

INDIAN BANKS: TACKING INTO THE WIND



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“ And once the storm is over,
you won't remember
how you made it through,
how you managed to survive.
You won't even be sure
whether the storm is really
over. But one thing is certain.
When you come out of the
storm, you won't be the same
person who walked in. That's
what the storm is all about. ”

— HARUKI MURAKAMI

EXECUTIVE SUMMARY

2016 marks a quarter of a century since India's landmark reforms of 1991 were initiated, ushering in monumental changes to the economy and substantially liberalising the banking sector. Fuelled by a re-energised financial sector, the nation has gone from something of a footnote in the world economy to one of its most closely watched stars, becoming the world's third largest in terms of purchasing power parity.

A Rip Van Winkle who had dozed off in 1990 and awoke today would find little to recognise in India's banks. In the past, he'd have been able to carry out transactions at only a single branch, accessible through a half-shuttered door, where accounts were kept in a large, green ledger book. Now, he would suddenly have access to a nationwide network of inviting, well-lit, glass-fronted, air conditioned and fully computerised branches. In these, he could access not only deposits, but also a variety of services for lending, insurance, investment and other transactions. Soon after, he'd be introduced to one of the nearly 200,000 ATMs available, as well as facilities such as "doorstep banking", Internet and mobile banking, electronic payment options, and mobile wallets.

While the transformation of banking has been most visible in the retail sphere, the wholesale banking landscape has also been dramatically transformed, with a vast improvement in access to finance and transactional services. As a result, the sector has been able to provide the bulk of the financing needed to fuel the country's unprecedented growth.

At the same time, our Rip Van Winkle would be shocked by the scale of non-performing assets that plague the industry and the staggering amount of capital that will be needed to stabilise the system. He'd take some comfort in the regulator's willingness to face up to the challenges of overseeing a liberalised banking sector, by strengthening NPA recognition standards, adopting global capital standards, and transitioning to a risk-based approach to supervision. Yet, if he was an investor in banks, he would regret the banking disclosures not keeping pace with the growing complexity of the system.

He would soon realise that, despite the glittering branches and ubiquitous reach provided by new technologies, a large portion of the population does not use banking services, and small and medium enterprises struggle to access formal sources of finance. Having witnessed vast improvements in financial services, he would also marvel that a large proportion of household assets remain locked up in gold, cash and property.

While the transformation has been dramatic, it remains incomplete in several ways:

- Retail banking participation has multiplied, and Pradhan Mantri Jan Dhan Yojana (PMJDY, National Mission for Financial Inclusion) has given virtually all Indians access to banking but the participation of vast swaths of the population remains disappointing
- Deployment of capital in the economy remains lopsided. The largest corporate houses are being courted by lenders of all stripes, while consumers and SMEs are not well served and are left to rely on informal funding
- The model of financial intermediation through public sector enterprises has seen challenges related to asset quality issues, inadequate bankruptcy frameworks, weaknesses in risk-based credit decisioning mechanisms and independence of risk decisions
- There are limited examples of “differentiated” propositions by new entrants. As a result, the role played by new players in keeping the incumbents honest and on their toes has not materialised in the Indian banking industry

The current era presents number of critical junctures for the evolution of the banking industry. We make no pretence of being able to forecast what the sector will look like a generation from now. But it is abundantly clear that the transformations we have seen in the past 25 years could pale in comparison to those of the next decade and that the disruptions on the horizon could potentially threaten the very existence of banking as we know it today. As we crystal-ball gaze into the nearer future, we expect some things to remain the same while seeing dramatic shifts on some other fronts.

A few areas will remain the same in our view:

- The fundamental role that banks have been playing in financing economic growth will continue in the future. While debt and equity capital markets continue to mature in India, bank (and NBFC) lending will still dominate
- The broader banking system will continue to be capital constrained. Specifically over the next three years, we expect additional capital requirement of up to INR 1.2 Lakh Crore (\$18 billion) driven by asset quality recognition, credit demand, and the impact of new regulations (e.g. IFRS9 and Basel)
- Public sector banks have lost significant market share in recent years, and we expect this trend to continue as they grapple with asset quality issues and the resulting capital constraints. Declining revenues could combine with capital constraints to restrict the funds available for investing in new technologies and operating models

While some changes already started, will accelerate:

- Significant shift from the “monolithic” model of banks that we generally observe today towards an agile model offering more services on a modular basis and with a much greater emphasis on customer experience
- Greater focus on improving transparency in banks – driven by the expected evolution of the supervisory model (e.g. more risk based), regulatory changes (e.g. Ind AS 9, Basel III), continued focus on asset quality and emphasis on improving risk management capabilities in banks
- “Democratisation” of banking with emergence of retail and SME as the dominant growth segments – in contrast to the recent banking model with its disproportionate emphasis on large corporates
- Banking “delivery models” and “channels” will be significantly expanded from their current scope. This will be driven by the ever increasing reach and ubiquity of mobile technology as well as key infrastructure initiatives such as India Stack (Aadhaar, digital signature, Unified Payments Interface)

And some more open question which we will touch on in Section 1 of this report:

- What will be the role of public sector enterprises for financial intermediation?
- Might consolidation strengthen the banking sector?
- Will we see the rise of more specialised banking models?
- Will the rise of FinTechs spell the end of banking as we know it today?

With the potential long term transformations in mind, we “dial back” our view to the medium term horizon and try to lay out an agenda for today’s bankers which we believe will position them well to survive and thrive in the coming new world. This agenda focuses on addressing the present challenges in risk and capital, re-inventing client value propositions and rebuilding the people and organisational foundations of their banks.

These are exciting times for players in the industry. They must take action now, more than ever, to grasp the opportunities and challenges presented by the onset of the revolution in Indian banking. Our report urges banks to take actions grouped into three themes and eight agenda points.

THEME	AGENDA
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
Reinvent 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: Corporate banking: Push new frontiers to drive excellence in execution
Don't ignore softer aspects	Agenda 7: Address key human resource challenges
	Agenda 8: Strengthen governance, compliance and culture

In Section 1, we take stock of the contribution of the banking sector to the nation's economic growth. It also summarises the current state of the banking system, which is facing worsening credit quality, slower asset growth, and the entry of new, specialised players.

In Section 2, we consider the non-performing asset levels in the system and the industry's consequent capital requirements over the next three years. We argue that Indian banks need to enhance their external disclosures related to capital and risk. We go on to describe how banks could tackle the credit challenge and gain the confidence of their various stakeholders, including a new class of investor expected to enter the public sector banking system. (See Agendas #1-3)

In Section 3, we highlight 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. We suggest an action plan for the banks to respond to the opportunities and challenges in retail, SME, and corporate banking. (See Agendas #4-6)

Finally, in Section 4, we discuss the talent model, as well as culture, conduct, and compliance which we believe need to be adopted by the banks – these are topics which have come to the fore globally in recent years. We recommend a practical approach for banks to develop and embed a risk-aware culture. (See Agendas #7-8)

* * *

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.

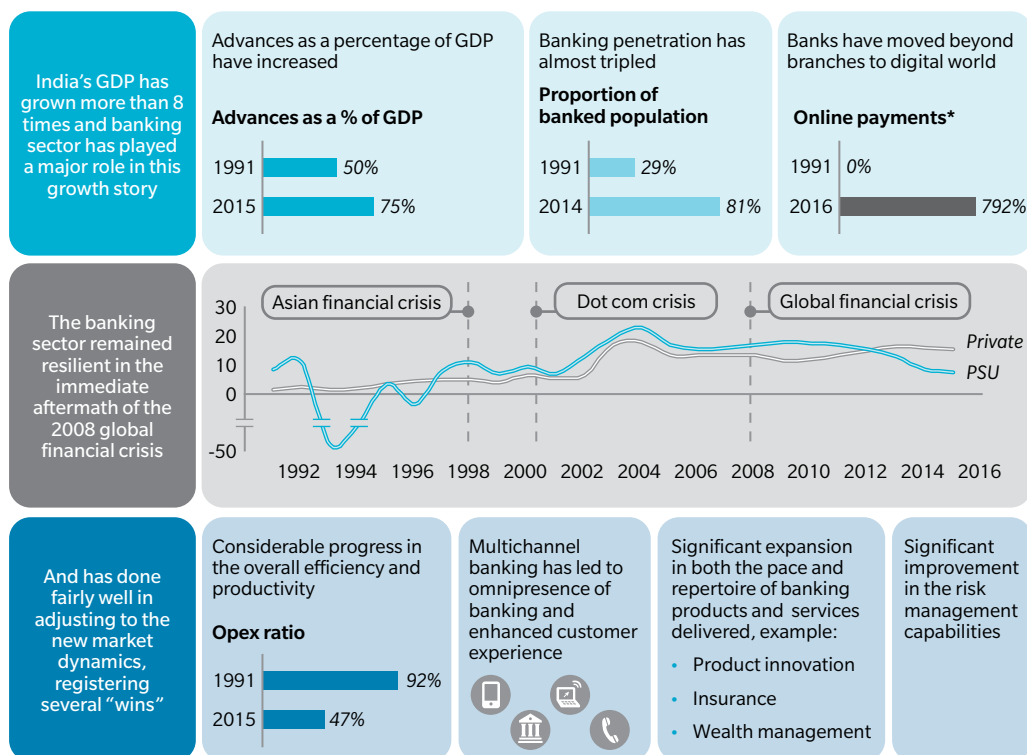
1 THE INDIAN BANKING SECTOR: TAKING STOCK

2016 marks a very important milestone in the growth story of India. It was 25 years ago that the government embarked on the path of economic liberalisation. Since then, the Indian economy has become eight times as large¹ and is now a \$2 trillion economy; foreign exchange reserves are now 32 times as big, at \$295 billion; and India has developed into one of the world's most thriving entrepreneurial scenes.

1.1. THE JOURNEY SO FAR

The role of the banking sector in India's emergence as an economic giant cannot be underestimated. The sector's journey has been challenging but transformational. The number of proportion of banked population has almost tripled, banks have adopted technology to improve operating efficiencies, and have also expanded their product suites. At the same time, they were resilient during the Asian financial crisis (1997-98), the dotcom bust (2000-01), and the global financial crisis (2008-09), as summarised in Exhibit 1.

Exhibit 1: The Indian banking sector has been transformed over the last 25 years



* Online payments include customer RTGS payments and other retail electronic payments

1 Based on market prices

However, the banking sector still has unfinished business. Despite the Indian economy's heavy dependence on banks, credit is still not being delivered either adequately or efficiently. The rapid economic growth of the last two decades has led to some structural problems with the way credit is delivered. These must be addressed in order for the economy to enjoy long-term success:

1. Banking remains the primary source of credit to the economy, with capital markets accounting for less than 20%. (See Exhibit 2)
2. Retail and SME customers account for a very small share of banking credit, as they rely primarily on less formal sources of funding. Corporates continue to dominate credit consumption, with more than 50% of outstanding credit. (See Exhibit 2)
3. Public sector banks continue to dominate the banking landscape, with more than 70% of outstanding credit. As they are state-owned enterprises, they place a heavy demand for capital on the government in order to fund the country's credit needs. Public sector banks also have a potential conflict of interest when it comes to funding other state-owned enterprises. (See Exhibit 3)
4. While the banking sector in general has made significant progress in upgrading its risk and capital management practices, these still leave much to be desired in an increasingly complex business environment. This issue has been further highlighted by the recent precipitous decline in asset quality. We estimate that NPAs in the Indian banking sector amount to between INR 13 and 15 Lakh Crore (\$190-220 billion) – greater than the GDPs of countries such as Ireland, Greece and New Zealand. (See Exhibit 4)
5. There have been limited new entrants to the banking sector. The Reserve Bank of India has issued new banking licenses only in the last three to four years. However, new entrants are important to keep the incumbents honest and put pressure on them to innovate.

Exhibit 2: The supply and deployment of credit in India is very concentrated

DEMAND AND SUPPLY OF CREDIT IN THE INDIAN ECONOMY
 MAR 2016, INR LAKH CRORES (TOTAL = INR 107 LAKH CRORES)

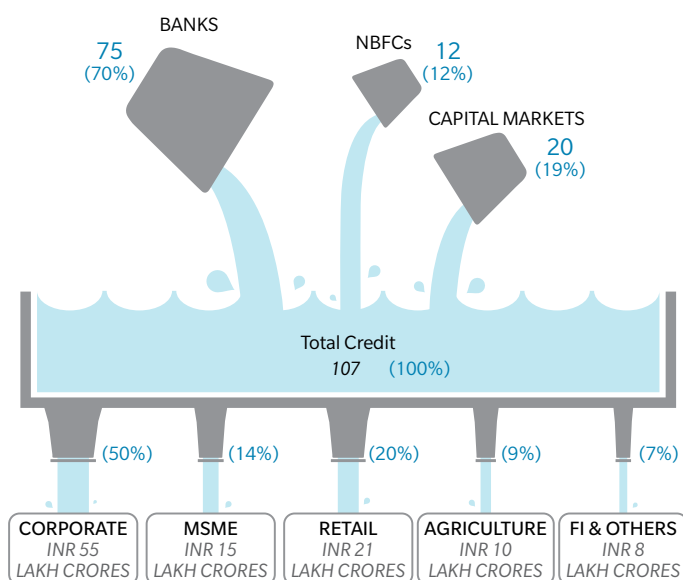
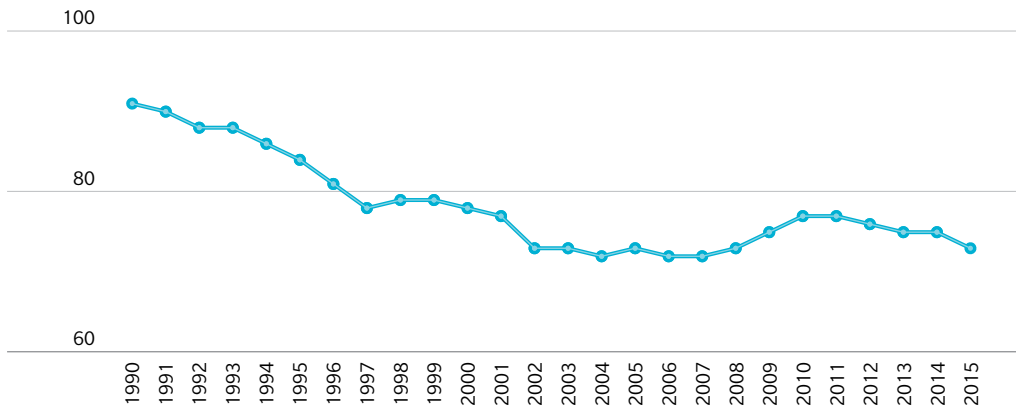


Exhibit 3: Decline of Public Sector Bank market share has resumed in the last three years after stabilising post-crisis

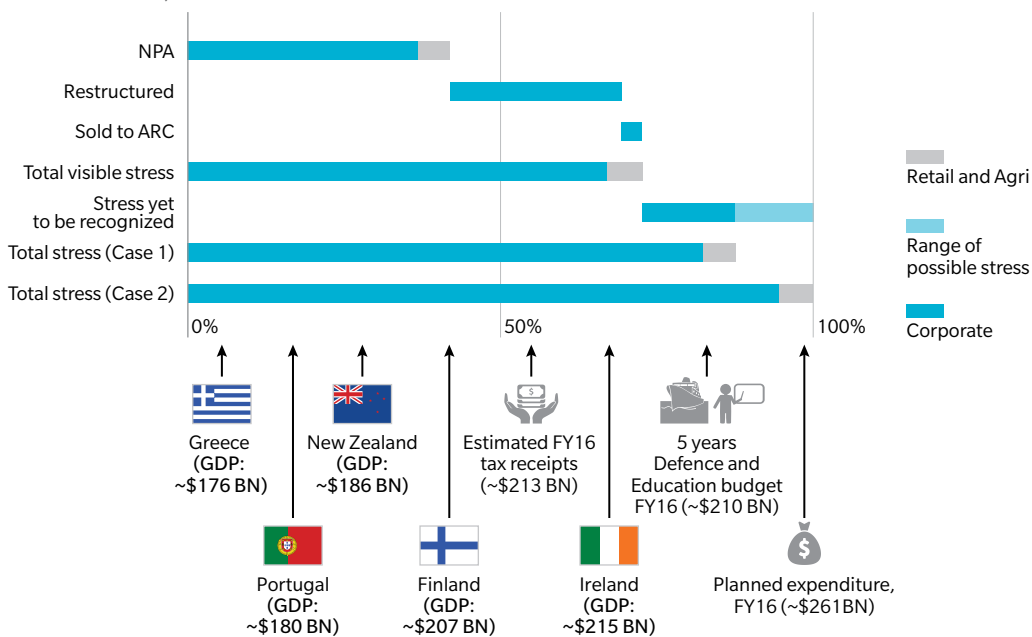
SHARE OF PUBLIC SECTOR BANKS IN THE DOMESTIC CREDIT LENT BY SCHEDULED COMMERCIAL BANKS
AS OF MARCH, IN PERCENTAGE



Source: RBI, Oliver Wyman analyses

Exhibit 4: The stock of stressed assets in the Indian banking system is comparable to the GDPs of some national economies

TOTAL STRESS IN THE BANKING SYSTEM
AS ON 31.03.2016, INR LAKH CRORES



Key assumptions

- Case 1: All corporates with interest coverage ratio (ICR) < 0.9 are stressed
- Case 2: All corporates with interest coverage ratio (ICR) < 1.1 are stressed
- Stress level in the publicly listed corporates and private corporates is same
- Of the all bonds outstanding in India, 25% are by non-financial corporates
- The invisible stress in retail and agriculture is negligible

Source: RBI, SEBI, Industry data, Oliver Wyman analysis

1.2. CRITICAL JUNCTURES LIE AHEAD

Barring a few exceptions, the Indian banking sector is largely monolithic and characterised by poor service and limited true innovation. The gap between the “leaders” and “laggards” is increasing as banks are being challenged to become more agile, transparent, and focussed on service and client value proposition. Banks are also being forced to improve transparency in sync with the evolving supervisory model and more rigorous asset quality recognition. Leading banks are enhancing focus on the quality of their risk management and finding ways to improve corporate governance.

These actions have the potential to initiate a renaissance in Indian banking. A number of critical junctures lie on the path ahead, and the directions chosen by individual banks and the industry as a whole can transform the way banking is done in India. The following areas are particularly critical:

- **Public sector banks – in search of raison d’être?**

Indian banks were nationalised in 1960s and 1980s to give the government greater control over credit delivery. The stated aim was to serve economically weaker sections of the economy and support industrialisation. But it is debatable whether the current set-up has succeeded in delivering on these objectives. Credit remains elusive for poorer sections of society and for SMEs. At the same time, the Reserve Bank has made it imperative for all banks to serve the social objectives that were once the responsibility of the public sector banks. Also, it can be argued that FinTech players, NBFCs and MFIs are better suited to serve the needs of the unbanked populace. With these trends in play, the role of state-owned enterprises that aspire to meet social objectives as well as create value for their shareholders may need to be re-established.

- **Consolidation – a magic cure?**

The Indian banking landscape is one of the world’s most fragmented, with the 15 biggest banks accounting for 68% of the market, compared to more than 80% in most other markets. Talks of consolidation have been around for years, but little progress has been made to date. 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. However, history suggests that some problem institutions have dragged down good ones, and it is not yet clear how consolidation will address fundamental challenges in the industry, such as low employee productivity, inadequate focus on the customer, and lack of specialised banking knowledge. In addition, consolidation has the potential to generate new challenges such as heightened systemic risk.

- **Differentiated banks – has the time finally come?**

RBI has given in-principle approval to 10 small finance banks and 11 payments banks, which are due to launch operations in the coming months. The regulator may introduce guidelines on differentiated banking licenses. The specialisation of banking products helps in two ways: first through better credit under-writing, and second by attracting a wider investor base looking at different risk-return profiles. However, funding such institutions has been a challenge in India, and a number of specialised financial institutions have converted into universal banks so that they can tap into stable, low-cost deposits and (when needed) RBI repo window – IDBI and IDFC, for example. Another problem for specialised institutions is concentrated portfolios that are prone to shocks. For differentiated banks to be successful, a lot will depend on the development of the broader ecosystem of investors, funding vehicles, and partnerships.

- **FinTechs – more effective at financial intermediation?**

A lot of attention has been given to the threat that FinTechs present to banking incumbents. FinTechs have provided a superior customer experience and have been better at improving transparency and widening the reach of financial services through innovation. There is a good case for FinTechs to provide effective financial intermediation and hasten the modularisation of financial services. (See Oliver Wyman's report on Modular Financial Services, published earlier this year). However, banks continue to enjoy advantages including existing customer relationships, large-scale operations, and large balance sheets. Further, many banks have recognised the threat and are now evolving their operating models to focus more clearly on their customers. In some cases, they are doing this in partnership with FinTechs, and in others they are starting their own innovation centres. Only time will tell whether FinTechs remain niche businesses or become mainstream service providers.

Each of the above factors will be critical in defining the likely evolution of banking in India. Many factors will influence the paths that banks take, and their interplay makes it difficult to predict the future structure of the sector. However, it is important to appreciate the wide spectrum of possible “makeover” that the Indian banking sector can undergo over a short period of time.

1.3. THE WAY FORWARD

The current era represents a period of introspection and one with a number of critical junctures for the evolution of the banking industry as a whole. We make no pretence of being able to forecast what the sector will look like a generation from now. However, it is abundantly clear that the transformations we have seen in the past 25 years could pale in comparison to those of the next decade and that the disruptions on the horizon could potentially threaten the very existence of banking as we know it today. As we crystal-ball gaze into the future, we expect some things to remain the same while seeing dramatic shifts on some other dimensions, in the near-medium term

A few areas will remain the same in our view:

- The fundamental role that banks have been playing in financing economic growth will continue in the future. While debt and equity capital markets continue to mature in India, bank (and NBFC) lending will still dominate
- The broader banking system will continue to be capital constrained. Specifically over the next three years, we expect additional capital requirement of up to INR 1.2 Lakh Crore (\$18 billion) driven by asset quality recognition, credit demand, and the impact of new regulations (e.g. IFRS9 and Basel III)
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While some changes already started, will accelerate:

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With these long term transformations in mind, we “dial back” our view to the medium term horizon and try to lay out an agenda for today’s bankers which we believe will position them well to survive and thrive in the coming new world. This agenda focuses on addressing the present challenges in risk and capital, re-inventing client value propositions and rebuilding the people and organisational foundations of their banks.

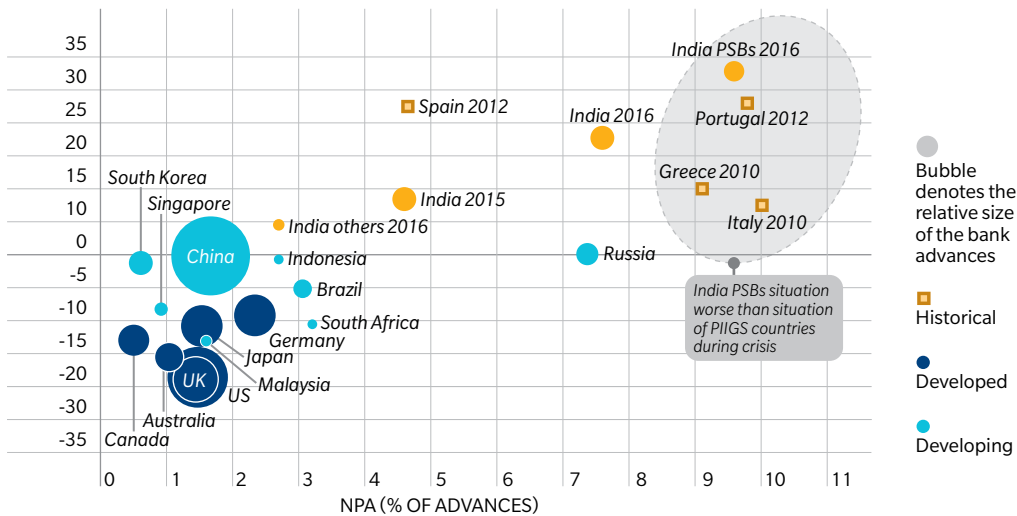
2 FIX THE FUNDAMENTALS

Banks in India are now facing acute challenges, as the global and domestic economic slowdown has revealed their exposure to credit risk. This has been further highlighted by the RBI's Asset Quality Review (AQR) exercise, which has forced banks to recognise the bad assets on their balance sheets.

The NPA level at Indian banks is at a historic high, and India's banking sector is one of the most stressed globally in terms of asset quality. Public sector banks have even worse NPA levels – comparable to those seen in Italy, Greece, and Portugal at the height of the global financial crisis of 2008-10. (See Exhibit 5) This has led to a dramatic drop in banks' valuations, with some public sector banks trading at just half of their book value.

Exhibit 5: Indian banks' NPA levels are comparable to those in some European economies during the global financial crisis

COMPARISON OF THE NON-PERFORMING ASSETS ACROSS ECONOMIES
2015
5 YEAR NPA CAGR (2010-2015)



Source: The World Bank, RBI, Industry data, Oliver Wyman analysis

In the near term, the banks must tackle their asset quality challenges head on, and take steps to reduce their stocks of NPAs. However, they also need to think beyond the immediate challenges and take measures that will have a long-term, sustainable impact and boost the confidence of both the public and wide groups of investors. In particular, banks need to prepare themselves for the newer risks posed by increasingly complex operating models – for example risks related to digital technology and conduct. We see leading banks pursuing three agenda items:

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

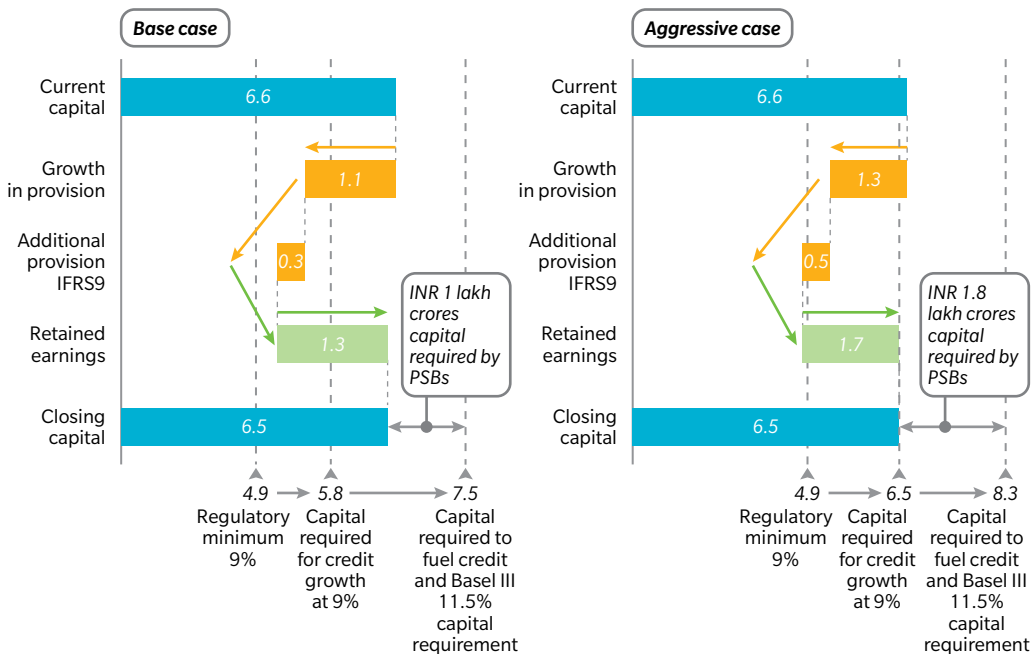
AGENDA 1. ENHANCE TRANSPARENCY

Since the asset quality review (AQR) undertaken by the Reserve Bank of India, industry analysts have been speculating about the extent of bad loans and the resulting capital requirements. There is a wide range of expectations, from INR 90,000 Cr to INR 1.5 Lakh Cr (\$13-22 billion). Many of the current concerns in the banking sector are caused by lack of confidence in the data presented and inability of investors to assess the extent of stress in the system. There has been some positive movement in recent quarters, with some private sector banks sharing more information on the quality of their assets. However, these efforts are insufficient to rebuild confidence in the health of the system. Indian banks significantly lag their international peers in disclosures, a topic that has been extensively covered by many analysts. We did a comparison of best-practice Indian banks and best-practice banks globally on a subset of important disclosures under Pillar 3 of the Basel framework and found Indian banks significantly lagging e.g. no availability of – ageing analyses, early alerts, mortgages by LTV buckets, segment-wise DPD details, classification of loan portfolio by risk levels, to name a few.

Oliver Wyman’s research team, like others, faced challenges in estimating the future capital requirements of the banking sector using the available public disclosures by Indian banks. We supplemented the banks’ disclosures with publicly available information on listed companies to estimate what may be called “invisible stress” in the system. Our estimates indicate that the Indian banking sector requires 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). In our analyses, we haven’t considered the impact of revisions to the standardised approach for credit risk or of capital surcharges for large borrowers where RBI has issued revised guidelines.

Exhibit 6: Capital requirements of Indian public sector banks

TOTAL CAPITAL REQUIRED BY PSU BANKS FROM 2016 TO 2018
INR IN LAKH CRORES



Source: RBI, Industry data, Oliver Wyman analysis

The Eurozone and the United States provide interesting case studies in the value of transparency. While US regulators and banks were upfront and proceeded to shine the spotlight on the resilience of banks' capital quickly in response to the 2008 financial crisis, it was not until 2011 that the European Central Bank conducted asset-quality reviews and stress tests. These ultimately had a calming influence, and Eurozone banks began to tackle their challenges in a rational way.

If there were more transparency and trust in the underlying data for Indian banks, exaggerated concerns could be alleviated and investors could get a more realistic view of them. Investors could also appreciate the underlying strength and stability that the Indian banking system gets from collaterals, its large and stable deposit base, and the comparatively low risk of contagion. Undoubtedly this will be a lengthy process requiring a change in mind-set by banks, regulators, policymakers, and the public. However, the transition will bring about an enormous improvement in perceptions of the banks and, hence, their access to capital.



RECOMMENDED ACTION STEPS FOR BANKS

The new private sector banks and some of the largest public sector banks have already increased their emphasis on the objective valuation of assets through asset-quality reviews and stress tests. Other banks need to graduate to these practices. Further, the banks need to increase the transparency of their business – and especially their credit data. They should also proactively guide analysts, investors, and the public in understanding the data. We believe that Indian banks need to make available at least the following types of data:

- 1. Capital adequacy under moderate and severe stress scenarios*
- 2. Quarterly trends (i.e. flows) of stressed exposure (day-past-due buckets) by segment (such as corporate, retail and SME)*
- 3. Accounts (anonymised) and pool value on the watch list for potential default in next three months, six months, 12 months, 18 months and 24 months*
- 4. Over- and under-collateralised exposure by segment (such as corporate, retail and SME)*
- 5. Classification of loan portfolio and investments by risk grade*

AGENDA 2. DRIVE A BROAD-BASED TRANSFORMATION IN RISK AND CAPITAL MANAGEMENT CAPABILITIES

RISK MANAGEMENT

Risk functions at Indian banks have traditionally been involved in a risk assurance capacity, focussing on regulatory compliance, loss control, and credit assessment. While this may have worked adequately in the past, risk functions today face pressure from many directions. They also have new opportunities:

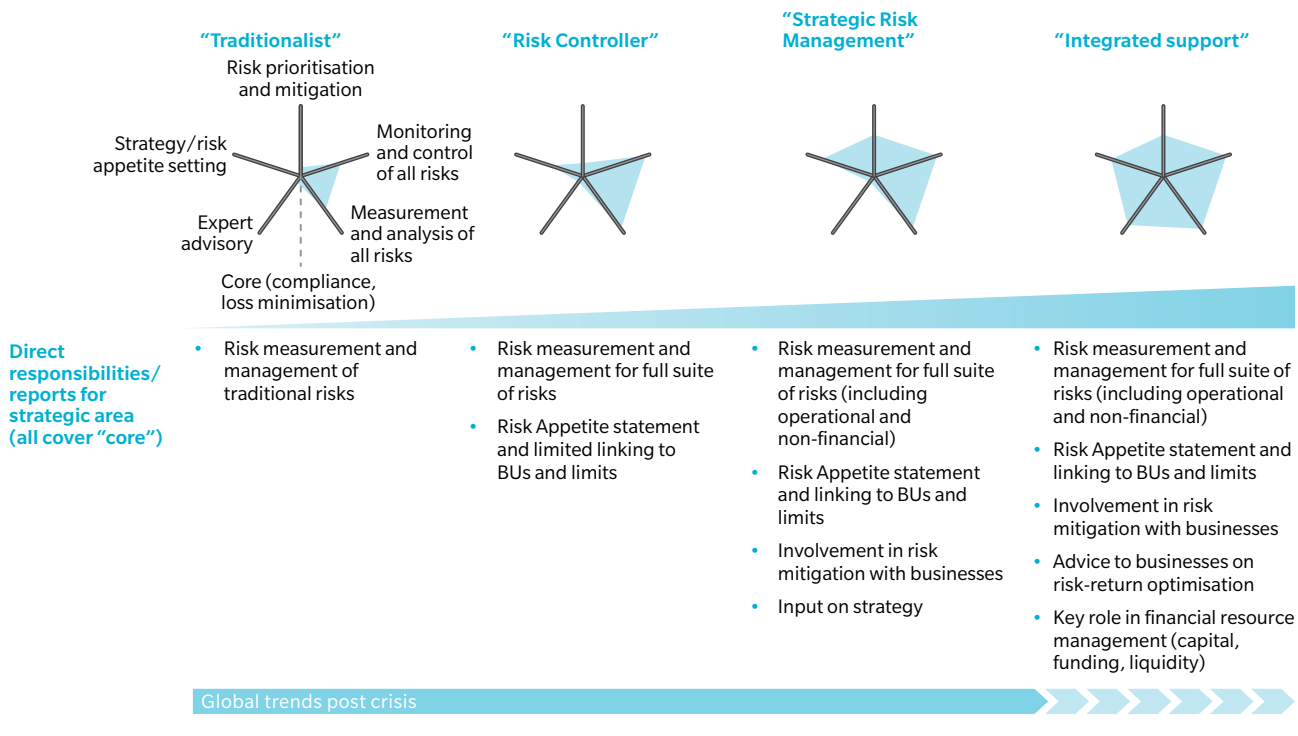
- Increased regulatory demands – for example Ind AS 109 and new Basel guidelines on capital and liquidity
- Higher market sensitivity to performance beyond the top and bottom line: The bar has been raised on capital, liquidity, funding and asset quality
- Macroeconomic uncertainty (both international and local)
- Growing innovation in ways to manage both financial and non-financial risks
- Rapid advancement in technology: real-time banking and customer connectivity 24 hours a day, seven days a week; and information-led risks
- More diverse risks, especially on the operational and non-financial fronts, and the need to remain responsive to and prepared for emerging risks, such as digital and conduct risks.

The complex interplay of these forces will have different impacts on various business lines and on segment profitability. We note in particular the rapid adoption of new technologies, analytics and partnership models which bring new risks such as cyber risk and fundamentally changing the way in which other risks such as credit and conduct risk need to be managed. Conduct risk has risen in prominence with high-profile misconduct cases hitting global headlines and with RBI transitioning to more principles-based approaches to supervision of conduct.

This will lead to increased demands for and expectations of the risk function’s capabilities, services, and skills. The risk function needs to undergo a fundamental change in role, away from basic regulatory compliance and towards strategic advisory to businesses. It needs to play a more holistic risk management role throughout the bank (Exhibit 7), and advise senior management on strategic portfolio choices. This move to an integrated support model will have to be driven top-down by the board and senior management. It will require collaborative efforts between managers responsible for business, finance, and risk.

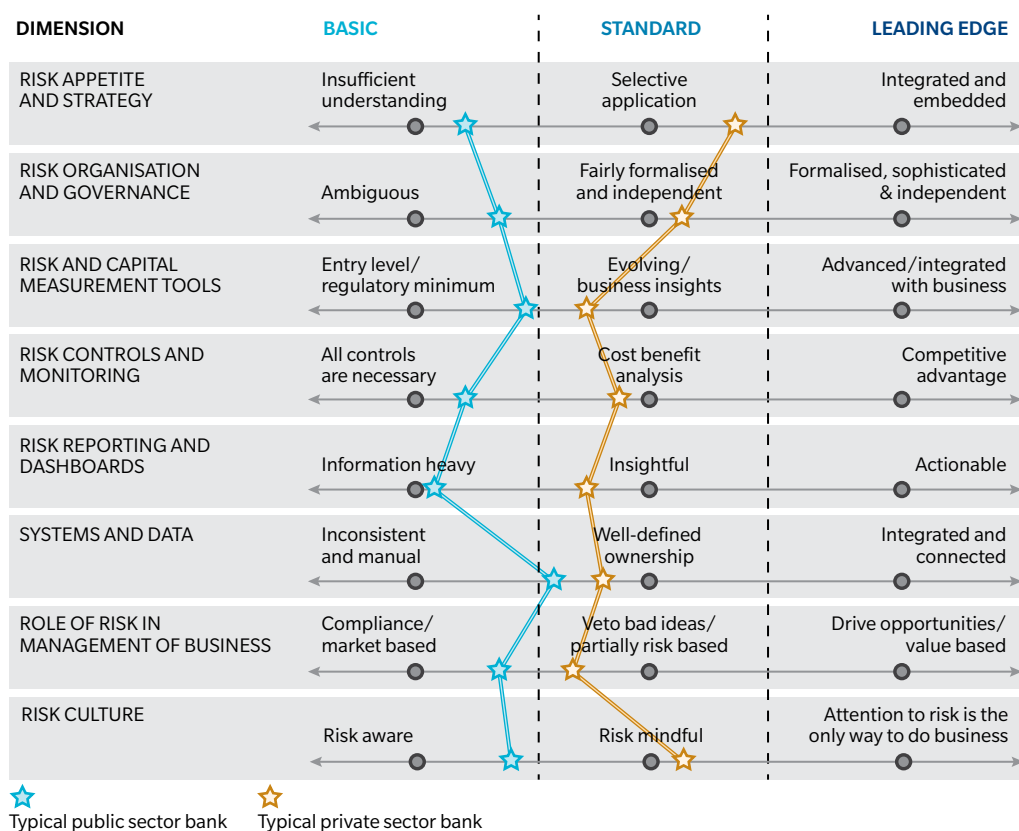
Exhibit 7: The role of the risk function needs to be elevated to strategic advisor

EVOLUTION OF THE ROLE OF RISK



At the same time, material upgrades to the risk operating model and to risk practices are required to ensure a fit-for-purpose risk function. Traditionally, Indian banks have done well in credit risk management (for example through standalone credit decisions and a clear delegation of authority) and strengthening the controls environment (as with automation). However, there has been a relative absence of strong risk guidance. There have been some efforts to more clearly articulate risk appetite and align incentive structures, but there has been low involvement of the risk function in strategic decision making and in shaping the risk profile of the bank. Further, the chief risk officer (the top-ranked officer responsible only for risk) seldom reports directly to the CEO, nor do they always enjoy unfettered access to the board and its risk committees. The attenuated stature of the CRO makes it difficult to elevate the voice of risk on important matters. Risk-related infrastructure has relied heavily on vended tools, with limited attention given to credit monitoring, portfolio management, or insightful dashboards. Our assessment of risk management practices at Indian banks suggests an immediate need to address these gaps, particularly in public sector banks. (See Exhibit 8)

Exhibit 8: Risk management practices at Indian banks significantly lag global best practices



Source: Oliver Wyman analysis

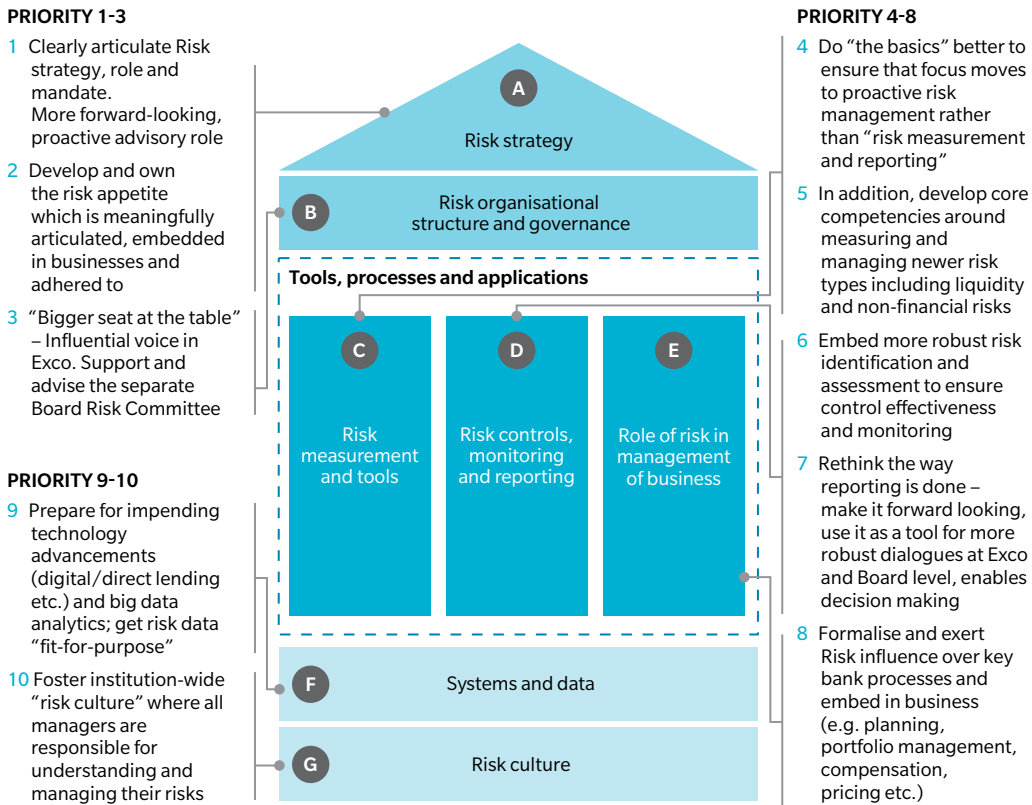


RECOMMENDED ACTION STEPS FOR BANKS

We see three broad areas of priority for where leading Indian banks are focusing their efforts to upgrade their risk management operating models. (See Exhibit 9)

- Priorities 1-3**
 Enhancing the role of risk so that it exerts greater influence on management decision making (for example via tools such as a risk appetite statement). This would enable banks to better manage the impact of evolving regulatory requirements and macroeconomic uncertainty – especially in the current situation, where capital, liquidity, funding, and asset quality are becoming equally prominent.
- Priorities 4-8**
 Upgrading risk capabilities: getting better (and more proactive) at managing current risks, while preparing for emerging risks (for example operational and non-financial). With more risks to manage and the need to be responsive to emerging risks, the capabilities of the risk function have to evolve.
- Priorities 9-10**
 Improving enablers around systems, data, and risk culture. Rapid advancements in technology, underlying systems, and data should allow for more advanced risk management. Risk culture should also permeate to the first line i.e. the business to enable the proactive identification and management of risks.

Exhibit 9: Indian banks need to take action in three broad areas of priority to upgrade their risk management capabilities



CAPITAL MANAGEMENT

As with risk management, capital management historically was not a top agenda item for banks in India, as they didn't face acute capital constraints. That is changing now. Banks' financial resources today are under increased pressure because of market uncertainty, growing requirements from stakeholders, and the impact of new regulations (for example Ind AS 9 and Basel III capital buffers). The public sector banks have an even bigger challenge, as the government is their largest (and sometimes only) source of funding capital.



RECOMMENDED ACTION STEPS FOR BANKS

To thrive in a resource-constrained world, banks will need to have a razor-sharp focus on managing their capital and their risk-return profiles. Global banks have been facing these constraints since the crisis, and their experience suggests 5 key areas of focus for capital management:

- A. Treat financial resources with the same rigour as accounting items during the planning process. Leading banks are embedding capital planning as an integral part of strategic and planning processes, and managing and optimising their portfolios on a risk-adjusted basis. Banks deploy integrated scenario-planning frameworks that allow them to analytically assess trade-offs between capital, funding, and accounting items, and that support informed board and executive committee discussions on strategic actions and target setting.***
- B. Embed financial resource considerations into the execution of areas such as capital allocation to different products and customer segments, risk-informed pricing, and business unit portfolio management. To embed financial resource considerations into business execution, resources need to be suitably charged for internally. (The level of sophistication of such charging may vary between banks.) Banks often find a shift in profit pools when they fully charge for financial resources, and this subsequently impacts strategic decisions.***
- C. Ensure that business behaviour is aligned with the right incentive framework. Leading banks are ensuring that businesses are aligned with their risk-return expectations by adopting metrics such as economic profit (EP) and risk-adjusted return on capital (RAROC) for performance measurement, and linking them to compensation. It is important to have the right performance metrics for each type of business operation. For example, lending-based business should be evaluated on EP, RAROC, or return on risk-weighted assets (RoRWA), while fee-based businesses such as investment banking, asset management, and wealth management should be evaluated on earnings volatility and its drivers. In addition to specific measures, the senior management needs to be evaluated on managing the business within the overall risk appetite of the bank***
- D. Effectively monitor performance. In an increasingly resource-constrained world, it is imperative that banks build a good management information system and reporting framework to assess performance. Often we have observed that data is only available with a lag of one or two months (for example data on capital consumption), and the reports are not intuitive enough. As a result, dashboards do not aid meaningful decision making. Banks need to fundamentally review their reporting mechanisms and dashboards to promote better decision making.***

E. Implement step changes in the way the risk and capital functions collaborate with the rest of the bank, in particular the strategy, business, human resources, and finance functions. Involve the risk and capital functions in key decisions

These actions would provide banks with a consistent framework to embed financial resource considerations into planning and business execution. The actions span multiple bank processes and so would require significant coordination and consistency among stakeholders.

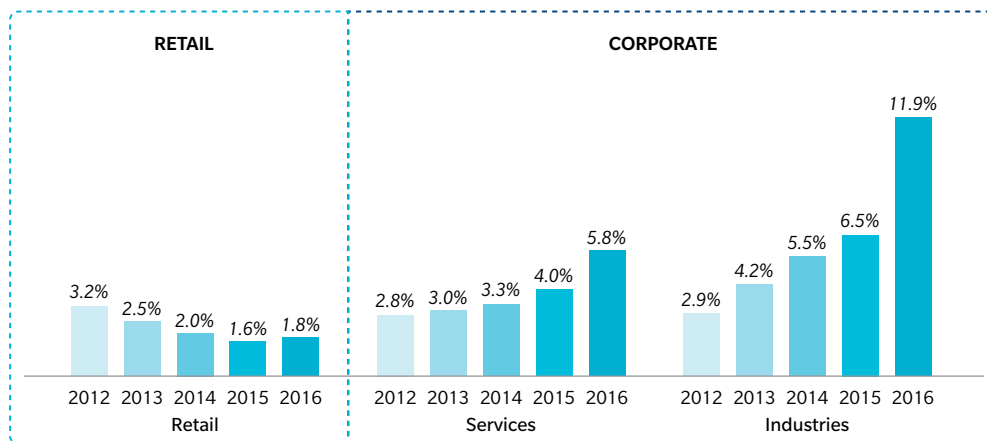
Implementing these initiatives in the areas of risk and capital management is not easy. Banks need to take a pragmatic, yet impactful approach to achieve a rapid transformation. This will require senior, bank-wide championing, realignment of planning and budgeting cycles and clearly defining and communicating the enhanced roles of risk and finance functions.

AGENDA 3. PLUG THE GAPS AND CLEAR THE MUCK IN CREDIT MANAGEMENT

Much has been said about Indian banks’ ongoing asset quality issues, with gross NPA ratios for the industry reaching 7.5% to 8%. However, if we separate the NPA data into segments, as in Exhibit 10, we see that the rise in NPAs has been driven by the corporate segment, while asset quality in the retail segment has improved markedly over the years, possibly suppressed by rapid growth in the mortgage segment.

Exhibit 10: The rise in NPAs is driven primarily by the corporate segment

GNPA OF INDIAN BANKS FOR VARIOUS YEARS IN PERCENTAGE



Source: RBI Financial Stability Report, Oliver Wyman analysis

The retail segment went through a bad asset cycle in 2008 and 2009, when banks and non-bank financial companies grew their unsecured portfolios rapidly. However, buoyed by a swift economic recovery and shift to secured lending products, the retail segment has performed remarkably well, and its asset growth and quality have leapfrogged those of the corporate segment in last seven years. A number of factors have contributed to this successful transformation. Some of the key ones are:

- Credit Information Bureau (India) Limited: CIBIL has come a long way in the last seven years and now covers more 20 million customers. It provides valuable information on their creditworthiness – for example their credit history and payment records.
- Retail analytics: Analytics in retail lending has evolved. A bank's internal data (such as a customer's spending patterns, salary, and deposits) and customer feedbacks and triggers (such as changes in lifestyle and salary) are being used to target customers. While much remains to be done, private sector banks have made good progress in this area.
- Aadhaar-based AML and KYC: Though it is a very recent development, India's unique national identification number (Aadhaar) system has made it easier for banks to know their customers. Aadhaar now covers more than 950 million individuals.

The retail business still has much ground to cover to provide access to the traditionally unbanked (a topic covered in Agenda 4). In addition, there is significant scope to improve the customer experience, for example through faster turnaround times, greater automation, effective targeting, and post-sales servicing (especially exception handling and service recovery).

In many ways the corporate credit process has been fit for purpose, especially at the time of origination of loans, when there is credit quality assessment, assignment of independent risk rating, and clear delegation of authority for credit sanctioning. However, banks may have dropped their guard to some extent when entering some new segments, in particular over portfolio concentration in segments such as builder and Engineering, Procurement and Construction financing. Much of the stress in the corporate segment can be linked to this. We attribute these mis-steps in part to the committee-based sanction framework commonly favoured in the industry. Unlike the "four eyes principle" approach commonly used internationally, over-reliance on committees dilutes individual attention and accountability in credit decisions. Further, banks have lacked the infrastructure needed to regularly monitor portfolio quality, which meant they did not actively manage their portfolios by, for example, exiting or selectively reducing exposure to certain segments and accounts. While many private sector banks are moving in the right direction, the situation at public sector and old private sector banks leaves a lot to be desired.



RECOMMENDED ACTION STEPS FOR BANKS

We see significant opportunity to review the credit processes across the board – that is, in customer application and credit assessment, client onboarding, and client repayment and servicing. The credit processes need to be reviewed to achieve the objectives of – improving asset quality, enhancing customer experience, enabling addition of new customers to banking and achieving cost efficiency.

Leading Indian banks are taking action in four areas to help achieve these objectives:

- 1. Digitise credit processes*
- 2. Strengthen the governance of credit sanctioning*
- 3. Adopt sound portfolio management approaches*
- 4. Transform bad-debt management capabilities*

We expand on each of the four action steps for reinventing the credit management approaches at Indian banks.

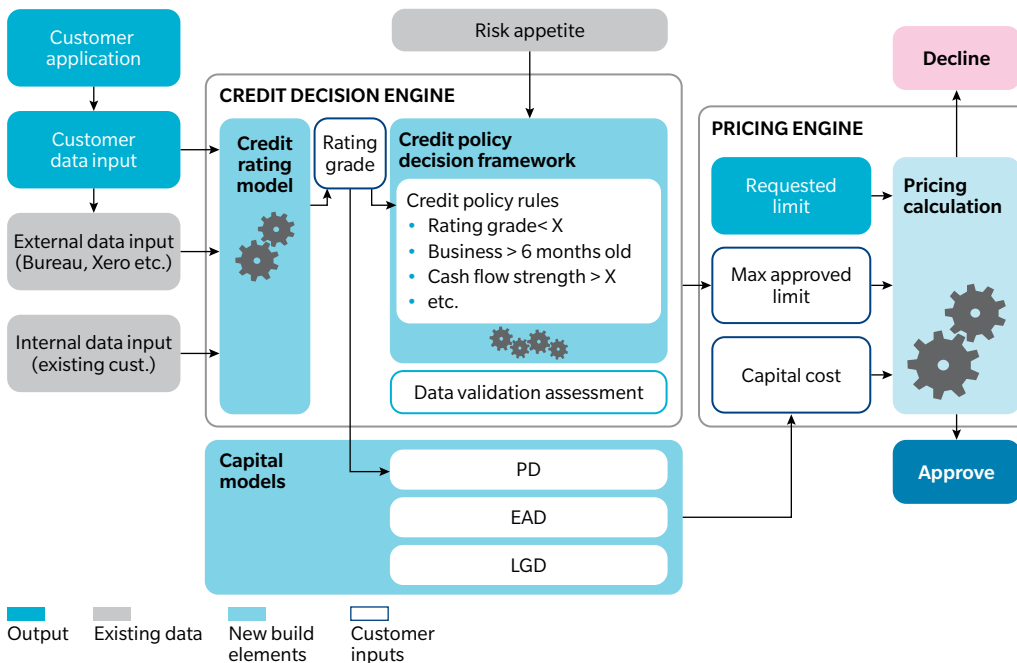
1. DIGITISE CREDIT PROCESSES

The digitisation of the credit process works across multiple levels and brings the benefits of efficiency, effectiveness, and enhanced experience. There is significant opportunity to digitise processes along the credit value chain. For example, most private sector banks have already started digitising the customer onboarding process. However, much remains to be digitised in the pre-approval and post-disbursement processes.

Typically, the starting point for digitisation is the retail and SME segments, where credit decisions can be automated. Automated credit-decision tools can simplify credit applications, enhance the decision-making process, and improve the customer experience, while also freeing up time for relationship managers to work on services with greater value-add.

Banks will need to adopt a practical yet impactful approach to digitising credit decisions. Leading banks are building front-end digital applications to automate credit decisions for specific product segments, for example retail unsecured loans and SME working capital loans. Starting with a narrow product segment allows banks to adapt tools and processes to suit their particular requirements, use new data sources to help make decisions, and transition smoothly to new processes. (See Exhibit 11) Once the processes have been established, these digital initiatives can be rolled out to other product and customer segments. Leading banks in developed markets are selecting initial product segments that directly compete with FinTech offerings, thereby taking on the competition directly.

Exhibit 11: Digitising credit processes streamlines risk processes and improves the customer experience



2. STRENGTHEN THE GOVERNANCE OF CREDIT SANCTIONING

Traditionally, banks in India have adopted a committee structure for credit sanctioning, except for retail loans, with the aim of reducing personal bias in loan approval. However, this structure has diluted accountability and increased the turnaround time for credit approval. In our experience, this has also resulted in senior management spending significant time in committee meetings and the approval process. Banks need to adopt a more tailored approach to credit sanctioning based on the size of the loans and on linkages to their risk appetite. We recommend a four-eye principle for smaller-scale credits and a credit committee structure for larger-scale credits.

In addition, the risk function needs to have an independent opinion on the credit assessment. In major western economies, the risk function is given veto power over any credit decision. In India, the approach is more consultative, with the risk function providing an independent opinion on the credit quality of the proposal, along with a rating and additional commentary on the steps required from a risk perspective. However, this structure only works as long as comments from the risk function are satisfactorily addressed, which is often not the case. So, banks need to put sufficient checks in the system to ensure that risk observations are addressed and followed up, both pre- and post-disbursement.

3. ADOPT SOUND PORTFOLIO MANAGEMENT APPROACHES

A wide spectrum of mandates is pursued by banks' credit portfolio management: risk reporting, risk mitigation, portfolio optimisation, and credit treasury. Most leading Indian banks currently operate somewhere between the risk reporting and risk mitigation mandates (Exhibit 12), while in a majority of the country's other banks the risk functions pursue basic reporting mandates.

Exhibit 12: The portfolio management mandates of Indian banks are very narrow

Model name	1. Risk reporting	2. Risk mitigation	3. Portfolio optimisation	4. Credit treasury
Mandate(s)	Portfolio reporting/monitoring	Downside risk avoidance and mitigation	Steer portfolio towards optimum	Generate additional profit via active buy/sell of risk
Activities	<ul style="list-style-type: none"> Portfolio reporting Monitor key risk and capital measures Comply to statutory limits Support regulatory capital management 	<ul style="list-style-type: none"> As per (1) plus Limit credit VaR (i.e. Ecap) Reduce absolute concentrations by sell/hedging credit risk 	<ul style="list-style-type: none"> As per (2) plus Proactively shape portfolio to improve credit risk capital efficiency Define target portfolio based on risk appetite and business strategy 	<ul style="list-style-type: none"> As per (3) plus Transfer of credit risk from origination to Credit Treasury using transfer prices (market or balance sheet) P&L responsibility for managing credit risk
Profile of example banks	<ul style="list-style-type: none"> Laggard public sector banks 	<ul style="list-style-type: none"> Most public sector and private sector banks 	<ul style="list-style-type: none"> Leading private sector and public sector banks 	<ul style="list-style-type: none"> Investment banks Leading global corporate banks

Source: Oliver Wyman benchmarking

There are two broad objectives for adopting the portfolio management approach: a) ensuring adherence to the bank's risk appetite; and b) enhancing the bank's risk-return profile. Such an approach will help banks to proactively manage their exposures and optimise their portfolios.

Leading banks globally are carving out the portfolio management function with the intention of optimising their portfolios. In India, a few private sector banks are moving in this direction, though the journey has only started. There is no one-size-fits-all approach for portfolio management. Each bank has to devise its own series of practical solutions to fit its strategy, mind-set and skill base. Crucially, successful implementation of a portfolio management model will depend not only on internal organisation design, but also on links between portfolio management and other functions, such as risk management, origination and coverage, and execution. More specifically, portfolio management needs to be closely linked to a number of processes: limit-setting and monitoring to ensure adherence to risk appetite and strategic planning; and portfolio optimisation and risk-adjusted performance management to enhance the risk-return profile.

Success will also depend on how the Indian market evolves in the coming decade and what means are available for risk transfer. Clearly, long-term institutional investors are available, but Indian credit management practices will need to evolve to make greater use of this opportunity.

4. TRANSFORM BAD DEBT MANAGEMENT CAPABILITIES

India desperately needs a stronger recovery and resolution mechanism. In order to strengthen lenders' ability to deal with stressed assets, RBI has from time to time issued guidelines and prudential norms on stressed asset resolution by regulated lenders², for example Corporate Debt Restructuring, Strategic Debt Restructuring, 5/25 and Scheme for Sustainable Structuring of Stressed Assets. However, these mechanisms have had very little success, as they don't address the core problem, which is that promoters have an upper hand in negotiations: they have a better understanding of the value of their business and financials, as well as of the running of the business. Sometimes, banks have tried to take over control of a business and find new management or investors, but this has typically failed to produce results. More often than not, the timing and pricing of stressed asset sales have meant they were unsuccessful. Such sales need to be resolved together by all the stakeholders. Banks lack the ability to turn companies around when the assets are transferred to Asset Reconstruction Companies too late in the process, and ARCs are just focused on the asset sale. Given the structure of the industry, ARCs in India have also developed limited capabilities to turn companies around, and they have instead developed skillsets focused on asset sales.

Therefore, there needs to be a fundamental change in how stressed assets are managed and how the upside is shared among stakeholders. Some of the radical measures entail creating a "central bad bank", almost equally owned by banks and private investors and with the capabilities and bandwidth to resolve viable cases that are under stress.

² RBI, Scheme for Sustainable Structuring of Stressed Assets, June 2016

3 REINVENT BUSINESS MODELS

It is easy to get overwhelmed by the rising credit issues in the Indian banking sector and ignore the exciting opportunities that are being created. Consistent GDP growth and technological innovations will push the boundaries of banking in India.

We believe that retail banking is on the cusp of a revolution. The outstanding balance of retail loans in India is equivalent to 6% of GDP, which is a third of the level in China and the US – about 19% or 20% of GDP. The number of active Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts has jumped from 50 million in 2014 to 350 million in 2016, and despite the reports of zero- and one-rupee accounts, the average deposit in these accounts has grown from INR 32,000 Cr to INR 68,000 Cr during this time. Direct transfers are expected to triple to INR 23,000 Cr per month by 2020, as the accounts become increasingly active. These new customers are an enormous opportunity for the banking industry to offer new products and services.

Similarly, the SME sector remains largely unserved. The funding gap for SMEs in India is estimated at INR 20 Lakh Crore (\$300 billion) which is ~20% of the total global SME funding gap. A number of key initiatives such as “Make in India”, reforms to enhance ease of doing business in India will lead to further growth of the SME sector and greater need for financing

We believe that the current forces of change on the demand side as well as the supply side are significant enough to drive a large scale transformation for banking across segments.

We see leading banks transforming business models across each of the three segments:

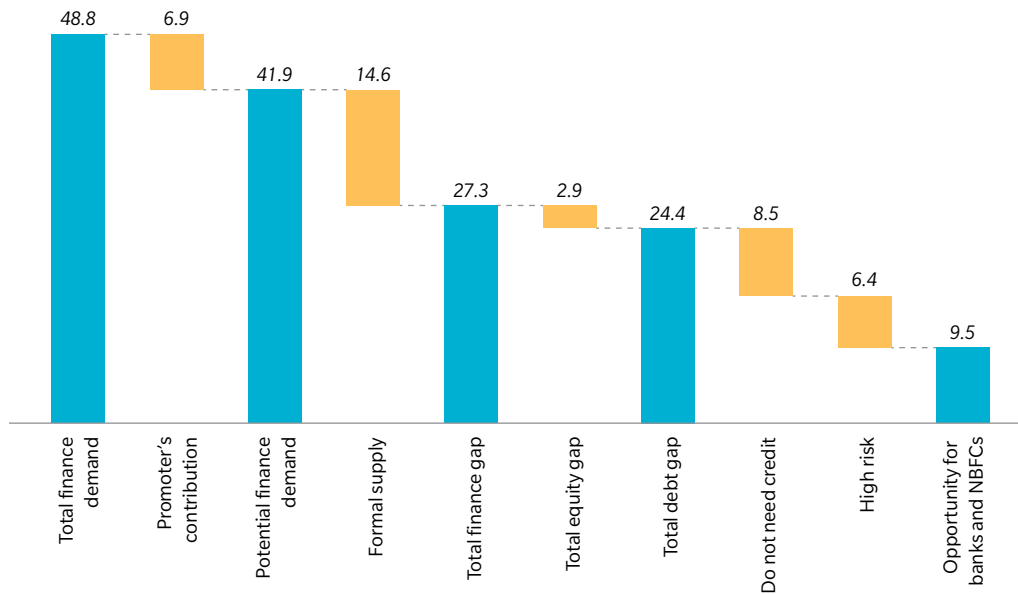
- **AGENDA 4:** SME 2.0: Push the Final Frontier
- **AGENDA 5:** Retail banking: Embrace digital technology and develop propositions for affordable banking
- **AGENDA 6:** Corporate banking: Strive to excel in execution

AGENDA 4. SME 2.0: PUSH THE FINAL FRONTIER

The banking penetration of micro, small and medium enterprises has increased from 22% to 30% in value terms over the last six years. However, SMEs continue to struggle for formal sources of funding. According to the estimates, the SME space represents an additional potential lending opportunity of up to INR 9.5 Lakh Crores (\$ 140 billion) for banks and non-banking financial companies combined. (See Exhibit 13)

Exhibit 13: Opportunities in the MSME lending space

FINANCE GAP IN INDIA MSME SECTOR
2016, INR LAKH CRORES



Source: RBI, IFC report, MSME ministry, The World Bank, Oliver Wyman analysis

The Indian MSME sector has been undergoing a rapid transformation over the last decade or so. Customers' needs and behaviour are evolving, and banks need to adjust their strategies to address these changes:

- 1. Sectoral shift:** The sector mix is moving away from manufacturing and industry to services and retailing. The share of services in MSMEs has more than doubled in the last six years, and now accounts for approximately 30% of the segment by number of companies.
- 2. Move to urban:** Cities offer better access to credit and knowledge sharing, contributing to a shift in economic weight from rural to urban areas, as well as a relative increase in the number of small enterprises over the number of micro enterprises. The number of urban SMEs has increased by 10% since 2007, while the number of small enterprises has more than doubled.
- 3. Generational shift:** There is a generational shift in SME owners, with Generation Y taking over day-to-day management of the businesses. Millennials with large digital footprints are more likely to try and adopt new and innovative financial solutions.

4. **Integration with the larger ecosystem:** Digital innovations have shortened the “farm-to-fork” gap, and MSMEs are integrating fast with the formal business ecosystem. For example, SMEs are reaching out directly to a larger set of customers, many of whom are far away, via e-commerce platforms.

However, many of the old challenges remain in extending credit to this sector. Limiting factors include public interventions in credit access, which create unpredictable market distortions, as well as cash-based transactions and a related lack of transparency. These are further aggravated by the evolving challenges from non-standard credit needs and the lack of collateral in asset-light service sector businesses. E-commerce platforms, payment, and credit players are starting to undercut banks, with FinTechs leading the way



RECOMMENDED ACTION STEPS FOR INDIAN BANKS

Indian banks can learn a lot from SME focused banks in other geographies. Building such an SME banking business requires careful attention to every aspect of the SME business and operating model. Getting this right can be a key source of competitive advantage, and India’s untapped SME opportunities provide fertile ground for banks. Leading banks are now fundamentally reviewing their business models and taking action. In particular, they are aiming to:

1. ***Re-invent SME credit***
2. ***Explore new revenue generation opportunities***

A transformation in a bank’s SME business can have a significant impact, including a rise of up to 150 basis points in net interest margins

RE-INVENT SME CREDIT

The biggest impact will come from an end-to-end credit transformation with the objective of accelerating SME credit through:

- An increase in through-the-door SME applications
- Reduced loan turnaround time
- An increase in SME relationship managers’ credit productivity
- Enhanced customer experience

To carry out such a transformation, a bank will need to adopt a more advanced set of initiatives that can turn it into a next-generation leader in SME credit. In particular, banks should focus on automated decision making, digital delivery, and the use of new data sources.

Leading SME banks are developing digital applications that enable end-to-end credit application workflow involving relationship managers and underwriters. The key features of such applications are ease of KYC and on-boarding, selective autodecision making, expert lender underwriting, electronic workflow, and forward-looking simulation. (See Exhibit 14) These digital workflows are underpinned by automated credit decision making through the use of alternative data sources and information on SME transactions using the bank's historical data – often in collaboration with other players, such as those in e-commerce.

Exhibit 14: Leading banks are developing end-to-end digital workflow

SNAPSHOTS OF DIGITAL WORKFLOW SOLUTION KEY FEATURES, CLIENT EXAMPLE

Easy KYC and on-boarding – pre-filling for existing customers, single checks, information archiving

Selective auto-decisioning – small ticket loans to existing clients, end goal can be “In principle approval”

Expert lender underwriting – Standardised, lower cost, manual underwriting targeting 60 min per application

Electronic workflow – new application to sanction, standard contracts generated automatically, notifications on pending issues

Forward looking financial simulation – balance sheet and P&L projected forward based on via embedded analytics

	Current Limit	Loans Under Review	Total Loans
£500K	£0	£500K	£500K
£750K	£500K	£500K	£1,500K
£1,200K	£500K	£500K	£1,500K

EXPLORE NEW REVENUE GENERATION OPPORTUNITIES

Traditionally, banks' initiatives to boost revenues have focused on increasing cross-selling to current clients through revisions to incentive structures, coverage models, and predictive modelling. However, more recently, banks are innovating in three areas of high impact to acquire customers:

1. **Ecosystem solutions:** These seek to maximise commercial opportunities from holistic banking relationships with different members of a network. The bank takes a view of the ecosystem that spans supplier, distributor, and client networks. It also identifies common pain points, such as cash payments and reconciliation, and develops tailor-made solutions. In the case of ports for example, banks are helping solve issues related to invoice automation, reporting and reconciliation, and the integrated payments gateway. They are also helping to improve reporting of financials. There are three broad variants of the ecosystem approach: a) a sector-based solution, focused on ports and educational institutions for example; b) an anchor-led solution, focused, say, on ancillary suppliers to auto manufacturers; and c) tailored solutions that offer broader services to selected SMEs. These tailored solutions can involve banks partnering with online accounting platforms to deliver integrated merchant solutions and secure main bank status.

2. **Cash flow-based loans:** SMEs occasionally require urgent funds to support their cash flow. This need is largely unmet by standard credit offers and calls for a novel approach. Addressing this opportunity will require banks to develop new capabilities throughout the end-to-end activity chain. These can include fast, easy, and convenient applications, often in online format; automated decision making; and developing a robust early warning system to monitor and respond to possible issues.
3. **Marketplace lending:** Marketplace lending platforms have started disrupting credit markets by disintermediating banks in countries like China. These are still in an early stage of development in India, where most platforms have been launched only in the last two years. There are many ways for banks to participate in this lending business, depending on the appetite for investments and their capabilities fit. For example, they could start their own white label platform, or become an institutional investor on one of the existing platforms or become an external ratings providers. Of course, banks will need to consider a number of factors before embarking on this journey, including compliance, credit risk, IT and operations, and marketing and advertising.

Exhibit 15: There are multiple ways banks can participate in marketplace lending

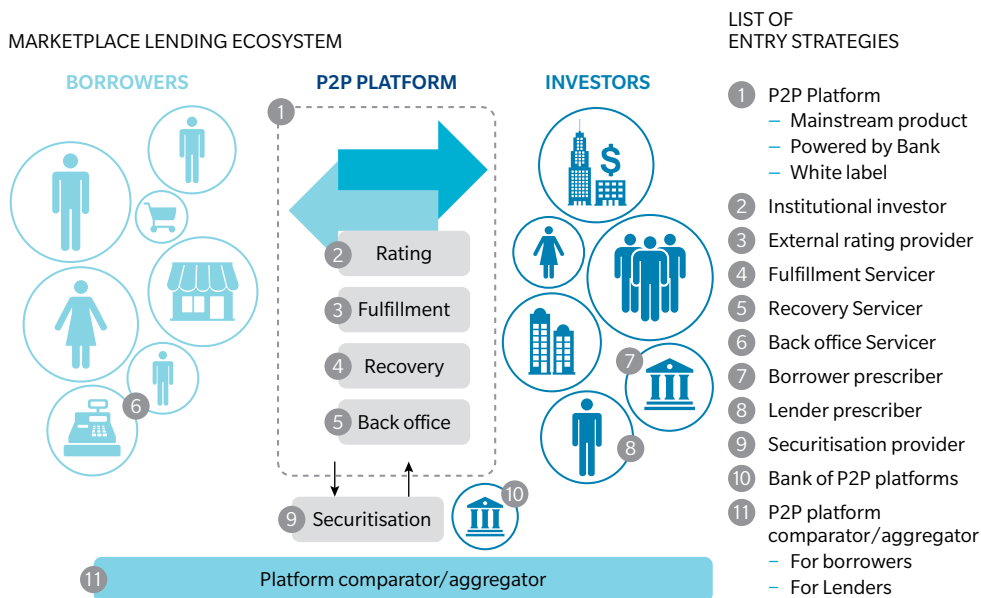
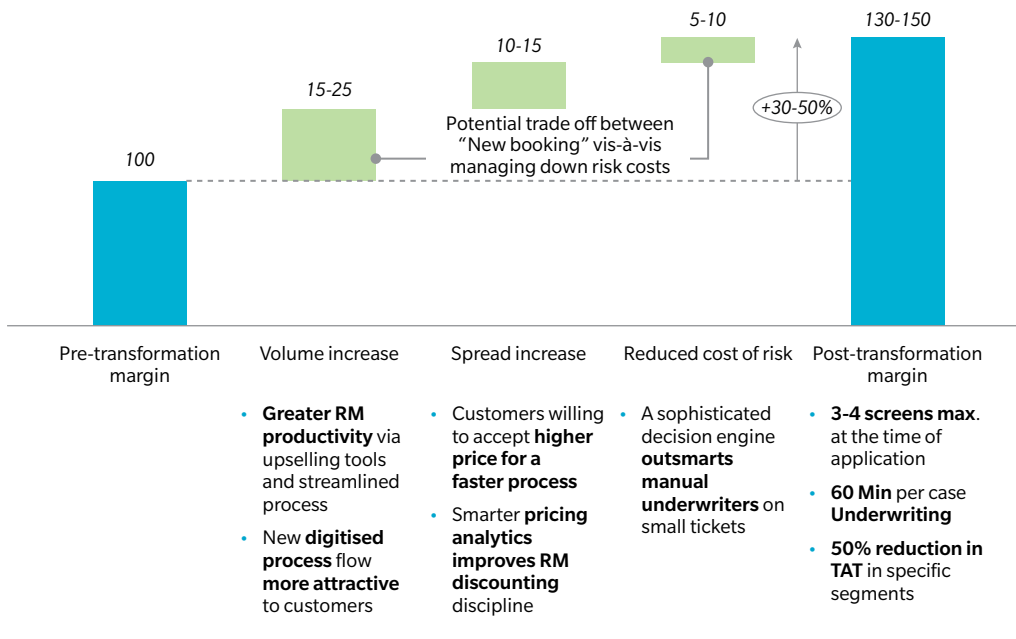


Exhibit 16: Observed increases in interest margins after cost of risk

OBSERVED INCREASE OF INTEREST MARGIN AFTER COST OF RISK
INDEX 100



AGENDA 5. RETAIL BANKING: EMBRACE DIGITAL TECHNOLOGY AND DEVELOP A REAL PROPOSITION FOR AFFORDABLE BANKING

The last 25 years have seen phenomenal growth in India's retail banking market, driven by the rise of the Indian middle class, regulatory push and rise of the private sector banks. The shift has been most visible in how customers bank. In the 1990s, an average retail customer had access to savings products and perhaps mortgages, but only at the home branch. Today, the same customer can bank at any branch from any location, and has access to doorstep banking, e-branches, Internet and mobile banking, 24/7 call centres, ATMs, debit and credit cards, mortgages and auto loans, microfinance, mutual funds, and insurance.

That said, the share of retail loans in the banking sector loan book has stagnated at 18% to 20% over the last 10 years. Retail loans account for only 6% of GDP for India, compared to 30% in Thailand, 32% in Malaysia, 10% in Indonesia, 22% in China, 25% in Brazil, and 33% in South Africa. There was a brief period between 2006 and 2008 when many banks in India quickly built out unsecured loan books, which ultimately led to the unsecured loan bubble of 2008-09. Otherwise, banks have mostly operated traditionally and conservatively, offering loans to low-risk customers, while the riskier segments are mostly served by NBFCs. Banking has yet to reach as many people as it could, and is far from achieving the kind of impact seen by the mobile revolution in the last decade.

The next 10 years will see the industry mature, offering more differentiated products, penetrating untapped customer segments, and offering a wider range of products to an emerging new class of young, tech-savvy customers. It is generally accepted that technology will play a very critical role in this next wave of retail banking growth and will prove to be the biggest differentiator. Technology is already reducing barriers, and FinTech players are emerging in areas that were previously underserved. However, it is not yet clear whether the FinTechs will disintermediate banks completely. The endgame will depend a lot on how – and how quickly – banks build out their digital capabilities and how the regulatory environment shapes up for FinTechs.

In the last 15 years, our lives have been transformed by the diffusion of advanced technologies such as desktop and mobile devices, the internet, and wireless connectivity. Together, these have enabled completely new forms of automation and customer engagement that we have come to know collectively as “digital”. They have transformed our day-to-day lives: how we interact and share things with family and friends (Facebook, Twitter, and Instagram); how we shop (Flipkart, Amazon, and Snapdeal); how we commute (Ola and Uber); and how we read (Kindle, Google Books).

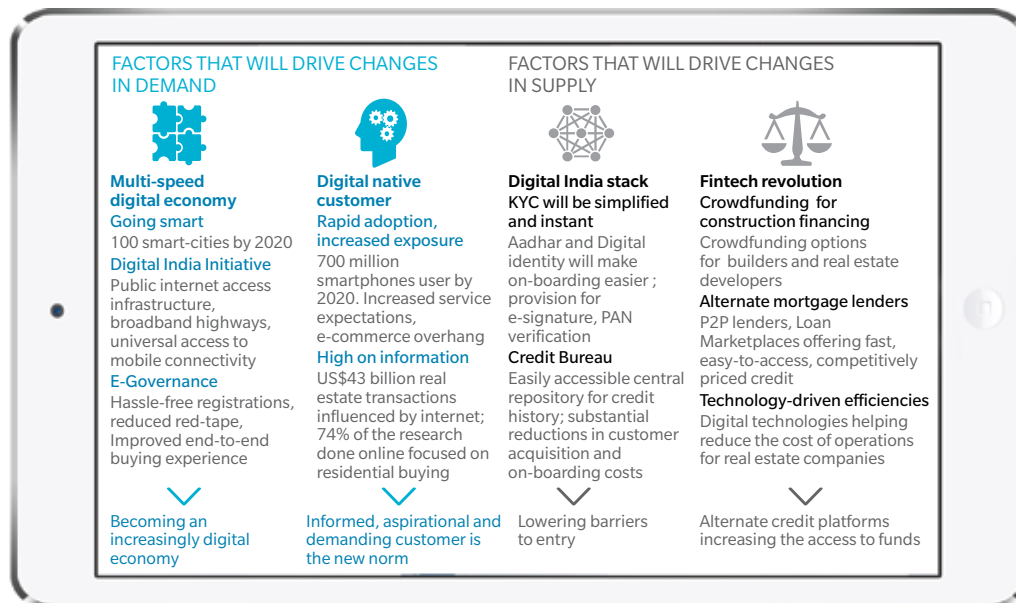
Financial services haven’t been immune to the impact of technology. Banks have adopted technology to automate their processes, improve the customer experience, and provide anytime, anywhere banking services. However, they have had limited success at increasing access to financial services for the unbanked. In fact, these technologies have enabled the emergence of a new breed of player in financial services. Collectively known as FinTechs, these firms base their businesses on technology, not balance sheets. They aim to inject themselves into the financial services value chain, often creating completely new interfaces between consumers and providers of financial services.

India is witnessing a number of macro-digital forces on both demand and supply side that will drive the change in retail financial services over the coming decade:

- a. Multi-speed digital economy: Differential yet rapid adoption of digital across the economy for example greater push by the government to digitalise the economy
- b. Digital native customer: There has been a rapid growth in adoption of e-commerce giving rise to the distinct categories of buyers and suppliers. Informed, aspirational and demanding customer will become a norm across the industries
- c. Digital India Stack: Unified Payments Interface and India Stack launched in an effort to bring financial access to the masses. This will potentially lower the barriers to entry for a number of banking services
- d. FinTech revolution: Rapid innovation by non-FS players in the financial access space e.g. crowdfunding, alternate lending which has potential to provide sustainable source for alternate funding

The most promising is the mobile revolution, which coupled with UPI and India Stack has the potential to leapfrog desktop computing and reach the masses in unprecedented ways that have been never conceivable.

Exhibit 17: Digital megatrends driving change in financial services



RECOMMENDED STRATEGY FOR INDIAN BANKS

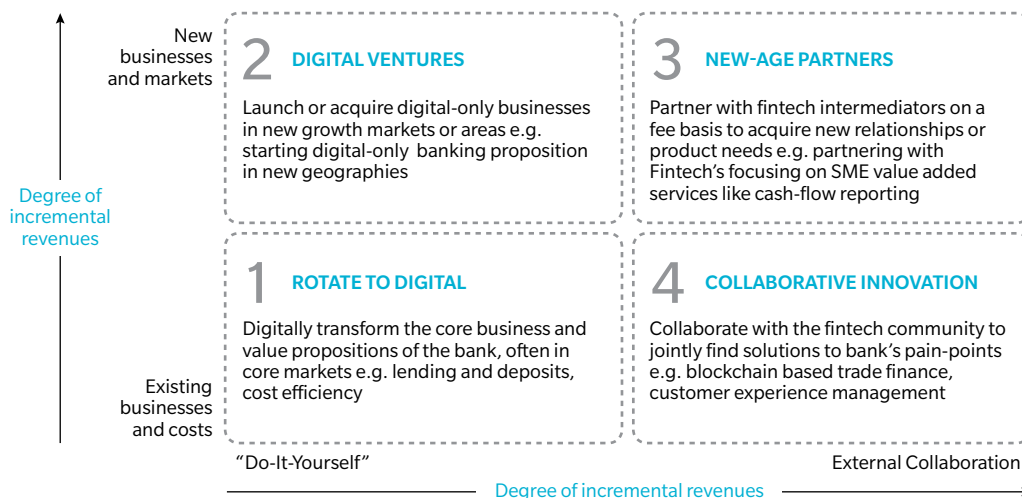
Despite the growth in venture capital funding and significant media attention, industry disruption from FinTech in India is at an early stage compared to other markets. In China and the US, for example, companies like WeChat have had a major impact on the shape of the financial services sector. The Indian regulatory approach continues to be cautious, bringing most new offerings under the ambit of regulations. We believe that digital adoption in financial services will not consist of FinTechs replacing banks, but of banks and FinTechs competing as well as collaborating to drive innovation. Leading banks are taking a calculated rather than an aggressive response, and are adopting the right combination of “beat”, “join”, and “ignore” towards the FinTech sector. There are four models that are emerging of banks’ responses to digital changes:

- 1. Rotate to Digital:** Digitally transforming the core business and value proposition of the bank, often in core markets e.g. lending, deposit gathering, process optimisation and cost efficiency. Often banks undertake these initiatives in-house.
- 2. Digital Ventures:** Launching or acquiring digital-only businesses in new growth markets or areas e.g. online-only banking in new countries
- 3. New-Age Partners:** Partnering with FinTech intermediators on a fee basis to acquire new relationships or product needs e.g. partnering with FinTechs for SME value-added services like cashflow management to acquire and service new set of customer
- 4. Collaborative innovations:** Collaborating with FinTech community to jointly find solutions to bank’s pain points and often in emerging technologies e.g. blockchain based trade finance

Most leading players are experimenting across all four quadrants as most banks' are focused on incremental translation of their existing business models to digital. Too often we see banks losing sight of the important issue: how digital technologies can create value. Instead they sometimes oscillate between frenetic activity, chasing the hype of every new FinTech fad – and paralysis, as they become overwhelmed by the range of choices and cannot choose the right ones. It is critical for them to understand how they can create value by incorporating digital technologies into their strategies.

Exhibit 18: Executing digital intent by building internal capabilities

ASIAN BANK'S STRATEGIC PLAYS TO DIGITAL



DEVELOP A REAL PROPOSITION FOR AFFORDABLE HOUSING FINANCE

Mortgage represents roughly 10% of credit and 60% of retail lending in India. However, affordable housing accounts for only 7% of housing credit. Traditionally, Indian banks have focused on housing credit for only the affluent, salaried class in Tier 1 cities while HFCs have mainly operated in low/mid ticket size loans focusing on cities other than Tier 1. The rural areas have been largely underserved.

In recent years, there has been a major thrust on housing in Tier 2 and below cities on account of rising income and government push for housing for all. The affordable housing credit volume is expected to grow at ~1.5x faster than the growth in total housing credit reaching ~INR 80,000 Crore by 2025. This is a significant opportunity for banks and we believe the timing is right for a "SMART" model of affordable housing credit offering, powered by digital applications and advanced data analytics.



RECOMMENDED STRATEGY FOR INDIAN BANKS

Leading institutions are developing a sustainable affordable banking proposition centred around:

- 1. Building technical capabilities to become a “SMART” mortgage lender**
- 2. Re-focusing efforts on Tier 2/3 towns and selectively in metros**
- 3. Exploiting existing customer base and exploring new ones**

Building a sustainable affordable banking proposition will require banks to develop capabilities that reduce losses, and improve cost efficiencies leading to better economics. This will require initiatives around:

- Sophisticated pricing capabilities to implement “differentiated” pricing. Home loan pricing is mostly very rudimentary in India and developing a more scientific approach, e.g. using loan level ROE, customer value view, price elasticity, can provide a competitive advantage
- Layering of additional services on top of existing offerings for example globally we are seeing banks starting to provide additional services via internal customers and external partners like rich insights into home market
- Establishing digital partnerships to conduct eco system based sourcing e.g. working with developers, real estate brokers and insurance companies to offer holistic solutions and cover the entire value chain
- Shifting to digital origination, on-boarding process and servicing of loans
- Usage of advanced and alternate sources of data and risk analytics to enhance credit decisioning
- Pursuing balance sheet transformation initiatives via marketplace model which could help players in optimising cost of capital and delivering additional returns
- Developing an integrated “one-stop shop” proposition; smart initiatives in the home buying journey could help deliver a better customer experience and positive business outcomes

Developing these capabilities will be a source of competitive advantage and can improve the ROAs to 3.8-5.5% range.

AGENDA 6. CORPORATE BANKING: PUSH NEW FRONTIERS TO DRIVE EXCELLENCE IN EXECUTION

Indian corporates have largely relied on bank funding to finance their growth. The corporate loan book at Indian banks has grown at a compound annual rate of 17% between 2007 and 2016. However, since the financial crisis it has been a struggle anywhere in the world to create value in corporate banking, and India is no different. In 2016, the corporate banking divisions of all Indian banks combined reported a net loss.

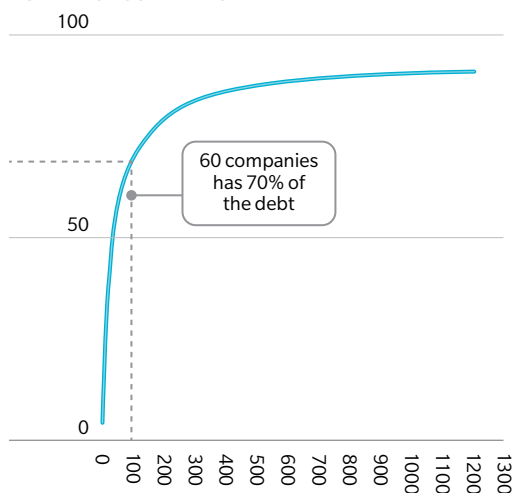
It is important to recognise that domestic banks have evolved their corporate banking offerings rapidly in the last decade. The “glocals” (global banks with on-the-ground presence in India) had traditionally been the primary providers of a full suite of corporate banking services in India. Since the global financial crisis, rising capital constraints and compliance requirements have led global banks to rethink the way they deploy capital outside their home markets. Domestic banks have been able to capitalise on this opportunity and have deepened their relationships with corporates through expanded product and services.

In the coming years, we expect that corporate banking business units will need to continue to evolve on the steep learning curve to win in the fast changing industry landscape (in addition to the focus on improving risk and credit management capabilities which has been covered in Chapter 2). We foresee the following “shifts”:

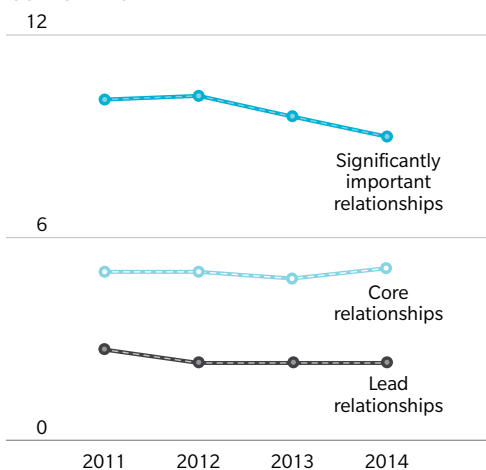
1. **Focus on reducing concentration of bank debt:** A small set of corporate clients account for a large proportion of the corporate banking loan book today. As an illustration, out of the ~5,500 listed corporations, the top 60 account for about 70% of the outstanding debt. This high degree of concentration does not only represent a significant systemic risk, but also reflects the intensely competitive nature of this segment – especially as corporates rationalise their banking relationships.

Exhibit 19: Double whammy: A few corporates account for a large proportion of the corporate loan book; and large corporates are consolidating their banking relationships

CONCENTRATION OF DEBT IN THE LISTED INDIAN CORPORATES
CUMULATIVE % OF DEBT IN LISTED COMPANIES VS. NUMBER OF COMPANIES



AVERAGE NUMBER OF BANKS USED BY LARGE CORPORATES IN INDIA



Note: Based on 87 respondents in 2011, 63 in 2012, 71 in 2013 and 72 in 2014

Analyst/industry reports: Greenwich Associates 2014 Asian large corporate banking study

Source: Industry data, Oliver Wyman analysis

2. **Growing importance of alternative debt platforms:** India's corporate bond market has long been relatively small, and bond issuance has been low for the size of the economy. Purchases are largely limited to long-term domestic investors, who hold the assets till maturity. This has led to an increased dependence on the banking system, with multiple large-scale capital expenditure projects funded by loans from banks. But all this is poised to change, as RBI recently announced a slew of initiatives to strengthen the corporate bond market. This development is likely to shift more focus from lending opportunities based on interest income to fee-based opportunities in debt issuance. At the same time, it presents an opportunity for banks to build a "risk-based" pricing framework for corporates.
3. **Increased sophistication of products and solutions:** As Indian corporates mature, the demand for more sophisticated products is likely to surpass the growth of traditional, low-return products. To find growth, banks in India will need to offer more-sophisticated, need-based products and services. Similarly, we expect capital markets and External Commercial Borrowings segments will see faster growth relative to lending, driven by the increasingly sophisticated needs of Indian corporates.



RECOMMENDED ACTIONS FOR INDIAN BANKS

Traditionally, corporate banking in India has lagged retail banking in terms of innovation and execution excellence. At the same time, banks face a lower threat from FinTech players in corporate banking than they do in the retail or SME segments. Despite corporate banking's relative lack of vulnerability to FinTech players, we believe that table-stakes for corporate banking will evolve rapidly in the next decade. Corporate banking units will need to push frontiers for excellence in execution on four specific areas:

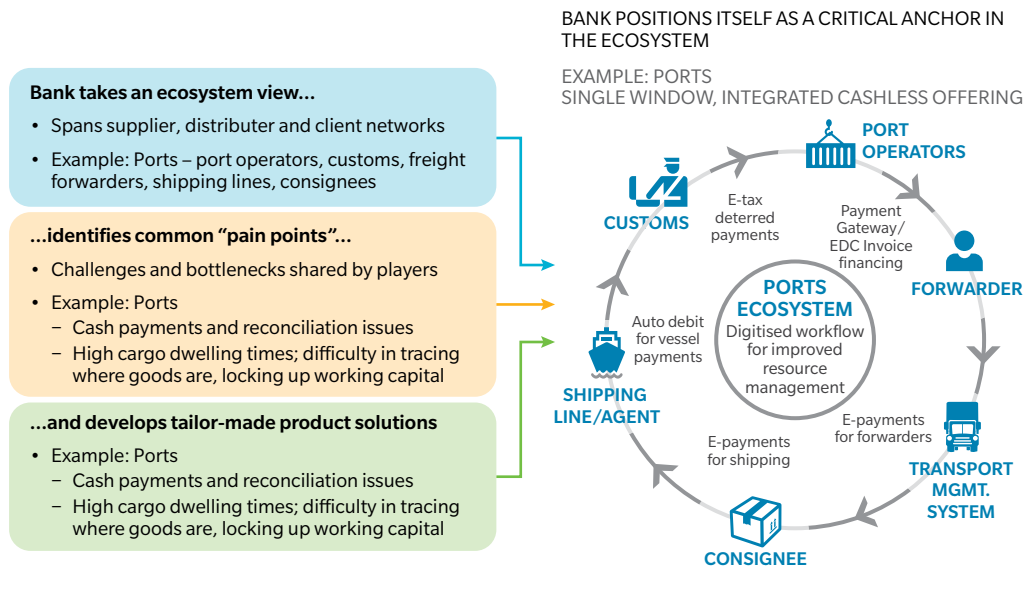
1. *Build integrated sector solutions to become "anchors" for corporate as well as SME relationships*
2. *Get smart about using data for decisions related to credit (sanctions, renewals, limits), pricing, client selection as well as prioritisation of internal resources*
3. *Evolve relationship management models to enhance productivity*
4. *Automate and industrialise as well as build capabilities to offer differentiated propositions*

1. BUILD INTEGRATED SECTOR SOLUTIONS

While most Indian banks aspire to pursue sector-based strategies, their approach tends to remain siloed, with each business segment catering to its sector independently. Given the huge debt demand from certain sectors, a fragmented approach does not provide differentiated value propositions that unlock customers' full value. Under an integrated sector approach, leading banks are able to build solutions (beyond banking needs of the sector) that address key hassles faced by various players in the ecosystem. Such solutions act as strong anchor for customer relationships as well as provide superior data for banks to design need-specific products for clients in the sector. Banks that have implemented such an approach in other emerging markets have achieved sizeable improvements in business performance and results. These results were achieved thanks to stickier relationships in

selected sectors developed by building a reputation as the “go-to” bank for the sector, as well as deeper relationships, a culture of cross-selling, stronger economics, and better risk management.

Exhibit 20: Implementing a true sector-based approach – Example: Ports



2. GET SMART ABOUT DATA

New age FinTech and digitally focused players are leveraging data and customer experience as key winning edges over incumbents. A wealth of information resides within banks which can be used to create value proactively. We highlight two specific illustrations

1. **Pricing:** As competition increases, putting further pressure on margins, pricing capabilities will play a vital role in corporate banking. Evidence from clients suggests that human factors and relationship manager discretion on pricing have a significant impact on profitability. In the next stage of evolution, we expect that data will be a key enabler in enforcing pricing discipline, based on the thorough use of all available information and a structured decision-making process.
2. **Client selection:** To achieve better client selection, banks need to put in place appropriate structures and rules, both on the micro and the macro levels. On the micro level, “best-in-class” banks use digitally-enabled tools to help prioritise client leads and steer relationship manager activity to the most promising opportunities in order to maximise the return on sales time. On the macro level, some banks have been very successful in focusing on specific sectors and their financial needs. They have conducted enhanced risk assessment by simulating forward-looking, sector-specific stress scenarios on an individual client level. They have also improved traditional corporate credit ratings by integrating social ratings data and sentiment analysis.

3. EVOLVE RELATIONSHIP MANAGEMENT MODELS

The relationship manager model for corporate banking in India has evolved considerably over the years, and many players have also undertaken exercises such as client segmentation and wallet sizing, as well as using customer relationship management tools. However, across each of these initiatives, we believe there is potential to do much more. We highlight three areas in which it may be feasible to achieve significant business improvements:

- 1. Client value and need-based segmentation:** In corporate banking, it is well understood that increasing turnover brings a change in customer needs and buyer behaviour. However, there could be significant differences in what clients of similar sizes – such as state-owned clients, MNCs, and large conglomerates – value from banks. Therefore, leading banks segment corporate clients using additional parameters beyond turnover, and they are increasingly moving towards needs-based segmentation. Within segments, banks use client value and client needs to further prioritise and tier clients. Most Indian banks will need to undergo this kind of evolution, and it may take some time to discover the model that works for each bank with its particular corporate customers.
- 2. Coverage models:** Leading banks are refining their coverage models for specific client groups. For example, for very select clients, banks have launched dual coverage, with a senior banker targeting clients for potential investment banking opportunities. There are a number of models that exist for dealing with group companies. To coordinate the work of the head office, a hub, and a branch, clear roles and responsibilities need to be agreed across the spectrum of interactions.
- 3. Relationship management tools:** Most banks undertake account planning exercises on a regular basis. However, it is important to calibrate the effort put into account planning relative to clients' importance. For the highest tiered accounts, it is essential to carry out a detailed account planning process that includes understanding the client's situation, identifying the client's product needs, estimating wallet size, understanding competitors' products, setting priorities and targets, and defining coverage and marketing planning. Beyond account planning, banks are equipping relationship managers with tools to spot short-term product opportunities.

4. AUTOMATION AND SERVICE INDUSTRIALISATION

We believe that the corporate banks of the future will have two distinct capabilities: i) automated and streamlined end-to-end processes; and ii) the ability to deliver differentiated service models.

- 1.** The first important area where banks can derive significant efficiency gains is the client onboarding process. In most Indian banks, these processes are now similar to the underwriting process a decade ago, and present a unique opportunity for banks to raise process efficiency. Leading banks in peer markets have begun to focus on selected elements of the on-boarding process. The rest is outsourced.
- 2.** The second key capability of banks is to deliver a differentiated service portfolio that is better tailored to clients' specific needs. Corporate clients' needs and revenue potential are highly heterogeneous, but corporate banks often apply the same standard service model to all of them, leading to undifferentiated costs and either too much or too little service. It is possible to unlock value through detailed, bespoke analysis of client needs using more precise segmentation information and predictive analytical tools.

4 DON'T IGNORE SOFTER ASPECTS

As the banks transform their core capabilities for risk and capital management as well as reinvent business models, a paradigm shift is also needed on the softer aspects of banking to lay the foundations for sustainable banks for the future. These softer aspects include the talent management model of banks as well as approaches for governance, compliance and culture. The changes envisaged on these topics are critical to enable the broad transformations envisaged. At the same time, changes on these softer aspects are also difficult to measure tangibly in a narrow time-span. Therefore, these issues warrant dedicated attention and focused programs. We expect leading banks to drive specific initiatives along the following agendas

- **AGENDA 7:** Address key human resource challenges
- **AGENDA 8:** Strengthen Governance, Compliance, and Culture

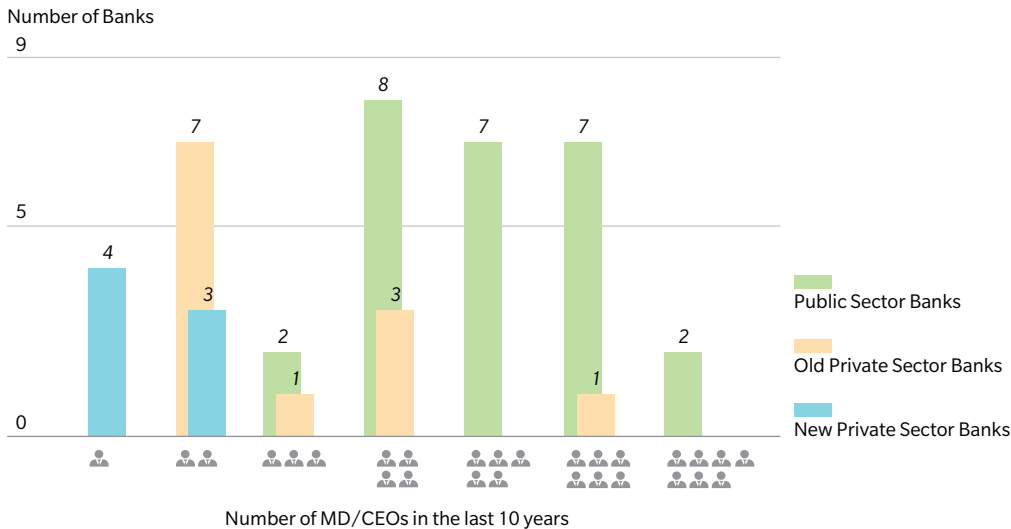
AGENDA 7. ADDRESS KEY HUMAN RESOURCE CHALLENGES

Indian banks, which have a total workforce of about 1.1 million, were once the preferred choice of employment thanks to the stability, salaries, and growth prospects they offered. While banking still offers graduates meaningful career opportunities, banks need to make sure that the right people are in the right place at the right time and in the right numbers. Banks also face a number of material challenges to their talent management models:

- According to the Ministry of Finance, 25% of public sector bank employees are due for retirement by 2020, removing a significant portion of their top management. At the same time, banks are seeing increasing levels of attrition in middle management, because of increased competition for talent.
- Given the retirements expected in coming years, even if Indian banks undertake steps to improve productivity, the numbers they will need to hire are staggering. Defining a clear proposition for attracting talent will be critical, especially for public sector banks.
- The hiring freeze of the 1990s reduced fresh hiring to a trickle in public sector banks, and caused a generation gap between junior and senior staff today. Banks will need to find a way to ensure that the millennials can co-exist with the baby boomers – and, if possible, combine these generations in a way that produces exceptional results.
- Many banks are already evaluating use cases for artificial intelligence and robotics for banking operations. Expert estimates suggest that up to a third of banking jobs could be replaced by such technologies – thus enabling banks to redeploy resources for more value additive tasks. This will encompass a significant rethink of the current approach for talent deployment.

- An issue, specifically important to public sector banks is continuity. The lack of adequate focus on succession planning has caused higher levels of senior management churn in public sector banks than in their private sector counterparts, which tend to have more-stable, longer-term tenures. For example, data for about 26 public sector banks over the last 10 years show that the average number of CEO changes as ~5, which is far higher than the average in private sector banks.

Exhibit 21: High levels of leadership churn at public sector banks



Note: Bharatiya Mahila Bank Limited, Bandhan Bank and IDFC Bank excluded because they have recently got banking licenses. Capital Small Finance Bank, Coastal Local Area Bank, Krishna Bhima Samruddhi Local Area Bank and Subhadra Local Area Bank have been excluded because they are local area banks.

While a lot has been said and written over the years about the human resources challenges of banks, in particular public sector banks, changes have mostly been too little or too late to make a lasting impact. While human resources have always been at the heart of this service industry, organisational effectiveness has not been a focus area for banks. Instead, they pursued improvements in their businesses through process-improvements, technology investment, and branch presence. Now, with the onset of the digital age, technology is levelling the playing field and eroding banks' traditional competitive advantages.

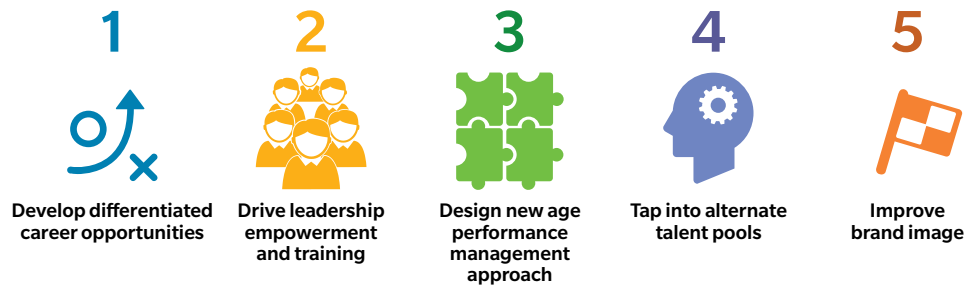
Indian banks thus need a sense of urgency in addressing their human resource-related impediments. Talent development should become a focus area, as business models are redesigned around digital levers, and leadership empowerment and development will be critical to success.



RECOMMENDED ACTION STEPS FOR INDIAN BANKS

We believe that banks need to reinvent their human resource profiles by focusing on five key levers to bring about transformation in small bites.

Exhibit 22: Key transformational agenda items for human resources



- 1. Provide Differentiated Career Opportunities:** Managing and harnessing the diversity of the employee base will require banks to rethink their traditional career management plans and offer more differentiated and tailor-made opportunities, especially to new recruits. The long-standing obsession with vertical career progression will no longer be enough, as new recruits increasingly look for horizontal specialisation and career development. Different segments within the workforce have very different sets of expectations, values and engagement terms, often requiring very different responses in terms of promotion, training, rewards, and output.
- 2. Drive Leadership Empowerment and Training:** Given the emergence of large number of vacancies in leadership positions in the coming years, it will be critical to implement strong, effective training and development infrastructure that can quickly address any skill or capability gaps. To this end, banks will need to make targeted investments in order to prepare and empower employees moving into leadership roles.
- 3. Design a New, Holistic Performance Management Framework:** Banks' performance management frameworks, especially in the public sector, may not be very effective at differentiating performers and the non-performers. This has contributed to a tenure-based entitlement culture amongst their employees. The churn in the employee base expected over the next couple of years is an opportunity to overhaul the system before new recruits adopt the old mind-set. New performance management approaches are based on holistic, outcome-driven assessment systems. Performance management remains one of the most sensitive areas in an organisation, and any proposed overhauls should follow close study of employees' aspirations, expectations, and motivations in order to find the most suitable system.
- 4. Tap Alternate Talent Pools:** While there are many merits to the generalist model by which many banks train their personnel, the increasing complexities in the banking ecosystem may necessitate a rethink. Many functions within banks – such as risk, IT, and human resources – require a special set of skills and aptitudes, which are often non-fungible. Banks will need to explore alternative solutions to preserve what is unique to them, while at the same time not compromising on these specialised functions' standards of delivery.

5. **Improve Brand Image:** Last but not least is the issue of brand image. Banks have long lost the status of employer of choice they enjoyed in the era before India’s liberalisation and before tech start-ups. New entrants in banking, payments, peer-to-peer lending, and seemingly unrelated industries are aggressively competing for talent. So banks will need to assert their identity in an increasingly crowded employment marketplace. Many banks have already started refreshing their “boring” brand image to – among other things – attract young, tech-savvy recruits who can support and drive their digital strategies. Banks will need to think hard about how they want to be perceived in the new world if they want to attract the right people with the right talent.

AGENDA 8. STRENGTHEN GOVERNANCE, COMPLIANCE, AND CULTURE

While much attention has been given to the banking sector’s measurable and tangible shortcomings, it cannot be reinvented without emphasis on softer aspects of the sector. A number of difficult questions remain unanswered on the ways banks work, as well as their governance setups. Some critical questions are listed below.

Exhibit 23: Tough questions remain unanswered

Governance	<ul style="list-style-type: none"> • Why did it require a focused AQR exercise to discover stressed assets in the banks? • To what extent is the onus on bank boards to ensure how appropriately a bank conducts its business? What is the interaction between bank boards and regulators? • Are bank CEOs in India adequately empowered? (There have been frequent resignations by CEOs of leading small private banks.) Are there adequate avenues for pre-emptive checks on senior management decisions when there is the possibility of misconduct?
Compliance	<ul style="list-style-type: none"> • Is the compliance function only responsible for managing compliance risk? Or is it also responsible for conduct and reputational risk? • Is the compliance function geared to deliver amid the changing regulatory paradigm? <ul style="list-style-type: none"> – A principles-based conduct model with broader and more ambitious consumer protection objectives – A risk-based approach to supervision with the adoption of a holistic view of the financial institution; greater customisation of procedures; stronger involvement and challenges at the senior management and board levels
Culture	<ul style="list-style-type: none"> • What values and behaviour are desired from bank employees? Are these demonstrated in the day-to-day activities of the bank? • What shift in culture is required to successfully transform delivery models? Should there be greater leverage of digital technology and , deeper understanding of customers through analytics? • What actions are banks taking to implement a change in culture? How are these affecting behaviour, such as communication, coaching, and feedback? How are the actions changing structural aspects of the organisation, such as the articulation and communication of a mission, a strategy, values, and risk appetite? How are they impacting organisational structure, policies, training, processes, performance management, hiring and development?



RECOMMENDED ACTION STEPS FOR INDIAN BANKS

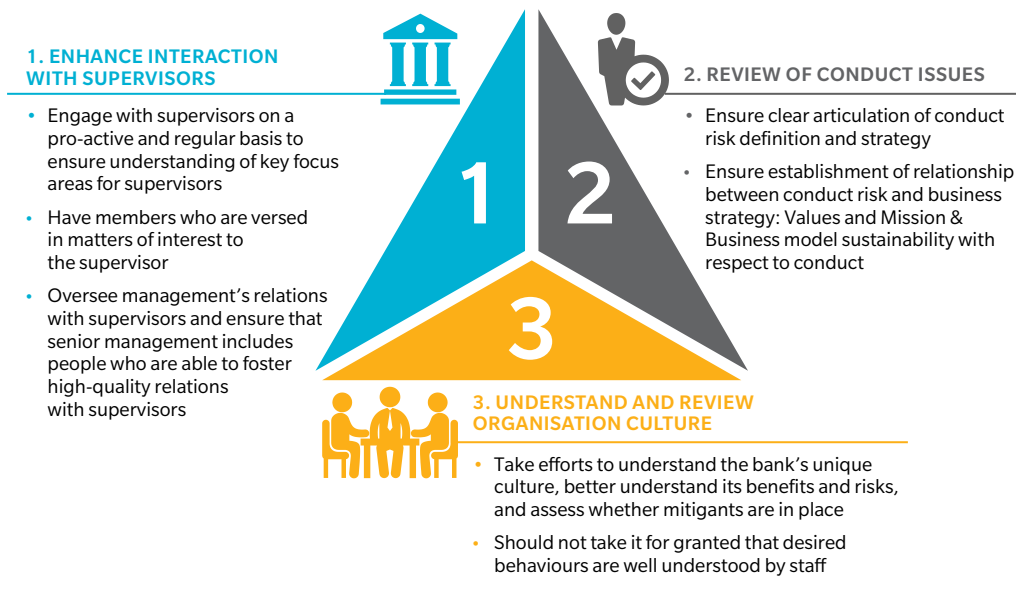
There are concrete actions that banks can take in order to address the weaknesses of the current setup:

1. **Expand the involvement of boards in interactions with supervisors and in defining initiatives related to conduct and culture.**
2. **Make the compliance function act as an “advisor” to the business.**
3. **Conduct culture assessments and define an action plan for ensuring appropriate behaviour and values.**

1. EXPAND THE INVOLVEMENT OF BOARDS IN INTERACTIONS WITH SUPERVISORS AND IN DEFINING INITIATIVES RELATED TO CONDUCT AND CULTURE.

Board effectiveness in banks has been discussed at length in a number of expert committees. As a result, the Bank Board Bureau (BBB) has been set up to improve the governance of public sector banks. The terms of reference of the BBB include recommending candidates to head public sector banks and financial institutions, and helping banks to develop strategies and capital-raising plans. As a next step, there is a need to expand the role of bank boards across three dimensions: interaction with supervisors, review of conduct issues, and taking ownership of the organisational culture and related matters. Across each of these dimensions, boards’ role and activities need to be designed explicitly and monitored on a regular basis.

Exhibit 24: Expand the involvement of bank boards



As the Indian banking sector enters an era in which strategic decisions will be taken about business models, operational setup, delivery channels, and the overhaul of risk and control frameworks, the importance of effective boards cannot be overemphasised. As is the norm in many developed markets, a regular review of board effectiveness is a critical tool for appropriate governance. Such a review can be undertaken by the regulator, the BBB, or recognised external agencies.

2. ELEVATE THE ROLE OF THE COMPLIANCE FUNCTION, MAKING IT AN “ADVISOR” TO THE BUSINESS

The compliance function has assumed greater importance in India after the global financial crises and the impact on bank results of regulatory actions such as the asset quality review. In order to stand up to the increased scrutiny from the regulator, it is essential to adopt a more integrated approach to compliance, governance, and culture.

In most Indian banks, the role of the compliance function is still limited to a box-ticking approach. Even in those banks where the compliance function has a broader mandate, it is still not playing the role of an advisor to bank management or taking ownership of conduct and reputational risk. For banks in India to adopt a new way of working, it will be critical to correct this and expand the role of the compliance function.

In banks’ new way of working, the scope of the compliance function will need to be completely redrawn.

- Breadth of the compliance function mandate: increased scope, including conduct of business, internal governance, and supervisory interface
- Position in organisation: More-senior and prominent positioning, with the Chief Compliance Officer having a direct reporting line to the CEO and direct access to the board
- Interaction with business functions: Enable businesses to be accountable to “supervisors” and drive efforts to harmonise language and methodologies – including risk assessment frameworks, risk taxonomies, and control frameworks.
- Interface with control functions: Efforts to address interaction and interfaces with other control functions, such as legal and risk, and to maintain a common risk matrix, reflecting a joint-up view of key vulnerabilities
- Anchoring in sound 3LoD framework: Explicit and consistent application of a three-lines-of-defence (3LoD) framework across the organisation, with greater engagement and accountability from the first line of defence

3. CONDUCT CULTURE ASSESSMENTS AND DEFINE AN ACTION PLAN FOR ENSURING APPROPRIATE BEHAVIOUR AND VALUES

As banks undertake transformations across their functions, the cultural aspects of change will need to be addressed explicitly. Culture is a multi-layered concept, but most Indian banks have not focused on defining and introducing a unique, coherent culture throughout their organisations. Especially when it comes to risk culture, most banks tend to adopt an extreme approach – too conservative or too aggressive – which may not be aligned with the objectives of the bank as a whole.

Exhibit 25: Most financial institutions adopt an extreme approach to risk culture

NOT CONSERVATIVE ENOUGH

- Risk-taking not aligned with risk appetite
 - Policies, limits, controls and rules not adhered to
 - Risk function concerns or advice ignored or circumvented
- Leads to out-of-control risk taking



TOO CONSERVATIVE

- Risk avoidance at all costs
 - Stifled growth and innovation
 - Paranoia, fear or blame culture
 - Time and energy wasted trying to get deals, products or limits approved
- Limits firm's ability to respond to client needs and generate sustainable returns

HEALTHY BALANCE

- "Constructive tension" and engage debates
- Mutual respect
- Balance of power and influence at senior levels
- Battles won and lost by both sides

We believe that to successfully transform risk culture banks need to take and then maintain a multi-pronged approach. However, this takes time and commitment. In particular, we highlight the importance of behavioural change. Culture diagnostics need to capture not only structural elements but also behaviour and the ongoing reinforcement required. The most important levers for fostering a healthy risk culture are time and leadership attention.

ADDITIONAL READING

TAKING STOCK/FORCES OF CHANGE IN FINANCIAL SERVICES



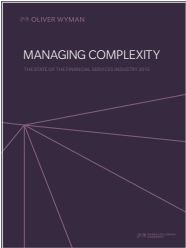
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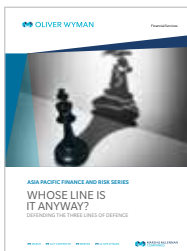
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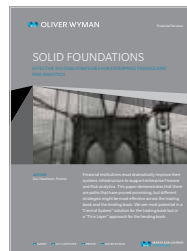
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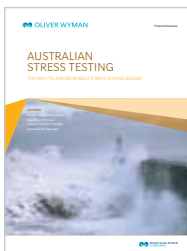
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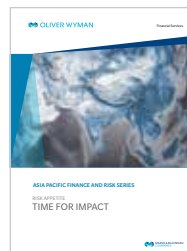
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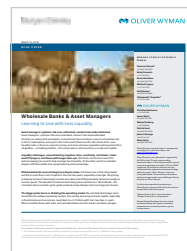
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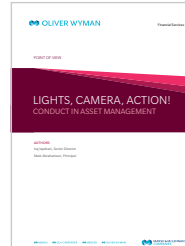


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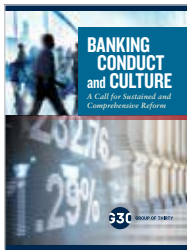
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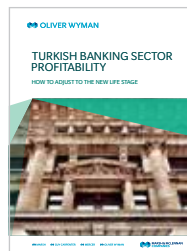


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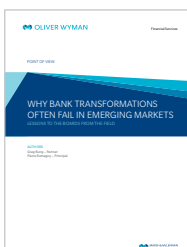
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