Indian Banks' Association

FICCI-IBA Survey of Bankers

Issue 18

July – December 2023

Survey Findings – Summary

The eighteenth round of the FICCI-IBA Bankers' survey was carried out for the period July to December 2023. A total of 23 banks including public sector, private sector and foreign banks participated in the survey. These banks together represent about 77% of the banking industry, as classified by asset size.

India's economy held relatively well (7.6%) in FY24 compared to other major economies driven by strong investment growth and a rebound in industrial activity. Credit growth also continued to rise, supported by factors such as economic expansion and a continued push for retail credit which has been supported by improving digitalisation. The banking sector's clean balance sheets support further loan growth going forward.

The survey findings show that long term credit demand has seen continued growth for sectors such as Infrastructure, Metals, Iron and Steel, Food Processing. Infrastructure is witnessing an increase in credit flow with 82% of the respondents indicating an increase in long term loans as against 67% in the previous round. The survey suggests that the outlook for non-food industry credit over next six months is optimistic with 41% of the participating banks expecting non-food industry credit growth to be above 12% while 18% feel that non-food industry credit growth would be in the range of 10%-12%. 36% of the respondents are of the view that non-food industry credit growth would be in the range of 8%–10%.

Customers' search for higher rates and the ability to lock those interest rates for a longer time has led to a shift in favour of term deposits. As such, term deposits have picked up pace as reported by the respondent banks. Further, around 70% respondents have reported a decrease in the share of CASA deposits in total deposits.

According to the survey, 65% of respondent banks reported credit standards for large enterprises have remained unchanged as against 54% in the last round. Respondents reporting easing of credit standards has decreased to 17% in the current round as against 29% in the previous round while those reporting tightening in credit standards were largely same as in the previous round. For SMEs too, 64% of the respondent banks reported no change in credit standards in the current round, and 27% have reported easing of credit standards.

On the asset quality, a large majority (77%) of the respondent banks reported a decrease in the NPA levels in the last six months. All responding PSBs have cited a reduction in NPA levels while amongst participating Private sector banks, 67% banks have cited a decrease. None of the respondent PSBs and Foreign banks have stated an increase in NPA levels over the last six months while 22% Private banks reported an increase. Amongst the sectors that continue to show high level of NPAs, most of the participating bankers identified sectors such as Food Processing, Textiles, and Infrastructure.

Survey Findings – Summary

Over 40% respondents have reported decrease in requests for restructuring of advances in the current round of the survey as compared to 54% in the previous round. The proportion of respondent banks citing an increase in requests for restructuring of advances was 17%, which is same as in the previous round. Bank-wise analysis reveals that 50% of participating PSBs have cited a decrease in requests for restructuring of advances while 30% of such respondents have reported increase in such requests.

Respondent banks were more sanguine about the asset quality prospects in the current round of the survey, cushioned by policy and regulatory support and this was reflected in the survey results. Over half of the respondent banks in the current round believe that Gross NPAs would be in the range of 3% – 3.5% over the next six months. 14% respondents are of the view that NPA levels would be in the range of 2.5 – 3%.

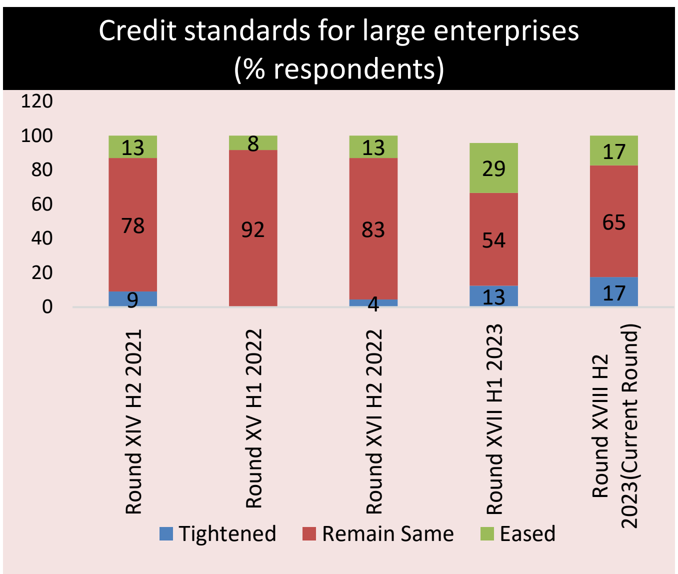
Resilient domestic economy accompanied by pick up in credit growth supported by Govt capex, rising provision coverage ratio, restructuring and rehabilitation of all eligible stressed units, mobilization of OTS proposals, robust recovery mechanism, and initiation of SARFAESI action in all eligible cases in a time bound manner were cited as the key factors by respondent bankers who expect asset quality to further improve over the next six months. As per respondents, some of the sectors that may continue to show NPAs over next six months include Textiles and garments, Agriculture and Gems & Jewellery.

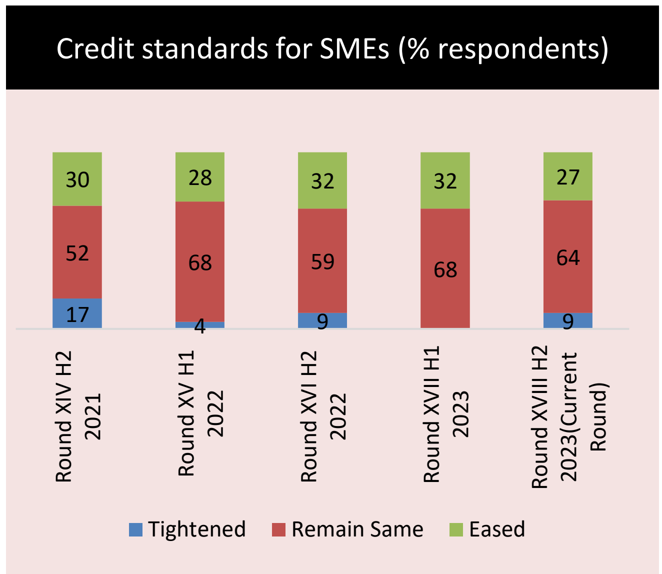
Banks were asked about their preparedness for the eventual adoption of Expected Credit Loss (ECL) - based provisioning. Majority of the respondent banks stated that they were well-positioned for a smooth transition to the ECL regime and have put in place models and frameworks for ECL based provision computations which are being reviewed and validated internally.

The current round of survey asked to share the key impediments confronting Bancassurance and how to overcome it. Cap of Rs 5 crore sum insured for banks, low consumer awareness, product knowledge and understanding, competition from fintech and digital insurance players were amongst the many challenges shared by respondent bankers and solution for the aforementioned challenges were also elucidated. Respondent banks also shared the key steps they have taken to support the industry in its efforts towards climate adaption and mitigation including introduction of ESG policy, integrating ESG framework in their risk assessment, focusing on lending towards green projects and taking internal steps for making their own banks more green and sustainable.

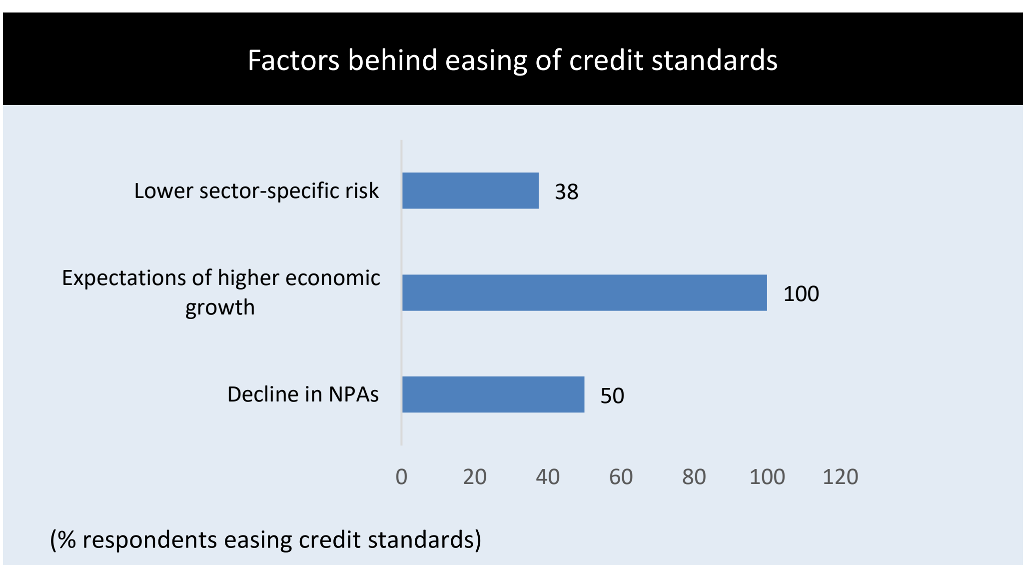
Change in Credit Standards

In the current round of survey, 65% of respondent banks reported credit standards for large enterprises to have remained unchanged as against 54% in the last round. 17% of respondents reported easing of credit standards as against 29% in the previous round while those reporting tightening in credit standards were largely same as in the previous round. With respect to SMEs too, 64% of the respondent banks reporting no change in credit standards in the current round, and 27% have reported easing of credit standards.





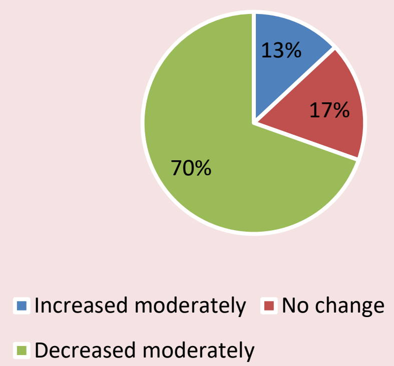
Out of the respondents reporting an easing in credit standards, all cited expectations of high economic growth as the main factor, while another half of them reported decline in NPAs as the key factor for eased standards.



Changes in Current Account and Savings Account Deposits

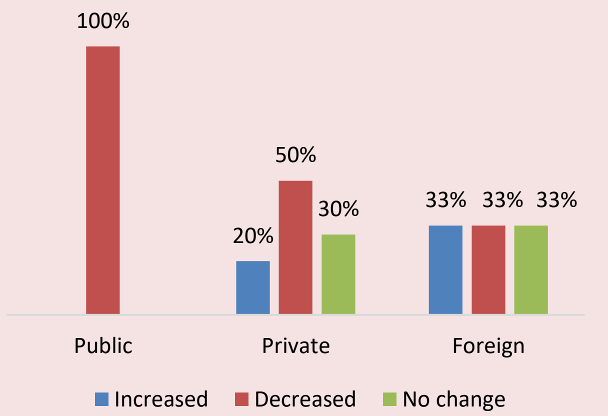
Similar to previous rounds, there has been a shift towards term deposits offering higher rate of interest. In the current round of survey, nearly 70% of respondents reported a decrease in the share of CASA deposits in total deposits. The respondents reporting a moderate increase in CASA deposits was 13% in the current round of survey. Term deposits have picked up pace as reported by the respondent banks.

Change in share of CASA deposits (%) in current round vis-à-vis previous round



(% respondents)

Bank-wise change in share of CASA deposits (%)

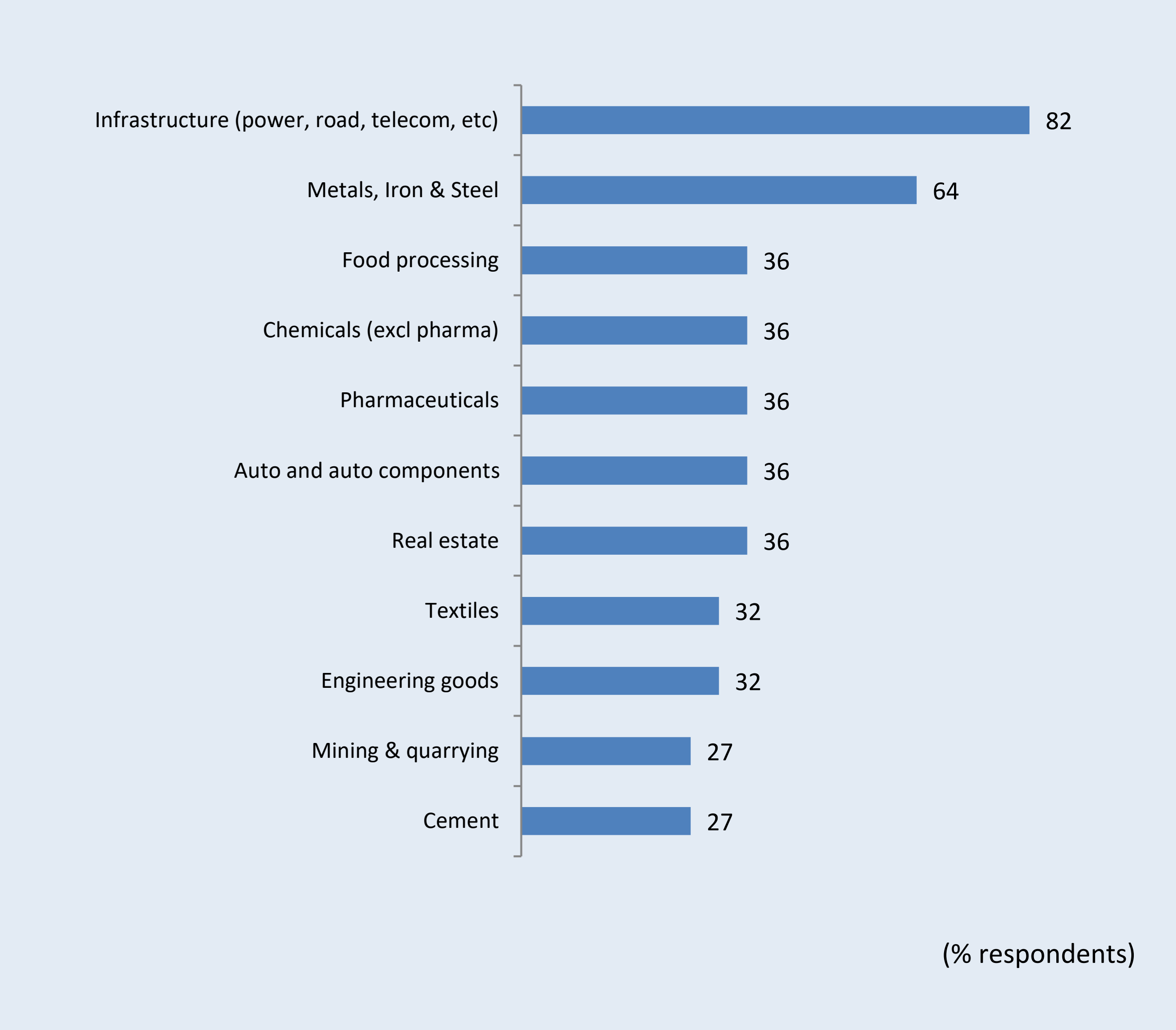


When compared across bank types, all participating Public Sector Banks reported a decrease in share of CASA deposits during the second half of 2023. Amongst the private sector bank respondents, half the respondents reported a decrease in CASA deposits, while 30% reported no change in share of CASA deposits. In case of foreign bank respondents, 33% respondents reported increase in share of CASA deposits in total deposits and an equal percentage of respondents reported a decrease in share of CASA deposits.

Demand for Long-Term Loans

The current round of survey reveals that there has been an increase in long term credit demand for some sectors. Infrastructure, Metals, Iron and Steel, continued to witness a rise in long term credit in the past six months. According to the survey respondents, sectors such as Food processing, Chemicals, Pharmaceuticals and Real estate have also witnessed a rise in long-term loan disbursements in the past six months (July to December 2023).

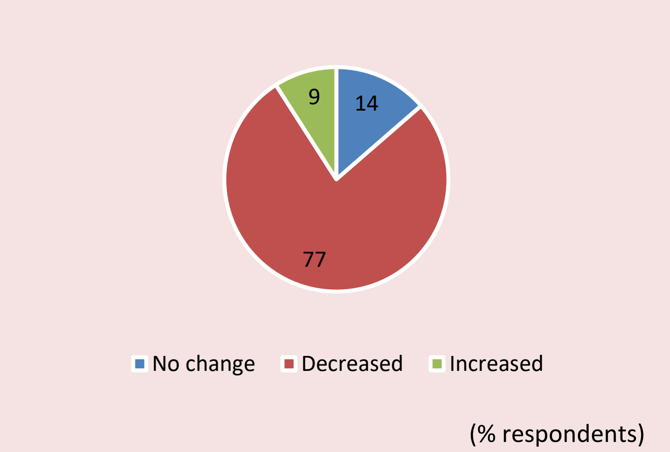
Sectors witnessing increase in long term loan disbursements in last six months



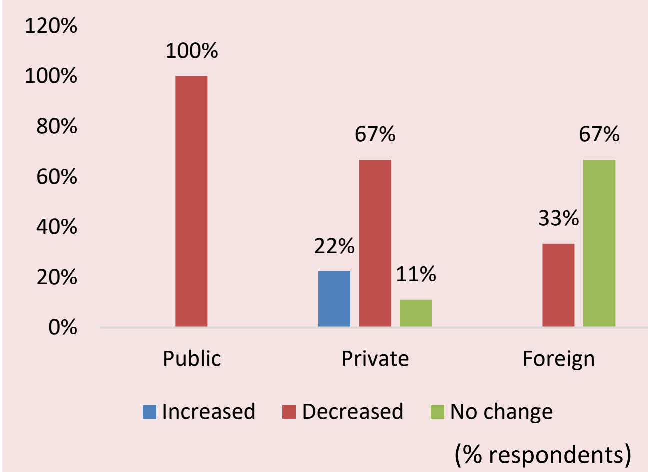
State of NPAs and Stressed Assets

In continuation with the trend witnessed in the previous round, a large majority (77%) of the respondent banks reported a decrease in the NPA levels in the last six months. All responding PSBs have cited a reduction in NPA levels while amongst participating Private sector banks, 67% banks have cited a decrease. None of the respondent PSBs and Foreign banks have stated an increase in NPA levels over the last six months while 22% Private banks reported an increase.

Change in the level of NPAs

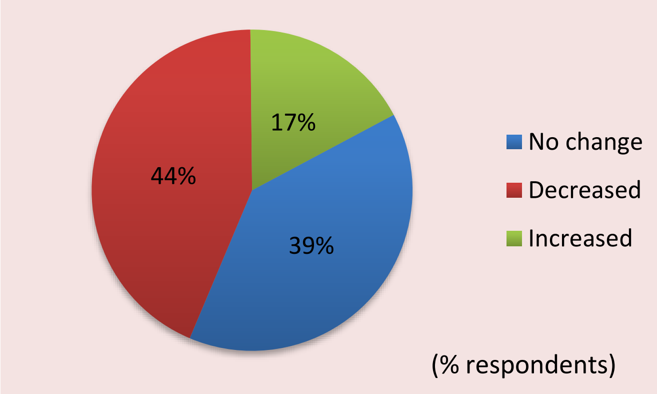


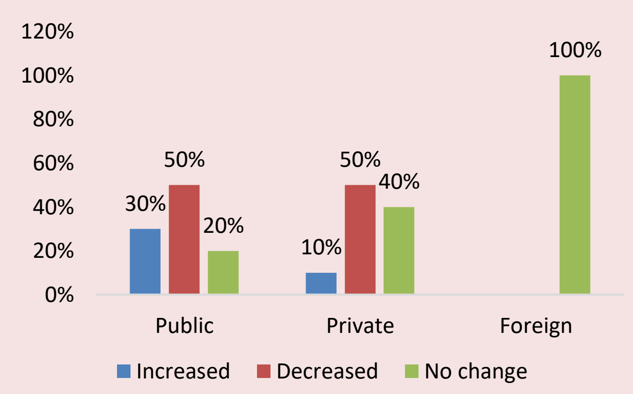
Bank Wise Increase/Decrease in level of NPAs



Around 44% of survey respondents have reported decrease in requests for restructuring of advances in the current round of the survey as compared to 54% in the previous round. The proportion of respondent banks citing an increase in requests for restructuring of advances was 17%, which is same as in the previous round. Bank-wise analysis reveals that 50% of participating PSBs have cited a decrease in requests for restructuring of advances while 30% of such respondents have reported increase in such requests. In case of participating Private sector banks, half the respondent banks have cited a decrease while just 10% have stated that there was an increase in restructuring over the last six months. All participating Foreign banks have cited no change in request for restructuring of advances.

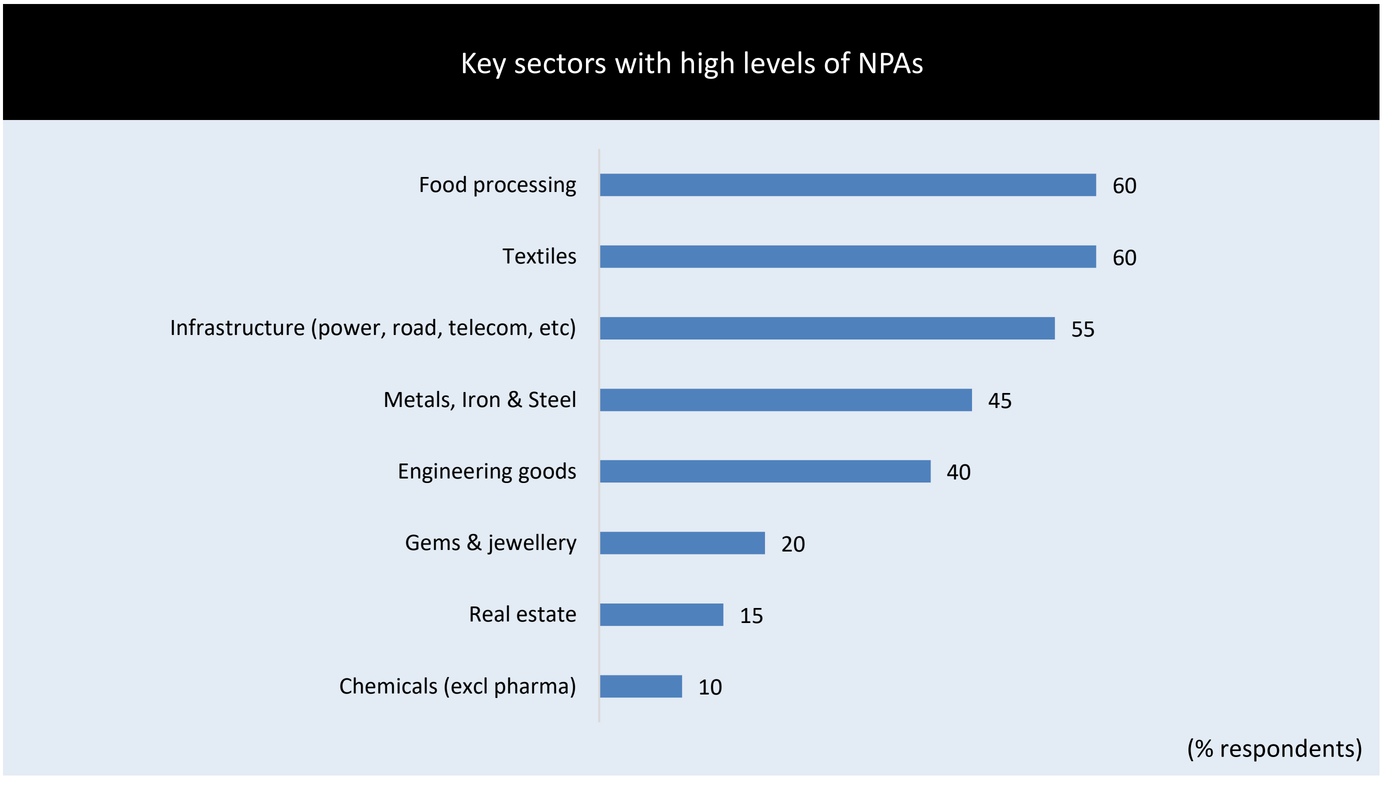
Requests for Restructuring of Advances over last six months





Key Sectors with High Level of NPAs

Amongst the sectors that continue to show high level of NPAs, most of the participating bankers identified sectors such as Food Processing, Textiles, and Infrastructure. Other sectors identified as high NPA sectors include Metals and Iron & Steel and Engineering Goods.



Trend in NPAs in key sectors

Even amongst some of the sectors that continue to show high level of NPAs, there has been a decline in NPA levels in the second half of 2023 as against the previous six months.

- In case of Food Processing, which has been cited as sector with high NPA levels by 60% respondents, 58% of such respondents have reported a decline in NPAs over the last six months and 8% have reported a rise.

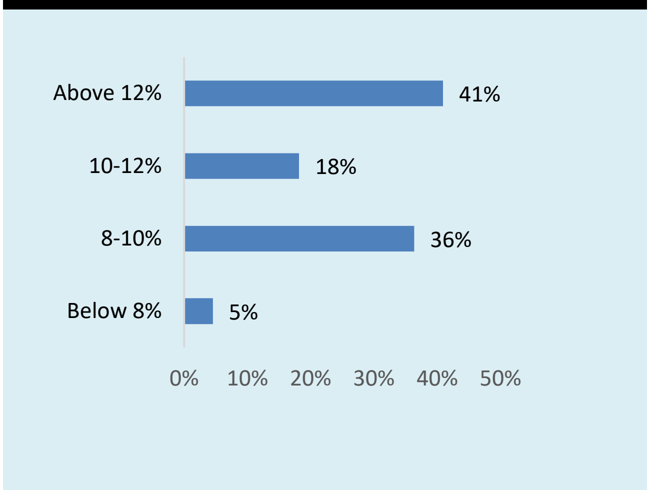
- For Textiles, which has been reported to have high NPA levels by 60% respondents, 58% of such bankers have reported a decline in NPA levels during the second half of 2023 while 17% reported an increase.

- In case of Infrastructure, which has been identified as high NPA sector by 55% respondents, 82% of such respondents reported a decrease in NPA levels over last six months while 9% of such respondents reported no change.

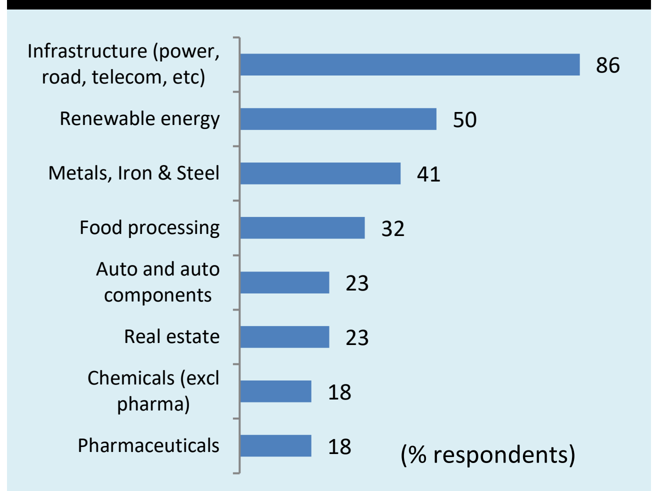
Expectations and Outlook on Credit

The survey suggests that the outlook on expectation on growth of non-food industry credit over next six months continues to be optimistic with 41% of the participating banks expecting non-food industry credit growth to be above 12% while 18% feel that non-food industry credit growth would be in the range of 10%-12%. 36% of the respondents are of the view that non-food industry credit growth would be in the range of 8%–10%.

Expectation on growth of non-food industry credit

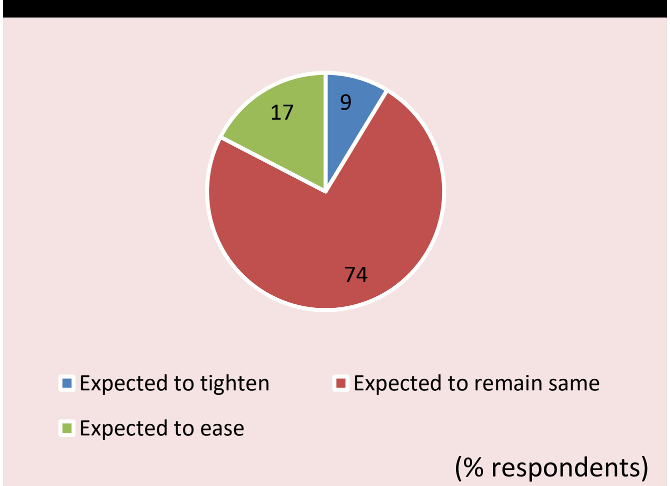


Sectors expected to see rise in long term credit

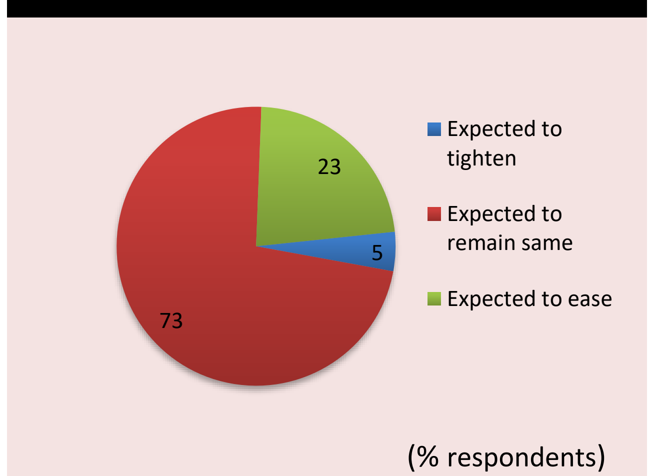


Major infrastructure development plans has been in place by Government to facilitate quick capital spending with a strong multiplier effect. This is likely to spur demand for infrastructure financing. This is also reflected in the current round of survey, as 86% respondents believe Infrastructure to see a rise in loans. Half the respondent banks expect the Renewables sector to witness an increase in demand for long term credit going forward while 41% expect to see a rise in loans from Metals, Iron & Steel.

Credit standards for large enterprises



Credit standards for SMEs

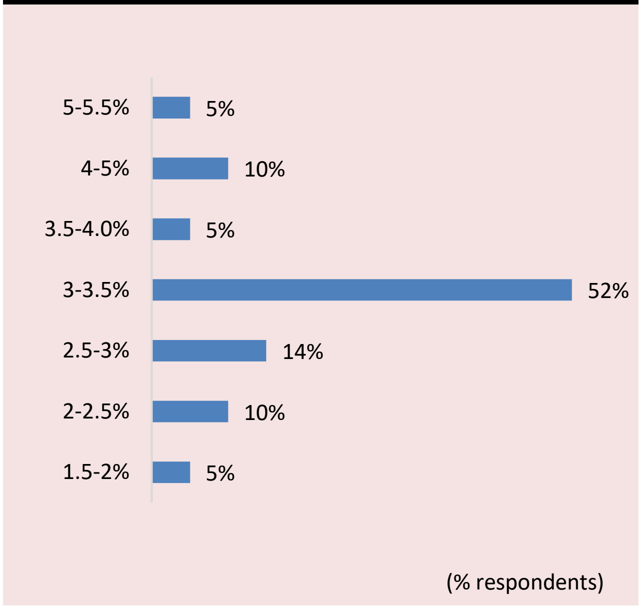


Outlook on NPAs

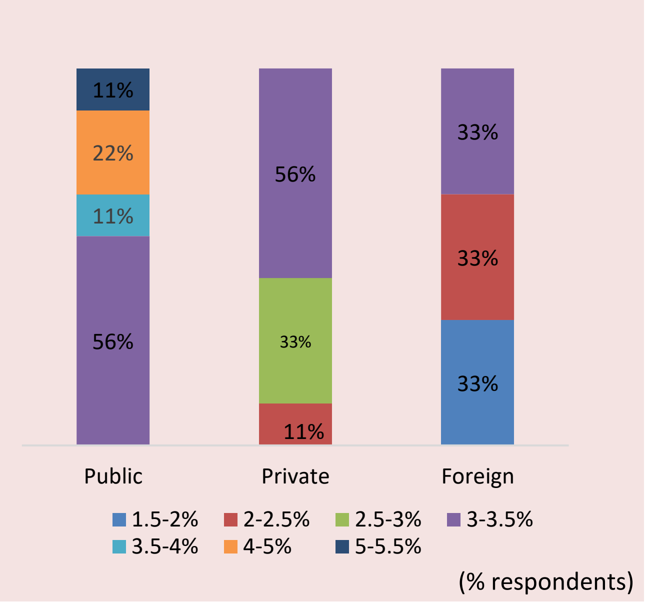
Indian banks continue to exhibit positive trends in their asset quality, achieving a new decadal low in the gross non-performing asset ratio to 3.2% as of Sep 23, following a decline from 3.9% at the end of Mar 23, as per the RBI Financial Stability Report. Respondent banks were more sanguine about the asset quality prospects in the current round of the survey, cushioned by policy and regulatory support and this was reflected in the survey results. Over half of the respondent banks in the current round believe that Gross NPAs would be in the range of 3% – 3.5% over the next six months. 14% respondents are of the view that NPA levels would be in the range of 2.5 – 3%.

A large majority (56% each) of Public Sector and Private sector Bank respondents expect gross NPAs to be in the range of 3% – 3.5% and only 33% of the responding foreign banks expect NPA levels to be in the range of 3-3.5%.

Expected NPA levels over the next six months



Bank Wise Expected NPA levels



Resilient domestic economy accompanied by pick up in credit growth supported by Govt capex, rising provision coverage ratio, restructuring and rehabilitation of all eligible stressed units, mobilization of OTS (One time settlement of dues) proposals, robust recovery mechanism, and initiation of SARFAESI action in all eligible cases in a time bound manner were cited as the key factors by respondent bankers who expect asset quality to further improve over the next six months. As per respondents, some of the sectors that may continue to show NPAs over next six months include Textiles and garments, MSME, Agriculture and Gems & Jewellery.

Outlook on NPAs sector-wise

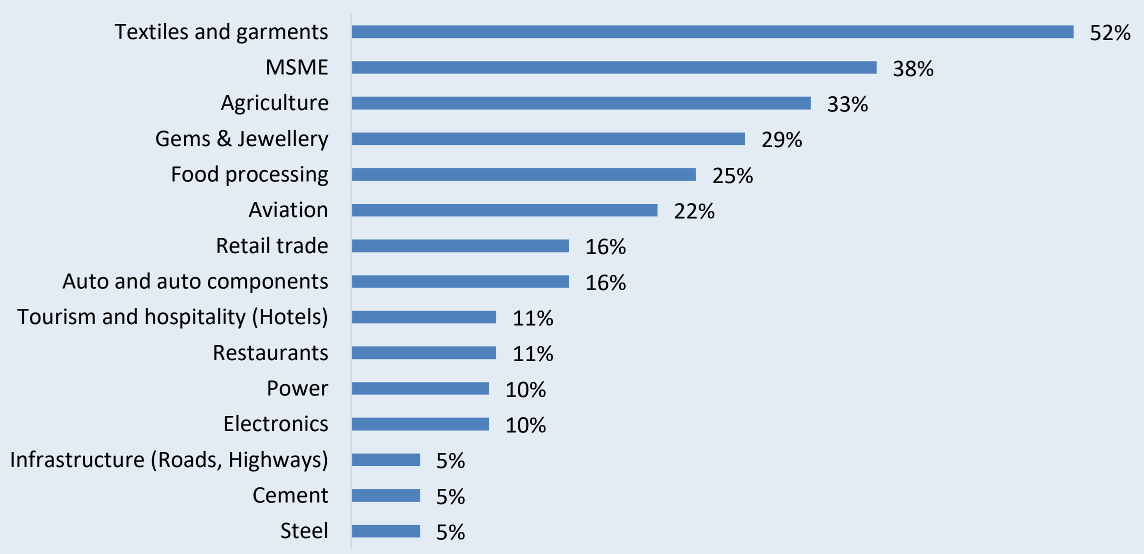
There is a mixed response with respect to sectors identified with high NPA risk over the next six months, by participating bankers in the current round of survey.

Over half the respondent banks expect NPAs in the Textile and Garments sector to increase in the next 6 months while 43% of the respondents expect NPA risk to remain unchanged in the next six months.

MSME was reported as another high NPA risk sector by participating bankers. 38% respondents expect NPAs to increase in this sector in the next 6 months while 33% of the respondents expect NPA risk to remain unchanged in the next six months.

33% respondents expect NPAs in the Agriculture sector to increase in the next six months, an increase compared to the previous round where 29% of the respondents cited Agriculture to pose higher NPA risk.

Sectors with expectations of increase in NPA levels over next six months



(% respondents)

Adoption of ECL-based provisioning

The Reserve Bank of India has recently proposed a shift in its approach to loan loss provisioning, transitioning from the model of regulatory prescription to one grounded in Expected Credit Loss (ECL). Banks were asked about their preparedness for the eventual adoption of ECL-based provisioning. Majority of the respondent banks stated that they were well-positioned for a smooth transition to the ECL regime and have put in place models and frameworks for ECL based provision computations which are being reviewed and validated internally. The challenges foreseen by banks in the migration to the new ECL regime are listed below:

- **Data related issues**: Certain data points required for ECL modelling and computation are currently not captured in banks' systems. Forward-looking loan loss provisioning needs accurate data, so having access to ample high quality historical data is a challenge. Example: - For computing the LGD based on Advanced Internal Rating Based Approach (AIRB), the minimum data observation period is at least one complete economic cycle (i.e. 7 years). The extraction / availability of quality data before merger of the Banks is challenging including the cost of recovery.
- **Methodology**: ECL requires banks to develop a methodology to estimate credit losses, but the RBI has not specified any model or approach to ECL. While this provides flexibility to banks, choosing the methodology will be a challenge. Moreover, different banks may adopt different models for computation of ECL based loan loss provisions. Therefore, comparability and uniformity across banking industry would be a challenge after migration to the new ECL regime.
- **Principle-based approach**: Given that the RBI discussion paper advocates principle-based approach, it may be subject to interpretation and banks may need to substantiate the models/assumptions as part of audit and assurance processes. Also, there is likely to be a requirement around external validation of the models which would be subject to standards imposed by the validating authority. This may also result in lack of uniformity given there is no prescription on qualifications of model validator.
- **Other Challenges**: Integration of cash flows for lifetime ECL estimation, cooling period for staging assessment, adoption of ECL use case at an industry level in acquisition, pricing & collection strategies, availability of robust MIS and systems to run ECL calculations, heavy investment for IT infrastructure.

Bancassurance

Banks were asked to share the key impediments confronting Bancassurance and how to overcome it

Challenges		Solutions
Non-life insurance penetration is severely curtailed as banks are not able to cater to insurance requirements of Large/MID Corporates who can contribute significant premium in bancassurance, despite having strong relationships.	**Restriction of sum insured of up to Rs. 5 crore**	Opening up of large / mid corporate non-life insurance business by removing the cap of Rs 5 crore sum Insured for banks.
Limited customer awareness of available insurance products through Bancassurance channel, coupled with a general lack of understanding about the benefits offered by it.	**Low Consumer Awareness**	Enhancing financial literacy through targeted campaigns
Currently only a few banks practice open architecture, as major banks focus on promoting insurance only through their own captive insurance companies. This restricts the opportunity in the Bancassurance Channel to be exposed to multiple insurers and their varied products	**Open architecture**	If banks follow open architecture, they will be able to improve the penetration by increasing the pie and offer better products and services to customers across multiple insurers.
Insurance Products are complex and there is huge variations in product construct of one company vis-à-vis other company. Insufficient training for bank staff on insurance products and sales techniques can delay effective promotion.	**Product Knowledge and understanding**	Alignment of Insurance companies in each branch to support sales. Regular training programs and workshops can empower bank employees to engage customers more effectively.
While sanctioning Retail Asset or MSME Loans, the bundling of insurance products are not allowed, resulting in low penetration and asset coverage.	**Restriction on bundling of insurance products**	Bundling of insurance products to be made permissible especially while sanctioning of Retail/MSME Loans

Bancassurance

Challenges		Solutions
Implementation and scaling up of digital technologies are being hindered by lack of expertise coupled with data security policies and customer privacy acts.	**Embracing Digital capabilities**	Complete digital journeys across all channels including web/mobile/app alongside digital assisted journeys for bank branch staff shall enable the adoption of insurance products across segments of customers
Traditional banks are challenged by competition from fintech and digital insurance players as people now have easy access to information and products at their fingertips.	**Competition from fintech and digital insurance players**	Banks are required to conduct comprehensive training programs for staff to ensure that field staff is well-equipped to comprehend and effectively sell insurance products in this digital era.
While POS products are simple in terms of construct, the limitation on Sum Insured limits the ability to cover vis-à-vis actual customer's need of Cover and propensity to pay acts as a hindrance towards utilization of strength of Bank's Business Correspondents.	**Simplification in POS (Point Of Sale) Model**	Modifying and opening up of the POS model in terms of product offerings and sum insured will help banks in harnessing the power of business correspondents.
Insurance products often need customization to align with the diverse needs of bank customers.	**Product Customization**	Banks would have to work in partnership with insurers to develop tailored products can enhance the demand of insurance offerings.

Climate adaptation and mitigation

Climate change is accelerating at a rapid pace and requires an active participation of all stakeholders to address the issue. The regulatory framework for ESG is taking shape and gaining momentum. Banks and other financial institutions have a critical role to play in guiding the economy on the path towards climate transition. Respondent banks were asked to share the key steps they have taken to support industry in its efforts towards climate adaptation and mitigation. Below exhibit shows various steps being taken by the Banking sector in India towards climate action.

Green Strategy in Governance and Internal Process

- Several banks have devised their own ESG policy/ vision documents, and some have also established ESG committees to provide strategic direction and oversee overall ESG strategy and approach
- Some banks have also integrated ESG and climate risk parameters in their rating models. Whole gamut of Risk framework pertaining to Climate Risk policy, Climate Risk Heat Maps, GHG Scope–1&2 Calculator, ESG Integration, Climate Risk assessment of Back Book, Climate Scenarios & Stress Testing have been adopted by some banks while others are considering implementation.

Green Financing

- On the lending side, banks have adopted targeted approach towards green and sustainable projects, with focus on areas like Electric Vehicle, Solar Energy, Solar pumps in agriculture, and other Hydro, Solar, Wind, Ethanol based projects. Some banks have also introduced targeted loan products to cater to the green sector.
- Some banks have also disallowed or restricted credit for setting up of projects/units that produce/consume ozone depleting substances like CFC, Carbon Tet, Methyl Chloroform etc.
- On the funding side, banks are looking towards acceptance and allocation of Green deposits in line with RBI's guidelines. One of the banks also mentioned accessing low-cost funds from multilateral institutions to facilitate lowering of cost of climate finance in the country.

Green Initiatives and Support Programmes

- Banks have implemented various environmental campaigns, including planting of saplings; recycling camps, paper conservation drives, energy conservation campaigns, etc.
- One of the respondent banks reported that it has undertaken Climate Action Programme in rural area that are vulnerable to climate change and have introduced Climate Smart Agriculture and adoption of agroforestry and low carbon technologies (like solar pumps along with drip irrigation systems, conversion of agriculture residue and livestock waste to manures, etc). It is also promoting Bio-fencing in the coastal region through mangrove plantations to reduce adverse impact due to cyclone, etc.

Banks' internal measures

- Going Digital – digitization of internal processes, reduction in paper usage, etc.
- Green Initiative by sending various notices and documents, including Annual General Meeting and Annual Report, to customers and shareholders through electronic mode

Respondents Profile

Twenty-three Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Together, these banks constitute about 77% of the total banking asset size.