FICCI-IBA Bi-Annual Survey of Bankers (July – December 2016)

Demonetization move boosts liquidity, lowers cost of funds and improves margins for Banks…

Banks ask for higher infrastructure spending coupled with specific measures to resolve the issue of stressed assets, seek greater capital infusion for the Banking sector in the upcoming Union Budget 2017-18.

NEW DELHI, 28 January 2017: FICCI-IBA conducted the fourth round of Bankers survey for the period July to December 2016, which saw participation by 17 banks representing 52% of the total banking industry (by asset size) and includes public, private as well as foreign banks.

The survey was conducted in the backdrop of the demonetisation move with respect to specified bank notes (SBN), which has been unprecedented and expected to have short-term as well as long term implications for the economy, including the banking sector. All the participating banks in the current round of survey have welcomed the demonetisation move in light of its long-term benefits for the economy.

There has been a significant surge in CASA deposits of most banks post demonetisation, which has given a strong boost to liquidity and lowered their cost of funds. It has also encouraged banks to lower their MCLR across all tenures. In-fact, many banks have lowered the MCLR in the month of December 2016, despite no change in the repo rate by the RBI in its last monetary policy review. During the six month period July to December 2016, a majority (75%) of participating banks have reduced their MCLR by upto 30 bps, while almost 19% have reduced it by more than 40 bps. Most of the participating banks also expect their operating margins to improve.

The survey reveals that there has been a slowdown in credit demand as consumption has been affected in the short-term owing to cash shortage post demonetisation. However, many respondents expect credit demand to improve after 3-6 months, as economic activities are expected to pick up by that time.

Banks have also welcomed the increased emphasis on the digitalization of the banking services after the demonetisation drive and indicated that this will aid reduction in cost of transactions for banks over the long term. To further promote transition to a digitized and less-cash society, survey respondents have emphasized on the need for incentivizing the adoption of digital modes of payment. They also expect the government to take steps to strengthen the digital infrastructure and connectivity across the country. Suggestion has also been made to leverage post offices, public transportation, panchayats and district offices in furthering the implementation of digital drive for transactions.

From the banking sector's perspective, the respondents have identified specific measures to promote digital transactions. These include – e*nhancing penetration of banking facilities in unbanked areas and simultaneously creating awareness on various modes of digital transactions including their safety and security features; introducing innovative and convenient modes of digital payments, and building up capabilities to accommodate wide range of requirements for* *growing cohort of customers, in terms of products, higher skilled staff, interactive online channels, etc.*

Banks were also asked their views on regulating the fintech industry, that has seen rapid growth in recent times. Participating banks agreed that there is a need for monitoring and regulation of fintech industry to ensure customer protection. They believe that an appropriate body needs to be appointed as the regulator for fintech industry. Additionally, there need to be guidelines and regulations set for due diligence, data protection, cyber security and client protection. Other suggestions include mandatory Information Systems Audit for fintech companies, and a statutory requirement to keep a certain amount of cash with the regulator for resolving claims, if any.

For the upcoming Union Budget, banks expect the government to boost consumption demand and investment, by way of reduction in corporate as well as personal income tax, and by providing additional deductions under sec 80C and interest on home loans. Banks have also urged for enhancing the capital expenditure, especially for infrastructure.

For the banking sector, the biggest demand is for additional capital infusion by the government in public sector banks, to provide a boost to credit growth. Other key suggestions include m*easures to fast track NPA resolution; creation of a Central Corporate Repository; and interest payment on CRR balance.*

Amongst the industries and sectors that continue to see rise in credit demand, 53% of the respondent banks reported high demand from infrastructure sector, which is same as that in the previous round of the survey. The other key sectors which saw a rise in long term credit during July-December 2016 period included Real estate, Textiles, Auto components and Metals, Iron & Steel.

The survey also reveals that iron & steel, infrastructure and textiles continue to account for a large concentration of NPAs. For Infrastructure sector, while a majority of respondents (50%) have reported a rise in NPA levels during the period July-December 2016, 29% of respondents have in-fact reported a decline in NPA levels during this period.

On the whole, the number of banks reporting a rise in the level of NPAs is lower in the current round of the survey as against the preceding round. While 76% of participating banks reported a rise in the level of NPAs during the period July-December 2016, 85% had reported so for the preceding six month period. A large proportion of participating banks (44%) have also reported a reduction in requests for restructuring of advances during the period July-December 2016.

Going forward, the key sectors identified by the participating banks which could see a greater demand for long term credit include infrastructure (cited by 76% respondents), Automobiles (cited by 29% respondents) and Food Processing (cited by 29% respondents). Other sectors expected to see higher demand for long term credit include real estate, pharmaceuticals and textiles.

About the Survey

Federation of Indian Chambers of Commerce & Industry (FICCI) and **Indian Banks' Association** (IBA) conduct a Survey of Bankers twice every year. The survey gives an outlook on the status of the Indian Banking Sector, highlighting key operational and financial indicators of the banks. It also includes the expectation from bankers on some of the important financial and regulatory policy measures which are being undertaken by the Government and the Reserve bank of India (RBI).

Web Link: http://ficci.in/SEDocument/20385/Bankers-Survey-Report-Jul-Dec-2016.pdf

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