Fuelling growth
Prospects, challenges and the road ahead

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The first signs of recovery are “surely visible” in the economy and growth may touch 5.8% in the year to 31 March 2015, according to Mr. Arvind Mayaram, Secretary, Ministry of Finance, Government of India. The Index of Industrial Production (IIP) grew 3.5% in the fiscal first quarter (April-June) after contracting by 4.8% in the fourth quarter (January-March) of the last fiscal year. India’s wholesale price inflation slowed to a five-month low of 5.19% in July from 5.43% a month ago, while consumer price inflation quickened to 7.96% from 7.46%. With improvement witnessed in some important sectors including manufacturing as well as in the performance of exports, along with the measures taken by the government, the economy can be expected to show further improvement in the remaining part of the year.

Foreign flows have been encouraging and momentum is expected to continue for India. At a time when the scare around global liquidity squeeze is still on, India has enough domestic catalysts to keep the investors coming back. Plus, India is one of the most diversified emerging markets which provide foreign investors with enough opportunities to rotate investments within the country in periods of varying risk perception.

The country’s banking industry looks set for greater transformation. In the next 5-10 years, the sector is expected to create up to two million new jobs driven by the efforts of the RBI and the Government of India to expand financial services into rural areas. Two new banks have already received licenses from the government, and the RBI’s new norms will offer incentives to banks to spot bad loans and take necessary recourse to curb the practices of rogue borrowers.

India’s banking industry could become the fifth largest banking sector globally by 2020 and the third largest by 2025. These days, banks in India are turning their focus to servicing clients and improving their technology infrastructure, which can help better customer experience and give them a competitive edge. The popularity of internet and mobile banking is at an all-time high, with customer relationship management (CRM) and data warehousing anticipated driving the next wave of banking technology in the country.

In this context, Deloitte as our knowledge partner in Banking Colloquium 2014 has prepared a report. The study attempts to study the role of banks in a new phase of growth.

We hope the report will help the industry understand the prospects, challenges and the road ahead in fuelling the growth of the economy with the help of a vibrant banking sector.

Viresh Oberoi
Chairman, CII Eastern Region
Emerging from the shadows of recession, a stronger and a resurgent India is well poised to grow at 5 to 7% over
world economic growth and continue to power ahead in terms of domestic demand and investment attractiveness.
While a new regime has taken the centre stage amidst heightened expectations, reaching the ‘bottom of the
pyramid’ is set to remain a cornerstone of the expected new wave of economic growth. To ensure that benefits are
equitably shared, ‘inclusive’ participation from all regions and all social groups is critical – especially from the eastern
and north-eastern regions that remain on the periphery of the financial mainstream. The next wave of growth is
indeed going to come from ENE – East and North East.

While there has been a dip in terms of credit growth which was in line with the overall downturn in the economy,
going forward, the financial services players are set to play a significant role of “change agents” to catalyze
opportunities on both sides of the balance sheet satisfying demand from both the retail as well institutional customer
segments and ensuring that these demands are met adequately and at the right time.

In this report, Fuelling Growth: Prospects, Challenges and the Road Ahead, we look at the role of banks at a time
when the economy is at the crossroads, emerging from a deep slumber and ushering in a new phase of growth.
While there is no denying the fact that there is a long standing and pent-up demand and, sooner or later, the
economy is set for a rebound and take its rightful place in the world order, we should be mindful of the issues and
problems created over the last such growth phase, the tremors of which can be felt even today. And, hence, this
supports the need for continuing structural reforms.

The relentless push from the banks in the past to expand business led to a breach in their risk management systems
and subsequently, increased regulatory focus on improving such systems as well as increased compliance risk and
regulation costs. With economic recovery on the horizon, the demand for credit is set to witness a dramatic increase
once again in the coming years and therefore, a more robust risk management would be critical in minimizing any
fresh slippages or adverse movements in asset quality without deterring the impending growth.

Moreover, the banks need to exhibit that they have indeed learnt from their past mistakes and use a proactive
approach to address issues related to asset quality. This would help in overall reduction of stressed and
non-performing assets, enabling the banks to participate in the next phase of growth with a cleaner state. Besides,
a well-defined and effective customer on-boarding process would greatly simplify and streamline the on-boarding
process helping the bank from both business and well as regulatory point of view, improving its efficiency and
effectiveness as well as overall customer experience.

These topics are discussed in greater detail, and some new ideas are presented in this report. We hope you find this
report worthwhile.

Monish Shah
Senior Director
Deloitte Touche Tohmatsu India Private Limited
Financial Inclusion in eastern and north-eastern regions of India

Introduction

Easternⁱ and north-eastern⁲ regions of India account for around 21 per cent of the country’s total area and 26 per cent of the population. Eastern India is the most densely populated region of the country with an average density of population of 625/km², which is 70 per cent greater than the national average, and comprising about 22 per cent of the country’s population with a land area share of 13 per cent. On the other hand, north-eastern India is the most sparsely populated region of India with an average population density of 176/km², which is 52 per cent lower than the national average and its constituent ‘seven sister’ states comprise about 4 per cent of the country’s population with an 8 per cent share of geographic area.

The economy of these regions has been traditionally dependent on agriculture as well as metals and mining sector with large mineral deposits found in Jharkhand, Odisha and West Bengal. In addition, the economy of the north-east region also depends on tea cultivation and tourism sectors. The rugged terrain of the north-eastern states leaves them largely inaccessible from the rest of the country but the region has a deep political significance for India due to its strategic location bordering China, Myanmar and other countries of south-east Asia.

Economic growth in eastern and north-eastern India

Over the past decade, the eastern and north-eastern regions have maintained pace with the overall economy’s growth. While the eastern region contributed to INR 7.7 lakh crores in the Indian economy in 2012-13, growing from INR 4.9 lakh crores in 2006-07, its share in the country’s GDP has remained at around 14.4 – 14.5 per cent. Similarly, the north-eastern states contributed to INR 1.4 lakh crores in 2012-13 to the country’s GDP rising from 0.95 lakh crores in 2006-07 maintaining a consistent 2.6 – 2.7 per cent share in the country’s GDP. This reflects the fact that the growth rates in these regions were in line with the national growth rate unlike some other regions, for example the Western region, which outpaced the country’s overall growth over the same period.

Exhibit 1: Comparison of Eastern and North-eastern regions’ GDP with India (at constant prices 2004-05)

<table>
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<tr>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
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<td>India GDP</td>
<td>3564</td>
<td>3897</td>
<td>4159</td>
<td>4516</td>
<td>4919</td>
<td>5248</td>
</tr>
<tr>
<td>East GDP</td>
<td>485</td>
<td>532</td>
<td>563</td>
<td>606</td>
<td>662</td>
<td>707</td>
</tr>
<tr>
<td>North Eastern GDP as % of total GDP</td>
<td>13.6</td>
<td>13.6</td>
<td>13.5</td>
<td>13.4</td>
<td>13.5</td>
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Source: Planning Commission

¹ West Bengal, Odisha, Bihar, Jharkhand, Sikkim, and Andaman and Nicobar Islands (UT)
² Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura
While both the regions combined account for around 26 per cent of the total population, in terms of contribution to the national GDP, the share of these regions was around 17 per cent. The numbers are even starker when only the eastern region is considered – 22 per cent population accounting for 14 per cent of the national GDP. This indicates that there is significant potential and opportunities for improving the productivity in the eastern region.

The per capita income level for these regions is considerably lower than the national average – eastern region’s GDP per capita is INR 28,500 and that of the north-eastern states is INR31,600, which are 36 per cent and 28 per cent lower than the national average, respectively.

Exhibit 2: Comparison of shares of area, population and GDP (2012-13) for all regions

Exhibit 3: Comparison of GDP (2012-13) per capita for all regions (at constant prices 2004-05)
A distinctive characteristic of the economy of both the regions is that these regions are dominated by a single state – West Bengal contributes to more than 45 per cent in eastern region’s economy and Assam contributes about 60 per cent to the economy of the north-east. While these driver states have maintained their growth trajectory with West Bengal growing at 6.6 per cent and Assam at 6.4 per cent between 2006-07 and 2012-13, other states such as Bihar and Jharkhand in eastern region and Tripura in north-east have seen rapid growth in the last few years, even outpacing these driver states, and raising the overall regional average growth rate – 8.0 per cent for the eastern region and 7.0 per cent for the north-east region.

Exhibit 4: GSDP (at constant prices 2004-05) of Eastern states and CAGR

Source: Planning commission

Exhibit 5: GSDP (at constant prices 2004-05) of North-eastern states and CAGR

Source: Planning commission

Note: Average exchange rate is RBI’s reference rate
With India’s overall growth rates dropping over the last 2-3 years and a moderate growth rate forecasted for the country in the coming years, it is likely that the eastern and north-eastern regions would follow the suit and grow at a moderate pace. However, considering the fact that the eastern region has a significant scope for productivity improvement and is home to a significant store of mineral wealth, any infrastructural development associated with improving connectivity to these industrial belts is expected to have a significant impact on the growth outlook of the region. Further, the government also has been focusing on bringing about improvements in road and air transportation in the north-east region, which would help in achieving better integration with the other parts of India. These initiatives, combined with the largely untapped demographic opportunity in the region, raise the economic outlook of the north-east.

Financial Inclusion in eastern and north-eastern India

India is the second most populated country in the world with a population of more than 1.2 billion and the third largest economy in terms of purchasing power parity. But India’s level of banking penetration is significantly low as compared to other economic powerhouses. Only a half of the country’s population has banking accounts and less than 20 per cent have access to bank credit. This clearly reflects the fact that there is a significant untapped potential, as well as, it has a long way ahead in order to bring this part of the population under the formal banking channels in India.

When it comes to having access to banking services, there are wide disparities among various regions in India. While western and northern regions rank the highest in terms of per capita deposit and credit offtake, the eastern and the north-eastern regions significantly lag the rest of the country. The per capita deposit for the eastern region was INR 30,700 and that of the north-east was INR 27,300 at the end of year 2012-13. The same metrics for the western region is about four times higher at close to INR 120,000 and that of north India is about three times higher at INR 88,000. The disparity in per capita credit is even starker. At the end of 2012-13, the loan outstanding per person was only INR 15,000 for the eastern region and INR 9,000 for the north-east, whereas the same was INR 100,000 and INR 78,000 in the western and northern regions, respectively.
All the above statistics underscore the limited penetration of banking services in the eastern and north-eastern regions of India in comparison with the rest of the country. While there is an established need for deposit and credit services due to the dependence of a majority of population on seasonal trades such as agriculture or tourism for their livelihoods, there is a marked lack of access to organized financial services.

Financial exclusion not only renders people more vulnerable to financial losses thereby limiting their potential to contribute to the national economy, but also cuts them off from the country’s economic arteries, thereby making it difficult to share with them the gains of the country’s economic progress. Therefore, financial inclusion has an intricate relationship with the country’s growth and strongly influences the quality of life of its residents.

Financial inclusion initiatives
Considering the low level of financial inclusion in India as a whole and in the eastern and north-eastern regions in particular, the regulatory authorities, and the government have introduced multiple initiatives to render financial services more accessible and affordable to the people in the hinterlands of India. A few of those initiatives are discussed below.

New banking license
Reserve Bank of India has been very active in pushing the agenda of financial inclusion across the country and has consistently emphasized on financial inclusion in the un-/under-included regions of the country. As a part of this vision, the RBI has recently awarded in-principle banking licenses to two private players, one of which is a microfinance company based out of eastern India. This microfinance company is the largest in India and provides microcredit to more than 55 lakh customers and has significant presence in all the states in eastern and north-eastern India. Getting a banking license would enable the company to expand its network in these un-/under-included parts of the country and bring full-fledged banking services (both asset as well as liability side products) to the doorsteps of the people and in the process, significantly improving the financial inclusion in India in general, and in eastern and north-eastern India in particular.

Proposed licenses for small and payment banks
To enhance financial inclusion, the RBI has recently issued draft guidelines for two new categories of banks – small banks and payments banks. The primary objective of setting up these banks is to extend financial inclusion across the country. Small banks would be limited in size and operations compared to the scheduled commercial banks and would offer only basic savings products and small loans. These banks would cover only limited geographic areas and are expected to rely heavily on technology to reduce operational costs. These small banks are expected to serve as saving vehicles for the un-/under-banked sections of the society.

Though the payment banks would not be able to offer credit products, these banks are expected to extend financial inclusion by providing small savings accounts and payment or remittance services to migrant labourers, low-income households, small businesses and unorganized sector entities. Payment banks are allowed to leverage other players’ network in addition to their own that would help them in providing a large number of access points in particularly remote areas, thereby including the people of these areas into the formal financial system.

Other RBI initiatives
RBI has launched a few other initiatives to encourage banks to include greater number of people in the financial system. Some of the key initiatives include relaxed and simplified KYC norms to facilitate easy opening of bank accounts and simplified branch authorization policy where scheduled commercial banks are permitted to freely open branches in Tier 2 to Tier 6 centres subject to prescribed reporting to the regulator. In addition, all the banks have been mandated to open at least 25 per cent of their branches in unbanked rural centres (population up to 9,999 as per latest census). All these initiatives are expected to enable spreading of banking services in the previously un-/under-served regions.

“Jan Dhan Yojana” – Prime Minister’s financial inclusion drive
Financial inclusion has been a key policy focus of the new government and the Prime Minister has recently launched the Jan Dhan Yojana, one of the biggest financial inclusion programs in the world with the objective to end “financial untouchability”. Under this scheme, 7.5 crore accounts are to be opened by January 2015 and each account holder is expected to
get a RuPay debit card, a INR 1 lakh accident insurance policy as well as a INR 30,000 life insurance cover. It is expected that the banking sector would need to set up an additional 50,000 business correspondents, more than 7,000 branches and more than 20,000 new ATMs in the first phase alone (from 15 August 2014 to 14 August 2015). The government’s long-term mission is to have a full-fledged brick and mortar branch for all villages with population above 2,000 and each bank to have at least one fixed point banking outlet for every 1,000 to 1,500 households. These initiatives are expected to improve the lives of millions of poor Indians by bringing them into the mainstream financial sector and freeing them from the clutches of usurious moneylenders and fraudulent chit funds.

Other non-financial initiatives – with emphasis on the north-east
The government has been investing heavily in infrastructure development in the eastern and the north-eastern regions. Although infrastructure development may not directly lead to enhancement in financial inclusion, it is expected to catalyze an overall economic growth of the regions and thus, encouraging the commercial banks to expand into these parts. The Golden Quadrilateral project and the Eastern Dedicated Freight Corridor are expected to connect the eastern region to the rest of India by road and rail and would enable easy movement of the regions’ agricultural and mineral products to their markets across India.

In the latest Union Budget, the government has provided for overall development in the north-east by setting aside INR 53,706 crores for the seven north-eastern states. Some of the recent government provisions for infrastructure improvement in the north-east include INR 1,000 crores for development of rail connectivity, INR 3,000 crores for NHAI and State Roads, and INR 100 crores for promotion of organic farming. Examples of other infrastructure projects announced to connect the north-eastern states to the neighbouring countries are the Trilateral Highway Project connecting Moreh, Manipur to Mae-Sot, Thailand through Myanmar (to be completed by 2016), Kaladan Multi-modal Transit and Transport Project connecting Mizoram to Sittwe Port in Myanmar through multi-modal transport (to be completed by 2016), Inland Waterways Transit and Transport Protocol for movement of goods to and from the north-eastern states through Inland waterways route in Bangladesh), and development of rail link between Agartala, Tripura, Akhaura and Bangladesh. All these infrastructure projects are expected to alleviate the geographic isolation of the north-east and, thus catalyze an overall economic development of the region.

Conclusion
While India has made significant economic progress in the last decade and a half, the fruits of this economic development have not fully trickled down to all the sections of the country and have certainly not been equitably distributed across all regions. A large portion of the population, especially in the eastern and north-eastern India, is still cut off from the financial mainstream. To enable India to continue on the path of economic growth and fulfil its macroeconomic potential, this vast population needs to be included in the formal financial system. The next wave of growth can only be achieved if all Indians are included in the process. Government initiatives combined with diligent execution by all commercial banks would surely enable India to enhance financial inclusion and, thus unlock its full demographic potential.
Holding a Long Position on India

India’s growth story – two decades of consistent growth
Over the past two decades, India has been one of the fastest growing economies in the world and was one of the few countries that were able to maintain their impressive growth rate even in the post-meltdown years. Over this period, India implemented wide-ranging structural reforms that helped in liberalization and globalization of the economy introducing competition into a number of sectors that had previously been dominated by public sector entities. This led to a remarkable period of growth which helped the economy close the gap with the other emerging economies as well as developed nations, to some extent. The economy achieved an impressive growth of over 9 per cent for three successive years between 2005-06 and 2007-08 and recovering swiftly from the global financial crisis of 2008-09 to grow by 8.6 per cent and 8.9 per cent in 2009-10 and 2010-11. And, it is no surprise that the Indian economy now ranks as the third largest economy in the world as measured in PPP terms, overtaking Japan in 2011.

Exhibit 1: GDP (PPP) Share of World total

![GDP (PPP) Share of World total](chart)

Source: Economic Survey 2013–14

The recent headwinds that threatened the growth trajectory
Over the past 2-3 years, due to a multitude of both domestic as well as global factors, the economy witnessed a steep decline in the economic growth registering a growth rate of 6.7 per cent in 2011-12 and lower than 5 per cent growth for in the next two years, i.e. 2012-13 and 2013-14. The last time the country witnessed a sub-5 per cent growth for two years in succession was a quarter of a century ago in 1986-87 and 1987-88. While the challenging global condition led by the Euro zone crisis and a general slowdown affected most of the emerging economies, the problem in India was compounded by a multitude of domestic factors – policy paralysis of the government, delayed implementation of developmental initiatives, dramatic slowdown in the industrial growth, high inflationary environment and worsening current account deficit levels.

While the growth slowdown over 2012-14 was broad based, the industrial sector has been severely hit in these years. In the immediate aftermath of the meltdown, the industrial sector witnessed remarkable recovery and exhibited a steady growth of around 8.2 per cent over 2009-12. However, due to a combination of both supply-side and demand-side factors, the industrial sector lost momentum and posted growth rates of 1 per cent and 0.4 per cent over 2012-13 and 2013-14. The situation is also reflected in the consistently declining Index of Industrial Production (IIP) that serves as a quick estimate of industrial performance from 8.2 in 2010-11 to 1.1 and –0.1 in 2012-13 and 2013-14 respectively. One of the primary reasons behind this has...
been a slowdown in the investments attracted from
the private corporate sector. In addition to a slowdown
in investment, several domestic and external factors
such as higher interest rate, infrastructure bottlenecks,
inflationary pressure leading to rising input costs, drop
in domestic and external demand for some sub-sectors
have together contributed to low growth in the
industrial sector.

Exhibit 2: Industry sector pulling down overall economic growth

![Exhibit 2: Industry sector pulling down overall economic growth](image)

Source: Economic Survey 2013–14

The gross capital formation is witnessing a downtrend and a large part of this can be explained by the sharp decline in the investments from the private corporate sector.

Exhibit 3: Gross capital formation/ investments in proportion to the GDP of India

![Exhibit 3: Gross capital formation/ investments in proportion to the GDP of India](image)

Source: Economic Survey 2013–14
In addition to the industry growth slowdown, a prolonged inflationary environment posed significant challenges to the economy with average wholesale price index (WPI) inflation hovering at around 8.9 per cent in 2011-12 and 7.4 per cent in 2012-13. The consumer price index (CPI) inflation remained significantly above the comfortable limits exhibiting stickiness at around 9-10 per cent over the past five years primarily due to consistently high food inflation over the same period. The abnormally high inflation levels led to a significant increase in input prices affecting the profitability of the industry sector and at the same time impacting the consumers directly with increased prices for essential consumption items.

Another worrying factor was the abnormally high level of Current Account Deficit (CAD) witnessed in 2011-12 and 2012-13 that threatened to derail the macro-economic stabilization of the economy, leading to sharper outflows in the foreign investments and downward pressure on the Indian rupee. A key reason behind this was the rise in trade deficit arising from a weaker level of exports and a relatively stable level of imports.
The return of promise and possibly good times
Nonetheless, with improving global economic outlook particularly on account of performance in some advanced economies, formation of stable government with a strong economic reform agenda and reversal of some the aforementioned macro-economic trends, the Indian economy has also started showing signs of recovery and optimism.

The industry sector which exhibited a dramatic decline in terms of productivity and performance is showing signs of renewed growth. With the government and the RBI keen on kick-starting industrial growth with a slew of reforms and in the long term making India a manufacturing hub globally, the sector is set to witness a high growth phase in the medium to long term.

Further, the high inflation level that played a part in the slowdown in growth, savings, investment, and consumption, appears to have softened with concerted efforts from the RBI leading to renewed optimism from the consumers as well as the industry. However, the situation remains susceptible and until the inflation levels stabilize over a longer period of time, the optimism needs to be balanced with appropriate caution.

Similarly, the external economic situation has improved substantially with the worrying CAD of around 4+ per cent declining to manageable levels in 2013-14 and the Indian Rupee stabilizing after a turbulent period beset with significant downward pressure. Further, the fiscal deficit as a proportion of the GDP also declined for the second year in a row.

Going forward, with these signs of promise, it is expected that the economy would overcome the low growth phase that has plagued the economy for about 2-3 years. These signs of optimism have also been reflected in the recent and consistent surge in the financial markets.

The role of banks as ‘change agents’ in spurring this recovery
The banking sector in India is the lifeline of the Indian financial system with banking flows accounting for over half of the total financial flows in the country. Banks are not only responsible for financial intermediation but also facilitate in the process of social and economic inclusion by bringing ‘excluded’ population in the mainstream and even upholding the dignity of the people.

The banking sector in India showed remarkable resilience in the post-meltdown years and continued to grow at a notable pace even while the banks globally kept floundering. However, the sector’s performance declined over time in terms of credit growth which was in line with the overall downturn in the economy witnessed over 2010-13. The deposits growth has remained in line with the growth achieved in the path due to the persistent efforts of the RBI and government to bring down the proportion of financially excluded population in the country.

Exhibit 6: Bank credit and deposit growth over 2009-14 in India

3 Report on Trend and Progress of Banking in India 2012-13 - estimate based on the Flow of Funds Accounts for the Indian Economy
Going forward, the banks are set to play a significant role as “change agents” to catalyze opportunities on both sides of the balance sheet – savings (liability side) as well as investments (asset side). Banks are expected to be the primary engine for providing financial resources to satisfy both the retail as well institutional needs, ensuring that these demands are met at the right time and adequately.

**Retail banking**

While the banks would be the primary agent for the push from the government as well as the regulator to reach out to the “financially excluded” population, they would also be able to alleviate the regional imbalances. This would lead the banks to adopt new cost-efficient mobile and internet based technologies and rationalize their existing channel networks that offer flexibility and scalability to these banks in providing effective last mile connectivity. With rising confidence in the fundamentals of the economy, the banks in India are expected to assist in mobilizing deposits and increase in the overall savings and investment rate which remain considerably lower compared to other emerging economies.

**Wholesale banking**

With the dramatic decline witnessed over the last 2-3 years in the industry sector, it becomes imperative for banks to step up their efforts to kick-start a new wave of growth in the industrial sector in order to avoid getting into a systemic spiral of de-growth. However, banks need to manage this growth in a measured manner so that they ensure healthy asset quality while achieving robust growth and at the same time providing adequate and timely financing to these corporates.

**MSME banking**

In India, despite the incessant efforts made by the banks and other financial institutions, the MSME sector still depends to a large extent on the informal modes of financing. However, with improving awareness and access, the banks are once more set to play an important role in bringing these MSMEs to the mainstream banking system. The MSMEs of today would be the corporates of tomorrow and it is expected that with improved supervision and robust risk management systems in place, the banks would identify such MSMEs and nurture them over their growth trajectory. Further, with the banks innovative offerings customized to serve unique needs of the MSME sector, it would be no surprise that significant benefits accrue to both the MSMEs as well as the banks.

**Infrastructure financing**

Infrastructure plays a pivotal role in the development of the economy. The rapid growth witnessed by the economy over the last decade has placed increasing stress on physical infrastructure such as electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation. With the slowdown in the economy, the infrastructure sector is suffering from a substantial deficit in terms of capacities as well as efficiencies. Infrastructure development has always been on top of the agenda for India as this sector holds the potential to put the growth back on track after the recent slowdown. Hence, it is imperative that the banks along with other development financing institutions and specialized entities (e.g. Infrastructure debt funds) play a vital role in reviving the sector to spur a new wave of economic growth.

**Way forward**

There is no denying the fact that in terms of growth and investment prospects, there exists a long-standing, pent up demand with consumption as well as domestic saving levels considerably lower compared to other emerging economies in the world. However, this presents both an opportunity as well as a challenge to banks in India and it is expected that the Indian banking system that exhibited such resilience and financial stability in the post-meltdown years, would step forward and play a central role in re-defining the paradigm of development and growth in India.
The question of risk management processes impeding growth and profitability is at the forefront for most banks. This has been brought forward primarily by the Global Financial crisis which occurred at a time when macro-economic volatility was thought to have been conquered and financial risk management solutions sophisticated enough to withstand market turbulence and business cycles. The over-reliance on highly quantitative models and the failure of liquidity and capital management made it difficult for banks to withstand market stress. The financial crisis has further highlighted the weaknesses in risk governance structure, inappropriate incentives and infrastructure, undermining the overall effectiveness of risk controls.

The events of 2008 clearly exposed the vulnerabilities of financial firms whose business models depended too heavily on uninterrupted access to unsecured financing markets, often at excessively high leverage levels. This dependence reflected an unrealistic assessment of liquidity risks of concentrated positions and an inability to anticipate a dramatic reduction in the availability of required funding to support/finance these assets under stressed market conditions. A major failure that contributed to the development of these business models was weakness in funds transfer pricing practices for assets that were illiquid or significantly concentrated when the Banks took these exposures on their balance sheet.

One of the results of the crisis has been a dramatic change in the regulatory landscape and introduction of the Basel III accord is a turning point in the banking regulation with respect to risk management. Basel III builds on the Basel II and Basel 2.5 with increased emphasis on the quality of capital and liquidity risk. Key provisions of Basel III include enhanced capital requirements like higher tier 1 capital requirements, higher quality of capital, introduction of a capital conservation buffer, counter cyclical buffer SIFI capital charge, leverage ratio, increased emphasis on counterparty credit risk and revisions in credit and market RWA. Liquidity risk has been highlighted as a key area for banks with the introduction of several measures to be able to quantify and mitigate it in a more effective manner.
However, these regulatory measures place significant restrictions on the way banks have been functioning hitherto in addition to increased cost of running the business. The enhanced requirements are expected to increase the weighted average cost of capital through several means:

- Restrictions on the balance sheet leverage
- Introduction of quantitative rating models is perceived to be against the traditional credit decision making skills involving focus on qualitative aspects such as client relationship and assessment of the client management team and its effectiveness
- Forcing banks to rely more heavily on equity, which is the most expensive form of capital, to fund the balance sheet increases the cost of capital
- Liquidity ratio requirements may put a premium on retail deposits, and hence competition (and cost) for retail deposits are expected to rise. This may put banks with large retail deposit franchises at an advantage.
- By eliminating various innovative and hybrid instruments under its loss-absorbency proposal, Basel III may raise the risk premium that bank investors will demand for equity capital.
- Liquidity requirements may encourage banks to swap a portion of their short-term liabilities with medium-to long-term liabilities, also affecting the cost of capital
- Enhanced limit setting may curb profitable avenues

This resulted in an industry wide perception across the world that Basel III is going to be a deterrent to growth and profitability.

On the lines of developed markets, RBI has also issued the final guidelines for Basel III implementation by 2019. In light of Basel III implementation, it is expected that Banks in India will have to raise an additional 4.5 trillion Rupees just to meet the additional capital requirements.

Although the banking sector in India exhibited considerable resilience in the immediate aftermath of the global financial crisis, it has been impacted by the global and domestic economic slowdown over the last two years. In the aftermath of the crisis, 2010 saw a slow down in the credit growth. By 2012, credit growth contracted sharply to about 17 per cent, while NPAs grew at an alarming 46 per cent.

Before performing a deeper analysis of the changing regulatory landscape on the Indian market, it is important to understand the unique nature of the Indian banking sector. Though a significant portion of Indian population is not serviced by the banking sector, the Indian banking sector accounts for a major portion of financial intermediation and is historically the main channel of monetary policy transmission, credit delivery and payment systems. The stability and sound health of the banking system therefore, is a key pre-requisite for overall economic development and overall financial stability covering the non-banking financial institutions.

4 RBI Working Paper Series: Re-emerging Stress in the Asset Quality of Indian Banks: Macroeconomic Linkages
As our economy is set to witness a high growth phase going forward, the demand for credit is expected to increase, and the banks and financial institutions have an important role in terms of achieving this growth without adversely affecting the overall risk profile of the Banks. Here, a more robust credit risk management becomes critical to minimize fresh slippages into NPAs, and maintain and improve the overall asset quality. Stronger conformation to risk-based pricing approach may aid banks in better aligning the pricing of loans with the expected and unexpected risk associated with the loan products, thereby increasing transparency in the pricing of products.

Similarly, from the view point of Treasury operations, majority of the banks largely deal with SLR securities and high quality non-SLR securities and the complexity of products are gradually increasing. This is evidenced by the significant growth in other income resulting from Treasury dealing and through offer of complex risk management solutions by the banks to its customers. In this context, going forward, a step change in the market risk management framework also becomes vital to ensure that the risk management infrastructure is commensurate with the complexity of products the banks are dealing with.

The Indian banking sector is also unique in terms of complexity of banking operations in the number of branches and their geographical coverage. Over the last 10-15 years, even banks with regional focus are widening the franchise across different parts of the country and select foreign locations to cater to the growing non-resident Indian population. The sophistication of the payment mechanisms in place are in line with leading international practices. With technology being the primary enabler to achieve this growth strategy, banks need to make significant investments in this domain to mitigate the operational risks resulting from this overdependence of technology.
The Reserve Bank of India has further increased emphasis on the risk management practices in the Indian banking sector. Similar arguments and supporting evidences can be given on greater strides made by improvement in risk management practices from other key areas of risk such as non-IT operational risk, interest rate risk in the banking book, etc.

The principles of liquidity risk management in Indian banking sector have significantly evolved in the last few years primarily based on the learnings from the global crisis, increased regulatory scrutiny and increased awareness about its ability to create system wide disruption. Similar arguments and supporting evidences can be given on greater strides made by improvement in risk management practices from other key areas of risk such as non-IT operational risk, interest rate risk in the banking book, etc.

The timing of introduction of these advanced risk management techniques along with the regulatory push have made the industry to view ‘Risk Management’ as a non-negotiable regulatory requirement and as an un-avoidable cost to the business resulting in underestimation of the role of risk management.

However, it should be noted that the objective of risk management is not to prohibit or prevent risk taking activity, but to ensure that the risks are consistently taken with full knowledge, clear purpose and understanding so that it can be appropriately measured and mitigated. This is the cornerstone of Integrated Risk Management (IRM) philosophy that RBI is advocating. An IRM framework helps the banks to move away from the ‘silo’ approach of risk management towards a more ‘holistic’ view of the risks impacting the Bank at an enterprise level. An effective risk management framework is about putting in place adequate risk control mechanisms that are aligned to the business strategy proportionate to the underpinning risks. In other words, the risk appetite should follow from the business strategy and not vice versa.

The Reserve Bank of India has further increased emphasis on the risk management practices in the Indian banks with the introduction of risk-based supervision under which banks are rated based on their risk profile and their ability to manage/control the risks instead of merely focusing on capital and performance related ratios.

While increased regulatory scrutiny on improvement in risk management frameworks and the ever-increasing cost of risk and regulation have created fatigue, the introduction of the Basel II and III accord has changed the way that banks look at risk management as a function. However, it should be also recognized that the banking industry as a whole has also been undergoing significant changes with significant inter-connectedness. Therefore, the evolution of risk management should also be seen as a byproduct of the constant structural changes happening in the sector and not as a real threat to the impending growth.
Recent trends in management of Non-Performing Assets (NPAs)

Background
Over the last four to five years, Indian banking sector has witnessed challenging times with the rise of Non-Performing Assets ("NPAs") and stressed assets. The slowdown in the economy and the challenges on the political regime in India adversely affected certain industries such as power and infrastructure which have had a direct impact on the rise of NPAs and restructured accounts. To assess the complete picture of stress in a bank’s advances book, it is imperative to take into consideration the total restructured accounts in the book along with the NPA and stressed assets.

During the last four to five years, there has been an increase in restructured accounts in the banking industry. One of the incentives of restructuring to lenders is having the account classified as "Standard & Restructured" and not as an NPA account. The total NPA and stressed assets (including restructured debt) in the Indian banking system as of March 2008 amounted to INR 104,372 in March 2008 (4.8 per cent of total advances) as against INR 288,113 crores (6.6 per cent of total advances) in March 2013, while standalone NPAs have been 1 per cent and 1.7 per cent in March 2008 and March 2013, respectively.

Current trends in management of NPAs
Management of NPAs has to be seen in two ways:
(i) Before the account gets classified as an NPA, and
(ii) Post classification as an NPA. In the former category, for a potential NPA account, the lenders may consider restructuring of the account and taking proactive measures which would avoid getting the loan account turning into an NPA account. In the latter category, the lenders would initiate recovery proceedings.

Depending on the background of the case and reasons for the stress on the account, the lenders can either choose to restructure the account or initiate recovery proceedings on the same.

Restructuring
In recent times, it is evident that one of the preferred methods adopted by the lenders in management of NPAs/stressed assets is to restructure the account. This is an encouraging and more positive approach as it provides an opportunity to the borrower to turnaround such accounts which ultimately helps in overall economic revival. However, for an account to be restructured, the most important aspect for the lenders to decide on is whether the account is viable for turnaround and the company is not a wilful defaulter (i.e. there have been no intended diversion of funds made by the company). The Corporate Debt Restructuring ("CDR") mechanism approved by Reserve Bank of India in 2001 has seen huge increase in activity in the last two to three years. A well-planned and monitored CDR scheme can actually see a stressed account getting back to normal. Apart from assessing the viability of the account, one of the important aspects is to identify strategic options for windfall gain of money which can help in reduction of debt size during the moratorium period under CDR. This can be achieved either through large asset sale or equity stake sale.

While CDR has certain obvious benefits (extended timeline for repayment of debt, similar terms and conditions across consortium lenders and no provisioning requirement for lenders), it also has its fair challenges i.e. ensuring implementation of an approved CDR scheme across lenders on timely basis. There also have been instances where non-viable cases have been admitted under CDR to avoid classification of an account as NPA. In such cases, invariably subsequent additional funding disbursement (as approved under CDR scheme) is not forthcoming on timely basis from the lenders. It only results in mounting of additional debt for the borrower as many a times, revenue generating operating activities come to a standstill due to lack of funds. Currently, under CDR guidelines, no serious action can be taken against the lenders who default in implementation of an approved CDR scheme.

However, the recent RBI guidelines on Joint Lenders Forum ("JLF") and Corrective Action Plan ("CAP") (Circular no. DBOD.BFBC.No.97/21.04.132/2013-14), before a loan account turns into an NPA, provides lenders with another platform for restructuring. There has been a recent trend with lenders preferring to restructure debts via the JLF mode as against under CDR. Under the JLF route, there are strict timelines to be adhered to for achieving various milestones, which makes it more time efficient in completion of restructuring activity. Also, implementation of an approved restructured scheme is easier under JLF mode. For example, under the JLF, if a consortium lender is not proceeding with disbursement of approved limits, then the Monitoring Institution ("MI") can proceed and report the matter to RBI for necessary perusal.

(Source: RBI and CDR website)
Once an account is approved for restructuring, it is crucial for lenders to monitor the operations of the borrower on a continuous basis. In extreme scenarios, if the lenders do not have confidence in existing promoters/management team of the company, then the lenders can also decide to change the management of the company. However, this is easier said than done as there are some limitations in having this implemented. Firstly, it is clear that lenders cannot take on management of the company and they need professional help in doing the same, ideally from external agencies. However, for professional agencies to take this up, currently the Indian law does not have necessary protection and limitation of recourse for the new directors coming on board from creditors. This is proving to be a big deterrent for new management to take on an already troubled account. For larger debt exposures where the borrower has seen attrition of key managerial staff, the lenders can consider appointment of a Chief Restructuring Officer ("CRO") (normally done by an external agency) who helps in monitoring operations of the company and prioritizing utilization of cash flow proceeds. This is again a new concept in India; however, appointment of a CRO is a common concept for restructuring debt accounts in the Global markets.

**Recovery**

Undertaking recovery of NPAs in India has never been easy for the lenders. To help in ease the recovery of NPAs, the Debt Recovery Tribunal ("DRT") was formed. While the DRT has been effective to a certain extent, there have been some gaps in judiciary process which have been exploited by borrowers to delay the decision making process.

Another important Act for the lenders is, the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 ("SARFAESI") which empowers lenders to either take custody of secured assets or sell the loan account to Asset Reconstruction Companies. However, these provisions are used by lenders as the last recourse mainly for wilful defaulters. Once a bank takes custody of a particular asset, getting the full value of the asset is always a challenge as it is viewed in market as a distress sale. Accordingly, it is always beneficial for lenders to have the company sell the asset rather than take over custody of asset and then go to market for sale.

In recent times, there has been an increase in sale of debt accounts to Asset Reconstruction Companies by the lenders. However, getting the right pricing on such transactions can be a challenge. This option may be useful for a lender where there is a small exposure in a multiple consortium managed account and not necessarily for large exposures.

Another impending area of concern for the PSU banks is talent management. PSU banks have been hit with senior level retirements, lack of succession planning and inability to attract talent due to variation in pay scales. Absence of skilled managerial workforce puts pressure on the banks' ability to deal with complex NPA and stressed asset accounts.

**Conclusion**

Management of NPAs is the focus area for now and needs expertise and diligence in handling of the same as there are too many stakeholders involved apart from the lender and the borrower. With every call back of loan on an NPA, there are multiple aggrieved stakeholders (regulators, vendors, contractors and employees) apart from the promoters of the company. Also, restructurings are put under the scanner of regulators on whether these are genuine and viable cases. Whatever the lenders ultimately decide on an NPA or a possible NPA case i.e. recovery or restructuring, these are mostly short term solutions specific to individual accounts and more of a reactive measure.

The lenders need to have more of a proactive approach and a long term solution, which may address timely identification of stressed accounts so that corrective action can be taken. This may help in overall reduction of NPAs and stressed assets. All lenders have had some type of checks and balances in place to assess health of the account during disbursement. However, these need to be undertaken with renewed rigour and more focused approach to ensure these checks achieve the desired objectives.

Banks need to invest time and resources to scale up existing practices for credit evaluation, background checks and post disbursement monitoring and other innovative solutions (asset sale, debt equity conversions, equity sale) along with development of succession planning to ensure skilled and experienced resources are managing complex debt exposures.
Customer on-boarding in the banking industry

Customer on-boarding: Setting the context for the banking industry

Customer on-boarding in the banking industry is the process of welcoming new customers to a banking relationship and integrating them into banking systems and operations. This process involves continuous stream of personal as well as system interactions including collection of Know Your Customer (KYC) and other personal details, data validation with third parties, account activation, customer profile analytics associated with demand creation for new products and services and post-sale early touch activities. With intensifying competition, stringent regulatory requirements, sophisticated customer demands and increasing operational overheads, banks are struggling to offer customized customer services, as well as, comply with the ever-changing regulations in a cost-effective manner. Hence, in the recent past, devising an effective on-boarding approach has emerged as one of the key focus areas for the banks in India which would go a long way in resolving these issues and facilitating the next level growth in their businesses.

At most of the banks and other financial institutions, ensuring timely and accurate regulatory reporting, following KYC norms and fulfilling compliance are integral parts of the client on-boarding process. Therefore, it becomes imperative that an effective on-boarding process within a bank needs to cover both account opening as well as compliance activities. While the account opening activities include ensuring timely and efficient collection of KYC documents and completion of formalities, the compliance activities focus on ensuring strict observance of all statutory provisions contained in various legislations as well as the bank’s internal policies and fair practices code. In India, while a few “progressive” private and large foreign banks have established separate compliance and account opening teams which work closely during the customer on-boarding process, at most public sector and old private sector banks, there exists a single team for this role. It has been observed that having dedicated teams for these two set of activities, helps in expediting the on-boarding process, elevating customer experience as well as protecting the bank from various risk exposures.

Exhibit 1: Customer On-boarding in a Bank
Customer on-boarding is different across different banks
While regulatory guidelines remain the same for all the scheduled commercial banks in India, each bank has its own process and policies in place for customer on-boarding. Based on a research study recently conducted by Deloitte, the banks in India can be broadly classified into four different categories based on the customer on-boarding process maturity in terms of people, process and systems used for customer on-boarding:

i. ‘Progressive’ large PSU banks: Among these banks, the retail banking team is usually responsible for completing the on-boarding process. The process including KYC checks involves significant manual intervention at the branch level. A limited number of banks have a dedicated customer on-boarding system or risk scoring & categorization mechanism at the point-of-sales (POS). Further, integration with other vital systems such as Core Banking Solution (CBS) and Business Process Management (BPM) solution is partially available. In the past 1-2 years, most of these banks have initiated steps to undertake end-to-end technology transformation projects that may go a long way in streamlining the customer on-boarding process and overall customer experience in future.

ii. ‘Old-style’ PSU and private banks: Among these banks, the branches are usually responsible for carrying out the customer on-boarding process. The process is generally driven by personal relationships and involves high degree of manual intervention. Although KYC checks are completed manually at the branch, a few banks use a centralized processing facility for document verification. Very few banks in this category have a dedicated system for on-boarding or risk scoring & categorization at the POS. Integration is not an immediate issue as most of these banks are small in size and typically use a single system (i.e. the CBS) for all customer related transactions.

iii. ‘Progressive’ private and large foreign banks: The banks under this category usually have a dedicated centralized on-boarding team which provides facilities such as document verification and due diligence after document collection at the branch level. Most of these banks have implemented a dedicated system that assists them in automating the on-boarding process. These banks have successfully used technology to reduce their turn around times and enhance overall customer experience. Further, the on-boarding team leverages the on-boarding system to conduct risk categorization & scoring at the time of data entry. The on-boarding system used at such banks is closely integrated with other vital systems such as CBS and the BPM solution.

iv. Institutional focused banks: With majority of the clientele being corporates/institutions, the banks in this category have a dedicated team as well as system in place for customer on-boarding where each client is assigned a dedicated relationship manager for all pre-sales as well as post-sales related support. The on-boarding process involves significant manual intervention such as conducting client visits and collecting relevant documents related to the company as well as its stakeholders. In addition, with larger ticket sizes involved, these banks mostly follow a manual process for risk assessment as well as KYC verification. Further, the on-boarding system at these banks is usually not integrated with the CBS used by the banks.

Based on the current state analysis of the customer on-boarding process followed at various banks in India, it has become apparent that the degree of maturity and automation varies significantly across these categories of banks. Among the current incumbents, it is the new private and retail-focused large foreign banks that have stolen the march and have started treating customer on-boarding as one of the strategic levers for their business for fulfilling the KYC and various compliance activities as well as improving the overall experience for the customers in a cost effective way. While the larger PSU banks have started realizing the value proposition and are taking steps in this direction, going forward, it is expected that other banks would move in this direction as well. This would undeniably help these banks in identifying and concentrating their efforts on serving customers that are the most desirable from a business point of view.

Key challenges faced by the banks during the on-boarding process
While there are multiple challenges experienced by banks in their customer on-boarding process, these challenges are often unique to the bank and depend upon how the on-boarding process is organized within the bank, how the work is allocated between the branches and the central office, and the maturity of the
resources – people, process and systems – involved. The nature of these challenges may vary from small operational errors such as incorrect data entry at the point-of-sales to complex technical aspects such as inconsistent IT system integration. A few of the challenges experienced by the banks in India have been highlighted in Figure 2.

Exhibit 2: Key challenges of on-boarding

<table>
<thead>
<tr>
<th>KYC</th>
<th>Business compliance</th>
<th>Integration</th>
</tr>
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<tbody>
<tr>
<td>• Customer needs to fill a paper form and provide extensive documentation. Proper documentation usually takes repeated visits</td>
<td>• Lack of appropriate metrics limits the ability to monitor and realize business and operational efficiencies</td>
<td>• Lack of data consistency across bank systems due to poor or limited integration</td>
</tr>
<tr>
<td>• Limited provision for any validation at the point of data entry</td>
<td>• Lack of dedicated reports and dashboards for monitoring performance of the customer on-boarding team/ system including branch and management level statistics that may lead to poor customer service and low satisfaction levels</td>
<td>• Absence of an integrated communication platform leading to fragmented flow of information to customers</td>
</tr>
<tr>
<td>• Fragmented communication within the bank causing repeated requests to the client for the same information</td>
<td>• Compiling customer profile which includes uncovering commercial/ personal relationships, identifying co-owners/ beneficiary owners based on multiple data sources is time consuming</td>
<td>• Inability to fully leverage a client profile leads to loss of cross-/ up-sell opportunities as there is a lack of a single reference to link clients, accounts and documents</td>
</tr>
<tr>
<td>• Manual tasks in the current business process such as receiving, logging, batching, sorting, photocopying, and transporting documents for processing cause delay in the on-boarding process</td>
<td>• Risk scores are manually determined and the process is personnel driven without using any sophisticated systems. Sometimes, this leads to incorrect risk evaluation, sub-optimal cross/up-selling and inappropriate capital requirements</td>
<td>• Legacy systems are difficult to update/ modify as per the ever-changing regulatory environment</td>
</tr>
<tr>
<td>• At most of the banks, customer information is not available in digital mode, hence, retrieving files from cabinets, searching through files to find documents, or searching for misplaced and lost files for existing customer becomes challenging</td>
<td>• Lack of automated or assisted decisioning; systems are not linked to use credit bureau data, risk score and/ or in-house evaluation criteria</td>
<td>• Limited customization available for user interface to operate seamlessly across various new media platforms, display sizes and operating systems</td>
</tr>
<tr>
<td>• Lack of access to digital customer profiles across branches encourages errant behaviour of some customers, taking advantage of information asymmetry</td>
<td>• Lack of automated or assisted decisioning; systems are not linked to use credit bureau data, risk score and/ or in-house evaluation criteria</td>
<td>• Lack of governance, process accountability and co-ordination challenges due to multiple hands-offs across businesses</td>
</tr>
<tr>
<td>• Lack of automated or assisted decisioning; systems are not linked to use credit bureau data, risk score and/ or in-house evaluation criteria</td>
<td>• Risk scores are manually determined and the process is personnel driven without using any sophisticated systems. Sometimes, this leads to incorrect risk evaluation, sub-optimal cross/up-selling and inappropriate capital requirements</td>
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In the current state, the KYC process, which is a critical part of account opening for most of the banks in India, lacks automation or assistance from any dedicated solution. At a number of banks in India, the current systems do not leverage important inputs such as credit bureau data and advanced risk scoring algorithms and continue to operate a branch staff or relationship manager driven model where personal relationships as well as feedback are used to determine the suitability of an account opening application and manually calculate risk scores. This may lead to inaccurate risk evaluation, sub-optimal risk scoring and hence, results in two types of errors - acceptance of an unsuitable application and rejection of a suitable application. With the regulator pushing for maintaining a high degree of regulatory compliance as well as strengthening risk management practices, an effective customer on-boarding process would go a long way in identifying any potential errant behavior or customer and tiding the process right at the first step of establishing a banking relationship. Therefore, it would not be an exaggeration to say that a comprehensive customer on-boarding process is increasingly becoming important for banks.
A dedicated customer-on-boarding solution may help in overcoming most of these challenges. An ideal customer-on-boarding solution may help banks in considerably overcoming these challenges and shortcomings, offering both operational as well as strategic benefits to a bank:

i. Operational benefits that are more tangible in nature and can be measured using suitable metrics. Includes benefits such as reductions in turnaround time and costs involved in the processing of applications, reduction of paper usage, improved data collection process and management, quicker fulfilment and better customer service saving repeated customer visits application processing.

ii. Strategic benefits that are less tangible benefits, though difficult to measure, support the overall business case for a dedicated on-boarding solution. Includes strategic gains which deal mostly with the business aspects such as improved customer retention and cross-/ up-selling opportunities, greater visibility and control at both branch and management levels, efficient compliance management and better decision making.

Exhibit 3: Benefits of a dedicated on-boarding solution
Categories of vendors operating in the customer on-boarding solutions space

With the rapidly changing business environment and the remarkable pace of technological advancements, a number of technology solution providers have started focusing on the customer on-boarding solutions space. Based on the research study conducted, an on-boarding solution operational in a bank can be an in-house developed system, one of the many add-ons of the CBS as well as Business Process Management (BPM) solution or a part of the Customer Relationship Management (CRM) solution. While a large number of vendors have expanded their current offerings to introduce an add-on on-boarding solution, only a handful of specialists are present in the market that focus primarily on customer on-boarding. Based on the vendors’ strengths and capabilities, the current vendor landscape can be categorized into four categories – Customer on-boarding solutions providers, CBS providers, CRM providers and BPM providers.

In India, most of the customer on-boarding market has been dominated by vendors that provide customer on-boarding solution as an add-on to their other lucrative offerings such as CBS, BPM or CRM. With banking as a business becoming increasingly commoditized in the coming years, it is expected that the banks would look for dedicated end-to-end solutions that would provide them with avenues to help them streamline their operations and differentiate their offerings from their competitors. And, it would not be an overstatement to say that a dedicated end-to-end customer on-boarding solution provides one such starting point.

Exhibit 4: Customer on-boarding vendor categories
Way forward
In the current business environment, banks need to continuously evolve, expand and introduce new products and channels to acquire wider consumer segments and generate more and more business from the existing customers. This highlights the need for a solution that can enable features such as swift customer acquisition, quick fulfilment, real-time collaboration with third parties, risk scoring and decision making capabilities, identification of cross-/up-sell opportunities, and improved visibility and control over its customer-related activities. In addition, over the past decade due to a combination of stringent regulatory compliance and risk management requirements as well as growing NPAs, banks have been increasingly focusing on technology to improve risk assessment and management processes. By incorporating an end-to-end customer on-boarding solution, banks can solve such problems to an extent at the very first step of establishing a customer relationship. In fact to ensure long-term success, many progressive banks have already recognized the need to adopt a simplified, streamlined and a less-time consuming approach for customer on-boarding. However, the road to success in customer on-boarding is a mandatory journey for any category of bank in India and speed of implementation is of the essence.
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