rate – Guidelines," RBI, 25 October 2011

In another related development, the RBI also deregulated the interest rates on both savings deposits and term deposits of maturity of one year and above for Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) accounts in December 2011. It will help banks attract more deposits in six foreign currencies and add to foreign inflows<sup>9,10</sup>.

In an attempt to safeguard customers' interests, both the regulators for housing finance companies — National Housing Bank (NHB) (in October 2011) and RBI (in June 2012) — removed the prepayment penalty for all floating rate mortgage loans. Though it may not have a significant impact on the bottom line of banks and housing finance companies, it will help reduce the gap between new and old customers of home loans. It will act as a deterrent for home loan providers to differentiate between existing and new customers and give more bargaining power to existing customers<sup>11</sup>.

### Empowering banks to facilitate FI

FI has always been the key focus area for RBI and the Government alike and off-late has received increased emphasis. Given that an estimated 40.00 percent of Indians lack access even to the simplest kind of formal financial services, it becomes extremely difficult for the unbanked people to reap the benefits of the economic growth. Therefore, a meaningful FI is the way to inclusive growth. After ensuring the near-complete coverage of villages with the population of more than 2,000 by March 2012, the RBI has asked banks to focus on habitations with population of more than 1,600<sup>12</sup>.

Though there have been various channels and models being tried to achieve FI, brick and mortar branches still remain a key element in the banks' overall strategy to expand their footprint in unbanked areas. The banking regulator has skillfully used the mandatory legal requirement for banks to obtain its permission before opening any branch for furthering FI. Therefore, gradual simplification of the branch authorization policy remained a key area. In July 2011, the RBI mandated banks to allocate at least 25.00 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centers. In November 2011, the RBI included tier 2 cities (population of 50,000-100,000) in the list of centers where banks can open branches without the regulator's permission. Earlier, this was applicable only to cities between tier 3 and tier 6, with population of less than 50,000.

While these policy initiatives are expected to provide domestic banks with greater autonomy, they are also likely to increase operational costs for banks and affect their profitability in the near to medium term. Rural branches tend to take longer to break even due to the relatively high cost involved in acquiring and servicing a customer as well as weak physical and technology infrastructure. This is expected to affect PSBs more than their private sector peers, as the former category carries a social obligation due to the Indian Government's majority ownership. However, in the long term, increased FI is likely to be beneficial for banks. A strong presence in rural areas would not only drive profitable growth but also act as a cushion against market volatility.

### Strengthening the risk framework in tune with the international standards

In response to the global financial crisis and the subsequent impact on banks, the Basel Committee on Banking Supervision (BCBS) released Basel-III regulations in December 2010. The regulations were aimed at strengthening banks' capital base and making amendments to certain provisions of the existing Basel-II framework, in addition to introducing some new concepts and requirements.

The RBI released the final guidelines on the implementation of Basel-III in Indian banks in April 2012. These guidelines were even stricter than those issued by the BCBS in December 2010. The guidelines are expected to affect the banks in the following way:

- Most of the banks in India already meet the minimum criteria of Common Equity Tier-I (CET-I) capital of 5.50 percent of RWAs and Tier-I capital of 7.00 percent of RWAs and hence, transition should not be an issue in the near-term.<sup>13</sup>

9. "Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts," RBI, 16 December 2011

10. "Pre-payment penalty on pre-closure of housing loan," NHB, 19 October 2011

11. "Home Loans-Levy of fore-closure charges/pre-payment penalty," RBI, 5 June 2012

12. "Government for deeper financial inclusion to boost economy," The Economic Times, via Factiva, accessed 10 July 2012

13. "Regulatory dynamics: The strong to emerge stronger," Motilal Oswal, May 2012

- Higher share of CET-I and fall in leverage may lead to a fall in return on equity (RoE) of some PSBs.
- Basel-III guidelines provide flexibility to banks to provide for dividend payout of as high as 100 percent (as against 40.00 percent under Basel-II).
- The Government's commitment to keep the PSBs' Tier-I ratio above 8.00 percent and maintain a majority shareholding is expected to ensure smooth transition to Basel-III by PSBs in the near-term. However, considering the deteriorating fiscal health of the Government, funding PSBs on an ongoing basis does not appear to be viable. The regulator estimates that PSBs would require INR4.05-INR4.25 trillion of capital by 31 March 2018. Capital constraints will force PSBs to improve their core operating profitability to fund their capital requirement for growth.
- According to RBI, major private sector banks would require capital of approximately INR0.70-0.85 trillion by 31 March 2018. Almost all the private sector banks at the current levels meet the minimum capital requirement of CET-I and capital conservation buffer. Further, as private banks have better Return on asset (RoA) as compared with PSBs, transition to Basel-III is expected to be smooth<sup>14</sup>.

Overall, the banks with weak profitability (low RoA) and structurally weak balance sheet structure will find it difficult to comply with Basel-III requirement, resulting in loss of market share and eventual consolidation.

#### Other significant measures

The regulator also issued revised securitization guidelines in May 2012. These guidelines address the problems of 'originate-to-distribute' model by requiring originating banks to keep the loans in their books for a minimum time (minimum holding period or MHP) and hence, ensure that the originating banks follow firm underwriting standards. Further, to ensure that the originator has a stake in the loans and hence carry out its proper due diligence, the regulator has asked for a proportion of the loan an originator must retain in securitized portfolio (minimum retention ratio or MRR). Also, the guidelines do not permit any credit enhancement for direct assignment transactions which is likely to result in investors bearing high risk and hence adversely impacting the volume of direct assignment transactions.

The regulator also enhanced the provisioning requirements on certain categories of non-performing advances and restructured advances in May 2011. In July 2011, the RBI removed the priority sector status for banks' loans to gold financiers. It also capped the banks' exposure to single gold financing NBFC from 10.00 percent to 7.50 percent of the net worth in May 2012. Further, the regulator allowed banks to categorize their credit disbursements to micro finance institutions under priority sector advances. The RBI also increased the home loan limit under the priority sector from INR2 million to INR2.5 million<sup>11,12</sup>.

#### Risk and soundness

##### *Dynamic provisioning (DP) framework to create countercyclical buffer*

Risk management has been a focus area for the regulator. In continuation of its earlier steps to increase the PCR to 70.00 percent and increase the provisioning requirement on different categories of NPAs and standard restructured loans, the RBI released a discussion paper on DP framework in March 2012. The paper highlighted the requirement of counter-cyclical provisioning to reduce volatility in banks' earnings, make earnings more comparable among banks and reduce the impact of an economic downturn on earnings. While the requirement of DP will make bank balance sheets structurally strong and reduce volatility in their earnings, some of the clauses will impact earnings and put a strain on their capital. Higher provisions will impact shareholders' return of banks in the short-to-medium term. However, banks with strong risk management systems would gain over the rest, once they convince RBI to lower provisioning requirements for them.

##### *Detailed disclosures to help banks manage their asset quality*

In order to help banks manage their NPAs and restructured accounts (especially the smaller accounts) in an effective manner, RBI is planning to make it mandatory for banks to put in place a robust mechanism for early detection of signs of distress and take measures to preserve the economic value of such accounts. Banks might also be asked to disclose segment-wise data on their NPA accounts, write-offs, compromise settlements, recovery and restructured accounts.<sup>15</sup>

14. "Regulatory dynamics: The strong to emerge stronger," Motilal Oswal, May 2012

15. Monetary Policy Statement 2012-13, RBI, April 2012

### Structural changes

The regulator created a separate category of NBFCs — non banking financial company-micro finance institution (NBFC-MFI) in December 2011 to facilitate their growth after they got impacted severely during the last 2-3 years. Consequently, the competition posed by these MFIs to banks in underbanked and unbanked areas is also going to increase, requiring banks to adjust their strategy to compete or co-ordinate with these entities.<sup>16</sup>

The coming year may witness a couple of much-awaited announcements which will impact the institutional framework of managing banks and microfinance institutions (MFIs). The regulator's guidelines on the financial holding company (FHC) structure could result in major changes to the way some of the bigger financial conglomerates have organized their businesses. It assumes greater significance in view of the large capital requirements of banking and insurance businesses to fund growth, limit on foreign capital and meet Basel-III norms.

Besides these, some of the global regulations are also expected to impact the banks in India, especially those with significant overseas operations. Foreign Account Tax Compliance Act (FATCA) and Foreign Corrupt Practices Act (FCPA) are two prominent ones which could affect Indian banks' performance in the coming year.

### Other significant measures

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### Exciting times ahead

Supervising a banking sector like India's in an emerging economy is challenging for any regulator. Along with the supervisory and oversight functions, a lot of emphasis also goes to developmental policies essential for the orderly growth of the sector. The surveillance needs to be just enough to promote the orderly growth of the sector and give room to banking and non-banking companies to innovate and expand their reach. The challenge gets even more profound in a country like India with its vast geographic coverage, large chunk of unbanked people, weak infrastructure and increasing impact of the global developments.

Amid this background, the Indian banking regulator is likely to witness exciting times in managing the orderly growth of the sector.

16. "Introduction of new category of NBFCs - 'non banking financial company-micro finance institutions' (NBFC-MFIs) – directions," RBI, 2 December 2011

17. "Bank loans to Micro Finance Institutions (MFIs) – Priority Sector status," RBI, 3 May 2011

18. "Housing Loan limit under priority sector," RBI, 9 May 2011

## 07

## The future landscape

A variety of factors including technology, new entrants and customers' changing requirements are expected to bring about a significant change to the operations of banks and regulators alike. All these changes are expected to be driven by the common objective of improving the service quality for customers. From being a 'good-to-have' metric, customer service has evolved

to become a tool for banks to differentiate themselves and gain competitive advantage. There is even an increased regulatory focus to drive the customer focus through policies and directives. 'Customer centricity' has emerged as the new central theme for banks to evaluate the viability of all their business initiatives.

### In this chapter

Bank supervision to undergo significant changes

Emerging class of new distributors to impact banks' business models

Data analytics to play a major role

Economic outlook

Banking outlook

### Bank supervision to undergo significant changes

The Indian financial system is expected to further grow not only in size but also in complexity in the years to come. These supervisory responsibilities will require an expansion in the scope of regulations. Further, new regulatory and supervisory benchmarks such as Basel III, supervision of financial conglomerates, and recovery and resolution plans for systemically important entities would require more robust and capable supervisory processes. In this context, the High Level Steering Committee for Review of Supervisory Processes of Commercial Banks in India, chaired by Dr. KC Chakrabarty, Deputy Governor, RBI has submitted a report in June 2012.

Some of the emerging trends are:

- There will be an increased reliance on offsite supervision rather than onsite supervision.
- Periodicity of onsite supervisory examination/reviews will be determined by the risk that an entity poses for the financial system rather than the size of its business.
- Besides the protection of depositors' interests, promotion of financial stability and customers' protection would become the primary objective of RBI's supervisory process.
- Consolidated supervision of large and complex banking groups is likely to gain prominence to provide a holistic view of the risk posed by an entity. The concept of a 'Supervisory Relationship Manager' is likely to be promoted to ensure efficient and effective communication between the supervisor and the supervised entities and to aid the consolidated supervision process.
- There is likely to be a mechanism for structured exchange of information and cooperation amongst the sectoral supervisors to facilitate flow of information and have a coordinated approach towards entities operating in various financial services businesses in India.
- Risk-based supervision for commercial banks in India is expected to help the regulator to optimize limited supervisory resources and meet emerging challenges.
- Reduced manual intervention in the process of submitting information by banks to the RBI.
- There could be segregation of the post of Chairman and CEO in PSBs as well.
- There would be more coordination between RBI and the statutory auditors to eliminate duplicity of supervisory efforts.

### Emerging class of new distributors to impact banks' business models

Worldwide, the policy and regulatory demands for FI coupled with the need to deploy low-cost solutions to reach out to unbanked people has forced all stakeholders to think of alternative ways to tap the unbanked population. This has resulted in extending the definition of financial services providers to include various service providers, such as mobile network operators, retail stores, unorganized retail shops, agents and post offices over the last decade. Many countries have experimented with different providers with mixed success. Of these, organized retailers, with their widespread physical presence, underlying liquidity management systems and brand recognition, have emerged as one of the most effective means to distribute financial services and contribute to FI.

Countries such as Mexico, Brazil and South Africa, with their highly organized retail sectors and high levels of unbanked people, have been more successful in using retail chains as a channel to extend financial services. For example, the total organized retail footprint is approximately nine times the branch footprint in Mexico, where banks have made sizeable investments in their retail networks. Global retailers like Wal-Mart and Tesco have been selling a range of financial services successfully for many years.

In any geography, the impact created by organized retailers in the distribution of financial services depends primarily on three factors — level of financial exclusion, the maturity of organized retail and an enabling regulatory environment. India, with huge unbanked population, holds immense potential to sell financial services. With retailers increasingly getting more organized and RBI willing to allow corporate entities in the distribution of banking services, retailers are expected to play a larger role in the distribution of financial services in the country. Further, the likely increase in foreign direct investment (FDI) limit in retail sector would facilitate the entry of global retailers increasing the proportion of organized sector.

A beginning in this direction has already been made with the Future Capital launching financial superstores which are one stop shop for all retail financial products ranging from loans, payment solutions, wealth management and equity broking solutions, insurance offerings, real estate broking and money changing. The company has aggressive plans to ramp up its operations. Reliance Money had tied up with Triveni Retail Ventures to market retail financial offerings and promote sound financial planning and investment culture among rural and semi-urban masses in Uttar Pradesh and Uttarakhand.

These retailers, by virtue of being lightly regulated and operating more agile business model, are expected to pose significant challenges to the distribution models of Indian banks which are still experimenting with various models. On one hand, these retailers could offer various products from different banks under one roof at a more convenient time and place to urban consumers. On the other hand, these retailers can sell financial products to someone in an unbanked area in more cost-effective way. It would pose more competition for banks to retain and grow their retail franchise in both rural and urban areas. This would require banks to think of innovative ways to compete against these 'new competitors.'

Mobile has emerged as another useful distribution channel to provide banking services. Relatively high mobile penetration level and associated low transaction costs are expected to drive strong growth in this channel in India where a major part of the population is unbanked. The channel is expected to become a key component of banks' expansion strategy across social strata with increasing awareness and regulatory support.

### Data analytics to play a larger role

The banking business, by its very nature, involves billions of transactions and consequently generates large amounts of data — both structured and unstructured. The management of big data large datasets generated outside banks' databases that grow so much that they become unmanageable using the bank's existing database management tools — is expected to play an increasingly major role in driving profitability in a progressively competitive environment. While banks have developed systems to deal with large structured data efficiently, unstructured data— estimated at 90.00 percent of the total data —poses data-management challenges and offers banks a real business-development opportunity<sup>19</sup>. A number of sources, including call center logs, blogs, tweets and surveys, contribute this unstructured data. While difficulties are involved in capturing, storing, searching, sharing and visualizing this data, its effective use could lead to improved decision making and consequently the opportunity to capitalize on new opportunities.

19. "Banks learn to leverage Big Data," Technology Banker, 9 March 2012

Big data could help banks gain a 360 degree view of their customers. Indian banks will derive the real value by creating structured data from unstructured data sources. Unstructured data when analyzed could help banks draw actionable intelligence about customer needs, expand customer base or prevent frauds. Text analytics, which could soon be available to banks as part of other software applications for data management, will merge with social monitoring systems in times to come.

Globally, text analytics or text mining, which involves interpretation of the information generated on social platforms to identify patterns and relationships, are popularly used analytics method. There have been early success stories worldwide. South Africa's Absa Bank and Nedbank have deployed analytics tool for projects involving text mining of social media for gaining insight into customer behavior and assess market sentiments. Deutsche Bank engaged with corporate clients through web 2.0 technologies to get as much as 27 different product ideas that the market would like to have. UBS implemented analytics tools to gain insights into its clients and their behavior, revealing new opportunities for sales, marketing and product development resulting in long-term client relationships.<sup>20</sup>

In India, Standard Chartered Bank uses analytics services. Although Indian banks have started viewing social media as strategic communication medium and have also realized that this unstructured data generated from social media and mobiles is vital for business decisions they are yet to invest significantly in tools for big data and social media analytics. As these banks become more customer-centric, they are expected to embrace social media monitoring as a widespread strategy.

## Economic Outlook

### Global economic outlook

The global economic outlook for 2012 remains uncertain marred by crisis in developed countries. While the first four months of 2012 were generally positive for the global economy because of significant structural, fiscal and monetary policy steps in high-income Europe and monetary policy easing in developing countries, market concerns have jumped up again because of fiscal slippage, banking downgrades, and political uncertainty in the Euro Area<sup>20</sup>. The ongoing banking-sector deleveraging, fiscal consolidation in high-income countries and capacity constraints in developing countries are also contributing to a moderate global growth outlook.

The worsening situation in the Eurozone is threatening the fragile recovery in the US, and creating significant downside risks to already modest global growth. According to the World Bank, the global GDP is projected to increase by 2.45 percent in 2012<sup>21</sup> (2.75 percent in 2011) with growth accelerating to 2.98 percent and 3.31 percent in 2013 and 2014. Output in the Euro Area is projected to contract by 0.31 percent in 2012, while it grew by 1.56 percent in 2011. As these pressures ease, high-income countries GDP growth is projected to grow by 1.88 percent and 2.27 percent in 2013 and 2014.

The GDP in developing countries is projected to expand by 5.29 percent in 2012 over 6.14 percent growth witnessed in 2011. Growth in developing countries is set to decelerate in 2012 due to volatile global economic forces such as reduced capital flow, fiscal and banking sector consolidation, and increased market volatility.

### GDP growth expectations (%)

	2010	2011	2012e	2013f	2014f
World	4.12	2.75	2.45	2.98	3.31
High income	3.05	1.58	1.42	1.88	2.27
Euro Area	1.84	1.56	-0.31	0.70	1.40
Japan	4.46	-0.73	2.35	1.45	1.46
USA	3.03	1.74	2.08	2.37	2.76
Developing countries	7.36	6.14	5.29	5.90	5.98
India	9.60	6.90	6.60	6.90	7.10
China	10.38	9.23	8.17	8.61	8.37
Russia	4.30	4.30	3.80	4.20	4.00
Brazil	7.54	2.74	2.95	4.24	3.91

Source: World Bank, (f) stands for World Bank forecast

20. "Banks learn to leverage Big Data," Technology Banker, 9 March 2012

21. Global Economic Prospects, June 2012, The World Bank

While, the negatives pressures on global growth are expected to ease in the next couple of years, GDP would grow less quickly than during the pre-crisis period<sup>22</sup>. The Eurozone debt crisis dominates the global outlook and remains the central element that will decide global prospects over the years to come. If the crisis is not contained in the region, the downside risks to economies and financial markets are huge. It could have serious impact on developing countries like India which is already battling through domestic pressures of inflation, declining growth, fiscal mismanagement, and policy inertia.

### The Indian economy – current performance and outlook

The vulnerable global environment and a weak domestic economy, characterized by high inflation and liquidity tightening by the RBI, have led to an economic slowdown in India. Illustratively, the GDP growth of the country moderated to a nine year low of 6.88 percent during FY12 as compared to 8.39 percent observed during the last fiscal FY11<sup>22</sup>. The decline in growth has majorly been driven by weak industrial growth, which plunged owing to high capital costs, delays in government approvals and overall weak business sentiment. Illustratively, the index of industrial production (IIP), a key indicator of industrial activity in the country performed poorly in FY12 when it grew by 2.80 percent as compared to 8.20 percent growth observed during the last fiscal<sup>23</sup>.

The weak performance of the country has further stressed the already pressurized government finances. Illustratively, the fiscal deficit of the country stood at 5.90 percent of GDP during FY12, well above the target of 4.60 percent<sup>23</sup>. The overshoot was mainly due to falling growth and consequently depressed tax collections, a miss in achieving disinvestment targets and increased subsidy burden. The trade and current account deficits of the country have also registered record highs due to poor performance of exports.

With inflation continuously remaining above the comfort level, falling investment demand, deterioration in industrial production, weakening rupee, and policy logjam - the outlook for FY13 remains weak. Illustratively, inflation has remained above 7.00 percent for Jan-Apr 2012 and in May 2012 it stood at 7.60 percent, up from 7.20 percent observed during the month of April 2012<sup>24</sup>. Similarly, Consumer price index (CPI) inflation, excluding food and fuel, was also in double digits suggesting that the moderation in wholesale price inflation has not transmitted to the retail level. Price pressures are holding the RBI from monetary loosening and served as the base of RBI's move to keep the repo rate unchanged at 8.00 percent in its monetary policy announcement of 18 June 2012.

With tight liquidity, investment activity is expected to continue its sluggish performance in the coming months. This is expected to reflect in weak industrial activity, which is already showing dipping performance. Illustratively, the IIP continued showing weak performance and increased only marginally by 0.10 percent in April 2012<sup>22</sup>.

On the back of limited capital inflow, the rupee has also been depreciating since April 2012. It touched an all-time low of INR 57.92/USD in June 2012 and is expected to weaken further. The weakening currency is offsetting gains from lower crude oil and commodity prices and is expected to keep inflation concerns alive by increasing import costs. This is also expected to hike the government's fiscal deficit by increasing the subsidy burden. The fiscal deficit is expected to be well above the government's target of 5.10 percent for FY13.

The dynamics of coalition politics has made it difficult for the government to implement much-needed reforms in pension, FDI in retail, insurance, aviation and introduction of Good & Services Tax (GST) etc. which is the need of the hour to revive investor sentiment towards the economy.

The aggravating problems in the country have led many brokerage firms and international banks to cut the growth forecast to even below 7.00 percent for FY13, while the Government of India at the beginning of current fiscal forecasted growth to be around 7.60 percent +/- 0.25 percent<sup>25</sup>. The downward revision in growth has also been due to external linkages, which might lead to a decline in services exports (particularly information technology enabled services or IT/ITES).

The erosion in India's economic profile has led rating agencies to downgrade India's outlook. Illustratively, Standard & Poor's (S&P) and Fitch have downgraded country's sovereign credit rating from stable to negative. According to S&P, the outlook revision reflects at least a one-in-three chance of a downgrade in the next two years if India's external position continues to deteriorate, its GDP growth prospects diminish, or if progress on fiscal reforms remains slow.

Thus India's growth outlook would depend upon the unfolding of situations in the Euro zone crisis and the urgency in which the Indian government deals with the domestic problems of the country. It is imperative that the government accelerates the momentum for implementing second-generation reforms that could stimulate investment and help reverse the recent decline in investor confidence in the private sector.

22. CSO

23. Union Budget 2012-13

24. Office of the Economic Advisor

25. Economic Survey 2011-12

## Banking outlook

The growth story of the India banking sector during the last two decades is beyond the consistent double digit growth of banks' businesses. It stands out for a number of reasons — the transformation in product offerings, use of multiple channels and technology, strong customer orientation, improved service levels and governance structure. Although the last 2-3 years have witnessed some slowdown in the sector, the sector fares still better than that of many countries in terms of growth, profitability, capital adequacy and asset quality, etc. Being challenged by a slower economy, Indian banks would have to fine tune their strategies in more dynamic and uncertain environment, to achieve previous high growth levels.

### Retail banking

Amid short-term challenges like economic slowdown and worsening asset quality, the banks have shifted their focus towards retail segment having huge long-term growth potential. Some of the long-term growth drivers such as the largest and fastest growing middle class, increasing working-age population, one of the youngest countries (with an average age of 25 years), increasing disposable income levels and high savings rate are expected to result in a huge demand for retail banking services. Banks have been expanding their branch networks with an aim to build long-term stable banking model, fruits of which would come with longer gestation periods.

Scaling up a profitable franchise to service people in tier II-VI habitations would be the key to building a successful retail banking model in India. Banks which will see a meaningful FI as a business opportunity rather than a regulatory obligation are likely to experience long-term growth. Banks would be putting in more emphasis on partnering with local bodies/individuals to serve masses. The sector may witness more standardization — driven by both regulatory dictate as well as competitive pressures — to operate in a cost-effective manner. Developing cost-effective customized products to serve masses would also drive bank's business growth.

On the other hand, emerging technologies are expected to impact the way banks operate. Social media is going to gain more importance in helping banks build reputation, improve customer service and preserve and acquire new clients. Data analytics is likely to play a larger role in helping banks cross-sell. Robust and scalable business model backed by effective use of technology would be the key to become a market leader in the industry.

### Corporate banking

Besides large corporate, a growing number of SMEs which contributed more than 40.00 percent of exports and 17.00 percent of GDP in 2011<sup>26</sup>, offers huge business potential for banks. An improving risk assessment framework and credit infrastructure is expected to help banks grow their business with SMEs while maintaining asset quality. Banks are expected to pay more emphasis on strengthening their existing relationship with corporate by offering a number of other services, such as cash management and treasury management.

### Private banking/wealth management

Besides a strong middle class, India also has a strong population of high net worth individuals (HNWIs). The country witnessed a consistent increase in its population of HNWIs for the last few years until 2011 when it declined on account of a significant drop of 33.40 percent in equity-market capitalization and deteriorating macroeconomic conditions. However, given the better performance of equity markets in 2012 till date and increasing affluence beyond urban and metro areas, the number of HNWIs is expected to increase further. Further, the regulator Securities Exchange Board of India (SEBI) is expected to finalize regulations pertaining to alternative investment and independent financial advisors which will further boost the sector<sup>27</sup>.

### Regulations

Regulations as well are expected to impact the way banks operate. The RBI is expected to finalize the norms for the entry of new banks in the private sector soon after the Government carries out certain regulatory amendments. It is expected to intensify the competition in tier II-VI habitations unlike the last time in 1990s when the competition intensified in metro and urban areas.

Basel III norms are expected to increase banks' capital requirements forcing them to not only raise fresh capital but also become more capital efficient. Advanced approaches under Basel II are expected to help banks improve their risk management by building their own data models and assigning their own ratings to better assess risk while reducing capital requirements.

26. "Empowering SMEs for Global Competitiveness," by SME Chamber of India

27. World wealth report 2012, Capgemini

The expected regulatory action on the long-awaited FHC framework is likely to impact the way financial conglomerate organize various financial services businesses in India. In what could be termed as one of the key lessons from the global financial crisis for regulators worldwide, the RBI aims to ring fence the core banking activities of financial conglomerates and ensure that their banking business continues to remain the dominant activity within the group. It will also eliminate the reputational risk and reduce the strain on one business to meet the capital requirement of other businesses. The RBI will have to address some of the challenges like formulating a new law governing functioning of FHC, provide right incentives to the existing financial conglomerates through appropriate tax treatment and resolution of strategic and public policy issues by the Government in the case of PSBs.

Thus, the banking sector may face roadblocks in the near future due to the economic slowdown, which may lead to low credit demand and increasing NPAs; yet, it is well-poised for growth due to significant demand, demographic dividends, high savings, growing disposable income, and improving physical and technology infrastructure. The next few years could witness the growth of the sector on the foundations laid over the past two decades.

However, growth will be accompanied with its own set of challenges. This will require all concerned stakeholders — the government, regulators, banks, non-banking institutions, intermediaries and customers — to collectively strive to overcome these challenges. Ultimately, banks that are comparatively well organized, proactive, technology-driven and ready to innovate will be better placed to realize the true potential of the Indian market.



## List of abbreviations

Asset liability management system	ALM	Microfinance institutions	MFI
Automated teller machine	ATM	Minimum holding period	MHP
Bank of Baroda	BoB	Minimum retention ratio	MRR
Basel Committee on Banking Supervision	BCBS	National Housing Bank	NHB
Basis points	bps	Net demand and time liabilities	NDTL
Business correspondents	BCs	Net interest income	NII
Capital adequacy ratio	CAR	Net interest margin	NIM
Certificate of deposits	CDs	Net non performing assets	NNPA
Code division multiple access	CDMA	Non banking finance companies	NBFCs
Common equity Tier I	CET-I	Non-performing assets	NPA
Consumer price index	CPI	Non resident of India	NRI
Core banking solution	CBS	Non-performing loans	NPL
Cost to income ratio	C-I	Non-resident (external) rupee	NRE
Current account savings account	CASA	Ordinary non-resident	NRO
Dynamic provisioning	DP	Priority sector lending	PSL
Electronic benefit transfer	EBT	Priority sector lending certificates	PSLCs
Electronic tax deducted at source	e-TDS	Profit after tax	PAT
Foreign Account Tax Compliance Act	FATCA	Provision coverage ratio	PCR
Foreign Corrupt Practices Act	FCPA	Public provident fund	PPF
Financial holding company	FHC	Public sector banks	PSBs
Financial inclusion	FI	Punjab National Bank	PNB
Financial inclusion plan	FIP	Reserve Bank of India	RBI
Financial literacy and credit counseling centres	FLCC	Return on assets	RoA
Foreign direct investment	FDI	Return on equity	RoE
Good & Services Taxes	GST	Return on net worth	RoNW
Gross non-performing assets	GNPA	Risk weighted assets	RWA
High net worth individuals	HNWI	Securities Exchange Board of India	SEBI
Index of industrial production	IIP	Self help groups	SHGs
IndusInd Bank	IIB	Small and medium enterprises	SME's
Microfinance institutions	ICT	Standard & Poor's	S&P
Information technology enabled services	IT/ITES	State Bank of India	SBI
Know your customer	KYC	State electricity boards	SEB
Kotak Mahindra Bank	KMB	Statutory liquidity ratio	SLR
Life Insurance Corporation of India	LIC	Ultra small branches	USBs
Mahatma Gandhi National Rural Employment Guarantee Scheme	MGNREGS	Very small aperture terminal	V-sat



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