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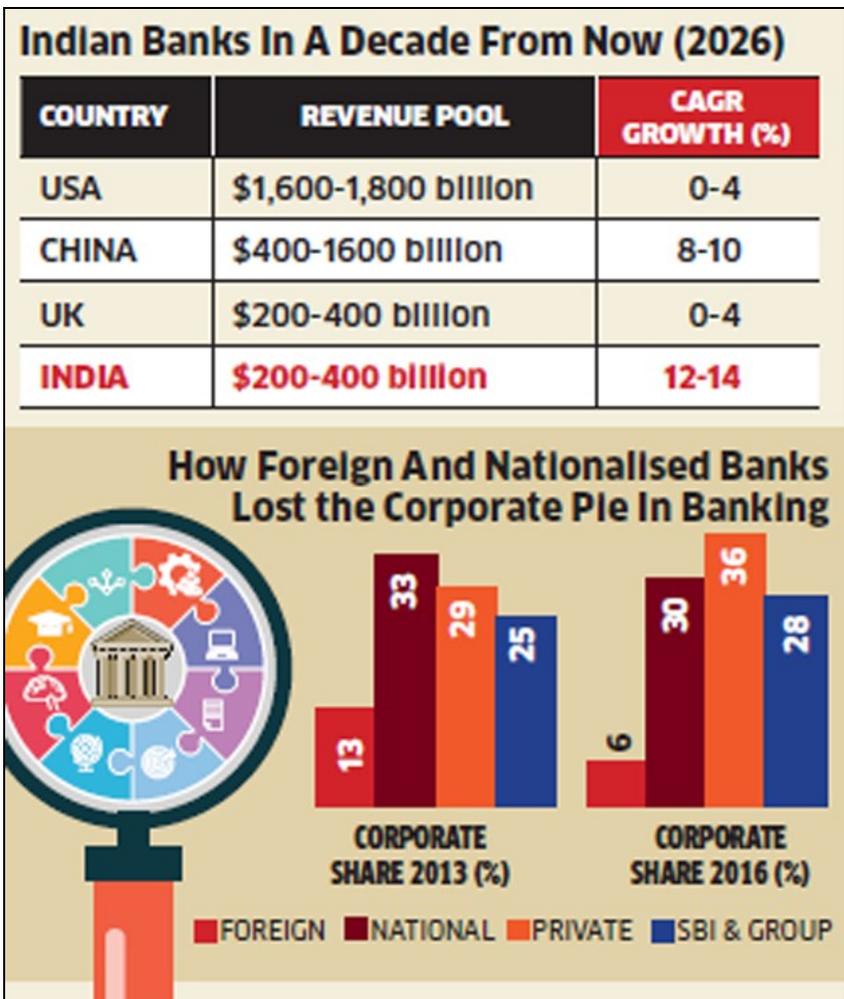
Future for Indian banking system bright despite NPAs

By ET Bureau | Updated: Aug 31, 2016, 04.56 AM IST

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Despite the ongoing stress, the Indian banking system is expected to be the world's third-biggest in the next decade. A Boston Consulting Group report pegs the Indian banking revenue pool at close to \$400 billion by 2026. Private banks will continue to outshine as they continue to grab market share from foreign and state-run banks.

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What Ails Indian Banks Profitability

- ▶ Not enough risk-based pricing
- ▶ Over-reliance on NII
- ▶ Fee/NII among lowest in the world
- ▶ Customers expect free services
- ▶ Not enough technology and skill building
- ▶ No pricing teams

Clue On How To Solve Bad Loans Problem

COUNTRY	PRACTICE	COMMENTS
South Korea	Centralised asset management	Debt ratio reduced by securitisation, sales through ARCs NPL fell from 8.3% in 1999 to 1.9% in 2002
Sweden	Privately managed AMCs, with strong corporate governance	86% of assets disposed of; 50%+ in five years
China	State-owned PMCs	4 state-owned AMCs established during banking crisis of 1990s Oversaw management of \$229 billion of NPL

Data Depository Can Avert Bad Loan Menace

COUNTRY	CREDIT BUREAU
Germany	SCHUFA: Third-party credit bureau with database of 5.2 million companies
USA	Shared National Credit Prog: Syndicated loan of \$20 million with 3+ lenders
Portugal	Central Credit Register: 6.2 million borrowers across 146 banks
Hungary	Bureaus with credit database at company level

Indian Banks' Likely Partners For Growth

FOOD PROCESSING	LIVESTOCK	RETAIL TRADE	TRANSPORTATION
Pulses & cereals	Dairy products	E-comm lending	Taxi aggregators
Fruits & vegetables	Poultry & meat	Franchise models	Logistics aggregators

What Indian Govt Has Done On Capital

COUNTRY	CAPITALISATION IN LAST 15 YEARS
CHINA	\$500 billion (Infusion + NPL disposition)
INDIA	~\$15 billion

COUNTRY	ONE-TIME CAPITAL INFUSION
USA	~\$250 billion (Ballout for banks)
ITALY	~\$45 billion (Likely capital Injection by govt In 2016)

Text: Saloni Shukla **Source:** Boston Consulting Group

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