

INDIAN BANKS - FROM LIBERALISATION TOWARDS DIGITISATION

Oliver Wyman identifies eight agendas that will help Indian banks to shift from a monolithic model towards an agile model

Mumbai, December 13, 2016: The transformation in the banking sector in the past quarter of a decade has been dramatic. However, these transformations could pale in comparison to the next decade and the disruptions on the horizon could potentially threaten the very existence of the banking sector says **Oliver Wyman's report: Indian Banks – Tacking into the Wind.**

The report identifies the potential transformations in the medium term horizon and lays out an agenda for today's bankers which will help position them for success in the coming new world. Oliver Wyman, through the report has identified an eight point agenda that has been broadly categorized into three themes addressing modern day challenges such as risk & capital, reinventing client value propositions and rebuilding the people and organizational foundations of banks.

With the outstanding balance of retail loans in India equivalent to 6% of GDP, Oliver Wyman believes that retail banking is on the cusp of a revolution. The report further estimates that the sector would require additional capital of INR 1-1.8 Lakh Crores (\$15-27 billion). This is largely because of bad assets, with the next-biggest causes being capital required to fund credit growth and the impact of new regulations (Ind AS 9 and Basel III).

David Bergeron, Partner and Market leader, Oliver Wyman India said, "While the past 25 years have seen a vital transformation in the Indian banking sector with regard to glittering branches and ubiquitous reach provided by new technologies, the current era presents multiple critical junctures for the evolution of the industry. It is imperative for Indian banks to act upon the opportunities and challenges presented by the onset of the revolution in Indian banking."

Mr, Bergeron further added, "The government's efforts toward financial inclusion via the Jan Dhan Yojana, has presented an enormous opportunity for the banking sector to offer new products."

The banking report considers the non-performing asset levels in the system and the industry's consequent capital requirements over the next three years, arguing that Indian banks need to enhance their external disclosures related to capital and risk, tackle the credit challenge and gain the confidence of their various stakeholders.

THEME: FIX THE FUNDAMENTALS

- **Agenda 1** - Enhance transparency
- **Agenda 2** - Risk and capital management: drive a broad based transformation in risk and capital management capabilities
- **Agenda 3** - Credit management: Plug the gaps and clear the muck in credit management

THEME: RE-INVENT BUSINESS MODELS

- **Agenda 4:** SME 2.0: Push the Final Frontier
- **Agenda 5:** Retail banking: Embrace digital technology and develop propositions for affordable banking
- **Agenda 6:** Corporate banking: Push new frontiers to drive excellence in execution

THEME: DON'T IGNORE SOFTER ASPECTS

- **Agenda 7:** Address key human resource challenges
- **Agenda 8:** Strengthen governance, compliance and culture

Highlighting the changes that are taking place in the business environment - new operating models and the impact of digital technology, changes in customer profile, and evolving banking dynamics – the report suggests an action plan for banks to respond to the opportunities and challenges in retail, SME, and corporate banking.

The Indian banking landscape is one of the worlds most fragmented, with the 15 biggest banks accounting for 68% of the market, compared to more than 80% in most other markets.

Consolidation might help improve the balance sheets of many struggling banks. It could make them more efficient, and increase their capacity to invest in new technology and compete with the private sector. Consolidation also has the potential to generate new challenges such as heightened systemic risk.

Lastly, the report talks about the need for Indian banks to address their human resource-related impediments and adopt a practical approach to develop and embed a risk-aware culture through an emphasis on talent development, as well as culture, conduct, and compliance.

Notes to the Editor

This report was prepared prior to the announcement of demonetisation by the Government of India. It is our view that this initiative will likely provide added impetus for the disruptive trends discussed in this report. However, the pace of banks' response could change as they will face unexpected balance sheet challenges in the near term.

About Oliver Wyman

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across 26 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm's 4,000 professionals help clients optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com. Follow Oliver Wyman on Twitter @OliverWyman.

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