THE CHANGING VISION OF THE INDIAN BANKING INDUSTRY

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While discussing the changing vision of the Indian Banking industry, I would like to express with pride that the banking industry has withstood various crises and transformed itself to meet the challenges and contribute to the economic growth of the country. Let's take a look at the historical evolution of the sector over the past 4 decades:

1. Technology was formally introduced in the Indian Banking sector in 1988 and today the entire banking industry is using high-end technology, including artificial intelligence, machine learning, robotic process automation and predictive analytics.

2. In 1991, India faced its greatest ever economic crisis and the country had to pledge its gold to remain liquid globally. As a result, the Government introduced a New Economic Policy which was based on LPG viz.,

- Liberalization
- Privatization
- Globalization

The banking sector worked hand-in-hand with the Reserve Bank of India (RBI) and the Government to ensure that these economic reforms succeeded.

3. The 2008 Global Financial Crisis: while banks and financial institutions collapsed in developed markets, the Indian Banking industry was well capitalized, liquid, financially strong and could support the rapid growth of the Indian economy by lending for infrastructure development and industrial growth.

4. Asset Quality issues: The RBI had discontinued all forms of forbearance given to banks in the second half half of 2015. It had also launched an Asset Quality Review (AQR) to check on the quantum of bad loans in the banking sector. Statistics show that NPAs increased from 4.3% in 2014-15 to 7.5% in 2015-16 and peaked at 11.2% in 2017-18. As many as 11 public sector (PSU) banks were placed under RBI's prompt corrective action (PCA) framework due to soaring NPAs. With support from the RBI and adequate recapitalization by the Government, the banking sector got its act together to reduce the NPAs in the system. As of December 2021, only two PSU banks remain in PCA, a remarkable improvement by the sector.

5. The Covid Pandemic: The Indian economy went into an economic tailspin from March 2020 onwards due to Covid lockdowns. The Government announced various relaxations and moratoriums for loan repayment which impacted the banking system. Throughout the pandemic, Indian bankers continued to work on the frontlines ensuring that the banking system continued to function. In fact, over 1,300 bankers died due to Covid in India.

The Indian Banking industry has accepted all these challenges and treated them as opportunities to transform. Indian banks are trying to remain relevant to the fast changing financial sector which now has myriad types of players including differentiated banks, NBFC/MFIs, rapidly growing Fintechs etc.

Indian banks have accepted the fact that they have to meet changing customer expectations. Banks have to move from the role of being custodians/ intermediaries to being service providers through the life cycle of their customers. They are now expected to predict and meet customer needs through innovation which involves developing new products and services that satisfy rapidly evolving customer requirements. Banks are openly embracing collaboration with Fintech players in order to innovate.

While banks have done a lot on the digital payment side, total digitalization of banking services is necessary in the area of lending and trade finance through the elimination of paper-based and manual activities. On-boarding new customers and monitoring of borrowers throughout the credit life cycle can easily be done digitally. Banks are already deploying Data Science and Artificial Intelligence (AI) on data aggregated from various public and private data sources to take informed and cautious credit decisions.

Going forward the banking industry will have to prepare itself for the competition emerging from Digital Banks, Neo Banks, Account Aggregators, Open banking and even E-commerce platforms. Each bank will have to go far beyond plain vanilla banking and ensure hyper-personalization of products and services to meet customer expectations, retain customers and remain their most preferred Bank for all their financial needs.

The entire banking industry is focussing on the development of people, process and technology to improve the productivity and profitability of their respective institutions.

Consolidation in the Indian banking industry has been a successful experiment and today we have a large number of big banks with strong financials.
I expect this trend of consolidation in the banking industry to continue.

Banking is the lifeline of the economy and thus it is expected that banks will contribute to the country's economic growth. In our country, especially, banks have to ensure that they meet the expectations of the masses living in 'Bharat' in order to ensure inclusive growth. India has 1.18 billion mobile connections, 700 million internet users and 600 million smartphones, which are increasing by 25 million per quarter. A large number of these users are in rural areas and will benefit tremendously by adopting digital banking. By catering to rural and semi-urban customers, banks can achieve the dual goals of digital literacy and financial growth. However to do so, banks will need to invest substantially in customer awareness programs. By doing this, banks are not just being socially responsible; they are also establishing an important competitive differentiator in a rapidly growing customer segment.

According to estimates, India's digital lending is expected to grow to US$ 1 trillion in FY23, up from only US$ 75 billion in FY18. The Government projects that India's Fintech market will stand at US$ 84 billion by FY25 as compared to US$ 31 billion in FY19. This augurs very well for the future of the Indian banking system.

Source Publication: *https://industryoutreachmagazine.com*