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FUTURE OF INDIAN BANKING THE ROAD AHEAD



In the economic development of India, the banking industry, undoubtedly has played a crucial role, as an integral part of the ecosystem. With over two centuries of history of formal banking, there have been perceptible changes both linear and structural, over the period in tandem with the needs of the developing economy. An attempt has been made in this Brief Report to have an overview and examine the past trends and events, the current scenario and going forward, the possible shape of things to come.

After the primarily, trade oriented banking, Nationalization of large Banks in 1969 brought in a paradigm shift towards Social Banking and industrial growth. The post liberalization period after 1991 witnessed, growing competition, increased volumes, and diversification. The credit appraisal mechanism, Risk management and overall operations underwent changes, with entry of 'Tandon committee Norms', 'Basle committee' Prescriptions, and emerging adoption of technology etc.

Last 5 years have brought forth a challenging situation of mounting NPAs, which needs to be dealt with urgently in a decisive manner.

As the new decade unfolds, the use of emerging technologies like AI, Machine learning and block chain is expected to play a key role as the 'game changer'. This shall be across all aspects of Banking, be it evolution of new products to meet growing competition, a gradual transition to the 'Cash Flow' based lending mechanism, more robust monitoring and supervision and overall improved efficiencies. This is expected to facilitate rebounding of Banking Industry to the path of sustainable growth, after safely sailing through the current challenges of covid 19 pandemic.

We hope the present Brief Report will prove to be a useful document for our valued clients as also for all professionals associated with banking industry as practitioners and commentators.

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Predictions – The Road Ahead

- The future state of the Indian Banking lies in the modernisation of the core banking system. Introduction of new, better and agile technologies is carving out new paths of growth and optimization. The increased competition, unprecedented situation and the new normal arising out of the pandemic, will prompt the banking system to stay relevant and banking as we know might undergo a revolutionary change with a paradigm shift.
- Banking will be more lifestyle oriented and banks will look to extend their core systems to kick-start growth by launching new products, build digital experiences, and augment operational efficiency by leveraging the likes of AI, machine learning and cloud technologies. These would include themes like digital on boarding and quick loan disbursals.
- Artificial Intelligence, Machine learning and Deep-learning will be employed as decision-making tools to judge the behavioural aspects of customers Saving habits of depositors and the need based requirements/credit worthiness of borrowers.
- Block chain technology will enable revisiting of processes, procedures and internal controls, to create an effective and robust sustainable structure. Adoption of block chain will be gradual and steady, as waves of technological and institutional changes gain momentum.
- Gradual transition to "Transaction based lending" based on "cash flows" of the borrower as against "Asset Based Lending" for the large borrowers will emerge with lesser reliance on "Cash Credit System" as a credit delivery mechanism.
- Green and Sustainable Banking with an endeavour to allocate resources towards avenues that lead to Environment, Social, and Governance objectives, in line with international standards.
- Strengthening of top banks, to match global standards to meet the future requirements and bring out more presence in the list of top 100 commercial banks of the world in line with the size of the Indian economy.
- On tap availability of banking licenses to genuine, serious and efficient corporate groups, besides conversion of large NBFCs into banks, to further widen the market in line with growing requirements of the economy.
- Setting up of a "Bad Assets" Bank may emerge as a possible solution to handle the gigantic issue of NPAs by taking over bad loans in a transparent manner at market based prices and take care of revival/recovery in a focused manner. Banks can then concentrate on revival of the credit growth.
- Emergence of a more deep and robust corporate bond market with wider participation in line with the greater requirement of alternate funding options.

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EXECUTIVE SUMMARY

FUTURE OF INDIAN BANKING : THE ROAD AHEAD

EXECUTIVE SUMMARY

The banking sector in India has gone through a chequered history with ups and downs on the path to sustainable growth. This report is an attempt to present a study about the evolution of the banking sector over the period, the present challenges and the way forward.

The era of tight controls was followed by gradual liberalization and reforms which resulted in rapid multi fold development of the sector. In tune with the growth and needs of the economy, commercial banks have achieved new milestones. The regulator has played its role deftly over the years with effective control and regulation, while providing an enabling ecosystem for the development of the economy across all sectors and presenting a pragmatic monetary policy.

The Report inter alia traces the history of the commercial banking starting from pre independence times to Nationalization of major Banks in 1969 and the deregulation and Reforms 1991 onwards. The current status and salient aggregates of the sector have been discussed and analyzed in brief.

As the economy grew and diversified, the approach followed over the period in respect to, credit risk management and appraisal mechanism underwent a change. These have been covered under the 'Tondon committee' norms and its variants. This is followed by the possible scenario based on the 'cash flow' based lending to meet the future needs. Basle committee norms are also briefly touched upon.

The report also traces the evolution of the mechanism relating to handling of stressed assets as brought out by the regulator, starting from CDR mechanism to schemes like SDR, S4A and the current comprehensive Revised Resolution Framework, as per the changing requirements and complexities of the credit portfolio. A reference to the IBC framework has been also made.

The usage of Technology by the banking industry over the period of time and emerging possibilities of the new technologies like AI, machine learning and Block chain as the 'new game changer' have been broadly covered in the report.

Drawing inferences, from the evolution process and the current scenario, an attempt has been made to arrive at the possible future, the way forward and the shape of things to come, in the topic covering predictions and strategies.

The present study paper is attempting to enumerate the relevant factors and inputs that will become a part of the way forward based on the past learnings from sequential developments and highs and lows through which banking industry has so far passed.

FUTURE OF INDIAN BANKING THE ROAD AHEAD

REPORT



I. HISTORY OF COMMERCIAL BANKING IN INDIA

01 Pre-independence period

Banking in India started way back in 1770 when the bank of Hindustan was established. This was followed by the creation of three Presidency banks by East India Company viz Bank of Bengal in 1809, Bank of Bombay in 1840 and Bank of Madras in 1843. These 3 banks were later merged into one single Bank in 1921 which was called the Imperial Bank of India.

At the time of independence, India had 95 commercial banks, in the private sector. These were primarily promoted by business houses and also by local communities and Regional entities. The Imperial Bank of India was taken over by the Government and renamed as 'State bank of India' in 1955. Banking was confined to promotion of trade and traditional activities at this juncture, and did not meet the requirements of the Society at large for the promotion of sectors like agriculture and large industries.

02 Nationalization Period and social Banking

The year 1969 saw a crucial change in the banking structure, when 14 large banks were nationalized and taken under government control. This led to the era of development of agriculture and other social sectors like small scale industries and small business Enterprises. The Green Revolution followed by white revolution can be attributed to the nationalization of banks. This success prompted the Government of India to further nationalize 6 more banks in 1980.

03 Deregulation and liberalization

As a part of reforms, deregulation and liberalization, India set on the path of establishing more Banks in the private sector.

With the growth of the economy and as per the development requirements of the country, liberalization was undertaken in the matter of issuance of licensing. This led to the establishment of further additional commercial banks over the period of time.

- In 1993, 10 licenses were issued, out of which 6 banks are operational at present.
- Licensing policy 2001 - 2 licenses issued.
- Licensing policy 2013 - 2 licenses issued.

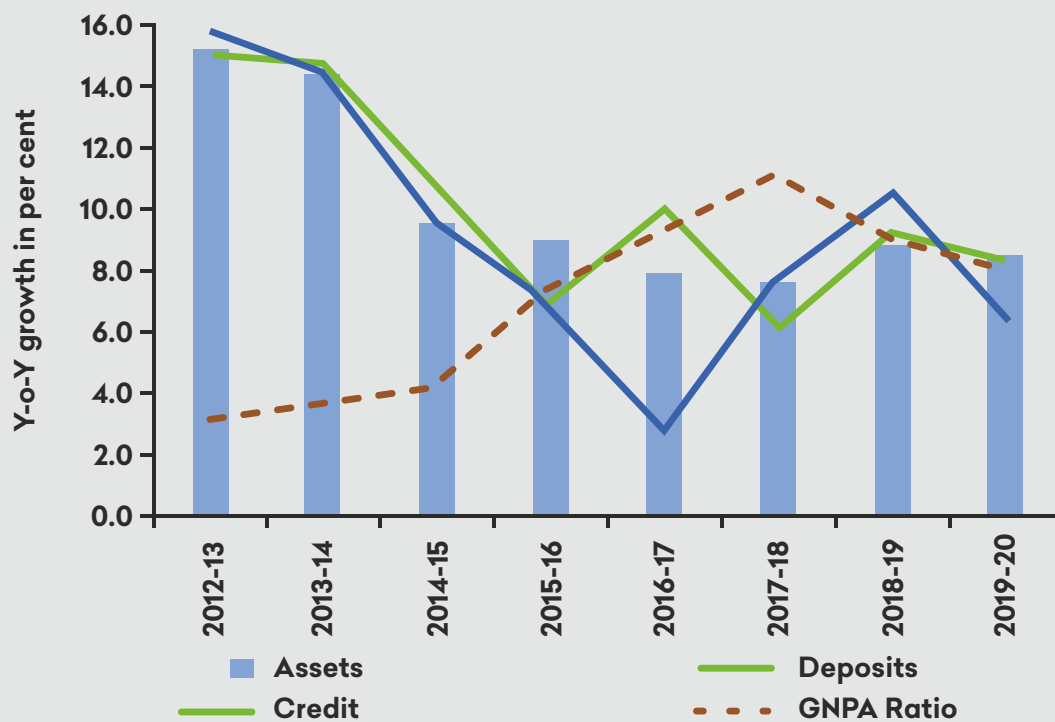
This followed consolidation / amalgamation of certain Public sector Banks in the recent years to reap the benefits of economies of scale and synergies. At present, discussions are on for further opening of new banks and issuance of fresh licenses to corporate houses and conversion of large NBFCs to full-fledged commercial banks.

This is a process in the right direction, which will further create the required financial infrastructure to take us forward on the growth trajectory.

India has comparatively low credit to GDP ratio of around 51 percent and there is a big scope for new entrants in the banking eco system. Compared to global standards India still needs widening and deepening of the banking sector. We have 15 branches per 100000 adults as compared to more than 30 branches in USA and Japan. The Adoption of mobile /internet banking is also required to pick up ,as we have about 100 transactions per 1000 adults in comparison to 1500 in China and close to 3000 in Brazil.

II. CURRENT STATUS

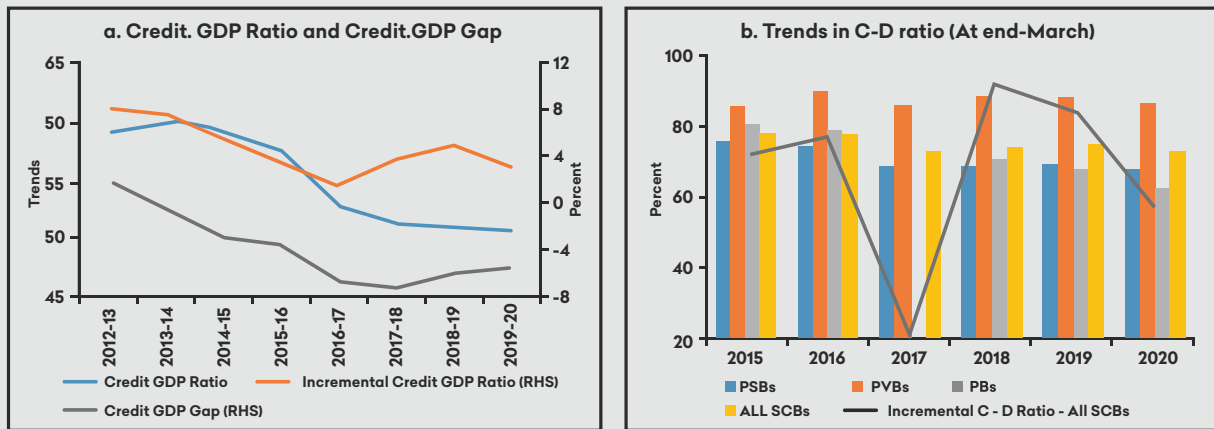
a).
Select aggregates of schedule commercial banks



Source - RBI Report on Trend and progress in banking in India 2019-20 (brought out on 29-12-2020).

The credit growth has been muted, while the deposit growth was higher. The spike in GNPA (Gross nonperforming assets) ratio was seen during 2015 to 2018 subsequent to Asset Quality Review (AQR).

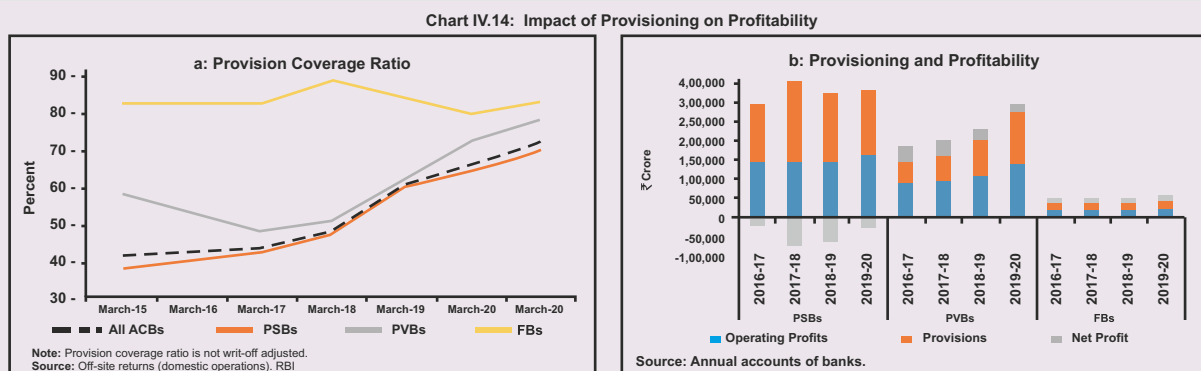
The gross NPA ratio stood at 7.5% as of 30th September 2020. This is after taking into account the moratorium on payments upto 31st August 2020, the standstill on asset classification and restructuring of Loan accounts. As per financial stability report of RBI (FSR brought out on 11.1.2021), the GNPA position may deteriorate by September 2021 to 13.5% under the baseline case and to 14.1% under a medium stress scenario and to a still worse situation of 14.8% in case of a severe stress scenario.



Source - RBI report on Trend and Progress in banking 2019-20 (brought out on 29-12-2020).

Both credit to GDP ratio and CD ratio have shown declining trend and banks need to focus on credit dispensation to give a fillip to the revival and growth trajectory.

The CRAR levels improved to 15.8% in September 2020. The provision coverage ratio improved to 72.4%.



Considering the future likely GNPA scenario and the need for credit growth, fresh induction of capital/ recapitalization may become essential. In addition, for handling the gigantic issue of NPAs, setting up of a "Bad Assets Bank" may be required as a possible solution by taking over bad loans of commercial banks in a transparent manner at market based price.

This "Bad Assets Bank" can focus to take care of recovery /revival in respect of the bad loans by exploring all avenues available.

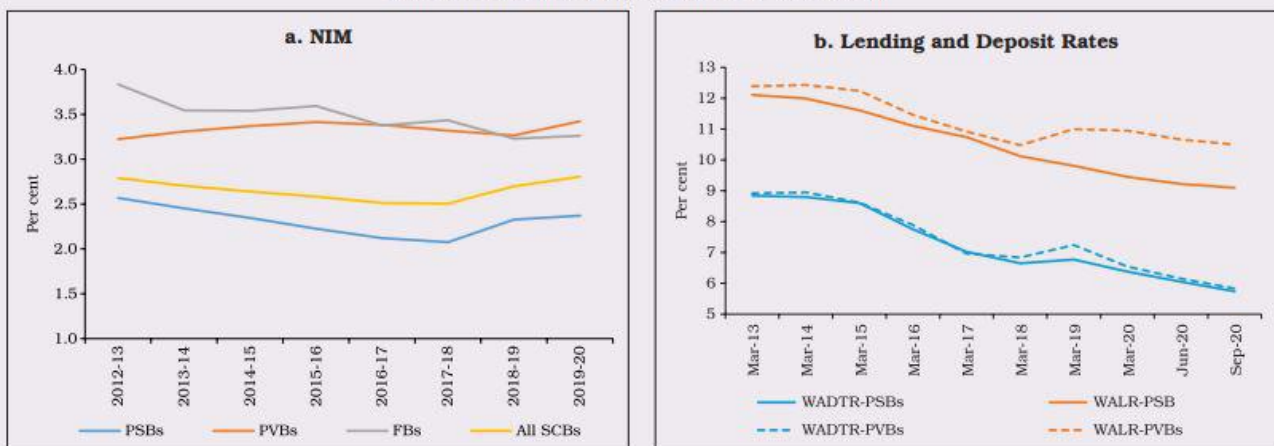
The commercial banks can then concentrate on revival of the much needed credit growth. Another Avenue of boosting credit growth, while giving a fillip to infrastructure sector is the option of setting up a specialised institution to focus on infrastructure funding.

b) Net Interest Margin

A focused approach towards improvement in net interest margins is essential to achieve sustainable growth. Cost-effective resource mobilization and efficient deployment of credit is the essence, in this respect. Additional factors effecting NIMs are:-

- Non-performing assets: Negative Relationship
- Inflation: Negative Relationship
- Capital to risk weighted Assets: Positive Relationship

Chart IV.13: Lending Rate, Deposit Rate and NIM



Source: Annual accounts of banks and RBI.

c) Investments



Over all, there has been an increasing trend in investments in the last two years. There is however a need for widening and deepening of the bond markets to create better options of funding and investments.

III. ASSESSMENT OF CREDIT LIMITS

Providing need based credit facilities to the borrowers for existing businesses as also for starting of new ventures, forms an essential part of lending business of the banks.

- a) For over 40 years, the guiding principles have been based on the famous "Tondon committee Report", which brought out the mechanism of calculation of maximum permissible bank finance (MPBF). This report also stipulated broad criteria relating to levels of holding of stocks, debtors and creditors for specified industries. The mechanism also stipulated three methods of lending with requisite financial ratios (current ratio ranging between 1.17 to 1.79) indicating availability of the required margin/ promoter's contribution to be increased over a period of time as the business expands. Traditionally, commercial banks were primarily relying on financing against the pledge of the stocks and releasing funds to borrower as per the value of the stocks pledged. This interalia put a big constraint on the expansion of the businesses and accordingly banks graduated to funding against hypothecation of stocks.
- b) As the system evolved and gradually matured, chore committee recommended compulsory use of the more stringent 2nd method of lending (as brought out in Tondon committee report with current ratio of 1.33:1) for working capital advances of large borrowers.
- c) Recognizing the specific needs of MSME sector another committee headed by Mr. P.J Nayak suggested use of turnover method for smaller exposures, whereby permissible funding was linked directly to projected turnover with promotor's contribution required of 5 percent of turnover.
- d) **Cash flow based lending**
As the economy has grown, with diversified structure and increased complexities, new mechanisms and modalities of meeting the funding requirements of borrowers need to be evolved. There is a need to shift to "cash flows" based lending as against "collateral based" lending. The amount of credit facilities sanctioned, the pattern of disbursement and the structure of credit facilities should be linked directly to the projected cash flows of the business. This will ensure productive utilization of the need based requirements of each borrower.

Such a mechanism can be tried initially for large borrowers. Technologies like machine learning artificial intelligence can be used for projections, predictability of payments and receipts etc. for analyzing end to end utilization cycle of facilities linked to production /Trade cycle of each business.

The reliance on cash credit mechanism can be gradually reduced. This will facilitate requisite regular availability of funds while at the same time ensuring effective monitoring.

New Technologies will also assist in effective supervision and follow up with online near real- time tracking of large transactions to ensure proper end use of funds and prevent diversion of funds.

IV. BASEL COMMITTEE

The Basel Committee on Banking Supervision is an international body working with its Secretariat at the Bank of International Settlements, Basel Switzerland. It brings out regulations for stability in banking system and also sets the standards for the functioning of the banks. The first norms were announced in 1988, which were primarily relating to the mitigation of credit risk. Minimum capital adequacy ratio was stipulated at 8 percent as standard benchmark which was fixed as a percentage of risk-weighted assets.

In June 2004 second version of guidelines in the shape of Basel II was introduced.

At this stage, the capital adequacy requirement was continued in a more stringent manner.

In addition, supervisory review process and market discipline were introduced as additional pillars/parameters.

The global financial crisis of 2008 led to far reaching consequences, the effect of which is still being felt. Accordingly substantial changes were recommended to make the system more responsive to shocks and to bring about long term stability of the banking system.



FROM BASEL I TO BASEL III

Basel Accord	Norms	Changes
Basel - I	<ul style="list-style-type: none"> Capital charge for credit risk a Simple "broad-brush" approach. Regulatory Arbitrage Easy to achieve significant capital reduction with the little or no risk transfer. 	<ul style="list-style-type: none"> It was introduced in 1988. Capital charge for Market Risk was introduced in 1996.
Basel - II	<ul style="list-style-type: none"> Three Pillar Approach. Introduced a capital charge for Operational risk. Change in risk management practices. (ICAAP) Improved disclosures. 	<ul style="list-style-type: none"> Introduced in 2004. Takes into account quality of risk management system. More risk sensitive. Treatment based on exposure characteristics.
Basel - III	<ul style="list-style-type: none"> To be implemented over a 7 year period From 2013. Macro-prudential perspective. Global liquidity standard introduction of LCR& NSFR. 	<ul style="list-style-type: none"> Introduced as a result of the Financial crisis. Increase in quality and quantity of capital. Effective liquidity monitoring.

In order to make the system more robust, provisioning of loan losses over the period of time, needs to be made still stronger. At present this is determined by the income recognition and Asset classification (IRAC) Norms stipulated by RBI. In due course of time transition to IFRS/IND-AS may become applicable to SCB's too.

With effect from 1 st April 2018 for NBFCs with net worth of more than Rs 500 Cr, IND - AS have been made applicable. However, the applicability of IND AS for scheduled commercial banks has been postponed till further notice as per RBI notification dated 22nd March, 2019.

V. HANDLING OF STRESSED ACCOUNTS

Restructuring /Revitalizing of distressed assets

In order to maintain a healthy credit portfolio, apart from a strong credit appraisal and monitoring mechanism, the protocol to deal with and handle distressed assets is equally important.

a) Past Guidelines

Over the period of time, under the watchful eyes of the regulator, the mechanism of handling distressed asset has evolved in accordance with the requirements of the economy. The principle was to have a timely and transparent mechanism of handling stress due to internal and external factors with an objective to support the viable businesses to preserve the economic value of the stressed assets. The intent was to support, while at the same time, ensure promoters' contribution/ commitment, besides

- The corporate debt restructuring (CDR) mechanism was started in August 2001 with setting up of 'empowered group' to study viability and rehabilitation potential of the unit.
 - 2003 -2005. CDR scheme was reviewed and scope widened
 - August 2008 .Detailed prudential guidelines on restructuring of advances- comprehensive guidelines superseding all previous instructions with an intent to harmonize and bring alignment in the guidelines applicable to all categories.
 - 2008 -13 - Prudential guidelines reviewed from time to time during this period, bringing clarity and adaptability as per the requirements of the emerging situations of the borrower accounts.
 - May 2013 -withdrawal of regulatory forbearances relating to classification of advances subjected to restructuring, whereby the accounts will be required to be downgraded to the 'substandard' category on restructuring.
 - February 2014- Framework for revitalizing of stressed assets in economy- refinancing of project loans and other regulatory measures.
- The previous guidelines were reviewed and enabling provisions were added to bring in the flexibility .This related to extending the repayment period, taking into account the life cycle of the project and cash flows of the project. Emphasis was also laid on close monitoring of and follow up and effective credit risk management through reporting to CRILC, formation of JLF (joint lender forum) and adoption of the corrective action plan including change in management as one of the options.
- July 2014.Flexible structuring of long-term project loans to infrastructure and core industries- 5 by 25 scheme. A path-breaking Initiative was taken by announcing the flexible 5 by 25 scheme to take care of the specific requirements of the long term duration projects with the option of periodic refinancing under Infrastructure and core industries, looking to the cash flows generated through the economic life span of each project.
 - June 2015 .Strategic Debt Restructuring -The SDR scheme was introduced for the conversion of debt into equity at fair value ,so as to acquire a majority share in the company for off-loading to the new promoter in due course.
 - June 2016 .scheme for sustainable structuring of stressed Assets --S4A

To enable adequate deep financial restructuring of large accounts, with aggregate exposure of more than Rs 500 Crore .Sustainable Debt to be assessed through independent TEV.' This provided for partial conversion of debt into sustainable portion and balance into equity and quasi equity-like instruments .Resolution plan to be monitored by overseeing committee set by IBA.

b) Current Guidelines

- June 2019. A fresh set of comprehensive guidelines on the prudential framework For Resolution of stressed assets was announced by the Reserve Bank of India.

This notification repealed various circulars issued between 2001-2017 on this subject.

Salient features are as under:-

- The fresh guidelines emphasize inter alia early identification and reporting of stress.
- The directions have been issued providing for early recognition reporting and time bound resolution of stressed assets
- The role of a central repository of information on large credits ((CRILC) has become significant and it is mandatory to report all accounts with aggregate exposure of Rupees 5 crores and above on monthly basis. The emphasis is on tracking the accounts, with tenure of outstanding overdue between 1 to 90 days under 3 categories. viz SMA0 , SMA1, SMA2.
- For the implementation of any resolution plan, there is a necessity for lenders to enter into an inter-creditor agreement (ICA) which shall be binding upon all the lenders in specific circumstances. The resolution plan has a wider connotation for regularization of the account, payment of all over dues by the borrower entity, sales of the exposure to third party/ investors, change in ownership and restructuring.
- For Resolution plans with aggregate exposure of Rupees 100 crores and above, there is a need for independent credit evaluation (ICE) of the Residual Debt by credit rating agencies. For cases of Rs 500 crore and above two such credit ratings are required.
- The implementation of resolution plan to be done in a time-bound manner, while ensuring compliance of various guidelines, stringent conditions have been imposed for up-gradation of the account after satisfactory operations in the account as specified. The scheme entails additional provisioning also.
- As a part of income recognition norms, interest income in respect of restructured accounts classified as 'standard' assets may be booked on accrual basis and that in respect of the restructured accounts classified as 'non-performing assets ' it shall be recognized on cash basis.
- The guidelines also very elaborately bring out the valuation mechanism of debt converted to equity instruments as a part of

c) Guidelines on dealing with covid 19 related stress

While the above basic framework is applicable in general, to meet the urgent requirements of the situation arising out of the covid 19 stress, a one-time restructuring scheme was announced in August 2020:-

Restructuring Scheme :

RBI- One Time Restructuring Scheme 2020

Available only to borrowers having stress caused by COVID-19

Permits additional funding including interim funding after Invocation

Lis to sign the ICA within 30 days of Invocation Date (Minimum 75% by value of Outstanding credit facilities and 60% by number to make it valid)

Account classified as Standard and default not exceeding 30 days as on March 1, 2020 with any leading Institutions and should continue to be Standard as on Invocation Date

Lending Institutions may allow Moratorium and/or extension of residual tenure (aggregate extension not to exceed two years) To consider the Financial Parameters and the sector specific range there of as notified by RBI.

The Kamath committee appointed by RBI has also stipulated five financial ratios to be complied with, as a part of restructuring scheme for 26 sectors, which have been adversely affected by the covid-19 pandemic.

VI. IBC FRAMEWORK

In 2016 a comprehensive Insolvency and Bankruptcy Code was brought to facilitate the process of resolving insolvency and providing an Exit route. This is bringing gradual positive results for Banks in resolving large stressed accozunts. The mechanism is passing through the evolutionary stage and the proposed pre 'Packaged Insolvency Resolution Process' is further expected to help in this direction.



VII. TECHNOLOGY

Technology is going to be a game-changer with respect to the future of Banking. In the past also, apart from the Railways, banking sector was the first to adopt banking Technology across all its operations to bring about efficiency and customer satisfaction. Gone are the days when the bankers in the branch were working with bulky ledgers/ register, sitting across the counters.

This was gradually replaced by Automatic Ledger Printing Machines (ALPM) and then banks shifted to 'standalone' computerized branches. This was followed by the emergence of core banking i.e. centralized, anywhere anytime banking technology. It means that, now we are no longer a customer of a particular branch but are, in fact, a customer of the bank as a whole and now moving towards being a "common customer" of the banking industry as a whole. The emergence of RTGS, NEFT and UPI etc. for transfer of funds has changed the entire scenario of the banking. Gen-next is going to see the next emerging Technologies of machine learning, artificial intelligence and block chain. Usage of these will not only be confined merely to bring about speed, accuracy and efficiency in operations, but will in fact be more useful for evolving new products and new processes. The analysis of the client requirements and the customer Behavior will help in creation of new products, customer centricity and market segmentation will lead to wider usage of banking services in a big way.

These new technologies can be used in monitoring of the large accounts to prevent the element of diversion of funds. Usage of AI and machine learning in credit appraisal itself will also help in credit delivery mechanism. Competition/ collaboration with fin-tech and innovative partnering with neo banks is going to create big opportunities for everybody. Banks will have to be very agile and careful while adopting new technologies. The winner among banks will emerge, who is able to make the best use of it. This will also entail the requirement of reskilling of the banking staff across all functions in the form of imparting training and fresh induction of personnel to ensure proper and efficient usage of the emerging technologies.



VIII. FUTURE AND THE ROAD AHEAD

a) The Covid 19 Crisis

The covid-19 crisis has significantly impacted the global economy and financial institutions. In the current pandemic situation, it is a challenging task to "crystal Ball-gaze" the likely scenario and the shape of things to come. However a timely nimble-footed supportive proactive -approach on the part of the regulator and stage- wise stimulus by the government of India has brought back the economy on a revival path. For the long term goal of making India a \$ 5 trillion economy and the milestone of becoming third-largest economy, Indian Banks have a pivotal role to play. India can then aspire to have the third-largest banking industry in the world by 2050.

A more agile and adaptive approach, to meet the emerging needs of the economy for Sustainable long term growth will be required along with the ability to meet competition In the widening ecosystem by laying due emphasis on governance and efficiency.

Our anticipated predictions of the likely developments in the banking sector are briefly stated as follows:-

b) Predictions

- The future state of the Indian Banking lies in the modernisation of the core banking system. Introduction of new, better and agile technologies is carving out new paths of growth and optimization. The increased competition, unprecedented situation and the new normal arising out of the pandemic, will prompt the banking system to stay relevant and banking as we know might undergo a revolutionary change with a paradigm shift.
- Banking will be more lifestyle oriented and banks will look to extend their core systems to kick-start growth by launching new products, build digital experiences, and augment operational efficiency by leveraging the likes of AI, machine learning and cloud technologies. These would include themes like digital on boarding and quick loan disbursals.
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- Strengthening of top banks, to match global standards to meet the future requirements and bring out more presence in the list of top 100 commercial banks of the world in line with the size of the Indian economy.

- On tap availability of banking licenses to genuine, serious and efficient corporate groups, besides conversion of large NBFCs into banks, to further widen the market in line with growing requirements of the economy.
- Setting up of a "Bad Assets" Bank may emerge as a possible solution to handle the gigantic issue of NPAs by taking over bad loans in a transparent manner at market based prices and take care of revival/ recovery in a focused manner. Banks can then concentrate on revival of the credit growth.
- Emergence of a more deep and robust corporate bond market with wider participation in line with the greater requirement of alternate funding options.

c) Strategies

- The way ahead for the banking industry to achieve a robust and sustainable development is certainly challenging. Only a comprehensive and holistic approach with well-conceived strategies and effective implementation at the ground level can bring about the desired changes. Banks may need to revisit their basket of products being offered and a focus on the core-areas of 'Deposit Taking' and 'Efficient Lending' may be the need of the hour. With payment banks and fin- techs forming a part of the ecosystem, the ancillary business of payments, remittances etc. may be no longer a core banking activity. Competition / collaboration with fin-techs and innovative partnering with neo banks may evolve. Customer centricity and innovative products to compete with emerging avenues of savings and investment like mutual funds/equity market etc. will be the hallmark.
- Use of Data Mining, Artificial Intelligence (AI), Machine learning and other evolving technological tools will help in not only retaining the customers but also to widen the client base.
- On the credit front, a lot is expected to be done for improving the Credit Appraisal Standards, Monitoring Mechanism and Risk Management Strategies. Here also the new technologies and learnings from past mistakes may be required.
- The credit delivery system may undergo a change with transition towards Transaction based lending, based primarily on "Cash flows, as against "collateral based landing". Initially this may succeed on pilot basis for large corporate borrower accounts and can be gradually replicated for other categories of borrowers in due course.
- The strategy of focusing on "Net Interest Margin" as a tool of gauging efficiency is important. This will entail an effective business orientation with an eye on profitability through efficient resource management and strong monitoring and recovery mechanisms.
- Gradual Transition to IND AS/ IFRS is also envisaged to bring about robustness. Green and sustainable banking shall be an integral part of future banking scenario with an aim to allocate resources towards avenues that lead to environmental, social and governance objectives, in line with the emerging opportunities.

XI. CONCLUSION

Based on the past history of over two centuries, our banking system has steadily evolved and moved in tandem with the growing requirements of the economy. The sector has developed manifold according to the aspirations of the customers with the use of new tools and technologies which have emerged over the period. The economy has progressed and diversified with gradual transition from agriculture to MSME & large industries and now to services sectors for which Banks have played a significant role in credit dispensation. Simultaneously, the emergence of stressed assets and large scale NPAs has brought in new challenges.

The inherent resilience and revival spirit is expected to take the system out of current challenges and rebound back to a sustainable growth trajectory. By having focused effective governance, quickly adapting to the changing scenario, efficient use of new techniques to assist in all aspects of Banking policies and operations, we can expect a robust, stable and sustainable Future Road Ahead for the Banking Industry.



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