Indian Banks' Association

FICCI-IBA Survey of Bankers

Issue 19

January – June 2024

Survey Findings – Summary

The nineteenth round of the FICCI-IBA survey was carried out for the period January to June 2024. A total of 22 banks including public sector, private sector and foreign banks participated in the survey. These banks together represent about 67% of the banking industry, as classified by asset size.

The Indian economy and the banking sector remain robust and resilient. With improved balance sheets, banks are supporting economic activity through sustained credit expansion. However, credit growth is outpacing deposit growth, which could lead to liquidity challenges for the banking system. Raising deposits to keep pace with the loan growth and keeping the credit cost low remains on the top of banks' agenda.

The survey findings show that long term credit demand has seen continued growth for sectors such as Infrastructure, Metals, Iron and Steel, Engineering. Infrastructure is witnessing an increase in credit flow with 77% of the respondents indicating an increase in long term loans. This could be attributable to the government's capital expenditure push for the infrastructure sector. The survey suggests that the outlook on expectation for growth of non-food industry credit over next six months is optimistic with 62% of the participating banks expecting non-food industry credit growth to be above 12%.

Customers' search for higher-yielding investments and the ability to lock those interest rates for a longer time has led to a shift from low-cost to high-cost deposits, thereby increasing deposit costs for lenders. More than two-third of respondent banks (67%) reported a decrease in the share of CASA deposits in total deposits in the current round of survey. Term deposits have picked up pace as reported by the respondent banks due to higher/attractive rates. 80% of the participating Public Sector Banks reported a decrease in share of CASA deposits during the first half of 2024 while over half the private sector bank respondents reported a decrease in CASA deposits

In the current round of the survey, 68% of respondent banks reported credit standards for large enterprises to have remained unchanged, largely similar as in the last round. Respondents reporting easing of credit standards has increased to 23% in the current round as against 17% in the previous round. For SMEs too, respondents reporting easing of credit standards has increased to 40% in the current round as against 27% in the previous round. 55% of respondent banks reported credit standards for SMEs to have remained unchanged, as compared to 64% in the last round.

Survey Findings – Summary

In continuation with the trend witnessed in the previous round, a large majority (71%) of the respondent banks reported a decrease in the NPA levels in the last six months. A significant 90% responding PSBs have cited a reduction in NPA levels while amongst participating Private sector banks, 67% have cited a decrease. All the respondent Foreign banks cited no change in NPA levels over the last six months. Amongst the sectors that continue to show high level of NPAs, most of the participating bankers identified sectors such as Textiles, Infrastructure and Food Processing.

Respondent banks continued to remain 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 2.5% - 3% over the next six months. 19% respondents are of the view that NPA levels would be in the range of 2%- 2.5%. An overwhelming majority (70%) of Public Sector respondents expect gross NPAs to be in the range of 2.5%-3%. 44% of private bank respondents expect NPAs to be in the range of 2%-2.5% while all foreign bank respondents expect NPAs to be in the range of 2.5%-3%. As per respondents, some of the sectors that may continue to show NPAs over next six months include Agriculture, Textiles and garments, MSMEs, and Gems & Jewellery.

Resilient domestic economy accompanied by upgraded and improved credit assessment, effective and continuous credit monitoring, lower slippages, high write-offs and healthy capital position of banks were some of the key factors cited by respondent bankers who expect asset quality to further improve over the next six months.

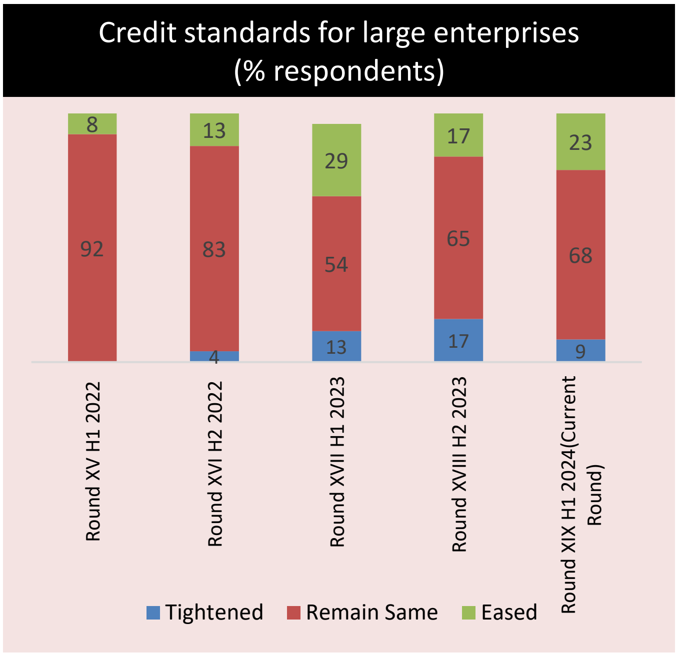
The partnership between banks and fintech companies holds immense potential for driving innovation, improving service delivery, and enhancing financial inclusion. Respondent banks were asked to share their views and suggestions for strengthening this partnership. Some of the key suggestions provided by respondent banks related to seamless integration of technology, need for shared vision and customer centric approach, having effective communication, developing a robust governance framework for regulatory compliance and data security, co-creation of innovative solutions, and making investments in AI infrastructure.

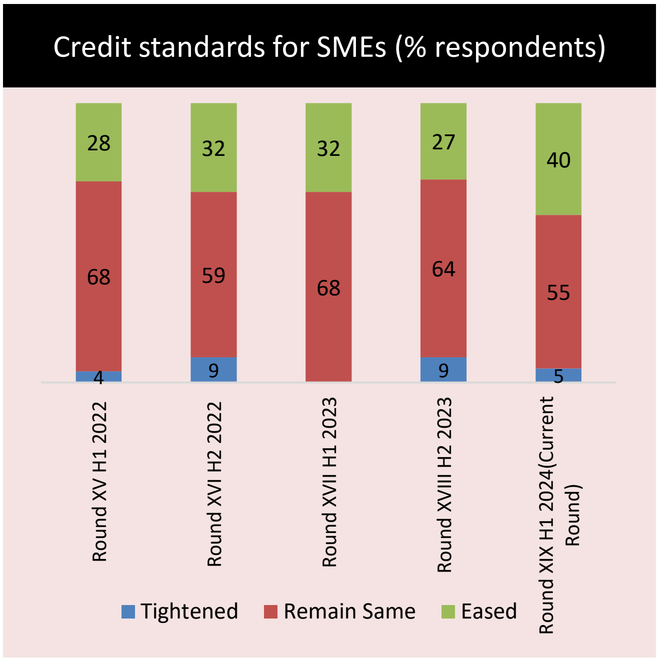
Respondent banks were asked to share the measures taken by them in the realm of cyber-risk management. Banks shared specific measures taken by them in the areas of IT Governance and Risk Management, Cybersecurity Controls, Incident Response and Recovery, Vendor and External Risk Management. Respondent banks also shared the key strategies adopted by them to keep abreast with the skill requirements of the sector in current times. These included initiatives in the area of E-Learning, Coaching & Mentoring, Hackathons and Innovation Labs etc.

Banks were also asked to provide inputs for making the ATM channel cost effective. The key suggestions offered include various measures to reduce operational expenditure, selecting strategic locations, increasing the interchange fees for ATM transactions, analysing costs and benefits for each ATM site, upgrading technology in ATMs, etc.

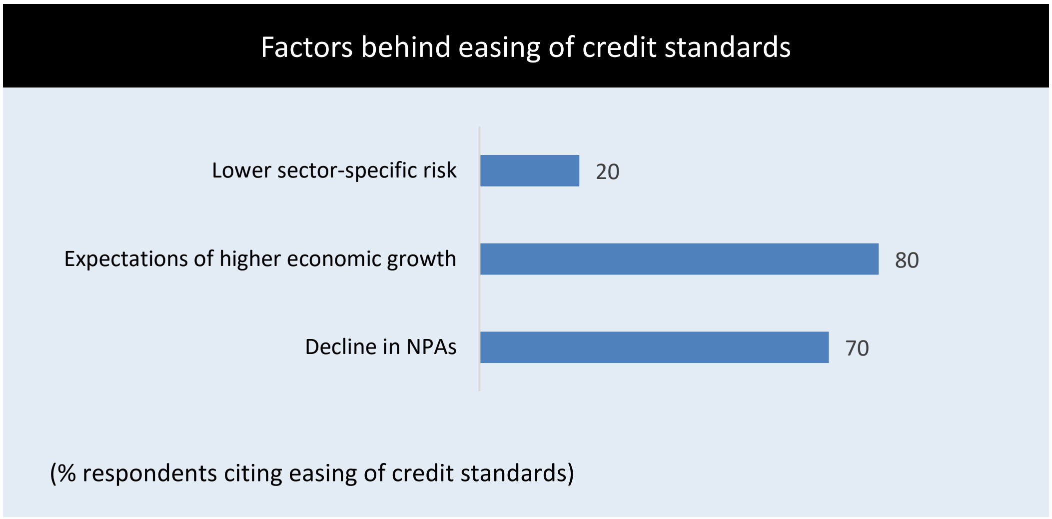
Change in Credit Standards

In the current round of survey, 68% of respondent banks reported credit standards for large enterprises to have remained unchanged, which is similar as in the last round. Respondents reporting easing of credit standards has increased to 23% in the current round as against 17% in the previous round while those reporting tightening in credit standards deceased to 9% as against 17% in the previous round. With respect to SMEs too, respondents reporting easing of credit standards has increased to 40% in the current round as against 27% in the previous round. 55% of respondent banks reported credit standards for SMEs to have remained unchanged, as compared to 64% in the last round.





Majority of respondents have cited expectations of high economic growth and decline in NPAs as the key factors for easing of credit standards.

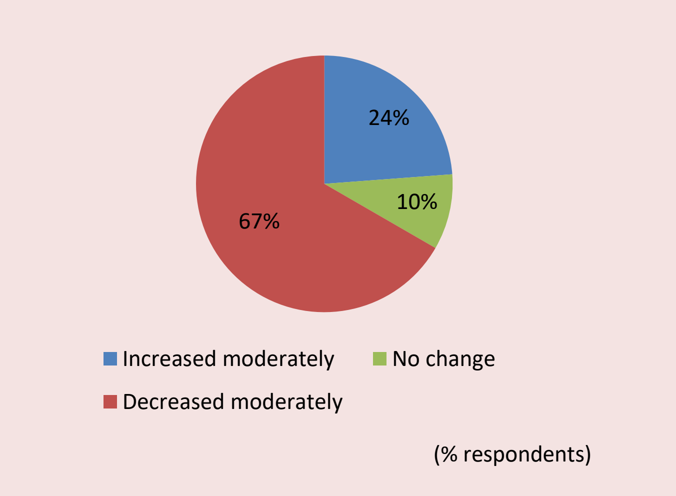


Changes in Current Account and Savings Account Deposits

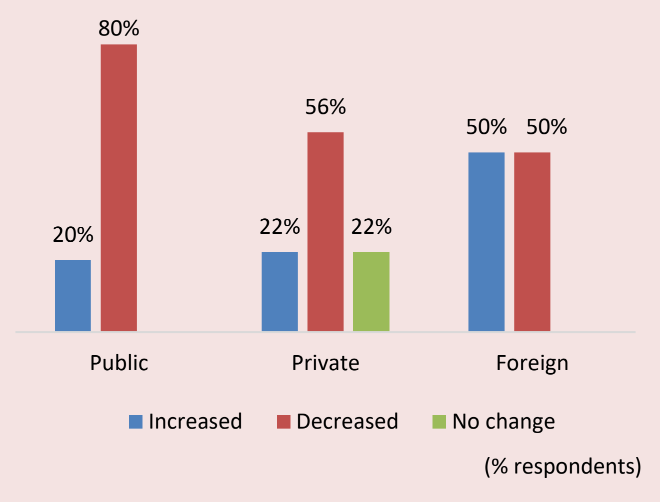
Majority of respondent banks (67%) have reported a decrease in the share of CASA deposits in total deposits in the current round of survey. The respondents reporting no change in CASA deposits was 10% as compared to 29% in the previous round of survey.

Term deposits have picked up pace as reported by the respondent banks due to higher/attractive rates.

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



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

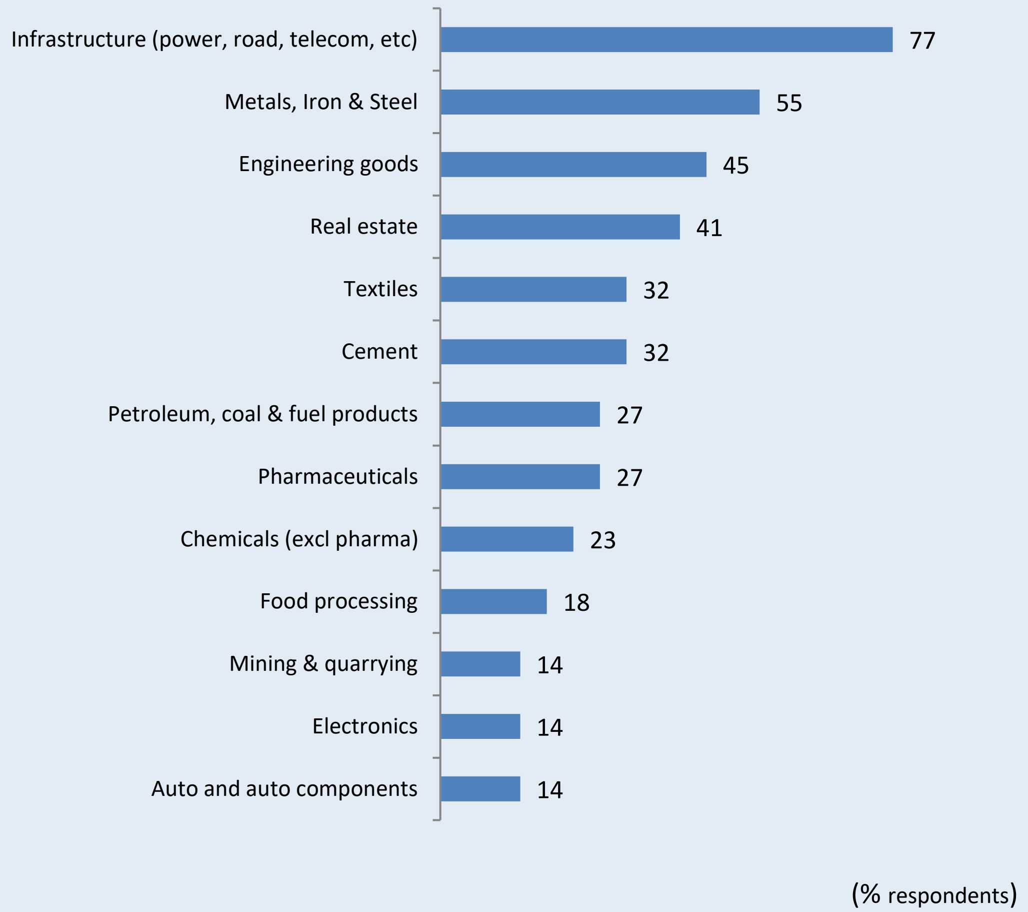


When compared across bank types, 80% of the participating Public Sector Banks reported a decrease in share of CASA deposits during the first half of 2024. Amongst the private sector bank respondents, 56% of the respondents reported a decrease in CASA deposits.

Demand for Long-Term Loans

The current round of survey reveals that there has been increase in demand for long term credit for various sectors. 77% of the participating respondents have reported higher credit demand for Infrastructure in the past six months while over 55% respondents indicated Metal, Iron and Steel to have witnessed increase in long-term loans during this period. Sectors such as Engineering Goods and Real Estate have also witnessed accelerated long-term loan disbursements in the past six months (January to June 2024).

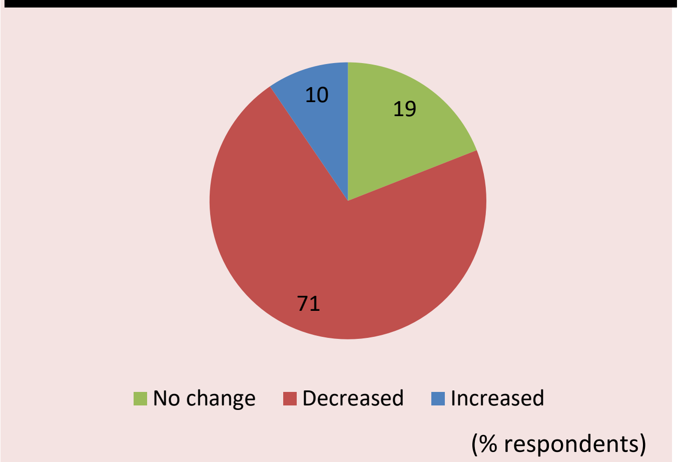
Sectors witnessing increase in long term loan disbursements in last six months



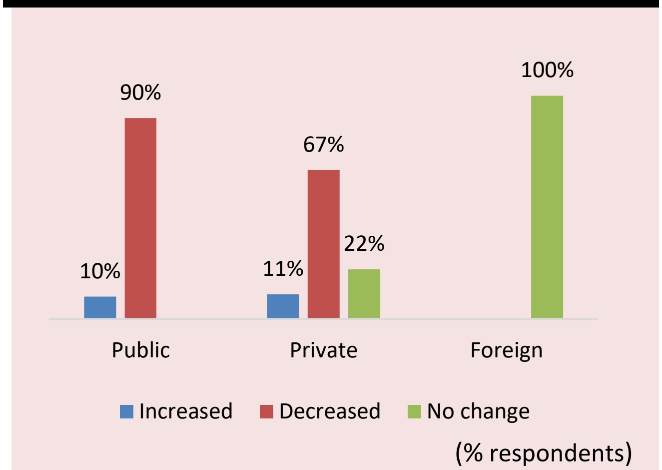
State of NPAs and Stressed Assets

In continuation with the trend witnessed in the previous round, a large majority (71%) of the respondent banks reported a decrease in the NPA levels in the last six months. A significant 90% responding PSBs have cited a reduction in NPA levels while amongst participating Private sector banks, 67% have cited a decrease. All the respondent Foreign banks cited no change in NPA levels over the last six months.

Change in the level of NPAs

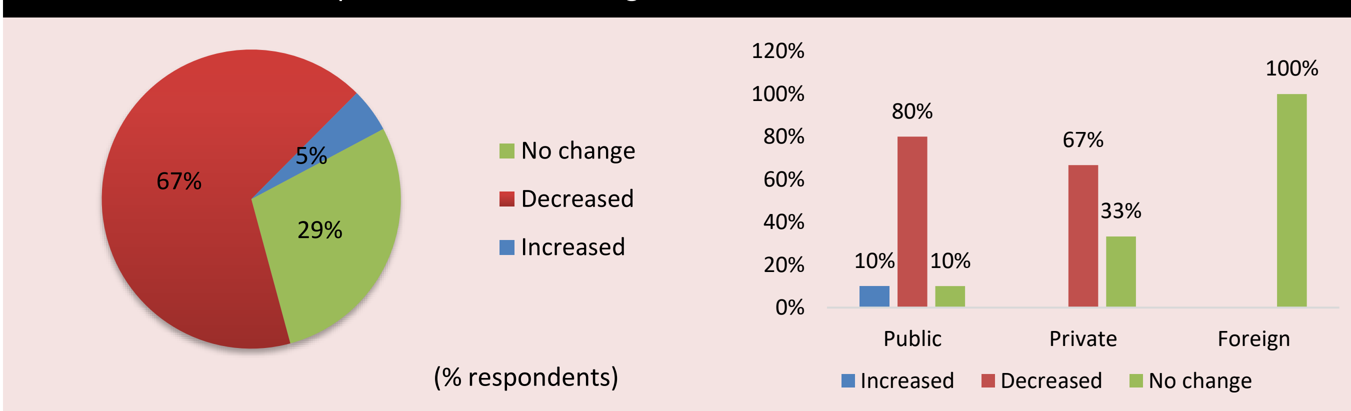


Bank Wise Increase/Decrease in level of NPAs



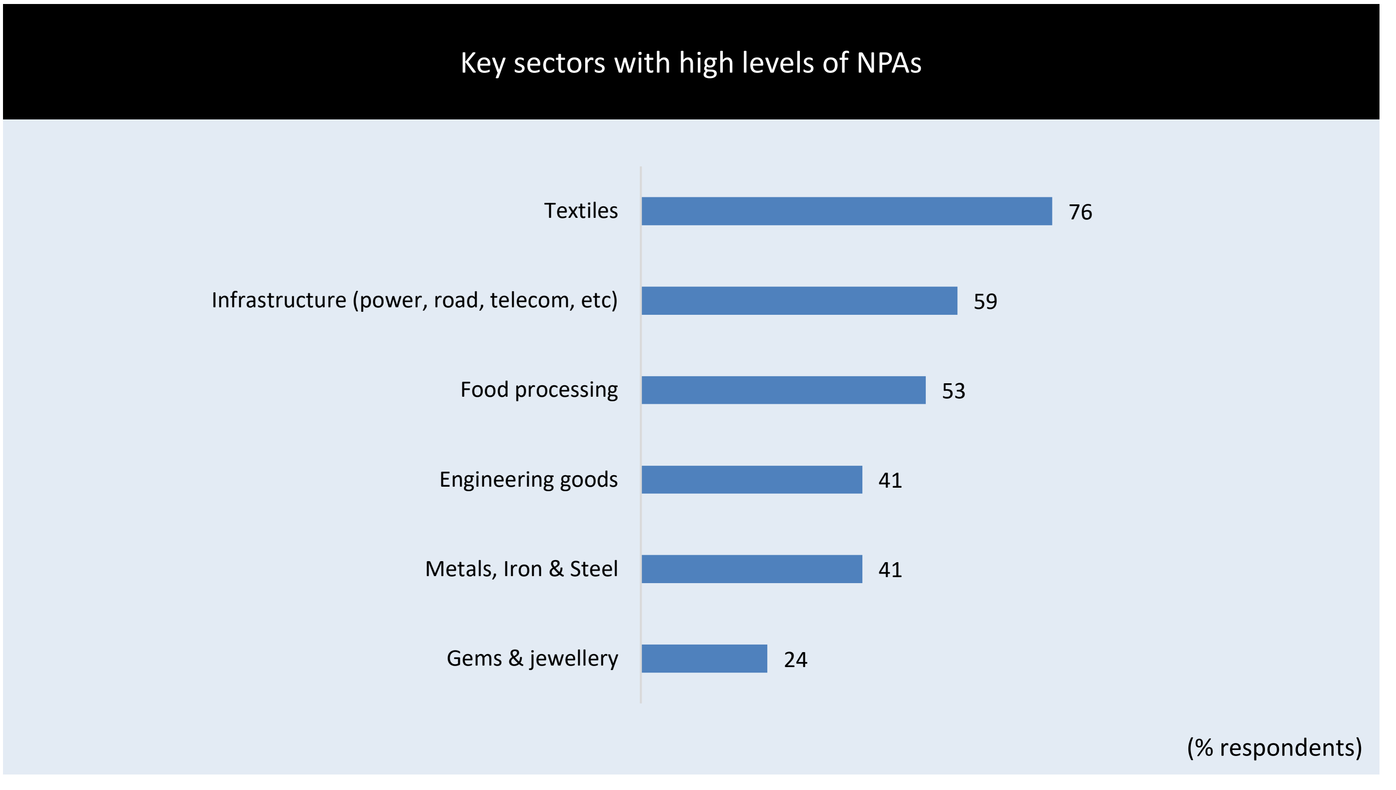
An overwhelming 67% respondents have reported decrease in requests for restructuring of advances in the current round of the survey as compared to 44% in the previous round. The proportion of respondent banks citing an increase in requests for restructuring of advances was 5%, as compared to 17% in the previous round. Bank-wise analysis reveals that 80% of participating PSBs have cited a decrease in requests for restructuring of advances while 10% of such respondents have reported increase in such requests as compared to 30% in the previous round. In case of participating Private sector banks, 67% of the respondent banks have cited a decrease. All participating Foreign banks have cited no change in restructuring of advances. Lower requests for restructuring indicate improvement in overall functioning of various segments of the economy.

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 Textiles, and Infrastructure and Food Processing. Other sectors identified as high NPA sectors include Engineering Goods, Metals and Iron & Steel and Gems and Jewellery.



Trend in NPAs in key sectors

- In case of Textiles, which has been cited as sector with high NPA levels by 76% respondents, 54% of such respondents have reported a decline in NPAs and 38% of such respondents have however reported an increase in NPA levels over the last six months.

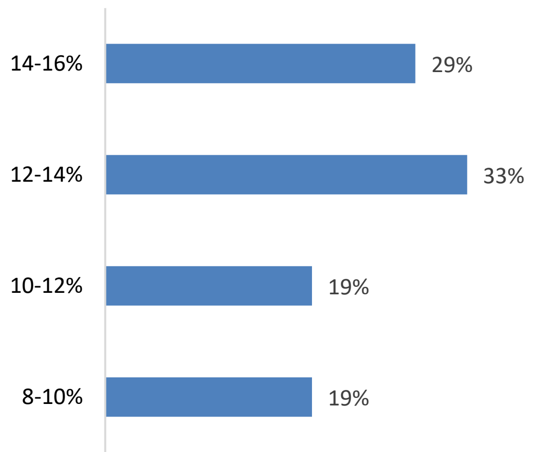
- For Infrastructure, which has been reported to have high NPA levels by 59% respondents, 60% of such bank respondents have reported a decline in NPA levels during the first half of 2024 while 40% reported an increase.

- In case of Food Processing, which has been identified as high NPA sector by 53% respondents, 67% of such respondents reported a decrease in NPA levels over last six months while 22% of such respondents reported an increase.

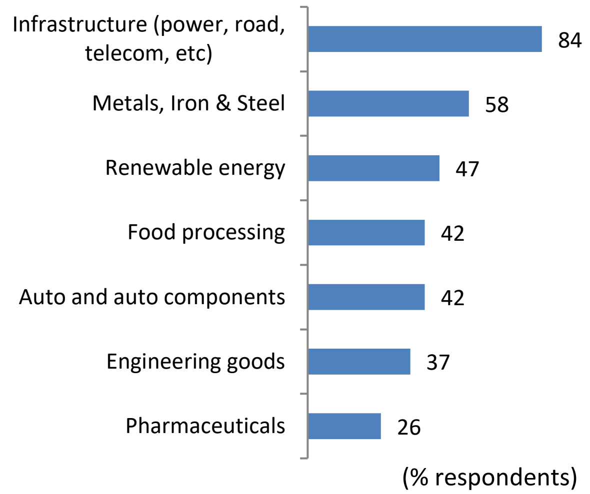
Expectations and Outlook on Credit

The survey suggests that the growth outlook of non-food industry credit over next six months continues to be optimistic with 62% of the participating banks expecting growth to be above 12%. 19% feel that non-food industry credit growth would be in the range of 10-12% while an equal percentage of 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



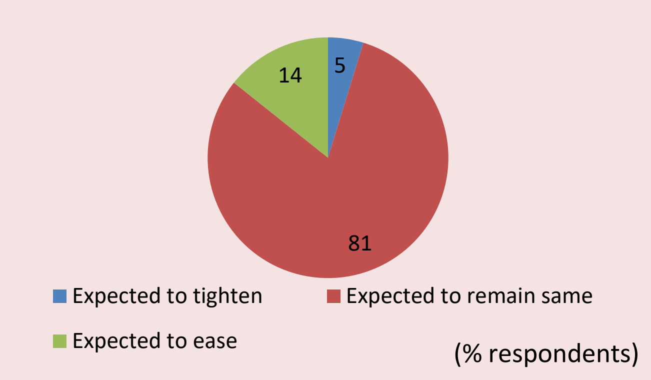
Sectors expected to see rise in long term credit



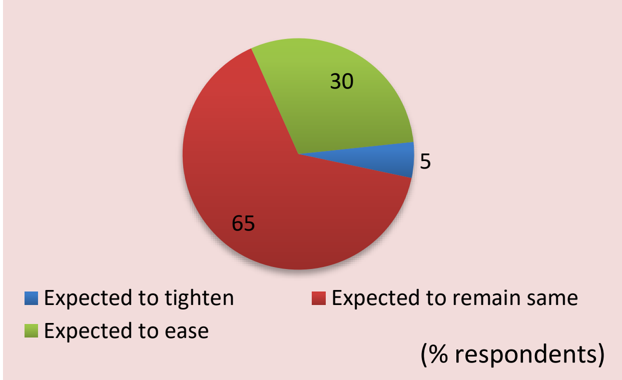
Major infrastructure development plans have been in place by the government, which is likely to spur demand for infrastructure financing. This is also reflected in the current round of survey, as 84% respondents believe Infrastructure to see a rise in loan demand in H2 2024. 58% of the respondent banks expect the Metals, Iron & Steel sector to witness an increase in demand for long term credit going forward while 47% expect to see a rise in credit demand from Renewables sector.

Further, a large majority of banks (81%) expect no change in credit standards for large enterprises over the next six months. For the SME segment, 65% of bank respondents expect credit standards to remain same in H2 2024.

Credit standards for large enterprises



Credit standards for SMEs

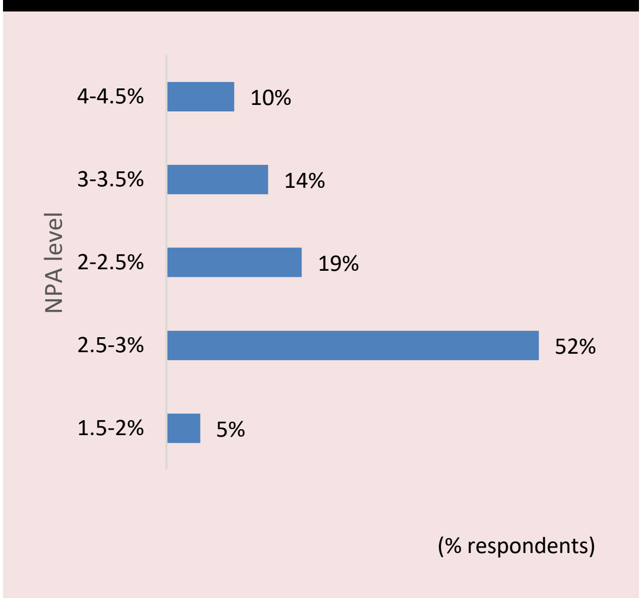


Outlook on NPAs

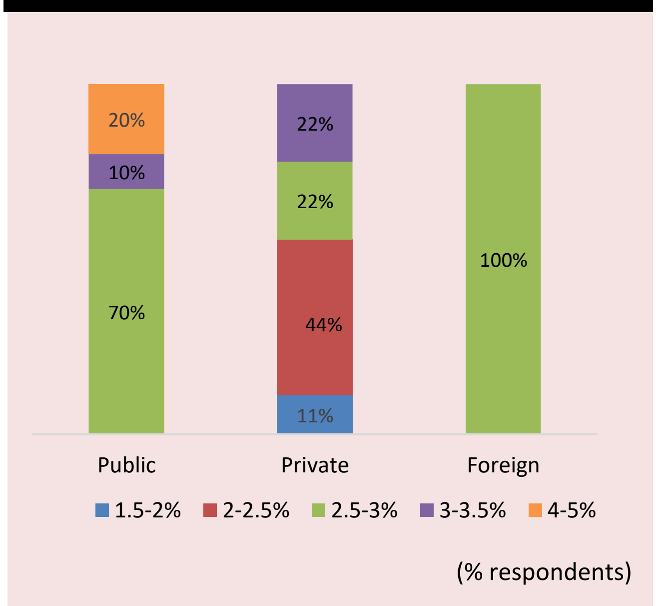
Indian banks continue to exhibit positive trends in their asset quality, achieving a new decadal low in the gross non-performing asset ratio to 2.8% as of Mar 24, while the net NPA ratio fell to 0.6%, as per the RBI Financial Stability Report. Respondent banks were more sanguine about the asset quality 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 2.5%-3% over the next six months. 19% respondents are of the view that NPA levels would be in the range of 2%- 2.5%.

An overwhelming majority (70%) of Public Sector respondents expect gross NPAs to be in the range of 2.5%-3% while 22% of the responding private banks expect NPA levels to be in the range of 2.5%-3%. 44% of private bank respondents expect NPAs to be in the range of 2%-2.5% while all foreign bank respondents expect NPAs to be in the range of 2.5%-3%.

Expected Gross NPA levels over the next six months



Bank Wise Expected Gross NPA levels

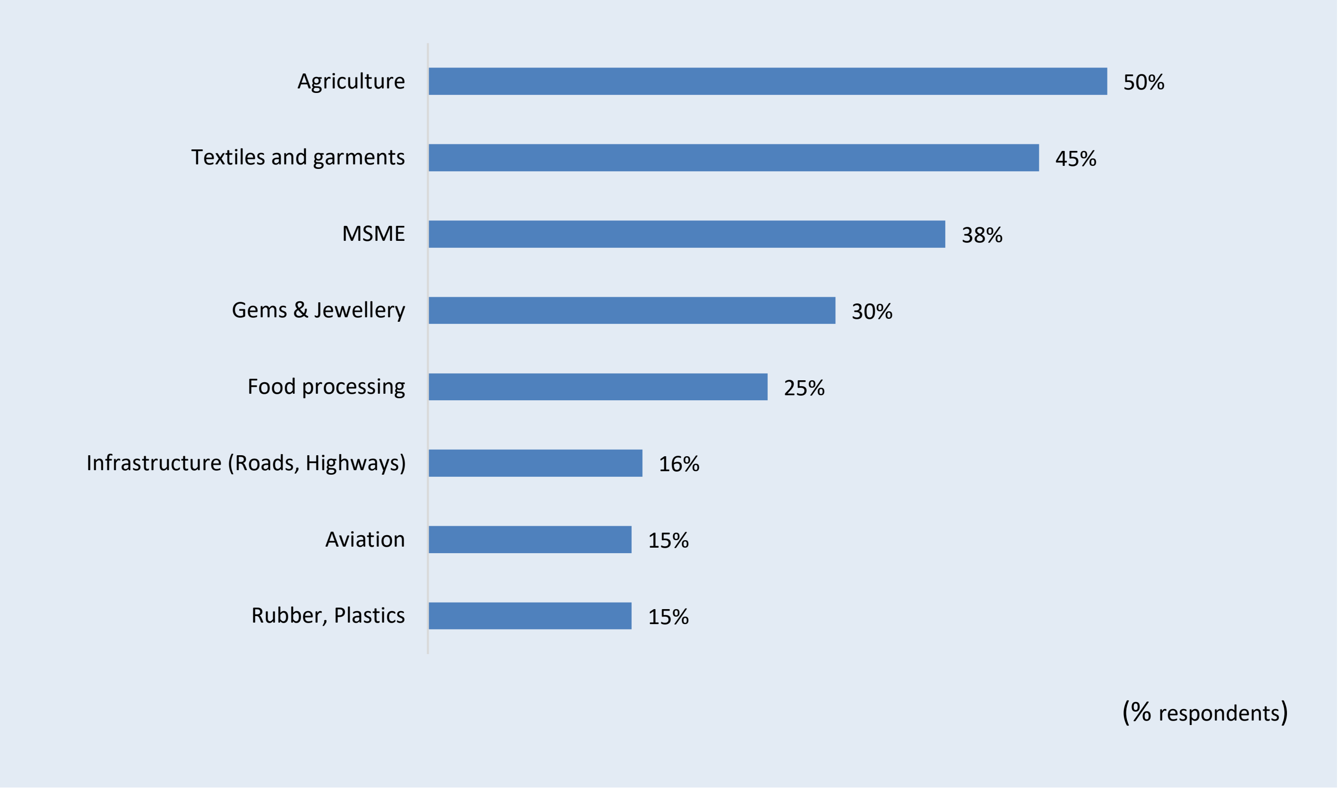


Resilient domestic economy accompanied by upgraded and improved credit assessment, effective and continuous credit monitoring, lower slippages, high write-offs and healthy capital position of banks were some of the key factors cited by respondent bankers who expect asset quality to further improve over the next six months. As per RBI Financial Stability Report , the macro stress level indicates that the GNPA ratio of all SCBs may improve to 2.5 per cent by March 2025 under the baseline scenario. However, if the macroeconomic environment worsens to a severe stress scenario, the ratio may rise to 3.4 per cent. Expectations of the respondents for the next six months aligns with RBI projections on baseline scenario.

Outlook on NPAs sector-wise

In the current round of survey, the respondents have indicated some of the sectors that may continue to show NPAs over the next six months. These include Agriculture, Textiles and garments, MSME, and Gems & Jewellery.

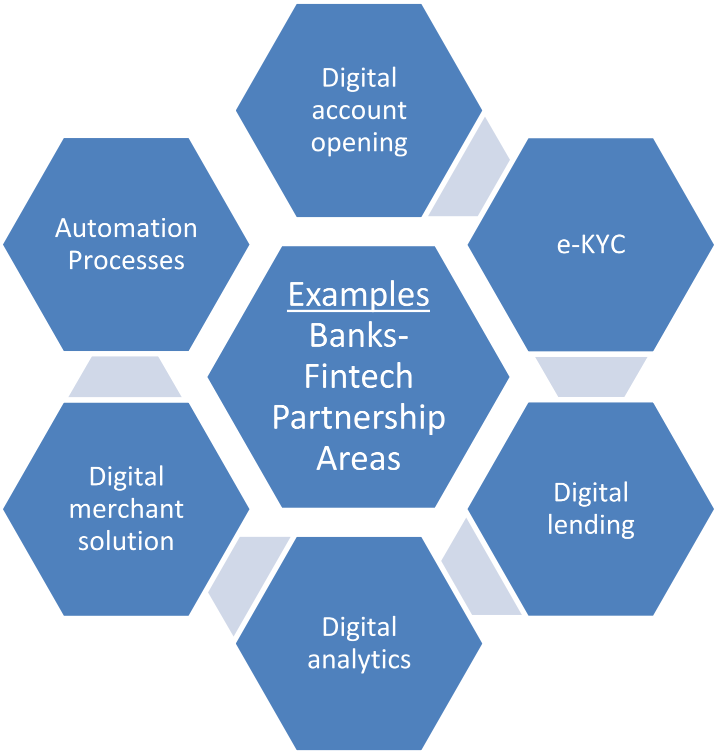
Sectors with expectations of increase in NPA levels over next six months



Banks-Fintech Partnership

There has been a rising trend towards bank-fintech partnership, with more and more banks partnering with Fintechs for innovation and improvement in service delivery. Partnership with fintech companies enables banks to focus on core banking operations as well as keep pace with innovation. This helps in enhancing their efficiency, offering new services and enhancing customer reach. Fintechs on the other hand benefit through such partnership in terms of their growth, brand recognition and scale. Further, collaboration of banks with fintechs will help in reaching out to the informal economy, thereby ensuring that credit needs of unserved and underserved segments are met.

The partnership between banks and fintech companies holds immense potential for driving innovation, improving service delivery, and enhancing financial inclusion. By focusing on key areas such as open banking, CBDC, and ONDC, and by fostering a collaborative and transparent ecosystem, these partnerships can achieve remarkable success. With the right strategies and expectations, banks and fintechs can create a future where financial services are more accessible, efficient, and customer centric. The integration of new AI technology will further enhance these efforts, paving the way for smarter, more personalized, and secure banking experiences.



Suggestions to Strengthen Banks-Fintech Partnership

Seamless integration of technology

- Banks should invest in API-driven architectures and open banking platforms to facilitate seamless integration of technology.

Governance framework

- Develop a governance framework that includes representatives from both the bank and the fintech partner as this would ensure that decisions are made collaboratively.
- Ensure that all solutions meet regulatory requirements and maintain high standards of data security and privacy.
- Devise Common Methodologies for Due Diligence. Implementation of robust risk management system in line with regulatory guidelines will cultivate good compliance culture

Co-creation of Solutions

- Adopt the collaborative approach to co-create solutions that can lead to more innovation.
- Develop solutions that are scalable, allowing banks to expand offerings without significant overhauls. This is crucial for long-term partnership success.

Invest in AI infrastructure

- By harnessing AI, banks and fintechs can enhance various aspects of banking, from customer service to risk management.
- Banks and fintechs could invest in the necessary infrastructure to support AI technologies, including data storage and processing capabilities.

Alignment on vision and Customer Centric Approach

- Both sides should be aligned on a shared vision towards innovation and delivering value to the end customers.
- Bank and Fintech should prioritize customer needs. By aligning their efforts to enhance customer experiences, they can create innovative user friendly solutions that address customer issues in seamless manner.

Effective Communication

- Both parties need to clearly define goals, roles, and responsibilities.
- Regular meetings, feedback, updates, and collaborative platforms can facilitate transparency and ensure that both parties are aligned on progress and challenges.

Revenue sharing models

- Revenue sharing models of engagement may be explored. This will ensure that Fintechs keep enriching the products with more features for higher growth in user base and volume of transactions routed through such solutions.

Cyber-Risk Management

The Reserve Bank of India has recently released master direction encompassing IT governance, risk management, controls and assurance practices for financial institutions with a view to bolster the cybersecurity resilience and their management capabilities. Respondent banks were asked to share the measures taken by them in the realm of cyber-risk management

IT Governance and Risk Management

- Robust IT governance framework, including strategic alignment, risk management, resource management, performance management and Business Continuity/ Disaster Recovery Management and management committees like the IT Strategy Committee (ITDSC), Risk Management Committee, Information Security Committee (ISSC),
- Cyber Crisis Management Plan and regular reviews by the Risk Management Committee.
- Specialist Risk advisor on the Board

Cybersecurity Controls

- Cyber Security Operations Centre (C-SOC) equipped with Security Incident Event Management (SIEM), Advanced Persistent Threat – Fire Eye, Network Behaviour Analysis (NBA), Web Application Firewall (WAF), Privilege Access Management (PAM) and IT-GRC Solution (Archer).
- Intrusion detection systems, encryption, and access controls to protect against cyber threats.
- 24/7 monitoring through in-house Cyber Security Operations Center, integration of multiple threat intelligence feeds, dark web monitoring, and deployment of decoy systems.
- Deployment of DDoS protection, web application firewalls, next-gen firewalls, email and endpoint security, and access controls like MFA and RBAC.

Cyber-Risk Management

Incident Response and Recovery

- Cyber Crisis Management Plan (CCMP) to establish a strategic framework for preparing, responding, and recovering from cyber incidents.
- Root cause analysis are carried out and steps taken are incorporated in the existing SOPs as lesson learnt to prevent recurrence of such events/incidents.
- Detailed guidelines for handling cybersecurity crises, including incident detection, containment, response, and recovery actions.

Vendor and External Risk Management

- Periodical Vendor Risk Assessment
- External Attack Surface Management (EASM) to identify and manage risks associated with internet-facing assets and systems.

Awareness & Training

- Regular cybersecurity awareness sessions
- Regular cybersecurity training programs to recognize and respond to cyber threats

Skill Development Initiatives

The banking sector is witnessing rapid digital transformation, and this has accelerated the need for upskilling and talent management. Respondent banks were asked about the strategies adopted by them to keep abreast with the skill requirements of the sector in current times.

Training and Development Programs

- **Internal Training**: Conducted by in-house experts and external learning partners for niche skills.
- **E-Learning**: Partnership with Coursera for digital training on AI, ML, Data Science, etc.
- **Induction Programs**: Blended learning approach including in-person programs, VILTs, self-paced learning, and hands-on training.

Skill Development Initiatives

- **Frontline Staff**: Knowledge Transfer Process (KTP) for business development associates focusing on sales skills.
- **Senior Management**: Special programs for Vice Presidents and Senior Vice Presidents on change management, communication, leadership, and stakeholder management.
- **Coaching and Mentoring**: Programs for senior executives to facilitate knowledge transfer.

Collaborations and Partnerships

- **Educational Institutions**: Collaborations with institutions like IIT Mumbai for IT innovation and skill development.
- **Consulting Firms**: Partnerships for building capabilities in product innovation and digital skills.

Continuous Learning and Adaptability

- **Learning Management System (LMS)**: Upgraded LMS with programs on digital banking tools, AI, ML, data analytics, and cybersecurity.
- **Cyber Security Awareness**: Regular updates to employees on the latest cyber security trends and best practices.
- **Hackathons and Innovation Labs**: Introduction of hackathons and innovation labs to foster creativity and problem-solving skills.

ATM – Towards making it a Cost-Effective Channel

Automated Teller Machines (ATMs) are an important channel for cash dispensation. However, ATMs are facing several challenges including higher operational costs for the banks. Banks were asked to share their suggestions for making this channel cost effective.

Operational Expenditure

- ❑Adopt an Opex model where third parties operate ATMs and are paid based on transaction volume or rent.
- ❑Replace old CAPEX ATMs with OPEX models to save capital costs.
- ❑Self-load onsite ATMs to comply with regulatory requirements.
- ❑Remove caretakers and deploy e-surveillance systems under OPEX models.
- ❑Implement new facilities like Interoperable Cardless Cash withdrawal (ICCW) in ATMs to reduce costs
- ❑Optimize cash loading schedules based on usage pattern

Strategic Location and Maintenance

- ❑Select viable locations based on high foot traffic and limited competition.
- ❑Analyze costs and benefits for each ATM site.
- ❑Promote ATM visibility through branding and signage.
- ❑Provide excellent customer service and address technical issues promptly.
- ❑Use advanced technology like Android ATMs where the hardware cost is comparatively low

Technological Upgrades for ATMs

- ❑Upgrade to energy-efficient ATMs.
- ❑Implement remote monitoring and predictive maintenance.
- ❑Optimize cash replenishment schedules using data analytics.
- ❑Promoting cardless cash transactions like withdrawals through mobile app/UPI

Reconsideration of ATM Transaction Limits

- ❑Reevaluate free ATM transaction limits based on increased digital transactions.
- ❑Increase the interchange fees for ATM transactions.

Respondents Profile

Twenty-two Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Together, these banks constitute about 67% of the total banking asset size.