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Strategy for Banks in India in the Era of Economic Slowdown: Need for Thrust on Retail Banking with a Focus on Housing Finance

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Abstract
It is widely recognized that India is passing through an era of acute economic slowdown and there is an imminent need for kick-starting the economy by way of suitable revival measures. Indian banking sector is facing unprecedented challenges, like, mounting NPAs, diminishing profitability, eroding capital and so on. At this critical juncture, what could be the broad strategy for the industry that can get rid of most of these chronic issues and at the same time ensure sustained growth and profitability without compromising on asset quality? What could be the strategy to create more employment and also to revive the key sectors of the economy? This paper analyses the need for a strategy of 'Retail banking focus with a housing finance thrust, along with proper ICT integration', and the capability of this strategy to diversify risks, maintain asset quality, reduce bad debts, create employment avenues, lure the new generation customers, and above all kick-start the recession-hit sectors of the economy because of the vast linkages of housing industry. Retail banking is the only feasible strategy for public sector banks (PSBs) in the current era of PSB consolidation. This strategy suits well with the national goal of 'Housing for All by 2022'. The role of banks in meeting this key goal by fulfilling the housing finance needs of the masses will be more vital in the future, since the market share of housing finance companies (HFCs) that has already been falling will start falling faster with the RBI's mandate to link loan rates to some specific external benchmark from 01st Oct.2019. Government package for housing sector declared on 14th Sept.2019 will boost housing credit.

Keywords: ICT, Retail Credit, Housing finance, Risk diversification, External benchmark.

1. Introduction

As waves of 'knowledge revolution' are sweeping across the globe, worldwide there is a gradual but certain transformation into a knowledge society from the post-industrial society. A similar and inter-related trend is the fast advances in Information and Communication Technology (ICT) – an outcome of the 'electronic revolution'. Knowledge revolution and electronic revolution are bringing about radical changes in the way in which organizations are being managed, business operations are being performed and state governance is being done. Indian economy is no exception to the above global trend and so also is the case of banking and financial services industry (BFSI) in India. 'Digital India' is a national goal of the country and the fast pace at which ICT advances are embraced by the BFSI sector in India has resulted in rapid growth of the Financial Technologies ('Fin-Tech') entities in India. On the one hand, there is fast-paced ICT integration and also a boom in Fin-Tech units. On the other hand, Indian economy is facing an acute economic slump and this slowdown is reflected in all facets of the economy including the banking sector of the country. Whether the nature of economic slowdown is cyclical or structural or partly of both, there is certainly the need for well thought-out and meticulously designed policies that can mitigate the adverse effects of the slowdown. So, policies capable of attracting more private investment, those that can kick-start the recession-hit sectors and also create multiplier effects capable of reviving the vital sectors of the economy are inevitable for sustained economic growth. In this context, promotion of retail credit, particularly housing loans is very relevant because it can ensure higher credit off-take and also kick-start about 300 allied sectors.

2. Literature Review and Research Gap

Peer Smets (1999) [30], in his paper 'Housing Finance Trapped in a Dilemma of Perceptions: Affordability Criteria for the Urban Poor in India Questioned' in *Housing Studies* has argued that a definitional issue associated with formal housing finance and 'eligibility' for the same in terms of 'affordability criteria in one go' has resulted in exclusion of the vast majority of the urban poor from availing finance from formal sources of finance. The author has advocated the need for 'incremental housing' and also the need to assess the 'affordability in a phased in manner' and 'not in one go'. Manoj P K (2003) [13] in his research paper, 'Retail Banking: Strategies for Success in the Emerging Scenario' in

IBA Bulletin has suggested strategies for the sustained growth of the retail advances of banks which primarily include housing loans, since such advances provide a safer means to enhance business and to kick-start the recession-hit Indian economy of the early 2000s. Linkage effects of housing (of forward and backward types, both) with numerous other industries, and the positive effect of such linkages for bringing about faster economic growth have been pointed out in the paper. Manoj P K (2004) [14] in his another research paper, 'Dynamics of Housing Finance in India' in *Bank Quest* has pointed out the growing appetite of commercial banks (CBs) towards housing loans, the declining market share of housing finance companies (HFCs), and such allied issues. A few macro level suggestions for enabling the sustained and balanced growth of housing finance are given. The need for encouraging the secondary mortgage market (such as RMBS), alternative means of proving housing finance such as Housing Micro Finance (HMF) etc. have been given. In a Working Paper 19 titled, *Housing Microfinance: Designing a Product for the Rural Poor*, released by Institute for Finance Management and Research (IFMR) (2007)[7], has noted the utmost significance of encouraging Housing Micro Finance (HMF), alternative mode of providing home loans to the poor, for the purpose of addressing India's chronic housing problem which in turn is mainly the housing problem of the poor and the marginalized in India, like the Low Income Group (LIG) and Economically Weaker Sections (EWS). Only models like HMF could cater to such deprived sections that are not served by the formal sector agencies. So, models like HMF are required to solve India's 'real housing problem'. The report seeks to design the suitable HMF model for the Indian poor.

Manoj P K (2008) [15] in his paper, 'Learning from Cross-country Experiences in Housing Finance: A Microfinance Approach' in *Journal of Global Economy* has suggested suitable macro level strategies for promotion of housing micro finance (HMF) in the Indian scenario by appropriately replicating the successful and time-tested models like HMF or other similar alternative housing finance models prevalent elsewhere in the world. A research paper on HMF by Manoj P K (2010) [21], "Prospects and Problems of Housing Microfinance in India: Evidence from "Bhavanashree" Project in Kerala State" in *European Journal of Economics, Finance and Administrative Sciences* has studied in detail the utmost importance of HMF for balanced and equitable housing development in India, and hence rapid economic development of the country. Strategies for promotion of HMF in India have been suggested, along with specific and category-wise strategies for the HMF based in Kerala and sponsored by the state government namely 'Bhavanashree'. Manoj P K (2010) [18] in his paper, 'Benchmarking Housing Finance Companies in India: Strategies for Enhanced Operational Efficiency and Competitiveness' in *European Journal of Economics, Finance and Administrative Sciences* has made a detailed analysis of the relative competitive position of the leading housing finance companies (HFCs) in India and has suggested strategies for the enhanced operational efficiency and competitiveness of HFCs.

The management consultancy organization, KPMG (2010) [11], in its Industry Report (Advisory), '*Affordable Housing – A key growth driver in the real estate sector?*' has sought to discuss the immense growth prospects of real estate players in the affordable housing market in India, given the huge demand and grossly under-penetrated market, very favourable Governmental policies etc. The demand and supply constraints, the relevance of PPP in the real estate sector etc. have also been dealt in detail. In a research paper by Manoj P K, (2010) [19] 'Determinants of Successful Financial Performance of Housing Finance Companies in India and Strategies for Competitiveness: a Multivariate Discriminant Analysis' in *Middle Eastern Finance and Economics,* has attempted to find the determinants of superior financial performance of HFCs. Using the tool Multivariate Discriminant Analysis (MDA), Discriminant Function having five distinct parameters (selected from the total 21 parameters used for MDA) which significantly influence the financial performance of HFCs has been derived. Yet another paper by Manoj P K (2010) [17], 'Financial Soundness Housing Finance Companies in India and Determinants of Profitability: A 'CAMEL' Approach along with ROE Decomposition Analysis' has employed the methodology of 'CAMEL' ranking along with ROE decomposition analysis to identify the determinants of profitability of HFCs. A research paper by Manoj P K (2011) [22], 'Determinants of Profitability of Housing Finance Companies in India and Strategies for Competitiveness: a Multiple Partial Correlation Approach' in *International Journal of Business Intelligence and Management* has suggested competitive strategies for various groups of HFCs with the help of the basic parameters that significantly influence the respective groups of HFCs.

A joint research paper by Hrushikesh Mallick & Mantu Kumar Mahalik (2015)[5] 'Factors determining regional housing prices: evidence from major cities in India', in *Journal of Property Research* has sought to identify the factors determining the housing prices with respect to 15 major cities in India using data relating to 16 Quarters (4 years, 2010 to 2013). It has been noted that fundamental factors are more significant than speculative factors. In a research paper by Manoj P K (2015) [25], "Socio-Economic Impact of Housing Microfinance: Findings of a Field-based Study in Kerala, India", published in *International Research Journal of Finance and Economics,* the reasons for the failure of 'Bhavanashree' – the HMF initiative of the Government of Kerala have been studied in detail. The author suggests strategies for effective implementation of HMF projects based on the "learning from the failure of 'Bhavanashree' project" in Kerala. The research report by the agency IFMR (2015) [8] entitled *Affordable Housing Finance Sector: Overview* makes a detailed analysis of the need, relevance and significance of affordable housing in India in the context when the national goal of 'Affordable Housing for All by 2022' is implemented by the Government of India. The crucial role that HFCs have to play in this context is specially noted in the IFMR report. The fact that there is a gradual re-emergence of HFCs since 2013, thus overtaking the CBs in growth rate and significantly improving their market share has been specifically pointed out. In a paper by Manoj P K (2015) [23], "Deterrents to the Housing Microfinance: Evidence from a Study of the Bankers to 'Bhavanashree' in Kerala, India", in *International Research Journal of Finance and Economics*, the major problems associated by the bankers in financing 'Bhavanashree', the HMF initiative of the Government of Kerala, has been dealt in detail. Various issues like the unclear land tenure, fragile institutional framework of the HMF and its parent (mentor) 'Kudumbashree' etc. have been studied in detail. Suggestions have been made to the Government based on the findings of the study, for the purpose of enabling more meaningfully implement HMF initiatives in the future, 'Bhavanashree' initiative being more or less a failure.

In a research article by Manoj P K (2015) [24], "Housing Microfinance: A Study on Quality, Cost and Default Rate with Respect to 'Bhavanashree' in Kerala", in *International Research Journal of Finance and Economics*, a detailed and critical study of the asset quality, administrative (transaction) costs, and default rates in respect of the HMF initiative of the Government of Kerala ie. 'Bhavanashree' has been made. Suggestions are made for more effective implementation of HMF projects by the Government. Another paper by Manoj P K (2016) [26], "Real Estate Investment Trusts (REITs) for Faster Housing Development in India: An Analysis in the Context of the New Regulatory Policies of SEBI" has examined in detail the vital significance of REITs in an emerging economy like India for promoting its real estate and allied sectors and hence the economy as a whole. BCG (2018) [2] in its *Digital Lending* has highlighted the immense opportunity for digital lending in India. Accordingly, it is a USD 1 Trillion opportunity over the next 5 years and the stakeholders can utilize the same.

In view of the foregoing discussions, it is noted that though there are many studies on housing finance, studies that focus on the special role of banks in combating the evils of economic slump are scarce. This study is one in the above direction and it is a critical relook into the studies by Manoj P. K. (2003) [13] on retail banking and Manoj P. K. (2004) [14] on housing finance.

3. Relevance and Significance of the Study

It is widely recognized that Indian economy is passing through an economic slump and the Government of India itself has acknowledged the fact stating that the GDP growth during the first Quarter of FY 2019-20 (i.e. Q1 of 2019-20) is just 5 percent, much lower than the earlier estimates of over 6 percent. The vast linkage effects of housing investments which in turn results in investments in other allied sectors and its ability to generate employment are well recognized. Given the fast pace of ICT adoption by the banking industry and the discerning nature of modern customers who prefer only modern delivery channels facilitated by ICT integration, the need for ICT integration in retail banking parlance need not be overemphasized. The fast growth of the Fin-Tech industry that poses a challenge even to the traditional players like banks gives another dimension to the need for embracing ICT in banking services, particularly in retail banking. The mounting NPA issues primarily arising from large corporate or industrial loans can be offset by extending retail credit, as retail loans like housing finance have low level of bad debts. Besides, retail loans can diversify the concentration risks associated with banking, these being extended to many borrowers who are widely scattered. In this context, it is relevant to critically study the need for promoting retail banking with a focus on housing loans, with due ICT-integration too.

4. Research Questions, Objectives of the Study and Methodology

The research questions are: What should be the broad strategy for Indian banking industry that can address the chronic issues (like, economic slowdown, mounting NPAs, poor credit off-take etc.) while at the same time ensure sustained growth and profitability without compromising on asset quality? What strategy could create more employment avenues and revival of key sectors of the economy? What are the implications of ICT adoption in retail banking? In line with the research questions, the objectives of this paper are: (i) To study the relevance of promoting retail banking by banks in India with a focus on housing finance, with due emphasis on more ICT adoption; (ii) To study the need for ICT-integration by banks, especially in their retail banking portfolio, and its implications; (iii) To suggest the medium-term banking strategy for India, that is in line with the national goals of 'Housing for All by 2022' and 'Digital India'. This study is of descriptive-analytical nature and is exploratory. It uses secondary data from authentic sources. The theoretical model is the use of linkages of housing and ICT for sustained economic growth.

5. Relevance of Promoting Retail Banking with a Focus on Housing Loans

There is a steadily falling trend in GDP growth rates over the last few years. This trend is very clear since FY 2017 onwards (Figure I). This falling trend is more pronounced since the first quarter of FY 2018-19 till the first quarter of FY 2020, and this trend continues. (Figure II).

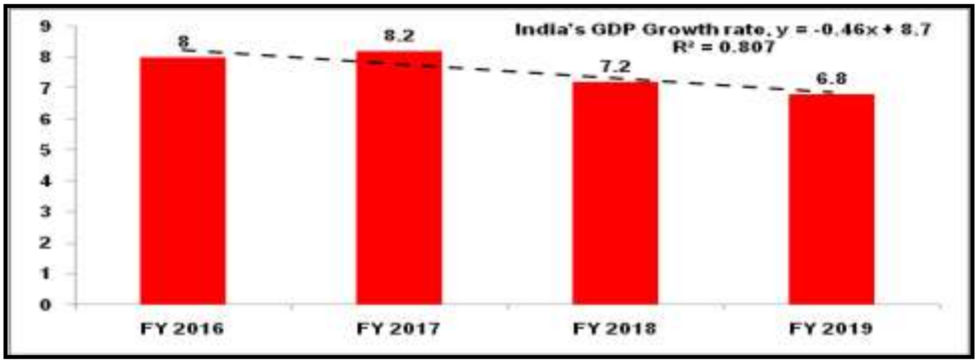

Figure I: India's Annual GDP growth rates. (Source: CRISIL 2019)

The gradually falling GDP growth rates in India, both in the short term (Figure II) and also in the intermediate term (Figure I), definitely suggests economic slowdown and the need for suitable counter cyclical as well as structural policies that can reverse the declining trend by kick-starting the recession-hit sectors of the economy and hence reviving the whole economy.

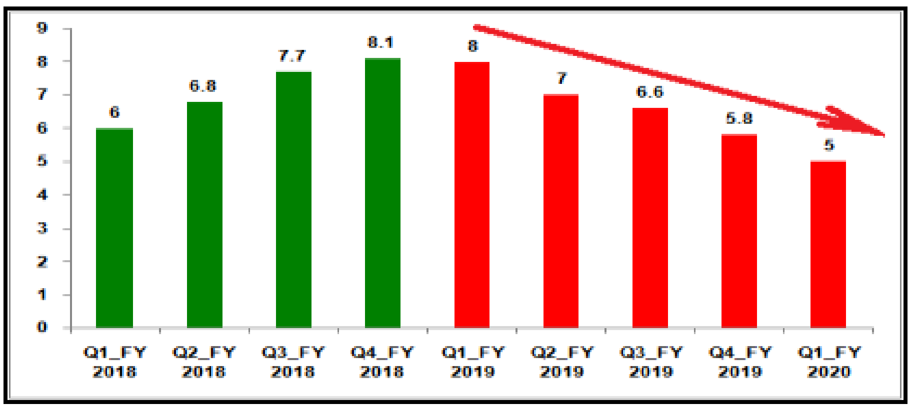

Figure II: India's Quarterly GDP growth rates. (Source: CRISIL 2019)

Retail credit, particularly housing loans portfolio within it, has got the capacity to generate more demand by way of creating multiplier effects because of its vast linkages with nearly other 300 allied industries. Besides a basic necessity of human life, housing is the most prominent activity under the construction sector which in turn accounts for over 50 percent of the developmental outlays of the government. A HUDCO-sponsored study to assess the impact of housing investments on employment and GDP has noted that housing sector ranks third among the major 14 sectors in India in terms of linkage effects with other sectors of Indian economy. It is reported that in respect of income multiplier housing sector ranks fourth and that it is ahead of other sectors like transport and agriculture. It is reported that unit rise in final expenditure on housing would create additional income of nearly 5 times. So, housing sector in India plays a major role by contributing to employment and income generation. A new revival package of Rs.20,000 Cr. for unfinished housing announced on 14th Sept. 2019 acknowledges this vital fact.

Housing investments help not only the respective individuals directly but the socio-economic development of the whole nation as well. So, governmental policies on housing have vital impact on the national economic development besides the social and familial wellbeing of the citizens. Because of this fact housing is often called the growth engine for developing nations like India. Given the low mortgage to GDP ratio in India of about 9 percent which is one of the lowest in the whole world, there is enormous scope for the housing finance sector to grow in India (Table I). In a period of economic slowdown as faced by India at present, banks and other players like NBFCs have the responsibility to focus on housing finance for their own growth as well as the wellbeing of the shelter-less public and the national economic development. (Table I).

Table I: Mortgage to GDP Ratio of India (2012) vis-a-vis Selected Other Countries

(In Percentages)

India	China	Thailand	Korea	Malaysia	Singapore	Taiwan	Hong Kong	USA	UK
9.0*	12	17	26	29	32	39	41	80	86

Source: European Mortgage Federation (2007), ADB (2007), and NHB (2013).
Note: * NHB, as of 2012, *Report on Trend and Progress of Housing in India 2013*, p.105.

The housing loan market in India has been growing over the years and the trend is likely to continue in the future also; the two major players in this market being Commercial Banks (or, Banks in short) and Housing Finance Companies (or, HFCs, in short). (Figure III).

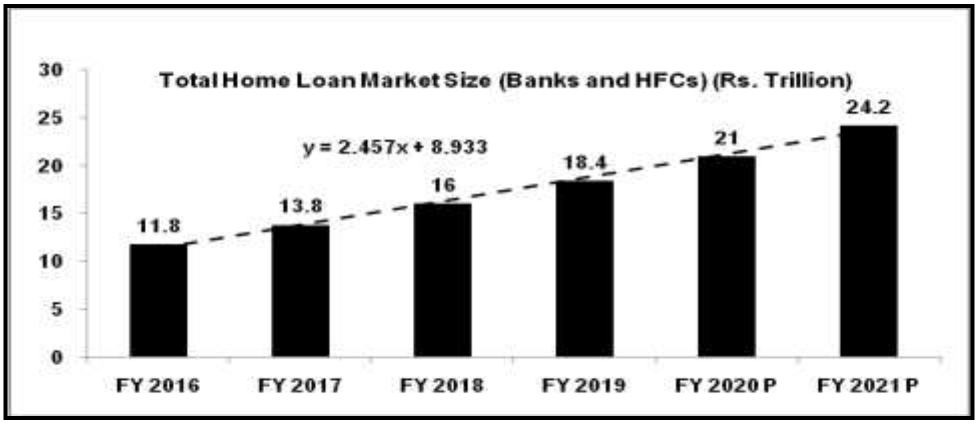

Figure III: Total home loan market (HFCs and Banks) in India (Rs. Trillion)
Source: Computed from CRISIL data (2019) [4]

6. 'Housing for All by 2022' Regime: Greater Role for Banks in Housing Finance

In India, the two major players in the housing finance market are banks and HFCs. Of these two major players, the relative market share of HFCs is estimated to gradually come down because of the liquidity crisis faced by the NBFCs in general and HFCs in particular, in the aftermath of IL & FS fiasco. The chronic issues faced by Dewan Housing Finance Corporation (DFHL) – one of the prominent HFCs in India, and the mounting problems with Indiabulls Housing – another major HFC in India are just two examples to the multifarious issues that HFCs in India currently face. All the HFCs, both large sized as well as the mid-sized and small sized ones, face the problem of dwindling profitability because of growing cost of funding, deteriorating asset quality, lower growth rates and hence lower relative market share vis-à-vis the banks, and so on. The issues faced by HFCs, like growing borrowing costs, is more in respect of HFCs with ALM (Assets Liability Mismatch) issues and/or poor asset quality. Consequently, HFCs rely more on long term bank loans for their funding. (RBI, FSR, June 2019, p.17) [32].

Contrary to the case of HFCs, banks have better liquidity. Besides, the Government has announced a new package of Rs. 70,000-00 Crore for the public sector banks (PSBs) in India on 23rd Aug. 2019. While the relative prominence of HFCs is falling and so is their market share, that of banks is rising and so is their market share. As the national goal of 'Housing for All by 2022' is in place, banks in India have a greater responsibility in attaining this goal. (Figure IV).

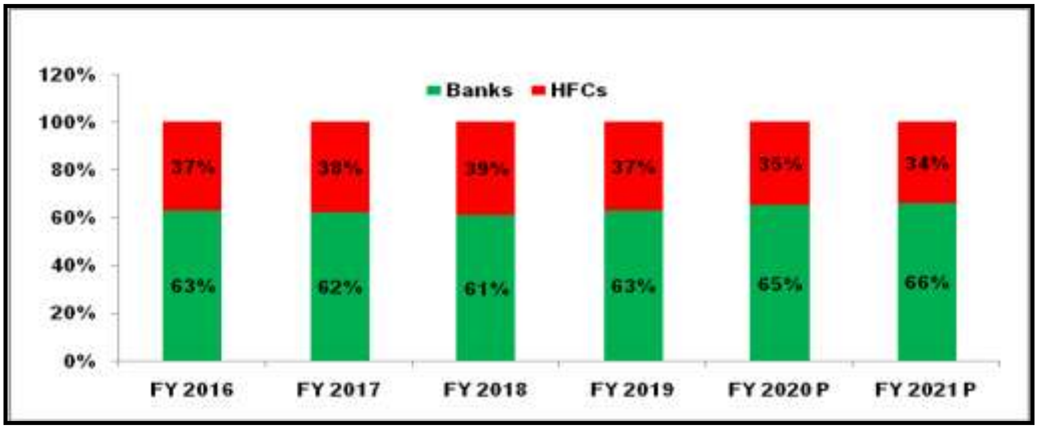

Figure IV: Growing share of Banks and falling share of HFCs. (Source: CRISIL, 2019 [4])

In view of the liquidity issues and other problems faced by the HFCs in India, banks will have a greater role in the housing finance market in the days to come. It is noted that banks would have much higher growth prospects than the HFCs, because of a reversal in the growth rates of HFCs vis-à-vis Banks since FY 2019. The responsibility that banks have to shoulder so as to attain the national goal of ‘Housing for All by 2022’ is of higher order now. (Figure V).

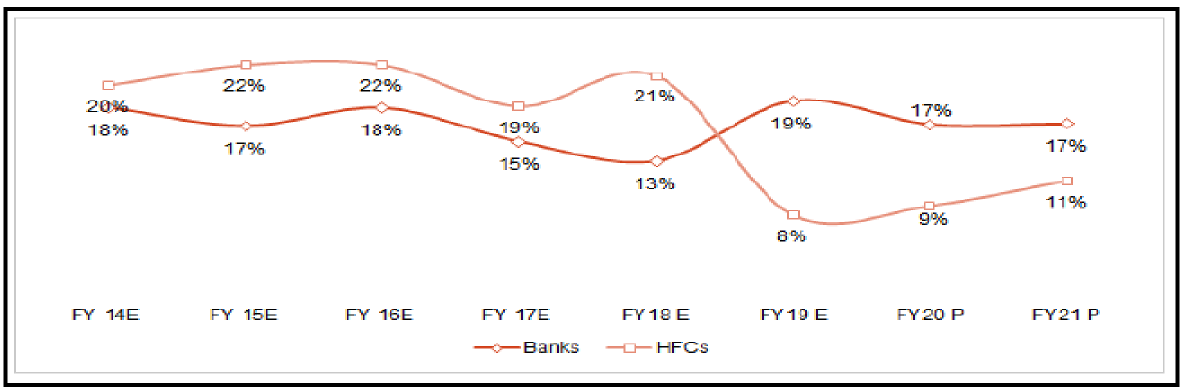

Figure V: Healthy Growth Prospects of Banks vis-à-vis HFCs. (Source: CRISIL, 2019 [4]).

Of late, the RBI’s directive dated 04th Sept. 2019 has made it mandatory for all banks to link new floating rate loans to retail customers (and also MSMEs) to an external benchmark from 01st Oct. 2019. The external benchmark could be the policy repo rate, yields on 91-day and 182-day treasury bills (T-bills) as published by the Financial Benchmarks India Private Ltd. (FBIL), or any other benchmark rate published by FBIL. Henceforth, banks will have to reset their rates once in every three months. RBI has allowed banks to add a spread over the benchmark rate chosen by them, so as to enable them to cover the risks and costs associated with rate changes. This shift is the latest one in the series of many such shifts, like, the Prime Lending Rate (PLR) of 1994 gave way to Benchmark Prime Lending Rate (BPLR) in 2003, to Base Rate System (BRS) in 2010, and then to Marginal Cost based Lending Rate (MCLR) in 2016. The latest rate-policy (based on external benchmarks) will be applicable from 01st Oct. 2019. (Figure VI).

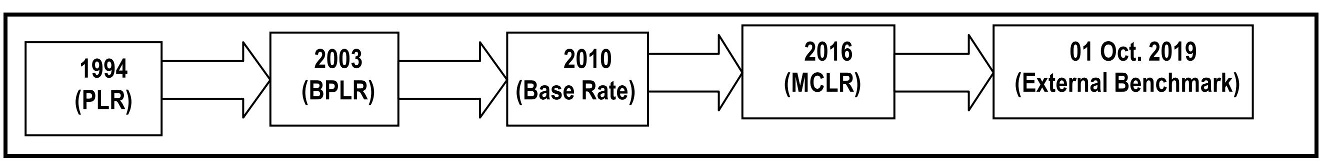

Figure VI: RBI’s Policy Shifts on Lending Rates (1994-2019) (Source: Author’s compilation).

The current policy directive of the central bank seeks to achieve better transmission of its monetary policy, and will have unprecedented repercussions on the retail banking landscape in India in the days to come. In fact, it may be noted that some banks had already started rates based on external benchmarks (like, Repo); even before the RBI’s new policy announced 04th Sept. 2019– which made such transmission mandatory. But, such voluntary initiatives of banks were all of optional in nature. SBI was the first bank to offer such loans when it offered Repo-linked home loans and soon afterwards many banks, mostly the public sector banks (PSBs) followed suit. So, IDBI Bank, Bank of India, Union

Bank of India, Central Bank of India, United Bank of India, Allahabad Bank etc. too started offering similar Repo-linked home loans. But, the latest policy of the RBI being of mandatory nature, all players must follow it. As per this policy, existing loans linked to the MCLR/Base rate/PLR shall continue till repayment or renewal as the case may be. Those customers, if desirous of switching over to the new rate, can do so on mutually acceptable terms. Borrowers of retail loans like home loans can avail these at lower rates and also enjoy other benefits accruing from the new policy from 01st Oct. 2019. (Table II).

Table II: Benefits to Customers of housing loans and such other retail loans.

MCLR-based Regime (till 30.09.2019)	External Benchmark Regime (from 01.10.2019)
Linked to Cost of Funds of banks.	Linked to RBI's lending rates (like Repo).
Takes 4-6 months to move after RBI's rate cut (i.e. longer transmission time).	Responds immediately to RBI's rate cut. (i.e. very short transmission time).
RBI rate-cuts not fully passed on to borrowers	RBI rates cuts are automatically passed on.
Resets annually for most banks	Reset every three months
Changes by 5 to 10 basis points (bps)	Usually changes 25 basis points (bps) or more
Revised every month	Reviewed bi-monthly
Low volatility	Higher volatility.

Source: Adapted from, *The Times of India* (Daily), Kochi Ed., dt. 05.09.2019. [Print]

Despite the benefits of customers, the profit margins of banks and HFCs will be under pressure in a competitive scenario. Closer control of costs and asset quality would be vital for offering loans at reasonable rates to the customers, and only players with good financial health can ensure this. Banks are already grappling with high deposit costs, and most of them are burdened with the problem of stressed assets too. So, they will have to charge higher spreads to protect themselves. Most HFCs have liquidity problems and issues like mounting funding costs. In fact, the HFCs will be more severely affected by the above move. Share prices of HFCs fell sharply on 05th Sept. 2019 after the RBI's policy directive on 04th Sept. 2019. A few banks with high housing finance exposure (ICICI Bank, SBI etc.) too lost dearly in share prices owing to RBI's new policy of setting loans rates using external benchmarks, like, Repo rate. (Table III).

Table III: Sharp Fall in the Share Prices of HFCs and Banks after RBI's Policy Directive

Sl. No.	Names of the prominent Housing Finance Companies (HFCs) and Banks in India	Fall in share prices after RBI's policy-shift (on 04.09.2019)
01.	LIC Housing Finance Ltd.	-03.87 percent
02.	HDFC	-02.67 percent
03.	Indiabulls Housing Finance Ltd.	-02.25 percent
04.	Gruh Finance Ltd.	-02.27 percent
05.	Can Fin Homes Ltd.	-02.09 percent
06.	PNB Housing Finance Ltd.	-01.54 percent
07.	Repco Home Finance Ltd.	-01.18 percent
08.	ICICI Bank (ICICI Home Finance is Sole Sales Agent)	-02.16 percent
09.	SBI (SBI has a very vibrant housing finance portfolio).	-00.65 percent

Source: Prasad R. R., *The Deccan Chronicle* (Daily), Kochi Ed., dt. 06.09.2019 [Print]

HFCs will be more adversely affected by the latest RBI's policy on lending rates. HFCs have already been losing their market share to banks. They will lose more in the future because the competition between HFCs and banks will become more intense in the future. though banks would definitely retain their upper hand in the market share. Besides, the current state of affairs would further accelerate the general trend of constantly narrowing down gap between systemic credit growth and banking credit growth, from FY 2017 onwards. (CRISIL, 2019)(Figure VII).

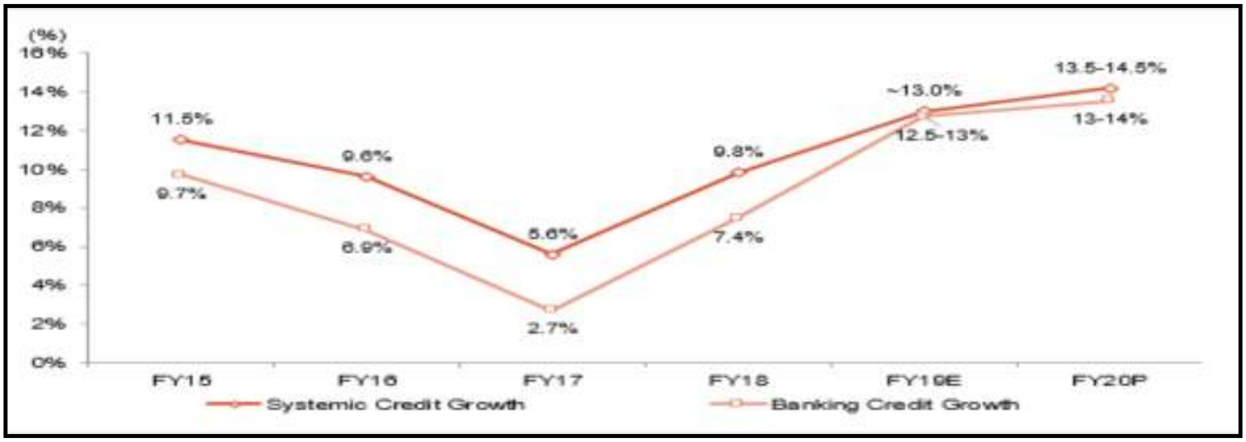

Figure VII: Systemic Credit growth and Banking credit growth (Source: CRISIL, 2019).

The spread between systemic credit growth and banking credit growth would further narrow down in the future because of the deceleration in the credit off-take from HFCs and other NBFCs. Housing credit and other retail advances would act as the most important element that propel the banking credit growth. This trend needs further push because of two facts. First, the economic slowdown in India needs to be corrected and the peculiar features of housing investments (like, linkage effects) should be utilized meaningfully. Secondly, even today the credit penetration in the household sector is very low in India, compared to the global peers. In fact, there has been a constantly rising trend in the household debt to GDP ratio in India. Still, there should be conscious efforts to further increase this ratio, by way of promoting housing credit and other retail advances so as to tide over the present economic slump. (Figure VIII).

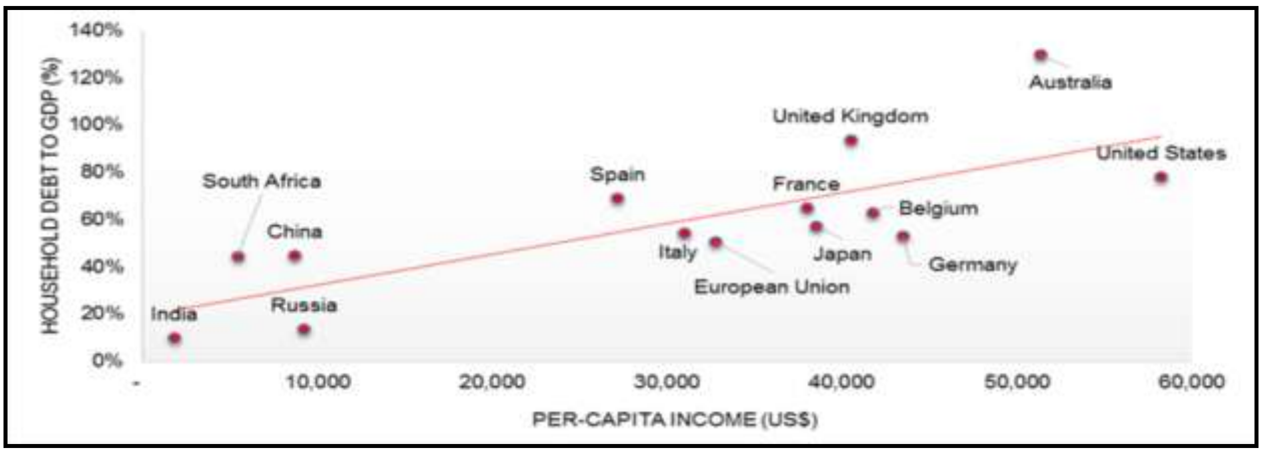

Figure VIII: Credit penetration in Household sector: India Vs. Peers (Source: CRISIL, 2019).

It has further been observed that the problem of bad debts associated with large corporate lending is not there in the case of retail loans like housing finance. Housing finance, in particular, has got one of the least amounts of bad debts. Similarly, in respect of the occurrence of frauds in banking too, cases of frauds in respect of housing loans are very less. In fact, there has been an alarming rise of 73.8 percent in the amount involved in frauds as of FY 2019 (Rs.71,542.93 Cr.) compared to the respective amount in respect of FY 2018 (Rs.41,167.04 Cr.). It has also been reported that frauds relating to card/internet-related transactions and deposit-related transactions constituted only 0.3 percent of the total frauds in value terms. (RBI, 2019) [36].

As the public sector banks (PSBs) in India are undergoing a phase of consolidation, many smaller PSBs have either been merged with larger PSBs (anchor banks) or are in the process. For instance, Bank of Baroda (BOB) has recently acquired Dena Bank (DB) and Vijaya Bank (VB). Now, BOB alone exists as a larger entity and DB and VB have vanished. The latest is the move to consolidate 10 other PSBs, so as to retain just four larger PSBs alone viz. (i) Punjab National Bank (PNB), (ii) Canara Bank (CB), (iii) Union Bank of India (UBI), and (iv) Indian Bank (IB). Given the diverse asset profiles of the merging entities, the only commonality is in retail credit. Hence, promoting retail credit is the only feasible option before the PSBs during the current phase of consolidation. Only after attaining normalcy in ICT integration and HR integration, the PSBs can think of large-sized loans, like, corporate or industrial loans, because PSBs are already facing the huge burden of bad debts (NPAs) in such kinds of advances. While promoting the retail advances like housing loans also, PSBs have to focus on better ICT integration so as to offer value-added services and also to constantly innovate their products and services with a view to offer ‘As you like it’ products to the modern discerning customers who will always seek ‘Something extra’ from among the various products on the offer. Here, PSBs can maintain their competitiveness only by way of greater ICT integration, constant skill updation for the staff etc.

Given the national goal of ‘Housing for All by 2022’ and the fact that Indian economy is passing through a recessionary phase, the need for promoting banking credit in general and housing credit and other retail loans in particular need not be overemphasized. Despite the narrowing down gap between systemic credit growth and banking credit growth and also the growing credit penetration in household sector, there should be conscious attempts to further speed up these positive trends for faster development of the recession-hit Indian economy. ICT adoption by banks is not just a choice but an imperative that can accelerate the above process.

7. Better ICT Integration by Banks in ‘Digital India’ Era: The Need and Implications

Reforms initiated in Indian banking sector since 1992 has resulted in this sector, which was overwhelmingly dominated by the Government-controlled Public Sector Banks (PSBs) and significantly oriented towards fulfilling certain social obligations till then, to work on business lines. Like private sector banks and foreign banks, PSBs too started working on business lines, based on profitable business models. The pressures of ‘LPG’ (Liberalization, Privatization and Globalization) could succeed in injecting ‘commercial sense’ and ‘profit orientation’ in Indian banking sector, primarily the PSBs. LPG has brought about fierce competition too. To withstand competition and to maintain profitability and market share in the globalised markets it has become essential for banks to deliver high quality service at low cost. The real impetus towards ICT adoption in India was basically the banking sector deregulation measures initiated in 1992.

A serious thrust on ICT adoption was given by the Reserve Bank of India (RBI) only in 1999-2000, because of two reasons. First, for the specific purpose of a smooth transition for the year 2000. Second, for the general purpose of ensuring overall technological upgradation of Indian banks essentially to facilitate payment and settlement, enhanced customer service and profitability. Of late, the Demonetisation (DeMo) drive since 08th Nov. 2016 by the Government of India has given another impetus for ICT adoption by banks. Modern customers being very discerning, customer centricity is a vital need for business success. So, ICT integration has become an imperative for survival and growth, particularly in respect of retail banking products. The growing trend of ICT adoption in the ongoing era of ‘Digital India’ has vital impact on the operations and business models of banks in India. The rapid pace of technological innovations would radically change their business models for retail banking including housing finance. Indian banking sector has been following the above global trend only since the 2000s. Of late, the ongoing consolidation process among the PSBs has given another need for ICT integration.

Though, Indian banks have been quite late in adopting ICT and other technological innovations, of late, there has been growing adoption of digital banking by banks in India. (Figure VI). BCG’s report (2018) [2] has noted that digital banking will exceed USD 1 Trillion over the next 5 years, and that retail banking portfolio of banks has witnessed a CAGR of about 16 percent over the last 5 years. It is noted that total retail loans that could be disbursed digitally in the next 5 years would be over USD 1 Trillion and that annual disbursements 5 years hence would be 5 times of current levels. (BCG, 2018)[2].

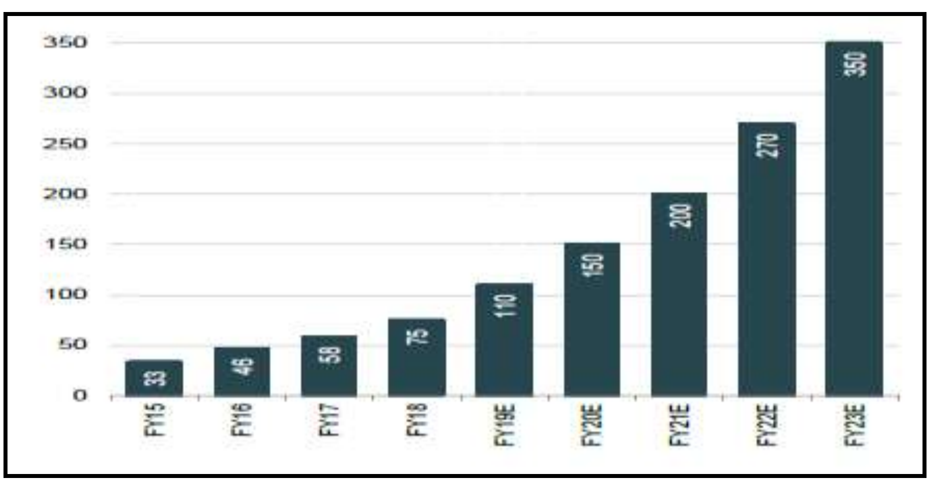

Figure VI: Digital Lending by Banks in India (USD Billion). (Source: BCG, 2018)[2].

BCG's study has noted that the digital footprint (i.e. access to internet) of customers in the financial services category is 50 percent. Of the customers with digital footprint, 55 percent have been noted to be digitally influenced. That is, 28 percent (i.e. 55 percent of 50 percent) of the total population are digitally influenced. Besides, of the customers with digital footprint, 47 percent are digital purchasers. Thus, 23 percent (i.e. 47 percent of 50 percent) of the total population are digital purchasers. That is, as high as 82 percent of the digitally influenced customers are digital purchasers. So, the drop-off is very less. (Figure VII). (BCG, 2018) [2].

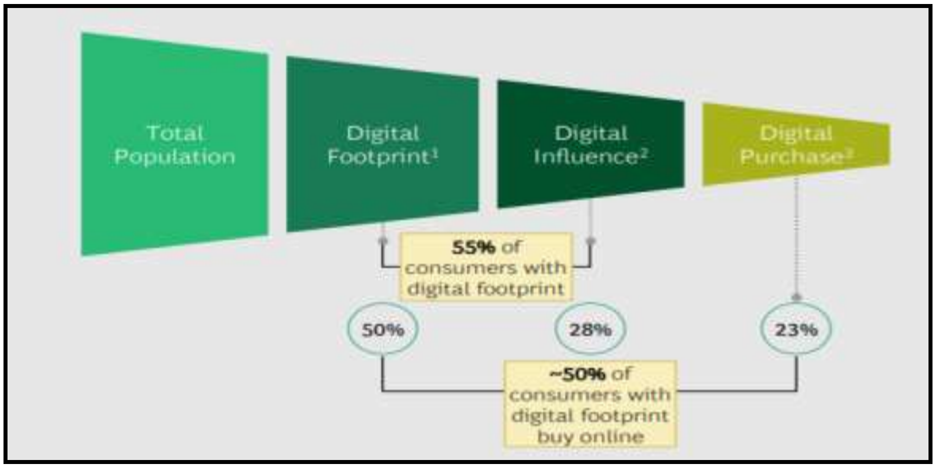

Figure VII: Nearly one-fourth (23 percent) customers purchase retail loams digitally.
(Source: BCG Google 2018 Digital Lending Survey (N=2364)[2].

ICT-based delivery channels like mobile banking and phone banking is vital to lure the modern customers. The constant rise in per-capita E-transactions in India is an indicator of the growing customer preferences towards ICT-based transactions. (Figure VIII).

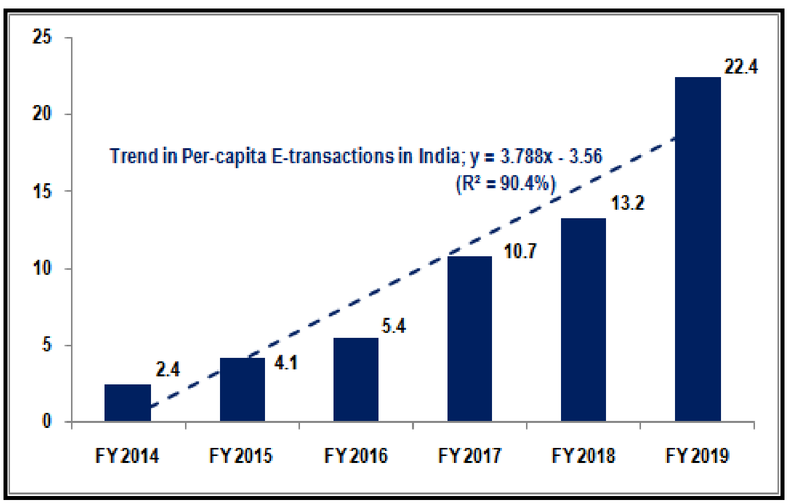

Figure VIII: Trend in per-capita E-transactions in India.
(Source: RBI, 2019 and Bloomberg).

The recent data on different modes of transactions indicate that there is a growing trend in respect of digital mode transactions whereas there is a gradual fall in the conventional mode (Cheques) transactions. Just like the fast growing trend in per-capita E-transactions (Figure VIII), there is a growing interest in digital transactions. This is another indicator of the need for adopting ICT-based channels, especially for the retail banking products. (Table IV) (Figure IX).

Table IV: Growth in Digital Transactions (FY 2015-2019)

Sl. No.	Type of Transactions	Volume (Million) FY 2015	Volume (Million) FY 2019	Growth (Percent)	CAGR (Percent)
01.	Card Payment*	808	4414	446	53
02.	NEFT	928	2319	150	26

03.	RTGS	88.4	133.3	51	11
04.	Card (at ATMs)	7001	9869	41	9
05.	Cheque	1197	1124	-6	-2

Source: Compiled from RBI, 2019 [36]

* Includes Card payments (except at ATMs), both debit and credit, like, PoS, e-Commerce etc.

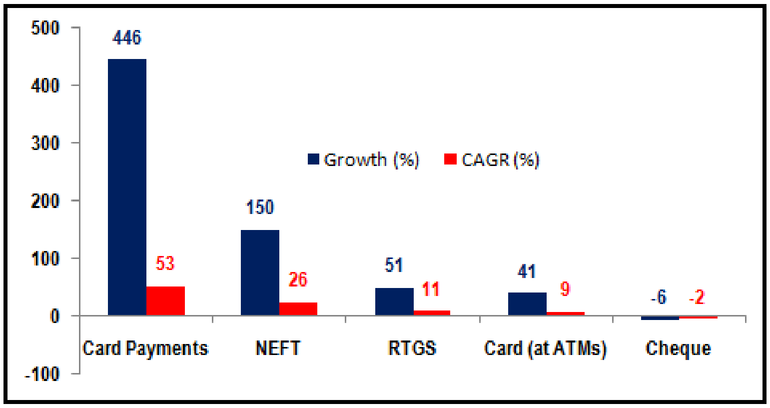

Figure IX: Growth in Digital Transactions (FY 2015-2019)
(Source: RBI, 2019)[36]

A clear and fast transition towards digital mode transaction, particularly by way of using cards, NEFT and RTGS is noted while those through cheques are gradually falling. (Figure IX). From the above discussions, it may be noted that banks in general and PSBs in particular have to integrate ICT in their all their products and change their business models accordingly. Apart from ICT adoption, equally important is the need for constant product and process innovations.

8. Medium Term Strategy for Banks in 'Digital India': Some Broad Suggestions

Given the national goal of 'Housing for All by 2022' in India and also the 'Digital India' initiative that is going on throughout India, let us now try to design the medium term strategy for the banks that can take care of the national goals and at the same time help tide over the present situation of economic slowdown. Whether the economic slump is cyclical or structural in nature, investment in housing can act as a suitable remedial strategy. So, promotion of retail credit by banks, particularly housing credit is meaningful, especially when we consider the vast linkages of housing industry with nearly 300 other industries. Investment in housing can kick-start many a recession-hit sector in the economy and is a top employment generator also. Hence, the medium term banking strategy should be that of 'retail credit with housing finance thrust'. Another vital need for the banking strategy is that of ICT integration. ICT ensures better competitiveness, significantly improve operational efficiency by reducing cost, and can enable better customer service also. Modern ICT-based tools like data mining can be of immense use because of their ability to generate relevant knowledge from large amounts of unorganized business data.

Given the imminent invasion by the financial technologies (Fin-Tech) companies and also the ever growing expectations of today's discerning customers, banks have to constantly innovate their products and services, particularly in respect of the retail banking portfolio. Here, ICT acts as the means (enabler) as well as the end. Thus, from the perspective of competition also ICT integration at all levels, especially in retail banking segment, is an imperative for the survival and growth of the banks in India. PSBs need to be especially cautious in this regard. As consolidation is going on among the PSBs, the latest being the consolidation among 10 PSBs with a view to retain the large 4 PSBs alone (viz. PNB, CB, UBI and IB), the only feasible strategy that can 'keep them moving' in the short and medium terms is that of focusing on retail credit with due respect to ICT integration and constant product innovations. Focusing on large corporate or industrial advances or on project financing by these PSBs which are already heavily burdened with the issues of bad-debts (NPAs) and falling profitability and productivity will not at all be sensible in the short or medium term. Identifying their synergies and designing suitable business models would require some more time during which they can focus on retail credit.

The policies of the Government of India as well as the RBI have been conducive for further growth of housing loans and other retail advances. For instance, on 12th Sept. 2019, the RBI has reduced the risk weight on consumer loans, a very popular retail credit product, from the earlier 125 per cent to 100 per cent. This policy would encourage the off-take of consumer credit. Another policy directive of the RBI that mandates all the players to link their lending rates to certain specified external benchmarks (like, Repo rate) would also be beneficial to banks in the long run, because more customers would be interested to avail retail loans as the lending rates become more transparent as well as responsive to external benchmarks. Of late, on 14th Sept. 2019, the Government of India has announced a special package of Rs. 20,000 Cr. to provide last-mile funding for completing the unfinished housing units (non-NPA and non-NCLT cases alone) of affordable and middle income housing projects. Relaxing the norms for raising funds through external commercial borrowings (ECBs) is another incentive for the housing sector. Besides, the interest on House Building Advance (HBA) of government servants is now reduced. The booster dose declared on 14th Sept. 2019 as above would certainly revive the housing sector.

Use of advanced ICT platforms that can support competitive tools like data mining and knowledge discovery is very desirable for any progressive bank for its survival and growth. Such a platforms enable high level of customer engagement and facilitate targeting different customer segments with tailor-made products. Modern payment technologies like RFID (Radio Frequency Identification) need to be adopted to remain competitive in the market. ICT investments, further, should focus on improving responsiveness, resiliency and enterprise-wide collaboration. Strategic tie-ups and resource sharing among the banks can bring in enhanced efficiency in the use of technology. This is especially relevant for the PSBs which are undergoing consolidation.

Customer centricity has a vital role to play in banking industry in the future. Sustainable business models that ensure continued customer loyalty or long term relationships have to be followed consistently by all banks, including the 'traditional' banks like PSBs.

Because of the fast advances in ICT and also the discerning nature of modern customers, innovation of all types on an ongoing basis is a vital for retaining and attracting the customers. So, each and every product needs to be designed meticulously based on a clear understanding of the customer's quality value proposition. Banks need to focus on specialized customer segments, as a 'one-size-fits-all' policy no longer appeals the customers of today's globalized markets. To identify the target customer segments banks have to adopt scientific market research studies and use advanced ICT tools like data mining.

Given the discerning nature of modern customers, more high technology (Hi-Tech) products and delivery channels are imperatives for survival and growth, rather than options. The growing trend in computer literacy and the ever-growing affinity to modern products among the younger generation make the above strategy more meaningful. Also, it is essential to effectively defend the threat by specialized (niche) players, including the Fin-Techs which are growing fast.

With growing adoption of ICT-based applications by banks, there are mounting trend in scams, information/cyber security issues, data leakages, frauds etc. So, setting up robust systems for risk management relating to information/cyber security should be a top priority for all banks.

Encouraging a dynamic secondary market for housing finance, like, residential mortgage backed securitization (RMBS) is yet to emerge in India. The Government has to facilitate a vibrant RMBS market in India so that it acts as a new source of finance for the housing sector, particularly for the HFCs which are grappling with liquidity problems. The IL & FS fiasco and DHFL crisis have worsened the case of NBFCs, especially the HFCs. Equally important is the need to promote the real estate investment trusts (REITs) in India. The IPO of India's first REIT (viz. Embassy Office Parks) being oversubscribed on 01st April 2019 being a grand success, more players are about to launch fresh REITs. This in turn would promote the commercial real estate directly and residential real estate too, indirectly. Conscious efforts for encouraging the market innovations like RMBS and REITs are required in India for housing development.

Whatever may be the level of ICT adoption, any banking service needs to have a human touch in order to be holistic and comprehensive. This 'human factor' in banking services must ensure adequate customer touch points for all products by way of meticulous planning.

All the above strategies have direct impact on the technological platform of the respective banks. A few other relevant strategies that can ensure superior performance of banks include, inter alia, enhanced transparency and strict corporate governance, enlarged accountability, adoption of international standards in accounting and reporting etc. More flexibility in human resource management (HRM) policies is required, especially for the PSBs. This would enable low cost and more flexible labour options like off-shoring. Besides, provisions to attract and retain the talent are required, which in turn may need more functional autonomy for the banks.

Concluding Remarks

In spite of issues like growing NPAs, need for recapitalization etc., particularly for the public sector banks (PSBs) in India, it may be noted that still Indian banking system is adequately stable, resilient and reasonably equipped to comply with global regulatory norms. When NBFCs (including HFCs) are grappling with problems of liquidity, asset-liability mismatch, falling profitability and so on, banks in India are still healthier and more stable. The favourable governmental policies (for instance, capital infusion Rs. 70,000 Crores into PSBs in Aug. 2019) have added to the strength of banks in India. However, banks in India have to play a greater role in the current situation of the country that is characterized by economic slowdown. Almost every sector in the economy facing a slump, and the case of NBFCs (including HFCs) is no exception.

Notwithstanding the fast growth of digital transactions in India, regarding ICT adoption by banks in India, there appears to be good scope for improvement, particularly in respect of PSBs – still the backbone of the Indian banking system, in spite of their losing prominence. In fact, ICT upgradation and consolidation in banking industry are mutually reinforcing in nature and results in significant cost savings for the respective banks, mostly the PSBs. Need for restructuring the banks by adopting stronger customer orientation with robust technological platform assumes vital significance today. The recent governmental policies are all in the right direction.

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